

TOP 10 EXAMPLES OF

Outrageous Unemployment Fraud in 2020— And How to Fix It

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KEY FINDINGS

1



UNEMPLOYMENT FRAUD BANKRUPTS TRUST FUNDS AND HARMS THE TRULY NEEDY.

2



FRAUD HURTS SMALL BUSINESSES THAT END UP PAYING HIGHER TAXES TO COVER SHORTFALLS.

3



UNEMPLOYMENT FRAUD SKYROCKETED DURING COVID-19.

4



STATES CAN FIGHT BACK BY IMPLEMENTING COMMONSENSE PROGRAM INTEGRITY REFORMS.

5



LOUISIANA IMPLEMENTED BIPARTISAN, COMMONSENSE REFORM IN DIRECT RESPONSE TO RECENT UPTICKS IN FRAUD TIED TO COVID-19.

BOTTOM LINE:

STATES MUST TAKE ACTION TO ADDRESS UNEMPLOYMENT INSURANCE FRAUD OR BUSINESSES WILL BECOME OVERTAXED, ELIGIBLE CLAIMANTS WILL STRUGGLE TO RECEIVE PAYMENTS, AND STATE WORKFORCE AGENCIES WILL REMAIN BURIED IN FRAUDULENT CLAIMS.

Background

In March of 2020, as the COVID-19 pandemic was garnering the full attention of policymakers across the country and forcing economic shutdowns in the various states, Congress passed the Coronavirus Aid, Relief, and Economic Security Act (CARES) and the Families First Coronavirus Relief Act (FFCRA).¹⁻² These bills included large new expenditures on social welfare programs—including a \$600 weekly unemployment boost—added on top of typical state benefits.³

This boost—which was a staggering 25 times larger than a similar boost provided during the Great Recession in 2009—provided a strong incentive for unemployment fraud.⁴ In fact, as early as June 2020, the Department of Labor Inspector General was warning lawmakers that at least \$26 billion of CARES Act-related spending would be wasted, much of it due to fraud.⁵ For perspective, this is more than all legitimate unemployment spending in 2019.⁶

Unfortunately, these predictions are coming to fruition: Fraudsters reportedly stole \$36 billion in unemployment benefits in 2020.⁷ The federal unemployment trust fund is billions in the red when accounting for outstanding debt borne by states and authorized loans.⁸ States are borrowing (or have been authorized to receive) more than \$50 billion from the Treasury Department to keep their trust funds afloat.⁹ Without putting better program integrity measures into place, it will be difficult to close the gap.

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Why unemployment fraud matters

Unlike many other entitlements, unemployment compensation is funded directly by employers through taxes on the wages they pay. Each employer receives an individualized tax rate based on their own history of employing workers. Every case of unemployment fraud represents not only money being stolen from the system, but also an illegitimate charge against an innocent business just trying to stay open.

Beyond the effect on an individual business, unemployment fraud affects all other businesses, too. When state unemployment funds are defrauded, and their reserves start to drop, states raise unemployment taxes to compensate. Small businesses feel the pain directly. Higher unemployment taxes make it more difficult to restock inventory, pay rent, and, most importantly, employ people in good-paying jobs.

Unemployment compensation scamming is unethical, against the law, and much more common than should be accepted. Whether or not the following cases are ultimately classified as fraud by their state's legal system, they are symptoms of a system in need of protection and reform.

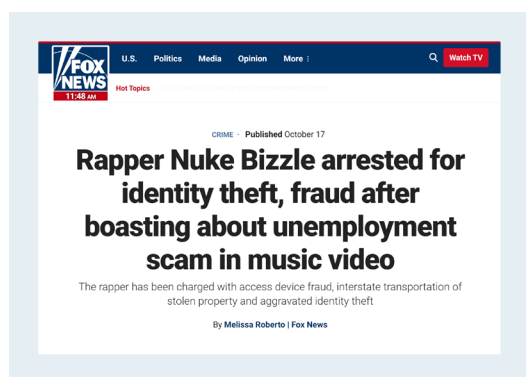
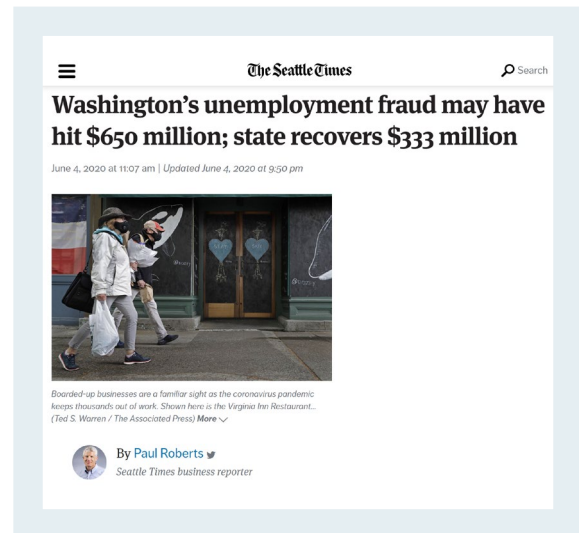
Top 10 Unemployment Fraud Cases of 2020

