Why Unemployment Insurance Fraud Surged During the Pandemic

The COVID-19 pandemic created unprecedented challenges and disruptions for individuals, businesses, and governments. As a result of lockdowns, social distancing, and business shutdowns, the country experienced a significant spike in permanent and temporary unemployment across the country. This in turn led to a historic surge in citizens' demand for unemployment insurance (UI) to fill their earnings gap. The U.S. Department of Labor (DOL) and state workforce agencies (SWAs) worked to address this demand and critical need by significantly expanding UI benefits programs.

Multiple law enforcement and agency program officials reported unprecedented levels of fraud in UI program benefits during the pandemic. For example, the DOL Office of the Inspector General's (OIG) March 2023 semiannual report to Congress noted more than $888 billion federal and state UI benefits were paid during the UI pandemic period—March 27, 2020 through September 6, 2021. The DOL's Employment and Training Administration (ETA) reported an improper payment rate during this reporting period of 21 to 36 percent with a significant portion of those improper payments attributable to fraud.[1] Similarly, in September 2023 the Government Accountability Office estimated UI program fraud totals between $100 and $135 billion, or about 11 to 15 percent of benefits paid during the pandemic.

Given the widespread nature of pandemic UI fraud, program, congressional, and oversight officials are questioning how it happened and what can be done to reduce UI fraud moving forward. To help answer those questions, we identified a variety of schemes used to defraud pandemic UI benefit programs such as using stolen identities, recruiting co-conspirators, and abusing debit cards the government used to pay benefits.

1 In fiscal year 2022, ETA reported an improper payment rate of 21.52 percent for the traditional UI program as part of the Benefit Accuracy Measurement (BAM) Program. According to DOL, although the pandemic-related programs, Federal Pandemic Unemployment Compensation (FPUC) and Pandemic Emergency Unemployment Compensation (PEUC), were not included in the BAM sample, ETA applied the traditional UI improper payment rate to these pandemic programs based on the underlying similarities in their eligibility requirements. On August 21, 2023, the DOL reported its estimated improper payment rate for the Pandemic Unemployment Assistance (PUA) program at 35.9 percent. Although improper payment rates include underpayments, overpayments and those that could not be determined as valid payments, it is likely that a significant portion of these improper payments are fraudulent.

Most UI Fraud Involved Collusion and Identity Theft

Of the 45 UI fraud cases we reviewed as part of this project, 35 (78 percent) submitted falsified claims using a stolen identity while 29 cases (64 percent) included two or more people conspiring to commit fraud.

The largest fraud case we reviewed was a fraud ring near Atlanta, Georgia, which involved eight different co-conspirators and over $30 million dollars in stolen UI benefits. In this case, a healthcare worker who had access to patients' personally identifiable information (PII) sold this information to other co-conspirators who then used the stolen identities to file for pandemic UI benefits.

Background

Created in 1935, UI is a form of social insurance in which most states provide eligible unemployed workers with income support if they lose their jobs through no fault of their own. Most state UI programs are funded through taxes collected from employers.

Although the federal DOL ETA oversees the UI system, the program is administered by SWAs whose primary responsibilities include assessing eligibility and issuing payments.

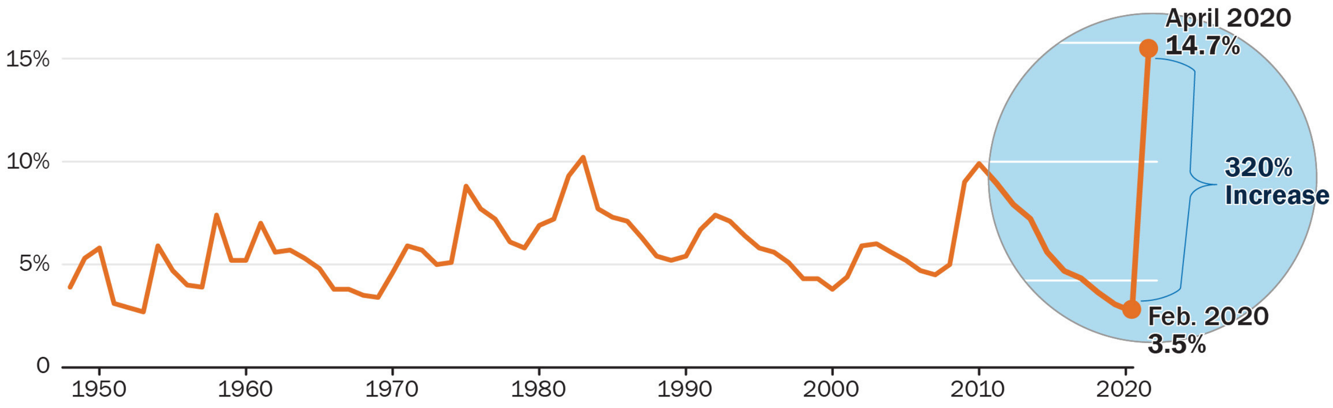
The UI system changed dramatically in early 2020 at the onset of the pandemic. From February 2020 to April 2020, the national unemployment rate increased from 3.5 percent to 14.7 percent. As a result, the volume of unemployment claims that states had to process increased exponentially. For example, during the first three months of the pandemic, states processed 15 times as many claims as compared to the same three months in 2019.

