ANNUAL REPORT

CALIFORNIA

FRAUD DETERRENCE AND DETECTION ACTIVITIES

2021

TWENTY-EIGHTH REPORT

A REPORT TO THE CALIFORNIA LEGISLATURE

EDD Employment Development Department State of California

June 2022

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EXECUTIVE SUMMARY

This report documents the Employment Development Department's (EDD) fraud deterrence and detection activities for Calendar Year (CY) 2021, as required by California Unemployment Insurance Code (CUIC) Section 2614. EDD's responsibilities include the administration of the Unemployment Insurance (UI), State Disability Insurance (SDI), Employment Tax Collection, and Workforce Innovation and Opportunity Act (WIOA) Title I and Title III programs. From January 2021 through December 31, 2021, EDD collected more than $106.5 billion in California payroll taxes, penalties, and interest from over 1.5 million employers and issued benefit payments more than $77 billion on over 7.1 million UI and SDI claims. SDI includes Disability Insurance (DI) and Paid Family Leave (PFL) programs.

Statistics for the 28th report year ending December 31, 2021, show a decline in UI claims filed due to the Coronavirus (COVID-19) pandemic. However, states across the country continue to struggle with the complexity of the criminal fraud cases which began in 2020 and continued into 2021. Many of these more recent acts of fraud were perpetrated by sophisticated organized crime groups and criminal opportunists throughout and outside of the country. While insurance programs are always at risk for some level of fraud, prior to the pandemic most fraud could be attributed to individuals using stolen identities to file claims, false quarterly wages being reported, forgery, or working and earning wages while obtaining benefits.

Today, the programs are seeing an increase in larger complex identity theft rings and imposter cases than prior to the pandemic. Recent cases stemming from the pandemic have revealed large criminal networks that extend throughout the United States, as well as outside the country, sometimes working in cells miles apart from one another. Some cases involved identity theft where individuals redirect fraudulently obtained benefits into other financial institution accounts or used third party cash applications (apps) to conceal money. The increase in complex schemes strained EDD's limited criminal investigation resources, which caused further difficulty in identifying those responsible for the schemes.

California entered CY 2021 with continuing impacts of the pandemic. In 2021, the federal programs continued under the Continued Assistance Act of 2021, and the American Rescue Plan (ARP) Act of 2021, and extended federal Pandemic Unemployment Assistance (PUA) program benefits to self-employed workers continued through September of 2021.

With the continuation of federal benefits, EDD sought additional ways to combat and deter fraud. New legislation allowed for greater partnerships between California agencies to share vital information instrumental to the criminal prosecution of benefit fraud. EDD also implemented additional identity verification and fraud prevention tools, such as Thomson Reuters (TR) Data Analytics and ID.me to protect the Department and the citizens of California against this sophisticated fraud.

As these new fraud prevention measures took effect and the fraudulent claims were stopped before payment, criminals looked for new ways to defraud EDD along with program administrators throughout the country. For example, in early 2021, California's SDI program experienced an unusual increase in the number of new claims filed and new registrations from medical providers stemming from identity theft. The Department took immediate action and implemented solutions which had been successful in stopping fraud in the UI Program. New medical providers and SDI claimants are now required to verify their identity through ID.me.

While EDD's fraud screening measures prevent billions of dollars in potential fraud, the Department is also committed to prosecuting those who perpetrated crimes against Californians. EDD created a centralized process for law enforcement and financial institutions to obtain necessary information in their efforts to return fraudulent funds back to the originating benefit programs. EDD also recognized the need to partner with law enforcement to allow them to readily obtain needed claim information to investigate and prosecute individuals suspected of abusing the system. EDD leveraged internal information technology resources to create an automated system that can provide requested information to allied agencies within a short time frame.

Throughout CY 2021, the Department continued to identify and invest in fraud prevention technology and tools to assist in the process of detecting, preventing, and prosecuting acts of fraud. EDD took the following actions in 2021:

- Deployed improvements to EDD's Call Center System to bring self-service options to the Interactive Voice Response (IVR) menu.

- Partnered with the California Department of Corrections and Rehabilitation (CDCR) to crossmatch incarceration data against EDD claims monthly.

- Cross-checked all new UI claims filed against TR fraud detection tools allowing for the earliest possible detection of fraud prior to any benefit payments issued.

- Established the a Fraud Prevention and Detection Units in the UI Support Division to identify new fraud policies, determine risk, act quickly when fraudulent activities are reported, and use data-driven reports to identify opportunities to improve the efficiency and effectiveness of the UI fraud program.

- Expanded data sharing with United States Department of Labor Office of Inspector General (DOL OIG) to facilitate detection of multi-state and international fraudsters.

- Implemented, for the Disability Insurance (DI) Branch, a third-party identity verification application for medical providers and claimants associated with providers who do not clear identity verification.

- Reviewed documents to remove any unnecessary Personal Identifying Information (PII) to protect the identities of the citizens of California.

- Leveraged tolerance indicator technology to swiftly halt suspicious claimant activity.

- Created new forms to verify the address of a claimant.

- Continued the partnership with the California Office of Emergency Services (Cal OES) in partnership with CDCR, the State's District Attorneys, and the U.S. Attorney's Office in a state-led task force on investigations and interdiction efforts.

- Expanded criminal investigations and multi-state coordination by entering into and renewing the contract with former U.S. Attorney McGregor Scott as EDD's Fraud Special Counsel.

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

BACKGROUND INFORMATION

Section 2614 of the CUIC requires the Director of EDD to report to the Legislature by June 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 2021, these benefit programs paid claimants more than $77 billion on more than 7.1 million benefit claims.

As with any assistance program, there are individuals who attempt to defraud the system for personal gain. The global COVID-19 pandemic continues to present criminals with the opportunity to leverage technology and stolen Personally Identifiable Information (PII) to defraud state workforce agencies and Unemployment Insurance systems throughout the United States. Using the already acquired PII, the fraud moved into the SDI program as well. All the 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 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 imposter 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 evading 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 claim benefits while working.

- Physicians who certify a disability inappropriately.

- Claimants or physicians who submit forged documents.

EDD's Tax Branch is responsible for administering the state's Employment Tax Program. These responsibilities include all administrative, education, customer service, and enforcement functions for the audit and collection of employer-paid UI and Employment Training Tax (ETT), and SDI and Personal Income Tax (PIT) withholdings paid by employees. The Tax Branch also processes quarterly wage reports from the state's more than 1.5 million employers, accounting for more than 17.4 million workers. Making up almost 50 percent of the state's General Fund, the Tax Branch collected over $106.5 billion in taxes and contributions in 2021.

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 WIOA funds received from the U.S. Department of Labor (DOL) and provides general program direction to local administrative entities to deliver services to eligible clients via a statewide system.

APPROACH

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

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

Anti-fraud activities within EDD include the following:

Prevention	Detection	
• Customer Education • Internal Control Reviews • Employer Audits • Internal System Audits • Fiscal Monitoring • Fraud Detection Efforts • Interagency Efforts • External Partnerships • ID.me	• Analyzing Employer Data • Internal Checks & Balances • Evidence Seizure • Cross-matching Data • Interagency Efforts • Fraud Hot Line • AskEDD Website Report • Whistleblower • Thomson Reuters Data Analytics – Identity Risk Analytics (IDRA) & Fraud Caster	• Undercover Operations • Computer Forensics • Serving Warrants • Monitoring • Reviewing Medical Data • Arrests & Prosecutions • External Partnerships • Criminal Surveillance

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

PROGRAM ACTIVITIES

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

Unemployment Insurance (UI) Program

California's EDD administers the UI program, which provides benefits to individuals who have lost their jobs through no fault of their own, are actively seeking work, are able to work, and are willing to accept employment. During CY 2021 the UI program processed 6.1 million initial claims and paid a total of $67.8 billion in benefits.

California entered CY 2021 with continuing impacts of the pandemic. In 2021, the federal programs continued under the Coronavirus Aid, Relief, and Economic Security (CARES) Act of 2020, as amended under the Continued Assistance Act of 2021, and the American Rescue Plan (ARP) Act of 2021. Benefits paid to claimants under the CARES Act were designated as PUA and account for $25.7 billion in benefits out of the $67.8 billion paid. The PUA program ended on September 4, 2021.

