



JOINT HEARING

**Budget Subcommittee No. 5 on Corrections, Public Safety, Judiciary, Labor and Transportation
Senator Maria Elena Durazo, Chair**

**Senate Labor Public Employment and Retirement
Senator Dave Cortese, Chair**

**Senate Banking and Financial Institutions
Senator Anna Caballero, Chair**

Monday, February 8, 2021
9:00 a.m. – State Capitol – Senate Chamber

***Informational Hearing: Audit of Employment Development Department's Performance and
Management Related to Californians Unemployed by COVID-19 Shutdowns***

Panels

- I. Welcome and Opening Remarks
- II. Overview of Audit Findings and Recommendations
 - Elaine M. Howle, California State Auditor
 - Bob Harris, Principal Performance/Policy Evaluator
- III. Comments and Responses to the Audit
 - Rita Saenz, Director, Employment Development Department
 - Nancy Farias, Chief Deputy Director of External Affairs, Legislation and Policy
 - Carol Williams, Chief Deputy Director of Operations
 - Kevin Matulich, Deputy Director of Legislative Affairs
- IV. Bank of America
 - John Lawlor, Managing Director Municipal Banking and Markets
 - Faiz Ahmad, Managing Director Transaction Services
 - Bill Fox, Managing Director Compliance and Operational Risk for Financial Crimes and Fraud
- V. Public Comment
- VI. Closing Comments

Background

Core Points:

- Created as a part of the Social Security Act of 1935, the Unemployment Insurance (UI) System is a joint federal-state program: the federal government sets the program rules and the State implements the program.
- For more than 85 years, the UI system has formed the backbone of the social safety net for American workers facing unemployment due to no fault of their own. For example, from March 2020 to November 2020, EDD processed *more than 17 million claims* and paid out *more than \$111 billion* in UI benefits due to the COVID-19 pandemic.
- In the aftermath of the Great Recession (2008-2014) and the COVID-19 pandemic, the unemployment insurance system in nearly all states, but particularly California, showed extreme distress.
- This hearing will review recent and historic findings from the State Auditor on the failings of California's unemployment insurance system and steps that will be taken to address these challenges.

What is the Unemployment Insurance System? How does it work?

Prior to the Great Depression (1929-1938), neither the federal government nor states provided wage replacement benefits due to unemployment. While California experimented with limited programs that connected unemployed workers with employers with job openings prior to the 20th Century, there was no governmental focus on mid and long-term unemployment due to economic shocks or macroeconomic conditions.

With the onset of the Great Depression, and the ensuing surge in the unemployment rate to 25%, this quickly changed. Reflecting the emerging cooperative federalism norm of Roosevelt's New Deal, the Social Security Act of 1935 created a comprehensive federal-state Unemployment Insurance (UI) System in the United States. Specifically, the Act provided that the federal government sets the baseline rules of the UI System, partially funds the administration of the UI system, and serves as a fiscal backstop, but it falls to the states to implement these rules.

For example, the federal Act requires states to provide cash benefits to unemployed workers who are unemployed through no fault of their own. These benefits are funded through employer-paid payroll taxes assessed as a percentage of a worker's pay. The employer's tax rate is *experience rated*, which means that the employer will (theoretically) pay a high tax rate and more in unemployment insurance taxes if they lay off significant numbers of workers. Beyond that, the states retain significant discretion in the structure of their UI programs. This includes eligibility rules, the amount of an employee's wages that are taxed, and benefit amounts.

In California, for example, unemployment insurance taxes are levied against a worker's first \$7,000 of wages. The current wage base was first set in 1984 in both federal and California statutes, and has not been updated since. Only Arizona has a similarly low UI wage base – high population states (like New York, Texas, and Florida) have higher wage base. Even reputed low tax states like North Dakota, South

Dakota, and Mississippi have higher UI wage bases.¹ Due to its low taxable wage base, California's unemployment insurance system is functionally insolvent even during strong economic times and the Employment Development Department does not have similar resources available for the administration of its UI system in comparison to other states and their relevant departments.

The Great Recession, COVID-19, and California's Unemployment Insurance System

In the past decade, California's unemployment insurance system was severely tested and, unfortunately, it has not performed well. Both during the Great Recession and the current COVID-19 pandemic, both unemployment insurance claimants and businesses have reported significant challenges with reaching and communicating with the Employment Development Department (EDD) about unemployment insurance claims. During both crises, constituents reached out to their elected representatives for assistance, and the Legislature responded by assisting constituents with their UI issues, as well as holding a series of oversight hearings and requesting an audit of EDD's UI program by the State Auditor.

Troublingly, some of the issues that the State Auditor uncovered during the Great Recession remain challenges during the current COVID-19 pandemic. For example, the State Auditor recommended in 2011 that EDD implement a *recession plan* in order to address the surge in unemployment claims from an economic downturn. Similarly, the State Auditor also recommended that EDD adopt best practices in the *management of their call centers* during the Great Recession. *In both cases, the State Auditor found that EDD has failed to adopt these Great Recession era reforms, perpetuating avoidable challenges during the COVID-19 pandemic.* In a written response to the State Auditor's report, EDD acknowledges these failures and commits to adopting the State Auditor's recommendation.

Yet, the challenges facing EDD and the UI system in the midst of the COVID-19 pandemic are also distinct from what EDD faced during the Great Recession. First, there is an issue of scale: during the height of the Great Recession (2009-10), EDD received 3.8 million claims in each of those years. In the first *six months* of 2020, *EDD received 6.5 million claims.* Due to the lockdown, California's unemployment rate jumped from 4.3% in February 2020 to 16.2% in April of 2020. By November of 2020, EDD had processed ***more than 17 million claims***, including PUA claims. This equates to ***more than \$111 billion*** in unemployment insurance benefits. The scale, scope, and speed of the COVID-19 pandemic is simply unprecedented, and it caught EDD unprepared, as it did nearly all governmental entities.

Second, faced unique challenges in implementing the federal government's response to the COVID-19 pandemic. On March 27, 2020, the former administration signed the Coronavirus Aid, Relief, and Economic Security (CARES) Act, which extended unemployment insurance benefits to independent contractors through the *Pandemic Unemployment Assistance (PUA)* program. This extension of wage replacement benefits to independent contractors and business owners, *which is 100% federally funded*, was an unprecedented and untried program, and it represented an attempt to provide wage replacement benefits to the broadest range of workers impacted by COVID-19.

Unfortunately, as structured by the federal government, the PUA program did not have sufficient anti-fraud protections in place. Unlike with traditional unemployment insurance benefits, where employer payroll reports to EDD serve as a verification tool of continued unemployment, the PUA program operated entirely on self-attestations. During the Great Recession, the federal government extended no comparable benefit program, and therefore fraud remained negligible.

¹ The taxable wage bases for these states are \$37,900, \$15,000, and \$14,000, respectively.

This was not the case with the PUA. Due to the lack of anti-fraud standards, fraud rose dramatically in the unemployment insurance system – ***EDD reports that 95% of all of the detected UI fraud comes from the PUA program.*** This huge surge in fraud has led to elevated anti-fraud efforts by both EDD and EDD’s UI benefit card vendor, Bank of America, leading to benefit delays and additional friction in benefit administration. Moreover, this increase in fraud has triggered intense concern from the media and citizens, undermining Californians trust in EDD and the UI system.