In December 2021, the PRAC released a key insights report on UI that highlighted the challenges SWAs faced implementing pandemic UI programs. Based on that review of 44 audit reports across DOL programs and 16 different State Auditor Offices, we found that UI claims surged to unprecedented levels and that many SWAs did not have the capacity or sufficient internal control environment to process claims timely without bypassing safeguards in place to prevent fraud. In response to the surging claims, Congress passed multiple laws that created, expanded, and extended UI benefits.

At the same time, states struggled to modernize information technology (IT) systems to implement the newly created pandemic UI programs and hire enough staff to process claims.

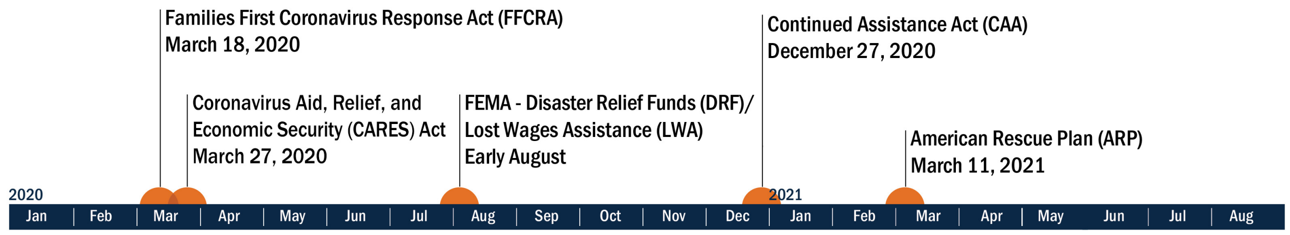
See Figure 1 for a historical timeline of unemployment rates over the last 70 years.

Figure 1: History of National Unemployment Rates



During the pandemic, Congress authorized multiple rounds of funding for pandemic UI benefit programs across four different pieces of legislation. See Figure 2 for more information about the history of federal pandemic UI benefit funding.

Figure 2: Federal Funding for Pandemic UI Benefit Programs



*As of 2021. Total of UI programs was equal to $888B with additional benefits.

- **March 18, 2020 - Families First Coronavirus Response Act (FFCRA)** provided additional administrative funding and flexibilities to SWAs to respond to the pandemic. For instance, the FFCRA allowed SWAs to provide unemployment benefits to individuals not actively searching for work and to waive the additional week individuals must typically wait to receive compensation.
- **March 27, 2020 - Coronavirus Aid, Relief, and Economic Security (CARES) Act** provided workers with additional unemployment benefits. The UI provisions in the CARES Act included the creation of three new UI programs: Pandemic Unemployment Assistance (PUA), Federal Pandemic Unemployment Compensation (FPUC), and Pandemic Emergency Unemployment Compensation (PEUC).