In CY 2021, EDD took measures to identify and stop fraudulent benefits from being paid. The most notable measures included the following:

- ✓ Cross-checking all new claims filed against TR Government Division fraud detection tools allowing for the earliest possible detection of fraud prior to any benefit payments issued (since January 2021). Claims with indicators of potential fraud were subject to additional review.

- ✓ Partnering with ID.me to implement their identity proofing and authentication platform used by various government agencies. ID.me requires all claimants filing a new claim online to verify their identity before being allowed to file an online application, which ensures an expedited process for verifying claimants' identities, reduces potential backlog of claims requiring complex manual review, and prevents imposters from filing a claim online.

- ✓ Partnering with the CDCR to crossmatch incarceration data against EDD claims monthly. Assembly Bill (AB) 110, was passed and signed by Governor Newsom, which ensured the continued partnership between the CDCR and EDD to conduct incarceration cross-matching. This cross-match allows for EDD to prevent and detect improper payments and suspected fraud.

- ✓ Deploying the next iteration of improvements to EDD's Call Center System to bring self-service options to the main IVR to ensure callers no longer need to dial a separate number for self-service (October 2021). EDD Call Center System has a management information system that reports call activity, enabling EDD to capture call history and call data for fraud detection and prevention.

With the support of the Fraud Special Counsel, EDD continues to work in concert with a state-led task force comprised of federal, state and local agency leaders to support unemployment fraud investigations. In addition, EDD's Investigation Division is directly involved in hundreds of joint criminal investigations with local, state and federal law enforcement entities in an ongoing effort to identify and prosecute individuals and criminal organizations who participated in fraud schemes throughout 2021.

Notifications

1. **Claimant Information**
   Notifications to the claimant include the *Unemployment Insurance Benefits: What You Need to Know Booklet.* These notifications explain the requirements to file and certify for UI benefits, including how to correctly report work and wages.

   Additionally, claimants are informed about UI claim eligibility requirements and the legal consequences of willful misrepresentation or willful nondisclosure of facts as referenced in the claimant handbook, *A Guide to Benefits and Employment Services*, which is also available online. Claimants are 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.

2. **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.

3. **Employer Notification**
   The notification is issued to the last employer through the *Notice of Unemployment Insurance Claim Filed* when claimants file a new claim. If the employer contends that the claimant is not entitled to UI benefits and the employer's reserve account should not be charged, 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 the UI claim. The form is mailed to the respective employer after the first benefit payment is made to the claimant advising them of the amount of potential charges to their reserve account. This form also provides the employer with an opportunity to request a ruling for possible relief of charges.

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

Data Sharing and Reviews

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

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

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

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

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

5. **Interstate Cross-Match**
   This process cross-matches wages reported quarterly by employers outside of California to UI benefits paid within the same period. Through this process, the UI program is able to detect when claimants have been fraudulently collecting benefits while working outside of California. Overpayments and penalties are established and collected because of this process, protecting the solvency of the UI Trust Fund. These matches are performed on a quarterly basis.

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

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

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

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

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

   For every staff member dedicated to the validation process, there is an estimated corresponding savings to the UI Trust Fund of more than $9.8 million. The tools utilized by EDD to specifically prevent UI imposter fraud include the following:

   - Stopping benefit payments on active UI claims that are associated with compromised SSNs until the identity of the claimant is confirmed.

   - Utilizing a variety of communication methods to provide information to all California employers on how to protect and properly destroy confidential personnel information and assist EDD in preventing UI fraud. This includes information in a tax publication titled the *California Employer's Guide.*

- Partnering with other states that have also experienced increases in UI impostor fraud. EDD continues to work closely with other states to identify common patterns and trends, share anti-fraud processes, and resolve fraud cases collectively where the parties have a connection to multiple states.

10. Mortality Data Cross-Match

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

Since the implementation of the Mortality Data cross-match process, the total cost avoidance is $15,834,983 and the total amount of overpayments that have been established as a result of the cross-match is $853,877. The total cost avoidance is the amount of benefits remaining on a claim when action is taken to prevent further payments from being issued to a claimant that was verified deceased. With the claimant identified as deceased, the overpayments assessed are unlikely to be collected. However, they are a good measure of how quickly EDD is discovering the fraudulent activity through the Mortality Data Cross-Match process.

11. California Department of Corrections and Rehabilitation Cross-Match

CDCR cross-match allows EDD to check against incarceration data provided by CDCR on a monthly basis. The partnership allows EDD to identify violations of the CUIC. The cross-match allows for EDD to detect and deter improper payments and suspected fraud.

Current law (AB 56, Chapter 510, Statutes of 2021) requires EDD to assess the effectiveness of the Department's system of cross matching claims against information about incarcerated individuals. EDD conducts a cross match against CDCR, Department of State Hospitals, and Department of Juvenile Justice monthly. EDD also conducts an incarceration cross-match using TR fraud detection tools for each new initial claim filed.

EDD initiates an internal strong match protocol that ensures that we limit the impact to those that may be negatively impacted by the incarceration cross match results. In CY 2021, using the strong match protocol, EDD identified that seven percent could be considered potentially fraudulent. Of that seven percent identified, 50 percent was determined disqualified after the adjudication process.

12. Thomson Reuters Implementation/Pondera Cross-Match

EDD partnered with Pondera, a business unit within the TR Government Division, which provides innovative solutions for the prevention and detection of improper payments and suspected fraud. In December 2020, all claims filed in CY 2020 were cross-checked against TR fraud detection tools to identify whether claims had any potential fraud indicators. Beginning January 2021, EDD cross-checked all new claims filed against TR fraud detection tools allowing for the earliest possible

detection of fraud prior to any benefit payments issued. Claims with indicators of potential fraud were subject to additional review.

13. **Internal System Reports**
    These reports are generated daily to detect internal fraudulent activity by EDD employees. These reports identify instances when employees update a claimant's base wage file when there is not a current claim on the UI program's Single Client Data Base. A manager is responsible for performing a full review of each item listed on the report to determine if the update to the base wage file was for a valid and necessary reason.

14. **National Association of State Workforce Agencies Integrity Data Hub Cross Match**
    EDD engaged with the National Association of State Workforce Agencies (NASWA) to begin the assessment and implementation of the Integrity Data Hub (IDH) cross-match. 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.

Technology Improvements

1. **California Stopped Automatic Backdating of PUA Claims**
    EDD implemented the new PUA program on April 28, 2020, as authorized under the federal CARES Act in response to the COVID-19 pandemic. The new law required that EDD automatically backdate the effective date of the PUA claims to the week in which claimants first became unemployed or partially unemployed because of one of the acceptable federal COVID-19 reasons. The CARES Act did not require claimants to show good cause for any delay in filing a claim.

    In response to a surge in potentially fraudulent PUA claims seeking several months' worth of retroactive benefits (including the additional $600 per week federal stimulus payments), EDD ceased the automatic backdating of PUA claims filed online beginning in early September 2020. Almost immediately, this proactive fraud prevention measure led to a significant reduction in new PUA claims being filed. In 2021, EDD continued the practice of prohibiting the automatic backdating of PUA claims when received. However, as required by the federal law, claimants were still able to have their claim backdated if they made a request by phone or through the AskEDD online message portal.

2. **Benefit Programs Online Features**
    The Benefits Programs Online (BPO) system is a convenient and secure way for claimants to access EDD's online systems for DI claims, PFL claims, UI claims, and Benefit Overpayment Services through a single sign-on. In November 2021, EDD implemented a new Web Application Firewall (WAF) and Bot Manager that protects the BPO against distributed denial-of-service or other related attacks. This results in an improved customer experience while retaining necessary security. As part of the EDDNext Customer Portal Project, we will replace the legacy BPO and Oracle Identity Management product with a new Salesforce portal integrated with the Okta Identity Management product.

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

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

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

   Building upon BOCA, the Benefit Overpayment Services expansion was implemented in August 2019, which allows claimants to pay by credit card, set up an installment agreement, and view their overpayment balance and corresponding letters. By simplifying the process and providing additional options for repayment, EDD expects a positive impact on recouping overpayments and replenishing the UI Trust Fund.

4. **Document Upload Project**
   Since July 2020, the Document Upload Project continues to implement a new UI Online system functionality, allowing claimants to upload required documents through their UI Online account for claims that have already been filed. The first phase began in September 2020 with Identity Verification documents. Changes to the UI Online system were marketed to UI customers on public web pages, through Frequently Asked Questions, social media posts, mailers, targeted emails, SMS text messages, and a YouTube video to help ease the customer transition in utilizing the new UI Online functionality. 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 immediate submittal of identity documents to EDD.