State unemployment systems are under assault by fraudsters. Even though every dollar stolen from the unemployment system contributes to higher taxes and fewer resources for the truly needy, and is therefore important, some cases are more egregious than others.

HERE ARE 10 OF THE MOST SHOCKING AND ALARMING CASES OF UNEMPLOYMENT FRAUD FROM 2020:

1 CANARY IN THE COAL MINE

The highest-profile example of unemployment fraud perpetrated in 2020 comes from Washington state, where a Nigerian fraud ring named “Scattered Canary” allegedly stole as much as \$650 million in unemployment benefits from the state’s system, as estimated by the state’s Employment Security Department (ESD), though at least one state legislator estimated it to be closer to \$850 million.¹⁰ The state has only recovered approximately \$330 million.¹¹ Perhaps the worst part of this case, though, is that among the victims were ESD employees.¹² Unfortunately, the incentive for fraud is so strong, and the caseloads are so large, that not even those tasked with protecting the system were able to protect themselves.

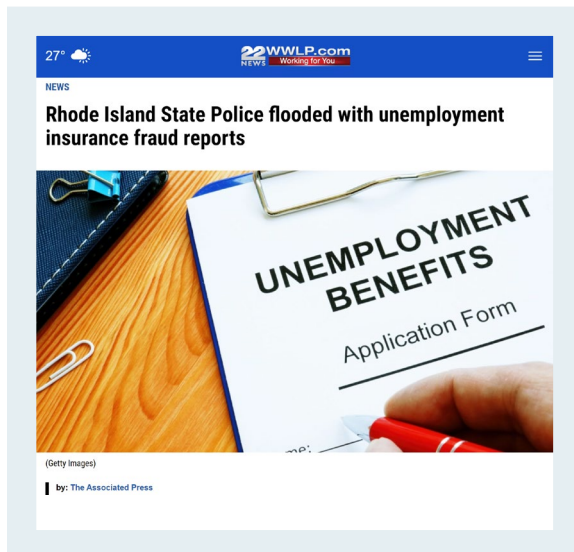


2 SICK BEATS BY A DEADBEAT

Imagining the kind of person who would steal from the unemployed is difficult. Imagining someone who would make a music video about it would be impossible...if it had not already happened. This summer, while millions of Americans were out of work, Rapper Nuke Bizzle recorded “EDD,” a song about stealing unemployment benefits from Californians made jobless by the pandemic.¹³ His alleged “swagger for EDD” would have cost California taxpayers \$1.2 million had he not made the decision to outline the crime in a music video seen more than half a million times before being taken down from YouTube.¹⁴

3 STATE EXECUTIVES VICTIMIZED

Not every high-profile individual involved in unemployment fraud is the alleged perpetrator. In August of 2020, Arkansas's Division of Workforce Services (DWS) froze 37,000 unemployment claims for potential fraud.¹⁵ Among them was Governor Asa Hutchinson, who never applied for benefits; he correctly warned, "It can happen to anyone."¹⁶ Similarly, Michigan's labor department froze one in seven claims for potential fraud in June of 2020, totaling 340,000 cases.¹⁷ Like in Arkansas, one of these cases was a high-profile individual, former Lieutenant Governor Brian Calley.¹⁸ "It was ironic because I was reading about the potential of organized crime widespread across the country filing fraudulent unemployment insurance benefits," Calley said Friday. "And literally like an hour later I opened my mail and had a notice that I had been approved for unemployment benefits."¹⁹