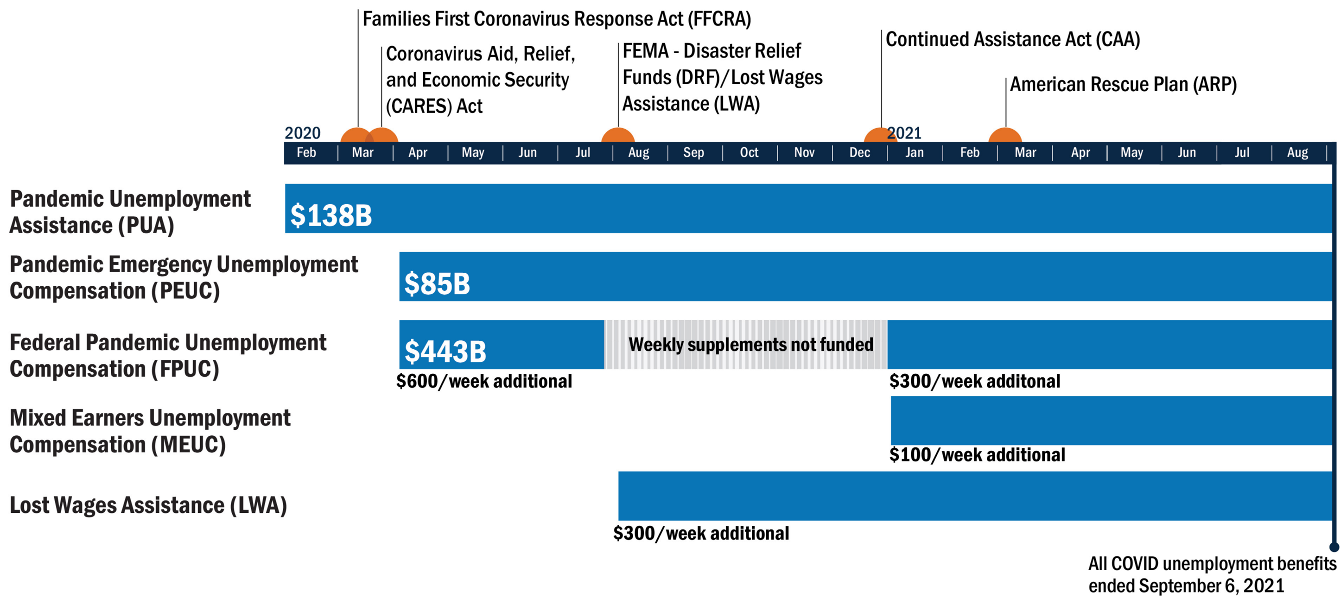
- **December 27, 2020 - Continued Assistance Act (CAA)** required anyone who received a payment of PUA on or after December 27, 2020, to submit documentation to substantiate their employment or self-employment, or planned commencement of employment or self-employment. The CAA also extended pandemic unemployment benefits created under the CARES Act and created the Mixed Earners Unemployment Compensation Insurance (MEUC) program.
- **March 11, 2021 - American Rescue Plan Act** provided additional funding and another extension of pandemic unemployment benefits created under the CARES Act, increasing the duration claimants could receive these benefits.

In addition to congressional legislation that created new pandemic UI relief programs, on August 8, 2020, the President authorized the Federal Emergency Management Agency (FEMA) to spend up to $44 million from the Disaster Relief Funds (DRF) for wage payments.[2] Per the DOL, the DRF payments were to help bridge the gap of FPUC payments which expired around July 2020, but were then reauthorized months later under new legislation. Accordingly, the FEMA Administrator provided grants to participating states, territories, and the District of Columbia to administer the delivery of the Lost Wages Assistance (LWA) program to those receiving unemployment benefits.[3] See Figure 3 for the various types of pandemic UI programs and their funding amounts.

2 The FEMA DRF is an appropriation against which FEMA can direct, coordinate, manage, and fund eligible response and recovery efforts associated with major domestic disasters and emergencies that overwhelm states' resources pursuant to the Robert T. Stafford Disaster Relief and Emergency Assistance Act.

3 States and territories administer the LWA program through a grant agreement with FEMA. FEMA does not make these payments directly to individuals. Instead, states and territories distribute the funds through their UI systems as a supplemental payment.

Figure 3: Pandemic UI Programs



Due to MEUC and LWA including funding amounts beyond pandemic spending, we could not show pandemic-only total dollar amounts in each respective bar graph.

