



Detection and Prevention of Fraud in the Unemployment Insurance Program

Annual Report to the Unemployment Insurance Advisory Council
for Calendar Year 2013

March 14, 2014

This report is provided to the Unemployment Insurance Advisory Council by the Department of Workforce Development, as required by Wis. Stat. §108.14(19), summarizing the department's activities in the prevention, detection and prosecution of fraud in the Unemployment Insurance program in 2013.

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Introduction

As required by Wis. Stat. §108.14(19), the contents of the following report summarize the Department of Workforce Development's (the department) efforts to combat waste, fraud, and abuse in the Unemployment Insurance (UI) system for calendar year 2013. The report is presented to the Unemployment Insurance Advisory Council by March 15, 2014 as required by Wisconsin law.

What is Fraud? An Effort to Educate

A UI claimant commits fraud by providing false or inaccurate information to the department when filing a claim for UI benefits in an effort to obtain monies to which they are not entitled. Similarly, an employer commits fraud when they provide false information to the department in an effort to obtain a lower tax rating or deliberately misclassify an employee as an independent contractor to avoid paying UI tax altogether. Some common examples of fraud include, but are not limited to, an individual who returns to work but continues to claim benefits; an individual who works part-time but does not report those wages to the department on their weekly claim certification; an employer who deliberately misclassifies a worker in an attempt to avoid paying UI tax for the work performed; and claimants who falsify work search documents in an effort to preserve benefits to which they are not entitled.

The department has taken an active approach to educating both employers and claimants as to the consequences of committing fraud. By communicating to claimants the many penalties for committing fraud through mediums such as the claimant handbook, mailed notices, informational postings on the department website, presentations to industry stakeholders and to recently laid-off employees at rapid response session, and personal interactions between staff and claimants, the department hopes to reduce the proliferation of fraud in the UI system.

Other educational efforts include:

- ◆ *Notices regarding fraud and potential consequences on the telephone and web-based initial claims and weekly claims systems*
- ◆ *Handbooks available on-line for claimants and employers containing written notice regarding fraud and potential consequences*
- ◆ *UI Internet sites for employers and employees including "Frequently Asked Questions about UI Benefit Fraud" and a method for reporting UI fraud*
- ◆ *Information on detection, prevention, and impact of fraud is disseminated during Labor Law Clinics for employers and Rapid Response sessions for employees being laid off from their jobs*
- ◆ *Personal interactions between department staff and customers*

- ◆ *Text printed on all UI checks informs claimants that security features will detect any attempt to alter the check amount or payee*
- ◆ *Discussions with employers about the importance of verifying employee identity and UI payment reports*
- ◆ *Letters advising employers against discouraging employees from filing for UI and advising claimants of proper wage reporting requirements when on-going underreporting of wages occurs*
- ◆ *Presentations to laid-off employees emphasize reporting requirements and penalties for concealment or misrepresentations of pertinent facts and discussions are held with employers about the importance of verifying employee identity and UI payment reports*
- ◆ *Presentations to Wisconsin District Attorneys regarding the importance of prosecuting unemployment fraud cases*
- ◆ *An informational document to employers about their responsibilities to report correct and timely information and advise them of the consequences of failing to provide the information. the document is entitled: "How to Protect Your Business From Higher Taxes" and is posted at http://dwd.wisconsin.gov/dwd/publications/ui/uct_17287_p.pdf*
- ◆ *An informational document for claimants is posted on the UI web entitled "Top 10 Things You Should Know About the Unemployment Insurance System When Filing Your Claim"*

Prevention and Detection

The department utilizes many tools in an effort to prevent fraud from occurring that go beyond education. By cross-referencing Wisconsin Department of Transportation records to verify a claimant's identity, the department ensures that an individual is not claiming benefits fraudulently on behalf of another person. The department also reviews employer wage files to determine a claimant's work history and verifies social security numbers when an initial claim for benefits is filed.

Some other prevention tools that are used by the department are:

- ◆ *Benefit Payment Notices sent to employers informing them of who is receiving UI benefits from their account*
- ◆ *Non-citizen work authorization verification with U.S. Citizenship and Immigration Services when claimant is not a U.S. citizen*
- ◆ *Matching the payee name and dollar amount on all UI checks presented to our bank for payment with the same information on our disbursement file. Any check that does not match is rejected and not honored by our bank*
- ◆ *Blocking anyone from using our account bank number to initiate unauthorized electronic funds transfer transactions*

- ◆ *Scanning employer tax and benefit charge information to identify potential fictitious employers*

Although the department expends considerable time and resources in an effort to prevent fraud from occurring, often times the efforts fail to sway a select group of individuals from committing UI fraud. The department has a wide range of systems and methods at its disposal to detect and ultimately recover fraudulently paid funds.

