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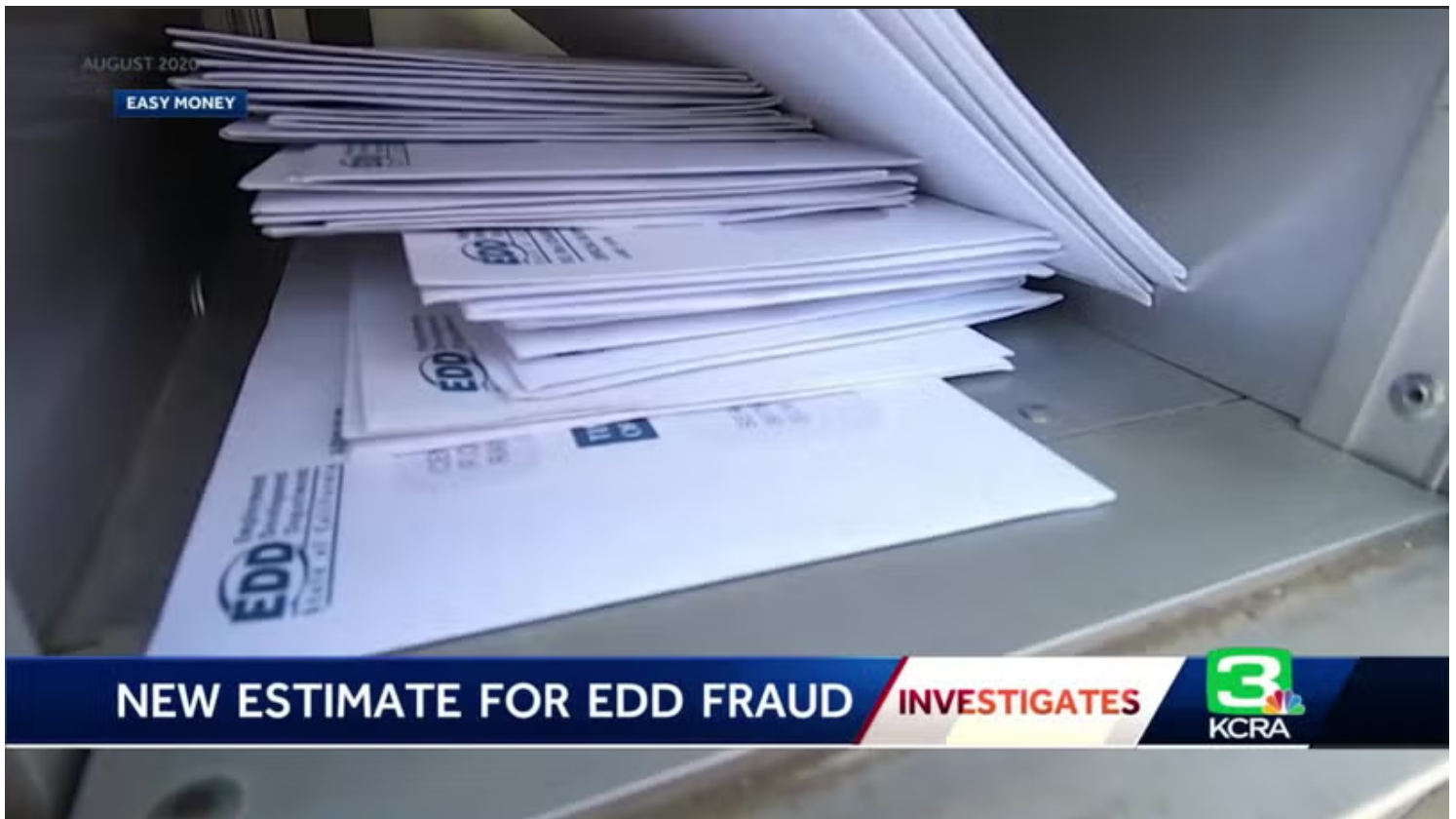


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Analysis shows California EDD fraud at \$32.6 billion and counting

Lexis Nexis data analysis says UI, disability and other fraud at \$32.6 billion and could be higher

Updated: 9:09 AM PDT Oct 6, 2022

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David Manoucheri ✉

SACRAMENTO, Calif. — In the fall of 2021, during an oversight hearing of California's Employment Development Department, or EDD, the department was asked by Assm. Cottie Petrie-Norris whether the department had a new estimated amount of money the state had paid out in fraud.