Looking Towards the Future: The February 8th Joint Senate Hearing

The Senate Budget Subcommittee Number 5 (Corrections, Public Safety, Judiciary, Labor and Transportation) and the Senate Standing Committee on Labor, Public Employment and Retirement will hold a joint hearing on the State Auditor’s recent audits on the Employment Development Department’s management and performance of the UI system during the COVID-19 pandemic (see Appendix A for a summary of the audit), and its approach to fraud prevention (see Appendix B for a summary of the audit). The Committees will hear from both the State Auditor and the Employment Development Department on the audits, the audits’ recommendations, and future initiatives to address the managerial and programmatic shortcomings uncovered by the Auditor and her team. Additionally, the Committees will explore:

- 1) What managerial and programmatic challenges led to benefit delays during the COVID-19 pandemic?
- 2) What specific actions is the Department taking to resolve these programmatic and managerial challenges?
- 3) In the face of two “once-in-a-lifetime” crises, the unemployment insurance system has not fared well. What policies can the Legislature and the Department implement now and post-pandemic to ensure that our UI system operates as designed?

APPENDIX A: EDD Audit Summary & Recommendations

(From *Employment Development Department: EDD's Poor Planning and Ineffective Management Left It Unprepared to Assist Californians Unemployed by COVID-19 Shutdowns* (State Audit Report Number: 2020-128/628.1))

In March 2020, government directives ordered businesses to close and residents to stay at home in response to the COVID-19 pandemic (pandemic). Millions of Californians were left unemployed and in critical need of assistance to replace some of the income on which they relied to pay for essentials such as housing and food. The Employment Development Department (EDD) administers the State's unemployment insurance (UI) program. The economic shutdowns in early 2020 led to historically high numbers of UI claims in a very short time (claim surge), and further shutdowns began in December 2020, raising the potential for additional spikes in unemployment. This audit reviewed EDD's response to the claim surge, its handling of the resulting backlog of unpaid claims, and the assistance it has provided to individuals through its call center. This audit report concludes the following:

EDD has presented unclear information about its claim backlog. In December 2020, EDD publicly reported a backlog of about 685,700 claims. However, fewer than 20,000 of these claims were waiting for payment because of EDD's failure to resolve an issue with them. EDD's presentation of backlog information has led to confusion about its performance during the pandemic. Nevertheless, when claims rose dramatically in mid-March, EDD's inefficient processes contributed to significant delays in its payment of UI claims. Specifically, EDD was unable to automatically process nearly half of the claims submitted online between March and September 2020; instead, many of these claims required manual intervention from staff. As a result, as of September 2020, the timeliness of payments to claimants had declined when compared to the year before. Hundreds of thousands of claimants waited longer than 21 days—EDD's measure of how quickly it should process a claim—to receive their first benefit payment. Beginning in March 2020, EDD began modifying its practices and processes to increase the rate at which it automatically processes online claims, eventually reaching an automation rate of more than 90 percent by November 2020. However, it is unlikely to sustain that rate when it returns to post-pandemic operations because of the short-term nature of some of the automation measures it has taken to address the backlog.

Because EDD Responded to the Claim Surge by Suspending Certain Eligibility Requirements, Many Californians Are at Risk of Needing to Repay Benefits.

In March 2020, the secretary of the Labor and Workforce Development Agency (agency secretary) directed EDD to pay claimants UI benefits before determining whether they met key program eligibility requirements, and EDD expanded this directive to include most program eligibility determinations. In April 2020, the agency secretary further directed EDD to temporarily stop collecting the certifications claimants must regularly submit that assert they remain eligible for benefits. Although both directives were designed to provide Californians with benefit payments as quickly as possible, the United States Department of Labor had not waived the federal requirements addressed by the directives and has since questioned the actions EDD took. As a result, EDD now faces the challenge of processing delayed determinations and certifications of eligibility, which will require significant time and resources, and it has not adequately planned how it will address this impending workload. These actions also removed a barrier to fraud, and claimants who applied in good faith may have to repay the benefits they received if EDD finds them retroactively ineligible for some or all of those benefits.

EDD Took Uninformed and Inadequate Steps to Resolve Its Call Center Deficiencies.

Even before the claim surge, EDD struggled to answer claimants' calls. Once the claim surge began, EDD's call center performance deteriorated dramatically: it answered less than 1 percent of the calls it received. EDD quadrupled its available call center staff to more than 5,600 people in response to its call center problems, but these staff were often unable to assist callers and only marginally improved the percentage of calls it answered. Despite knowing for years that it had problems in the call center, EDD has not yet adopted best practices for managing the call center or for providing assistance to callers—such as tracking the reasons why claimants call and whether it resolves callers' issues—leaving it less prepared to effectively assist the many Californians attempting to navigate the claim process for the first time as a result of the pandemic.

Despite Multiple Warnings, EDD Failed to Prepare for an Economic Downturn.

During the Great Recession of 2008 and 2009, EDD experienced many problems similar to those we note in this report. Further, it has been aware of deficiencies with its claim process and call center for years. Nonetheless, in March 2020, EDD had no comprehensive plan for how it would respond if California experienced a recession and UI claims increased correspondingly. The 2020 claim surge was unprecedented and would have presented significant challenges no matter how prepared EDD was, but it failed to act comprehensively to prepare for downturns and to address known deficiencies. As a result, its areas of weakness became key deficiencies in its response to the claim surge, and these were a cause of serious frustration for unemployed Californians in need of assistance.

Selected Recommendations:***Legislature***

The Legislature should require EDD to do the following:

- Report at least once every six months on its website the amount of benefit payments for which it has required repayment and the amount repaid.
- Develop a recession plan so that it is well prepared to provide services during economic downturns. The planning process should consider lessons learned from previous economic downturns, including the recent pandemic-related claim surge.

EDD

By March 2021, EDD should revise its public dashboards about the number of backlogged claims to clearly describe the difference between those waiting for payment and those that are not.

By June 2021, EDD should determine how many of its temporary automation measures for claims processing it can retain and by September 2021, it should make those a permanent feature of its claims processing.

To address its deferred eligibility determinations, EDD should immediately begin performing a risk assessment of its deferred workloads and determine the most appropriate order in which to progress through the work.

To improve its call center performance, by May 2021 EDD should begin tracking the reasons why callers need assistance and tracking whether it resolves caller issues successfully.

Agency Comments

EDD acknowledged that it must make improvements to its administration of the UI program. It agreed with all of our recommendations and indicated it would implement all of them.

APPENDIX B: EDD Audit Summary & Recommendations

(From Employment Development Department: Significant Weaknesses in EDD's Approach to Fraud Prevention Have Led to Billions of Dollars in Improper Benefit Payments (State Audit Report Number: 2020-128/628.2))

The Employment Development Department (EDD) is responsible for administering the State's unemployment insurance (UI) program, which provides partial wage replacement benefits to eligible Californians who have become unemployed, including those affected by the COVID-19 pandemic (pandemic). Since the surge in pandemic-related California unemployment claims began in March 2020, individuals, news organizations, and law enforcement officials have reported many cases of potential and actual UI fraud. Not surprisingly, the pandemic conditions increased EDD's UI workloads and also resulted in changes to federal UI benefit programs, both of which have created a greater risk of fraud. We assessed EDD's response to increased fraud risk during the pandemic—such as allegations of impostor fraud, which occurs when a perpetrator uses someone else's personal information to fraudulently collect benefits—and evaluated its overall efforts to detect fraud. This report draws the following conclusions:

EDD's Fraud Prevention Approach During the Pandemic Was Marked by Significant Missteps and Inaction

EDD did not take action to bolster its fraud detection efforts until months into the pandemic. As a result, its data show that it paid about \$10.4 billion in claims that it has since determined may be fraudulent. Even as late as December 2020, EDD was allowing claimants to continue to collect benefits using suspicious addresses because it did not establish payment blocks for their claims. Further, \$1 billion of the \$10.4 billion paid for suspicious claims was the result of EDD's decision to remove a key safeguard against payment to claimants whose identities it had not confirmed. EDD staff misunderstood the importance of that particular safeguard and, from April to August 2020, made payments to claimants despite concerns about the legitimacy of their identities.