UI Program	Target Population
PUA	*Individuals classified as self-employed, independent contractors, those with limited work history, and other individuals not traditionally eligible for unemployment benefits or PEUC who are unable to work as a direct result of the pandemic.*
PEUC	*Claimants who were still unemployed after exhausting their entitlement to traditional unemployment benefits in that benefit year, had no rights to traditional unemployment compensation under state and federal law, were not receiving unemployment benefits under Canadian law, and were able, available, and actively seeking to work.*
FPUC	*Claimants who were entitled to at least $1 of other unemployment benefits for a given week.*
MEUC	*Claimants receiving benefits other than pandemic UI, whose prior earnings included both wages from traditional employment and at least $5,000 from self-employment.*
LWA	*Claimants who received at least $100 in benefits from another UI program.*

Common Schemes Used to Commit and Conceal Pandemic UI Fraud

We identified a set of common factors present in UI fraud schemes by reviewing publicly available court documents and the Department of Justice press releases for 45 pandemic UI fraud cases from April 2020 through December 2020.[4] We also identified common methods used to conceal the schemes. Figure 4 details the fraud schemes identified through our review of these pandemic UI fraud cases.

Figure 4: Schemes and Methods Fraudsters Used to Commit and Conceal Fraud

Schemes Used to Commit Fraud

Identity Fraud

- Stole the identities of individuals and filed claims in their names.
- Stole and sold individuals' identities to other co-conspirators and filed claims in their names.
- Filed claims using prisoner and cellmates' names.

Eligibility Fraud

- Filed in their own name but falsified their work history or other aspects of their unemployment claim.

Pharming

- Created websites, mimicking unemployment benefit websites, to lure consumers and steal their personally identifiable information (PII).

Multi-state Claims

- Filed fraudulent applications in multiple states.

Insider Fraud

- Accessed their employers databases containing customers PII and other information to file fraudulent claims.

Methods Used to Conceal Fraud

Incorrect Addresses

- Requested the SWA mail debit cards to various addresses including vacant buildings or homes, those of family members, neighbors, and out-of-state businesses.
- Had other individuals retrieve debit cards from homes and withdraw funds from ATMs.

Fake Bank Accounts

- Opened multiple bank accounts using fake names and had UI funds deposited directly into those accounts.
- Requested the SWA wire funds to co-conspirator's bank account.

Concealed Identity

- Used temporary or fake email addresses or Virtual Private Networks (VPN) to conceal identity.

4 PRAC reviewed a sample of 45 UI cases. The figure represents the common schemes and methods used by fraudsters within the case sample and is not an exhaustive list of all UI fraud cases that have been perpetrated.

Fraudsters Used Stolen Identities to File for Unemployment in Multiple States

Of the 45 fraud cases we reviewed, 11 (24 percent) noted that fraudsters improperly used the same information to file for unemployment benefits in multiple states.

In one case, the fraudster used the same stolen identity to falsely file for unemployment in nine states and recruited co-conspirators to retrieve pre-loaded debit cards from addresses controlled by the group.

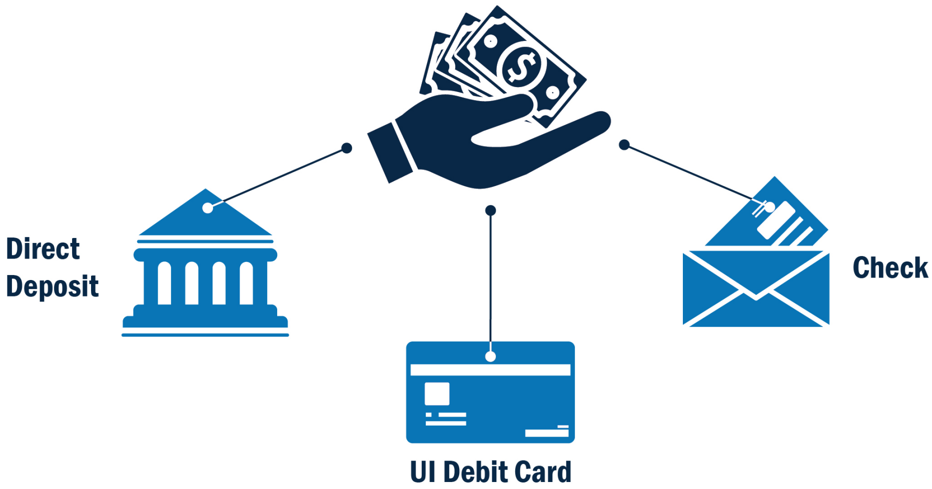
Challenges State Workforce Agencies Faced

