



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

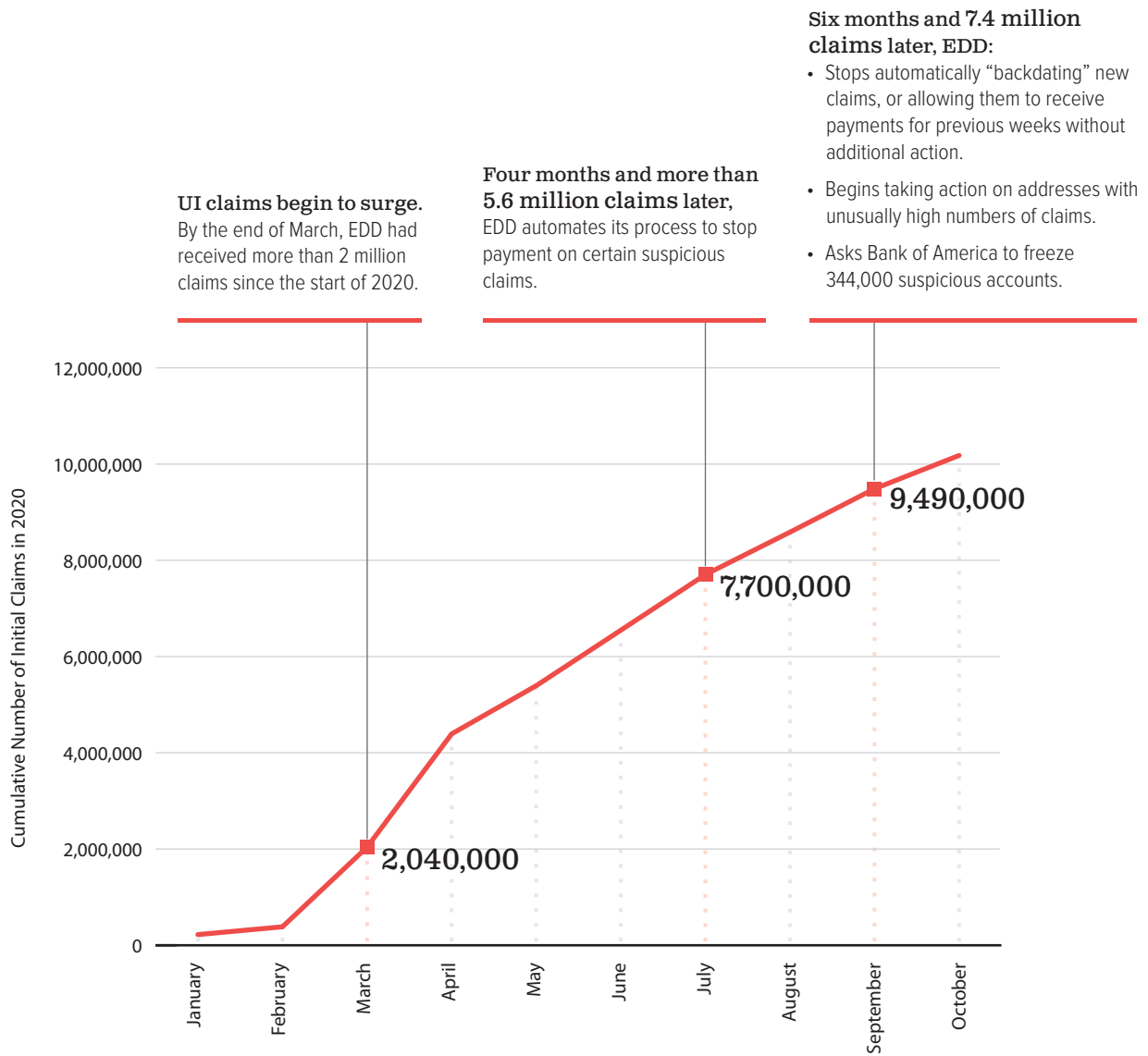
- EDD directed Bank of America to freeze 344,000 benefit accounts but has not effectively coordinated to assist legitimate claimants impacted by that directive and has not taken responsibility for its role.
- EDD estimates it paid \$810 million to claims filed under the names of incarcerated individuals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

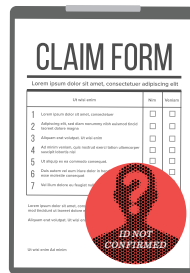
EDD Was Slow to Respond to Fraud Risk During the Pandemic

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.