EDD's Lack of Preparation Left it Unable to Effectively Address Two High Profile Situations

Because of fraud concerns, EDD directed Bank of America to freeze 344,000 debit cards (accounts) that it uses to provide claimants with benefit payments. However, EDD did not have a plan to ensure that it could selectively unfreeze accounts belonging to legitimate claimants, has been slow to provide clear information about its role in freezing these accounts, and does not have a full understanding of which accounts are frozen. Additionally, EDD was unprepared to prevent payment for fraudulent claims filed under the names of incarcerated individuals—which it estimated to total about \$810 million. EDD had told the Legislature for years that it was considering adopting a cross-match between claim and incarceration data. However, because it had not developed the capacity to match data between its claims system and the data from state and local correctional facilities, it did not detect these fraudulent claims until after the fact.

EDD Has Relied on Uninformed and Disjointed Techniques to Prevent Impostor Fraud

EDD has not established a centralized unit that is responsible for managing its fraud detection efforts, and it does not reliably track potential fraudulent activity from detection to resolution. As a result, EDD's UI program is at a higher risk for fraud. Further, it does not monitor or assess its numerous fraud

prevention and detection tools to determine whether they are successful in mitigating fraud. Consequently, EDD may well be using ineffective fraud prevention and detection techniques and delaying payments to legitimate claimants while it puts their claims through additional and unmerited review.

Summary of Recommendations

Legislature

To protect against fraudulent UI claims, the Legislature should amend state law to require EDD to regularly cross-match its claims against data from state and local correctional facilities.

To ensure that EDD effectively protects the integrity of the UI program, the Legislature should amend state law to require EDD to, by January 2022, and biannually thereafter, assess the effectiveness of its fraud prevention and detection tools, eliminate those that are not effective, and reduce duplication in its efforts.

EDD

To ensure that it does not suspend critical safeguards, EDD should plan in advance which UI fraud prevention and detection mechanisms it can adjust during recessions to effectively balance timely payment with fraud prevention.

To provide timely access to benefits for legitimate UI claimants with frozen accounts, EDD should immediately obtain and review a comprehensive listing of benefit accounts that are frozen and, by March 2021, begin the process of unfreezing legitimate accounts.

To ensure that it can approach UI fraud prevention in a comprehensive and coordinated manner, EDD should do the following:

- By March 2021, establish a central unit responsible for coordinating all fraud prevention and detection efforts.
- By May 2021, develop a plan for how it will assess the effectiveness of its fraud prevention and detection tools.

Agency Comments

EDD stated that it undeniably struggled to timely distribute benefits to the millions of newly unemployed Californians and simultaneously prevent fraudulent claims. It agreed with all of our recommendations and indicated that it will implement them all.



COMMITMENT
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February 3, 2021
Report 2020-128/628.1

LEGISLATIVE
HEARING DOCUMENT

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Employment Development Department:
EDD's Poor Planning and Ineffective Management Left It Unprepared to Assist Californians Unemployed by COVID-19 Shutdowns

The State Auditor found that . . .

1. EDD Did Not Prepare for an Economic Downturn

- EDD has been aware of deficiencies with its claim process and call center for years.
- Weak areas became critical shortcomings when EDD responded to a surge in UI claims.

2. Most Callers Did Not Receive Help From EDD's Call Center

- Call center performance deteriorated dramatically after claims surged in March 2020.
- EDD quadrupled call center staff, but they frequently could not help callers and only marginally improved the percentage of answered calls.

3. EDD Struggled to Process Claims and its Process Improvements Are Not All Sustainable

- EDD could not automatically process nearly half of claims individuals submitted online between March and September 2020.
- EDD modified its practices and eventually reached over 90 percent automation, but will not be able to sustain those gains in the long term.

4. EDD Delayed Critical Work That Will Now Threaten Effective Ongoing Operation of the UI Program

- The Labor and Workforce Development Agency directed EDD to pay claimants without determining eligibility for the program and to temporarily stop collecting eligibility certifications.
- EDD must now process millions of delayed eligibility decisions, which it has not adequately planned how to address, and will ask some Californians to repay benefits.



EDD Had Not Prepared for the Economic Shutdown

For more information, see pages 49–53 of our report.

EDD has been aware of key operational issues for **nearly ten years . . .**



INEFFICIENT CLAIM FILING PROCESS



LACK OF READILY AVAILABLE, QUALIFIED STAFF



POOR CALL CENTER MANAGEMENT

but it failed to develop a comprehensive recession plan.



As a result, the economic downturn worsened EDD's already poor performance.

PRE-SHUTDOWN ORDER

TWO-THIRDS OF ONLINE CLAIMS DID NOT FILE AUTOMATICALLY

25% OF FIRST PAYMENTS WERE ISSUED LATE

LESS THAN 10% OF CALLS WERE ANSWERED

POST-SHUTDOWN ORDER

PAST DUE

ALMOST 40% OF FIRST PAYMENTS WERE ISSUED LATER THAN 14 DAYS



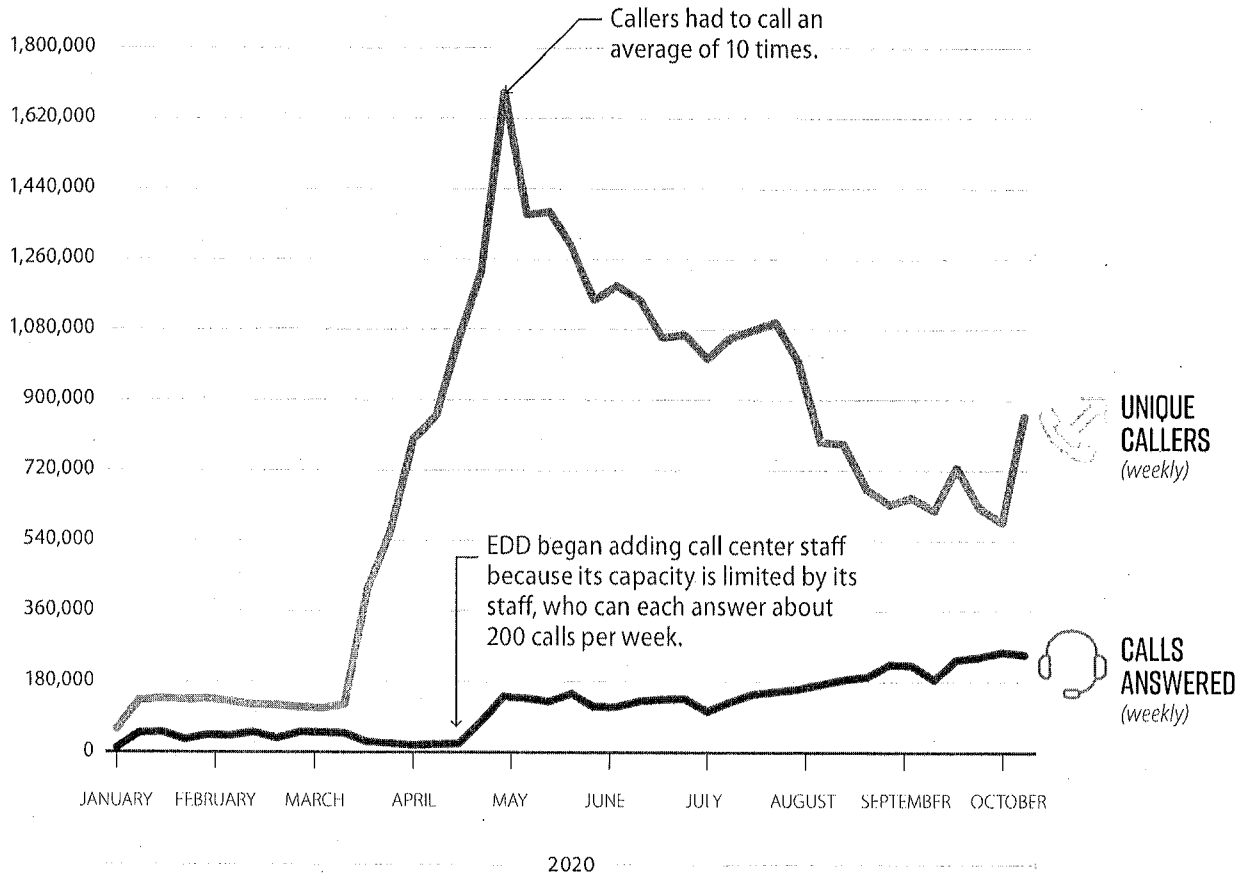
LESS THAN 1% OF CALLS WERE ANSWERED IN EARLY APRIL