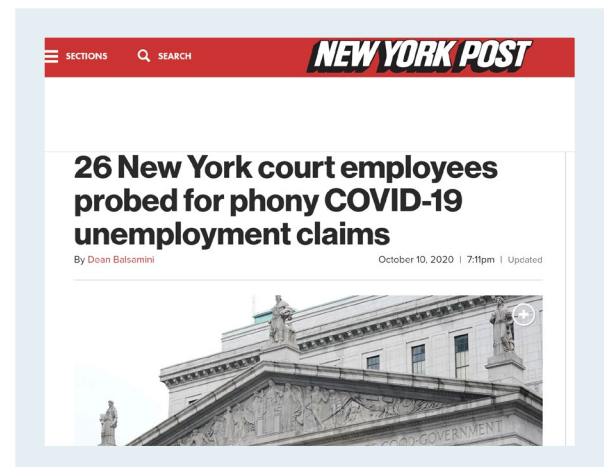


4 OCEAN STATE DROWNS IN FRAUD

As recently as October 2020, Rhode Island State Police were receiving as many as 100 reports of unemployment fraud per day.²⁰ Such high rates of fraud necessitated Rhode Island to call in support from the federal government, and it is fortunate that it did. One joint state-federal investigation uncovered a \$1.2 million fraud operation allegedly perpetrated by merely four individuals.²¹ "When people collect benefits they aren't entitled to, as is alleged here, they reduce the amount of benefits that are available to those who are eligible and who really need them," said Attorney General Peter Neronha.²²

5 IPSO FACTO DEFRAUDO

The judicial system exists to interpret and apply the law, fairly and equitably. However, some employees of New York's courts have allegedly decided that applying the law is less profitable than breaking it. In October, the New York Post reported that the court system's inspector general was investigating 26 judicial employees who filed for unemployment benefits while still on the job.²³



6 THE CHECK'S IN THE MAIL (BUT SHOULDN'T BE)

Police in Riverside, California recently discovered a new phenomenon in unemployment fraud: Fraudsters are using unsuspecting individuals' addresses as cover, getting benefits mailed there, presumably to avoid detection.²⁴ Detective Brian Money estimated that the value of claims range anywhere from \$2,000 to \$20,000 per case, and hundreds of cases were being investigated from all over the country.²⁵ California's inability to properly control its unemployment system is now affecting innocent citizens' privacy and turning their very own mailboxes into tools for fraud.



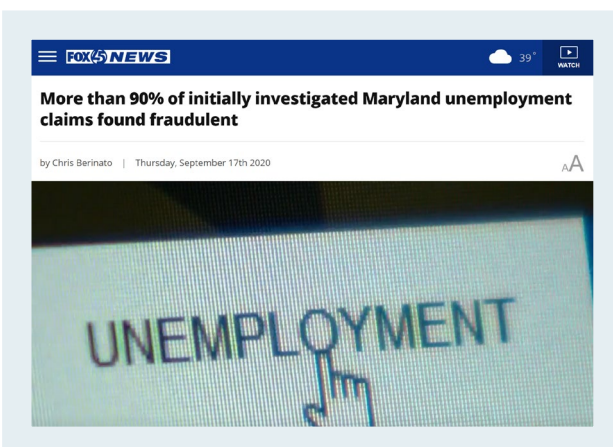
7 COMMITTING FRAUD FROM BEHIND BARS

In 2016, Ohio investigators found the state had been providing unemployment benefits to more than 1,500 inmates.²⁶ This scam predates the pandemic, but it came back while states' departments of labor were overwhelmed with cases after the CARES Act. In Pennsylvania, investigations revealed an estimated \$200 million in fraud and 10,000 inmates attempting to claim unemployment from state prisons alone.²⁷ Charges against dozens of incarcerated individuals have been filed, likely with more to come.²⁸



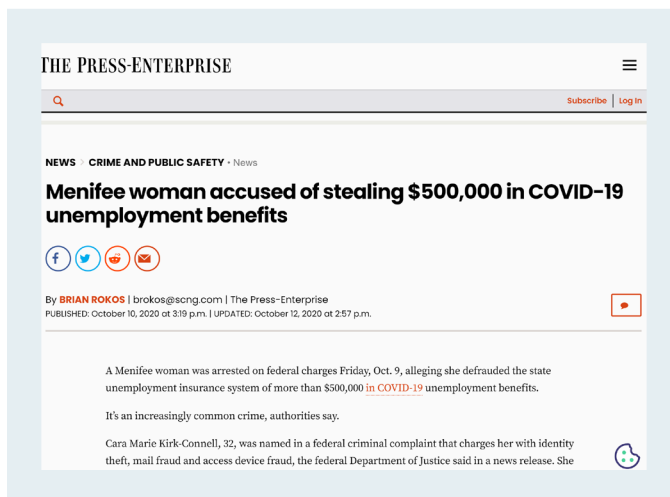
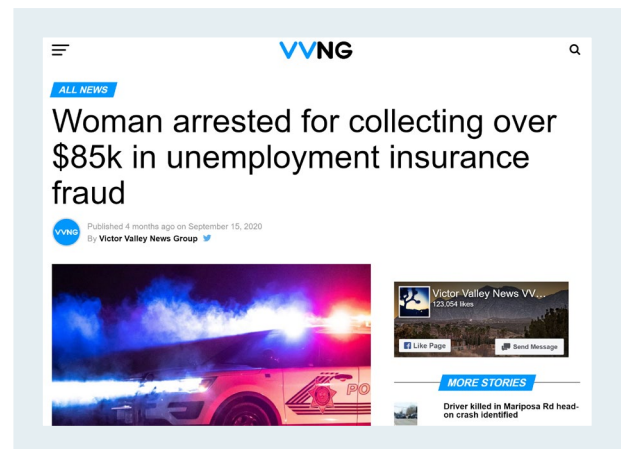
8 FRAUD IS THE RULE

