O L A **Office of the Legislative Auditor**
State of Minnesota

Unemployment Insurance Fraud: Efforts to Prevent and Detect the Use of Stolen Identities

March 16, 2022

Not Public

- Many fraud prevention and detection processes are classified by law as not public

- We redacted significant portions of the report

Key Findings

- DEED employs a variety of fraud prevention and detection processes

- Samples showed effective processes

- Insufficient data

- No metrics or methods of evaluation

Program Overview

- Provides cash benefits to eligible individuals who lose jobs

- Joint federal-state program; administered by DEED

- Program administration is federally funded; benefits are funded by employers
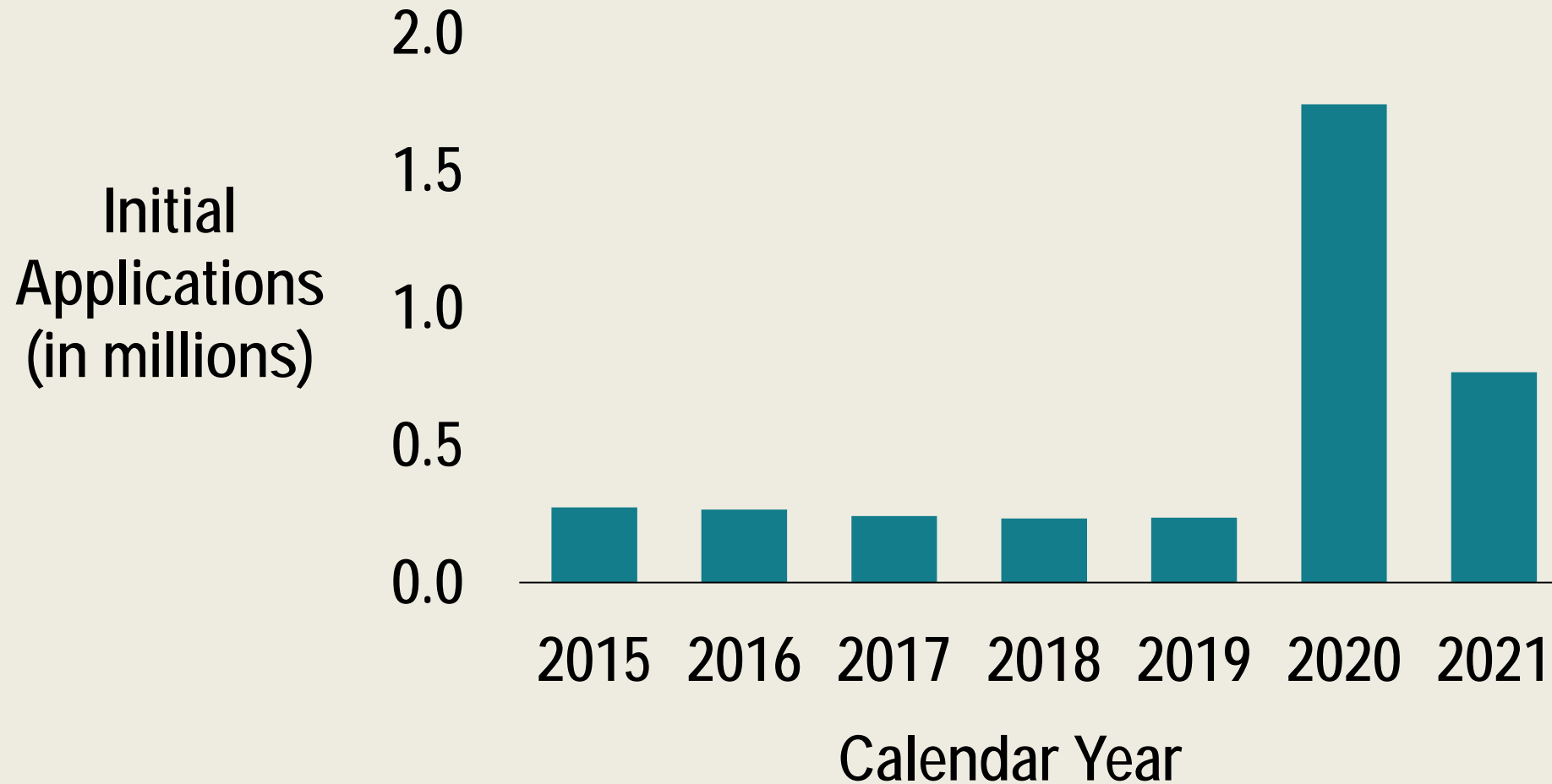
Unemployment Rate during COVID-19 Pandemic
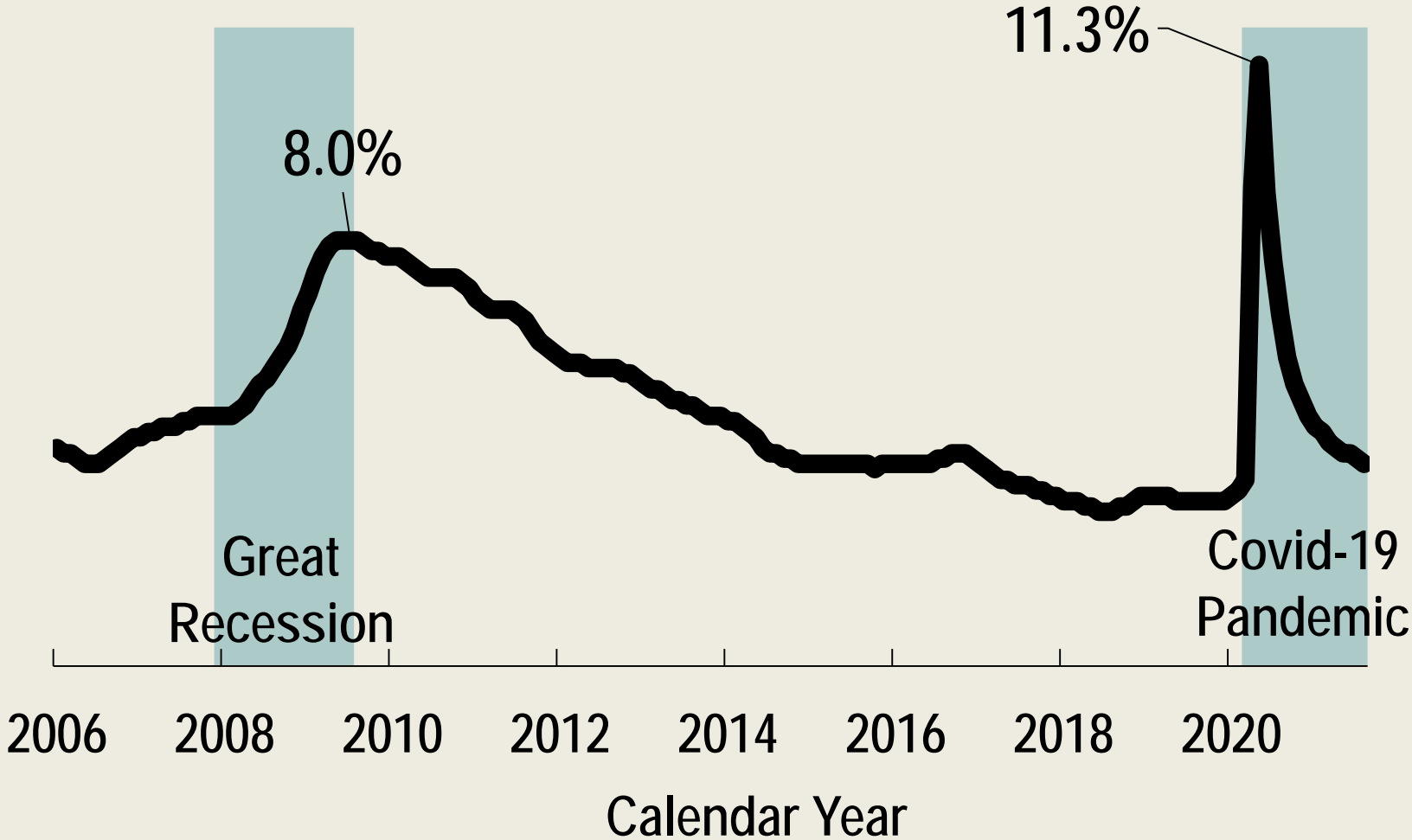
Temporary Program Changes During COVID-19 Pandemic