Recommendation

- The Legislature should require EDD to develop a recession plan that would prepare it for economic downturns. The plan should include modifications to business practices that would allow EDD to maintain adequate service to Californians during increased demand for UI benefits.

EDD's Already Poor Call Center Performance Declined Significantly During the Pandemic

For more information, see page 37 of our report.



Recommendations

To improve its call center performance, EDD should:

- By May 2021 adopt a policy that establishes a process for tracking and periodically analyzing the reasons why UI claimants call for assistance.
- Develop specialized training for its staff based on the reasons why callers contact EDD.
- By May 2021 EDD should also implement a policy for tracking and monitoring its rate of first-call resolution.

EDD Paid Hundreds of Thousands of Claims Late

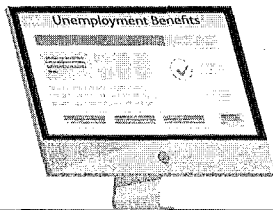
For more information, see page 14 of our report.

When claims surged to unprecedented levels, EDD struggled to effectively serve claimants.

FOR ONLINE CLAIMS FROM MARCH THROUGH SEPTEMBER 2020 . . .

Filed automatically

52%

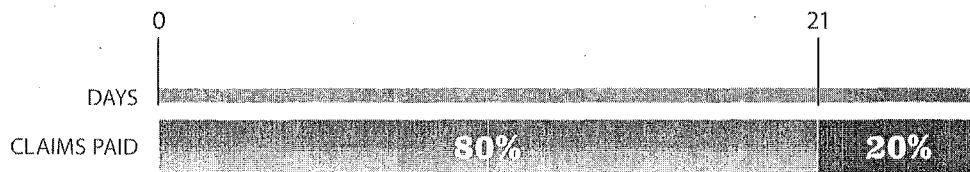


Needed additional intervention

48%



In 2019, EDD paid 88 percent of claims within three weeks. But, for claims submitted in April through September 2020, EDD paid only 80 percent within this time frame.



Over 800,000 claims

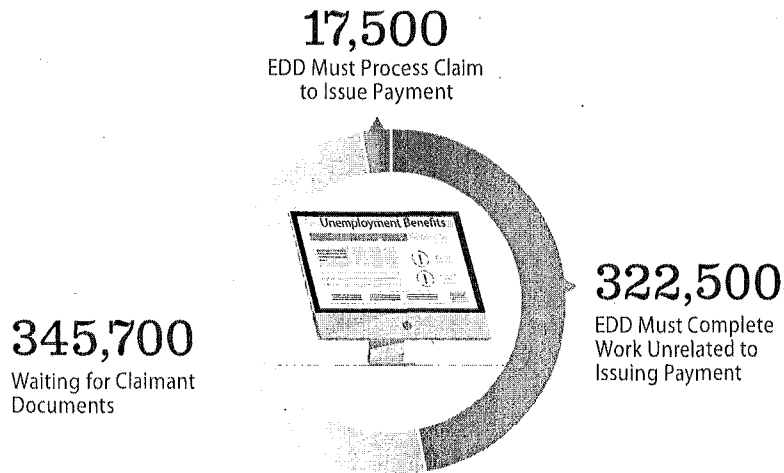
EDD Provided Misleading Information About its Backlog

For more information, see page 11 of our report.

As of December 15, 2020 EDD public dashboards showed...

$$\begin{array}{r} 340,000 \dots \text{Waiting for payment} \\ + \quad 345,700 \dots \text{Waiting for claimant documents} \\ \hline = 685,700 \dots \text{Claims in the backlog} \end{array}$$

But far fewer claims are waiting for payment...

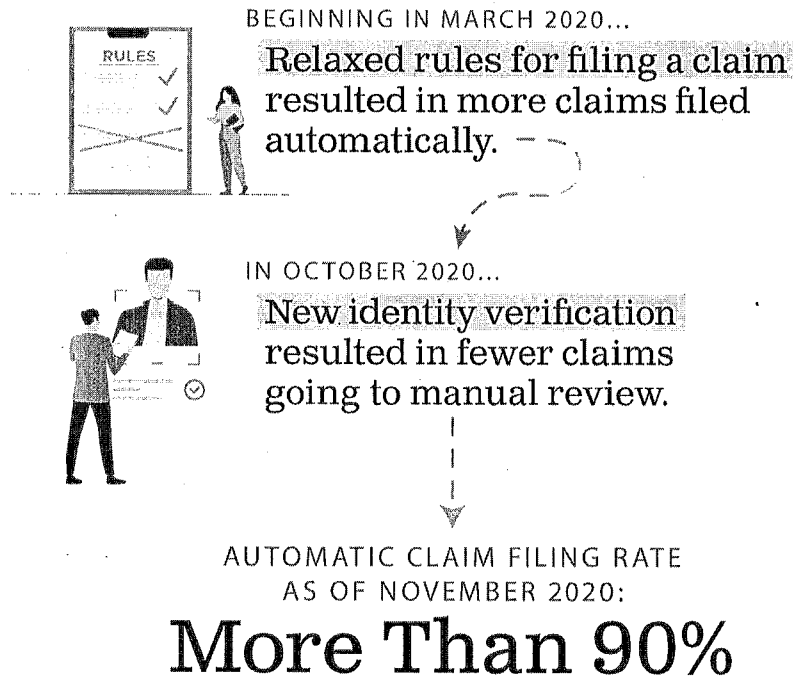


Recommendation

- By March 2021, EDD should revise its public dashboards to clearly indicate the number of claims that have waited longer than 21 days for payment because EDD has not yet resolved pending issues.

