

SEPTEMBER 1, 2021



# Top Five Unemployment Insurance Fraud Schemes—And How to Stop Them

**Alli Fick**  
*Senior Research Fellow*

**Jonathan Ingram**  
*Vice President of Policy and Research*

# KEY FINDINGS



CONGRESS MADE UNEMPLOYMENT INSURANCE FRAUD **LUCRATIVE AND EASY TO COMMIT.**



MANY STATES **DO NOT HAVE SUFFICIENT SAFEGUARDS** TO PROTECT AGAINST UNEMPLOYMENT INSURANCE FRAUD.



**A LACK OF SAFEGUARDS HAS ENABLED FRAUD SCHEMES** LIKE FILING IN MULTIPLE STATES, USING STOLEN IDENTITIES, CLAIMING BENEFITS FROM BEHIND BARS, AND MORE.



UNEMPLOYMENT FRAUD HAS **BILKED TAXPAYERS OUT OF BILLIONS.**



STATE LAWMAKERS HAVE A NUMBER OF **COMMONSENSE SOLUTIONS TO END UNEMPLOYMENT FRAUD SCHEMES.**

## THE BOTTOM LINE:

**LAWMAKERS NEED TO ACT NOW TO PUT A STOP TO UNEMPLOYMENT INSURANCE FRAUD SCHEMES.**

## Background

The unemployment system has long been plagued by waste, fraud, and abuse.<sup>1</sup> But through pandemic-related federal programs, Congress has only made fraud more lucrative and easier to commit. Congress expanded unemployment program eligibility, extended program duration, and even provided a bonus on top of state-paid benefits—making fraud pay better than ever.<sup>2</sup> To make matters worse, the federal government suspended the Benefit Accuracy Measurement program in 2020, a tool used to detect improper payments and verify program eligibility.<sup>3-4</sup>



**IN 2020, THE FEDERAL GOVERNMENT SUSPENDED THE BENEFIT ACCURACY MEASUREMENT PROGRAM, A TOOL USED TO DETECT IMPROPER PAYMENTS AND VERIFY PROGRAM ELIGIBILITY.**

The COVID-19 pandemic has made clear that many states lack sufficient safeguards on their unemployment systems, enabling fraudsters to bilk taxpayers out of billions of dollars.<sup>5</sup> The lack of safeguards allowed fraudsters to file for benefits in multiple states, use stolen identities, claim benefits from behind bars, and more.<sup>6</sup> **As a result, taxpayers could now be on the hook for more than \$300 billion in improper unemployment payments.**<sup>7</sup>

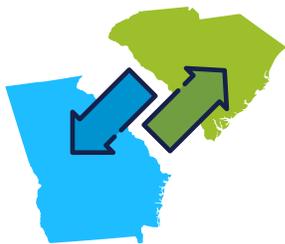
Thankfully, states have tools readily available to shut fraud schemes down. But they must act quickly. Further delays will only mean higher taxes on employers as the state tries to replenish funds decimated by fraud.

**1**

### **SCHEME: WHY APPLY IN JUST ONE STATE WHEN YOU CAN APPLY IN ALL 50?**

#### **SOLUTION: SHARE AND CROSSMATCH UNEMPLOYMENT ENROLLMENT WITH OTHER STATES.**

Over an eight-month period in 2020, auditors at the U.S. Department of Labor identified more than \$3.5 billion in payments to individuals who filed for unemployment benefits in two or more states.<sup>8</sup> In one case, an individual applied for unemployment in at least 45 states, receiving a total of \$350,000 in fraudulent benefits.<sup>9-10</sup> Bank of America, which processes the pre-paid debit cards used by California's unemployment system, identified 76,000 cards sent to individuals in other states that do not even border California.<sup>11</sup>



**OVER AN EIGHT-MONTH PERIOD IN 2020, AUDITORS AT THE U.S. DEPARTMENT OF LABOR IDENTIFIED MORE THAN \$3.5 BILLION IN PAYMENTS TO INDIVIDUALS WHO FILED FOR UNEMPLOYMENT BENEFITS IN TWO OR MORE STATES.**

These fraud schemes occurred because many states were not performing sufficient data cross-matches. Shockingly, only six states performed the minimum data crossmatches recommended by the U.S. Department of Labor.<sup>12</sup>

Fortunately, lawmakers can stop these fraud schemes by sharing and crossmatching unemployment enrollment with other states. In practice, all state workforce agencies may join the National Association of State Workforce Agencies and participate in the Integrity Data Hub (IDH).<sup>13-14</sup> IDH is a tool that allows workforce agencies to check for multi-state unemployment claims, among other features.<sup>15</sup> This means that states can share and crossmatch data with other states, preventing fraudsters from claiming benefits in multiple states.