UI fraud schemes thrived during the pandemic due to a variety of factors including the processes by which SWAs administered benefits. While the flaws in several of these processes were exacerbated by the pandemic, such as the need for limited in-person contact to promote social distancing, other shortcomings in program operations contributed to the programs' fraud vulnerability. Generally, to obtain any of the pandemic UI benefits an individual had to file a claim or application with the SWA in their state. Claims or applications and certifications for pandemic UI benefits were mostly filed electronically through each SWA's UI website. In the application process, the claimant was required to enter personal information such as their name, date of birth, Social Security number, physical address, email address, and telephone number. Additionally, claimants had to answer questions that enabled the SWA to determine their eligibility and UI benefit amount, and to self-certify whether the pandemic had directly and adversely affected their employment. Our prior work has consistently highlighted the pitfalls of relying on applicant self-certification across pandemic program benefits distribution, including UI programs.[5] Overall, the level of effort individual SWAs performed to verify the information claimants submitted varied by state and the timing of when the claim was filed.

SWAs offered claimants multiple payment options to receive pandemic UI benefits, as depicted below in Figure 5. UI claimants could specify a checking or savings account to receive UI pandemic funds or request payment via a preloaded UI debit card mailed to the address of the claimant's choice. Claimants also had the option to request a paper check be mailed to their address.

5 PRAC, Update: Top Challenges in Pandemic Relief and Response, February 3, 2021; Key Insights: State Pandemic Unemployment Insurance Programs, December 16, 2021.