5. **Call Center Management Information System**
   EDD Call Center System has a management information system that reports call activity, enabling EDD to capture call history and call data for fraud detection and prevention. In October 2021, the next iteration of improvements to EDD's Call Center System was deployed to bring self-service options to the main IVR to ensure callers no longer need to dial a separate number for self-service. This enhancement allows SSN collection within the IVR to authenticate the caller to automatically provide payment information and Tele-Cert options. UI customers can select options to file a claim, obtain general claim and overpayment information, or listen to Form 1099-G information.

6. **ID.me Implementation**
   While managing extraordinary workloads because of COVID-19, the UI system was faced with historically high levels of claims in the regular UI program while simultaneously implementing the temporary programs authorized by the CARES Act. As the size and scope of the UI program grew, fraud became more prevalent. Since October 2020, EDD has partnered with ID.me to implement their identity proofing and authentication platform, which is used by various government agencies. The implementation of ID.me requires all claimants filing a new claim online to verify their identity before being allowed to file an online application, which ensures an expedited process for verifying claimants' identities, reduces potential backlog of claims requiring complex manual review, and prevents imposters from filing a claim online.

   The ID.me identity proofing platform meets the United States government's most rigorous requirements for identity validation, stopping fraud attacks on the front end of the process and preventing the redirection of services away from deserving claimants.

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

Information Sharing and Marketing

1. **Customer Account Number**
   EDD randomly 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 basic 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.

2. **Fraud Prevention Campaign**
   To promote fraud awareness and encourage the proper reporting of work and wages, the _EDD Fraud Prevention and Detection Activities Insert_ (DE 2361CS) was mailed for one month during each calendar quarter during 2021. 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 unemployment benefits at the same time. The insert also provides tips and resources for customers to properly report work and wages, and it clearly explains the consequences when wages are misreported. These efforts will be continued at the same interval throughout the end of CY 2022.

During 2021, EDD's "Help Fight Fraud" web page was expanded to include important public guidance for common fraud schemes during COVID-19, as well as to communicate enhancements to reportfraud through AskEDD.

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

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

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

    EDD issued warnings via different media outlets for Californians to be on alert for scammers who pretend to be EDD or Bank of America 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 people to reactivate a debit card.

6. **Federal Subpoenas and Search Warrants**
    EDD works collaboratively with various law enforcement agencies across the nation to provide pertinent UI information requested to assist in investigating and prosecuting fraud related to UI. As new cases are established or current cases require additional information, the respective law enforcement agencies will send their subpoenas and search warrants to EDD for timely fulfilment. EDD will then coordinate with the responsible subject matter experts from each branch to provide the information and send the UI data utilizing secure and encrypted methods.

<u>Unemployment Insurance Results and Accomplishments</u>

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

UI Program Results			
	2019	**2020**	**2021**
Cases Under Investigation	$24,446,437 61 cases	$167,880,922 392 cases	$316,145,179 819 cases
Criminal Complaints Filed	$10,016,534 15 cases	$1,784,406 13 cases	$28,142,006 137 cases
Completed Criminal Prosecutions	$3,025,631 10 cases	$3,794,480 11 cases	$8,457,812 78 cases
Fraud Overpayments Established	$116,808,262 109,976 OPs	$59,181,845 60,510 OPs	$127,052,138 48,850 OPs

Notably, this data reflects only the cases where EDD's ID division is leading the investigation or working the case jointly with a law enforcement partner. Thousands of additional independent active investigations, arrests and prosecutions are also underway by independent jurisdictions.

With respect to EDD-lead or partnered cases, there were 819 ongoing and new UI fraud cases representing potential fraudulent benefit payments in the amount of $316,145,179.[1] These cases include:

- ✓ Impostor fraud/Identity Theft (452 cases representing $180,339,029).

- ✓ Incarceration (272 cases representing $90,737,663).

- ✓ Work and Earnings Violation – Working while certifying for benefits (34 cases representing $707,325).

- ✓ Pandemic False Self Certified Wages (26 cases representing $20,955,101).

- ✓ Multiple SSNs used by one person, fake self-employment and other violations (24 cases, representing $22,896,862)

- The Investigation Division filed 219 criminal complaints on 137 cases representing potential fraudulent benefits in the amount of $28,142,006. These complex fraud cases involved egregious violations, identity theft and high overpayments.

- The Investigation Division obtained 78 criminal prosecutions representing fraudulent benefits in the amount of $8,457,812.

- Other violations were referred to the UI Branch for assessment of administrative penalties and collection of overpayments. These violations were appropriate for administrative enforcement

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[1] Eleven (11) aged cases (opened between 1991 and 2013) had outstanding warrants, and are included in the initial case count total of 819; however, the aged cases with an outstanding warrant are not reflected in the active criminal investigation types below.

based on the amount of overpayment, number of weeks of violation, and other factors identified by prosecuting authorities.

- In compliance with California regulations, UI program staff imposed disqualifications and overpayments on 19,397 cases totaling an additional $60 million in non-fraud overpayments. The disqualifications and overpayments were imposed when claimants failed to comply with EDD's request for identity verification information and there was insufficient information to determine the claim as legitimate to the Social Security Number (SSN) true owner's identity.

- In September 2014, EDD implemented the Treasury Offset Program administered by the Bureau of Fiscal Service in the US Department of Treasury. The Treasury Offset Program allows states to collect delinquent state UI benefit overpayment liabilities from claimants by offsetting their federal income tax refunds after a process of working with the individual to resolve the situation. In CY 2021, EDD collected approximately $71.5 million in Treasury Offset Program overpayment liabilities. This total includes approximately $36.0 million in actual benefit overpayments, $14.8 million in interest, $16.6 million in penalties, and $4.1 million in court costs.

Administrative Fraud Overpayments

The following provides additional information regarding UI fraud prevention and detection results related to overpayments established on regular UI claims (claims based on prior wages) when the claimant was at fault for the overpayment:

- The UI program staff in the Integrity and Accounting Division established over 48,850 fraud overpayments totaling $127.1 million in CY 2021 for regular UI program benefits.

Out of the total 48,850 fraud overpayments established, over 18,007 (nearly 37%), were a result of three specific systems: the Benefit Audit Cross-Match, the New Employee Registry Cross-Match, and the Interstate Cross-Match processes. These overpayments totaled over $16.1 million.

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

Method of Detection	Fraud Overpayments Established	
	Number	Dollars
Benefit Audit Cross-Match	10,596	$12,616,096
New Employee Registry Cross-Match	6,235	$2,837,455
Interstate Benefit Cross-Match	42	$107,405
National Directory of New Hires Cross-Match	1,134	$541,140
Total	**18,007**	**$16,102,096**

- The additional 30,843 fraud overpayments not attributed to the Benefit Audit or New Employee Registry cross-match system or identity theft totaled approximately $110.9 million. These overpayments were established for a variety of reasons including retroactive disqualifications of miscellaneous eligibility issues and unreported work and earnings that were not discovered through the Benefit Audit crossmatch system.

Future Unemployment Insurance Program Enhancements

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

1. **State Information Data Exchange System Enhancements**
    The SIDES, originally implemented in 2015 and enhanced in 2016, reduces errors, common with paper forms, and provides employers with a standardized format to ensure that separation information is communicated to EDD. The Department is focusing efforts towards marketing the many benefits of SIDES to encourage business participation. It continues to explore different marketing strategies to reach a larger audience. EDD strives to increase participation and usage of SIDES in the business community to maximize the number of electronic communicationsreceived by employers.

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

State Disability Insurance Program

The SDI Program includes two benefits: the DI and the PFL programs. The DI benefits provide partial wage replacement for eligible California workers who are unable to work due to illness, injury, or pregnancy. Workers covered under SDI are potentially eligible for PFL benefits when they are unable to work 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 2021:

State Disability Insurance	Claims Processed	Benefits Paid
DI program	907,783	$7,762,541,900
PFL program	303,071	$1,527,052,798

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

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

Primary SDI fraud deterrence and detection tools include several different tactics such as key notifications to claimants, data sharing with key partners, conducting systematic reviews, training, outreach, etc. With these tools in place, SDI was able make adjustments to the tools to suspend payments and strengthen the health care provider vetting process to address the 2021 rise in DI fraudsters.

