

Cal-SACA - Fall Conference 2024

High Impact Financial Crime – Unemployment Insurance Fraud by County Government Employees

Presented by

Los Angeles County Department of Auditor-Controller

Robert G. Campbell, *MBA, CIA, CFE, CRMA*
Assistant Auditor-Controller and Chief Audit Executive

Greg Hellmold, *CPA, CIA, CFE*
Chief, Office of County Investigations (OCI)



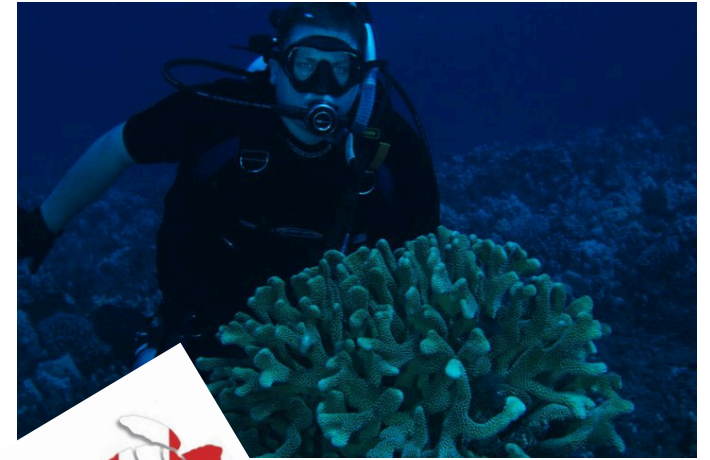
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About the Speakers – Robert G. Campbell

Assistant Auditor-Controller and Chief Audit Executive for Los Angeles County, overseeing internal Audit, Contract Monitoring, the Office of County Investigations, and the Ombudsperson for foster youth in congregate care.

With over 26 years at the Auditor-Controller's office, Robert has also served as Chief of the Office of County Investigations, Chief of Internal Audit, and has overseen the Countywide Accounting, Disbursements, Shared Services Divisions, the Office of the Chief HIPAA Privacy Officer, and various administrative functions including HR, budget, and facilities.

Robert has published and presented on fraud and internal controls, and is active in community service as a leader in local organizations and youth programs.



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About the Speakers – Greg Hellmold

30 years of experience leading, managing, and conducting audits, analyses, and special studies of County departments, special districts, and contractors.

Currently leads the Office of County Investigations (OCI), which consists of 30 law enforcement professionals and support staff responsible for administering the County's Fraud Hotline and conducting investigations into improper activity within our County government. OCI provides critical support and work products used in criminal, civil, and administrative proceedings.

Recognized as a trusted advisor to County executives due to impeccable integrity and proficiency in finance and administrative matters, contributing to enhance governance.



CERTIFIED FRAUD EXAMINER



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Office of County Investigations

- Division of the Department of Auditor-Controller
- Law enforcement authority described under Penal Code § 830.13.
- Operates the Los Angeles County Fraud Hotline pursuant to Government Code (GC) § 53087.6
- Conducts administrative and criminal investigations of fraud, waste, and abuse by County employees, vendors, and contractors per Board Policy and
- Comprised of Auditors, IT Forensic Examiners, and other professionals with fiscal, technology and investigative backgrounds, supported by Hotline intake staff



LOS ANGELES COUNTY
**FRAUD
HOTLINE**

THEFT
BRIBES/KICKBACKS
FORGERY
COLLUSION
CYBERCRIME
CONFLICT OF INTEREST
BID RIGGING

BY COUNTY EMPLOYEES,
VENDORS AND CONTRACTORS

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E-mail:
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Write to:
L.A. County Fraud Hotline
500 W. Temple St., Suite 515
Los Angeles, CA 90012

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**RECOGNIZE IT
REPORT IT
PREVENT IT**

**YOU MAY
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ANONYMOUS**
24 HOURS A DAY
7 DAYS A WEEK

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Key Points

1. Genesis of Unemployment Insurance Fraud Investigations
2. Timeline of Key Events
3. Recap of Investigations
4. Improvement Opportunities



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Background: UI Claim Eligibility

- Administered by State of CA Employment Development Department (EDD)
- Bank of America administered debit cards
- Qualifications:
 - Base Period Wages
 - Unemployed or Partially Unemployed
 - Unemployed through no fault of your own
 - Physically Able to Work
 - Ready and Willing to Accept Work



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Background: UI Claim Eligibility cont.

- Application and Certification
 - Cannot earn more than \$600/week (we used \$1,300 per County bi-monthly pay period)
 - Continued Claim Certifications used to determine benefit amount
- Pandemic assistance increased benefit amounts and duration but did not change eligibility requirements for full-time County employees.
- Per UI Code 1375.1 - 30% Penalties are applicable in fraudulent cases.