"Of the \$170 billion That was paid out, "\$20 billion is estimated to be fraudulent," then-EDD-director Rita Saenz said via Zoom.



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The department has consistently said to KCRA 3, both in the multiple chapters of our documentary **"Easy Money: Fraud, Fortune and Failures"** and in subsequent stories, that the fraud figure was money paid out to Pandemic Unemployment Assistance (PUA), a federal program that has since ended.

KCRA 3 has asked since then for an updated figure that includes the fraud against unemployment insurance, disability and more. Yet the department has remained silent in terms of new fraud figures.

Now, the CEO of a major data and analytics company says that the \$20 billion figure is woefully short of the mark.

On Monday morning, we interviewed Haywood Talcove, the CEO of Lexis Nexis Risk Solutions, Government Division. He had checked the "dark web" for examples of fraud against EDD. He opened a laptop, pulled up a video file and hit play. The video showed a computer screen with an EDD login page along with a phone dialed to EDD's customer line.

"You should get your card in three to five business days," the woman on the phone says.

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"This is one of my favorites," Talcove said, pointing out that the woman is an EDD operator telling a scam artist that their EDD debit card - obtained using a stolen identity - would be sent.

The video is proof of performance that many bad actors and criminal syndicates require to show that the system they have developed works and that it is worth the time and effort.

Talcove spent the past three years pleading with government officials, from the White House to the Department of Labor, to bolster fraud protections. The pleas went largely ignored.

The result, which KCRA 3 profiled in our documentary, was billions of dollars sent out to fraudulent accounts in California alone.

"I don't believe it's 20 billion," Talcove said.

He said he did the math, using the money California paid out, the fraud rates EDD estimated, and the figures EDD reported to the U.S. Department of Labor and came up with a better estimate.

"EDD spent \$177 billion during the pandemic," Talcove said. "I would bet any amount of money I have, that their fraud rate is much closer to \$32.6 billion, not the \$20 billion that they've been talking about. They're not just targeting the unemployment insurance system anymore. They are in all your systems, they're using the same techniques."

KCRA 3 showed how disability insurance was already a target at the beginning of 2022. Money that was still being paid out. Talcove said it's money California will never recover.

"Seventy percent of that money left California. It left this country," Talcove said. "It went to transnational criminal groups that have used that money for nefarious purposes to harm our democracy. Some of that money has been used in sex trafficking, child extortion. I've been actively involved with the National Center for Missing and Exploited Children. And we saw a huge uptick in child trafficking during the pandemic."

KCRA 3 reached out to EDD and Gov. Gavin Newsom's office for comment on Talcove's estimate and his claims that the systems in place are inadequate. The governor's office never responded to our inquiry. EDD did send two emails. The first profiled the same fraud prevention systems that EDD had put in place after the fraud was running full force against the department. They did say that the state legislature has allotted new funds to keep those systems running. Those very systems, including one now owned by Thomson Reuters, were shut off during the administration of Governor Jerry Brown because the department considered them too costly at a price of roughly \$2 million a year to operate. The system, up to that point, had been paid for by grants from the Obama Administration.

Talcove says it's ironic that EDD and states across the country considered that paying even up to ten million is too expensive, considering he thinks the \$32.6 billion estimate is conservative.

Still, EDD continues to stick to the \$20 billion figure. The department sent a second email reiterating their estimate adding that they didn't know where Talcove had gotten his data.