Claimant Interactions

1. **Claimant Notification**
   This notification provides claimants the legal consequences for 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 signed by the claimant when applying for benefits. This notification is also to be acknowledged by the claimant when applying for benefits through SDI Online.

2. **Address Integrity**
   This is a component of SDI Online that ensures the rightful owner of the claim can complete a change of address transaction. As a security and fraud detection measure, a letter is sent to the prior mailing address to notify the claimant when the SDI program receives a request for a change of address.

3. **Benefit Programs Online Single Sign-On Portal**
   This Identity Management software authenticates and authorizes external users (customers) who set up external user accounts. The system creates an online profile for each external user and will encrypt and store the user identification/password, profiles, and credentials in an enterprise Identity Management System. The system validates and authenticates external users' logon credentials and allows authenticated users to access system functionality and improve SDI staff's ability to detect fraud. In 2021, the DI Branch implemented a third-party identity verification application for medical providers and claimants associated with providers who do not clear identity verification.

4. **In-Office Eligibility Review Process**
   This process permits EDD to require claimants suspected of fraud, who are currently receiving benefits, to submit to an in-person interview before a decision is made regarding their continued eligibility to receive benefits. 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.

5. **Protection of Claimant's Social Security Number**
   The SDI program continues to identify ways to remove, truncate, or obfuscate a claimant's SSN on mailed correspondence and increase the availability of online forms.

6. **Electronic Benefit Payment Process**
   The electronic benefit payment process allows EDD to pay claimants using a debit card option, providing claimants immediate access to their benefits and eliminating fraud associated with theft or loss of paper checks. EDD is also exploring the possibility of a direct deposit transfer option to bring more convenience to the claimants.

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

8. **Using Business Logic**
   The DI Branch identifies and addresses fraud and abuse through automated programs and business logic. The DI Branch continues to develop new reports and automated detection and prevention measures to combat fraud and abuse.

Data Sharing

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

2. **New Employee Registry Benefit Cross Match**

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

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

4. **Increasing Data Sharing Frequency with the Department of Consumer Affairs**
   The DI and PFL program use data from the Department of Consumer Affairs (DCA) to verify providers' license information. This data is shared with EDD on a monthly basis. There is an ongoing effort to increase the frequency of the data sharing to ensure EDD gets the most recent information from DCA.

Medical Providers

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

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

2. **Automated Tolerance Indicators**
   The indicators (flags) are associated with the certifying healthcare provider's license number and assist staff in identifying and tracking claims on which fraud or abuse is suspected or has previously been detected. They also alert staff to refer to special instructions created to assist in the adjudication and payment of these claims. In 2021, the SDI Program leveraged tolerance indicator technology to swiftly halt suspicious claimant activity.

3. **Doctor Activity Tracking System leveraged**
   This system tracks the status of investigations involving potential doctor or doctor impostor fraud cases. The system ensures that appropriate follow-up occurs; and documents and evaluates accomplishments.

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

   - Medical Board of California
   - Board of Chiropractic Examiners
   - Board of Optometry

- ○ Board of Podiatric Medicine
- ○ Board of Psychology
- ○ Board of Registered Nursing
- ○ Dental Board of California
- ○ Osteopathic Medical Board of California
- ○ Physician Assistant Board

Reviews and Reports

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

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

3. **Decedent Cross Match Reports**
   These reports check the SSNs of all claimants against SSNs of individuals reported as deceased nationwide. This report enables the DI Branch to identify and recover benefits paid after the date of death.

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

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

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

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

<u>Training and Outreach</u>

1. **Program Integrity Training**
    This training is provided to heighten staff awareness and develop capacity to detect and deter fraud and abuse in the SDI program. This training is provided to all newly hired DI Program Representatives.

2. **Medical Training**
    This training, provided to EDD 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 an SDI 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, in determining the appropriate action to control claim duration, or in determining potential abuse of the program. This training is provided to newly hired DI Program Representatives via the 15-Week New Hire Training.

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

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

5. **Education and Outreach to Stakeholders**
    The DI Branch's Outreach Development Section (ODS) develops and implements strategies to educate California's general public about the SDI programs. The ODS educates and promotes accurate and timely SDI program information to stakeholders (e.g., hospitals, medical providers, employers, military, community groups, and claimants) via webinars, events, conferences, publications, and the EDD website. The ODS also creates and maintains partnerships with stakeholders in all 58 California counties to expand outreach activities that increase awareness of EDD SDI programs and utilization rates in underserved communities.

6. **Birth Certificate Requirement for Paid Family Leave Bonding Claims**
    For bonding claims in which no medical substantiation is required, claimants must submit a birth certificate, adoption placement, Declaration of Paternity, or foster care certification to verify the relationship.

7. **Digitizing Claim Documents for Paid Family Leave Claims**
   The PFL automated system includes a scanning process that digitizes all claim documents. To assist in detecting possible forgeries, claims examiners compare current signatures of claimants and physicians on these documents with documents submitted previously by the same claimant and/or physicians.

State Disability Insurance Results and Accomplishments

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

SDI Program Results	2019	2020	2021
Cases Under Investigation	$34,280,502 120 cases	$36,986,976 125 cases	$39,497,169 124 cases
Criminal Complaints Filed	$12,090,967 15 cases	$5,344,424 10 cases	$3,033,312 23 cases
Completed Criminal Prosecutions	$2,620,779 6 cases	$2,580,088 7 Cases	$3,199,743 10 cases
Fraud Overpayments Established	$11,047,380 826 OPs	$6,057,523 504 OPs	$6,581,486 353 OPs

- The following provides more detailed information on the actions cited in the previous table regarding cases under investigation in the SDI program in CY 2021.

  ✓ There were 124 open and active criminal cases potentially representing $39,497,169. Thirteen aged cases had outstanding warrants for arrest. The remaining 111 cases have value of $39,205,150. These investigations focused on the following case types:

    o Imposter fraud/Identity Theft and DI/PFL claim take over (19 cases representing $19,633,463). One case being developed has a potential overpayment amount of over $11 million.

    o Altered or forged documents (20 cases representing $4,262,414).

    o Medical practitioner fraud (5 cases representing $9,070,000).

    o Working while certifying for benefits (54 cases representing $2,385,093).

    o The remaining 13 cases, representing $3,854,180, included fictitious employer registrations on which fraudulent claims were based, false injury certified by claimant, multiple SSN used by an individual and other miscellaneous violations.

- The Investigation Division filed 23 criminal complaints on three cases representing potential fraudulent benefits in the amount of $3,033,312. One of these cases included 21 charges against the suspects with an estimated loss of $2.3 million.

- The Investigation Division completed eight criminal prosecutions involving fraudulent benefits in the amount of $450,625. These completed prosecutions primarily involved working while certifying for benefits, imposter fraud, and altered/forged medical records.

- DI and PFL staff established a cumulative total of 353 fraud overpayments in the amount of $6,581,486.

  ✓ The DI program established 186 fraud overpayments totaling $3,939,538 on fraudulent claims associated with suspects who were prosecuted.

  ✓ The PFL program established two fraud overpayments totaling $9,080 on fraudulent claims associated with suspects who were prosecuted.

  ✓ The DI program established 164 fraud overpayments not attributed to prosecutions. These overpayments, totaling $2,632,066, were the result of administrative actions applied by DI staff, such as false statement overpayments.

  ✓ The PFL program established one fraud overpayment not attributed to prosecutions. This overpayment, totaling $802, was the result of administrative actions applied by PFL staff, such as false statement overpayments.

Program anti-fraud efforts stopped $13,177,868 in benefits from being paid. Those efforts include, but are not limited to:

  ✓ IMEs

  ✓ Verification of SSN ownership with deletion of improper base period wages

  ✓ Referrals to Investigation Division resulting in convictions or administrative actions.

During 2021, there were 144 medical providers who certified to an unusually high number of claims. A review concluded 22 medical providers' certifications were justified and no fraud or abuse was detected. Of the remaining 122 medical provider certifications, five doctors are under investigation by Investigation Division and have been flagged as suspicious. The remaining 117 medical providers continue to be evaluated by staff to determine if fraud or abuse can be detected.

<u>Future State Disability Insurance Program Enhancements</u>

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

1. **ID.me**
   The DI Branch has partnered with ID.me to create a highly secure login process that ensures that only the claimants or medical providers will be able to access their accounts. The 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.

