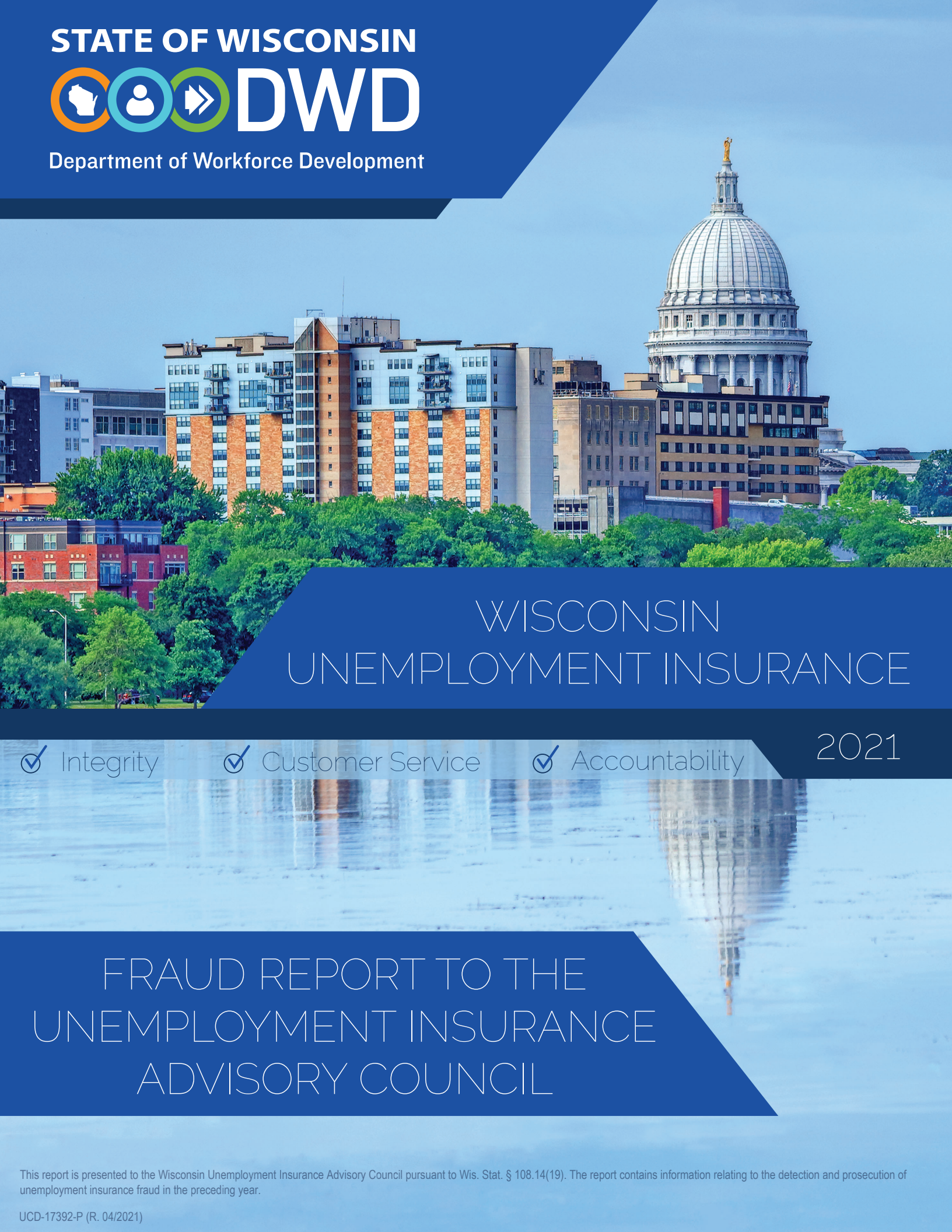


STATE OF WISCONSIN



Department of Workforce Development



WISCONSIN UNEMPLOYMENT INSURANCE

✓ Integrity

✓ Customer Service

✓ Accountability

2021

FRAUD REPORT TO THE UNEMPLOYMENT INSURANCE ADVISORY COUNCIL

This report is presented to the Wisconsin Unemployment Insurance Advisory Council pursuant to Wis. Stat. § 108.14(19). The report contains information relating to the detection and prosecution of unemployment insurance fraud in the preceding year.