These approaches include:

- ◆ *Cross match benefit claim records against employment and death records (See Appendix A and B for additional information regarding the volume and dollar amounts associated with the cross matches. See Appendix D for a description of the cross match)*
 - *Quarterly Wage Cross Match*
 - *Interstate Wage Record*
 - *Wisconsin's New Hire*
 - *National Directory of New Hire*
 - *Vital Statistics (death records)*
- ◆ *Systematic Alien Verification for Entitlements (SAVE) Program with US Citizen and Immigration Services*
- ◆ *Verification and request audits of employers*
- ◆ *Employer complaints and tips from the public of suspected and observed fraudulent claims*
- ◆ *Department staff detection during investigation and review of UI records*
- ◆ *Post Verification of Weekly Wages, Form UCB-23*
- ◆ *Automated scans of employer tax information used to identify potential cases of employer tax rate manipulation and undisclosed mandatory transfers of businesses. This software tool, which was developed and furnished to the states by the Department of Labor, tracks and identifies significant movements of employment from one employer to another over a number of quarterly reporting periods*
- ◆ *Using 1099 information from the Internal Revenue Service to investigate employers who may be misclassifying employees as independent contractors*
- ◆ *Contacts from local, state, or federal law enforcement officers and correctional officers reporting suspicious activities*
- ◆ *U.S. Bank proactively contacts UI debit cardholders from our call center when there is evidence of suspected fraud occurring on their card. They utilize Predictive Risk Manager (PRM), a licensed neural-based fraud monitoring system provided by ACI Worldwide, which allows us to monitor, predict, and respond quickly to suspected fraudulent activity*

Outcomes for Calendar Year 2013

The department works diligently to recover overpaid benefits through various mechanisms, including cash payments, UI benefit offsets, tax refund intercepts, wage garnishments, and other administrative tools such as warrants (which operate much like judgments) and levies to recover bank deposits and wages. In 2013, the department paid **\$1.2 billion** dollars in combined state and federal UI benefits compared to **\$1.6 billion** in 2012. A small portion of those benefits paid are obtained fraudulently. It is important to note that the overpayments established in 2013 do not correlate to the payments being made in 2013. An overpayment may be established for payments that occurred in any prior year.

In 2013, the department detected approximately **\$25 million** in fraud overpayments and **\$27 million** in non-fraud overpayments. Please see the table to the right for details.

Combined State and Federal	2013
Fraud Overpayment	\$24,796,194
Number of cases	14,682
Avg. Overpayment	\$1,688
Non- Fraud Overpayment	\$26,736,198
Number of Cases	153,211
Avg. Overpayment	\$175
OVERPAYMENT TOTALS	\$51,532,392
CASE TOTAL	167,893
Avg. Overpayment	\$307

In 2013, the department was able to recover a dollar amount equivalent to 97% of the fraudulently paid benefits detected. When comparing recovery of funds to 2012, the department's recovery percentage is up 17%, and when comparing to 2010 the department's recovery percentage of fraudulently obtained benefits is up 73%. The recovery of non-fraud overpayments has seen a similar increase, substantially reinforcing the department's efforts. Please see the table below for a more detailed look.

Recovery of Fraud and Non-Fraud overpayments, 2010-2013

Recovery of fraud overpayments				
	2010	2011	2012	2013
Total Federal & State UI Paid	\$3,136,436,735	\$2,094,416,632	\$1,612,616,543	\$1,270,761,600
Total Fraud Overpayments Established	\$37,458,161	\$41,607,913	\$31,505,810	\$24,796,194
Percent Fraud Compared to Total UI Payments	1.19%	1.99%	1.95%	1.95%
TOTAL FRAUD OVERPAYMENTS RECOVERED	\$9,023,810	\$15,597,067	\$25,223,873	\$23,990,550
Percent Recovered	24%	37%	80%	97%
Recovery of non-fraud overpayments (state and federal)				
	2010	2011	2012	2013
Total Federal and State UI Paid	\$3,136,436,735	\$2,094,416,632	\$1,612,616,543	\$1,270,761,600
Total Non-Fraud Overpayments Established	\$41,380,501	\$46,396,840	\$31,924,842	\$26,736,198
Percent Non-Fraud	1.32%	2.22%	1.98%	2.10%
TOTAL NON-FRAUD OVERPAYMENTS RECOVERED	\$26,312,749	\$28,099,276	\$24,945,202	\$25,112,055
Percent Recovered	64%	61%	78%	94%