2. **Fraud Enhancement Project**

   The project goal is to develop a DI Branch fraud policy and improved strategies and tactics to deter fraud through data analytics and automation early in claim processing. The project focuses on enhancing fraud prevention and identification to limit risk to the DI program and fund. This project will also ensure the field office managers and staff are properly trained on fraud detection and prevention efforts.

3. **Claimant Address Validation (DE 4365)**

   There are a series of forms created to verify the claimant's identity and address due to the fraud patterns detected by the system (referred to as "DE 4365"). The DE 4365 automated process allows claimants to upload documents via an online portal.

4. **Thomson Reuters**

   The Thomson Reuters (TR) solution contains the Identity Risk Analytics (IDRA) and FraudCaster tools. The IDRA will provide the DI Branch with a set of identity alerts for claimants and medical providers. It will help the DI Branch identity potential risks or fraud when processing claims. The FraudCaster tool contains dashboards for claimants, medical providers, and employers. The dashboards will summarize data, such as all the claims filed by the claimant, etc., for the DI Branch to review for potential fraudulent activities of the claimants, the medical providers, or the employers.

5. **New Fraud Detection and Prevention Section**

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

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, Employment Training Tax (ETT), DI, and PIT withholdings paid by employees. The Tax Branch also processes quarterly wage reports from the state's more than 1.5 million employers, accounting for more than 17.4 million workers. Collecting almost 50 percent of the state's General Fund, the Tax Branch collected over $106.5 billion in taxes and contributions in 2021.

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 Field Audit and Compliance Division has staff presence 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.

In 2021, the State of California continued to experience challenges due to the COVID-19 pandemic. In response to the ongoing pandemic, the Tax Branch continued to adjust its operations to provide mission critical functions and essential services to the people of California, while complying with directives from the state to protect the health of employees and customers during the crisis.

Education and Outreach

The Tax Branch has a variety of methods for outreach and education accessible to employers, employees, tax professionals, business groups, and the general public to promote voluntary compliance. The 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 on topics such as EDD/Internal Revenue Service (IRS) payroll taxes and EDD/Department of Industrial Relations labor law and payroll tax seminars. EDD's outreach efforts also include providing special presentations and participating in information booths at events sponsored by entities such as payroll associations, industry groups, non-profit organizations, and other governmental entities. In 2021, because of continued COVID-19 pandemic precautions, EDD continued to host webinars and conducted 86 virtual outreach events with 4,814 attendees. EDD continues to look for innovative ways to expand its education and outreach efforts. For example, EDD utilizes social media such as Facebook and Twitter to reach employers and the general 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 Program administers the Employment Tax Collection and Benefit Overpayment Collection Programs, where it works toward employers promptly and accurately reporting data and paying tax liabilities necessary to support the benefits provided by the UI, DI, and ETT programs. The collection of UI and DI benefit overpayments are a major source of revenue for the UI and DI funds, which are used to pay future benefits. The Collection Division's Field Operations program works on complex accounts involving the most flagrant and egregious employers engaged in underground economy activities and asset deception; UI rate manipulation (state unemployment tax avoidance schemes); and employers penalized due to fraud or intent to evade.

In response to the state of emergency guidelines for COVID-19 issued on March 4, 2020, the Tax Branch temporarily suspended all field enforcement activities starting on March 17, 2020, to assist with UI workloads. The Tax Branch resumed field enforcement activities on July 6, 2021. However, processing UI benefit claim referrals from the UI Branch remained a top priority and continued assistance from some Tax Branch staff with specialized skills was required.

Criminal Prosecutions

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 that investigates criminal violations of the CUIC, 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 if the convicted party made restitution and is still on active probation.

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

1. **Tax Audit Program**

   In 2021, the Audit Program conducted 4,974 audits and investigations, resulting in assessments totaling $192,853,253 and identification of 68,027 unreported employees. A breakdown of the audit and investigation results is provided in the table that follows:

Calendar Year 2021	Cases Completed	Payroll Tax Assessments	Previously Unreported Employees
EDD Payroll Tax Audits	4,327	$154,181,657	60,807
EDD Payroll Tax Investigations	647	$38,671,596	7,220
Total EDD Payroll Tax Audits and Investigations	4,974	$192,853,253	68,027

The following table illustrates amounts collected to-date from audits and investigation assessments as of January 3, 2022. The 2019 and 2020 figures include amounts collected after 2020, which is why they differ from prior reports:

Calendar Year of Assessment	2019	2020	2021
Audit and Investigation Assessed Amounts Collected	$40,468,249	$11,492,868	$21,881,335

2. **Compliance Development Operations**

The Compliance Development Operations (CDO) is a program within EDD's Tax Branch. CDO's functions include conducting on-site business inspections as part of Joint Enforcement Strike Force (JESF) and Labor Enforcement Task Force (LETF) operations, and screening allegations received from task force partners to determine suitability for on-site inspections. In addition, the CDO captures allegations of non-compliance submitted through the Payroll Tax Fraud Hotline (1-800-528-1783), correspondence, fax, 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 CUIC, which placed the provisions of the Executive Order into law. EDD is the lead agency for the JESF. The JESF is responsible for enhancing the development and sharing of information necessary to combat the underground economy, to improve the coordination of enforcement activities, and to develop methods to pool, focus, and target enforcement resources.

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

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

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

o   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.

o   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.

o   Collaborating efforts between EDD and the IRS to allow for an exchange of case information regarding unreported wages and/or misclassified workers. This multiagency compliance approach presents a united effort to taxpayers and their representatives that both the federal and state agencies work together to enforce tax laws.

o   Targeting of industries known for high levels of noncompliance with licensing, labor, and payroll tax laws.

o   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 Labor Enforcement Task Force (LETF) was initially formed in 2005 as the Economic and Employment Enforcement Coalition and began operating as LETF in January of 2012. The LETF is responsible for ensuring that California workers receive proper payment of wages and are provided a safe work environment. 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 and making efficient use of state and federal resources in carrying out its mission.

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

  ✓   Department of Industrial Relations
  ✓   Employment Development Department
  ✓   Department of Consumer Affairs – Contractors State License Board and Bureau
  ✓   of Automotive Repair
  ✓   California Department of Tax and Fee Administration
  ✓   California Department of Insurance
  ✓   State Attorney General
  ✓   District Attorneys throughout California

Compliance Development Operations and Related Audit and Investigation Results

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

CDO JESF/LETF Cumulative Lead Development Activities and Results*	2019	2020**	2021**
Joint Inspections	1,448	333	474
EDD Audit Referrals	916	413	274
EDD Payroll Tax Audits	937	252	547
EDD Payroll Tax Assessments	$37,167,357	$12,696,520	$49,911,078***
Assessed Amounts Collected To-Date*	$8,073,487	$1,861,193	$2,312,288
Previously Unreported Employees	10,572	2,537	8,254***
Cases w/Fraud Penalty Assessed	19	1	15
Assessments on Fraud Cases	$1,913,115	$46,239	$16,309,230
Fraud Assessed Amounts Collected To-Date*	$495,781	$5,121	$84,275

* These figures reflect cumulative collections for each of the years listed under which the liabilities were created. The amounts for the years 2019 and 2020 include funds collected after 2020 which is why the totals are greater than what was reported in the 2020 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 that were initiated from non-CDO leads for the last three calendar years:

Fraud Audit and Investigation Results From Non-CDO Leads	2019	2020	2021
Cases w/Fraud Penalty Assessed	44	16	25
Previously Unreported Employees	3,566	2,120	1,364
Assessments on Fraud Cases	$17,776,273	$8,682,585	$7,959,198
Fraud Assessed Amounts Collected To-Date*	$492,949	$77,174	$4,341

* These figures reflect cumulative collections for each of the years listed under which the liabilities were created. The amounts for the years 2019 and 2020 include funds collected after 2020 which is why the totals are greater than what was reported in the 2020 report.

The Field Audit and Compliance Division's Central Office staff conducts follow-up work on informant allegations of non-compliance received by CDO's Complex Case Group when the circumstances or information received does not warrant a site inspection. They conduct desk reviews of the businesses using various databases and income tax return analysis to detect non-compliance and fraud. They forward their reports to the Audit Program for follow-up when the likelihood of non-compliance is high.