UCD-17392-P (R. 04/2021)

March 15, 2021

Dear Members of the Unemployment Insurance Advisory Council:

On behalf of the Department of Workforce Development (DWD), Administrator Mark Reihl and I are pleased to present the 2021 Unemployment Insurance (UI) Fraud Report, outlining the UI Division's efforts to combat waste, fraud, and abuse in 2020.

It was an unprecedented year, both in terms of the number of claims filed and the sophisticated, coordinated attempts of criminals to target Wisconsin's UI system and push through fraudulent claims. States across the country faced an onslaught of scams and fraud, often perpetrated by international crime rings. Much of DWD's fraud prevention work in 2020 was focused on preventing criminals from using stolen information to access our claims system and on protecting the identities of people who have filed legitimate claims.

Some states were forced to temporarily suspend all benefit payments because their systems had become overrun with fraudulent activity. While Wisconsin has not experienced a level of activity requiring such drastic measures, the battle against scams and fraud continues to be a focus, and we have committed many resources to this effort. Since last March, DWD has implemented a variety of claims system enhancements aimed at preventing and detecting fraud. For instance, preventive controls such as website geo-blocking and Google reCaptcha were put in place and improved scans of access activity to detect fraudulent access are being performed. DWD has upgraded our servers with additional firewall capabilities, added new login security measures, and required additional authentication when individuals create new accounts. We also perform advanced fraud data analytics on claims after they are filed and before releasing payments. DWD is constantly reviewing, analyzing, and modifying our approach to stop bad actors, and we place high value on the security of our system.

Preventing fraud is also about outreach and education. DWD collaborates with other states on best practices for blocking and detecting bots and other imposter activity. We continually update our website (dwd.wisconsin.gov/ui/fraud) with information about known fraud and identity theft scams, such as mimicked Facebook pages, phishing emails, credential stuffing hacking schemes, and spoofed emails. The site also directs people to agencies where they can report potential identity theft and supplies resources for victims.

Maintaining the integrity of Wisconsin's Unemployment Insurance program is critical in order to ensure benefits are paid only to those who qualify under the law and employers are assessed the proper tax rate. Our focus in 2020 was paying the many individuals in need the benefits they were due.

Sincerely,



Amy Pechacek, Secretary-designee
Department of Workforce Development



Mark Reihl, Administrator
Unemployment Insurance Division

DETECTION TOOLS

Dedicated UI Workers

Staff vigilance is one of the division's best tools for detection. The Integrity and Quality Section within the Benefit Operations Bureau provides training to staff on methods for detecting and reporting fraud. The Integrity and Quality Section consists of experienced investigators who investigate the most complex and organized efforts to defraud the system.

Wage Verification

The division sends wage verification notices to employers when claimants report wages in a week as well as when claimants, who had been reporting wages weekly, report no wages in a week. This allows employers the opportunity to timely report wages and other eligibility issues.

Cross-Matches

The division uses numerous cross-matches that assist in detecting UI fraud:

Quarterly Wage Cross-Match – This cross-match compares benefit payment records with quarterly wage records submitted by employers covered under Wisconsin's UI program. This helps to verify wages are properly reported on unemployment claims.

Interstate Wage Record Cross-Match – This cross-match compares benefit payment records with quarterly wage records submitted by employers from other states. This helps to verify wages are properly reported on unemployment claims.

Inmate Cross-Match – Claimants may be ineligible for UI benefits if incarcerated. This tool consists of two cross-match programs: one that compares benefit payment records to incarceration records for all of Wisconsin's county jails and prisons, and a second that compares benefit payment records to incarceration records for facilities nationwide.