Other Programs of Note

Prosecution Efforts

The department pursues criminal prosecution in cases of egregious fraudulent activity. The department works cooperatively with district attorneys, the Wisconsin Department of Justice, and federal prosecutors to criminally prosecute UI fraud cases. In 2013, 17 cases were referred for criminal prosecution.

Cases move slowly through the criminal justice system and may take several years to resolve. In 2013, the department was able to obtain seven convictions for UI fraud. DWD views the prosecution of UI fraud as not only a punitive action to punish the offender, but also a deterrent for future fraudulent activity.

Cross Match Programs

The department has several cross matches in place to help detect and prevent improper payments in the UI program. One cross match to highlight is the incarceration cross match.

The department has a data sharing agreement with the Social Security Administration (SSA) that allows the department to cross match benefits data against an incarceration database maintained by SSA.

However, one draw-back is that the SSA data may not be timely, and quite often the data is received after the UI benefit payment is sent out by the department. Due to this lag time, the department is in the process of contracting with a provider that will supply real-time incarceration cross-match data.

In 2013, the department used this cross match to identify and investigate claims by claimants whose names appeared on the cross match. The department also used tips, news reports, and calls from incarceration facilities that identified a potential claim by someone who is incarcerated.

Year	2012	2013
Decisions	579	505
Overpayment Established	\$720,452	\$521,721

When a claimant files for UI while incarcerated, their eligibility for benefits is questioned. Anyone incarcerated for a period greater than 48 hours in any week is deemed unavailable for work and is ineligible for benefits, unless the claimant has been granted work release privileges and is allowed by the incarceration facility to leave to look for work and to accept and perform work when offered. The table below illustrates the number of cases resolved where an individual was found to be unavailable for work due to being incarcerated.

In 2013, the department investigated 15% fewer incarceration cases and the overpayments established from those cases decreased by 38% percent. This can be attributed to earlier detection, in part from the department's efforts to educate incarceration facility staff across the state on the need to contact the department when an incarcerated individual is receiving UI.

Efforts to Authenticate Claimant Work Search

2013 Wisconsin Act 36 requires the Department to conduct random work search audits. The Department must report, in the annual UI fraud report to the Unemployment Insurance Advisory Council (UIAC), the number and result of audits conducted in the previous year. That information will be included in the 2014 edition of the report.

In 2013, the Department conducted random work search audits for claimants on Emergency Unemployment Compensation (EUC), as required by federal law. This resulted in over 5,000 random work search audits with over 800 individuals found ineligible for benefits due to inadequate work search actions.

Efforts to Prevent Worker Misclassification

The misclassification of workers is a challenge facing unemployment insurance systems across the country. Worker misclassification negatively impacts the Unemployment Insurance system in a variety of ways, such as: the loss of UI tax revenues from employers who misclassify workers, as well as the payment of UI benefits to workers who are misclassified.

The Department of Workforce Development takes a proactive approach to prevent, provide education about and, when misclassification does occur, take corrective action. Through public outreach, the department has actively engaged industries in which worker misclassification is more prevalent such as the construction industry. The department conducts numerous presentations throughout the year in which worker misclassification is often a topic of discussion. In addition, Labor Law Clinics and Friday Fundamental presentations have been especially successful and have garnered much interest from industries that see worker misclassification as a hindrance to their business operations.

The department also maintains a webpage (http://dwd.wisconsin.gov/worker_classification/) that provides information and can be used to report instances of potential misclassification. Operating on tips from the public, the department identifies misclassified workers through an ongoing program of worksite investigations conducted primarily at construction worksites. In 2013, the department identified misclassified workers in 28% of audits involving the construction industry resulting in the reclassification of roughly five workers per audit.

Tax Offset Program

The department participates in the United States Treasury's Tax Offset Program (TOP). By utilizing the tools available through TOP, the department was able to recover \$10 million in fraud overpayments in 2013.

