

CALIFORNIA LEGISLATURE

STATE CAPITOL
SACRAMENTO, CALIFORNIA
95814

February 1, 2021

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

Governor Newsom:

On January 28, the State Auditor released [audit report 2020-628.2](#), on the Employment Development Department's (EDD) fraud prevention efforts. The Report concludes that *Significant Weaknesses in EDD's Approach to Fraud Prevention Have Led to Billions of Dollars in Improper Benefit Payments*.

The report found that due to EDD's removal of fraud prevention methods, such as stop payment alerts, it paid billions in unemployment insurance (UI) benefits to those who engaged in fraud. It also continued to pay claims for 10,000 of the 26,000 addresses it identified as linked to suspicious claims. Ultimately, EDD paid out \$10.4 billion in benefits to claimants whose identities it could not identify by the end of 2020, with the number potentially reaching well above \$30 billion.

As we enter the tax filing season, many Californians will be surprised to learn that they have tax liabilities for UI benefits that were fraudulently claimed in their name. This is because 1099-G forms will soon be arriving in the mailboxes of taxpayers who were victims of identity fraud. Even more concerning is that there will be victims of identity fraud who will have no idea why they even received one of these forms until after they file taxes. This is because EDD is generally going to mail the 1099-G to the most recent addresses of record, which are the ones the bad actors used to obtain UI benefits.

The State Auditor shares our concern for the tax liabilities for victims of this identity theft and recommends that *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*. Specifically, the auditor recommends that EDD must prepare to respond to victims of identity theft who receive incorrect tax forms, and should, by mid-February 2021, provide information on its website and set up a separate email box for such individuals to contact EDD and receive prompt

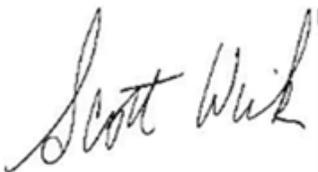
resolution. We wholeheartedly agree with this recommendation, but remain skeptical about the agency's ability to do it effectively, if at all. Our offices are currently hearing from the same amount of constituents as we did last spring, who are seeking help from EDD because of problems with identity verification, backlogged claims, and frozen accounts.

EDD has responded to the recommendation by stating that it is *confident that we will meet the proposed mid-February 2021 date*. EDD also states that it is updating its website and enabling the ability for customers to submit a question online through the public-facing Ask EDD portal and on their UI Online accounts; that it will temporarily increase staffing in the Integrity and Accounting Division (IAD) contact center by 300 agents by February 1, 2021; and that all UI Contact Center agents will receive training regarding 1099G calls. EDD states that claims with reported identity theft that are identified and confirmed as imposters, will have re-computations completed and an amended 1099-G will be provided, and that additional hiring is in place to build resources in the Identity Verification and Re-computation areas to meet the increase in workload.

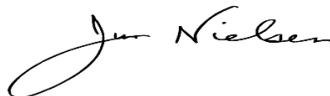
Due to EDD's lackluster track record as of late, we do not share the same confidence in EDD's ability to meet these deadlines. This is why on January 26, we proactively sent a letter calling upon the chairs of the Senate Budget Subcommittee #5 and the Joint Legislative Audit Committee, to hold a hearing on this subject, as well as the backlog in its processing of claims mentioned with audit report 2020-128/628.1.

As the chief executive of our state, we strongly encourage you to ensure that EDD abides by the recommendations stated above. Should they fail to do so, we request that you coordinate with the Internal Revenue Service to ensure that these taxpayers do not face increased federal liabilities or penalties. Should you or your staff have any questions, please email Senator.Wilk@senate.ca.gov or call (916) 651-4021.

Sincerely,



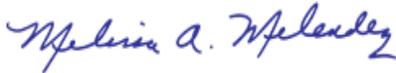
Scott Wilk,
21st Senate District



Jim Nielsen
4th Senate District



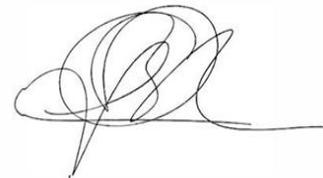
Shannon Grove
16th Senate District



Melissa Melendez
28th Senate District



Brian Jones
38th Senate District



Rosilicie Ochoa Bogh
23rd Senate District



Andreas Borgeas
8th Senate District



Brian Dahle
1st Senate District



Patricia Bates
36th Senate District

cc: The Honorable Julie A. Su, Secretary, Labor and Workforce Development Agency
The Honorable Rita L. Saenz, Director, Employment Development Department
The Honorable María Elena Durazo, Chair, Senate Budget Subcommittee #5
The Honorable Rudy Salas Jr., Chair, Joint Legislative Audit Committee
Angie Wei, Legislative Affairs Secretary, Office of the Governor.