

**UNEMPLOYMENT FRAUD
IN CALIFORNIA:
RISK, DETECTION AND PREVENTION**

September 19, 2008

Outline

- Recent outcome of a Unemployment Insurance (U. I.) fraud case.
- Change in State of Calif. Employment Development Dept.'s (EDD) business model – resulted in an increase in risk to U. I. program.
- Fraud becomes “faceless”.
- Identity theft.
- Types of risk and fraud.
- What we have learned about risk, fraud
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- Actions taken by EDD to address risk, detection and prevention.
- Past, current and future projects that address risk, detection and prevention.

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Outcome of a California U. I. Fraud Case – “Gold Rush”

- On June 18, 2007, Salameh Mohammad Rashid (the last of 13 defendants) was sentenced to six years in federal prison.
- Mr. Rashid pled guilty to laundering thousands of fraudulent U. I. benefit checks as owner of “Primo Market” in Orange Cove. He was ordered to repay restitution in the amount of \$16,266,908.
- According to the Department of Labor-Office of the Inspector General, this was “the conclusion of the most significant U. I. fraud case in the United States.”
- The total loss to EDD was \$58,769,924.
- Case brought about numerous changes to address risk in California’s U. I. program.
- Realization that level of fraud/risk was not acceptable.

What are the risks that face the Unemployment Insurance Program in California?

- External risks
- Internal risks

What have we learned regarding external risks?

- EDD business model (telephone claim filing) 1994-1999 (E-Apply-4-UI) 2002, made it difficult to ascertain identity of claimant.
- Volume of calls to Call Centers resulted in tendency to clear calls quickly. (backlog of calls in queue)
- Result - introduction of risks.
- Observations from Off-Line Study – late 2003.
 - Prompting the caller.
 - Low threshold on what caller must identify.
 - Suspicious calls often not reported.
 - Claim notes often did not notate “ID Carefully”
 - Callers asking for specific employee “they were helpful”.

What have we learned – external risks?

- **Fraud**
 - Imposter Claims.
 - Fictitious Employers.
 - Wage Suppression.
 - garment industry
 - construction industry

- **Identity Theft**
 - Fraudulent U. I. claims.
 - Markets cashing large volumes of U. I. checks.
 - Banks not complying with Banking Act regulations.
 - E-Apply-4-U. I. became new target for fraudsters.

Past Experience-Risks

- **Targets of Identity Theft and Security of Data**
 - Payroll Service Companies ADP, PayChex, became new target for identity thieves. Higher wage credits, higher weekly benefit award.
 - Car dealerships.
 - Rental car companies.
 - Companies not securing or shredding documents. Created a risk for EDD since fraudsters use “good” data to file claims.
- A&ED Base Wage Study reviewed external entities granted use of EDD data - not securing data or limiting data to those who need to use per contract agreements.
- **Hackers**
 - Steal information.
 - Introduce viruses.

What have we learned regarding internal risks?

Internal Fraud

- Embezzlement.
- Reopening a claim.
- Collusion.

Internal Unknown Risks

- Unlike Franchise Tax Board, EDD does not conduct background checks of employees who have access to sensitive information.
- EDD does not track where employees browse – confidential data
- Because some EDD staff have access to FTB data, we know risk is real.
- FTB has notified EDD of numerous access breaches.
- EDD employees have been terminated.
- A&ED study of the security of EDD data.
 - Identified employee use of personal thumb drives, data transfers unencrypted

Actions by EDD to Address Risk, Detection and Prevention

- **2002**, E-Apply-4-U. I. begins, Investigation Division CIU begins tracking E-Apply claims.
- **April 2003**, EDD instituted “Identity Alert”.
- **August 2003**, results of A&ED study “New Indicators of a Potentially Fraudulent Claim”.
- **Jan. 2004**, EDD revised Telephone Claim Filing script “no prompting”, set new parameters regarding base period employers etc.

Actions by EDD to Address Risk, Detection and Prevention

- **October 2004**, results of A&ED survey of 19 states or districts.
 - Survey a follow-up of earlier one (11 states, 1 district) to ascertain best practices.
 - With exception of Arkansas, (Wyoming no response) all performed cross-matches before and after the initial payment of benefits.
 - Cross-match: wage files, new-hire, Social Security Administration, Immigration and Naturalization Service, Homeland Security, Dept. of Motor Vehicles.
 - Conclusion, California was lagging many other states.
 - Nine recommendations.

Actions by EDD to Address Risk, Detection and Prevention

- **July 2005**, EDD applied to DOL for a \$500,000 grant - Combat Identity Theft.
- **July 2006**, EDD began (real-time) cross-match against SSA. (SSN number and date of birth)
- **Oct. 2006**, EDD began (real-time) cross-match against DMV. (name, driver license number) On both SSA and DMV, unverified responses are put into the identity verification process.
- **Fall 2007**, EDD began cross-matching against New Employer Registry. (name, hire date of individual)
- EDD has a Fraud Preventive Interventions subgroup.
 - Formed to identify patterns, data elements, and trends and recommend an automated front-end screening process to effectively detect and prevent fraudulent U. I. claims.

Actions by EDD to Address Risk, Detection and Prevention

- The EDD established a hotline to report fraud.
- The EDD did employer outreach and developed marketing tools for the employer and the employee. The brochures and poster are on the Internet.

Present Projects to Address Risk, Detection and Prevention

- Audit Logging
- Combat Identity Theft

Present Projects to Address Risk, Detection and Prevention

- Audit Logging
 - Began in 2006.
 - Based on Calif. Franchise Tax Board (FTB) system.
 - Contract with FTB for \$65,000. Inappropriate access, viewing, or manipulation of confidential data.
 - Develop Scenarios - Reviewing coworkers, neighbors, relatives, celebrities confidential information.
 - Every Access, (view or edit) logged.

- Combat Identity Theft
 - 2005, EDD submitted a Supplemental Budget Request for \$500,000.
 - DOL approved, equipment, software and training procured.
 - Improve fraud detection through data mining.
 - Data-mine EDD's U. I. transaction files to isolate the strongest factors that indicate a claim has a high probability of fraud.
 - Discover fraudulent patterns between data elements as well as groups of data elements that have proven successful through forensic audits and research studies by using a model.