United States Government Accountability Office

Report to Congressional Requesters

December 2022

UNEMPLOYMENT INSURANCE

Data Indicate Substantial Levels of Fraud during the Pandemic; DOL Should Implement an Antifraud Strategy

Accessible Version

GAO-23-105523

GAO Highlights

Highlights of GAO-23-105523, a report to congressional requesters

Why GAO Did This Study

The UI system has faced long-standing challenges with program integrity, which worsened during the pandemic. Congress created four new UI programs to support workers during the pandemic. According to DOL data, approximately $878 billion in benefits were paid across all UI programs from April 2020 through September 2022. The unprecedented demand for benefits and the need to implement the new programs quickly increased the risk of financial fraud. Due to this risk and other challenges, GAO added the UI system to its High-Risk List in June 2022.

GAO was asked to review matters relating to the scope and severity of fraudulent activity in the UI system during the pandemic. This report examines what measures and estimates indicate about the extent of UI fraud during the pandemic and the extent to which DOL designed and implemented a strategy to manage UI fraud risks. GAO reviewed information that federal and state entities used to measure and estimate the extent of fraud in UI programs, then evaluated DOL's activities against leading practices in GAO's Fraud Risk Framework. This report is part of an ongoing body of work to better understand and manage federal fraud, including future work to improve estimates of fraud.

What GAO Recommends

GAO recommends that DOL develop and implement an antifraud strategy for UI programs that is consistent with leading practices from GAO's Fraud Risk Framework. DOL partially agreed with the recommendation and noted plans to address it.

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What GAO Found

Considered together, measures and estimates indicate substantial levels of fraud and potential fraud in unemployment insurance (UI) programs during the pandemic. However, each measure and estimate has strengths and limitations, and none completely and reliably indicates the extent of fraud in UI programs during the pandemic.

Examples and Definitions of Measures and Estimates

Measures For purposes of this report, measures are counts of detected activities.	**Fraud measures**	**Cases of proven fraud** Unemployment Insurance (UI) fraud during the pandemic is **at least $4.3 billion** based on formal determinations of fraud by state workforce agencies. However, this does not account for potential fraud that has not been formally determined as such.
	Fraud-related measures	**Applications flagged for potential fraud** **At least $45 billion** in UI payments during the pandemic have some indication of potential fraud according to the Department of Labor (DOL) Office of Inspector General. However, while this measure identifies transactions that may be indicative of potential fraud, it cannot be interpreted as a measure of the extent of UI fraud.
Estimates For purposes of this report, estimates are projections or inferences based on measures, assumptions, or analytical techniques where direct measures are unavailable, incomplete, or unreliable.	**Manual review of a statistical sample**	DOL reported fraud estimates for regular UI payments based on states' reviews of samples of claims. In combination, these estimates amount to **about $8.5 billion** for 2021.
	Extrapolation from rates	If the lower bound of DOL's estimated national fraud rate for 2021 was extrapolated to total spending across all UI programs during the wider pandemic period, it would suggest **over $60 billion** in fraudulent UI payments. However, such an extrapolation has inherent limitations regarding validity, accuracy, and completeness, and should be interpreted with caution. The available measures and estimates support the use of this fraud rate as a lower, but not upper limit of the fraud rate for all UI programs and the full period of pandemic spending.

Source: GAO, rashadashurov/stock.adobe.com and rawku5/stock.adobe.com (icons). | GAO-23-105523

DOL has taken steps to address UI fraud risks. For example, DOL issued guidance, provided funding to states, and deployed teams to recommend improvements to state UI programs. While these steps help prevent, detect, and respond to fraud, as of December 2022, DOL has not yet developed an antifraud strategy based on leading practices in GAO's Fraud Risk Framework. Also, it has not yet addressed the six October 2021 recommendations GAO made including to identify, assess the impact of, and prioritize UI fraud risks. These are essential pieces to inform an overall antifraud strategy. Without an antifraud strategy, DOL is not able to ensure that it is addressing the most significant fraud risks facing the UI system in alignment with the Fraud Risk Framework.

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Abbreviations

BAM	Benefit Accuracy Measurement
CARES Act	Coronavirus Aid, Relief, and Economic Security Act
DHS	Department of Homeland Security
DOJ	Department of Justice
DOL	Department of Labor
EOUSA	Executive Office for United States Attorneys
ETA	Employment and Training Administration
FPUC	Federal Pandemic Unemployment Compensation
Fraud Risk Framework	*A Framework for Managing Fraud Risks in Federal Programs*
MEUC	Mixed Earner Unemployment Compensation
NASWA	National Association of State Workforce Agencies
NUIFTF	National Unemployment Insurance Fraud Task Force
OIG	Office of Inspector General
OMB	Office of Management and Budget
PEUC	Pandemic Emergency Unemployment Compensation
PUA	Pandemic Unemployment Assistance
SSA	Social Security Administration
SWA	state workforce agency
TEN	Training and Employment Notice
UI	Unemployment Insurance
UIPL	Unemployment Insurance Program Letter

GAO U.S. GOVERNMENT ACCOUNTABILITY OFFICE

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Congressional Requesters

The unemployment insurance (UI) system has faced long-standing challenges with effective service delivery and program integrity, which worsened during the COVID-19 pandemic because of historic levels of job loss.[1] The CARES Act, enacted on March 27, 2020, created three new federally funded temporary UI programs that expanded UI benefit eligibility, enhanced benefits, and extended benefit duration.[2] The temporary programs supplemented existing UI programs known as "regular" UI, which is a federal-state partnership that provides temporary financial assistance to eligible workers who become unemployed through no fault of their own.[3] The federal government directly funded the administration of, and benefits for, the new pandemic UI programs and relied on state workforce agencies (SWA) to determine claimants' eligibility, process claims, and issue benefits to individuals.[4] From April 2020 through September 2022, expenditures across the UI system

[1]The UI system includes UI programs that were established prior to the COVID-19 pandemic (including the regular UI program and Extended Benefits), and programs established in response to the COVID-19 pandemic (such as Pandemic Unemployment Assistance and Federal Pandemic Unemployment Compensation, among others).

[2]Pub. L. No. 116-136, §§ 2102, 2104, 2107, 134 Stat. 281, 313-28. In addition, the Consolidated Appropriations Act, 2021 created one additional temporary, supplemental UI program. Pub. L. No. 117-2, § 9013(a), 135 Stat. 4, 119; Pub. L. No. 116-260, div. N, tit. II, § 261(a)(1), 134 Stat. 1182, 1961.

[3]In this report, we refer to the UI program—excluding the temporary UI programs created by the CARES Act and other legislation—as the regular UI program and the benefits paid under the program as regular UI benefits. We refer to the temporary UI programs created by the CARES Act and the Consolidated Appropriations Act, 2021 as pandemic UI programs.

[4]SWAs are responsible for administering unemployment insurance programs, among other things.

totaled approximately $878 billion, according to Department of Labor (DOL) data.[5]

States faced challenges processing a historically high number of claims and ensuring that eligible individuals received timely and appropriate benefit amounts during the pandemic. These timely payments allowed unemployed workers to address financial hardships such as inability to pay for rent, utilities, and groceries. The unprecedented demand for UI benefits and the programmatic flexibilities allowed during the pandemic also increased the risk of financial fraud as well as other improper payments.[6] 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.[7] In October 2021, we found that federal and state

[5]This amount includes about $209 billion in expenditures under the regular UI and Extended Benefits programs, and about $669 billion in expenditures under pandemic UI programs, which expired on September 6, 2021. The expenditure amounts for the temporary programs include all compensation paid throughout the existence of the programs. These programs were generally created at the end of March 2020 and expired in September 2021, though some payments may have occurred after September 2021 for weeks of unemployment prior to the programs' expiration. We obtained April 2020 through September 2022 expenditure amounts for the regular UI program, the Extended Benefits program, and the pandemic UI programs on October 12, 2022 from DOL's data downloads website at https://oui.doleta.gov/unemploy/DataDownloads.asp.

[6]Fraud involves obtaining something of value through willful misrepresentation. The Payment Integrity Information Act of 2019 defines an improper payment as any payment that should not have been made or that was made in an incorrect amount (including overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements. 31 U.S.C. § 3351(4). As such, improper payments refer to all kinds of erroneous payments, including but not limited to those resulting from fraud. While all financial fraud contributes to improper payments, non-financial fraud, such as fraudulently obtaining identification documents, may not result in an improper payment.

[7]Larry D. Turner, Inspector General, Department of Labor, Office of Inspector General, testimony before the U.S. Senate Committee on Homeland Security and Governmental Affairs, 19-22-003-315, March 17, 2022.

entities continued to investigate and report on high levels of fraud, potential fraud, and fraud risk in UI programs during the pandemic.[8]

The increased significance of the UI system during the pandemic drew attention to its vulnerabilities and susceptibility to fraud, waste, abuse, and mismanagement. Based on findings from the DOL Office of Inspector General (OIG) and prior GAO reports, and the urgent need to address persistent issues in the UI system—including funding uncertainties and outdated IT systems—we determined in June 2022 that the UI system should be on our High-Risk List and made an out-of-cycle high-risk designation.[9] This designation is intended to help spur progress in resolving persistent issues by shining a spotlight on such issues and ways the federal government can lead efforts to find solutions. We reported that such efforts include addressing our 19 open recommendations and those of the DOL OIG. See appendix I for a detailed list of the open recommendations.

You asked us to review matters relating to the scope and severity of fraudulent activity in the UI system during the pandemic. This report addresses (1) what existing federal and state measures and estimates indicate about the extent of fraud and potential fraud in UI programs during the pandemic and (2) the extent to which DOL designed and implemented a strategy to manage UI fraud risks.

To address our first objective, we requested, identified, and reviewed relevant reports and other reporting mechanisms from federal and state

[8]GAO, *Additional Actions Needed to Improve Accountability and Program Effectiveness of Federal Response*, GAO-22-105051 (Washington, D.C.: October 27, 2021). Fraud risk (which is a function of likelihood and impact) exists when people have an opportunity to engage in fraudulent activity, have an incentive or are under pressure to commit fraud, or are able to rationalize committing fraud. Fraud risk includes existing circumstances that provide an opportunity to commit fraud. In this report, we define potential fraud as transactions or activity that have indicators that may suggest fraud, and we define fraud as transactions or activities that have been confirmed to be fraudulent via an adjudicative or other formal determination process.

[9]GAO, *Unemployment Insurance: Transformation Needed to Address Program Design, Infrastructure, and Integrity Risks*, GAO-22-105162 (Washington, D.C.: June 7, 2022). The High-Risk List highlights federal programs and operations that we have determined are in need of transformation. It also names federal programs and operations that are vulnerable to waste, fraud, abuse, and mismanagement. We release a High-Risk series report every 2 years at the start of each new congress. As in this case, we sometimes make out-of-cycle designations to highlight urgent issues, help ensure focused attention, and maximize the opportunity for the federal government to take action.

entities related to measuring and estimating the extent of fraud and potential fraud in UI programs during the pandemic.[10] The scope of our review was from March 2020—the beginning of the pandemic—through March 2022. These are the two most recent years available at the time of our selection. Throughout this report, we use the phrase “fraud measure” to discuss counts related to proven fraud such as adjudicated cases of fraud. We use the phrase “fraud estimate” to discuss estimates that attempt to quantify what could be determined to be fraud, although such cases have not yet been proven. Finally, we use the phrases “fraud-related” and “potential fraud” to describe measures and estimates that attempt to quantify the extent of fraud indicators, but do not suggest a potential or actual determination of fraud. In addition, we reviewed Department of Justice (DOJ) case information to identify federal fraud-related charges related to UI as of July 31, 2022, and analyzed related federal court documents.[11] We also interviewed DOL officials and federal law enforcement officials about the extent of fraud in UI programs during the pandemic.

Additionally, we analyzed UI financial transaction data and individual program files from DOL’s website to determine total expenditures under the regular UI program, the Extended Benefits program, and the pandemic UI programs from April 2020 through September 2022. We also analyzed fraud estimates for the regular UI program reported in DOL’s Benefit Accuracy Measurement Data Summary for performance year 2021 and the underlying documentation. In addition, we analyzed amounts of overpayments due to fraud as reported by states to DOL. We assessed the reliability of all data used in these three analyses, and determined they were sufficiently reliable for our purposes.

To address the second objective, we evaluated DOL’s UI fraud risk management activities against the leading practices in GAO’s *A Framework for Managing Fraud Risks in Federal Programs* (Fraud Risk

[10]Throughout this report, we refer to measures as counts of detected activities, and to estimates as projections or inferences based on measures, assumptions, or analytical techniques. Estimates are often used when direct measures are unavailable, incomplete, or unreliable. Appendix II provides a bibliography of the reports we received from SWAs, state auditors, and state Attorneys General that discussed fraud or potential fraud in UI programs. We excluded those reports that did not contain a measure or estimate of fraud or potential fraud, such as those that focused on improper payments but lacked any fraud or fraud-related measures or estimates.

[11]For purposes of this report, we define fraud-related charges as charges related to a criminal case containing fraud charges.

Framework)—specifically those leading practices related to developing an antifraud strategy.[12] We also reviewed DOL policies, procedures, and guidance to identify newly established controls designed to prevent fraud from occurring. Further, we interviewed DOL and DOL OIG officials about fraud risk management efforts.

Appendix III provides a more detailed description of our objectives, scope, and methodology.

We conducted this performance audit from November 2021 to December 2022 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

Federally Funded UI Programs in Response to COVID-19

The CARES Act created three new federally funded temporary UI programs that expanded UI benefit eligibility and enhanced benefits.[13] These programs were subsequently extended and amended by the

[12]GAO, *A Framework for Managing Fraud Risks in Federal Programs*, GAO-15-593SP (Washington, D.C.: July 28, 2015). The Fraud Risk Framework contains four components: (1) commit; (2) assess; (3) design and implement; and (4) evaluate and adapt. Within the four components, there are overarching concepts and leading practices. In October 2021, we assessed the extent to which DOL's fraud risk management activities aligned with leading practices under the second component of the Fraud Risk Framework—assess. See GAO-22-105051. For this report, we selected two of the 15 leading practices from the third component—design and implement—that are most relevant to this objective based on a review of DOL documents and discussions with DOL officials responsible for fraud risk management.

[13]Pub. L. No. 116-136, §§ 2102, 2104, 2107, 134 Stat. 281, 313-28. The CARES Act also addressed other elements of the UI system. For example, the act authorized certain flexibilities for states to hire additional staff and to participate in Short-Time Compensation programs, which allow workers to work reduced hours while receiving partial pay and partial UI benefits.

Consolidated Appropriations Act, 2021, as well as the American Rescue Plan Act of 2021, and expired in September 2021.[14]

1. **Pandemic Unemployment Assistance (PUA)** authorized UI benefits for individuals not otherwise eligible for UI benefits, such as self-employed workers and independent contractors, who were unable or unavailable to work as a result of specified COVID-19 reasons.[15]
2. **Federal Pandemic Unemployment Compensation (FPUC)** generally authorized an additional weekly benefit for individuals who were eligible for weekly benefits under the permanent UI programs—for example, regular UI—and the temporary CARES Act programs.[16]
3. **Pandemic Emergency Unemployment Compensation (PEUC)** generally authorized additional weeks of UI benefits for those who had exhausted their regular UI benefits.[17]

In addition, the Consolidated Appropriations Act, 2021 created the Mixed Earner Unemployment Compensation (MEUC) program. This program was extended by the American Rescue Plan Act of 2021 and expired in September 2021.[18] According to DOL, the MEUC program was intended to cover regular UI claimants whose benefits did not account for significant self-employment income and who thus may have received a

[14]Twenty-four states ended their participation in at least one of these programs before the programs expired in September 2021.

[15]At the time of the program's expiration in September 2021, PUA generally authorized up to 79 weeks of benefits. Pub. L. No. 117-2, § 9011(a), (b), 135 Stat. 4, 118; Pub. L. No. 116-260, div. N, tit. II, § 201(a), (b), 134 Stat. 1182, 1950-1951 (2020); Pub. L. No. 116-136, § 2102, 134 Stat. 281, 313 (2020).

[16]FPUC generally authorized an additional $600 benefit through July 2020 as well as an additional $300 benefit for weeks beginning after December 26, 2020, through the end of the program. Pub. L. No. 117-2, § 9013, 135 Stat. 4, 119; Pub. L. No. 116-260, div. N, tit. II, § 203, 134 Stat. 1182, 1953; Pub. L. No. 116-136, § 2104 Stat. 281, 318.

[17]At the time of the program's expiration, PEUC generally authorized an additional 53 weeks of benefits for claimants who were fully unemployed. Pub. L. No. 117-2, § 9016(a), (b), 135 Stat. 4, 119-120; Pub. L. No. 116-260, div. N, tit. II, § 206(a), (b), 134 Stat. 1182, 1954; Pub. L. No. 116-136, § 2107, 134 Stat. 281, 323.