## **2 SCHEME: WHY USE YOUR OWN NAME WHEN YOU CAN USE THE GOVERNOR'S INSTEAD?**

### **SOLUTION: CODIFY STRONGER IDENTITY VERIFICATION PROCEDURES FOR UNEMPLOYMENT INSURANCE ELIGIBILITY AND CROSSMATCH DATA WITH THE INTEGRITY DATA HUB.**

Identity theft is one of the most popular ways for fraudsters to scam the unemployment system, with some crime rings filing claims on behalf of tens of thousands of victims in multiple states.<sup>16-17</sup> The Federal Trade Commission received nearly 400,000 complaints from victims whose identities were stolen for government benefits like unemployment—an increase of nearly 3,000 percent since 2019.<sup>18</sup>



**THE FEDERAL TRADE COMMISSION RECEIVED NEARLY 400,000 COMPLAINTS FROM VICTIMS WHOSE IDENTITIES WERE STOLEN FOR GOVERNMENT BENEFITS LIKE UNEMPLOYMENT—AN INCREASE OF NEARLY 3,000 PERCENT SINCE 2019.**

**In Iowa, officials reported that fraudsters were using stolen identities to file an average of 87 claims per day since the start of the pandemic.**<sup>19</sup> One fraudster used hundreds of stolen identities to file claims in Hawaii, Massachusetts, Montana, New York, Pennsylvania, Washington, and Wyoming—all connected to a single e-mail address.<sup>20</sup>

And it can happen to anyone, as Arkansas Governor Asa Hutchinson, multiple members of Congress, Wall Street Journal reporters, and even state employees at the agencies responsible for processing unemployment claims have discovered firsthand.<sup>21-24</sup>

Critical to ending these massive and ongoing identity theft fraud schemes is ensuring accurate eligibility determinations. And states have a variety of tools to strengthen identity verification including crossmatching data with the U.S. Social Security Administration, verifying citizenship, checking IP addresses for foreign or multiple claims, requiring real-time authentication, and more.<sup>25</sup> State lawmakers should codify stronger verification language into law and require state workforce agencies crossmatch data with IDH.

### **3 SCHEME: I SEE DEAD PEOPLE...ON UNEMPLOYMENT.**

#### **SOLUTION: CROSSMATCH UNEMPLOYMENT ENROLLMENT WITH DEATH RECORDS.**

Fraudsters have not limited themselves to stealing identities of the living but are also filing thousands of claims on behalf of the deceased. Families of individuals who have been dead for years have reported fraudulent claims being filed in their deceased relatives' names.<sup>26-29</sup> A federal audit found nearly 100,000 Social Security numbers of deceased individuals were used to file unemployment claims over the course of an eight-month investigation in 2020.<sup>30</sup>



**A FEDERAL AUDIT FOUND NEARLY 100,000 SOCIAL SECURITY NUMBERS OF DECEASED INDIVIDUALS WERE USED TO FILE UNEMPLOYMENT CLAIMS OVER THE COURSE OF AN EIGHT-MONTH INVESTIGATION IN 2020.**

Unfortunately, the reality is that states are not properly crossmatching unemployment data with death records, enabling fraud schemes to continue. To prevent improper payments like these, states should crossmatch unemployment enrollment with death records.

### **4 SCHEME: READY, WILLING, AND ABLE TO WORK—WHILE BEHIND BARS?**

#### **SOLUTION: CROSSMATCH UNEMPLOYMENT ENROLLMENT WITH LOCAL, STATE, AND FEDERAL PRISON DATABASES.**

Unemployment systems across the country have been targeted by criminals, including those already behind bars. In California, for example, more than 35,000 fraudulent claims were filed by or on behalf of prison inmates.<sup>31</sup> This fraud scheme encompassed nearly one in five death row inmates, including serial killer Cary Stayner.<sup>32-33</sup> But these schemes aren't just limited to California. Auditors in Louisiana, for example, identified more than 1,100 inmates receiving unemployment benefits.<sup>34</sup> In Pennsylvania, officials found more than 10,000 inmates who had fraudulently filed for benefits.<sup>35</sup> The Virginia Employment Commission estimated that at least \$40 million in benefits were paid out to inmates.<sup>36</sup>



**IN CALIFORNIA, MORE THAN 35,000 FRAUDULENT CLAIMS WERE FILED BY OR ON BEHALF OF PRISON INMATES.**

These fraud schemes were made possible by states' infrequent or lack of crossmatching with available prison records. In fact, California claimed for years that the state would crossmatch unemployment data against prison records—but never did—costing taxpayers \$810 million.<sup>37</sup> To prevent this from happening, lawmakers should require unemployment enrollment to be crossmatched against local, state, and federal prison databases.