Wisconsin and National New Hire Cross-Match – Employers must report basic information about employees who are newly hired, rehired, or return to work after a separation from employment. Division staff cross-match UI payment records with new hire information. Wisconsin cross-matches quarterly federal wage data from the National Directory of New Hires reports for claimants who are former federal government employees.

Vital Statistics (Death Records) Cross-Match – The Wisconsin Department of Health Services provides a record of deaths in Wisconsin that is cross-matched with UI data to determine whether UI claims continue to be filed after a claimant is deceased.

SSDI Cross-match – This cross-match compares individuals currently listed as receiving Social Security Disability Insurance with claimants filing initial and weekly unemployment claims.

Other Detection Approaches

Additional detection approaches used to preserve and protect the integrity of the UI Trust Fund include:

- ▶ Audits of employers - resulting in employer contribution assessments totaling approximately \$1.9 million in 2020;
- ▶ Employer complaints and tips from the public concerning suspected fraudulent claims;

- ▶ Using 1099 information from the Internal Revenue Service to investigate employers who may be misclassifying employees as independent contractors;
- ▶ Contacts from local, state, and federal law enforcement officers regarding suspicious activities;
- ▶ U.S. Bank's sophisticated fraud monitoring tools, which allow the department to monitor, predict, and respond quickly to suspected fraudulent activity; and
- ▶ Meetings with several other state agencies on a quarterly basis to discuss fraud trends and cases of mutual interest. The agencies share fraud tips to ensure fraud occurring across agencies is thoroughly investigated and stopped.

WORKER CLASSIFICATION

Worker misclassification contributes to waste and fraud in the UI program through the loss of UI tax revenue from employers who misclassify workers, and the creation of an unfair business climate that places businesses that follow the law at a competitive disadvantage. It also denies workers, who are out of work through no fault of their own, access to the UI benefits they may have been eligible for if they were properly classified.

The historic number of claims related to the COVID-19 pandemic required the division to prioritize claims processing over audit and worker classification investigations. Nevertheless, Wisconsin UI auditors conducted 1,269 audits and identified 8,925 misclassified workers. Due to the division's efforts to detect worker misclassification, \$2.34 million was generated in UI taxes and interest.

Worksite investigations are conducted by experienced division investigators, many of whom have law enforcement backgrounds in white collar and economic crime investigations. The division conducted 244 worker classification field investigations in 2020.

FRAUD OVERPAYMENTS

The division remains committed to ensuring the integrity of the UI program as evidenced by the continued decline of fraud against the Wisconsin UI program. UI fraud overpayments declined by 4 percent from 2019 to 2020.

	2020 Amount	2019 Amount	Dollar Change	Percent Change
Total UI Payments	\$4,839,149,601	\$409,453,854	\$4,429,695,747	1,082%
Fraud Overpayment¹	\$4,534,899	\$4,727,300	-\$192,401	-4%
As Percent of Total Payments	0.1%	1%		

	2020 Number of Cases	2019 Number of Cases	Case Change	Percent Reduction
Fraud Cases	3,561	4,734	-1,173	-25%

¹Overpayment figures reflect the amounts detected in the stated calendar year. A portion of those overpayments were disbursed in prior calendar years.

The pandemic caused the large increase in total UI payments in 2020. There was a significant increase in the number of claimants filing for benefits. The federal CARES Act programs, including Pandemic Unemployment Assistance (PUA), Pandemic Emergency Unemployment Compensation (PEUC), Lost Wages Assistance, and Federal Pandemic Unemployment Compensation increased the amount of benefits paid by the division. The division also paid Extended Benefits in 2020.