[18]The MEUC program, which was voluntary for states, authorized an additional $100 weekly benefit for certain UI claimants who received at least $5,000 of self-employment income in the most recent tax year prior to their application for UI benefits between December 27, 2020 and September 6, 2021. Pub. L. No. 117-2, § 9013(a), 135 Stat. 4, 119; Pub. L. No. 116-260, div. N, tit. II, § 261(a)(1), 134 Stat. 1182, 1961.

lower regular UI benefit than the benefit they would have received had they been eligible for PUA.[19]

UI Program Administration and Funding

The federal government and states work together to administer UI programs.[20] States design and administer their own UI programs within federal parameters. DOL oversees states' compliance with federal requirements, such as by reviewing state laws to confirm they are designed to ensure payment of benefits when due. According to DOL, state statutes establish specific benefit structures, eligibility provisions, benefit amounts, and other aspects of the program. Regular UI benefits—those provided by state UI programs before the CARES Act was enacted—are funded primarily through state taxes levied on employers and are intended to replace a portion of a claimant's previous employment earnings, according to DOL.[21]

During the pandemic, states continued to operate the regular UI program while administering the pandemic UI programs. Generally, states were permitted to ease certain nonmonetary requirements, such as waiving work-search requirements, in response to the spread of COVID-19.[22] While states were permitted temporary flexibility regarding work search, DOL determined that states could not waive the requirement to be available and able to work. DOL noted that states had flexibility to determine what it meant for an individual to be able to work and be available to work during the pandemic.

[19]According to DOL, 51 states and territories elected to participate in the MEUC program, with Idaho and South Dakota opting not to participate, but 23 states terminated their participation in June or July 2021. The remaining 28 states and territories continued participating in the MEUC program until it expired in September 2021, including Maryland, which intended to terminate participation but did not because of litigation at the state level, according to DOL.

[20]Fifty-three SWAs administer UI programs across the 50 states, the District of Columbia, Puerto Rico, and the U.S. Virgin Islands. For purposes of this report, when we refer to states' administration of the UI program, we include both states and territories.

[21]To be eligible for regular UI benefits, applicants must generally demonstrate workforce attachment, be able and available to work, and be actively seeking work. 42 U.S.C. § 503(a)(12). Administration of the regular UI program is financed by a federal tax on employers, according to DOL.

[22]Pub. L. No. 116-127, § 4102(b), 134 Stat. 178, 194 (2020).

In the UI system, program integrity is a shared responsibility between the federal and state governments. DOL provides general support and technical assistance, and states assume responsibility for determining eligibility, ensuring accurate benefit payments, and preventing fraud and other improper payments.[23]

The unprecedented demand for UI benefits and the urgency with which states implemented the new programs during the pandemic increased the risk of improper payments, including but not limited to those due to fraud. DOL uses its Benefit Accuracy Measurement (BAM) program to estimate the amount and rate of improper payments.[24] Under the BAM program, each state reviews a number of randomly selected cases on a weekly basis and reconstructs the UI claims process to assess the accuracy of the payments that were made.[25] A BAM investigator reviews each sampled claim and identifies errors and the causes of the error, including

[23]An improper payment is defined as any payment that should not have been made or that was made in an incorrect amount (including overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements. It includes, but is not limited to, any payment to an ineligible recipient. See 31 U.S.C. § 3351(4). When an agency cannot determine, due to lacking or insufficient documentation, whether a payment is proper, the payment shall be treated as an improper payment. See 31 U.S.C. § 3352(c)(2).

[24]According to DOL, although temporary UI programs, like the CARES Act UI programs, have generally not been subject to the BAM program or improper payment estimation, DOL has extrapolated and applied the improper payment rates generated by BAM to PEUC and FPUC and included them in the UI improper payment estimate for fiscal year 2021 reporting. On July 14, 2022, DOL announced its plan to estimate the rate of improper payments for PUA and to report a statistically valid national improper payment rate by fall 2022. However, in its fiscal year 2022 reporting on paymentaccuracy.gov, DOL stated that in October 2022, OMB requested that DOL conduct further analysis of the outcomes recorded through the PUA case review process. Also, according to DOL, OMB and DOL agreed to collaborate in conducting this additional analysis but DOL reported that it cannot be completed in time to meet the fiscal year 2022 reporting deadline. Therefore, according to DOL, OMB allowed additional time to conduct this analysis and report on PUA outcomes in fiscal year 2023.

[25]BAM is a statistical survey used to identify and support resolutions of deficiencies in a state's UI system. BAM is also used to identify the root causes of improper payments and supports other analyses conducted by DOL to identify improper payment prevention strategies and measure progress in meeting improper payments reduction strategies.

those caused by fraudulent activity.[26] Additional details, along with a discussion of limitations of the BAM program, are presented below.

Before the pandemic, DOL regularly reported billions of dollars in annual estimated improper payments in UI. It reported an increase from $8.0 billion (9.2 percent improper payment rate) for fiscal year 2020 to $78.1 billion (18.9 percent improper payment rate) for fiscal year 2021.[27] For fiscal year 2022, DOL reported estimated improper payments of $18.9 billion (22.2 percent improper payment rate).[28] Improper payments could suggest that a program may be vulnerable to fraud. However, improper payments represent all overpayments and underpayments resulting from any type of intentional or unintentional error, and this amount is not a valid indicator of the extent of fraud in a particular program.

Fraud and Fraud Risk Management

Fraud involves obtaining something of value through willful misrepresentation, which is determined through the judicial or other adjudicative systems.[29] DOL's OIG reported in November 2021 that fraud—specifically claimants who received UI benefits through fraudulent schemes such as those perpetrated during the COVID-19 pandemic—

[26]Reviewer determinations of an error caused by fraudulent activity do not constitute a formal legal adjudication. However, according to DOL officials, some state BAM units are able to establish—complete an investigation and make a determination of fraud—errors caused by fraud.

[27]DOL's OIG reported that an independent auditor had concluded that DOL had not met three of the six requirements for compliance with the Payment Integrity Information Act for the UI program for fiscal year 2021. Department of Labor, Office of Inspector General, *The U.S. Department of Labor Did Not Meet the Requirements for Compliance with the Payment Integrity Information Act for FY 2021*, Report No. 22-22-007-13-001 (Washington, D.C.: July 1, 2022).

[28]As of November 28, 2022, DOL's OIG had not yet reported on DOL's compliance with the Payment Integrity Information Act for fiscal year 2022. As described above, DOL's fiscal year 2022 improper payment estimates do not include PUA claims.

[29]According to DOL, because states may use different definitions for categorizing an overpayment as fraudulent, an overpayment that is classified as fraudulent in one state might not be classified as fraudulent in another state.

was one of the leading causes of improper payments. However, it did not report on a specific amount of fraud, as we discuss below.[30]

In October 2021, we found that fraudulent and potentially fraudulent activity in the UI program increased substantially after implementation of the pandemic UI programs, relative to the amount of such activity in the regular UI program before the pandemic.[31] The increased amount of benefits awarded and the PUA program's initial reliance on self-certification, as discussed below, gave criminals incentive and opportunities to commit fraud. DOL officials also identified other factors—including significant increases in claims workload, new and inexperienced staff, and quick implementation of new programs—that provided additional opportunities for exploitation of program and system vulnerabilities. In addition, DOL officials stated that the UI programs during the pandemic were a key target for fraud because fraudsters could receive a large amount of money in one payment.

In its fiscal year 2020 *Agency Financial Report,* DOL acknowledged an increase in potentially fraudulent activity related to organized fraud schemes targeting the pandemic UI programs.[32] Moreover, according to National Association of State Workforce Agencies (NASWA) officials, the UI system has faced unrelenting attacks by foreign organized crime groups during the pandemic.[33] Also, in a March 2021 press release, the U.S. Secret Service noted that its early investigation and analysis indicated that international organized criminal groups have targeted UI funds using stolen identities to file for UI benefits.

Our prior review of DOL OIG reports, state audits, and DOJ cases identified several fraud risks in the UI programs and identified factors

[30]Department of Labor, *Agency Financial Report, Fiscal Year 2021* (Washington, D.C.: November 19, 2021). As reported in DOL's Benefit Accuracy Measurement Data Summary for performance year 2021, leading causes of improper payments included unreported or misreported benefit year earnings, issues involving the claimant's reasons for separating from work, and other eligibility issues. These other eligibility issues include refusal of suitable work, self-employment, a noncitizen not authorized to work, and when a claimant filed a UI claim using the identity of another person. DOL also identified these causes as contributing to the fraud rate.

[31]GAO-22-105051.

[32]Department of Labor, *Agency Financial Report Fiscal Year 2020* (Washington, D.C.: November 16, 2020).

[33]NASWA represents all 50 SWAs, the District of Columbia, and U.S. territories.

contributing to fraud risk.[34] Specifically, we identified several fraud cases that relied on a variety of mechanisms, which illustrate some of the fraud risks in pandemic UI programs:[35]

- applicants' falsifying information on income or employment eligibility to receive benefits;
- applicants' using stolen identities or personally identifiable information to apply for benefits or receive benefits;
- applicants' applying for, or receiving, benefits by using fake identity information;
- applicants' submitting fraudulent claims or erroneously receiving benefits in multiple states;
- prison inmates' applying for benefits while misrepresenting their eligibility; and
- current or former federal or state or territory employees' misusing their positions to fraudulently obtain benefits for themselves or others.

In addition, the DOL OIG reported in October 2020 that the PUA program in particular was at high risk for fraud due to its unique program rules and eligibility requirements.[36] Specifically, the CARES Act allowed PUA applicants to self-certify their eligibility and did not require them to provide any documentation of self-employment or prior income. In October 2021, we reported that relying on program participants to self-report and self-certify information on agency forms, instead of verifying such information independently, could cause an agency to miss opportunities to prevent program fraud and abuse.[37] To help address this risk, the Consolidated Appropriations Act, 2021, enacted in December 2020, included a requirement for individuals to submit documentation of employment or self-employment when applying for PUA. In addition, the expanded coverage offered under the PUA program posed significant challenges to states as they implemented processes to determine initial and continued program eligibility for participants. PUA claims accounted for a significant

[34]GAO-22-105051.

[35]The fraud risks identified in this report do not constitute an exhaustive list of all fraud risks affecting the UI programs.

[36]Department of Labor, Office of Inspector General, *COVID-19: States Cite Vulnerabilities in Detecting Fraud While Complying with the CARES Act UI Program Self-Certification Requirement*, Report No. 19-21-001-03-315 (Washington, DC: October 21, 2020).

[37]GAO-22-105051.

portion of UI claims, especially during the beginning of the pandemic. For example, DOL reported that PUA claims comprised over 40 percent of 3,256,000 UI claims submitted nationwide within the week ending May 23, 2020.

The objective of fraud risk management is to help ensure program integrity by continuously and strategically mitigating both the likelihood and effects of fraud. When fraud risks can be identified and mitigated, fraud may be less likely to occur. Although the occurrence of fraud indicates there is a fraud risk, a fraud risk can exist even if actual fraud has not yet occurred or been identified. Effectively managing fraud risk helps to ensure that federal programs' services fulfill their intended purpose—that funds are spent effectively, and that assets are safeguarded. Executive branch agency managers are responsible for managing fraud risks and implementing practices for combating those risks.

Recognizing fraud risks and deliberately managing them in an emergency environment can help federal managers safeguard public resources while providing needed relief. Managers may perceive a conflict between their priorities to fulfill the program's mission—such as efficiently disbursing funds or providing services to beneficiaries, particularly during emergencies—and taking actions to safeguard taxpayer dollars from improper use. However, the purpose of proactively managing fraud risks, even during emergencies, is to facilitate, not hinder, the program's mission and strategic goals by ensuring that taxpayer dollars and government services serve their intended purposes.

In July 2015, we issued the Fraud Risk Framework, which provides a comprehensive set of key components and leading practices that serve as a guide for agency managers to use when developing efforts to combat fraud in a strategic, risk-based way.[38] The Fraud Reduction and Data Analytics Act of 2015 required the Office of Management and Budget (OMB) to establish guidelines for federal agencies to create controls to identify and assess fraud risks and to design and implement anti-fraud control activities.[39] The act further required OMB to incorporate the leading practices from the Fraud Risk Framework in the guidelines. Although the Fraud Reduction and Data Analytics Act of 2015 was

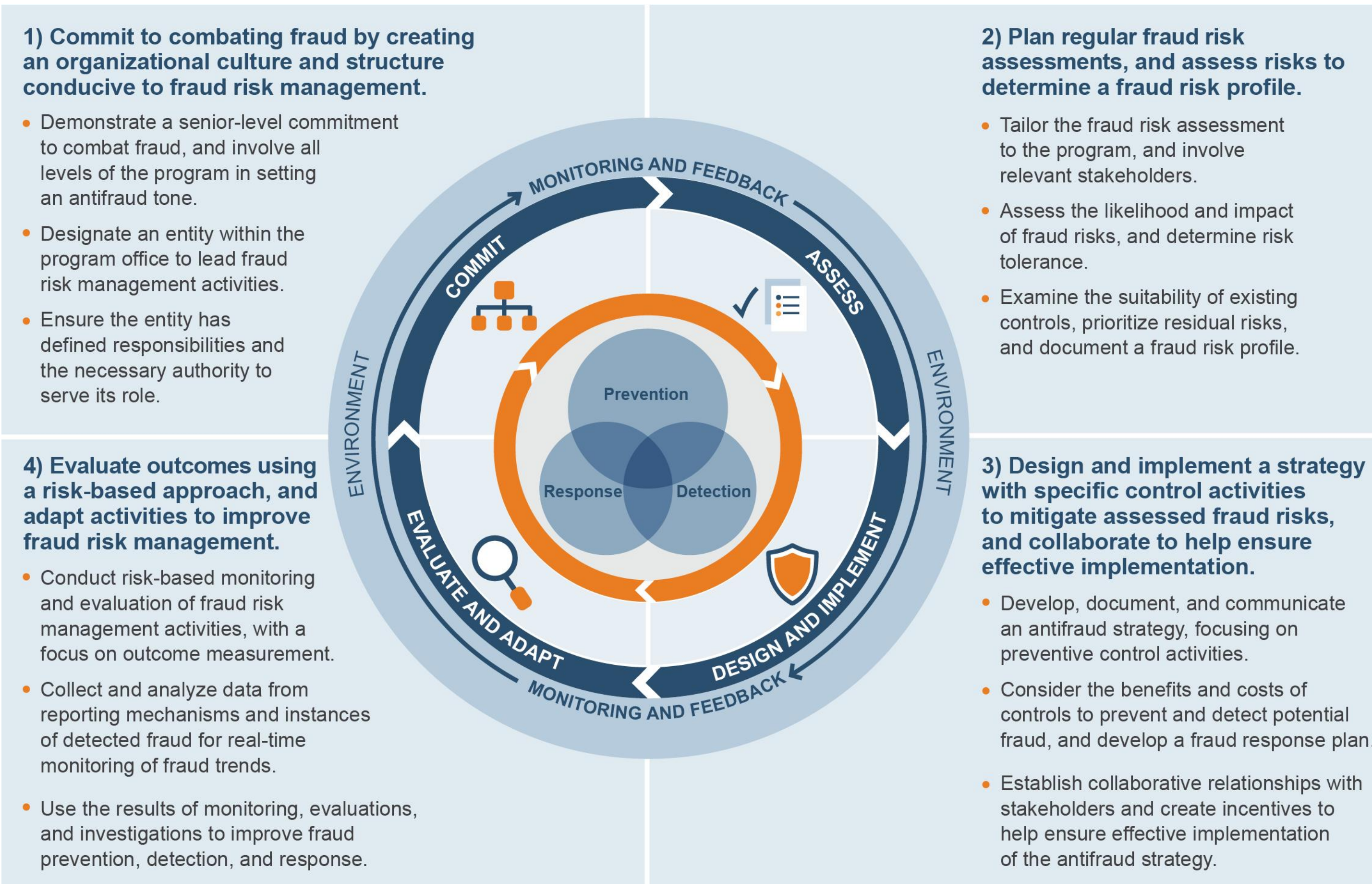
[38]GAO-15-593SP.

[39]Pub. L. No. 114-186, 130 Stat. 546 (2016).

repealed in March 2020, the Payment Integrity Information Act of 2019 requires these guidelines to remain in effect, subject to modification by OMB as necessary, and in consultation with GAO.[40] As depicted below in figure 1, the Fraud Risk Framework describes leading practices within four components: commit, assess, design and implement, and evaluate and adapt.