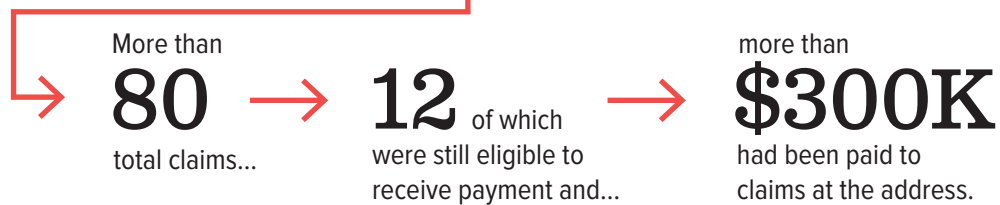
Claims Associated With Suspicious Addresses Were Still Active In December 2020

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...

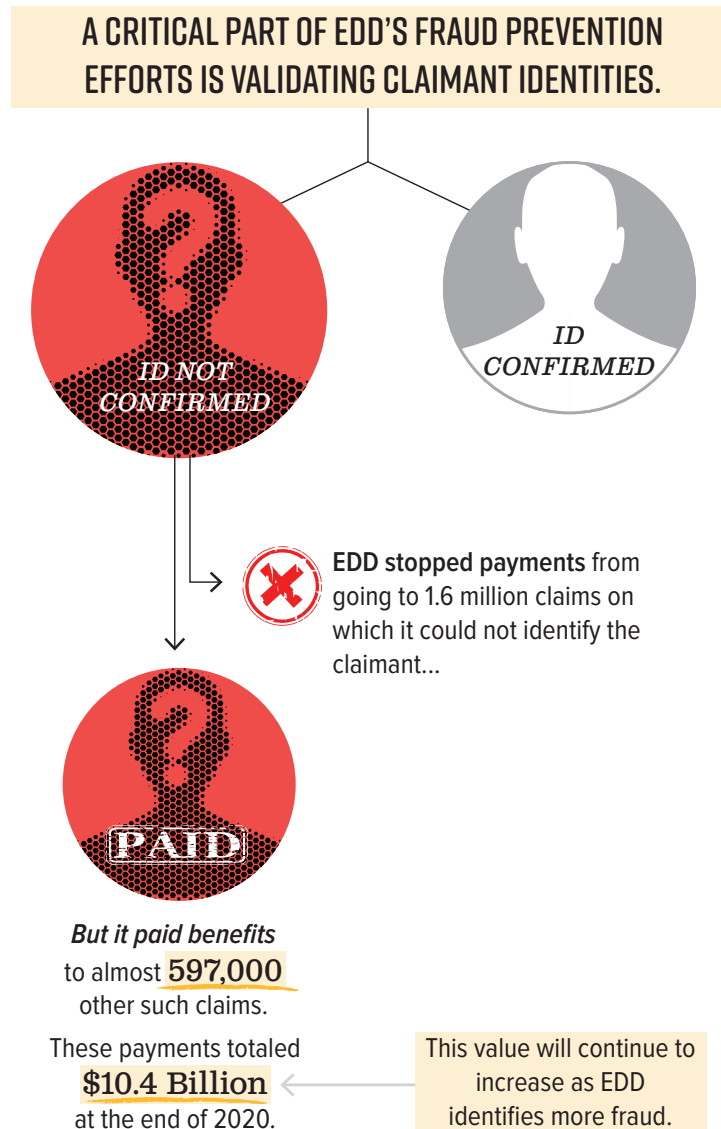


We looked at three of the unblocked addresses and found one with...



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

For more information, see page 16 of our report.