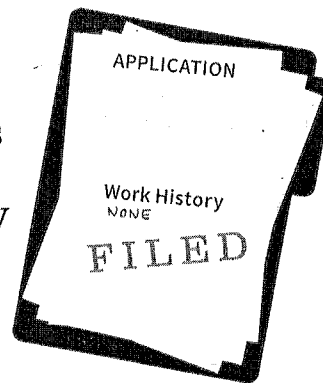
EDD May Struggle to Maintain Its Recent Progress in Automating Claim Filing

For more information, see page 18 of our report.



But EDD's changes are not all sustainable...

...because federal law temporarily changed eligibility requirements for some claims, EDD altered its processes to effect these changes and to automatically file more claims.



Recommendation

- By June 2021, EDD should determine the automation it can retain as part of its regular business operations and by September 2021 it should make those features permanent.

EDD Suspended Most Eligibility Requirements, Leaving It With a Large Future Workload

For more information, see page 25 of our report.

When economic shutdowns caused record numbers of Californians to apply for unemployment benefits...

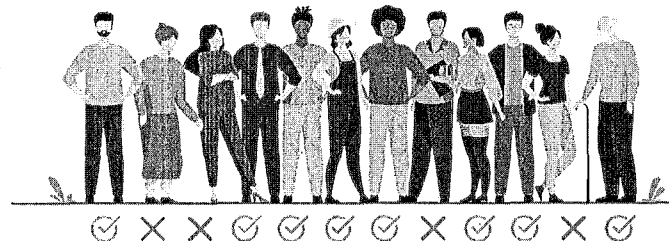


EDD paid benefits without making most eligibility decisions.



In the upcoming months, EDD will have to review 12.7 million eligibility issues affecting up to 2.4 million claimants...

to determine which claimants may not have actually been eligible for all of the benefits they received and now need to repay money they received.

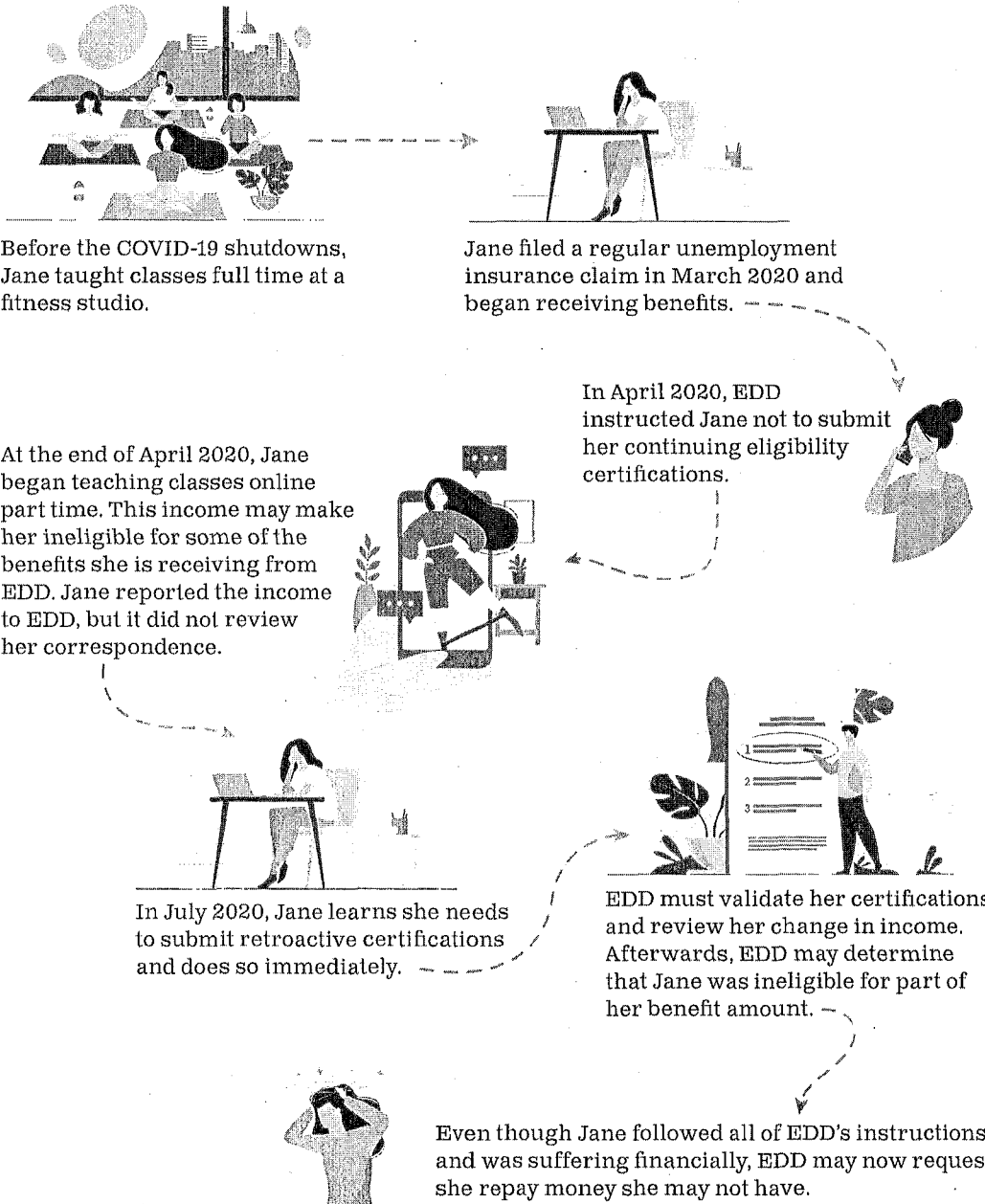


Recommendation

- To address its deferred eligibility determinations, EDD should immediately begin performing a risk assessment of its deferred workloads and determine the most appropriate order in which to progress through the work.

EDD Told Claimants to Stop Sending Required Documents and Now It May Require Claimants to Repay Benefits

For more information, see page 30 of our report.



Recommendation

- The Legislature should require EDD to regularly report the amount of benefit payments for which it must assess potential overpayments, the amount for which it has issued overpayment notices, the amount it has waived overpayment on, and the amount repaid related to those notices.



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Employment Development Department: **Significant Weaknesses in EDD's Approach to Fraud Prevention Have Led to Billions of Dollars in Improper Benefit Payments**

The State Auditor found that...

1. EDD Paid About \$10.4 Billion in Potentially Fraudulent Payments During the Pandemic

- Because it was slow to respond to fraud risk, EDD paid about \$10.4-billion from March through December 2020 on claims it later determined might be fraudulent.
- \$1 billion of these payments occurred because EDD removed a safeguard against paying individuals with unconfirmed identities.