Remaining Committed to Program Integrity

The department's commitment to the integrity of the UI program remains steadfast and in 2013 the department continued to innovate and adapt to the ever changing fraud strategies that the program faces. Through the utilization of Value Stream Mapping to evaluate unit workflow, the department made adjustments to systems, processes and training to increase efficiency of fraud detection, investigation and resolution. In addition to the Value Stream Mapping process, the department also improved internal metrics to include detailed case reviews to ensure quality decisions are being made and reviewed operational processes throughout the UI program to determine new ways to assist in the prevention of improper payments.

In addition to the above internal reviews, the department also utilized several other strategies to enhance the integrity of the UI program. Some examples of those strategies include:

- ◆ *Continued to implement the standard operating procedures, as recommended by the United States Department of Labor (USDOL), to process matches from the State and National Directories of New Hires (SDNH/NDNH). This process stops benefit payments and mails a letter to claimants directing them to contact UI and provide information regarding their hire status. This reduces the potential for fraudulent overpayment of benefits*
- ◆ *Stronger relationships were forged with other state agencies and the USDOL Office of Inspector General to investigate cases of mutual interest and share information regarding preventing and detecting fraud*
- ◆ *Enhanced system functions to detect fraudulent schemes by tracing IP addresses and multiple uses of the same addresses and phone numbers on claims*
- ◆ *Using the knowledge and experience of other states, the department implemented procedures to detect potential fictitious employer schemes*

Conclusion

The department's efforts to combat fraud and enhance program integrity demonstrate a steadfast commitment to the reduction of fraud in the UI system. Through education efforts, the department has communicated the many penalties for committing UI fraud and utilized industry partners to expand the reach of fraud investigations. Through enforcement and collection efforts, the department was able to collect a sum of money

equal to 97% of the fraudulently acquired benefits that were released in 2013; up 73% from 2010.

The department also constantly evaluates additional strategies to enhance fraud fighting capabilities, evidenced by the successful federal grant application to acquire additional fraud workers to address worker misclassification and additional fraud workers to assist with benefit fraud investigations.

The department will also utilize additional fraud fighting and collection tools in 2014, as authorized by 2013 Wisconsin Act 36, such as random audits of claimant work search actions who are collecting state benefits and license revocation and financial record matching tools to increase compliance with tax payments and increase collection capabilities.

By strengthening program integrity and demonstrating to the public the department's commitment to combatting fraud of all kinds in the UI system, the department's actions are seen as a deterrent to future potential fraud. The department will continue to share information, strengthen existing relationships and forge new strategies in an effort to ensure that the UI system remains a fair and reliable system for Wisconsin workers and Wisconsin employers alike.

Appendices

Appendix A

Fraud Overpayment Detection Amounts and Decisions by Source for 2012-2013

Detection Method	2013 Amount	2012 Amount	2013 Decisions	2012 Decisions
Wage Record Cross match	\$8,108,195	\$12,492,722	3,941	5,353
Post Verification of Wages	\$933,150	\$594,546	510	294
Liabile Employer Protests	\$2,608,499	\$2,326,922	1,798	1,465
Tips and Leads from Other than Liabile Employer	\$935,648	\$1,104,510.87	554	571
State New Hire Cross match	\$945,372	\$1,268,539	1,522	1,860
National New Hire Cross match	\$94,586	\$166,015	58	123
Border Sate Cross match	\$612	\$28,247	1	5
Quality Control	\$61,062	\$59,711	29	33
Reversals	\$2,737	\$1,886	3	5
Inmate Cross match	\$432,783	\$720,452	390	579
Field Audit Discoveries	\$34,435	\$199,481	21	78
Interstate Cross match	\$346,995	\$627,761	138	211
Deceased Citizen Cross match	0	\$104	0	1
Agency Detection – Not Covered by Other Codes	\$9,793,813	\$11,348,835	5,442	4,981
State Payroll Cross match	0	0.00	0	0
Claimant Initiated	\$498,307	\$566,078	275	265
TOTALS	\$24,796,194	\$31,505,810	14,682	15,825

