



January 27, 2023

The Honorable James Comer
Chairman, Committee on Oversight & Accountability
2157 Rayburn House Office Building
Washington, DC 20515-6143

Dear Chairman Comer:

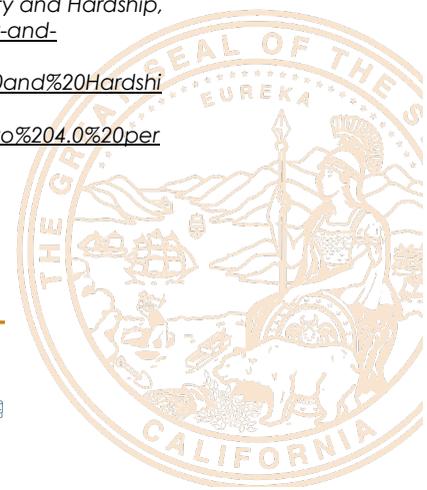
Thank you for your interest in what California, the U.S. Department of Labor (DOL), and every state in the nation did in response to the unprecedented fraud attacks against the emergency pandemic federal benefit programs beginning in early 2020. We strongly support a robust and coordinated national response to the sophisticated criminal enterprises that have threatened the integrity of unemployment programs nationwide.

Unfortunately, the Trump Administration expressed no interest in establishing such coordinated national response when these programs were initiated in 2020, leaving states to fend for themselves against a clear pattern of sophisticated, international criminal syndicates at work. The National Association of State Workforce Agencies (NASWA) urged the Trump Administration to have the U.S. DOL Employment and Training Administration, "take the lead in stopping organized criminals from attacking the UI program," a recommendation that unfortunately went unheeded.

In response to the massive surge in unemployment across the nation, the federal CARES Act was enacted on March 27, 2020, creating four new programs that were stood up in record time, including the Pandemic Unemployment Assistance (PUA) program, which offered unemployment benefits to the self-employed and other people who did not qualify for regular state unemployment benefits. Despite low levels of federal investments in state unemployment insurance operations historically, California and our sister states rose to the challenge and delivered federal benefits that are credited with saving thousands of lives, preventing widespread economic hardship, and stabilizing the nation's economy.¹

While the CARES Act programs succeeded in providing exceptional pandemic relief,

¹ Center on Budget and Policy Priorities, "Robust COVID Relief Achieved Historic Gains Against Poverty and Hardship, Bolstered Economy (February 24, 2022), available on-line at <https://www.cbpp.org/research/poverty-and-inequality/robust-covid-relief-achieved-historic-gains-against-poverty-and-hardship> and#:~:text=Robust%20COVID%20Relief%20Achieved%20Historic%20Gains%20Against%20Poverty%20and%20Hardship%20Bolstered%20Economy,-February%2024%2C%202022&text=This%20robust%20policy%20response%20helped.rate%20down%20to%204.0%20per cent



the PUA program, in particular, was vulnerable to large-scale identity theft schemes that exploited the unique design of the federal law signed by President Trump. Most importantly, the PUA program lacked the basic safeguards that traditionally protected the unemployment system against identity theft, including the ability of the states to immediately verify an individual's earnings and identity against quarterly wage records submitted by the employer. Given these and other unprecedented implementation challenges facing the states, we object to the Chair's mischaracterization of California's response to the UI fraud attacks and the Chair's failure to acknowledge the inadequate response by the Trump Administration, which left neglected state UI systems fighting domestic and international criminal enterprises effectively on their own.

Indeed, an audit by President Trump's DOL's Office of Inspector General (OIG) in August 2020 concluded that DOL's guidance did not sufficiently address the risk of fraud.² Moreover, substantive guidance was not released by the Trump Administration until August 31, 2020.³ Nor did the DOL take any action to develop a coordinated national response to detect and prevent the rampant identify theft schemes that proliferated after President Trump signed this law, even though much of the fraud crossed both state and national borders. In addition, no designated fraud prevention funding was made available by the Trump Administration to the states until September 2020. At that time, \$100 million was disbursed nationwide to fight fraud, but only two percent of the funding was earmarked for California, even though our state processes roughly one in four of the nation's unemployment claims.