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

Desk Investigation Results	2019	2020	2021
EDD Audit Referrals	36	14	7
EDD Payroll Tax Audits	28	5	5
EDD Payroll Tax Assessments	$1,261,865	$1,026,721	$153,624
Previously Unreported Employees	643	168	62
Assessed Amounts Collected To-Date*	$329,008	$226,064	$21,027

* These figures reflect cumulative collections for each of the years listed under which the liabilities were created. The amounts for the years 2019 and 2020 include funds collected after 2020 which is why the totals are greater than what was reported in the 2020 report.

EDD's Complex Case Group receives allegations of noncompliance by several methods. The following table provides a breakdown of the number of contacts received by each method for the last three calendar years:

Number Of Contacts Received and Processed	2019	2020	2021
Telephone Call to Payroll Tax Fraud Hotline	2,537	6,674	6,954
Online Submission (EDD Website or Email)	2,338	7,852	9,962
Correspondence (Fax or Mail)	117	65	180
Total	4,992	14,591	17,096

Of the 17,096 overall contacts in 2021:

- 491 were allegations of potential payroll tax violations.
- 3,531 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.
- 3,954 contacts inquiring about UI and/or PUA claims were provided to the UI Branch for review.
- 9,120 contacts were either requests for general information or inquiries that were intended for other agencies. The misrouted items were forwarded to the appropriate agency contacts for review and action, as appropriate.

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

Out-Of-State Audits Completed	2019	2020	2021
EDD Payroll Tax Audits	207	43	172
EDD Payroll Tax Assessments	$9,209,014	$1,069,733	$4,868,064
Average Liability Change	$44,488	$24,878	$28,303
Unreported Employees	10,101	3,170	3,260
Assessed Amounts Collected To-Date*	$2,223,268	$579,955	$1,011,717

* These figures reflect cumulative collections for each of the years listed under which the liabilities were created. The amounts for the years 2019 and 2020 include funds collected after 2020 which is why the totals are greater than what was reported in the 2020 report.

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

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

QETP Results from IRS Leads	2019	2020	2021
EDD Payroll Tax Audits	43	8	20
EDD Payroll Tax Assessments	$2,288,127	$418,948	$1,867,654
Average Liability Change	$53,212	$52,369	$93,383
Previously Unreported Employees	398	207	394
Assessed amounts Collected To-Date*	$999,941	$109,411	$83,779

* These figures reflect cumulative collections for each of the years listed under which the liabilities were created. The amounts for the years 2019 and 2020 include funds collected after 2020 which is why the totals are greater than what was reported in the 2020 report.

The Tax Branch conducts Section 1061 CUIC payroll tax investigations and makes assessments of UI rate differences when employers attempt to circumvent the UI experience rating system to inappropriately gain a lower UI rate. 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 claim work caused by the pandemic. The number of Section 1061 investigations increased slightly in 2021 due to more staff returning to perform this workload.

Results – Experience Rating Exploitation CUIC Section 1061 (business transfers)	2019	2020	2021
EDD Payroll Tax Investigations	105	43	100
EDD Payroll Tax Assessments	$3,311,080	$2,017,903	$3,768,634
Average Liability Change	$31,534	$46,928	$37,686

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

4. **Interagency Tax Collection Committee**
   This committee is an alliance with EDD, Franchise Tax Board, California Department of Tax and Fee Administration, and the IRS. It provides a forum to share common collection practices 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.

5. **License Suspensions/Holds Requested**

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

   - **Liquor License**

     EDD may request the Alcoholic Beverage Control (ABC) to place a hold on certain types of liquor licenses. A hold establishes a priority for EDD to any monies received from the sale of the liquor license and prevents the transfer of a liquor license from the seller to a buyer until the conditions of the hold have been met.

   - **Farm Labor Contractor License**

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

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

Type of Hold	2019	2020	2021
CSLB	441	135	507
ABC	43	5	30
FLC	10	0	6

6. **Criminal Prosecutions and Restitution**

   In 2021, Investigation Division conducted the following tax enforcement activities:

   ✓ The Investigation Division investigated a total of 143 ongoing and new payroll tax evasion fraud cases representing a potential tax liability of $98,125,881.

   ✓ The Investigation Division filed 13 criminal complaints representing a potential tax liability of $377,989.

   ✓ The Investigation Division prosecuted three criminal cases resulting in convictions with a potential tax liability of $434,107.

✓ The Investigation Division continues to partner with staff from the Tax and UI Branches and develop strategies and preventative tactics for addressing fictitious employer schemes responsible for perpetrating fraud against EDD. The objective is to identify potential fictitious employer schemes based on a thorough and ongoing evaluation of the characteristics/elements of such schemes. The identification of these schemes allows EDD to increase detection and prevent fraudulent UI and SDI benefit claims filed against EDD.

The reduction in criminal complaints and completed prosecutions can be attributed to factors relating to the COVID 19 pandemic. At the start of 2021, County Superior Courts in California began reopening and many proceedings were continued as the courts slowly began dealing with the calendar of pending cases to be heard. In addition, the reduction of field activities with partner law enforcement agencies, including execution of search warrants, severely limited the ability of EDD Investigators to obtain the documentation required for prosecution of these cases. The increase in the total number of active cases under investigation in 2021 shows EDD Investigation Division continued to conduct investigative activities to combat the underground economy, but the restrictions resulting from the pandemic prevented the actual filing of criminal complaints, which resulted in the low number of prosecutions for the year.

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 Collection Division's Central Operations until the convicted party is no longer on probation. If there is a restitution balance remaining at the end of probation, the case is transferred to Collection Division's Field Operations program for collection action.

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

Criminal Restitution Cases	2019	2020	2021
Restitution Cases Monitored*	120	140	175***
Beginning Restitution Accounts Receivable	$26,043,889	$26,724,735	$26,420,507
Restitution Amounts Ordered	$1,729,062	$1,185,882	$1,964,347
Payments Received During the Year	$828,619	$1,282,002	$1,245,834
Transfers**	$219,597	$208,108	$115,321
Ending Restitution Accounts Receivable	$26,724,735	$26,420,507	$27,023,699

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

Recent Legislation

Governor Newsom signed 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 became effective January 1, 2020 which codifies the ABC test adopted by the California Supreme Court in *Dynamex Operations West, Inc. v. Superior Court of Los Angeles* (2018) 4 Cal.5th 903. AB 5 requires the ABC test be applied to determine if workers in California are employees or independent contractors for purposes of the Labor Code, the CUIC, and Industrial Welfare Commission wage orders.

To learn more on AB 5, visit EDD 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 17 Employment Status webinars in 2021. Critical information regarding the implementation of AB 2257 was included in webinars conducted after Governor Newsom signed the bill and it became law September 4, 2020.
- 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.

Future Education and Outreach

Due to the continued pandemic precautions, all 2022 outreach events have been scheduled as webinars, and the first event took place January 19, 2022. The no-cost payroll tax seminars cover a variety of payroll tax topics. Two of the seminars are offered in collaboration with the Internal Revenue Service and the Department of Industrial Relations, including the *Federal/State Basic Payroll Tax Seminar* and the *State Labor Law and Payroll Tax Seminar*. These two seminars are designed to integrate the requirements of both agencies, covering their similarities and differences. The other EDD sponsored seminars include *State Basic Payroll Tax Seminar, Cannabis Industry and State Payroll Tax Seminar*, and *Employment Status Tax Seminar*.

EDD will continue to evaluate the pandemic conditions and resume in-person seminars when permitted. EDD may also consider offering a combination of virtual and in-person seminars in the future.

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 U.S. DOL and provides general program direction to local administrative entities that deliver services to eligible clients via a statewide system of WIOA Local Workforce Development Areas (LWDA) and other grantees. The WIOA superseded the Workforce Investment Act and took effect in July 2015.

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

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

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

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

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

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

5. **Workforce Services Division**

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

6. **Regulatory Controls**

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

<u>Wagner-Peyser Activities</u>

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

The primary tool used directly by customers (both job seekers and employers) is the California Job Opening Browse System (CalJOBS^{SM}). In 2021, CalJOBS^{SM} was accessed by over 1.3 million job seekers and employers. Through CalJOBS^{SM}, clients can utilize the system themselves, and EDD staff can refer job seekers to jobs, workshops, and appointments. The system can also be used to track services for the federally mandated participant reports. EDD ensures that client data is kept confidential and works with the vendor to ensure that CalJOBS^{SM} maintains its program integrity and security.