[40]Pub. L. No. 116-117, § 2(a), 134 Stat. 113, 131 - 132 (2020), codified at 31 U.S.C. § 3357. In October 2022, OMB issued a Controller Alert reminding agencies that consistent with the guidelines contained in OMB Circular A-123, which are required by Section 3357 of the Payment Information Integrity Act of 2019, Pub. L. No. 116-117, they must establish financial and administrative controls to identify and assess fraud risks. In addition, OMB reminds agencies that they should adhere to the leading practices in GAO's Fraud Risk Management Framework as part of their efforts to effectively design, implement, and operate an internal control system that addresses fraud risks. OMB, CA-23-03, *Establishing Financial and Administrative Controls to Identify and Assess Fraud Risk*, (October 17, 2022).

Figure 1: The Four Components of the Fraud Risk Framework and Selected Leading Practices



Source: GAO. | GAO-23-105523

In October 2021, we found that DOL had taken steps to prevent and detect fraud in UI programs and had ongoing program integrity activities to identify risk.[41] However, DOL had not comprehensively assessed fraud risks in alignment with leading practices identified in the first and second components of the Fraud Risk Framework. We made six recommendations that DOL take actions to designate a dedicated antifraud entity and comprehensively assess UI fraud risks in alignment with leading practices. DOL neither agreed nor disagreed with these recommendations. As of December 15, 2022, all six of these

[41] GAO-22-105051.

recommendations remain open. We discuss the status of these recommendations in more detail later in this report.

This report focuses on two leading practices within the third component of the Fraud Risk Framework that are contingent upon creating a fraud risk profile:

(1) using the fraud risk profile to help decide how to allocate resources to respond to residual fraud risks and

(2) developing, documenting, and communicating an antifraud strategy to employees and stakeholders that describes the program's activities for preventing, detecting, and responding to fraud.

Federal and State Measures and Estimates Indicate Substantial Fraud and Potential Fraud in UI Programs during the Pandemic but Do Not Fully Reflect the Extent of Fraud

Considered together, measures—counts of detected activities—and estimates—projections or inferences based on measures, assumptions, or analytical techniques—indicate substantial levels of fraud and potential fraud in UI programs during the pandemic. Federal and state entities have produced several fraud and fraud-related measures and estimates of UI fraud during the pandemic. These measures and estimates reflect a variety of characteristics and potential indicators of fraud. While each type of measure and estimate has strengths and limitations, as described below, none completely and reliably indicates the extent of fraud in UI programs during the pandemic.

Based on one fraud measure—the amount of payments associated with a formal determination of fraud reported by SWAs—UI fraud during the pandemic is at least $4.3 billion according to state reporting from April 2020 through June 2022. However, this figure does not account for potential fraud that has not yet been formally determined as such. Based on one fraud-related measure—cases flagged by the DOL OIG as potentially fraudulent—at least $45 billion in UI payments from March 2020 through April 2022 have some indication of potential fraud in four high-risk areas.[42] However, some of the flagged transactions may not be fraudulent and not all fraudulent transactions may be flagged. As a result, this fraud-related measure can be used to identify certain types of transactions that may be indicative of potential fraud, but cannot be interpreted directly as a measure of the extent of fraud in the UI programs during the pandemic.

In addition to fraud and fraud-related measures, estimates can be used to approximate the extent of fraud and potential fraud beyond what can be directly counted. Although no national estimate of UI fraud has been reported that covers all UI programs and the full period of pandemic spending, DOL has reported estimates of fraud for regular UI payments. These estimates of fraud for regular UI payments, in combination, amount to about $8.5 billion for performance year 2021, covering July 1, 2020 through June 30, 2021. This represents a fraud rate of almost 8.6 percent for the period for the regular UI program.[43] If the lower bound of this fraud rate (7.6 percent) was extrapolated to total spending across all UI

[42]Department of Labor, Office of Inspector General, *Alert Memorandum: Potentially Fraudulent Unemployment Insurance Payments in High-Risk Areas Increased to $45.6 Billion*, Report No. 19-22-005-03-315 (Washington, D.C.: September 21, 2022). DOL OIG conducted analysis on UI claims data in four high-risk areas: (1) multi-state claimants; (2) Social Security Numbers of the deceased; (3) federal prisoners; and (4) suspicious email accounts.

[43]DOL uses its BAM program to estimate the amount and rate of improper payments, including those caused by fraud. As discussed in greater detail in table 3, there are limitations associated with these estimates. For example, the BAM program did not cover the start of the pandemic due to a 3-month suspension of testing. Also, the BAM program does not include payments for the pandemic UI programs and the estimates did not include an estimate for PUA. In October 2020, the DOL OIG reported that the PUA program in particular was at high risk for fraud due to its unique program rules and eligibility requirements. Department of Labor, Office of Inspector General, Report No. 19-21-001-03-315.

programs during the wider pandemic period, it would suggest over $60 billion in fraudulent UI payments.[44]

Fraud measures. Fraud measures are based on cases resolved via adjudicative process or other formal determinations of fraud. According to one fraud measure—the amount of payments associated with a formal determination of fraud reported by SWAs—$4.3 billion in fraudulent UI payments have been made during the pandemic from April 2020 through June 2022. Fraud measures do not include fraudulent activity that is undetected or yet to be adjudicated or formally determined to be fraud, and therefore reflects an incomplete picture of the extent of fraudulent activity. Table 1 describes examples of federal and state entities' UI fraud measures, and the associated key strengths and limitations.

Table 1: Examples of Federal and State Entities' Unemployment Insurance (UI) Fraud Measures and Key Strengths and Limitations

	Description	
Proven fraud	Measure based on cases resolved via adjudicative process or other formal determination of fraud.	
	Key strengths	**Key limitations**
	Represents a legal or formal determination of fraud. Unlikely to count non-fraud.	Significantly understates fraudulent activity due to limited resources to investigate, prosecute, and adjudicate cases and the difficulties inherent in proving guilt.

[44]This approach relies on data from a manual file review of a statistical sample and falls under the extrapolation from rates method described in table 3, and should be considered in line with the limitations of both methods. To help account for these limitations and the rough nature of our estimate, we rounded down to the nearest $10 billion. To specifically address the uncertainty arising from the BAM program's use of statistical sampling, we used the lower limit of the BAM estimate. The available measures and estimates support the use of the 2021 BAM fraud rate as an approximate lower, but not upper limit of the fraud rate for all UI programs and the full period of pandemic spending. The actual amount of fraud in UI programs during the pandemic may be substantially higher than the estimated lower limit reported here. As noted in the next section, extrapolation is a technique that can offer a rough or notional estimate of fraud or potential fraud even if data on a specific measure or rate are unavailable, but may have limitations related to validity, accuracy, and completeness.

Examples of fraud measures

Count of cases adjudicated as fraud in court.

- From March 2020 through July 2022, at least 308 individuals have pleaded guilty to federal fraud-related charges related to UI programs brought by the Department of Justice (DOJ) and at least two individuals have been convicted at trial of related charges.[a]
- According to a December 2021 press release from Michigan's state workforce agency (SWA), nine people had pleaded guilty or been convicted of UI fraud, and three had been sentenced based on the work of the Attorney General's Michigan UI Fraud Task Force.

Count of fraud overpayments from cases resolved via formal determination of fraud.

- From April 2020 through June 2022, SWAs reported about $4.3 billion in overpayments from fraud across the UI programs, including about $1.6 billion from Pandemic Unemployment Assistance (PUA), $1.6 billion from Federal Pandemic Unemployment Compensation, $0.9 billion from the regular UI and Extended Benefits programs, and $0.2 billion from Pandemic Emergency Unemployment Compensation.[b]

Source: GAO analysis of fraud measures and Nobelus/stock.adobe.com (icon). | GAO-23-105523

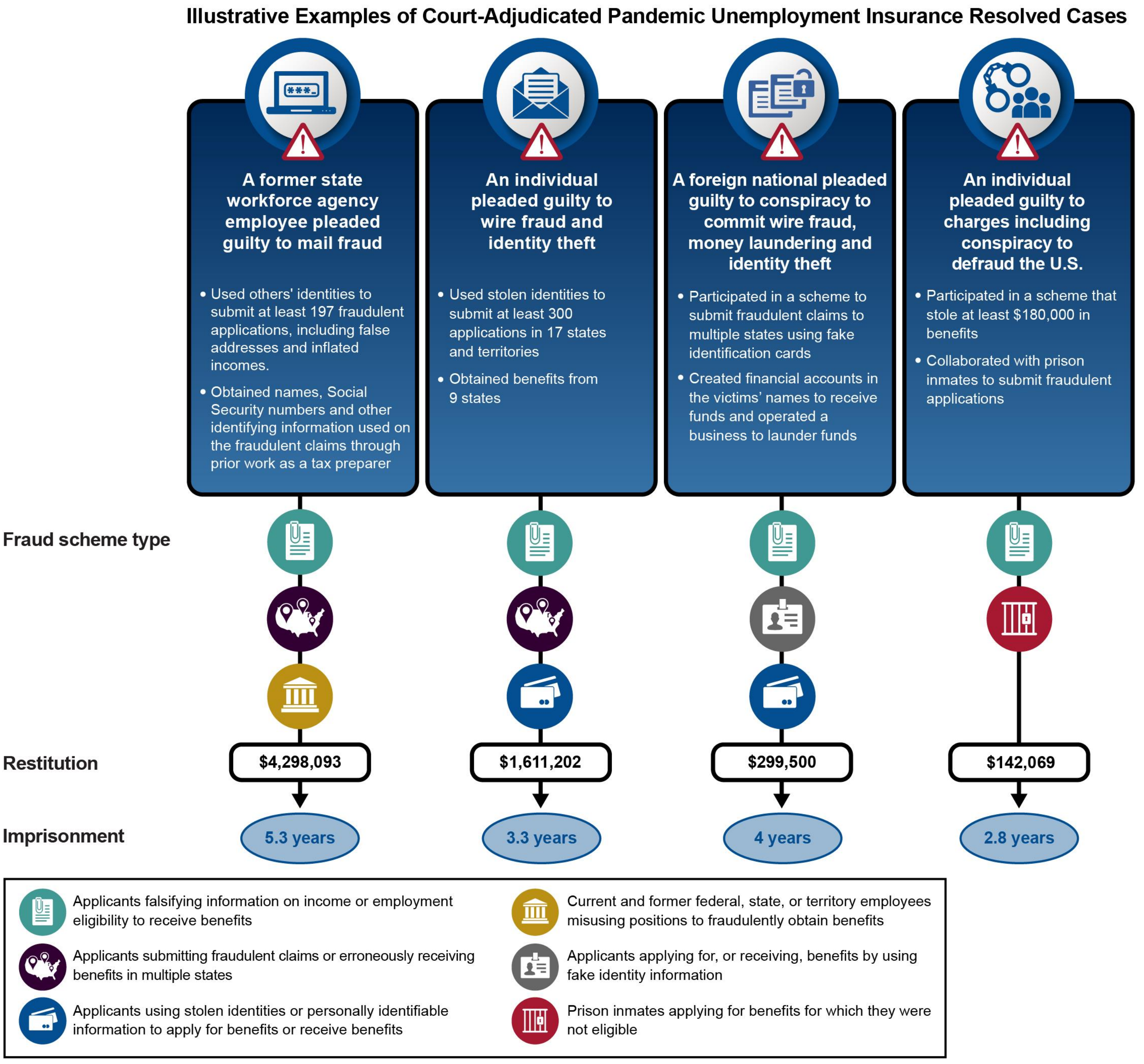
[a]This analysis is limited to the DOJ cases we identified from public sources, which may not include all criminal and civil cases charged by DOJ as of July 31, 2022. In technical comments on a draft of this report, DOJ officials indicated that the Executive Office for United States Attorneys' (EOUSA) data show that 296 individuals pleaded guilty to UI-related charges between March 2020 and July 2022. However, DOJ officials also stated that EOUSA's statistics are not inclusive of other DOJ components. In addition, EOUSA's case management system can provide information about convictions at trial for pandemic fraud cases generally, but it does not have the ability to identify UI fraud convictions following a trial. Of these 310 individuals, 207 have been sentenced as of July 31, 2022.

[b]Because states may use different definitions, an overpayment that is classified as fraudulent in one state might not be classified as fraudulent in another state. We accessed the fraud overpayments data on August 24, 2022; these data are subject to change as more states report data and as states revise previously reported data. The total PUA amount shown also includes fraud overpayments related to identity theft.

One of the fraud measures described in the table above includes cases of UI fraud adjudicated in federal court. These cases vary by fraud scheme, charges filed, sentences and restitution amounts, and the details can provide valuable information to better understand UI fraud.[45] Figure 2 provides examples of court-adjudicated UI cases during the pandemic and related fraud risks, charges, sentences, and restitution amounts.

[45]While restitution can be a fraud measure for the specific case being prosecuted, there are limitations associated with a fraud measure based on combining restitution amounts across cases. For example, multiple parties might share the responsibility of paying restitution. Additionally, the amount of restitution ordered may not be the same as the amount that was fraudulently obtained. Further, restitution is not always likely to be paid. We previously reported that collecting federal criminal restitution is a long-standing challenge. GAO, *Federal Criminal Restitution: Department of Justice Has Ongoing Efforts to Improve Its Oversight of the Collection of Restitution and Tracking the Use of Forfeited Assets,* GAO-20-676R (Washington, D.C.: September 30, 2020).

Figure 2: Examples of Court-Adjudicated Unemployment Insurance Cases during the Pandemic and Related Fraud Risks, Charges, Sentences, and Restitution Amounts



Source: GAO analysis of Department of Justice information and freebird/stock.adobe.com (icons). | GAO-23-105523

Fraud-related measures. Fraud-related measures are counts of potentially fraudulent activities that have not yet been determined to be fraud via adjudicative or another formal determination. One such measure suggests that at least $45 billion in payments from March 2020 through April 2022 have at least some indication of potential fraud based on four high-risk areas. This measure suggests that there is a substantial amount of potential fraud in UI programs, but does not reflect what share of that potential fraud is actually fraudulent.[46]

Fraud-related measures represent counts of indicators of potential fraud, such as the number of cases flagged by internal control systems, reported through fraud hotlines, or under investigation. However, because fraud-related measures may both overstate (false positives) and understate (false negatives) potential fraud, they are generally not valid or reliable indicators of the extent of fraud. For example, the $45 billion potential fraud measure described above potentially understates fraud because it only includes the four high-risk areas. However, at the same time, it may also overstate fraud because it may include flagged cases that, if investigated and adjudicated, could be determined not to be fraudulent.

As described in the fraud measures section above, the risk of undercounting fraud is very high with adjudicated cases, while the risk of false positives is very low. Among fraud-related measures, the risk of false positives generally increases as more of the potentially undercounted fraud is captured. Specifically, potential fraud that the government investigated and took some action to remedy but did not adjudicate, or has not yet adjudicated, likely captures more fraudulent activity than fraud measures do, but also likely captures some cases that are not fraud. In addition, potential fraud that is reported but has not yet gone through due process may provide some greater sense of other cases yet to be adjudicated, but also potentially includes more false

[46]Department of Labor, Office of Inspector General, *Alert Memorandum: Potentially Fraudulent Unemployment Insurance Payments in High-Risk Areas Increased to $45.6 Billion*, Report No. 19-22-005-03-315 (Washington, DC: September 21, 2022). This is likely an understatement of the extent of potential fraud because the analysis is limited to identifying potential fraud in four high-risk areas: (1) multi-state claimants; (2) Social Security Numbers of the deceased; (3) federal prisoners; and (4) suspicious email accounts. DOL officials told us that it is likely that there is significant fraud outside of these four categories. For example, DOL OIG officials noted that while the OIG's investigative work has seen thousands of instances of claims filed using stolen identities during its investigations, this analysis does not include stolen identities.

positives. Furthermore, flagged transactions identified through data analytics can be produced with relatively few resources compared to prosecutions and investigations.[47] However, these flagged transactions may still fail to capture fraudulent activity for which identification tools have not been developed and will likely capture the most non-fraudulent activity. Table 2 describes examples of federal and state entities' UI fraud-related measures, and the associated key strengths and limitations.

Table 2: Examples of Federal and State Entities' Unemployment Insurance (UI) Fraud-Related Measures and Key Strengths and Limitations

Measure	Description	Key strengths	Key limitations	Examples of fraud-related measures
Cases accepted for prosecution	Measure based on counts of potential fraud cases brought by the Department of Justice (DOJ) or other prosecutorial agencies.	Likely to capture fraudulent activity not yet included in the proven fraud category, with relatively low likelihood of counting non-fraud.	May also include cases that do not involve fraud. Likely omits many cases that are fraudulent.	*Count of cases with charges filed.* • Since March 2020, DOJ has publicly announced charges related to UI fraud. As of July 31, 2022, at least 226 individuals are facing federal fraud-related charges related to UI.[a] • As of September 2022, the Department of Labor (DOL) Office of Inspector General (OIG) reported that its investigations have resulted in charging more than 1,000 individuals with crimes involving UI fraud since March 2020. • The Pennsylvania Attorney General's office had brought charges against 56 individuals as of June 2022 for theft and related charges arising from fraudulent applications for PUA, according to an official from this office. • In Michigan, according to a press release from the state workforce agency (SWA), 54 individuals were charged with UI fraud by either state or federal authorities as of December 2021.[b] • According to an official with the Colorado Attorney General's office, from June 2021 through June 2022, Colorado's SWA referred 31 cases of potential UI fraud involving 77 claims to state prosecutors, with the related restitution sought for these cases totaling over $800,000.
Cases accepted for investigation	Measure based on counts of investigative actions by law enforcement or other investigative agencies.	Some indication that knowledgeable law enforcement experts find sufficient evidence of potential fraud to warrant an investigation. This method may provide some sense of other cases yet to be adjudicated or charged.	Similar to proven fraud and cases accepted for prosecution, with a greater risk of including cases that are not fraudulent. Likely omits cases that are fraudulent.	