Most states, including California, suffered enormous fraud attacks: 14 percent of Texas claims were attributed to fraud, 30 percent of claims in Arizona were fraudulent, and up to 90 percent of Vermont claims were fraudulent at one point.⁴

Nearly every state was impacted on a major scale. In March 2022, the DOL OIG estimated that at least \$163 billion in pandemic unemployment benefits nationwide were linked to improper payments, with a significant portion attributable to fraud.⁵ DOL reports California's improper payment rate (of which fraud is a subset) was less than the national average between 2019 and 2022.⁶

California responded aggressively to fraud attacks by implementing new fraud prevention and detection measures, which prevented over \$125 billion in fraudulent payments. For example, while the states were required by federal law to backdate PUA claims, California detected suspicious activity and in August 2020 sought DOL permission to halt automatic backdating and stop billions of dollars in further fraud attempts.⁷ California was also one of

² <https://www.oig.dol.gov/public/reports/oa/2020/19-20-008-03-315.pdf>

³ https://wdr.doleta.gov/directives/attach/UIPL/UIPL_28-20.pdf

⁴ <https://www.propublica.org/article/how-unemployment-insurance-fraud-exploded-during-the-pandemic>

⁵ <https://www.cbsnews.com/chicago/news/u-s-department-of-labor-ig-pandemic-unemployment-benefits-fraudulent/>; <https://www.hsqac.senate.gov/imo/media/doc/Testimony-Turner-2022-03-17-REVISED.pdf>

⁶ <https://www.dol.gov/agencies/eta/unemployment-insurance-payment-accuracy#CA>

⁷ <https://www.sacbee.com/article248947639.html>

the first states to implement new robust identity verification techniques, including use of ID.me, which was implemented in October 2020. Private-sector partners including ID.me, Thomson Reuters, and Accenture helped California deploy new fraud fighting tools. California has also enlisted former United States Attorney McGregor W. Scott to lead a strategic approach to combating fraud and supporting state, federal, and local efforts to investigate and prosecute suspected criminal activity.

Other key fraud fighting actions taken by California included:

- Cross-referencing claimant data against new databases, including Thomson Reuters, to strengthen fraud screening.
- Launching stronger identity verification processes and cross-matching claimant information with more robust law enforcement databases that blocked billions of dollars in additional fraud attempts.
- Engaging with the Biden administration to fight domestic and international crime syndicates targeting our unemployment systems.
- Implementing all California State Auditor fraud fighting recommendations, including setting up a unit for coordinating all fraud prevention and detection.
- Partnering with the California Office of Emergency Services on the California Task Force on Pandemic Unemployment Assistance Fraud which partners with local law enforcement, including providing funding for local District Attorney investigations.

Thankfully, at the request of states including California, once the Biden Administration was in place in early 2021, the White House announced that Department of Justice (DOJ) had launched a COVID-19 Fraud Enforcement Task Force to prosecute and recover stolen funds from domestic and international criminals exploiting pandemic relief programs. In 2022, DOJ also appointed a Chief Prosecutor to lead a team focused on major targets of pandemic fraud, such as those committing large-scale identity theft, including foreign-based actors. President Biden has also established interagency strike forces to combat COVID-19 fraud, with a focus on transnational criminal organizations. EDD is an active partner in the two CA-based teams.

EDD continues to actively participate with NASWA to develop best practices for detecting and eliminating fraud. Given the national scope of the fraud schemes, California strongly supports the joint call from the National Governors Association and NASWA for the DOL to enhance their coordination efforts with the states to track and stop sophisticated fraud schemes.⁸

EDD has transparently posted information about the extent of fraud within the new federal unemployment programs and its response to fraud on its website at https://edd.ca.gov/en/about_edd/fraud-response/. This includes information about our investigation division and our work with former U.S. Attorney McGregor Scott, who serves as

⁸ <https://www.naswa.org/system/files/2021-03/nga-naswaletter-secretarywalsh-uifraud32421.pdf>

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Fraud Special Counsel to EDD, as well as numerous reports already conducted, including by the State Auditor, into fraud within the state and federal unemployment programs. Hundreds of millions of dollars in suspected criminal fraud has already been referred to local, state, and federal law enforcement agencies as EDD's special counsel continues leading in-depth data analytics work to uncover even more complex criminal conspiracy cases for the newly formed federal fraud task force. EDD's special counsel has referred over 18,424 suspected fraudulent claims and over \$223 million in potentially fraudulent payments with their preliminary work. Approximately \$1.12 billion has been seized or recovered, over 1,750 investigations have opened, and hundreds of suspects have been arrested and convicted.

Their ongoing work is informed by close connections to similar fraud investigations and practices in other states to ensure EDD is collaborating with authorities throughout the nation.

We appreciate your interest in ensuring that the nation's vital unemployment insurance programs are protected against the sophisticated criminal enterprises that attacked the CARES Act programs.

Sincerely,

A handwritten signature in black ink that reads "Nancy Farias". The signature is written in a cursive, flowing style.

NANCY FARIAS
Director

cc: The Honorable Jamie Raskin, Ranking Member
Committee on Oversight and Accountability