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Unemployment claim fraud skyrockets

**By Christina Jewett -- Bee Staff Writer
Published 2:15 a.m. PDT Thursday, July 31, 2003**

The state of California paid \$280 million in fraudulent unemployment insurance claims last year, nearly a fourfold increase since 2000.

The fraud is a hot topic among inspectors and prosecutors who have unraveled schemes to bilk the government. A search for quick fixes has set off a flurry of memos inside the state's Employment Development Department, which handles jobless claims, efforts some insiders call superficial seals on gaping holes.

This year, the department has seen a "significant increase" in shady claims traceable to



Leah Padilla, the single mother of 5-year-old Ashley, had to wait a month to receive her unemployment check because someone fraudulently filed for

compromised personnel records, according to internal memos.

benefits using her name.

Sacramento Bee/Carl Costas

Leah Padilla of Citrus Heights was one local victim burned twice by the fraud. First she was informed June 26 by EDD that someone -- not her, she said -- had filed for benefits using her personal information. The EDD told her she had 10 days to prove that she is the person attached to her Social Security number.

She brought in documents proving her identity on the day she received the letter, only to be laid off days later from her job as escrow coordinator at Realty First in Roseville.

The fraudulent claim resulted in her waiting a month for her identity to be cleared. Padilla learned Tuesday that she will receive a check within a week.

While tracking down her benefits, she learned she was among thousands in the same predicament.

"I have no money to live off of, and they don't care," said Padilla, a single mother, during the ordeal.

EDD staffers familiar with the problem and the department's efforts to fix it say scammers are taking advantage of key weaknesses in the state's benefits system:

* The department issues "EDD Control Numbers" and benefits to people who file claims under a Social Security number that belongs to another person -- alive or dead.

* Claimants can file for benefits online or over the phone, increasing the ease with which they can falsify their identity.

* The department depends on employers to flag fraudulent claims. Most criminals successfully create fake employers.

EDD spokeswoman Loree Levy said the department's first mission is to serve out-of-work residents quickly. Recent changes in response to rampant fraud have ramped up efforts for accuracy, as well.

"We have to be accessible to people who are out of work," she said. "People need us."

Levy said the department plans to spend \$80 million to update its 30-year-old computer system, allowing officials to cross-check claimants' data with a state



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directory of new hires, a safeguard that would avoid paying working people.

She said the computer upgrades in the works also will link to databases of Social Security, address and employer information.

Federal investigators mobilized to break up an unemployment insurance fraud ring after a routine traffic stop in Fresno County yielded compelling evidence.

In January 2002, a Fresno County sheriff's deputy pulled over a red Mustang. Inside was Jorge Rio Mejia, 43, uncashed unemployment checks and 140 keys to post office boxes throughout the Central Valley. In his front pocket, he carried \$6,210 in cash; in his back pocket, a loaded .25-caliber pistol.

Court records detail a scheme ranging from Arizona to Washington that defrauded governments of \$2.8 million. The indictment of 10 people sketches their method. The scammers would break into payroll services' trash bins and steal employees' information. Then they filed for benefits under those names, routing checks to post office boxes, cashing them mostly at Fresno County convenience stores.

To cover their tracks, they also sent fake employer addresses to the EDD, and every two weeks, sent "continued claim" forms, collecting \$60,000 a week at the scheme's height.

The 10 defendants were sentenced this year, with Mejia netting the heftiest punishment. He was sentenced to pay more than \$1 million in restitution and serve 46 months in federal prison.

Since April, federal prosecutors have investigated other cases in the Central Valley, resulting in three criminal indictments, 19 criminal charges and 25 federal search warrants.

In another case, investigators visited a two-bedroom house in the Central Valley town of San Joaquin, a house that according to EDD records, was also home to four small businesses.

Investigators found the businesses were fronts used to launder about \$7 million in fraudulent unemployment insurance checks since 2000.

Six people in the San Joaquin case were indicted May 15 on charges of conspiracy, mail fraud and identity theft -- 80 counts in all. They had stolen the identities of thousands of people and collected checks from various post office boxes in the Fresno area, according to court records.

Assistant U.S. Attorney Stanley Boone said the coordinated investigation has traced \$16 million in Central Valley fraud -- and counting. The operation, which he said at times involved more than 100 federal, state and local agents, continues.

"In terms of dollar amount, this is one of the larger operations with the government as the victim," Boone said.

The high-profile fraud -- also the subject of congressional hearings -- set off a scramble of changes in the California EDD office.

Memos warn EDD employees against "using the SSN Split," apparently a practice related to issuing multiple claims tied to one Social Security number.