At one point, nearly 95 percent of Maryland's claims had to be investigated as potentially fraudulent.²⁹ As part of its investigation, Maryland canceled more than 48,000 out-of-state claims, requiring claimants to submit more paperwork.³⁰ 44,000 of those claims submitted no follow-up, suggesting fraud.³¹



9 CALIFORNIA EDDREAMING

Fraudsters have clearly found opportunities in California, and unemployment fraud is beginning to bleed into other kinds of crime, too. In September of 2020, authorities arrested six individuals for unemployment fraud after a traffic stop where police found \$40,000 in cash and EDD (benefit) cards.³² Another case involved \$85,000 in benefits discovered during a traffic stop of an allegedly license-less individual.³³ Unfortunately, the explosion of fraud has made investigating it difficult for authorities, leading to an unfortunate instance where a woman had no recourse as she was alerted via text, in real time, as she was being defrauded.³⁴



10 THE TICKING CLOCK

When it comes to preventing unemployment fraud and recovering any improper payments, urgency and speed matter. Letting cases linger can result in unnecessary costs. For example, in October 2020, the Department of Justice filed charges against a California woman for actions related to unemployment fraud.³⁵ The woman allegedly stole victims' identities and used them to file for more than \$530,000 in benefits.³⁶

How to fix it

Thankfully, there are simple policy solutions to improve unemployment system integrity outcomes. These solutions are commonsense, non-controversial, and some have already been adopted as a direct response to fraud spikes suffered during the pandemic.

1. REQUIRE WEEKLY CROSSCHECKS OF WAGES, PRISON ROSTERS, AND MORE.

State unemployment agencies are tasked with maintaining the integrity of the state's unemployment program. To police the system, they employ many tools, but few are as obviously intuitive as cross-referencing their body of unemployment claims for eligibility.

One typical practice for state unemployment agencies is to cross-reference their claims against the state's quarterly tax and wage reports, provided by employers. However, rather than simply once per quarter, states should be performing these checks every week, since unemployment claims themselves happen every week.

Further, a cross-reference is only as good as the database it utilizes. Therefore, weekly checks should be made against three important databases: prison records, the National Directory of New Hires, and the NASWA Integrity Data Hub. These are pre-existing databases to which states should already have access.

State legislatures should also require their workforce agencies to report back, at least once per year, about their implementation of and findings from these crosschecks, including overpayments detected and money saved.³⁷

2. REQUIRE WORKFORCE AGENCIES TO RECOVER ALL OVERPAYMENTS.

State lawmakers should also require state workforce agencies to recover all fraud and non-fraud overpayments. Further, state workforce agencies should be required to report and explain to state legislators and the public any cases where they fail or refuse to recover any overpayments, even for allowable reasons such as agency error. Fraud and overpayment recovery should not be optional, since the unemployment tax increases on small businesses that are caused by a leaky unemployment program are also non-optional.



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Louisiana is showing the way

Louisiana policymakers recently recognized the importance of protecting the state’s unemployment system. During an October special legislative session, a bill was introduced requiring the state’s unemployment agency to implement a variety of weekly crosschecks to ensure enrollees are truly eligible for benefits.

The bill received support from the Louisiana Workforce Commission, passed both chambers of the legislature unanimously, and was ultimately signed into law by Democrat Governor John Bel Edwards.³⁸

Conclusion

Unemployment fraud is unethical and illegal. This is obviously true during a pandemic, but also during typical periods of public health and in normal economic conditions. And, while most every state’s unemployment system is currently in a tenuous fiscal position, there is hope: Many of the cases of fraud outlined here may very well have been prevented had states enacted FGA’s fraud and overpayment detection solutions. This would save taxpayer money, keep trust funds solvent, and make sure resources are there for the truly needy.

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