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Fraud losses stir up debate

While the state loses millions in jobless benefits, critics say a remedy is available.

By [Melanie Payne](#) -- Bee Staff Writer
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The California Employment Development Department loses more than \$2 million a week to people who have jobs but continue to collect unemployment benefits.

The problem, EDD officials say, is due partly to an antiquated computer system that prevents the department from tapping a database that can identify cheats within days rather than months. But EDD doesn't plan to start cross-matching its records with the database, called the new-employee registry, until June 2008, after making other computer upgrades. EDD officials estimate that the 18-month project will begin in 2006 and cost \$1.8 million.



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Some question why the EDD is waiting so long. Among them is a contract computer programmer in Rosemont, André-Tascha Lammé, who has been raising a stink with legislators, business and tax groups about it.

Lammé contends that contract computer programmers can set up a cross-match on EDD's current computer system for as little as \$50,000. Lammé's solution would be to extract information

from the two databases -- new hires and unemployment rolls -- and then match employees' names and Social Security numbers. The department could then identify who is on both lists and follow up to determine eligibility. His solution is similar to one that has been implemented in most other states.

EDD's director of unemployment, Deborah Bronow, acknowledges that the match program Lammé proposes can work. But she said she doesn't want to implement such a program on top of an outmoded computer system.

Bronow's plan is to fully automate the unemployment claims system to cut costs and reduce fraud to avoid making overpayments. After those other improvements are made, then EDD would implement a cross-match system much like the one Lammé has proposed. But it will have additional features, such as automatically notifying employers of fraud investigations and compiling an electronic case file.

Fraudulent overpayments are a huge chunk of the estimated \$150 to \$298 million lost in unemployment insurance fraud in California every year. EDD estimates it loses \$150 million annually to fraud; the U.S. Department of Labor puts the figure at nearly \$300 million.

Currently, EDD matches the unemployment rolls with employers' quarterly report of wages. The computer spits out matches of people who collected unemployment and also appeared on an employer's wage list.

If EDD's investigation shows these people collected unemployment while working, the department can cut off the payments and try to collect the overpaid amount.

But because the department uses quarterly reports, it can take six months or more to discover these workers and then take up to a year -- if ever -- for the state to get its money back.

With a new-hire database cross-match, however, these matches could show up in days. Employers must notify the state of new employees within 20 days.

According to U.S. Department of Labor, cross-checking the new-employee registry stops fraudulent unemployment payments quicker and gives agencies a



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better chance of recovering the money.

The EDD could use the new-employee registry with its current system, as Lammé and others have suggested, but Bronow said that would be a costly stopgap measure.

Said Lammé: "This could be an interim solution. But they aren't interested in an interim solution that would just have to be thrown away."

Utah implemented a cross-match with new hires in 1997, soon after the new-hire reporting laws went into effect. Every night, on an old main-frame computer, the state runs a cross-match between the unemployment rolls and the new-hire database. The programming and implementation cost a little less than \$100,000 but, according to a 2000 report by the state of Utah, overpayments dropped 43 percent in the first year.

"It's not a costly program relative to the millions of dollars of unemployment fraud it detects," said Bill Starks, tax chief for Utah's unemployment insurance division. "It's hard to imagine anything that could generate more money for the trust fund at such a low cost."

California is one of only four states that aren't using or currently developing a system to cross-match new hires with unemployment rolls, said Cheryl Atkinson, the administrator of the Department of Labor's Office of Workforce Security. The others without cross-match programs are Colorado, Delaware and Wyoming.

The department promotes the use of the new-hire data cross-matches, she said. But Atkinson said there are some instances where "antiquated computer systems make it difficult, if not impossible, to do it at any sort of reasonable price."

Computer programming costs for the cross-match have run under \$500,000, Atkinson said. Seven states -- but not California -- applied for and received grants to help offset the costs of setting up a computer cross-match with the new-hire database.

Atkinson cautioned however, that the grants don't cover all of the costs.

"The real cost isn't just implementing the system but following up when you get hits," she said, listing costs associated with investigation, notification, repayment and recovery. "The implementation is just the tip of the iceberg."

That's what Lammé doesn't understand, Bronow said. With the proposed \$1.8 million system, these follow-up processes will be fully automated, saving time and money.

"What Mr. Lammé is proposing is easy to program if you build an entire manual process later," Bronow said. "We're talking about building a system that is less labor intensive."

Bronow says fixing the fraud problem is a priority, but the way she is going about it is better in the long-run, describing it as a "business decision."

But business groups don't necessarily agree with her.

"I view this as a leaky bucket," said Julianne Broyles, a lobbyist for the California Chamber of Commerce. She acknowledges, however, that saving \$250 million a year in overpayments is just a drop in that leaky bucket.

The unemployment fund stood at \$5.6 billion in 2001 but shriveled to \$2.9 billion in July as unemployment claims soared with the dot-com meltdown. EDD estimates the fund could be in the red by early next year.

The tax collected from employers is insufficient to pay the unemployment claims, officials have said, despite a 51 percent rate hike scheduled for January. And for the first time in California history, the state may have to borrow from the federal government to pay benefits to people who have lost their jobs.

That's one reason the 2006 to 2008 time frame is unacceptable, Broyles said.

"We can't wait that long," she said. "Lammé as well as other software experts should be consulted, rather than someone deciding in an EDD office that one way is the right way to fix the problem. I'm looking for a good responsible bid and experts that can give us some options."

About the Writer

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