[47] Data analytics can include predictive analytics, data mining, and data matching techniques that enable programs to identify potential fraud or improper payments, either prior to or after payments are made. See GAO, *A Framework for Managing Fraud Risks in Federal Programs*, GAO-15-593SP (Washington, D.C.: July 2015).

Examples of fraud-related measures

Count of ongoing investigative actions.

- From the start of the pandemic through March 2022, the U.S. Secret Service had investigated approximately 930 cases related to fraud in UI programs in coordination with DOL OIG and other members of the National Unemployment Insurance Fraud Task Force (NUIFTF).[c]
- Colorado's SWA had 55 active potential fraud investigations as of June 15, 2022, according to an official with the Colorado Attorney General's office.
- California's SWA reported that a total of 1,525 investigations related to UI fraud had been conducted within the past 15 months, according to a June 2022 press release.

Dollar value of overpayments associated with cases under investigation for fraud.

- As of March 2022, NUIFTF had generated 92 leads related to potential UI fraud since the beginning of the pandemic, according to an NUIFTF official. Based on these leads, the NUIFTF identified a cumulative total loss of over $300 million for fiscal year 2021 and over $100 million in fiscal year 2022.
- As of June 2022, DOL OIG UI investigations have resulted in over $850 million in investigative monetary results. The DOL OIG has also referred over 10,000 fraud matters that do not meet federal prosecution guidelines back to SWAs for further action.

Applications flagged for potential fraud

Description

Measure based on applications for UI benefits flagged as potentially fraudulent through internal controls, data analytics, or referrals.

Key strengths	Key limitations
Computer-aided detection, including comparisons to outside records, allows for an efficient review of cases using multiple indicators or flags. May be used by various federal and state entities, which creates opportunities for additional links among data sources that could enhance analytic capabilities.	Lack of complete or reliable data for known flags of potential fraud, or fraud schemes for which no flags have been developed, may limit ability to identify potentially fraudulent payments. Design of specific flags may capture more non-fraudulent activity than measures of cases accepted for investigations. Design of flags likely varies across implementing entities.

Examples of fraud-related measures

Count of claims identified through internal controls or data analytics as potentially fraudulent.

- Based on a comparison with records of deceased individuals, incarceration data, and other ineligible groups, the Colorado state auditor identified 8,200 claims as likely or potentially fraudulent between March 2020 and April 2021.

Count of total dollars associated with potentially fraudulent claims.

- In September 2022, the DOL OIG reported a total of about $45 billion in potentially fraudulent payments from March 2020 through April 2022. The OIG identified these potentially fraudulent payments using data analytics to detect suspicious payments involving multi-state claimants, Social Security Numbers of the deceased, federal prisoners, and suspicious email accounts.[d]
- In April 2021, Washington's state auditor reported that it identified almost $643 million in claims submitted using stolen identities. In addition, the state auditor reported that it identified over $460 million in potentially fraudulent claims. It identified these claims based on data for certain characteristics it identified as correlated with fraud, such as evidence of potentially stolen identities.[e]
- The Colorado state auditor identified $73.1 million in likely or potentially fraudulent payments between March 2020 and April 2021.[f]

Source: GAO analysis of fraud-related measures and Nobelus/stock.adobe.com (icons). | GAO-23-105523

[a]This analysis is limited to the DOJ cases we identified from public sources, which may not include all criminal and civil cases charged by DOJ as of July 31, 2022. This is in addition to the individuals who

have already pleaded guilty or been convicted at trial. The number of individuals facing UI fraud-related charges has continued to grow in the past two years and will likely increase, as these cases take time to develop. The statute of limitations for mail fraud and wire fraud prosecutions is 5 years (18 U.S.C. § 3282), except for mail and wire fraud schemes that affect a financial institution, in which case the statute is 10 years (18 U.S.C. § 3293). Also, based on our analysis, these cases can take many years to resolve. In technical comments on a draft of this report, DOJ officials indicated that the Executive Office for United States Attorneys' (EOUSA) data show 574 individuals faced UI charges as of July 31, 2022. This does not include data from other DOJ components.

[b]In addition to these 54 individuals charged, as noted earlier, nine people have pleaded guilty or been convicted of UI fraud, and three have been sentenced.

[c]NUIFTF is a prosecutor-led, multi-agency task force with representation from federal and state agencies that collaborate to investigate and prosecute UI fraud.

[d]In September 2022, DOL OIG reported an updated amount of potentially fraudulent payments. In analyses for earlier reporting, DOL OIG reviewed potentially fraudulent payments involving federal prisoners. However, in its September 2022 reporting, DOL OIG noted that it did not have access to DOJ's Bureau of Prisons data to determine an increase in potential fraudulent payments related to federal prisoners. *Alert Memorandum: Potentially Fraudulent Unemployment Insurance Payments in High-Risk Areas Increased to $45.6 Billion*, Report No. 19-22-005-03-315 (September 21, 2022).

[e]In technical comments on a draft of this report, officials from the Employment Security Department of the State of Washington noted that March 2020 yielded a large number of fraudulent claims. However, the state has since implemented additional controls to reduce fraud.

[f]In technical comments on a draft of this report, Colorado Department of Labor and Employment officials noted that the potential fraud identified by the state auditor was based on fraud indicators developed by the state auditor. According to officials, the department cross-referenced the potential fraud found by the auditors with its indicators and found that many instances of fraud had already been identified and others had been determined not to be fraudulent after investigation. The department continues to actively investigate reports of fraud.

Taken together, the fraud and fraud-related measures described above indicate substantial fraud and potential fraud in UI programs during the pandemic. As described above, fraud measures reported by states indicate that UI fraud during the pandemic exceeds $4 billion and fraud-related measures suggest that at least $45 billion in payments have some indication of potential fraud. However, existing fraud and fraud-related measures do not reliably indicate the extent of fraud, due to the various concerns regarding false positives and false negatives described above.

Moreover, because various fraud and fraud-related measures focus on unique aspects of fraud and potential fraud, use different time periods, and rely on different approaches, they cannot be added together to meaningfully reflect the extent of fraud. For example, combining one source that identifies a number of cases under investigation with another source that identifies the dollar value of recoveries associated with adjudicated cases is not meaningful. Combining these sources is not meaningful because (1) the cases and dollars are not compatible units of analysis and (2) potential fraud under investigation counts cases that might be fraud while adjudicated cases count cases that have already been determined to be fraud. As described in the next section, estimation can attempt to address both the undercounting of fraud that results from fraud measures and the uncertainty about the extent of fraud indicated by fraud-related measures.

Fraud and fraud-related estimates. Estimates can be used to approximate the extent of fraud and potential fraud beyond what can be directly counted. For example, estimates attempt to account for the variation among and limitations of fraud and fraud-related measures, as described above. As noted above, no national estimate of UI fraud has been reported that covers all UI programs and the full period of pandemic spending. However, DOL has reported state-level estimates of fraud in the regular UI program that, in combination, amount to about $8.5 billion for performance year 2021, which covers July 1, 2020 through June 30, 2021.[48] This represents a fraud rate of almost 8.6 percent for the regular UI program for the period.

Fraud and fraud-related estimates vary in the method used, scope, and purpose. Further, each estimate faces challenges related to validity, accuracy, and completeness, which often limits the ability to meaningfully combine them. Available estimates provide additional evidence of substantial levels of UI fraud and potential fraud during the pandemic, but none completely or reliably indicates the extent of fraud in UI programs. Table 3 describes examples of methods used by federal and state entities to estimate the extent of UI fraud and potential fraud, and the related key strengths and limitations.

[48]DOL's fiscal year reporting is based on information gathered for this performance year.

Table 3: Examples of Methods Used to Estimate Extent of Unemployment Insurance (UI) Fraud and Potential Fraud at the Federal and State Levels and Key Strengths and Limitations

Extrapolation from rates

Description

Estimation based on either calculating or using an existing rate of fraud or potential fraud for one population (i.e., selected programs or time periods), and applying it to a new population.[a]

Key strength

Potential for a rough or notional estimate of fraud or potential fraud even if data on a specific measure or rate are unavailable.

Key limitations regarding validity, accuracy, and completeness

Limitations regarding validity	*Limitations regarding accuracy*	*Limitations regarding completeness*
There are a wide variety of rates that represent different things (for example, the proportion of flagged applications to the total population, or overpayments related to adjudicated fraud as a proportion of all payments). Sometimes reports are not clear about the rate used, so a reader will have to determine if the rate refers to an aspect of adjudicated fraud or potential fraud, and whether the rate represents a direct measure or estimate.[b]	The limitations associated with each type of measure and estimate still exist (i.e., extrapolation from rates based on measures that undercount fraud will also undercount fraud). Moreover, changes in the nature of programs and fraud may limit the ability of prior rates to accurately reflect current rates.	Because rates based on fraud and fraud-related measures and estimates do not account for all fraud, extrapolations of these rates similarly do not provide a complete picture.

Examples

- New Mexico's state auditor estimated that New Mexico's state workforce agency (SWA) made $250 million in overpayments—of which $133 million were the result of fraud—from the week ending on April 18, 2020 through the week ending on April 17, 2021. To develop this estimate, the state auditor multiplied the 2020 overpayment rate by the total benefit amounts for regular UI, Federal Pandemic Unemployment Compensation (FPUC), Pandemic Unemployment Assistance (PUA), and temporary compensation paid.[c] The state auditor then multiplied the 2020 fraud rate by the estimated total benefits amount.
- The Department of Labor (DOL) Office of Inspector General (OIG) applied the fiscal year 2021 DOL-reported improper payment rate of 18.71 percent to its estimate of $872.5 billion in pandemic UI payments. It assumed that the pandemic rate of improper payments would be this high, in order to conclude that at least $163 billion in pandemic UI benefits could have been paid improperly.[d] The OIG further speculated that a significant portion of these estimated improper payment amounts could be attributable to fraud. However, there is no evidence or data to quantify the portion attributable to fraud.

  The DOL OIG's improper payment estimate of $163 billion was based on the regular UI program and has limitations regarding validity, accuracy, and completeness described above. For example, the information required to claim UI benefits under the PUA program differed greatly from regular UI. One difference was that claiming UI benefits under the PUA program did not require employer certification for self-employed individuals. This could have impacted the total number of people who would apply for benefits and the proportion that might attempt to do so fraudulently, both of which would result in a different rate of fraudulent applications. The lack of certification required may make it more difficult to validly determine whether a claim was fraudulent, and may make it hard to determine how different these rates may be. Moreover, the CARES Act allowed PUA applicants to self-certify their eligibility and did not require them to provide any documentation of self-employment or prior income.

Manual file review of a statistical sample

Description

Estimation based on a trained reviewer analyzing a statistically-generated sample of claims with results generalized to the full population.

Key strength

A statistical sample can serve as a valid representation of the entire population. Sampling allows reviewers to invest more resources in researching sampled cases than would be possible if every item had to be reviewed.

Key limitations regarding validity, accuracy, and completeness

Limitations regarding validity	*Limitations regarding accuracy*	*Limitations regarding completeness*
The definitions and judgments of fraud may vary due to state differences, reviewer differences, and other factors.	Because reviews are highly dependent on the training and skill of the reviewer (i.e., they are resource intensive), it can be difficult to complete the required number of reviews needed for generalizability, or to thoroughly and accurately complete each review. Reviewers typically have less information than what would be gathered during investigative and adjudicative processes, which may limit their ability to accurately determine which cases are fraudulent.	To be complete, a sampling strategy must be validly generalizable to the intended population.

Examples

- Under DOL's Benefit Accuracy Measurement (BAM) program, each SWA reviews a number of randomly selected cases on a weekly basis and reconstructs the UI claims process to assess the accuracy of the payments that were made.[e] As part of these assessments, investigators survey or interview the claimant and all prior or current employers relevant to the claim. Once the investigation is complete, the BAM investigators categorize overpayments by cause, including fraud.

  In its BAM Data Summary for performance year 2021, DOL reported a total estimate of fraud in the regular UI program of about $8.5 billion with a fraud rate of almost 8.6 percent. The performance year covered July 1, 2020 through June 30, 2021 and the estimate was based on overpayments determined by investigators as caused by fraud.[f]

  An important limitation is that states may vary in how they define standards for fraud, train investigators, and validate judgments. As a result, some investigator determinations may be inaccurate, comparisons of rates across states may be misleading, and aggregation of state estimates into a total should be interpreted with these considerations in mind.

  It is also important to note other limitations to BAM fraud rate estimates during the pandemic. While these are limitations related to overall improper payment estimates, they also apply to the subset of estimated overpayments determined by investigators as caused by fraud.

  - *BAM program did not cover the start of the pandemic due to a 3-month suspension of testing*. For performance year 2020, DOL allowed states to suspend BAM assessments from April through June 2020 to enable the states to reassign staff to address increased claims volume.[g] As a result of suspending BAM, the DOL OIG reported that $64.3 billion (74 percent) of the total $86.9 billion of regular UI benefit payments went untested for that performance year. The DOL OIG report stated that DOL had met all the statutory criteria for compliance with the Payment Integrity Information Act of 2019 for fiscal year 2020.[h] For performance year 2021, DOL fully resumed BAM testing for improper payments.

- *BAM program does not include payments for the pandemic UI programs.* For performance years 2020 and 2021, the BAM program only included regular UI claims and did not include payments associated with pandemic UI programs. For fiscal year 2021 improper payment reporting, DOL applied the estimated improper payment rate from BAM to calculate the estimated improper payment amounts for FPUC and PEUC. The estimated improper payment amounts for these two programs were incorporated into the overall estimated improper payment amount for the UI program. However, this overall estimated improper payment amount for the UI program did not include an estimate for PUA. The CARES Act allowed PUA applicants to self-certify their eligibility and did not require them to provide any documentation of self-employment or prior income. In October 2021 we found that this was a factor that increased the possibility of fraud.[i]

On July 14, 2022, DOL announced its plan to estimate the rate of improper payments for PUA and to report a statistically valid national improper payment rate by fall 2022.[j] However, in its fiscal year 2022 reporting on paymentaccuracy.gov, DOL stated that in October 2022, the Office of Management and Budget (OMB) requested that DOL conduct further analysis of the outcomes recorded through the PUA case review process. In addition, according to DOL, OMB and DOL agreed to collaborate in conducting this additional analysis but DOL reported that it could not complete this analysis in time to meet the fiscal year 2022 reporting deadline. Therefore, according to DOL, OMB allowed additional time to conduct this analysis and report on PUA outcomes in fiscal year 2023.

- DOL OIG statistically sampled and reviewed claims from four selected states to identify pandemic-related UI funds paid improperly. Of the four states tested, from March 28, 2020, through September 30, 2020, DOL OIG estimated $9.9 billion of the $71.7 billion (almost 14 percent) in PUA and FPUC benefits were likely paid to fraudsters.[k]
- At the state level, an independent accounting firm engaged by the Michigan SWA used a sampling technique to identify potential UI fraud during the pandemic. Specifically, it drew a sample of 7,741 claims from March 1, 2020 to October 2, 2020 and 7,096 claims from October 3, 2020 to September 30, 2021 using 38 fraud risk indicators. The firm concluded that the SWA paid out an estimated $8.36 billion to $8.51 billion on potentially fraudulent claims but avoided paying out $28.7 billion on other potentially fraudulent claims. This estimate did not attempt to determine what proportion of potentially fraudulent payments were likely to be fraud.

Modeling or forecasting

Description

Estimate based on economic, statistical, and simulation models that rely on variables and data from data analytics, manual file reviews, or other statistical and administrative data.

Key strengths

A wide range of techniques can be used to correct for common technical issues (e.g. impute data, control for confounding variables, and account for probabilistic uncertainty).

Key limitations regarding validity, accuracy, and completeness

Limitations regarding validity	*Limitations regarding accuracy*	*Limitations regarding completeness*
There are a wide variety of ways to design and implement models and forecasts, and various design choices have impacts on the ability to validly estimate fraud.	Lack of consistent or complete data requires assumptions and imputations that may limit power and accuracy of models.	Extremely resource intensive to gather data from disparate sources and modify these sources so they can be used together. Resulting data may retain many of the limitations associated with each type of measure, as described above.