The department issued 30,000 checks last year to claimants who filed incorrect Social Security numbers, Levy said. The practice is supposed to ensure that claimants can be sent a check even if there's been an employer mix-up with their Social Security number.

Other practices have come under fire, including issuing claims to people who file for benefits using an 800 number, online form or directing the EDD to send checks to post office boxes.

"You don't ever have to show your face in an EDD office to prove you are who you say you are," said Julianne Broyles, a California Chamber of Commerce lobbyist.

This year, the EDD has added one safeguard in response to the revelation that organized schemes started with massive thefts of personal information.

The department is asking employers to inform them if their workers' personnel records are tampered with. EDD officials asked employers to alert them to imposter claims by calling a fraud hotline. The EDD then flags possibly compromised files, and asks people to prove their identity if they file a claim.

So far, hundreds of employers have reported finding that as many as 50,000 California workers' personnel files have been compromised, according to the EDD.

One department staffer said EDD analysts were working seven days a week trying to process the potentially corrupted claims. With a state hiring freeze and a cap on overtime pay, fraud analysts can't hope for more hands.

"We're frayed and angry," said the staffer, who asked his name not be used for fear of losing his job. "We're going to make some wrong determinations. The employees just want to do a good job."

Employers are also upset at the EDD, which is requiring them to pay 51 percent more next year for benefits premiums.

The state's unemployment insurance fund, which had been flagging for years, started to lose ground quickly in 2001, when the Legislature boosted jobless benefits at the same time California's dot-com recession yielded more layoffs. In 2002, the department sent checks to 1.4 million people.

The fund is expected to run \$1.17 billion in the red in 2004 -- forcing the state for the first time to borrow from a federal fund.

In the national arena, California outpaces other states in fraud growth. In other states, the growth in fraud roughly tracks the increase in benefits states pay out, said Sigurd Nilsen, an author of a report about unemployment insurance overpayment by the General Accounting Office, the investigative arm of Congress.

California's 2002 fraud rate was 5.1 percent, more than double the U.S. rate of 2.2 percent, according to the U.S. Department of Labor.

The federal government awarded California \$936 million, in March 2002, nearly 65 percent of which went to keeping the state's fund afloat, Nilsen said.

From Nilsen's work with the unemployment insurance programs, he found that states put their emphasis on cutting claim checks fast, often to the detriment of

ensuring they go to a legitimate claimant.

"Verifying eligibility is what we found -- to focus on that," he said.

Even as EDD officials say the department is updating its system, employers will pay for past and present fraud. The \$280 million lost to fraud last year will be divided, by a formula, among employers who pay into the unemployment insurance fund.

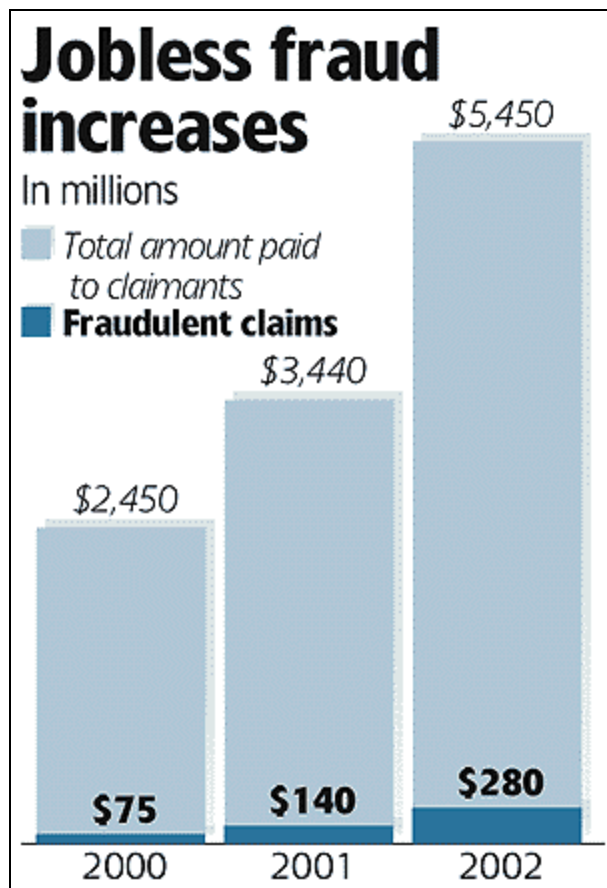
For Padilla, who waited weeks for her identity to be cleared to collect a much-needed check, the wait was frustrating.

"It's not fair to legitimate people," she said. "Someone got more money than I did."

About the Writer

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