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Timeline of Events

- **February 2021** - Regional Identity Theft Task Force (i.e., Sheriff and District Attorney) sought OCI's assistance in a review of 83 Sheriff employees who filed UI claims.
- **March 2021** – We identified spike from Equifax (County's third-party administrator for UI claims) data in all County UI Claims, despite no layoffs.

Year	Claims Processed	Benefit Charges
2017	1,747	\$3,998,498
2018	1,410	\$3,026,382
2019	1,705	\$3,994,495
2020	7,564	\$14,219,389
2021	3,489	\$10,419,441
2022	2,393	\$5,222,571



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Timeline (cont.)

- **April 2021** - Reviewed Equifax data (Feb 1, 2020 - March 31, 2021). Noted 4,884 County claimants.
- **June 2021** - Determined 2,057 active employees and remaining 2,827 seasonal, part-time or retired.
- **June 2021** - Contacted a sample of 40 employees to obtain background and reasoning for UI claims. 20 (50%) denied filing claim.
- **August 2021** - Sent a survey to 1,758 active employees in County “Tenant A” Information Technology Infrastructure (excludes Sheriff, BOS, Superior Court, and DA).



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Timeline (cont.)

- **August 2021** - Served first Search Warrant related to UI investigation. Served numerous since.
- **October 2021** - EDD opened joint investigation.
- **February 2022** - County payroll data revealed 571 employees earned more than \$1,300 in each pay from 2/1/2020 through 3/31/2021, making them ineligible to receive UI benefits.
- **May 2022-February 2023** - Opened and investigated County employees with claims over \$15k.
- **February 2023** - Filed first criminal case with Los Angeles County District Attorney (DA). To date, filed 8 cases with DA.



Categories of Employee UI Claims

- **188 Employees – Considered Identity Theft Victims**

Employee denied filing, addresses on claim and eHR did not match.

- referred employee to id.gov
- Not Investigated

- **255 Employees - Filed Fraudulent Claim(s)**

Employee acknowledged filing in our survey and/or claim and eHR addresses matched, and they earned more than \$600 per week during entire period.

- 31 Over \$15k – investigated by OCI
- 13 Certain Cases under \$15k – special circumstances – investigated by OCI
- 211 All others Under \$15k – referring to Departments



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Overview of OCI Subjects

OCI has opened criminal investigations of 46 Subjects, resulting in:

- 8 employees referred to the DA for unrelated individual UI frauds (6 County employees + 2 non-County individuals)
- 19 (13 current and 6 former) employees referred to the DA for participation in a coordinated UI fraud scheme
- 17 County employees pending DA referral for substantiated UI fraud
- 2 County employees still under active investigation



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Sources of Evidence

- County claims data
- OCI Survey
- Outside Employment Forms
- Bank of America Records
 - Debit Card Issuance
 - Statement of Activity
 - ATM and Branch Surveillance
 - Audio Recordings
- Cell Phone Provider Records (Geo)
- EDD Applications
- EDD Continued Claim Certifications
- EDD Communications
- E-mail Records (Claim filing & Geo)
- Internet Service Provider Records
- Interviews



Notable Case 1

Coordinated Fraud Scheme – Multiple Participating Subjects

- Conspirator 1 (C1), a non-County individual, coordinated and filed 499 fraudulent UI claims for 453 co-conspirators (including 13 current and 6 former County employees)
- C1 Orchestrated a scheme to defraud EDD of at least \$10.1 million (\$8.2 million paid)
- Charged a \$200 retainer fee plus 10% to 20% of benefits paid and received as much as \$1.32 million in direct proceeds
- Co-conspirators claimed on their UI applications to work as “Independent Contractors”
- Falsely claimed everyone 18 + was eligible for Pandemic Unemployment Assistance



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Notable Case 2

Identity Theft

- Subject 1, a non-County employee, stole the PII of two individuals, including a County employee, to obtain a total of \$60,737.
- Obtained \$33,600 in illicit UI benefits
- Obtained an additional \$27,137 by depleting UI debit cards, reporting them stolen and receiving replacements



Examples of LA County Employee Criminal Filings



Aging and Disabilities -
Social Worker Trainee
(\$38,100) - Paid Restitution
of \$35,760



DPW - Public Works
Maintenance Worker
(\$29,200)



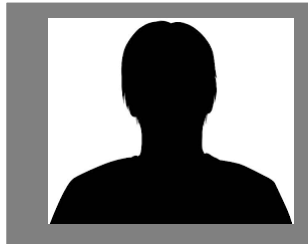
DCFS - Human Services
Aide (\$56,683: \$35,850 UI +
\$20,833 PPP)



PARKS - Intermediate Typist
Clerk (\$14,648)



DPSS – GAIN Services
Worker (\$64,050)



PROB - Supervising Deputy
Probation Officer (\$55,500)



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Red Flags

Claims by County employees who did not suffer a loss of income or employment in their County job, or whose income for the claim period(s) exceeded eligibility thresholds (categorically ineligible)

Claims based on a purported loss of outside employment, particularly where the claimant did not declare that employment in annual declarations to the County

Claim clusters – by County department, geography, claim IP address, email address structure, mailing address, etc.