Example

- In Kansas, the state auditor's office used a machine learning technique to estimate UI fraud during the pandemic. Specifically, it used a neural network—a form of machine learning used to replicate human decision-making. To train and validate the neural network, state auditor staff manually reviewed a random sample of 1,000 unique claims to identify 26 potential indicators of fraud. Then, the state auditor ran the approximately 1.08 million unique claims received from January 2020 to February 2021 through the neural network. The neural network classified $380 million as potentially fraudulent, including $309 million that had been flagged by the state and $71 million not previously flagged.[l]

Source: GAO analysis of methods used to estimate the extent of UI fraud at the federal and state levels and rawku5/stock.adobe.com (icons). | GAO-23-105523

[a]A rate is generally expressed as the proportion of a measured or estimated value relative to an overall total.

[b]Some reports also use improper payment rates, which do not, and are not intended to, reflect fraud rates.

[c]This work was conducted by New Mexico's Legislative Finance Committee. The committee's role includes an audit function. While New Mexico has an Office of the State Auditor, for the purposes of this report, we refer to the Legislative Finance Committee as a state auditor.

[d]The DOL OIG's 18.71 percent improper payment rate does not include unknown payments. When unknown improper payments are included, the total improper payment rate is 18.92 percent. Larry D. Turner, Inspector General, DOL, Office of Inspector General, testimony before the U.S. Senate Committee on Homeland Security and Governmental Affairs, Number 19-22-003-03-315, March 17, 2022.

[e]DOL uses its BAM program to determine the accuracy of UI benefit payments and to estimate the amount and rate of improper payments, including the amount and rate of overpayments determined by investigators as due to fraud. The results of the BAM statistical samples are used to estimate accuracy rates for the populations of paid and denied claims.

[f]The BAM Data Summary for performance year 2022 was not available at the time of GAO's review.

[g]DOL's performance year for reporting improper payment estimates covers July 1 of the previous year through June 30 of the current year. For example, DOL's fiscal year 2020 improper payment estimate generally covers the performance year from July 1, 2019, through June 30, 2020. However, the sampling and investigation program was suspended for the quarter April 1, 2020, through June 30, 2020, because of operational flexibilities provided to states in response to the pandemic, according to DOL.

[h]In addition, DOL's OIG reported that DOL received direction from OMB to use the results from the first three quarters of the program year for its improper payment reporting in fiscal year 2020 and that DOL's decision to suspend fourth quarter program year testing was approved by OMB. DOL, OIG, *The U.S. Department of Labor Complied with the Payment Integrity Information Act for FY 2020, but Reported Unemployment Insurance Information Did Not Represent Total Program Year Expenses*, Report No. 22-21-007-13-001 (Washington, D.C.: August 6, 2021).

[i]To help address this risk, the Consolidated Appropriations Act, 2021, enacted in December 2020, included a requirement for individuals to submit documentation of employment or self-employment when applying for PUA. Pub. L. No. 116-260, div. N, tit. II, § 241(a), 134 Stat. 1182, 1959-60.

[j]Specifically, to calculate the PUA improper payment rate, DOL and state staff stated they would review a sample of PUA cases from 26 states, including the 10 states with the highest PUA outlays—representing 74 percent of all PUA outlays—and 16 randomly-selected states. DOL does not have plans to estimate improper payments for the MEUC program, according to officials, because the program only operated between January and September of 2021. Officials explained that in accordance with OMB guidance, DOL is not required to estimate or report improper payments for this program because it existed for less than one year.

[k]DOL OIG, *COVID-19: ETA and States Did Not Protect Pandemic-Related UI Funds from Improper Payments Including Fraud or From Payment Delays*, Report No. 19-22-006-03-315 (Washington, D.C.: September 30, 2022).

[l]As of September 2022, the Kansas SWA continues to review issues related to UI fraud.

As explained above, none of these estimates fully reflects the extent of UI fraud during the pandemic. Further, estimates are not available, alone or in combination, that cover the entire period of the pandemic or the entire UI system. Moreover, differences across individual state estimates in the approaches used, populations assessed, and time periods covered can prevent these estimates from being meaningfully combined into broader totals. For example, table 4 summarizes the approaches used, populations assessed, and time periods covered by three state-level reports.

Table 4: Summary of Approaches Used, Populations Assessed, and Time Periods Covered by Three State-Level Reports

Source of report	Approach used	Population assessed	Time period covered by reporting
Colorado state auditor	Measure of flagged cases using data analytics	Potential Fraud	March 2020 to April 20, 2021
Michigan state workforce agency	Estimate based on manual file review	Potential Fraud	March 1, 2020 to September 30, 2021
New Mexico state auditor	Estimate based on extrapolation from rates	Fraud	April 18, 2020 to April 17, 2021

Source: GAO summary of elements of three state-level reports on fraud and potential fraud. | GAO-23-105523

As summarized in table 4, the Michigan SWA's report on fraud includes an estimate of potential fraud based on a manual file review of a statistical sample covering claims from March 1, 2020 through September 30, 2021. In contrast, New Mexico's state auditor applied a primarily pre-pandemic fraud rate, taken from prior BAM estimates, to claims made between April 18, 2020 and April 17, 2021, in order to estimate fraud.

The Michigan SWA and the New Mexico state auditor reports used different approaches and are estimating two different populations. Specifically, the Michigan SWA's report estimates potential fraud (the number of transactions that would have any indicator of fraud if all were reviewed) and the New Mexico SWA estimates fraud (cases that, if adjudicated, would likely be fraudulent). Their estimates also have two different levels of reliability since the Michigan SWA's report estimate is based on a review of a statistical sample of pandemic claims, while the New Mexico state auditor's estimate is extrapolated from a fraud rate for primarily pre-pandemic claims. Therefore, attempting to combine these estimates into a broader total could be misleading due to differences in both the population estimated and the reliability of the estimate.

The limitations in combining estimates and measures potentially increase with each additional source. For example, the Colorado state auditor used data analytics to flag likely or potentially fraudulent benefits payments between March 2020 and April 20, 2021. Similar to the example above, the Colorado state auditor assessed potential fraud, which is not comparable to the New Mexico state auditor's estimate of fraud, and would likely make combining these two misleading. Moreover, because the Colorado state auditor reports a measure of potential fraud, while the Michigan SWA reports an estimate of fraud, any attempt to combine these two figures would require careful consideration of differences in reliability in order to ensure that the result is not misleading.

Due to the lack of consistent and reliable estimates that cover all UI payments during the pandemic, it is not currently possible to combine existing estimates and measures to make meaningful statements about the extent of fraud in UI programs during the pandemic.

DOL's BAM program uses a consistent methodology across states, which does allow for meaningful combination of state-level estimates into a national estimate of about $8.5 billion in fraudulent regular UI payments for performance year 2021, which equates to an estimated fraud rate of about 8.6 percent from July 1, 2020 through June 30, 2021. However, these estimates are incomplete because the BAM program does not include any pandemic UI program payments. Moreover, the estimates must be interpreted with caution due to differences across states in how they determine whether sampled claims are fraudulent.

Other measures and estimates discussed above suggest that the UI spending excluded from the BAM estimates may have higher rates of fraud. For example, in September 2022, the DOL OIG reported that it estimated about $9.9 billion in fraudulent PUA and FPUC payments when it reviewed four states between the end of March 2020 and the end of September 2020.[49] The individual fraud rates that the DOL OIG calculated for the four states under review were generally higher than the estimated fraud rates reported under the BAM program. This difference was partially driven by higher estimates of fraud in PUA, which was not covered by the BAM program. The DOL OIG had previously reported in October 2020 that the PUA program in particular was at high risk for fraud due to its unique program rules and eligibility requirements.[50] The BAM program

[49]Department of Labor, Office of Inspector General, *COVID-19: ETA and States Did Not Protect Pandemic-Related UI Funds from Improper Payments Including Fraud or From Payment Delays*, Report No. 19-22-006-03-315 (Washington, D.C.: September 30, 2022).

[50]Department of Labor, Office of Inspector General, Report No. 19-21-001-03-315.

also did not cover the first three months of the pandemic, and some states reported the early pandemic period was associated with a higher risk for fraud.[51]

The above evidence supports the use of the BAM 2021 fraud rate to roughly extrapolate a lower-bound for the extent of fraud in all UI programs during the wider pandemic period. Specifically, if the lower bound of DOL's estimated national fraud rate (7.6 percent) in the regular UI program for July 1, 2020, to June 30, 2021, was applied more broadly to all pandemic payments from roughly April 2020 through December 2021 (about $849 billion), then the estimated total fraud in UI programs during the pandemic would be greater than $60 billion.[52]

As described above, available measures and estimates are incomplete and do not fully reflect the extent of fraud and potential fraud in UI programs during the pandemic. The above extrapolation offers a rough lower bound estimate. In ongoing work, we are evaluating whether and how fraud and fraud-related measures, in combination with existing fraud and potential fraud estimates and other data, can be used to make more comprehensive and precise conclusions about the extent of fraud. These efforts aim to identify different analytic approaches and related data that could be used to estimate the amount of fraud in federal programs and operations, including UI. We intend to report on these efforts in the future, and to potentially include specific estimates of fraud, as feasible.

[51]For example, the California State Auditor reported on the lack of controls in place at the start of the pandemic. Auditor of the State of California, *Employment Development Department: Significant Weaknesses in EDD's Approach to Fraud Prevention Have Led to Billions of Dollars in Improper Benefit Payments*, Report 2020-628.2. (Sacramento, CA: 2021).

[52]This approach relies on data from a manual file review of a statistical sample and falls under the extrapolation from rates method described in table 3, and should be considered in line with the limitations of both methods. To help account for these limitations and the rough nature of our estimate, we rounded down to the nearest $10 billion. To specifically address the uncertainty arising from the use of statistical sampling, we used the lower limit of the performance year 2021 BAM fraud rate estimate. The available measures and estimates support the use of the 2021 BAM fraud rate as an approximate lower, but not upper limit of the fraud rate for all UI programs and the wider period of pandemic spending. The actual amount of fraud in UI programs during the pandemic may be substantially higher than the estimated lower limit reported here. Extrapolation is a technique that can offer a rough or notional estimate of fraud or potential fraud even if data on a specific measure or rate are unavailable, but may have limitations related to validity, accuracy, and completeness.

DOL Has Taken Steps to Address UI Fraud Risks but Has Not Designed and Implemented a Strategy to Manage These Risks

DOL Has Taken Steps to Address UI Fraud Risks

DOL has taken various steps to address fraud risks in the UI system. Specifically, DOL has provided SWAs with fraud-related guidance, tools and resources, and funding. In addition, DOL collaborated with the DOL OIG to share information on emerging UI fraud issues and coordinate fraud prevention and recovery efforts.

Guidance. During the pandemic, DOL provided states with fraud-related guidance through two types of advisory documents—UI Program Letters (UIPL) and Training and Employment Notices (TEN). Specifically, DOL issued advisory documents containing fraud-related information on various topics covering fraud prevention, detection, and response. For example,

- *Fraud prevention.* In TEN No. 03-20, issued in August 2020, DOL encouraged states to share information on existing and emergent fraud schemes. Further, this guidance stated that timely communication of this information is critical to preventing fraud.
- *Fraud detection.* In TEN No. 05-20, issued in September 2020, DOL provided states with guidance on resources available to identify when a claimant has returned to work and is continuing to claim UI benefits. Specifically, DOL provided information on how states can use the National Directory of New Hires and State Directory of New Hires databases to compare in-state and out-of-state employment information to UI payments made to claimants.[53]
- *Fraud response.* In UIPL No. 04-17, change 1, issued in August 2021, DOL directed states to report instances of potential UI fraud to the DOL OIG. In addition, DOL issued two guidance documents providing instructions on the recovery of federally funded UI benefits.[54] Specifically, in May 2021, DOL provided guidance to states on the

[53]DOL encourages states to use the National Directory of New Hires and State Directory of New Hires to identify overpayments, including fraud overpayments, due to unreported or under-reported earnings by claimants while they claim UI benefits.

[54]UIPL Nos. 19-21 and 20-21, change 1.

proportional distribution methodology for recovering UI benefits held by banks and financial institutions as a result of suspicious or potentially fraudulent activity. DOL instructed states to request that banks and financial institutions return held funds paid by multiple states into the same bank account, with respect to the federally funded UI programs, in an amount proportionate to what the states contributed. DOL also encouraged states to make this request of banks with respect to state-funded UI programs. In February 2022, DOL provided states instructions on circumstances under which states may waive recoveries of established overpayments made in CARES Act UI programs. DOL also noted that recovery activities for fraudulent overpayments may never be waived.

DOL officials noted that implementing and administering the CARES Act UI programs was dynamic and challenging and that they tried to meet state needs for guidance as quickly as possible. Also, as new legislation was enacted, DOL needed to update program guidance. For example, the Consolidated Appropriations Act, 2021 added several new program integrity features to the CARES Act UI programs.[55] One of the new program integrity features generally required PUA claimants to provide documentation substantiating their prior employment or self-employment. It also required PUA claimants to recertify with their state each week that they continued to meet the eligibility requirement of not being able to work as a result of COVID-19.[56] In response, in December 2020 DOL issued UIPL No. 09-21, which provided states with instructions for implementing the new UI-related provisions of the law.[57]

Tools and resources. To assist states in their efforts to prevent and detect UI fraud and recover fraudulent and other improper payments, DOL provided funding for the UI Integrity Center, operated by NASWA. The UI Integrity Center supports SWAs in adopting and implementing strategies to address fraud in UI programs at no cost to states. For example, the UI Integrity Center offers training to states, including online certificate programs with lessons available for state staff including program leadership, UI operations integrity, fraud investigations, and data analysis. The UI Integrity Center also operates an online, searchable,

[55]Pub. L. No. 116-260, div. N, tit. II §§ 241(a), 134 Stat. 1182, 1959-1960, 1963.

[56]In addition, it required states to have procedures for identity verification and for timely payment of PUA benefits, to the extent reasonable and practicable. Pub. L. No. 116-260, div. N, tit. II, § 242(a), 134 Stat. 1182, 1960.

[57]UIPL No. 09-21.

knowledge-sharing platform that provides a repository of all its resources including

- a model of state operational processes,
- promising state practices, and
- recommendations to strengthen UI program integrity.

During the pandemic, DOL and the UI Integrity Center held webinars for states on issues related to UI fraud, including identity verification and assessing fraud penalties.

Through its guidance documents, DOL encourages states to use the tools, resources, and services available through the UI Integrity Center. Some of the UI Integrity Center's tools are contained in the Integrity Data Hub. The Integrity Data Hub provides a secure, robust, centralized, multi-state data system where participating state UI agencies can regularly submit claims for multi-state cross-matching. Also via the Integrity Data Hub, states have access to a suspicious actor repository, foreign internet protocol address detection tool, and fraud alerts to facilitate information sharing about fraud schemes between states and the DOL OIG.

In addition, during the pandemic, DOL supported the development and acquisition of new tools and resources for the UI Integrity Center to enhance the Integrity Data Hub, including

- *An identity verification solution.* DOL provided funding to procure and implement an identity verification solution, which became available to states in July 2020, according to DOL officials. This service provides new datasets for the UI Integrity Center's Integrity Data Hub to conduct enhanced UI claimant identity verification by states to prevent fraudulent claims from being paid based on false identities. It also contains a cross-match with the Social Security Administration (SSA) Death Master File to identify the use of a deceased person's Social Security number being used to file for benefits. As of October 2022, there are 41 states using the identity verification service, according to DOL officials.
- *A bank account verification service.* DOL provided funding to procure and implement a bank account verification service, which became available to states in February 2022, according to DOL officials. This service aids states in proactively identifying and authenticating bank account information provided by a UI claimant by validating the account status and ensuring said claimant is the owner or authorized

user prior to initiating the UI benefit payment. As of October 2022, 31 states are using the bank account verification service, according to a DOL official.

- *An incarceration data exchange.* A DOL official informed us that the agency began working with SSA in August 2020 to establish a secure data exchange that allows states to cross-match UI claims data with incarceration records. This incarceration data exchange provides states with the ability to cross-match UI claims information with SSA's prisoner data to aid states in determining if an individual meets UI eligibility criteria.[58] In February 2021, DOL OIG issued an alert memorandum stating that the Social Security numbers of over 13,000 potentially ineligible federal prisoners were used in attempts to file UI claims. These attempts equaled more than $98 million in UI benefits. While some states have access to various local, state, or federal incarceration cross-matches, DOL encouraged all states to regularly cross-match UI claims against prisoner records to ensure UI benefits are only paid to eligible individuals.[59] As of August 2022, one state is currently using the new incarceration data exchange, and DOL and SSA are working with at least 10 states that have submitted a request to access the incarceration data, according to DOL. According to a DOL official, of the states not currently pursuing incarceration cross-matches through this data exchange with SSA, many are using third-party vendor services that provide incarceration data to states.