Figure 5: Methods of UI Benefit Payments

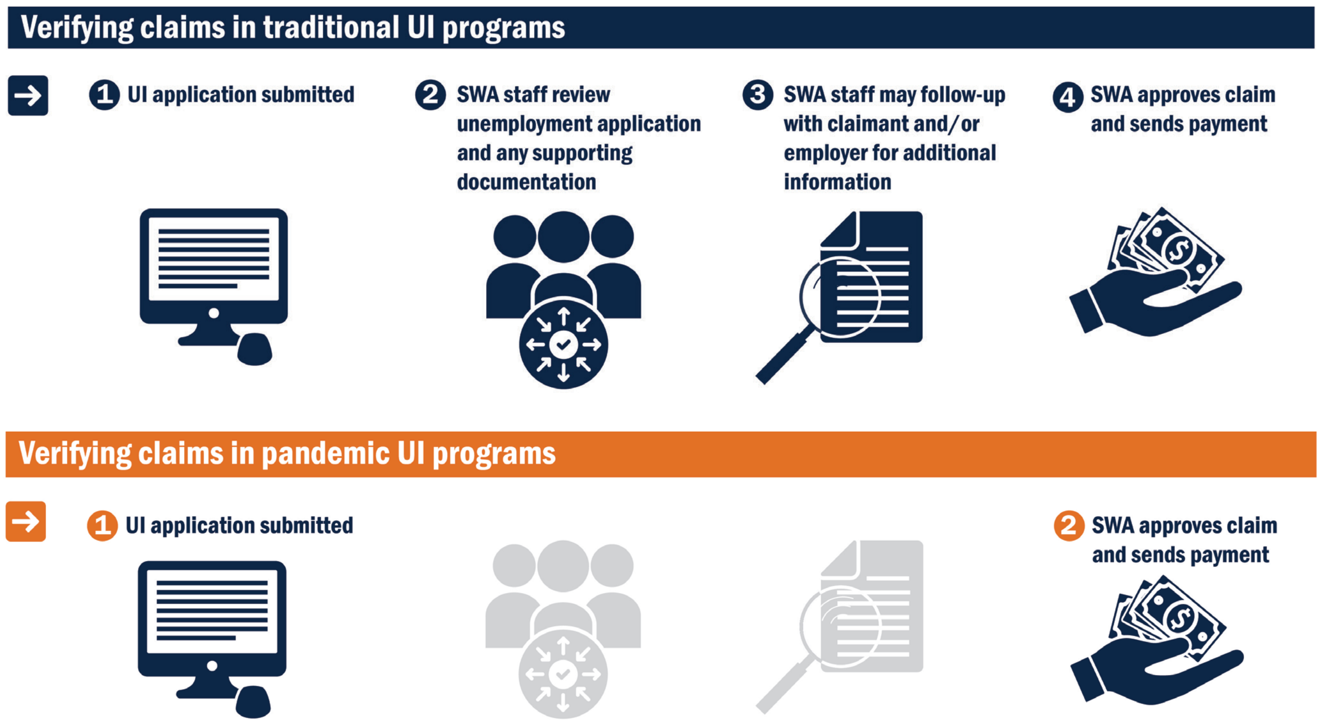


Although SWAs developed processes to provide unemployed individuals with compensation during the pandemic, they faced challenges in preventing pandemic UI fraud or improper payments. For example, the PUA program provided unemployment benefits to individuals who, under the traditional UI program, were typically ineligible (i.e., gig and self- employed workers) for such benefits. During the first nine months of the PUA program, the CARES Act allowed these individuals to self-certify that they were unemployed because of the pandemic. According to the DOL, claimants could receive their state's minimum weekly benefit amount with such a self-certification; however, to receive additional UI benefits they would need to provide evidence of prior base earnings. However, SWAs had limited means to verify the income gig or self-employed individuals reported as part of their UI claim.[6]

Figure 6 compares the traditional process to verify UI claims versus how they were processed during the first nine months of the PUA program.

6 According to the DOL, claimants that requested more than the minimum weekly benefit amount had to supply income documentation within 21 days. States did not have information on the prior work and earnings of these individuals, as they were outside the federal-state UI taxation system. As a result, states were unable to independently access data to confirm monetary eligibility and had no ability to confirm continued eligibility except for self-attestation.

Figure 6: Process to Verify Traditional UI Claims vs. the First Nine Months of the PUA Program



Pre-Existing Program Issues Contributed to Pandemic UI Fraud

Based on our review of federal audits, state audits, and other reports, we found several issues that contributed to the high amount of improper and fraudulent UI payments during the pandemic. These included pre-existing identified weaknesses in state UI programs—some of which were widely known and reported on prior to the pandemic—and how these weaknesses were exacerbated during the pandemic. Tables 1 and 2 outline those issues.

Table 1: Overarching Preexisting Issues in the UI Program

Overarching Issues in the UI Program	*Description*	*Exacerbating Factors*
High pre-pandemic improper payment rate	The UI program has had an improper payment rate of over 10 percent for 15 of the last 19 years. According to the DOL, SWA must provide claimants with due process when they find an eligibility issue and the SWA is only provided a week to resolve the issue. If the SWA cannot resolve the eligibility issue within this time, they must pay claimants.	High value target Surge in claims No waiting week
Lack of emergency planning	The DOL was working with SWAs shortly before the pandemic to help them develop an emergency plan using the Department of Homeland Security's National Response Framework so SWAs could manage a surge of claims in the event of a future recession. However, SWAs had not implemented this plan when the pandemic began in March 2020. If such a plan was implemented, SWAs may have been more prepared to address the pandemic.	Surge in claims
Legacy IT systems	Some state IT systems were not equipped to handle the volume of claims, and SWA IT systems may not have been easily compatible with the National Association of State Workforce Agencies (NASWA) UI Integrity Center's Integrity Data Hub, hindering SWA's ability to detect fraudulent payments. Furthermore, legacy IT systems result in higher processing time and are more difficult to modify for changes in federal guidance compared to modernized systems.	Surge in claims Untimely and unclear guidance Low staffing levels
SWA data analysis varied	According to DOL officials, the department does not have authority to require states to use the databases available in the UI Integrity Center's Integrity Data Hub, such as the Identity Verification or Multi-State Crossmatch databases. While states' use of these various data matching tools increased during the pandemic, not all states are currently using them, according to DOL officials. Without more consistent use of these tools across states, states may miss opportunities to identify fraudsters.	Surge in claims High value target