CA UI Appeals Board

- Independent administrative court system for those challenging EDD decisions
- Administrative Law Judges
- OCI Cases
 - DHS – Nurse Anesthetist (\$46,350)
 - Sheriff – Security Assistant (\$40,500)
 - DPSS – Eligibility Worker II (\$45,150)
- Judges' Rulings
 - Claimed they filed for loss of outside employment
 - Admin Judge found that they did not make false statements
 - No 30% penalty, benefits still need to be repaid



UI Fraud Fiscal Impact

- County is Self-Insured
- Dollar-for-Dollar Reimbursements
- Basic Unemployment Benefits
- Federal Stimulus
 - CARES Act (PUA)
 - FEMA Grants
- Direct/Substantiated Losses of >\$3 million

Benefit Types	2020 Benefits	2021 Benefits
Basic UI	\$11,700	\$11,700
CARES	\$7,800	-
Lost Wage Assistance	\$1,800	\$-
Pandemic Additional Compensation	\$5,100	\$5,700
Pandemic Emergency Unemployment Compensation	\$5,850	-
Pandemic Emergency Unemployment Extension	\$4,950	-
PEUY	\$900	-
	SUBTOTAL:	\$38,100
	TOTAL:	\$55,500



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EDD Recovery Efforts

- Referred 422 claims to the EDD for benefits recovery.
- Initiated recovery of \$2.3 million to date.
- Will credit County account for amounts recovered



Improvement Opportunities

Background

- To determine UI eligibility, EDD sends UI claim notices to employers requesting details on claimants' unemployment status.
- The notices are how employers provide eligibility information to assist the EDD in making proper eligibility decisions. Employers are required to respond within 10 days of the UI claim notice mail date.
- The County Department of Human Resources (DHR) contracts with Equifax to provide third-party administrative services for County employees filing UI claims. Under this contract, Equifax provides comprehensive UI claims administration.



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Improvement Opportunities

Issue #1 – UI Benefit Eligibility Verification Procedures

- \$6.12 million in UI benefits paid out to potentially ineligible claims.
- 2,081 claimants were active employees, with most earning more than \$1,300 per pay period, exceeding the income threshold for UI benefit eligibility.
- The County lacked formal policies and procedures to verify UI claims filed by employees.
 - Outdated department contact lists
 - Delays in responding to employment inquiries from EDD
 - Prolonged mail forwarding from satellite offices to department headquarters



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Improvement Opportunities

Issue #2 – Monitoring UI Eligibility Verification Responses

- The County did not have a process in place to ensure that departments respond to EDD/Equifax work verification inquiries in a timely manner.
- UI claims benefits are automatically approved (excluding claims already denied by EDD) if work verification inquiries are not responded to in a timely manner.
- Failure to respond timely to EDD/Equifax work verification inquiries could result in County overpayments and losses.



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Improvement Opportunities

Issue #3 – Monitoring UI Claims Activity

- The County lacked a systematic process to monitor UI claims activity, and to investigate or report significant changes in claim or payment volume.
- County UI benefit payments rose from \$3.9 million in 2019 to \$14.2 million in 2020 and \$10.4 million in 2021 despite the absence of furloughs or workforce reductions during the COVID-19 pandemic (potential discrepancies in claims).
- Failure to systematically monitor UI claims activity increases the risk of not promptly identifying fraudulent activities.



Recommendations to Strengthen Controls and Processes Against UI Fraud

- Develop policy and procedures for the administration of UI claims for its employees to address:
 - Reporting UI eligibility information to the EDD in a timely manner;
 - Ensuring up-to-date departmental contact information for UI claim inquiries.
- DHR ensure that Equifax tracks departmental responses to their inquiries and conducts follow-ups on incomplete or untimely responses from departments.
- DHR implement a process for monitoring overall UI claims activities and reporting out on significant changes in claim or payment volume.



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Benjamin Franklin



“There is no kind of dishonesty into which otherwise good people more easily and frequently fall than that of defrauding the government.”



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Questions?



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Thank You

Robert Campbell

rcampbell@auditor.lacounty.gov

213-893-0058

 [linkedin.com/in/rcampbell/](https://www.linkedin.com/in/rcampbell/)

Greg Hellmold

ghellmold@auditor.lacounty.gov

213-893-0243

 [linkedin.com/in/ghellmold/](https://www.linkedin.com/in/ghellmold/)



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