Funding. During the pandemic, DOL provided grant opportunities to states to improve UI systems and processes, including addressing fraud prevention and detection. As of August 2022, DOL provided states with grants up to $525 million in CARES Act funds to address fraud in pandemic UI programs and $140 million in American Rescue Plan Act of 2021 funds to address fraud in all UI programs, according to DOL officials.[60] For example, as we found in June 2022, Arizona, Florida, and

[58]To be eligible for UI benefits, an individual must be able, available, and actively seeking work. Incarcerated individuals do not typically meet the eligibility requirements to receive UI benefit payments as they would not be able or available for work while incarcerated. UIPL No. 01-22.

[59]According to DOL officials, as of August 2022, twelve states receive incarceration data through direct agreements with SSA and are not expected to request these data through the secure data exchange facilitated by DOL.

[60]As of July 22, 2022, DOL announced five grants totaling $665,000,000 for fraud prevention, detection, investigation, and recovery activities in pandemic UI programs and the regular UI program. UIPL No. 28-20; UIPL No. 28-20, change 1; UIPL No. 28-20, change 2; UIPL 28-20, change 4; and UIPL No. 22-21.

Michigan used grant funding to hire program integrity staff. Some of these staff have focused on identity theft cases or detecting and recovering overpayments, according to DOL officials.[61] States have also used this funding to engage third-party vendors to conduct fraud risk and cybersecurity assessments of states' UI systems and subscribe to identity verification and fraud risk scoring services, according to DOL officials.

In addition, with separate funding provided by the American Rescue Plan Act of 2021, DOL provided grant opportunities of up to $200 million to support states in improving UI systems and processes including addressing fraud prevention and detection. Through these grants, multidisciplinary expert teams analyze state UI systems and process challenges, and work with states to identify areas to enhance their existing efforts.[62] The expert teams are to develop customized and actionable recommendations for the states to implement using the grant funds. In addition to implementing the expert teams' recommendations, states may request permission from DOL to use any excess funds from these grants to further improve UI systems and processes, according to DOL guidance.[63]

As of August 2022, 13 states—Alabama, Colorado, Connecticut, Delaware, Iowa, Kansas, Kentucky, Nebraska, Nevada, Pennsylvania, Virginia, Washington, and Wisconsin—had received final recommendations from expert teams in analyzing state UI systems and process challenges, according to DOL officials.[64] Expert teams made

[61]GAO, *Unemployment Insurance: Pandemic Programs Posed Challenges, and DOL Could Better Address Customer Service and Emergency Planning,* GAO-22-104251 (Washington, D.C.: June 7, 2022).

[62]Each expert team is comprised of experts including a fraud specialist, equity/customer experience specialist, UI program specialist, business intelligence analysts, computer systems engineer/architect, and project manager. See *Grant Opportunity to Support States Following a Consultative Assessment for Fraud Detection and Prevention, Promoting Equitable Access, and Ensuring the Timely Payment of Benefits, including Backlog Reduction, for all Unemployment Compensation (UC) Programs,* UIPL No. 02-22 (Washington, D.C.: November 2, 2021).

[63]UIPL No. 02-22.

[64]In addition, five other states—Arizona, Illinois, Michigan, New Hampshire, and Oregon—were expected to receive expert teams' recommendations by September 2022, according to DOL officials. In summer 2022, another six states—Idaho, Indiana, Maryland, Missouri, Rhode Island, and Wyoming—began working with expert teams. In addition, DOL is currently recruiting additional states to begin work in winter 2022.

recommendations related to fraud prevention and detection to all 13 states. For example, these recommendations include:

- *Improving identity verification*. Expert teams recommended improving identity verification in 11 states for which they made fraud prevention and detection recommendations. For example, an expert team recommended that one state implement elements of the National Institute of Standards and Technology's identity verification standards when a claimant submits an application to optimize its fraud prevention and detection efforts.[65] Specifically, the expert team recommended that the state integrate its identity verification solution into its overall claims process.[66] The recommendation notes that DOL strongly encourages states to adopt an array of solutions and techniques to detect and fight fraud and to have robust strategies in place to verify the identity of individuals applying for UI benefits.[67]
- *Implementing NASWA's Behavioral Insights Toolkit.* An expert team recommended that one state use NASWA's Behavioral Insights Toolkit—a collection of resources, articles, templates, and how-to information—to simplify communications to claimants to help them quickly respond to information requests that would deter would-be bad actors or uninformed claimants from continuing to file or report wages incorrectly.
- *Implementing risk analytics.* An expert team recommended that one state implement data analytics to group UI claims into risk categories based on their probability of fraud. Under this method, the SWA would use data analytics to assign a single aggregate fraud risk score to each claim. Claims with the highest risk scores are triaged and referred for investigation to determine the likelihood of fraudulent activity. According to the expert team, this action could provide an additional layer of fraud detection. The expert team concluded that states that utilize a fraud risk scoring method see increased staff productivity, as investigations are limited to the most egregious risks and staff need less time to evaluate claims with potential fraud. In 8 of the 13 states, an expert team recommended automating aspects of the claims review process. Specifically, in one state, an expert team noted that the SWA's claims review process had a critical gap in fraud

[65]In UIPL No. 22-21, DOL encouraged states to implement National Institute of Standards and Technology-compliant identity proofing requirements before claimants start filling out UI claims applications and for re-accessing their accounts.

[66]Currently, this SWA conducts identity verification of claims manually.

[67]UIPL Nos. 23-20; 28-20; 28-20, change 1; 28-20, change 2; and 22-21.

prevention and detection and demonstrated the need for an automated data cross-matching tool that provides access to an expanded set of UI-specific data. To address the state's limited pool of external data available for cross-matching, the expert team recommended the SWA integrate resources from the Integrity Data Hub directly into its case management system to create a centralized repository of fraud prevention and detection information for investigators.

DOL's national and regional offices are working with states on implementing the expert teams' recommendations, according to DOL officials. For example, DOL is providing technical assistance and helping states determine how to prioritize the recommendations based on the state's needs. Also, DOL officials told us that NASWA is offering project management support to states that have received expert teams' recommendations at no additional cost to the states. In June 2022, DOL published information on trends it identified during the first year of expert teams as a resource for all states.[68] For example, DOL identified trends in expert teams' recommendations such as the need to integrate case management systems to help prioritize investigations and automate task assignments. According to DOL, implementing this type of recommendation would enable states to monitor the status of claims in real time, and streamline analytics and reporting features.

Collaboration with DOL OIG. According to DOL officials, DOL meets regularly with the DOL OIG to discuss emerging UI fraud issues, streamline communication with states, and coordinate fraud prevention and recovery efforts. For example, DOL is working with the UI Integrity Center and DOL OIG to provide the DOL OIG with data that could indicate fraudulent activity. In addition, in January 2022, regional offices within the Employment and Training Administration and DOL OIG began hosting joint quarterly conference calls with states to discuss fraud trends and prosecution activities.

DOL Has Not Designed and Implemented an Antifraud Strategy Based on a Fraud Risk Profile

While DOL has taken steps to address UI fraud risks, as described above, its approach has been ad hoc. Specifically, it has not designed

[68]https://oui.doleta.gov/unemploy/pdf/TigerTeamCohortTrendsJune_2022.pdf. Accessed August 24, 2022.

and implemented an antifraud strategy to guide its actions based on a fraud risk profile in alignment with leading practices in the Fraud Risk Framework.[69]

The Fraud Risk Framework calls for a strategic approach for assessing and managing fraud risks. Specifically, the third component of the Fraud Risk Framework—design and implement—calls for federal managers to design and implement a strategy with specific control activities to mitigate assessed fraud risks and collaborate to help ensure effective implementation. Managers who effectively manage fraud risks develop and document an antifraud strategy that describes the program's approach for addressing the prioritized fraud risks identified during the fraud risk assessment.

In October 2021, we recommended that DOL assess fraud risks in alignment with the leading practices outlined in the Fraud Risk Framework.[70] Specifically, we recommended that DOL

(1) identify inherent fraud risks facing the UI program;[71]

(2) assess the likelihood and impact of inherent fraud risks facing the program;

(3) determine fraud risk tolerance for the program;[72]

(4) examine the suitability of existing fraud controls in the program and prioritize residual fraud risks; and

(5) document the fraud risk profile for the program.

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[69]Although the UI program is a federal-state partnership, the Fraud Risk Framework states that managers of federal programs maintain primary responsibility for enhancing program integrity. However, the Fraud Risk Framework also notes the importance of working with stakeholders on fraud risk management, which, for the UI program, includes states.

[70]We also recommended that DOL designate a dedicated entity and document its responsibilities for managing the process of assessing fraud risks to the UI program. This entity should have, among other things, clearly defined and documented responsibilities and authority for managing fraud risk assessment and facilitating communication among stakeholders regarding fraud-related issues. In August 2022, DOL officials told us that they are documenting a dedicated entity's responsibilities for managing fraud risks.

[71]According to Federal Internal Control Standards, inherent risk is the risk to an entity prior to considering management's response to the risk (see GAO-14-704G, 7.03).

[72]According to Federal Internal Control Standards, risk tolerance is the acceptable level of variation in performance relative to the achievement of objectives (see GAO-14-704G, 6.08).

In August 2022, DOL officials told us that DOL's Office of Unemployment Insurance in collaboration with DOL's Office of the Chief Financial Officer began implementing these recommendations. This work remains incomplete. DOL officials told us that DOL's Office of Unemployment Insurance is currently developing its fraud risk management process, including further identifying and documenting inherent risks, impacts, fraud likelihood, and fraud tolerance in the UI system. In addition, DOL officials stated they are in the process of developing a fraud risk profile for the UI program in alignment with the leading practices in the Fraud Risk Framework.

As discussed in the Fraud Risk Framework, leading practices related to designing and implementing an antifraud strategy include (1) using the fraud risk profile to help decide how to allocate resources to respond to residual fraud risks; and (2) developing, documenting, and communicating an antifraud strategy to employees and stakeholders that describes a program's activities for preventing, detecting and responding to fraud.

As explained in the Fraud Risk Framework, effective managers of fraud risks use the program's fraud risk profile to help decide how to allocate resources to respond to residual fraud risks. The responses to fraud risk may include actions to accept, reduce, share, or avoid the risk.[73]

An antifraud strategy describes existing fraud control activities as well as any new control activities a program may adopt to address residual fraud risks—the risks that remain after inherent risks have been mitigated by existing control activities. The antifraud strategy may be agency-wide or directed at the individual program level. Effective antifraud strategies, as described in the Fraud Risk Framework, reflect the key elements explained in table 5.

[73]In general, managers accept certain risks that are within their defined risk tolerance and take one of the other three actions in response to prioritized residual fraud risks that exceed their defined risk tolerance. Specifically, managers may allocate resources to prevent or detect fraud risks that exceed their risk tolerance but they may decide not to allocate resources to further reduce unlikely, low-impact risks that fall within their risk tolerance. Moreover, while managers may accept certain fraud risks, responding appropriately to instances of actual fraud is essential for ensuring the continued effectiveness of fraud risk management activities.

Table 5: Key Elements of an Antifraud Strategy as Described in the Fraud Risk Framework

Who is responsible for fraud risk management activities?	Establish roles and responsibilities of those involved in fraud risk management activities, such as the antifraud entity and external parties responsible for fraud controls, and communicate the role of the Office of Inspector General to investigate potential fraud.
What is the program doing to manage fraud risks?	Describe the program's activities for preventing, detecting, and responding to fraud, as well as monitoring and evaluation.[a]
When is the program implementing fraud risk management activities?	Create timelines for implementing fraud risk management activities, as appropriate, including monitoring and evaluations.
Where is the program focusing its fraud risk management activities?	Demonstrate links to the highest internal and external residual fraud risks outlined in the fraud risk profile.
Why is fraud risk management important?	Communicate the antifraud strategy to employees and other stakeholders, and link antifraud efforts to other risk management activities, if any.

Source: GAO-15-593SP. | GAO-23-105523

[a]According to Federal Internal Control Standards, control activities are the policies, procedures, techniques, and mechanisms that enforce managers' directives to achieve the program's objectives and address related risks. Broadly speaking, the antifraud strategy itself can be viewed as a preventive control activity, although it can inform other control activities, such as the content of fraud-awareness training or the design of system edit checks. The antifraud strategy describes existing fraud control activities, as well as any new control activities a program may have planned or adopted to address any residual fraud risks. GAO, *Standards of Internal Control in the Federal Government*, GAO-14-704G (Washington, D.C.: September 10, 2014).

DOL's actions described above are steps to prevent, detect, and respond to fraud, but DOL lacks a fraud risk profile to better inform an antifraud strategy that targets fraud risks in a prioritized manner. In August 2022, DOL officials told us they are in the process of developing a fraud risk profile but they have not yet finalized the profile. Until DOL completes these efforts and uses them to inform its antifraud strategy, consistent with our prior recommendations, it cannot be sure it is identifying, assessing, and prioritizing risks effectively. For example, this could include fraud risks identified during the pandemic that may continue to exist in the regular UI program after the expiration of the temporary UI programs.

Designing and implementing an antifraud strategy that conforms to leading practices in the Fraud Risk Framework would help DOL have greater assurance as to whether existing fraud control activities are efficiently and effectively addressing UI fraud risks within an established tolerable level. Without an antifraud strategy based on a fraud risk profile, DOL is not able to ensure that it is strategically addressing its most significant fraud risks in alignment with the Fraud Risk Framework.

Conclusions

The unprecedented demand for UI benefits and the urgency with which states implemented the new pandemic programs increased UI fraud and fraud risks.

While currently available measures and estimates do not reflect the full extent of fraud, they provide important information on fraud risks facing the UI program. Some fraud risks identified in the pandemic UI programs may continue to exist in the regular UI program after the expiration of the temporary UI programs. DOL has taken steps to address UI fraud and fraud risks, including issuing guidance and distributing funding. However, DOL has not developed and documented an antifraud strategy to guide these actions in a prioritized manner.

While DOL is in the process of developing its fraud risk management program, our six recommendations from October 2021 related to fraud risk management and assessing fraud risks remain open. DOL must implement these recommendations to be positioned to create and execute an antifraud strategy, consistent with leading practices, that targets fraud risks in a prioritized manner. Without these efforts, DOL cannot ensure that it is prioritizing UI fraud risks effectively in alignment with the Fraud Risk Framework.

Recommendation for Executive Action

The Secretary of Labor should design and implement an antifraud strategy for UI based on a fraud risk profile consistent with leading practices as provided in the Fraud Risk Framework. (Recommendation 1)

Agency Comments and Our Evaluation

We provided a draft of this report to DOL, DOJ, and DHS for review and comment. DOL provided written comments, which are reproduced in appendix IV. DOL also provided technical comments, which we incorporated as appropriate.

In its written comments, DOL noted that it develops, executes, and updates a strategic plan for the UI system, which includes efforts to address identified fraud risks and reduce improper payments. In addition, DOL stated that it continues to explore, research, identify, invest in, and provide states with new tools, resources, and guidance to help combat the continually changing and emerging types of sophisticated fraud impacting the UI system.

DOL partially agreed with our recommendation to design and implement an antifraud strategy for UI based on a fraud risk profile. It noted that the department is in the process of developing a UI fraud risk profile consistent with leading practices as provided in GAO's Fraud Risk Framework and working to implement GAO's previous recommendations. However, it did not concur with GAO's assertion that these recommendations and the fraud risk profile must be completed before the implementation of new antifraud strategies. We believe that developing, documenting, and communicating an antifraud strategy can be done concurrently with other antifraud efforts. However, to align the antifraud strategy with leading practices, DOL should use the fraud risk profile to help decide how to allocate resources and respond to residual fraud risks in a targeted and prioritized manner.

DOJ provided technical comments which we incorporated as appropriate. DHS had no comments on this report.

We also provided excerpts of this report to officials from California, Colorado, Kansas, Michigan, New Mexico, Pennsylvania, and Washington for review and comment and made technical corrections or clarifications as needed.

As agreed with your offices, unless you publicly announce the contents of this report earlier, we plan no further distribution until 30 days from the report date. At that time, the report will be available at no charge on the GAO website at https://www.gao.gov.

If you or your staff have any questions about this report, please contact Seto Bagdoyan, (202) 512-6722, BagdoyanS@gao.gov or Jared Smith, (202) 512-2700, SmithJB@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in appendix V.