2. EDD Was Unprepared to Address Two High-Profile Situations

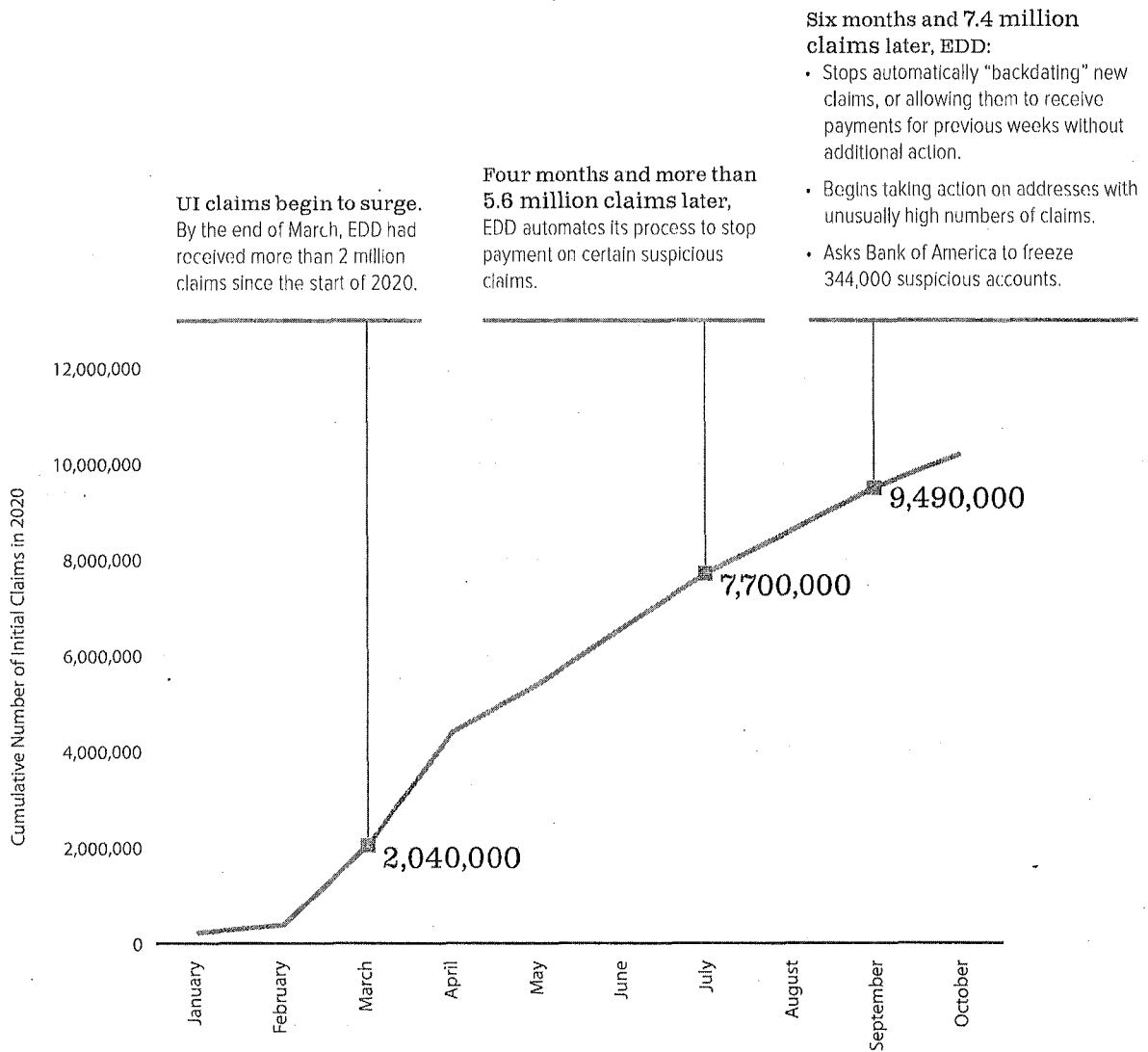
- EDD directed Bank of America to freeze 344,000 benefit accounts but has not effectively coordinated to assist legitimate claimants impacted by that directive and has not taken responsibility for its role.
- EDD estimates it paid \$810 million to claims filed under the names of incarcerated individuals because it has not regularly cross-matched claims with inmate data.

3. EDD Has Relied on Disjointed and Uninformed Techniques to Prevent Fraud

- EDD has not established a centralized unit to manage its fraud detection efforts, leaving coordination of fraud prevention and detection to a variety of units with no consistent oversight.
- EDD does not measure or monitor any of its fraud prevention or detection tools to determine how effectively each one detects fraud. As a result, it does not know if it is using ineffective fraud prevention and detection techniques that delay payments to legitimate claimants.

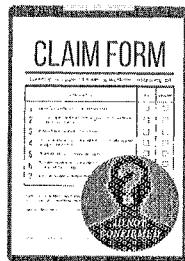
EDD Was Slow to Respond to Fraud Risk During the Pandemic

For more information, see page 9 of our report.



EDD Paid \$1 Billion to Questionable Claims Because It Removed a Key Fraud Safeguard

For more information, see page 16 of our report.



Normally, EDD applies **STOP PAYMENT ALERTS** to claims with potential identity problems.



Early in the pandemic, EDD removed these stop payment alerts.

EDD mistakenly believed that other safeguards would continue to stop payment on these claims.

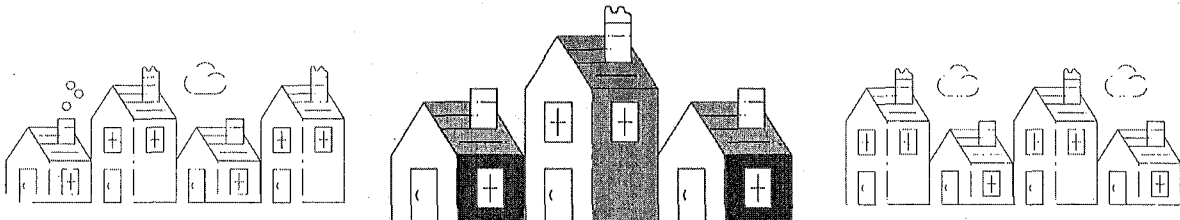


EDD paid **\$1 BILLION** to the unknown claimants before eventually reinstating the stop payment alerts in August 2020.

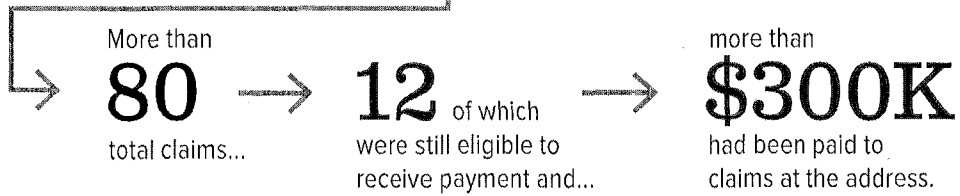
Claims Associated With Suspicious Addresses Were Still Active In December 2020

For more information, see page 12 of our report.

EDD IDENTIFIED 26,000 ADDRESSES WERE LINKED TO SUSPICIOUS CLAIMS, BUT IT ONLY STOPPED PAYMENTS TO CLAIMS ASSOCIATED WITH 10,000 OF THESE ADDRESSES...



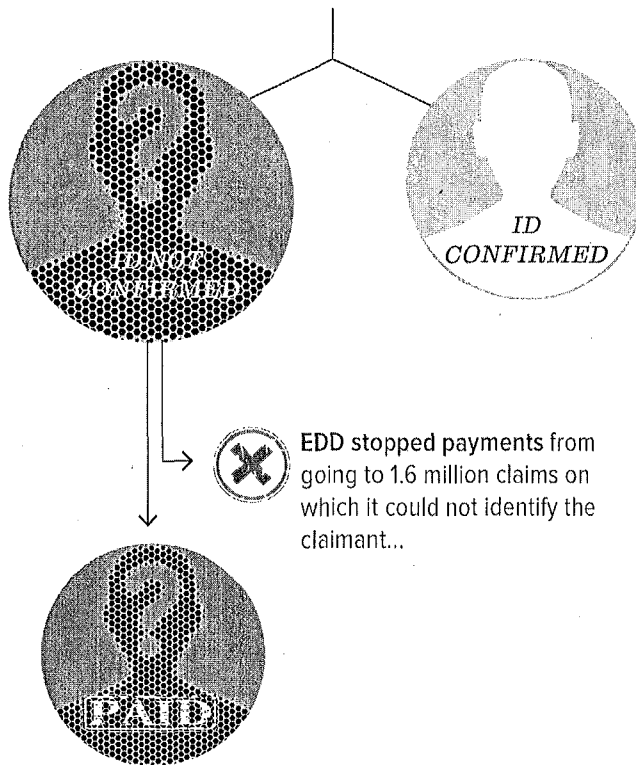
We looked at three of the unblocked addresses and found one with...