Table 2: Factors Exacerbating Preexisting Issues

Exacerbating Issues	*Description*	*Overarching Issues in the Unemployment Program*
No waiting week	The DOL encouraged states to temporarily suspend the existing waiting period for benefits and the CARES Act generally provided full federal funding for the first week of traditional UI benefits to states that did so. According to NASWA officials, waiving the waiting period meant that some states had less time to employ tools for fraud prevention and detection.	High pre-pandemic improper payment rate
Surge in claims	SWAs had to process 15 times as many claims in the first three months of the pandemic than the same months in the previous year. Unfortunately, the surge of claims exacerbated previous issues SWAs faced. Specifically, SWAs did not have enough staff to work on these many claims even though they hired temporary staff, and reassigned staff from other units to process claims (i.e., Benefit Payment Control). Furthermore, some SWAs' antiquated IT systems faced challenges processing the high number of claims and some states had not completed their emergency planning with the DOL to handle such a surge.	Legacy IT systems Lack of emergency planning SWA data analysis varied High pre-pandemic improper payment rate
High value target	The DOL Inspector General testified in March 2022 that the unprecedented infusion of federal COVID-19 relief funds into UI programs during the pandemic gave individuals and organized crime groups a high value target to exploit. These criminals would steal individuals' identities to fraudulently apply for benefits under this program and the already high improper payment rate for this program increased even more.	Identity theft High pre-pandemic improper payment rate
Untimely and unclear guidance from the DOL	The DOL OIG interviewed states about their experience implementing and administering COVID-19 related programs. States cited that they received untimely and unclear guidance from DOL to make decisions about initial and continued eligibility. Because of the insufficient time to get up to speed on the new PUA program, SWAs had a difficult time developing controls around the program prior to its launch. States said that clearer, earlier, and more detailed guidance from DOL might have rendered a more efficient implementation process that would have prevented significant overpayments to claimants.	Legacy IT systems

Table 2: Factors Exacerbating Preexisting Issues

Low staffing levels	SWAs lacked adequate staffing resources to properly implement the CARES Act UI programs, including processing claims. According to the DOL OIG, SWA staffing levels are determined on the basis of claim volume levels in previous years. At the start of the pandemic, many state UI programs had been experiencing their lowest claims volume, and thus their lowest staffing and funding levels, since the 1970s. According to the DOL OIG, to process the high volume of claims after the pandemic began, many states reassigned benefit payment control staff to claims processing, with the result that few staff were working to prevent and detect fraud. Furthermore, SWAs' legacy unemployment systems prevented staff from streamlining and prioritizing claims to work and were more burdensome to change for the newer pandemic unemployment programs which, in turn, required more time from staff to administer pandemic unemployment programs and work associated claims.
Legacy IT systems	

Options to Improve the UI Program

While pandemic UI fraud has been unprecedented, a body of oversight work identified recommendations to reduce its occurrence in the future. Specifically, the DOL OIG has made several recommendations that are critical to program integrity, and we encourage stakeholders to implement these recommendations and continue to proactively address known program vulnerabilities.

DOL OIG High-Priority Recommendations for Congress

- Extend the statute of limitations for fraud involving pandemic-related UI programs.
- Ensure the DOL and the DOL OIG have ongoing, timely, and complete access to UI claimant data and wage records.
- Grant the DOL OIG statutory authority to participate in asset forfeiture funds to combat fraud and other crime.
- Ensure effective payment integrity controls to reduce improper payments in all UI programs including temporary ones, such as through broader requirements for mandatory cross-matching.

Additional Information

The pandemic caused unprecedented surges in unemployment as businesses closed to prevent the spread of the disease. Congress created new UI programs to ease the impacts of the surge in unemployment. However, implementing these new programs caused emergent challenges for states. It is important for stakeholders to understand how UI fraud occurred during the pandemic so that we can be better prepared for future emergencies.

The DOL OIG operates a hotline to receive and process allegations of fraud, waste, and abuse concerning DOL grants, contracts, programs, and operations. If you suspect wrongdoing in DOL programs or operations, please contact the hotline at:

Website: www.oig.dol.gov

Telephone: 202-693-6999
or 1-800-347-3756

Scan QR Code to Report Fraud, Waste, and Abuse Now!

DOL OIG Hotline

The PRAC connects partners across all levels of government to share fraud prevention techniques and other best practices that can improve program integrity. If you are a policy maker, program official, oversight professional, or law enforcement officer who seeks to learn more about fraud prevention, contact:

Lisa Reijula

Associate Director of Outreach and Engagement, PRAC
Lisa.Reijula@cigie.gov

Visit us at:

PandemicOversight.gov

Follow us at:

Report Fraud, Waste, Abuse, or Misconduct:

To report allegations of fraud, waste, abuse, or misconduct regarding pandemic relief funds or programs please go to the PRAC website at PandemicOversight.gov.

PANDEMIC RESPONSE ACCOUNTABILITY COMMITTEE

A Committee of the
Council of the Inspectors General
on Integrity and Efficiency