Seto J. Bagdoyan
Director, Forensic Audits and Investigative Service

Jared B. Smith
Director, Applied Research and Methods

List of Requesters

The Honorable Mike Crapo
Ranking Member
Committee on Finance
United States Senate

The Honorable Rob Portman
Ranking Member
Committee on Homeland Security and Governmental Affairs
United States Senate

The Honorable James Comer
Ranking Member
Committee on Oversight and Reform
House of Representatives

The Honorable Kevin Brady
Ranking Member
Committee on Ways and Means
House of Representatives

Appendix I: Open Unemployment Insurance–Related Recommendations to the Department of Labor

Table 6 below lists GAO's 19 open recommendations to the Department of Labor to improve the Unemployment Insurance system. The first five recommendations listed warrant priority attention from heads of key departments or agencies because implementation could:

- save large amounts of money;
- improve congressional and executive branch decision making on major issues;
- eliminate mismanagement, fraud, and abuse; or
- ensure that programs comply with laws and funds are legally spent.

As of December 15, 2022, two of the five priority recommendations remained open for 4 years.

Table 6: GAO's 19 Recommendations to the Department of Labor (DOL) to Improve the Unemployment Insurance (UI) System, Open as of December 15, 2022

No.	Report No., Date	Recommendation to DOL
1	GAO-22-104438, June 7, 2022	(priority) The Secretary of Labor should ensure the Office of Unemployment Insurance examines and publicly reports on the extent and potential causes of racial and ethnic inequities in the receipt of Pandemic Unemployment Assistance (PUA) benefits, as part of the agency's efforts to modernize UI and improve equity in the system. The report should also address whether there is a need to examine racial, ethnic, or other inequities in regular UI benefit receipt, based on the PUA findings.
2	GAO-22-105051, October 27, 2021	(priority) The Secretary of Labor should examine the suitability of existing fraud controls in the UI program and prioritize residual fraud risks.
3	GAO-21-191, November 30, 2020	(priority) The Secretary of Labor should ensure the Office of Unemployment Insurance pursues options to report the actual number of distinct individuals claiming benefits, such as by collecting these already available data from states, starting from January 2020 onward.*
4	GAO-18-486, August 22, 2018	(priority) The Assistant Secretary of DOL's Employment and Training Administration should provide states with information about its determination that the use of state formal warning policies is no longer permissible under federal law.

No.	Report No., Date	Recommendation to DOL
5	GAO-18-486, August 22, 2018	(priority) The Assistant Secretary of DOL's Employment and Training Administration should clarify information on work search verification requirements in its revised Benefit Accuracy Measurement procedures. The revised procedures should include an explanation of what DOL considers to be sufficient verification of claimants' work search activities.
6	GAO-22-105162, June 7, 2022	The Secretary of Labor should develop and execute a transformation plan that meets GAO's high risk criteria for transformation; the plan should outline coordinated and sustained actions to address known issues related to providing effective service and mitigating financial risk, including ways to demonstrate improvements. Planned actions may include addressing audit recommendations, and determining whether legislative changes are needed, as appropriate. Planned actions may also include achieving quantifiable results in reducing improper payment rates, including those related to fraud; improving efficiency in claims processing and restoring pre-pandemic payment timeliness levels; better reaching current worker populations; and enhancing equity in benefit distribution.
7	GAO-22-104438, June 7, 2022	The Secretary of Labor should study and advise the Congress and other policymakers on the costs, benefits, and risks of various options to systematically support self-employed and contingent workers during periods of involuntary unemployment outside of declared disasters, including considering options' feasibility and approach to fraud prevention.
8	GAO-22-104251, June 7, 2022	The Secretary of Labor should ensure the Office of Unemployment Insurance review the customer service challenges that states faced during the pandemic, identify comprehensive information on customer service best practices, and provide states with this information to assist them in improving service delivery.
9	GAO-22-104251, June 7, 2022	The Secretary of Labor should ensure the Office of Unemployment Insurance assesses lessons learned from the pandemic to inform its future disaster responses efforts and support the Congress on ways to address future emergencies.
10	GAO-22-105051, October 27, 2021	The Secretary of Labor should designate a dedicated entity and document its responsibilities for managing the process of assessing fraud risks to the UI program, consistent with leading practices as provided in our Fraud Risk Framework. This entity should have, among other things, clearly defined and documented responsibilities and authority for managing fraud risk assessments and for facilitating communication among stakeholders regarding fraud-related issues.
11	GAO-22-105051, October 27, 2021	The Secretary of Labor should identify inherent fraud risks facing the UI program.
12	GAO-22-105051, October 27, 2021	The Secretary of Labor should assess the likelihood and impact of inherent fraud risks facing the UI program.
13	GAO-22-105051, October 27, 2021	The Secretary of Labor should determine fraud risk tolerance for the UI program.
14	GAO-22-105051, October 27, 2021	The Secretary of Labor should document the fraud risk profile for the UI program.
15	GAO-21-387, March 31, 2021	The Secretary of Labor should ensure the Office of Unemployment Insurance collects data from states on the amount of overpayments waived in the PUA program, similar to the regular UI program.*
16	GAO-21-265, January 28, 2021	The Secretary of Labor should ensure the Office of Unemployment Insurance collects data from states on the amount of overpayments recovered in the PUA program, similar to the regular UI program.*

No.	Report No., Date	Recommendation to DOL
17	GAO-18-633, September 4, 2018	The Secretary of Labor should update agency guidelines to ensure that it clearly informs states about the range of allowable profiling approaches.
18	GAO-18-486, August 22, 2018	The Assistant Secretary of DOL's Employment and Training Administration should monitor states' efforts to discontinue the use of formal warning policies.
19	GAO-18-486, August 22, 2018	The Assistant Secretary of DOL's Employment and Training Administration should monitor states' compliance with the clarified work search verification requirements.

Source: GAO. | GAO-23-105523

*This recommendation is partially addressed.

Appendix II: State Reports on Unemployment Insurance (UI) Fraud and Potential Fraud

To address our first objective, we contacted state workforce agencies (SWA), state auditors, and state Attorneys General offices. We asked these entities to identify reports and other reporting mechanisms in place from state entities related to measuring or estimating the extent of fraud and potential fraud in UI programs during the pandemic. The scope of our review was from March 2020—the beginning of the pandemic—through March 2022. These are the two most recent years available at the time of our selection. Throughout this report, we refer to measures as counts of detected activities, and to estimates as projections or inferences based on measures, assumptions, or analytical techniques.[1]

We received 31 state reports from 18 states—issued from March 2020 through March 2022—that discussed fraud or potential fraud in UI programs. We reviewed these reports and identified those that contained a measure or estimate that indicates the extent of fraud. Of those, we identified reports with sufficient information for us to determine the methodology used to arrive at the measure or estimate. For these remaining reports, we summarized the methodologies used, along with strengths and limitations of each as they relate to determining the extent of fraud. We selected examples from these reports to illustrate the variety of fraud and fraud-related measures and estimates.

Arizona

1. Arizona Auditor General. *State of Arizona: Report on Internal Control and on Compliance, Year Ended June 30, 2020. A Report to the Arizona Legislature.* Phoenix, AZ: 2021.

[1]Estimates are often used when direct measures are unavailable, incomplete, or unreliable.

California

2. Auditor of the State of California. *Employment Development Department: EDD's Poor Planning and Ineffective Management Left It Unprepared to Assist Californians Unemployed by COVID-19 Shutdowns*. Report 2020-128/628.1. Sacramento, CA: 2021.
3. Auditor of the State of California. *Employment Development Department: Significant Weaknesses in EDD's Approach to Fraud Prevention Have Led to Billions of Dollars in Improper Benefit Payments.* Report 2020-628.2. Sacramento, CA: 2021.

Colorado

4. Colorado Office of the State Auditor. *Department of Labor and Employment: Unemployment Insurance Benefits Performance Audit (Public Report).* Denver, CO: 2021.
5. Colorado Office of the State Auditor. *State of Colorado: Statewide Single Audit, Fiscal Year Ended June 30, 2020.* Denver, CO: 2021.

Florida

6. State of Florida Auditor General, *Reemployment Assistance Claims and Benefits Information System (CONNECT).* Report 2021-169. Tallahassee, FL: 2021.

Illinois

7. Auditor General, State of Illinois. *State of Illinois Department of Employment Security: Individual Nonshared Proprietary Fund Financial Statements For The Year Ended June 30, 2021.* Schaumburg, IL: 2022.

Kansas

8. Kansas Legislative Division of Post Audit. *Evaluating the Kansas Department of Labor's Response to COVID-19 Unemployment Claims (Part 1).* Report R-21-003. Topeka, KS: 2021.
9. Kansas Legislative Division of Post Audit. *Evaluating the Kansas Department of Labor's Response to COVID-19 Unemployment Claims (Part 2).* Report R-21-011. Topeka, KS: 2021.

Kentucky

10. Auditor of Public Accounts. *Report of the Statewide Single Audit of the Commonwealth of Kentucky Volume I For The Year Ended June 30, 2021.* Frankfort, KY: 2022.

Louisiana

11. Louisiana Legislative Auditor. *Improper Payments in the Unemployment Insurance Program: Ineligible Recipients Based on State Employment, Louisiana Workforce Commission*. Baton Rouge, LA: 2022.
12. Louisiana Legislative Auditor. *Improper Payments in the Unemployment Insurance Program: Overpayments and Rule Violations, Louisiana Workforce Commission.* Baton Rouge, LA: 2021.
13. Louisiana Legislative Auditor. *Louisiana Legislative Auditor 2022 Annual Report, Key Audit Issues, Act 461 Report.* Baton Rouge, LA: 2022.
14. Louisiana Legislative Auditor. *Louisiana Workforce Commission. State of Louisiana Financial Audit Services Management Letter.* Baton Rouge, LA: 2021.
15. Louisiana Legislative Auditor, Performance Audit Services, Data Analytics Unit. *Improper Payments in the Unemployment Insurance Program: Deceased Recipients, Louisiana Workforce Commission,* Baton Rouge, LA: Louisiana Legislative Auditor, 2021.
16. Louisiana Legislative Auditor, Performance Audit Services, Data Analytics Unit. *Improper Payments in the Unemployment Insurance Program: Ineligible Recipients Based on Income, Louisiana Workforce Commission,* Baton Rouge, LA: 2021.

Michigan

17. Deloitte & Touche, LLP. *State of Michigan Unemployment Insurance Agency Fraud Measurement Estimation.* Detroit, MI: 2021.
18. Deloitte & Touche, LLP. *State of Michigan Unemployment Insurance Agency Forensic Review.* Detroit, MI: 2020.

Nebraska

19. Nebraska Auditor of Public Accounts. *Attestation Report of the Nebraska Department of Labor, July 1, 2020 through June 30, 2021.* Lincoln, NE: 2021.

New Mexico

20. New Mexico Legislative Finance Committee, Program Evaluation Unit. *Spotlight: Unemployment Insurance System Review*, May 19, 2021. NM: 2021.

Ohio

21. Ohio Auditor of State. *Ohio Department of Job and Family Services: Auditor's Report on Unemployment Insurance Fraud for the Period March 1, 2020 through February 28, 2021.* Columbus, OH: 2021.

22. Ohio Auditor of State. *Ohio Department of Job and Family Services: Performance Audit Unemployment Compensation, September 23, 2021.* Columbus, OH: 2021.

Oklahoma

23. Oklahoma Office of the State Auditor and Inspector. *State of Oklahoma: Single Audit Report for the Fiscal Year Ended June 30, 2020.* Oklahoma City, OK: 2021.

Oregon

24. State of Oregon Employment Department. *Unemployment Insurance Fraud Calendar Year 2020: Protecting Unemployment Insurance during the COVID-19 Pandemic Health Crisis.* EDPUB185 (0122). OR: 2022.

Vermont

25. Office of the Vermont State Auditor. *Unemployment Fraud and Overpayment Review.* VT: 2021.

Washington

26. Office of the Washington State Auditor. *Accountability Audit Report: Employment Security Department for the Period July 1, 2017 through June 30, 2020.* Report No. 1028000. Olympia, WA: 2021.

27. Office of the Washington State Auditor. *Financial Statements Audit Report: State of Washington for the Period July 1, 2019 through June 30, 2020.* Report No. 1027566. Olympia, WA: 2020.

28. Office of the Washington State Auditor. *Fraud Investigation Report: Employment Security Department for the Investigation Period January 1, 2020, through December 31, 2020.* Report No. 10219365. Olympia, WA: 2021.

29. Office of the Washington State Auditor. *Fraud Investigation Report: Employment Security Department for the Investigation Period January 1, 2020 through December 31, 2020.* Report No. 1028164. Olympia, WA: 2021.

West Virginia

30. West Virginia Legislative Auditor, *Performance Evaluation & Research Division. Special Report: Workforce West Virginia Unemployment Claims Data.* PE 21-14-648. Charleston, WV: 2021.

Wisconsin

31. State of Wisconsin Department of Workforce Development. *Fraud Report to the Unemployment Insurance Advisory Council.* UCD-17392-P (R 03/22) Madison, WI: 2022.

Appendix III: Objectives, Scope, and Methodology

This report addresses (1) what existing federal and state measures and estimates indicate about the extent of fraud and potential fraud in Unemployment Insurance (UI) programs during the pandemic and (2) the extent to which the Department of Labor (DOL) designed and implemented a strategy to manage UI fraud risks.

Review of Federal and State Measures and Estimates

To address our first objective, we contacted DOL, the DOL Office of Inspector General (OIG), the Department of Justice (DOJ), the Department of Homeland Security (DHS), state workforce agencies (SWA), state auditors, and state Attorneys General offices. We asked officials from these entities to identify reports and other reporting mechanisms in place from federal and state entities related to measuring and estimating the extent of fraud and potential fraud in UI programs during the pandemic.[1] We also independently identified state reports related to measuring or estimating the extent of UI fraud during this time. The scope of our review was from March 2020—the beginning of the pandemic—through March 2022. These are the two most recent years available at the time of our selection.[2]

Throughout this report, we refer to measures as counts of detected activities, and to estimates as projections or inferences based on measures, assumptions, or analytical techniques.[3] Throughout this report, we also carefully describe the population covered by existing measures and estimates. Specifically, we use the phrase “fraud measure” to discuss counts related to proven fraud such as adjudicated cases of fraud. We use the phrase “fraud estimate” to discuss estimates that attempt to

[1]UI programs during the pandemic include the temporary UI programs created by the CARES Act and the Consolidated Appropriations Act, 2021 as pandemic UI programs, along with the regular UI and Extended Benefits programs.

[2]Appendix II provides a bibliography of the reports we received from SWAs, state auditors, and state Attorneys General that discussed fraud or potential fraud in UI programs.

[3]Estimates are often used when direct measures are unavailable, incomplete, or unreliable.

quantify what could be “determined to be fraud,” although such cases have not yet been proven. Finally, we use the phrases “fraud-related” and “potential fraud” to describe measures and estimates that attempt to quantify the extent of fraud indicators, but do not suggest a potential or actual determination of fraud.

We reviewed the federal and state reports and identified those that contained a measure or estimate that indicates the extent of UI fraud. Of those, we identified reports with sufficient information for us to determine the methodology used to arrive at the measure or estimate. For these remaining reports, we summarized the methodologies used, along with strengths and limitations of each as they relate to determining the extent of fraud. We selected examples from these federal and state reports to present in this report to illustrate the variety of fraud and fraud-related measures and estimates.

In addition, we reviewed DOJ case information to identify federal fraud-related charges related to UI as of July 31, 2022, and analyzed related federal court documents. Specifically, to identify cases, we obtained DOJ press releases through a subscription to Westlaw (a legal news service), conducted periodic checks of the Westlaw database, and used other available sources, such as the DOJ Fraud Section website. For identified cases, we obtained relevant court documents by searching Public Access to Court Electronic Records.[4] We reviewed DOJ information from March 2020 through July 2022 to capture federal charges from the start of the pandemic through the most recent available at the time of our review.

This analysis is limited to the DOJ cases we identified from public sources, which may not include all criminal and civil cases charged by DOJ as of July 2022. Additionally, our analysis is based on known information presented in court documents, and the specific details of fraud cases and schemes in the court documents may not be complete. For example, dollar amounts applied or obtained, or all fraud mechanisms may not be identified in court documents. For purposes of this report, we define “fraud-related charges” as charges related to a criminal case containing fraud charges. Further, we interviewed DOL officials and

[4]Public Access to Court Electronic Records is a service of the federal judiciary that enables the public to search online for case information from U.S. district, bankruptcy, and appellate courts. Federal court records available through this system include case information (such as names of parties, proceedings, and documents filed) as well as information on case status.

federal law enforcement officials about the extent of fraud in UI programs during the pandemic.

As part of this objective, we also analyzed UI financial transaction data and individual program files from DOL's website to determine expenditures under the regular UI program, the Extended Benefits program, and the pandemic UI programs from April 2020 through September 2022. Specifically, we analyzed the UI data from the Employment and Training Administration's (ETA) 5159 Claims and Payment Activities reports, ETA 2112 UI Financial Transaction Summary reports, 902P Pandemic Unemployment Assistance Activities reports, and the 902M Mixed Earners Unemployment Compensation reports. We also analyzed fraud estimates for the regular UI program reported in DOL's Benefit Accuracy Measurement Data Summary for performance year 2021 and the underlying documentation. In addition, we analyzed the amounts of overpayments due to fraud as reported by states to DOL. These data included the regular UI program and the pandemic UI programs. Specifically, we analyzed quarterly data from ETA 227 UI Overpayments reports and ETA 902P Pandemic Unemployment Assistance Activities reports.