EDD Paid About \$10.4 Billion in Benefits to Claimants with Unconfirmed Identities

For more information, see page 16 of our report.

A CRITICAL PART OF EDD'S FRAUD PREVENTION EFFORTS IS VALIDATING CLAIMANT IDENTITIES.



But it paid benefits to almost **597,000** other such claims.

These payments totaled **\$10.4 Billion** at the end of 2020.

This value will continue to increase as EDD identifies more fraud.

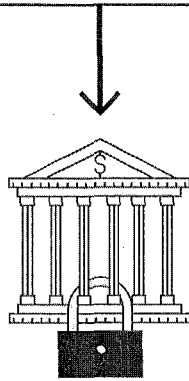
Recommendations

- EDD should prepare to assist victims of identity theft to ensure that they receive prompt assistance and avoid tax liabilities for benefits they never received.
- EDD should plan for economic downturns by identifying the fraud prevention efforts it can adjust during periods of high demand for benefits.




EDD Directed Bank of America to Freeze 344,000 Benefit Accounts But Was Not Prepared For Next Steps

For more information, see page 23 of our report.

In September 2020, EDD directed Bank of America to freeze 344,000 benefit payment accounts...



...but EDD:

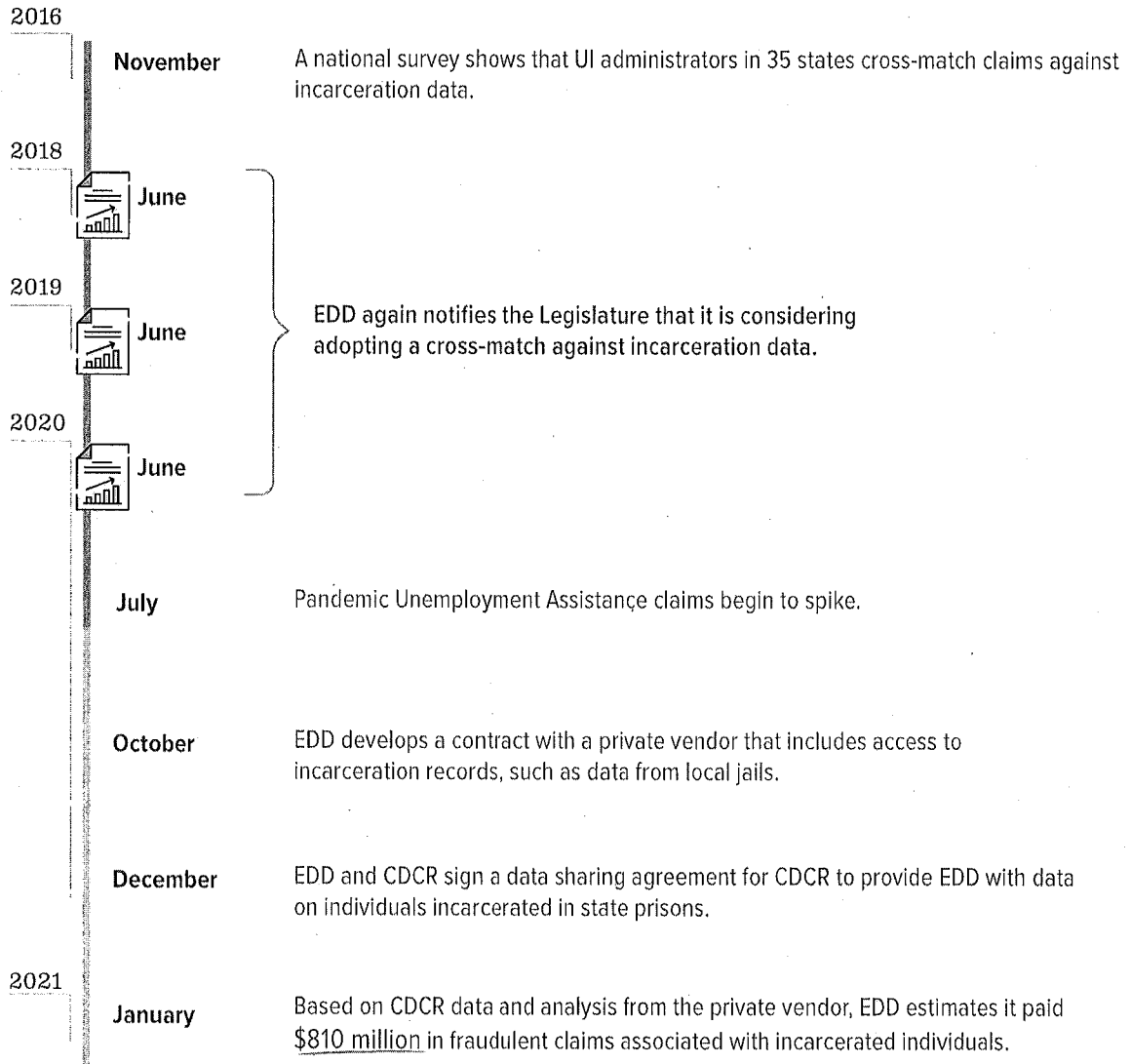
-  **Did not have a plan to unfreeze accounts belonging to legitimate claimants.**
-  **Has not had a comprehensive method of tracking frozen accounts.**
-  **Has been slow to provide clear information about its role in freezing these accounts.**

Recommendations

- EDD should immediately obtain and review a comprehensive list of benefit accounts that are frozen and begin the process of unfreezing legitimate accounts.
- EDD should establish a centralized tracking tool that allows it to track all frozen accounts and the efforts it has taken to resolve concerns of legitimate claimants.

EDD Was Unprepared for Hundreds of Millions of Dollars in Fraud Associated With Inmates

For more information, see page 27 of our report.