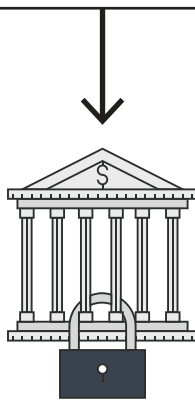
Recommendations

- 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.



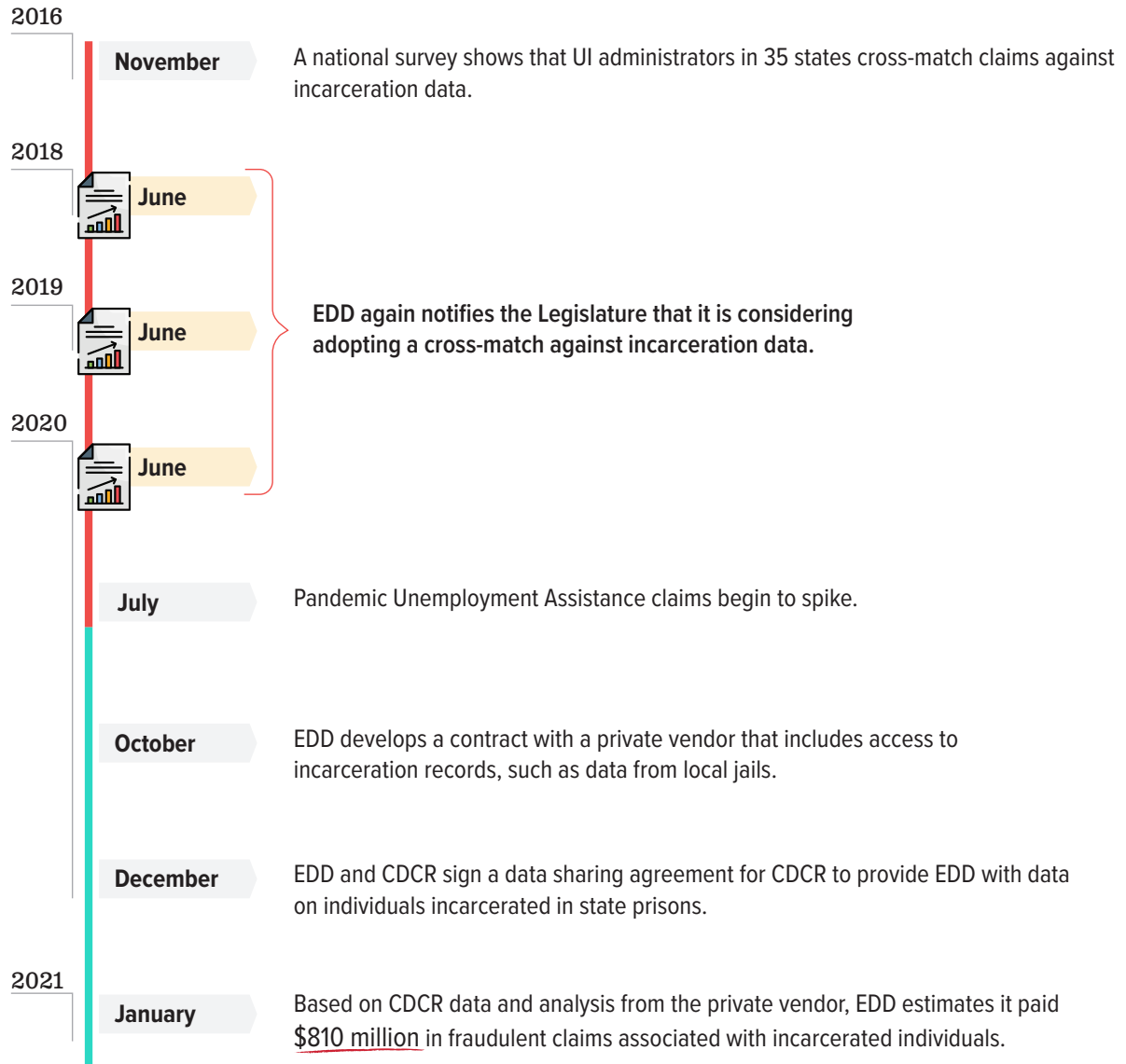
Has been slow to provide clear information about its role in freezing these accounts.