To assess the reliability of these data, we interviewed DOL OIG officials, reviewed data from past years, and considered its consistency with other available measures and estimates. We determined that the data were sufficiently reliable to (1) combine into total UI expenditures during the pandemic, (2) combine into an overall total amount of state-estimated fraud and illustrate variation in fraud rates over time, and (3) combine into an overall total amount of state-reported overpayments due to fraud.

We also used the analysis of fraud estimates for the regular UI program reported in DOL's Benefit Accuracy Measurement Data Summary for performance year 2021 and the underlying documentation to support an illustrative extrapolation of a lower bound of fraud in UI programs during the pandemic. This extrapolation is based on the reported estimated fraud rate and insights derived from other existing measures and estimates. We determined that existing measures and estimates did not provide sufficient evidence to use this approach to extrapolate an upper bound of fraud in UI programs during the pandemic.

Evaluation of DOL's Efforts against Leading Practices

To address the second objective, we evaluated DOL's UI fraud risk management activities against the leading practices in GAO's *A Framework for Managing Fraud Risks in Federal Programs* (Fraud Risk Framework)—specifically those leading practices related to developing an antifraud strategy.[5] The Fraud Risk Framework contains four components: (1) commit; (2) assess; (3) design and implement; and (4) evaluate and adapt. Within the four components, there are overarching concepts and leading practices. In October 2021, we assessed the extent to which DOL's fraud risk management activities aligned with leading practices under the second component of the Fraud Risk Framework—assess.[6] For this report, we selected two of the 15 leading practices from the third component—design and implement—that are most relevant to this objective based on a review of DOL documents and discussions with DOL officials responsible for fraud risk management. We also reviewed DOL policies, procedures, and guidance to identify newly established controls designed to prevent fraud from occurring. Further, we interviewed DOL and DOL OIG officials about fraud risk management efforts.

We conducted this performance audit from November 2021 to December 2022 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

[5]GAO, *A Framework for Managing Fraud Risks in Federal Programs*, GAO-15-593SP (Washington, D.C.: July 28, 2015).

[6]GAO, *Additional Actions Needed to Improve Accountability and Program Effectiveness of Federal Response*, GAO-22-105051 (Washington, D.C.: October 27, 2021).

Appendix IV: Comments from the Department of Labor

U.S. Department of Labor

Employment and Training Administration
200 Constitution Avenue, N.W.
Washington, D.C. 20210

December 12, 2022

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Director, Forensic Audits and Investigative Service
U.S. Government Accountability Office
441 G St. N.W.
Washington, DC 20548

Jared B. Smith
Director, Applied Research and Methods
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441 G St. N.W.
Washington, DC 20548

RE: Unemployment Insurance (UI): Data Indicate Substantial Levels of Fraud During the Pandemic; DOL Should Implement an Antifraud Strategy (GAO-23-105523)

Dear Director Bagdoyan and Director Smith:

The U.S. Department of Labor (Department) appreciates the information, analysis, and insights that the U.S. Government Accountability Office (GAO) has shared in this Report. Combatting fraud in the UI system is an important priority for the Biden-Harris Administration. We note that the Department develops, executes, and updates a dynamic integrity strategic plan, which is an internal document that highlights efforts to address identified fraud risks and reduce improper payments in the UI program. A public facing version of the Department's UI Integrity Strategic Plan is online at https://oui.doleta.gov/unemploy/pdf/ui_prog_integrity_2022.pdf. Additionally, the Department continues to explore, research, identify, invest in, and provide states with new tools, resources, strategies, and guidance to help states combat the continually changing and emerging types of sophisticated fraud impacting the UI system.

Much of this report discusses the Department's progress in implementing existing GAO recommendations, including but not limited to the creation of a UI fraud risk profile. In October 2021[1], GAO made the following recommendations for the Department:

- The Secretary of Labor should designate a dedicated entity and document its responsibilities for managing the process of assessing fraud risks to the unemployment insurance program, consistent with leading practices as provided in our Fraud Risk Framework. This entity should have, among other things, clearly defined and documented responsibilities and authority for managing fraud

[1] https://www.gao.gov/products/gao-22-105051

- risk assessments and for facilitating communication among stakeholders regarding fraud-related issues.
- The Secretary of Labor should identify inherent fraud risks facing the unemployment insurance program.The Secretary of Labor should assess the likelihood and impact of inherent fraud risks facing the unemployment insurance program.
- The Secretary of Labor should determine fraud risk tolerance for the unemployment insurance program.
- The Secretary of Labor should examine the suitability of existing fraud controls in the unemployment insurance program and prioritize residual fraud risks.
- The Secretary of Labor should document the fraud risk profile for the unemployment insurance program.

During Calendar Year 2022, the Department participated in interviews with the GAO teams responsible for the development of this Report. As stated in these interviews, the Department determined the recommendations above would complement its ongoing efforts to UI combat fraud and that the Department was proceeding with implementing the recommendations. It was noted that the Department is in the process of designating a dedicated entity and documenting responsibilities for managing the process of assessing fraud risks. Also, the Department is working to develop a UI fraud risk profile in accordance with the GAO Fraud Risk Framework. Given the intricacies and complexities associated with the UI program, the Department needs to invest the appropriate time and resources to ensure that this UI fraud risk profile will support a comprehensive strategic approach. Further, we are working to ensure that the development process is done correctly to encourage and promote the potential use of GAO's Fraud Risk Framework elsewhere in the Department.

The Department acknowledges that there is not yet an antifraud strategic plan based on the GAO Framework and resulting UI fraud risk profile. However, the Department has an UI Integrity Strategic Plan for the UI program. Many of the strategies directly address identified fraud risks in the UI program. For example:

- Regarding the fraud risk associated with claims filed in the name of deceased individuals, the Department has invested in tools for states to use as part of the UI Integrity Center's Integrity Data Hub (IDH), which is funded by the Department. In addition to other identity (ID) verification components, the IDH's Identity Verification (IDV) solution includes a cross match to the Death Master File to identify claims filed using identities of deceased individuals. The IDV solution became available in the IDH in July 2020, and provides an advanced, centralized ID verification resource enabling states to assess whether an individual is using a false, stolen, or synthetic ID. The Department has also encouraged states to conduct cross matches using vital statistic records to further identify claims filed using the identities of deceased individuals.
- Regarding the fraud risk associated with claims using suspicious email accounts, the IDH has a resource that allows participating states to cross match their claims against a database of suspicious email domains that have been associated with fraudulent activity. The IDH flags claims with suspicious email domains for further investigation by the submitting state.

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- Regarding the fraud risk associated with claims filed by people who are incarcerated, the Department, in partnership with the Social Security Administration (SSA), established a secure incarceration data exchange between the Interstate Connection Network (ICON) and the SSA's Prisoner Update Processing System (PUPS). The incarceration data exchange provides state UI agencies with the ability to cross match UI claims information with SSA's prisoner data to aid states in determining if an individual meets UI eligibility requirements. States are also encouraged to use other cross matches to identify incarcerated individuals.
- Regarding the fraud risk associated with claims using suspect bank accounts, the Department recently funded a new resource to be incorporated into the IDH, resulting in the implementation of a Bank Account Verification (BAV) service in February 2022. This service provides states with access to near real-time information to proactively identify and authenticate bank account information provided by the UI claimant by validating the account's status and ensuring the individual identified as the claimant is the account owner and/or authorized user prior to initiating the UI benefit payment.

The Department remains committed to moving forward with implementing the GAO's earlier recommendations compiling a UI fraud risk profile using the GAO Fraud Risk Framework. We believe this effort will lead to improvements in our antifraud strategies. We expect the experience will demonstrate value and will become an ongoing part of our ongoing risk assessment processes.

In this Report, GAO makes one new recommendation, specifically:

> The Secretary of Labor should design and implement an antifraud strategy for UI based on a fraud risk profile consistent with leading practices as provided in the Fraud Risk Framework.

The Department partly agrees with GAO's recommendation. As already stated above, the Department is in the process of developing a UI fraud risk profile consistent with leading practices as provided in GAO's Fraud Risk Framework. In addition, the Department is working to implement GAO's previous recommendations. However, the Department does not concur with GAO's assertion that these recommendations and the UI fraud risk profile must be completed before the implementation of new antifraud strategies. In this Report, on page 37, GAO states:

> "While DOL is in the process of developing its fraud risk management program, our six recommendations from October 2021 related to fraud risk management and assessing fraud risks remain open. DOL must first implement these recommendations to be positioned to create and execute an antifraud strategy, consistent with leading practices, that targets fraud risks in a prioritized manner. Without these efforts, DOL cannot ensure that it is prioritizing UI fraud risks effectively."

Prioritizing the completion of GAO's recommendations before implementing any new antifraud strategies or efforts will not be responsive to the immediate needs of the UI system, which could unnecessarily hinder the public trust. As noted previously, we intend to complete the UI fraud risk profile using the GAO's Fraud Risk Framework and complete the prior recommendations

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concerning fraud risk assessment. We will also develop and implement an antifraud strategic plan based on the work in accordance with the GAO Fraud Risk Framework. However, we cannot pause implementation of UI integrity strategies in the meantime. Instead of delaying antifraud efforts, the Department is developing the UI fraud risk profile in tandem with ongoing antifraud efforts. The Department believes the profile can and will successfully augment and improve the Department's current plan and strategies.

Again, we appreciate GAO contributing to the efforts to raise awareness of the importance of the UI programs and the need to invest in meaningful reforms in the UI programs. Thank you for sharing this information and for the opportunity to respond to this Report.

Sincerely,

BRENT PARTON
Acting Assistant Secretary

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Agency Comment Letter

Text of Appendix IV: Comments from the Department of Labor

December 12, 2022

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RE: Unemployment Insurance (UI): Data Indicate Substantial Levels of Fraud During the Pandemic; DOL Should Implement an Antifraud Strategy (GAO-23-105523)

Dear Director Bagdoyan and Director Smith:

The U.S. Department of Labor (Department) appreciates the information, analysis, and insights that the U.S. Government Accountability Office (GAO) has shared in this Report. Combatting fraud in the UI system is an important priority for the Biden-Harris Administration. We note that the Department develops, executes, and updates a dynamic integrity strategic plan, which is an internal document that highlights efforts to address identified fraud risks and reduce improper payments in the UI program. A public facing version of the Department's UI Integrity Strategic Plan is online at https://oui.doleta.gov/unemploy/pdf/ui_prog_integrity_2022.pdf. Additionally, the Department continues to explore, research, identify, invest in, and provide states with new tools, resources, strategies, and guidance to help states combat the continually changing and emerging types of sophisticated fraud impacting the UI system.

Much of this report discusses the Department's progress in implementing existing GAO recommendations, including but not limited to the creation of a UI fraud risk profile. In October 2021[1], GAO made the following recommendations for the Department:

- o The Secretary of Labor should designate a dedicated entity and document its responsibilities for managing the process of assessing fraud risks to the unemployment insurance program, consistent with leading practices as provided in our Fraud Risk Framework. This entity should have, among other things, clearly defined and documented responsibilities and authority for managing fraud
- o risk assessments and for facilitating communication among stakeholders regarding fraud-related issues.
- o The Secretary of Labor should identify inherent fraud risks facing the unemployment insurance program.The Secretary of Labor should assess the likelihood and impact of inherent fraud risks facing the unemployment insurance program.
- o The Secretary of Labor should determine fraud risk tolerance for the unemployment insurance program.
- o The Secretary of Labor should examine the suitability of existing fraud controls in the unemployment insurance program and prioritize residual fraud risks.
- o The Secretary of Labor should document the fraud risk profile for the unemployment insurance program.

During Calendar Year 2022, the Department participated in interviews with the GAO teams responsible for the development of this Report. As stated in these interviews, the Department determined the recommendations above would complement its ongoing efforts to UI combat fraud and that the Department was proceeding with implementing the recommendations. It was noted that the Department is in the process of designating a dedicated entity and documenting responsibilities for managing the process of assessing fraud risks. Also, the Department is working to develop a UI fraud risk profile in accordance with the GAO Fraud Risk Framework. Given the intricacies and complexities associated with the UI program, the Department needs to invest the appropriate time and resources to ensure that this UI fraud risk profile will support a comprehensive strategic approach. Further, we are working to ensure that the development process is done correctly to encourage and promote the potential use of GAO's Fraud Risk Framework elsewhere in the Department.

The Department acknowledges that there is not yet an antifraud strategic plan based on the GAO Framework and resulting UI fraud risk profile. However, the Department has an UI Integrity Strategic Plan for the UI program. Many of the strategies directly address identified fraud risks in the UI program. For example:

- Regarding the fraud risk associated with claims filed in the name of deceased individuals, the Department has invested in tools for states to use as part of the UI Integrity Center's Integrity Data Hub (IDH), which is funded by the

Department. In addition to other identity (ID) verification components, the IDH's Identity Verification (IDV) solution includes a cross match to the Death Master File to identify claims filed using identities of deceased individuals. The IDV solution became available in the IDH in July 2020, and provides an advanced, centralized ID verification resource enabling states to assess whether an individual is using a false, stolen, or synthetic ID. The Department has also encouraged states to conduct cross matches using vital statistic records to further identify claims filed using the identities of deceased individuals.

- Regarding the fraud risk associated with claims using suspicious email accounts, the IDH has a resource that allows participating states to cross match their claims against a database of suspicious email domains that have been associated with fraudulent activity. The IDH flags claims with suspicious email domains for further investigation by the submitting state.
- Regarding the fraud risk associated with claims filed by people who are incarcerated, the Department, in partnership with the Social Security Administration (SSA), established a secure incarceration data exchange between the Interstate Connection Network (ICON) and the SSA's Prisoner Update Processing System (PUPS). The incarceration data exchange provides state UI agencies with the ability to cross match UI claims information with SSA's prisoner data to aid states in determining if an individual meets UI eligibility requirements. States are also encouraged to use other cross matches to identify incarcerated individuals.
- Regarding the fraud risk associated with claims using suspect bank accounts, the Department recently funded a new resource to be incorporated into the IDH, resulting in the implementation of a Bank Account Verification (BAV) service in February 2022. This service provides states with access to near real-time information to proactively identify and authenticate bank account information provided by the UI claimant by validating the account's status and ensuring the individual identified as the claimant is the account owner and/or authorized user prior to initiating the UI benefit payment.

The Department remains committed to moving forward with implementing the GAO's earlier recommendations compiling a UI fraud risk profile using the GAO Fraud Risk Framework. We believe this effort will lead to improvements in our antifraud strategies. We expect the experience will demonstrate value and will become an ongoing part of our ongoing risk assessment processes.

In this Report, GAO makes one new recommendation, specifically:

The Secretary of Labor should design and implement an antifraud strategy for UI based on a fraud risk profile consistent with leading practices as provided in the Fraud Risk Framework.

The Department partly agrees with GAO's recommendation. As already stated above, the Department is in the process of developing a UI fraud risk profile consistent with leading practices as provided in GAO's Fraud Risk Framework. In addition, the Department is working to implement GAO's previous recommendations. However, the Department does not concur with GAO's assertion that these recommendations and the UI fraud risk profile must be completed before the implementation of new antifraud strategies. In this Report, on page 37, GAO states:

"While DOL is in the process of developing its fraud risk management program, our six recommendations from October 2021 related to fraud risk management and assessing fraud risks remain open. DOL must first implement these recommendations to be positioned to create and execute an antifraud strategy, consistent with leading practices, that targets fraud risks in a prioritized manner. Without these efforts, DOL cannot ensure that it is prioritizing UI fraud risks effectively."

Prioritizing the completion of GAO's recommendations before implementing any new antifraud strategies or efforts will not be responsive to the immediate needs of the UI system, which could unnecessarily hinder the public trust. As noted previously, we intend to complete the UI fraud risk profile using the GAO's Fraud Risk Framework and complete the prior recommendations concerning fraud risk assessment. We will also develop and implement an antifraud strategic plan based on the work in accordance with the GAO Fraud Risk Framework. However, we cannot pause implementation of UI integrity strategies in the meantime. Instead of delaying antifraud efforts, the Department is developing the UI fraud risk profile in tandem with ongoing antifraud efforts. The Department believes the profile can and will successfully augment and improve the Department's current plan and strategies.

Again, we appreciate GAO contributing to the efforts to raise awareness of the importance of the UI programs and the need to invest in meaningful reforms in the UI programs. Thank you for sharing this information and for the opportunity to respond to this Report.

Sincerely,

BRENT PARTON
Acting Assistant Secretary

[1] https://www.gao.gov/products/gao-22-105051

Appendix V: GAO Contacts and Staff Acknowledgments

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