FRAUD OVERPAYMENT DETECTION AMOUNTS AND DECISIONS BY SOURCE FOR 2019-2020

Detection Method	2020		2019	
	Amount	Decisions	Amount	Decisions
Wage Record Cross-Match	\$570,578	400	\$1,434,984	1,035
Agency Detection - Not Covered by Other Codes	\$1,238,941	702	\$1,293,071	1,074
State New Hire Cross-Match	\$613,868	774	\$569,194	1,051
Liabe Employer Protests Benefit Charges	\$1,247,693	862	\$408,614	513
Post Verification of Wages	\$118,893	80	\$201,623	149
Tips and Leads from Other than Liabe Employer	\$191,023	161	\$192,635	185
Audit of Work Search	\$270	1	\$154,377	107
Post Verification - No Wages Reported	\$120,312	225	\$122,599	293
Claimant Initiated	\$129,440	76	\$70,856	64
SSDI Cross-Match	\$102,419	46	\$66,497	37
National New Hire Cross-Match	\$40,566	26	\$49,624	54
Field Audit Discoveries	\$0	0	\$46,333	9
Appriss Inmate Cross-Match	\$94,996	172	\$42,212	100
Inmate Cross-Match	\$5,324	6	\$28,297	37
Quality Control	\$47,432	25	\$26,993	19
Fictitious Employer Cases	\$0	0	\$9,075	1
Interstate Cross-Match	\$10,924	4	\$6,249	3
Reversals	\$0	0	\$2,261	1
Deceased Citizen Cross-Match	\$2,220	1	\$910	1
Federal Wage Cross-match	\$0	0	\$896	1
Total	\$4,534,899	3,561	\$4,727,300	4,734

FORFEITURE ASSESSMENT, BENEFIT AMOUNT REDUCTION AND PENALTY ASSESSMENT 2016-2020

Other Fraud-Related Activity	2020	2019	2018	2017	2016
Forfeitures Assessed	\$0	\$21,788	\$137,705	\$114,996	\$295,848
Benefit Amount Reduction	\$8,384,948	\$13,221,457	\$13,183,450	\$13,912,308	\$22,480,473
Penalties Assessed	\$1,088,758	\$1,883,649	\$1,899,471	\$1,961,063	\$3,368,650

2011 WI Act 198 ended forfeiture assessment and created the Benefit Amount Reduction.

CRIMINAL PROSECUTION FOR UI FRAUD

The division pursues criminal prosecution in cases of egregious fraudulent activity, and works cooperatively with county district attorneys, the Wisconsin Department of Justice (DOJ), and federal prosecutors.

Division staff investigate complex fraud cases. Many of these professionals have law enforcement experience.

All criminal investigations completed by benefit fraud investigators are referred to our Bureau of Legal Affairs (BOLA) for review by legal and investigative staff to ensure the investigations meet division standards for prosecution referral. After review, BOLA staff refer the cases to either a county district attorney or DOJ.

DWD works collaboratively with DOJ and the county district attorneys to determine which cases should be referred for prosecution. Eight cases were referred for prosecution in 2020.

Ultimately, it is DOJ and the district attorneys who make the decision to file criminal charges. DOJ evaluates several factors in determining whether a case will be prosecuted, including:

- ◆ Whether evidence exists to prove intent to defraud;
- ◆ An individual's criminal history/history of defrauding government programs; and
- ◆ In cases involving employers, the employer's enforcement and compliance history.

In addition, the division works with the U.S. Department of Labor, Office of Inspector General, on complex fraud cases.

WORK SEARCH

The division has a well-established work search auditing program. UI claimants who are required to search for work must submit their work search record each week a claim is filed. These records are subject to random audits for program integrity purposes. These audits uncover mistakes made by claimants, instances of intentional fraud, and provide an opportunity for the division to educate claimants on what constitutes a valid work search action and what information is needed for the division to verify the action.

On March 18, 2020, Governor Tony Evers issued an Emergency Order that effectively suspended the work search requirement to respond to the spread of COVID-19. The Department later promulgated Emergency Rules that effectively suspended the work search requirement to assist in the state's ongoing response to the public health emergency. While claimants could still enter their work search actions into the system, it was not required for UI benefit eligibility. The division has not conducted work search audits since the Emergency Order and Emergency Rules were issued. Before March 18, 2020, the division conducted 766 work search audits. Those audits resulted in 208 decisions finding work search requirements were not met.



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