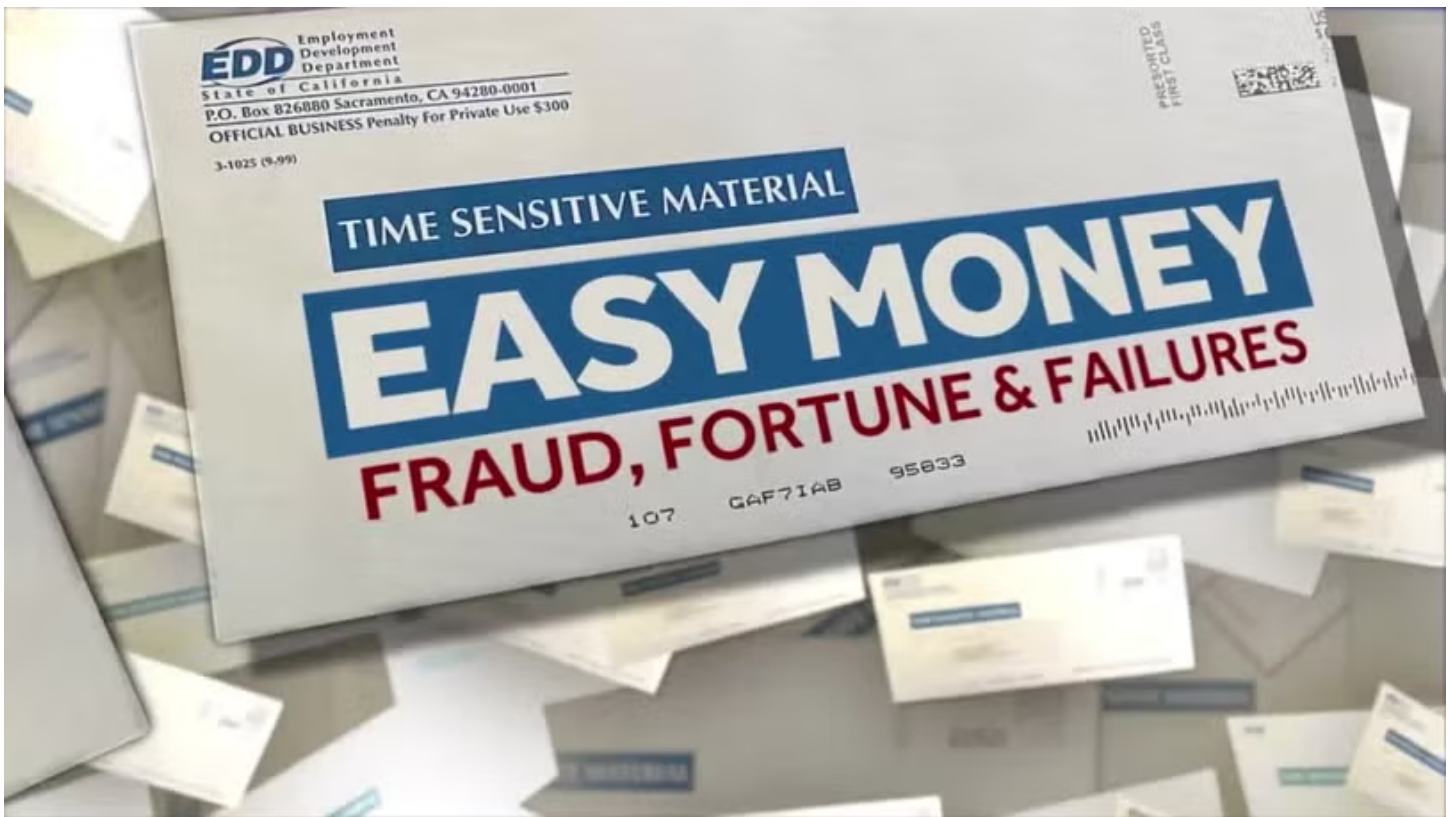
Newsom, in the few press events where he took questions from the media, has put fraud prevention and investigation on the shoulders of former U.S. Attorney Macgregor Scott. Scott is not a California employee. The firm he works for, King and Spalding Law, was hired as a state contractor.

Newsom also touts the improvements made inside EDD - many as a result of pressure from lawmakers and two simultaneous state audits in 2020 - and says that California leads the way in the reform of the department.

Yet Talcove said that the fraud detection and prevention software and systems that the department added after paying out the fraud are still inadequate. ID.Me has had significant delays and problems. Both KCRA and legislative staffers have recounted how those trying to verify their identity through the system have not been able to get through or wait for hours to get that in-person video call verifying it. ID.Me is also facing a class action lawsuit over the use of facial recognition software and the retention of biometric data. It is also under a congressional investigation for allegedly lying about fraud rates and detection.

The new fraud number drew strong words from one of EDD's biggest critics, Republican Assemblyman Jim Patterson, (R) Fresno, who said "our history with EDD is that we were one of the worst in the United States. And the governor has got to stop making excuses. I think the department has got to step up and start telling the truth, even if it gets uglier and uglier. Because you cannot understand and fix a problem. You will not admit that you have." Patterson added that without constant attention like that from KCRA 3 Investigates change may never have happened.

Watch the full EDD fraud documentary Easy Money below



Changes Gov. Gavin Newsom regularly touts, pointing to new fraud software and leadership at the department and in the governor's office. Still, Talcove said, Newsom is leading, just not in the right way.

"Governor Newsom is a leader; 32.6 billion, he beat every other state by a factor of at least three, there was more fraud in the state of California than there was in any other state in the country. Right?" Talcove said.

** This article contains an update with emails received from EDD since its initial publishing.*

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