The program integrity components related to CalJOBS^{SM} include:

1. **Access to Confidential Data**

   Access to confidential data is limited by various internal safeguards which have been implemented, including:

   - System generated reports listing suspicious activity.
   - Redacting job seekers' SSNs in the system.
   - Removing confidential data from any standard reports.
   - 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 to keep malicious software from engaging with the system.
   - Restricting creation of accounts with duplicate and/or invalid email addresses.

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

   Starting on December 4, 2017, an automated vetting solution was implemented within CalJOBS^SM. Employers that provide information that matches the identifiers are automatically verified and granted access to CalJOBS^SM. Employers that provide information that does not match revert to the manual review process, which can take up to 72 hours.

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

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

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

INDEPENDENT OVERSIGHT ACTIVITIES

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

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

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

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

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

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

2. **Independent Internal Control Audits – 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. The

PACB provides technical assistance to EDD staff prior to and during the system design phase to ensure appropriate internal controls are developed and in place. EDD believes that it is more cost effective to build controls into the system, as opposed to raising internal control issues during an audit, which may require system redesign.

3. **On-Site Monitoring Reviews**
As required under federal law, on-site reviews are conducted of WIOA funding recipients to determine fiscal and program compliance. EDD is required to perform scheduled on-site monitoring reviews of sub-recipients and sub-grantees of federally funded programs, including WIOA and Disaster Relief funded services. During the COVID-19 pandemic, Enhanced Desk Monitoring Reviews were conducted to meet these requirements.

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

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

5. **Enterprise Risk Management**
EDD's Enterprise Risk Management Office (ERMO) 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. The ERMO ensures compliance with Government Code Sections 13400 through 13407, the sections which establish the State Leadership Accountability Act, and State Administrative Manual sections 20060 – Internal Control and 20070 – Reporting Risk, Internal Controls, and Monitoring.

6. **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.

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

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

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

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

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

9. **Forensic Audit and Examinations**
   The Audit and Evaluation Division conducts forensic audit and examinations in response to requests for assistance from Investigation Division.

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

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

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 funds. Although the Workforce Investment Act program has ended, staff continue to resolve fraud and abuse cases associated with this program.

During CY 2021, the Compliance Resolution Unit processed 66 cases, 15 of which were resolved. At the end of 2021, 51 ongoing cases for a total of $8,034,262 in questioned costs remained open in various stages of audit, investigation, and appeals within the state resolution process.

Criminal Enforcement Activities

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

During CY 2021, EDD's comprehensive anti-fraud activities in the SDI, UI, Tax and WIOA programs identified potential fraud to warrant investigation and actual fraud resulting in criminal complaints and prosecutions (in dollars) accomplished by the EDD Investigation Division are as follows:

Investigation Division Criminal Case Description	**SDI Program**	**UI Program**	**Tax Program**
Cases Under Investigation	$39,046,544 124 Cases	$316,145,179 819 cases	$98,125,881 143 Cases
Criminal Complaints Filed	$3,033,312 3 Cases 23 Complaints	$28,142,006 137 Cases 219 Complaints	$377,989 5 Cases 13 complaints
Completed Criminal Prosecutions	$3,199,743 10 Cases	$8,457,812 78 cases	$434,107 3 Cases
Fraud Overpayments (OP) Established[1]	$6,581,486 353 OPs	$127,052,138 48,850 OPs	N/A

The case statistics reported in the above table by the Investigation Division are representative of the cumulative total of open and ongoing criminal investigations and prosecutions for the CY 2021.

[1]"Fraud Overpayments Established" includes overpayments established as a result of both criminal and administrative actions.

During CY 2021, 1,086 cases were open and ongoing for criminal investigation collectively for the SDI, UI, and Tax programs. The Investigation Division had no WIOA cases recorded as open and active in CY 2021. In total, the 1,086 EDD Investigation Division criminal cases represent $442,076,239 of presumptive fraud and State tax liability. By way of comparison, the CY 2019 Report identified 61 criminal cases were opened compared with 392 in 2020 and 470 for this calendar year.

The Investigation Division closed 104 of the 1,086 cases with a collective value of $3,994,816 in benefit fraud and $12,984,866 in State tax liability throughout the course of the year. As a subset of the 104 closed cases, 62 cases totaling approximately $7.9 million, were closed due to various administrative reasons. Some reasons may include, but are not limited to, case consolidation, change of case type, charges refused by prosecutor, or lack of staffing. There are two cases of note. The first is a UI case in

which the suspect passed away and the charges were dismissed. The other is a Tax case identified as being associated to another case and was closed due to consolidation. These two cases account for over $3.5 million of the closed cases. Cases closed for administrative reasons or when prosecution declines to file charges expire are referred to the benefit program for administrative action. EDD's Investigation Division ended CY 2021 with 982 open and ongoing cases.

The 982 active criminal cases include 407 new criminal cases opened by the Investigation Division in CY 2021 specifically in response to the CARES Act Pandemic funding. The 407 cases are from reports of fraudulent activity occurring through identity theft, fraud rings of imposter claims, address theft, incarcerated individuals and other improper payments, such as working and earning violations. The report sources include claimants, private citizens, business owners, EDD personnel, external law enforcement and government agencies, and anonymous tips. Collectively, the Investigation Division has approximately 720 active PUA cases opened in CY 2020 and 2021 representing $288,151,015 in presumptive fraud which account for approximately 73% of the current EDD criminal investigations case load.

The table below illustrates the distribution of CY 2021 cases opened:

Criminal Cases Opened in CY 2021	Case Count*	Potential Fraud Overpayment Amount
Disability Insurance Programs	7	$162,589
Unemployment Insurance Programs - PUA	407	$127,178,698
Tax Programs	30	$2,320,712
Total Opened CY 2021 cases	**444**	**$121,873,311 Fraud OPs $2,320,712 Tax Liability**

*Case numbers are approximate due to the continued migration to a new case management system. Some numbers are collected manually.

During the pandemic, EDD forged new relationships with law enforcement agencies across California. The U.S. Department of Labor Office of Inspector General (U.S. DOL OIG) played a significant and instrumental part in assisting EDD through CY 2021 through data exchanges and assisting with identifying potentially fraudulent claims, especially out-of-state claims, using OIG analytics.

Fraud perpetration schemes observed related to CY 2021 pandemic era claims include:

- Identity Theft and Address Theft - Imposter Claims: PUA claims filed by perpetrators 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 the true wage earner's information without their knowledge or consent.

- Incarcerated: Fraudulent certification and receipt of benefits while detained in local, state and/or a federal jurisdiction detention facility. Claims were filed either by the incarcerated individual or by an associate with the incarcerated individual's knowledge and corroboration.

- False wages: These schemes involved individuals certifying to being self-employed or a contract employee when they were not really employed or involved individuals overstating their income and losses to qualify for maximum benefits. These claims also crossed over into Identity Theft with fraudsters certifying to self-employment wages on the stolen PII of children, unhoused individuals, or individuals living out of state.

Fraud deterrence and criminal investigations are accomplished both independently and collaboratively with external law enforcement entities at all levels and varying jurisdictions. The Federal Bureau of Investigation has invited participation of an EDD investigator as a member of their Sacramento Public Corruption Task Force while several other investigators are working mutually, statewide, with the U.S. DOL OIG, on UI fraud cases involving multi-state perpetration including benefit claims filed in the name of prison inmates and celebrities. EDD Investigation Division participates in several taskforce groups; however, due to the amount of fraud reporting during CY 2021, many external law enforcement entities established criminal cases independent of EDD for prosecution.

EDD remains determined to take action and hold accountable those who committed fraud during the pandemic. A grant from the federal government has helped to increase staff devoted to benefit payments and investigation of UI-COVID related fraud, which are also supported by the Fraud Special Counsel. As a result, the Department anticipates next year's report will include significant increases in the number of completed cases as the Department continues to move away from reacting to outside law enforcement agencies and moves towards actively participating in joint investigations.

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 2021, as well as those activities that are under consideration for future implementation.

Ongoing Efforts

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

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

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

3. **PII Remediation Efforts**
   In late 2018, the California State Auditor (CSA) performed an audit of EDD, which focused on forms containing PII that were sent to EDD customers via U.S. Postal Service mail. As a result of the CSA's recommendations outlined in the CSA's report released in March 2019, EDD created the Forms Governance Committee (FGC) comprised of various Deputy Directors and Director's Office staff to oversee any EDD form containing PII to prevent fraud. This project continued in 2021, with the updating and submission of identified forms throughout the Department.

