

# California State Senate

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December 4, 2020

The Honorable Gavin Newsom  
Governor, State of California  
State Capitol, First Floor  
Sacramento, CA 95814

RE: Efforts to Combat Unemployment Insurance Fraud

Dear Governor Newsom:

I am writing in support of a recent letter sent to you by the California District Attorneys Association (CDAA), which requested your immediate, personal attention and the expenditure of additional resources to address yet another black eye for the Employment Development Department (EDD) in what may well be the largest case of widespread fraud of taxpayer monies in California history. CDAA notes that this fraud could amount to an eye popping \$1 billion dollars.

State and local prosecutors, along with law enforcement and others have uncovered (what is by all accounts) a massive mismanagement of state and federal unemployment funds by EDD. This has resulted in inexplicable hardship for lawful applicants and tens, and possibly hundreds of thousands of fraudulent unemployment claims due to what initially appears to be lax administrative oversight, a lack of modern technology, and questionable contracting decisions.

As the media and law enforcement have dug deeper into the rampant fraud there are troubling revelations that EDD not only exercises very little oversight but generally lacks the resources to reasonably detect or investigate fraudulent claims. In fact, as CDAA noted in their letter, the state, unlike numerous other states, does not cross check UI claims against records for county jails, state prisons, or other public facilities. In spite of EDD's overall difficulties with upgrading technology, it is difficult to understand why EDD has not implemented what should be a seemingly simple process of cross checking claims. Further, CDAA reports that there are apparently only 17 full-time fraud investigators for a state with 38 million residents. For a state with this size population, this makes no sense. The lack of EDD fraud investigators and the lack of cross checking has allowed blatantly false claims to be paid out by the department including those submitted by notorious individuals incarcerated on death row. Current information suggests that well over twenty thousand UI claims were paid to individuals who were

incarcerated in state prisons alone totaling more than \$140.2 million dollars. This suggests that similar, or greater, amounts of fraud are likely occurring and going unnoticed, particularly in county jails and other facilities such as state hospitals.

Because the EDD is clearly overwhelmed, local jurisdictions are left with the burden of detecting and prosecuting these cases. This is particularly troubling for small and rural counties where these facilities are often located. For example, Kern County has more state prisons than any other county. Roughly 4,000 inmates have applied for unemployment benefits and about 2,500 within the county have received them illegally. This accounts for approximately \$16 million in benefits that should have been otherwise paid to individuals facing extreme economic hardship due to the ongoing pandemic. However, as you can imagine, Kern County, like most counties, does not have the resources to investigate and prosecute thousands of fraud cases in addition to its normal duties, particularly when many of the conspirators assisting inmates with this fraud live in other counties throughout the state.

As we work together to address these fundamental deficiencies within the EDD over the coming weeks and months, I would ask that the state provide additional funding for investigators with district attorneys' offices, particularly in those counties with large institutional populations, and that the state provide funding for technology to aid in these investigations such as systems to monitor prison and jail phone calls and the ability for EDD to cross check identifying information with other state and local entities to evaluate eligibility. I will be introducing legislation to assist in these efforts and look forward to working with you to address any unforeseen statutory changes that may be necessary.

I look forward to your response.

Sincerely,

A handwritten signature in black ink, appearing to read "Shannon Grove". The signature is written in a cursive, flowing style with a large initial "S".

Shannon Grove  
Senate Republican Leader