

EXHIBIT 90

Elaine M. Howle *State Auditor*

January 28, 2021

2020-628.2

The Governor of California
President pro Tempore of the Senate
Speaker of the Assembly
State Capitol
Sacramento, CA 95814

Dear Governor and Legislative Leaders:

As authorized by state law, my office presents the results of our high risk audit concerning the Employment Development Department's (EDD) management of federal funds related to the COVID-19 pandemic. EDD administers California's unemployment insurance (UI) program and received a significant amount of federal funding in response to the COVID-19 pandemic and related federal expansion of UI benefits. The following report details our conclusion that significant weaknesses in EDD's approach to fraud prevention have led to billions of dollars in improper benefit payments.

EDD did not take substantive action to bolster its fraud detection efforts for its UI program until months into the pandemic, resulting in payments of about \$10.4 billion for claims that it has since determined may be fraudulent because it cannot verify the claimants' identities. Specifically, EDD waited about four months to automate a key anti-fraud measure, took incomplete action against claims filed from suspicious addresses, and removed a key safeguard against improper payments without fully understanding the significance of the safeguard.

Further, EDD's lack of preparation left it unable to manage two important fraud-related situations that arose during its 2020 pandemic response. In September 2020, because of fraud concerns, EDD directed Bank of America to freeze 344,000 debit cards (accounts) that it used to provide benefit payments to claimants. However, EDD did not have a plan in place to ensure that it could unfreeze those accounts found to belong to legitimate claimants, and it has been slow to acknowledge its role in freezing these accounts. EDD was also unprepared to prevent payment of fraudulent claims filed under the names of incarcerated individuals, the total of which is an estimated \$810 million. Because it had not developed the capacity to regularly match data from its claims system with data from state and local correctional facilities, EDD did not detect fraudulent claims until after it had paid them.

EDD has put its UI program at higher risk for such fraudulent payments by relying on uninformed and disjointed techniques to prevent and detect impostor fraud. For example, EDD has not established a centralized unit that is responsible for managing its fraud prevention and detection efforts, and it does not monitor or assess its numerous fraud prevention and detection tools to determine whether they are successful. Consequently, EDD may be using ineffective fraud prevention and detection techniques, which can delay payments to legitimate claimants while it puts their claims through additional and unmerited review.

Respectfully submitted,

A handwritten signature in black ink that reads "Elaine M. Howle".

ELAINE M. HOWLE, CPA
California State Auditor