## **5 SCHEME: NOT UNEMPLOYED? FILE FOR UNEMPLOYMENT ANYWAY!**

### **SOLUTION: RECOVER OVERPAYMENTS AND ENFORCE CRIMINAL PENALTIES FOR UNEMPLOYMENT FRAUD.**

A recent audit in Kentucky revealed that unemployment benefits were paid to active, full-time state employees, many of whom worked for the state workforce agency.<sup>38</sup> Worse yet, some of these employees even had access and control over their own claims within the system.<sup>39</sup>

An open avenue for fraud is self-certification, meaning that individuals just had to claim they are unemployed to receive benefits.<sup>40</sup> But an audit revealed that Kentucky was not even doing that, paying claimants automatically.<sup>41</sup>

Thankfully, states can deter potential fraudsters by enforcing existing criminal penalties and recovering improper payments.<sup>42</sup> When improper payments are paid to bad actors, states should claw back overpayments. And states have a variety of tools at their disposal to recover payments, including wage garnishments, property liens, legal actions, and more.<sup>43</sup> To deter future bad actors, states should also enforce existing criminal penalties for anyone engaging in unemployment fraud.<sup>44</sup>



**When improper payments are paid to bad actors, states should claw back overpayments. And states have a variety of tools at their disposal to recover payments, including wage garnishments, property liens, legal actions, and more.**



### **BOTTOM LINE: States must act to shut fraud schemes down and protect the unemployment insurance program.**

States are taking action to protect their unemployment insurance systems from bad actors. In fact, Alabama, Arizona, Arkansas, Kansas, Kentucky, Louisiana, Montana, and West Virginia have all recently passed commonsense reforms to safeguard their systems. But more work remains to be done.

Lawmakers must act quickly to end unemployment insurance fraud schemes. Instituting a few simple solutions can save taxpayers millions and help replenish states' depleted unemployment trust funds.