Appendix B

Non-Fraud Overpayment Detection Amounts and Decisions by Source for 2012-2013

Detection Method	2013 Amount	2012 Amount	2013 Decisions	2012 Decisions
Wage Record Cross match	\$1,640,894	\$1,836,777	3,445	4,493
Post Verification of Wages	\$4,532,811	\$6,096,003	96,613	142,980
Liabe Employer Protests	\$4,600,983	\$5,913,080	11,658	16,139
Tips and Leads from Other than Liabe Employer	\$881,436	\$839,831	1,960	1,848
State New Hire Cross match	\$1,217,101	\$1,227,239	4,945	5,449
National New Hire Cross match	\$35,843	\$50,470	103	173
Border Sate Cross match	\$3,993	0	5	0
Quality Control	\$38,601	\$74,433	117	124
Overpayments from Other States – WI Recovering	\$388,304	\$437,452	139	124
Reversals	\$1,480,710	\$1,961,234	818	1,030
Inmate Cross match	\$88,938	\$92,990	115	116
Field Audit Discoveries	\$92,185	\$45,431	66	67
SAVE (Alien Verification)	\$213	\$128	1	1
Project Clean Data	\$92	0	1	0
Interstate Cross match	\$32,978	\$58,540	86	133
Deceased Citizen Cross match	\$4,399	\$4,347	2	5
Agency Detection – Not Covered by Other Codes	\$8,151,530	\$9,964,115	19,494	19,541
State Payroll Cross match	0	0	0	0
Claimant Initiated	\$3,545,075	\$3,322,772	13,640	12,956
TOTALS	\$26,736,198	\$31,924,842	153,211	205,179

* A non-fraud overpayment occurs when a claimant reports information to the department that they believe to be accurate, but the department later finds it needs to be corrected. Material facts are not deliberately withheld in an effort to obtain benefits.

Appendix C

Forfeiture, Benefit Reductions, and Overpayment Penalties

- ◆ In 2013, the overall volume and cost of fraudulent unemployment benefit claims activity was slightly lower compared to 2012
- ◆ In 2013, the UI system continued to experience moderately high volumes of claims and long durations of worker participation in unemployment benefit claims. Federal extension programs continued in effect and a higher than normal level of unemployment persisted
- ◆ Early detection enhancements continue to produce the intended outcomes for reducing fraud

Forfeiture Assessment and Collection, 2010-13

	2010	2011	2012*	2013*
Forfeitures Assessed	\$40,509,958	\$40,775,475	\$39,469,232	\$11,949,972
Forfeitures Collected	\$11,088,453	\$11,454,179	\$9,366,384	\$8,592,250

Benefit Reduction Amount 2012-13*

	2012	2013
Benefit Reduction Amount	\$7,582,891	\$32,690,125
Benefit Reduction Amount Satisfied	\$50,632	\$3,102,731

Penalty Assessment and Collection 2013

	2013*
Penalties Assessed	\$2,202,840
Penalties Collected	\$327,106

*As of October 21, 2012 a law change provided for reduction of benefits payable, in lieu of forfeitures, in amounts equivalent to two times the weekly benefit rate for the first act of concealment; four times the weekly benefit rate for the second act; and eight times the weekly benefit rate for each act subsequent to the second determination. The new law also allowed for a 15% penalty assessment on fraudulent overpayments.

Appendix D

Typical Fraud Detection Tools Used by the Department

- ◆ Cross Match benefit claim records against employment records
- ◆ Interstate Wage Record Cross Match
- ◆ Wisconsin's New Hire Cross Match (SDNH) matches Wisconsin employer reports of new hires and benefit records
- ◆ National Directory of New Hire Cross Match (NDNH) matches other state employers' reports of new hires to benefit records
- ◆ Vital Statistics (death records) Cross Match
- ◆ Verification of work authorization status via the Systematic Alien Verification for Entitlements (SAVE) Program with U.S. Citizen and Immigration Services
- ◆ Field audits of employers
- ◆ Employer complaints and tips from the public of suspected and observed fraudulent claims
- ◆ Department staff detection during investigation and review of UI records
- ◆ "Bad Social Security File" identifying prior abuses of Social Security numbers
- ◆ Post Verification of Weekly Wages, Form UCB-23
- ◆ Automated scans of employer tax information used to identify potential cases of employer tax rate manipulation and undisclosed mandatory transfers of businesses
- ◆ Using 1099 information from the IRS to investigate employers who may be misclassifying employees as independent contractors
- ◆ Coordination of special investigations with Wisconsin Office of Privacy Protection
- ◆ Contacts from local, state, or federal law enforcement officers and correctional officers reporting suspicious activities