- Expanded eligibility criteria

- Extended benefits

- Supplemental benefit payments

- Suspended "nonpayable week"

Initial UI Program Applications

Types of UI Fraud

- Employers

- Applicants

- Imposters and Hijackers

Types of UI Fraud

- **Imposters**: Fraudsters who use the stolen identities of individuals to apply for benefits in their names

- **Hijackers**: Fraudsters who take over real applicants' accounts to divert their benefits

Scope

- Increased reports of imposter and hijacker fraud during pandemic

- OLA had not previously reviewed efforts to combat imposters and hijackers

- Area under greater state control

- OLA authority to review not public processes

Legal Requirements for Preventing and Detecting Fraud

- Flexibility under the law

- Some practices are required for federal funding, others are recommended

Fraud Allegation Reports from the Public

- Received 24,000 allegation reports from the public in FY2021

- Most contained allegations related to imposters and hijackers

- DEED reviewed allegations in our sample quickly

Data Analyses

- DEED analyzes program data to identify suspicious accounts

- DEED was effective in identifying and locking most of the suspicious accounts in our sample

New Imposter Screening Processes

- Prevented payments for more than a week

- Stopped payments on more than one-third of new accounts opened in June 2021

- Burdens for some genuine applicants
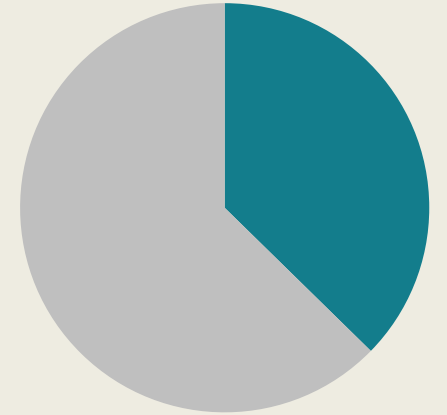
Recommendation

- DEED should develop processes to proactively investigate accounts that may be incorrectly identified as suspicious
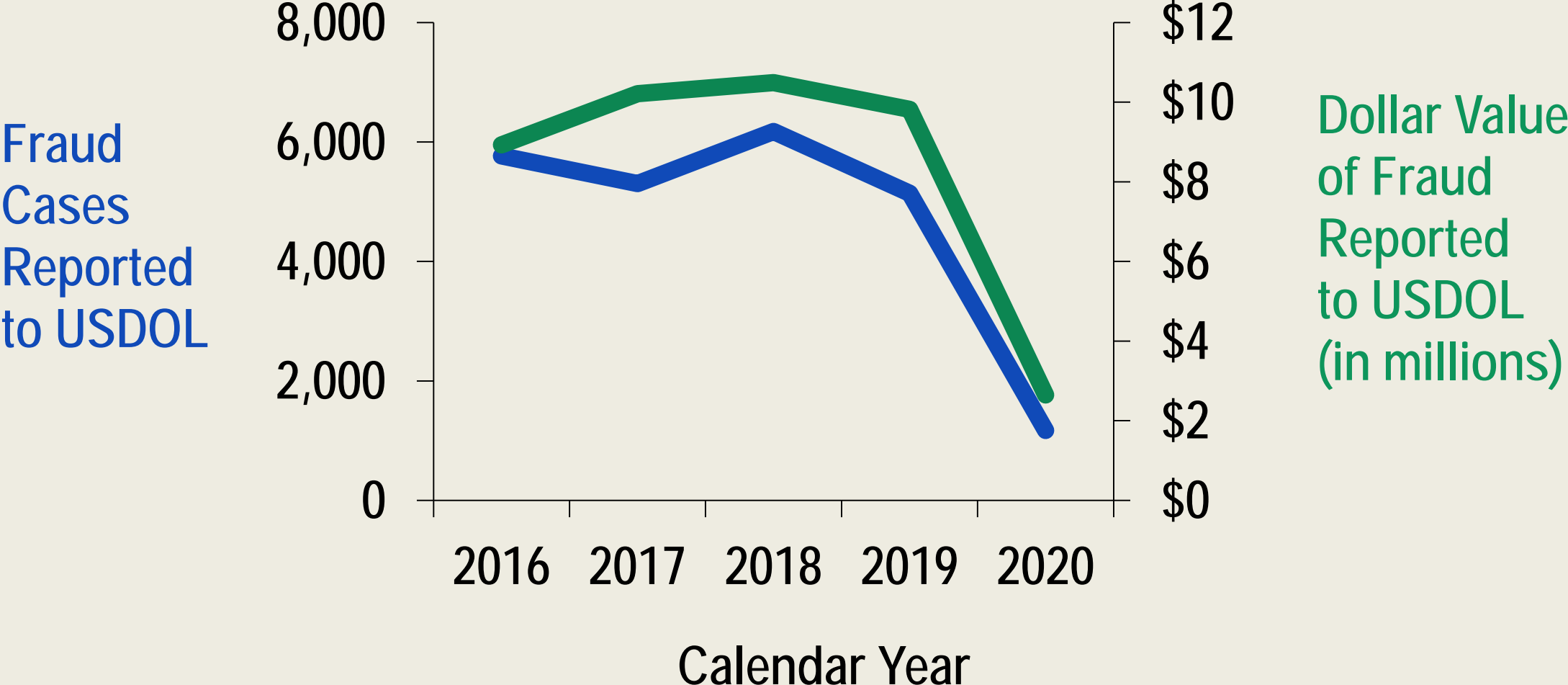
Measurement

- Insufficient data collection

- No metrics or methods for evaluating processes

Recommendations

DEED should:

- Establish metrics and methods for evaluating processes

- Collect necessary data

- Evaluate processes on a regular basis

- Use evaluations to refine processes

Federal Reporting

Fraud Cases Reported to USDOL

Dollar Value of Fraud Reported to USDOL (in millions)

Calendar Year

Recommendation

- The Legislature could consider requiring DEED to report about fraud in the UI program on a regular basis

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