## REFERENCES

1. Jonathan Bain, et al., “Unmasking the unemployment crisis: The new pandemic plaguing America,” Foundation for Government Accountability (2021), <https://thefga.org/paper/unemployment-fraud-crisis>.
2. Ibid.
3. Employment and Training Administration, “Benefit Accuracy Measurement,” U.S. Department of Labor (2021), [https://oui.doleta.gov/unemploy/pdf/BAM\\_Overview.pdf](https://oui.doleta.gov/unemploy/pdf/BAM_Overview.pdf).
4. Employment and Training Administration, “Pandemic flexibilities,” U.S. Department of Labor (2020), <https://oui.doleta.gov/unemploy/pdf/pandemicflexibilities2.pdf>.
5. Jonathan Bain, et al., “Unmasking the unemployment crisis: The new pandemic plaguing America,” Foundation for Government Accountability (2021), <https://thefga.org/paper/unemployment-fraud-crisis>.
6. Ibid.
7. Ibid.
8. Office of Inspector General, “Alert memorandum: The Employment and Training Administration needs to ensure state workforce agencies implement effective unemployment insurance program fraud controls for high risk areas,” U.S. Department of Labor (2021), <https://www.oversight.gov/sites/default/files/oig-reports/DOL/19-21-002-03-315-UI-COVID-19-Alert-Memo022221.pdf>.
9. U.S. v. Heritage, Criminal No. 6:21cr60007 (W.D. Ark.) (2021), <https://files.hugheshubbard.com/files/Heritage-plea-agreement.pdf>.
10. U.S. Attorney’s Office for the Western District of Arkansas, “Hot Springs man pleads guilty to charges in connection with obtaining coronavirus relief funds,” U.S. Department of Justice (2021), <https://www.justice.gov/usao-wdar/pr/hot-springs-man-pleads-guilty-charges-connection-obtaining-coronavirus-relief-funds>.
11. Dale Kasler and David Lightman, “COVID-19 unemployment scam could hit \$2 billion, bank tells California lawmakers,” Sacramento Bee (2020), <https://www.sacbee.com/news/california/article247676875.html>.
12. Department of Labor, “COVID-19: States struggled to implement Cares Act unemployment insurance programs,” U.S. Department of Labor (2021), <https://www.oig.dol.gov/public/reports/oa/2021/19-21-004-03-315.pdf>.
13. National Association of State Workforce Agencies, “NASWA membership,” National Association of State Workforce Agencies (2021), <https://www.naswa.org/about/naswa-membership>.
14. Office of Inspector General, “Alert memorandum: The Employment and Training Administration needs to ensure state workforce agencies implement effective unemployment insurance program fraud controls for high risk areas,” U.S. Department of Labor (2021), <https://www.oversight.gov/sites/default/files/oig-reports/DOL/19-21-002-03-315-UI-COVID-19-Alert-Memo022221.pdf>.
15. Ibid.
16. U.S. Attorney’s Office for the Western District of Arkansas, “Hot Springs man pleads guilty to charges in connection with obtaining coronavirus relief funds,” U.S. Department of Justice (2021), <https://www.justice.gov/usao-wdar/pr/hot-springs-man-pleads-guilty-charges-connection-obtaining-coronavirus-relief-funds>.
17. Paul Roberts, “Washington’s unemployment fraud may have hit \$650 million; state recovers \$333 million,” The Seattle Times (2020), <https://www.seattletimes.com/business/economy/washingtons-unemployment-fraud-may-have-hit-650-million-state-recovers-333-million>.
18. Federal Trade Commission, “Protecting consumers during the COVID-19 pandemic: A year in review,” Federal Trade Commission (2021), [https://www.ftc.gov/system/files/documents/reports/protecting-consumers-during-covid-19-pandemic-year-review/covid\\_staff\\_report\\_final\\_419\\_0.pdf](https://www.ftc.gov/system/files/documents/reports/protecting-consumers-during-covid-19-pandemic-year-review/covid_staff_report_final_419_0.pdf).
19. Clark Kauffman, “Iowa has logged 37,000 fraudulent claims for unemployment during the pandemic,” Iowa Public Radio (2021), <https://www.iowapublicradio.org/ipr-news/2021-05-06/iowa-has-logged-37-000-fraudulent-claims-for-unemployment-during-the-pandemic>.
20. U.S. Attorney’s Office for the Western District of Washington, “Nigerian citizen charged with defrauding Washington State Employment Security Department of over \$350,000,” U.S. Department of Justice (2021), <https://www.justice.gov/usao-wdwa/pr/nigerian-citizen-charged-defrauding-washington-state-employment-security-department>.
21. Siobhan Riley, “Unemployment scam causes Arkansas governor to become victim of identity theft,” FOX-13 (2020), <https://www.fox13memphis.com/news/local/unemployment-scam-causes-arkansas-governor-becomes-victim-identity-theft/RZKZW3DBSRF73PAXNRJDMDFXRU>.
22. Vic Faust, “Illinois congressman a target in nationwide fraud scheme,” FOX-2 (2020), <https://fox2now.com/news/illinois/illinois-congressman-a-target-in-nationwide-fraud-scheme>.
23. Anne Tergesen, “Unemployment-benefits fraud has soared in the pandemic: Here’s what to do,” Wall Street Journal (2021), <https://www.wsj.com/articles/unemployment-benefits-fraud-has-soared-in-the-pandemic-heres-what-to-do-11619688601>.
24. Mike Rogoway, “Identity thieves using Oregon state employees’ names for fraudulent unemployment claims,” Oregonian (2021), <https://www.oregonlive.com/business/2021/04/identity-thieves-using-oregon-state-employees-names-for-fraudulent-unemployment-claims.html>.
25. Department of Labor, “Unemployment insurance program letter no. 28-20,” U.S. Department of Labor (2020), [https://wdr.doleta.gov/directives/attach/UIPL/UIPL\\_28-20.pdf](https://wdr.doleta.gov/directives/attach/UIPL/UIPL_28-20.pdf).
26. Nancy Molnar, “Fraudulent unemployment compensation, claims reported,” Times-Reporter (2021), <https://www.timesreporter.com/story/news/2021/02/03/fraudulent-unemployment-claims-filed-under-names-dead-retired/4371106001>.