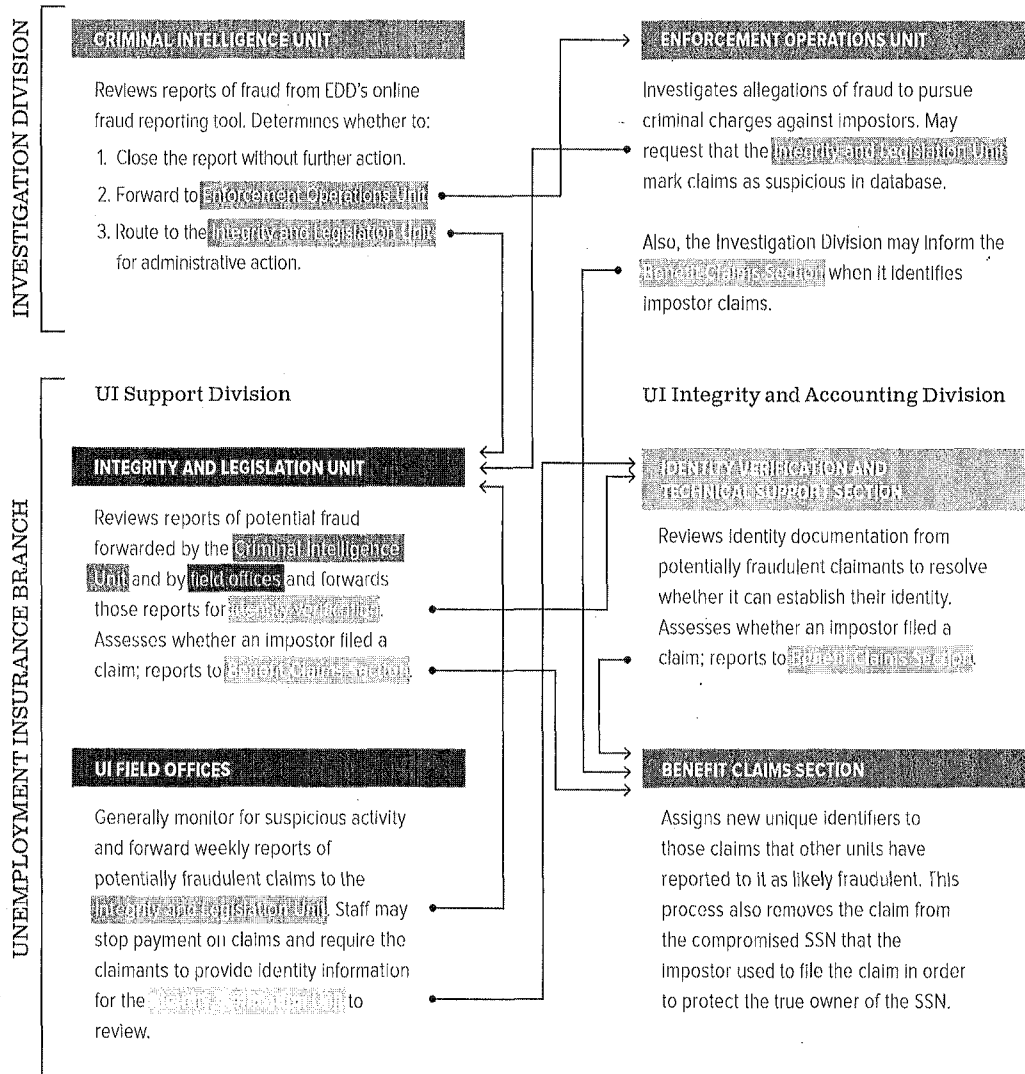
Recommendation

The Legislature should require EDD to regularly cross-match its claims against data from state and local correctional facilities.



EDD Has a Disjointed Approach to Fraud Prevention and Detection

For more information, see page 33 of our report.



EDD also has not assessed the effectiveness of its fraud prevention and detection tools.

Recommendations

- The Legislature should require EDD to assess the effectiveness of its fraud prevention and detection tools, eliminate those that are not effective, and reduce duplication in its efforts.
- EDD should designate a single unit responsible for coordinating fraud prevention and align the unit's duties with best practices.





COMMITMENT
INTEGRITY
LEADERSHIP

February 3, 2021
Reports 2020-128/628.1 & 628.2
LEGISLATIVE
HEARING DOCUMENT

Elaine M. Howle *California State Auditor*

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Legislative Recommendations

- **Require EDD to develop a recession plan that takes into account lessons learned.** Require that the plan includes the indicators EDD will monitor and use to project likely workload increases, the actions EDD will take to address those increases including changing staffing, prioritizing tasks and adjusting its processes. In addition, require EDD to complete its first recession plan within 12 months of the effective date of the change to state law requiring such a plan. To address new developments in UI processes, programs, or other relevant conditions, the Legislature should require EDD to update its recession plan at least every three years thereafter.
- **Require EDD to report on its website at least once every six months** the amount of benefit payments for which it must assess potential overpayments, the amount for which it has issued overpayment notices, the amount it has waived overpayment on, and the amount repaid related to those notices.
- **Require EDD to convene a working group to assess the lessons learned from the claim surge** and identify the processes that EDD can still improve. The group should issue a report on the lessons learned from the claim surge by no later than January 2022.
- **Require EDD to regularly cross match UI benefit claims** against information about individuals incarcerated in state prisons and county jails to ensure that it does not issue payments to people who are ineligible for benefits.
- **Require CDCR and any other necessary state or local government entities to securely share information** about incarcerated individuals with EDD to enable EDD to prevent fraud.
- **Require EDD to include in its annual report to the Legislature about fraud**, an assessment of the effectiveness of its system of cross-matching claims against information about incarcerated individuals.
- **Require EDD to, by January 2022 and biannually thereafter, assess the effectiveness of its fraud prevention and detection tools** and determine the degree to which those tools overlap or duplicate one another without providing any additional benefit.
 - By July 2021, provide the Legislature with an update on its progress in performing the effectiveness analysis.



Recommendations to EDD

Claim Processing

Immediately:

- Improve its workload planning and projections and plan its staffing around the likelihood of possible future scenarios that would cause a spike in UI claims. Develop a contingency plan for less likely scenarios that would have a significant impact on its workload.
- Perform a risk assessment of its deferred workloads, including deferred eligibility determinations and retroactive certifications.
- Develop a workload plan that prioritizes its deferred workloads based on the risk assessment and determine the staffing and IT resources needed to accomplish the work within expected time frames.
- Hire and train staff as necessary in order to carry out the workload plan.

By March 2021:

- Revise its public dashboards to clearly indicate the number of claims that have waited longer than 21 days for payment because EDD has not yet resolved pending work on the claim.

By June 2021:

- Identify IT project improvements it can implement incrementally and prioritize implementing the elements most likely to benefit Californians.
- Determine the reasons why claimants cannot successfully complete their identity verification and work with its vendor to resolve these problems.
- Determine the automation modifications it can retain and by September 2021 it should make those a permanent feature of its UI Online application.



Call Center

As soon as possible:

- Add the prerecorded message function to its new phone system to advise claimants of their rights and responsibilities after they file their claim.
- Implement features of its new phone system that allow callers to request a callback from an agent instead of waiting on hold.

By May 2021:

- Establish a policy for tracking and analyzing the reasons why UI claimants call for assistance. Analyze the data every six months to:
 - Identify and resolve problems with the ways in which it provides assistance to UI claimants through self service and noncall-center options.
 - Develop specialized training modules to quickly train its call center staff on the most commonly requested items with which callers want assistance.
- Implement a policy to track and monitor the rate of first-call resolution. EDD should review first-call resolution data at least monthly.

Fraud Prevention and Detection

Immediately:

- Obtain from Bank of America a comprehensive list of claimants' accounts that are frozen.

February 2021:

- Provide information on its website and set up a separate email box for victims of identity theft to contact EDD.
- Establish a centralized tracking tool to monitor the status of benefit bank accounts.

March 2021:

- Designate a unit as responsible for coordinating all UI fraud prevention and detection.
- Establish a working group to coordinate the work needed to resolve each complaint of identity theft, make decisions about staffing levels necessary to assist complainants.
- Direct Bank of America to take action to unfreeze accounts as appropriate.

May 2021:

- Develop a plan for how it will assess the effectiveness of its fraud prevention and detection tools.

Indefinite:

- EDD should identify the fraud prevention and detection efforts it can adjust during periods of high demand for UI benefits. It should ensure that it appropriately balances the need to provide prompt payment during a recession with the need to guard against fraud in the UI program.