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

5. **Toll-free EDD Fraud Tip Hotline 800-229-6297 and Website**
   This toll-free Hotline provides employers and individuals a designated telephone number to report alleged fraud directly to Investigation Division's Criminal Intelligence Section. 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 2021, the EDD Fraud Hotline operations were conducted on a remote basis due to pandemic restrictions for the majority of the year and adjustments made to the phone reporting system and voicemail repository. Fraud allegations were received and processed through a variety of methods and sources during CY 2021. Reporting methods included:

- EDD Fraud Tip Hotline Toll-Free number and Voicemails
- EDD Fraud Hotline Fax
- EDD public website AskEDD reporting method
- USPS Mail and Interoffice Mail
- Emails

In CY 2021, the AskEDD electronic reporting platform was upgraded. EDD received 131,564 electronic reports alleging fraud from the AskEDD public website application. In addition to the Ask EDD Report Fraud incident reports, EDD Investigation Division Fraud Desk and Hotline processed 10,466 allegations with teleworking constraints and resource limitations.

Similar to the previous year, the high volume of reports received in CY 2021 to the EDD Fraud Desk could not keep up with the workload with available resources. While there is a significant backlog of allegations, tips, and contacts remaining from CY 2021, EDD Investigation Division is working diligently to review and appropriately direct backlogged items. The Department is utilizing overtime, reorganized workloads, hiring, and establishing a dedicated group for the intake and adjudication of all fraud reports received.

New and Enhanced Partnerships

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

2. **External Partnerships**
   The Investigation Division has continued to foster joint investigative activities with the U.S. DOL OIG, US Postal Inspector General, and the US Attorney, to develop and share fraud leads, and more effectively investigate and prosecute perpetrators of fraud.

   During CY 2021, EDD expanded collaborative efforts with the U.S. DOL OIG to include all UI claims information, not just pandemic related. EDD and U.S. DOL OIG have accomplished several data exchanges of UI claim information to identify potential fraud and improper payments more readily.

The Investigation Division also coordinates with partner investigative and enforcement agencies to publicize joint investigative, arrest, indictment, and prosecution actions, with the intent of deterring fraud perpetrators. EDD responds to official requests and subpoenas for information from outside law enforcement to facilitate their investigations independent from EDD Investigation Division. In addition to our strong partnerships with law enforcement during joint investigations, EDD also provides claim information to assist law enforcement with claims violations and independent criminal investigations in other jurisdictions.

EDD Legal created a Fraud Recovery EDD (FREDD) email address to assist external agencies in fraud recovery. The email address allowed for banks as well as federal, state and local law enforcement entities to have a central point of contact. This enabled outside agencies to have a specific contact to address fraud issues and provide assistance with non EDD Investigation cases.

During 2021, EDD continued its partnership with the Governor's Cal OES state-wide task force on investigations and interdiction efforts to protect Californians from UI and PUA fraud, with the support of the Fraud Special Counsel. This partnership includes the CDCR, thirty three (33) of the State's District Attorneys, and the U.S. 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 ensure case de-confliction. These efforts have seen 1,334 investigations, 334 arrests, 113 convictions and over $3 million dollars seized.

EDD is working with the Fraud Special Counsel to develop additional complex criminal fraud cases to refer to local, state and federal law enforcement entities to investigate and prosecute.

During CY 2021, the EDD UI Program and Investigation Division representatives continue to participate in NASWA Integrity Data Hub (IDH) monthly workgroup meetings and collaborate with other state agency participants regarding multistate claims and potential interstate fraudulent claims. The Information Technology Branch (ITB), UI, and NASWA continue efforts in developing automated processes to maximize technology and resources prior to implementation.

3. **New Data Sharing Interfaces**
    During CY 2021, EDD received over 5,200 subpoenas from external entities, including district attorneys and federal, state and local law enforcement entities pursuing cases independent from EDD. In providing this valuable case information, the Department helps ensure other agencies can prosecute violations independently and contribute towards stopping criminal activity.

    In an effort to streamline this process, during CY 2021, EDD entered into agreements with several government agencies in order to facilitate the sharing of claim information for use in the prosecution of Pandemic Unemployment Fraud. Agreements have been signed with multiple law enforcement entities including local district attorney's offices, police departments, CDCR, U.S. DOL, and the California Department of Justice. EDD created an automated process to provide the information to the requesting agency via an encrypted digital file accessed through a web portal. From May to December of 2021, EDD has responded to 166 inquiries with approximately 1,080 files.

4. **Identity Management System**

    EDD continues to contract with the identity management system, ID.me, to interface with Unemployment Insurance claims data to provide a more robust approach to validate the true identity of those applying for UI benefits online. DI Branch partnered with ID.me in 2021 to ensure only claimants and medical providers would be able to access accounts.

5. **Thomson Reuters**

    EDD continues to partner with TR, which included Pondera Analytics. EDD continues to work closely with TR to refine and manage the solutions implemented for the prevention and detection of improper payments and suspected fraud. EDD continues to put all claims through TR review in an effort to prevent payments to potential fraudsters.

6. **Business Intelligence Competency Center**

    EDD's ITB BICC is a data warehouse. The ITB and BICC have integrated processes in concert with EDD's implementation of anti-fraud and prevention applications.

7. **EDDNext Systems Modernization**

    On September 16, 2020, the Governor's Strike Team issued a recommendation for EDD to immediately "pause" and redirect any staff from the Benefit Systems Modernization (BSM) project back to their previous roles, and once the backlog was eliminated, restart the BSM project with a different approach. In May 2021, EDD re-engaged in the modernization project, which 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 EDDNext Project will enhance existing fraud detection tools, data integration, claims integration, analytics, and reporting.

8. **EDD Website and Internet Security**

    EDD improved bot detection services in November of 2021 to protect the Benefit Programs Online system from bot or other behind the scenes attacks. This resulted in an improved customer experience while retaining necessary security. EDD continually monitors the EDD website for Internet traffic and cyber-attacks both independently and in conjunction with state technology.

9. **Fraud Special Counsel**

    In a major step toward prosecuting those who defrauded California's unemployment benefit program in 2020, EDD and the California Cal OES Fraud Task Force announced that former United States Attorney McGregor W. Scott would assist state investigators to ramp up statewide efforts to hold those who committed crimes accountable. The contract with Scott was created and renewed in 2021 and he continues to serves as Fraud Special Counsel to aid the State's work with law enforcement to combat fraud, including supporting the state, federal, and local efforts to prosecute suspected criminal activity.

ACRONYMS

AB	Assembly Bill
ARP	American Rescue Plan
BICC	Business Intelligence Competency Center
BOCA	Benefit Overpayment Collection Automation
BPO	Benefit Programs Online
BSM	Benefit Systems Modernization
CalJOBS^{SM}	California Job Opening Browse System
Cal OES	California Office of Emergency Services
reCAPTCHA	Completely Automated Public Test to Tell Computer and Humans Apart
CARES	Coronavirus Aid, Relief, and Economic Security
CDCR	California Department of Corrections and Rehabilitation
CDO	Compliance Development Operations
CSA	California State Auditor
CUIC	California Unemployment Insurance Code
CY	Calendar Year
DCA	Department of Consumer Affairs
DI	Disability Insurance
DOL OIG	Department of Labor Office Of Inspector General
EDD	Employment Development Department
ETT	Employment Training Tax
FGC	Forms Governance Committee
IDH	Integrity Data Hub
IDRA	Identity Risk Analytics
IME	Independent Medical Examination
IRS	Internal Revenue Service
ITB	Information Technology Branch
IVR	Interactive Voice Response
JESF	Joint Enforcement Strike Force
LETF	Labor Enforcement Task Force
LWDA	Local Workforce Development Area

NASWA	National Association of State Workforce Agencies
NER	New Employee Registry
ODS	Outreach Development Section
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
RBSM	Reimaged Benefit Systems Modernization
SDI	State Disability Insurance
SIDES	State Information Data Exchange System
SSN	Social Security Number
TAA	Trade Adjustment Assistance
TR	Thomson Reuters
UI	Unemployment Insurance
US	United States
WIOA	Workforce Innovation and Opportunity Act
WSB	Workforce Services Branch

This report was prepared by the Policy, Accountability and Compliance Branch of the California Employment Development Department

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