27. CBS-2, "Fraudsters file unemployment claim in name of man who died more than a year ago; Daughter worries it will affect estate," CBS-2 (2020), <https://chicago.cbslocal.com/2020/12/15/fraudsters-file-unemployment-claim-in-name-of-man-who-died-more-than-a-year-ago-daughter-worries-it-will-affect-estate>.
28. Samantha Chatman, "Illinois unemployment IDES debit cards being sent to the deceased, relatives want answers," ABC-7 (2020), <https://abc7chicago.com/illinois-unemployment-ides-debit-card-fraud/6339611>.
29. Lauren Victory, "Peoria woman receives unemployment benefits card for mom who's been dead two years," CBS-2 (2020), <https://chicago.cbslocal.com/2020/07/16/peoria-woman-receives-unemployment-benefits-card-for-mom-whos-been-dead-two-years>.
30. Office of Inspector General, "Alert memorandum: The Employment and Training Administration needs to ensure state workforce agencies implement effective unemployment insurance program fraud controls for high risk areas," U.S. Department of Labor (2021), <https://www.oversight.gov/sites/default/files/oig-reports/DOL/19-21-002-03-315-UI-COVID-19-Alert-Memo022221.pdf>.
31. Anne Marie Schubert et al., "Unemployment insurance fraud involving tens of thousands of local, state, and federal inmates and hundreds of millions of dollars," California District Attorneys Association (2020), <https://calmatters.org/wp-content/uploads/2020/11/EDD-Letter.pdf>.
32. Ibid.
33. Josh Lyle and Ananda Rochita, "Scott Peterson named among inmates given money in EDD unemployment fraud in California prisons, jails," ABC-10 (2020), <https://www.abc10.com/article/money/edd-fraud-jails/103-b27ee8f8-a0b1-4db3-8645-67316dedad35>.
34. Data Analytics Unit, "Improper payments in the unemployment insurance program: Ineligible incarcerated recipients," Louisiana Legislative Auditor (2021), [http://app.la.state.la.us/PublicReports.nsf/0/5039B45EEDA15366862586C5007680D7/\\$FILE/00023673A.pdf](http://app.la.state.la.us/PublicReports.nsf/0/5039B45EEDA15366862586C5007680D7/$FILE/00023673A.pdf).
35. Paula Reed Ward, "Officials: Pennsylvania inmates illegally received coronavirus unemployment benefits," Trib Live (2020), <https://triblive.com/local/regional/officials-pa-inmates-illegally-received-coronavirus-unemployment-benefits>.
36. Sarah Rankin and Denise Lavoie, "Reports: Virginia paid \$40 million in inmate unemployment scams," WSET (2021), <https://wset.com/news/local/reports-virginia-paid-40m-in-inmate-unemployment-scams>.
37. State Auditor, "Significant weaknesses in EDD's approach to fraud prevention have led to billions of dollars in improper benefit payments," California State Auditor (2021), <https://www.auditor.ca.gov/pdfs/reports/2020-628.2.pdf>.
38. Mike Harmon, "Report of the statewide single audit of the Commonwealth of Kentucky-Volume II," Auditor of Public Accounts (2021), [http://apps.auditor.ky.gov/Public/Audit\\_Reports/Archive/2020sswakvolumetwo.pdf](http://apps.auditor.ky.gov/Public/Audit_Reports/Archive/2020sswakvolumetwo.pdf).
39. Ibid.
40. Department of Labor, "COVID-19: States cite vulnerabilities in detecting fraud while complying with the CARES Act UI program self-certification requirement," U.S. Department of Labor (2020), <https://www.oig.dol.gov/public/reports/oa/2021/19-21-001-03-315.pdf>.
41. Mike Harmon, "Report of the statewide single audit of the Commonwealth of Kentucky-Volume II," Auditor of Public Accounts (2021), [http://apps.auditor.ky.gov/Public/Audit\\_Reports/Archive/2020sswakvolumetwo.pdf](http://apps.auditor.ky.gov/Public/Audit_Reports/Archive/2020sswakvolumetwo.pdf).
42. Jonathan Bain, et al., "Unmasking the unemployment crisis: The new pandemic plaguing America," Foundation for Government Accountability (2021), <https://thefga.org/paper/unemployment-fraud-crisis>.
43. Employment and Training Administration, "Unemployment insurance program letter no. 23-20," U.S. Department of Labor (2020), <https://www.naswa.org/system/files/2021-03/unemploymentinsuranceprogramletterno23-20.pdf>.
44. Employment and Training Administration, "Report unemployment insurance fraud," U.S. Department of Labor (2020), <https://www.dol.gov/agencies/eta/unemployment-insurance-payment-accuracy/UIFraudReporting>.



15275 Collier Boulevard | Suite 201-279  
Naples, Florida 34119  
(239) 244-8808

[TheFGA.org](http://TheFGA.org) | [@TheFGA](https://twitter.com/TheFGA) | [TheFGA](https://www.instagram.com/TheFGA) | [TheFGA](https://www.facebook.com/TheFGA)