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.



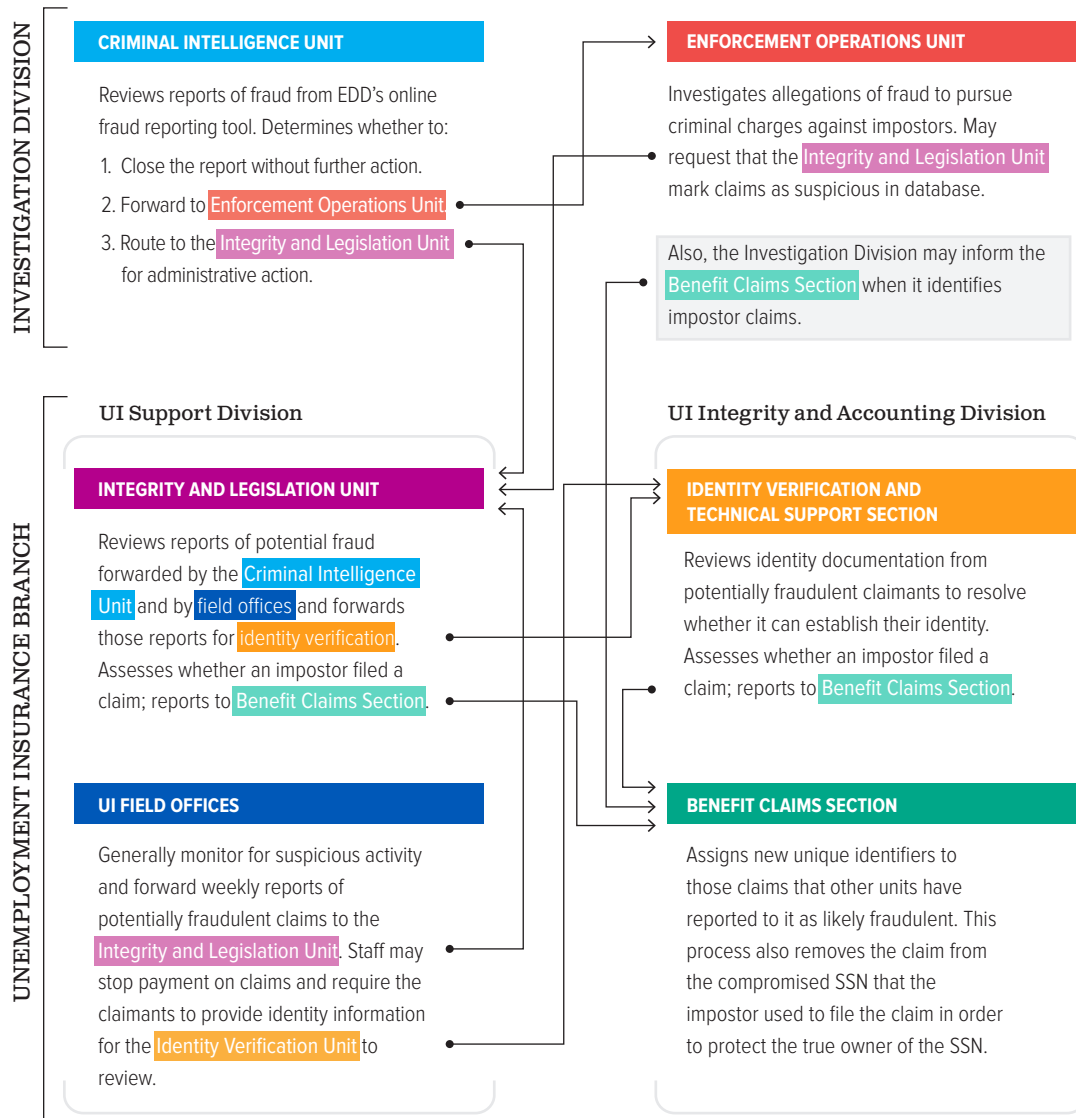
Recommendation

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.