



Employment Development Department:

Significant Weaknesses in EDD's Approach to Fraud Prevention Have Led to Billions of Dollars in Improper Benefit Payments

Background

The State's unemployment rate surged from 4.3 percent in February 2020 to 16.2 percent by April 2020 due to the effects of the COVID-19 pandemic. With this surge in unemployment came a surge in the number of claims for assistance filed with the Employment Development Department (EDD). The EDD provides partial wage replacement benefits to eligible Californians through its unemployment insurance (UI) program. Not only did EDD's workload dramatically increase with this claims surge, but also with a large amount of additional funding and changes to federal UI benefit programs. All of this change occurring in a short period of time created an increased fraud risk. We conducted an audit of EDD's approach to fraud prevention.

Key Recommendations

- The Legislature should require EDD to regularly cross-match its claims against data from state and local correctional facilities to protect against fraudulent claims. Additionally, the Legislature should require EDD to periodically assess its fraud prevention and detection efforts and eliminate ineffective processes and duplicative efforts.
- EDD should do the following:
 - » Determine in advance which UI fraud prevention and detection mechanisms it can adjust during recessions to balance timely payment with fraud prevention.
 - » Provide timely access to benefits for legitimate UI claimants with frozen accounts by reviewing the accounts, determining legitimacy, and unfreezing those accounts.
 - » Immediately establish a central unit to coordinate all fraud prevention and detection efforts and plan how to assess the effectiveness of its tools.

Key Findings

- Despite repeated warnings, EDD did not bolster its fraud detection efforts until months into the pandemic, and it suspended a critical safeguard which, combined, resulted in over \$10 billion in claims that it has since determined may be fraudulent.
 - » It allowed claimants to collect benefits even though they were using suspicious addresses—in one case, more than 1,700 claims were coming from a single address.
 - » Staff made \$1 billion in payments to claimants despite concerns about the legitimacy of their identities before discovering it had inadvertently removed a safeguard for four months.
 - » It will likely face a significant workload increase to assist victims whose identities were stolen.
- EDD coordinated poorly with Bank of America to combat fraud. After it directed the bank to freeze 344,000 accounts, it had no plan to assist legitimate claimants and was slow to accept responsibility.
- EDD was unprepared to guard against inmate fraud—it did not cross-match all incoming claims against incarceration data and paid roughly \$810 million in benefits to 45,000 claimants who were incarcerated.
- EDD's fraud detection efforts are disjointed and leave its UI program at higher risk for fraud—it has no dedicated unit to mitigate the risk of fraud or manage detection efforts, and it does not reliably track suspicious claims and resolution to determine the effectiveness of its fraud detection tools.