



Detection and Prevention of Fraud in the Unemployment Insurance Program

Annual Report to the Unemployment Insurance Advisory Council
for the Calendar Year 2014

March 15, 2015

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 2014.

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This report summarizes the Department of Workforce Development's (Department) efforts to combat waste, fraud, and abuse in the Unemployment Insurance (UI) program for calendar year 2014. The report is presented to the Unemployment Insurance Advisory Council on or before March 15, 2015, pursuant to Wis. Stat. §108.14(19).

Introduction

Unemployment Insurance Fraud is a growing problem which impacts UI programs across the nation. A study released in 2013 by the St. Louis Federal Reserve found that in 2011 **\$108 billion** in UI benefits were paid nationally, of which **\$3.3 billion** was obtained fraudulently. The largest share of fraudulently obtained benefits was attributed to individuals who continued to claim UI benefits after returning to work (\$2.2 billion).¹

Federal funding amounts are based on the projected workload for the upcoming fiscal year. This is calculated using a state's actual workload from the previous three years and a mathematical formula which takes into account economic fluctuations. As a result, state UI agencies develop surplus funding during recessionary years which is later depleted during periods of economic recovery. The federal funding model provides very little money for program integrity initiatives, causing state UI programs to lag behind similar public sector agencies and private sector industries in developing 21st century fraud fighting tools.

The Department relies heavily on its partners, employers, and claimants to assist in ferreting out fraudulent claims. When employers do not promptly respond to benefit charging notifications, some fraudsters go unchecked. The Department also relies on individual workers to immediately notify the Department when they receive mailings that notify them of a UI claim that they did not file.

In addition to information provided by employers and employees, the Department utilizes numerous tools to detect, prevent and recover fraudulently obtained funds. This report summarizes the Department 's efforts to efficiently serve our customers, effectively manage Wisconsin's UI Trust Fund and provides descriptions of some of the most effective tools available to fight fraud that are used in Wisconsin and across the country.

What is Fraud? An Effort to Educate

Unemployment Insurance fraud is committed when a claimant intentionally provides false or inaccurate information in an effort to obtain benefits or by an employer to avoid Wisconsin UI tax liability. Some common examples of fraud include: an individual who returns to work but continues to claim benefits; an individual who works part-time but does not report work performed and wages earned on the weekly claim certification;

¹ <https://www.stlouisfed.org/Publications/Regional-Economist/April-2013/Who-Is-Concealing-Earnings-And-Still-Collecting-Unemployment-Benefits>

claimants who falsify work search documents in an effort to receive benefits; and an employer who deliberately misclassifies an employee in an attempt to avoid paying UI tax for the services performed.

The Department takes a proactive approach to reduce the proliferation of fraud by educating both employers and claimants on the legal consequences of committing fraud. Penalties for committing UI fraud are communicated to claimants and employers through numerous mediums, including:

- ◆ *Notices on the telephone and web-based initial and weekly claim systems regarding the potential legal consequences of committing fraud;*
- ◆ *Handbooks available online for claimants and employers containing warnings regarding fraud and the potential consequences;*
- ◆ *UI Internet resources for employers and employees including "Frequently Asked Questions about UI Benefit Fraud" and methods for reporting UI fraud;*
- ◆ *Dissemination of information on the impact of fraud during Labor Law Clinics for employers and Rapid Response sessions for employees being laid off from their jobs;*
- ◆ *Personal interactions between Department staff and our customers;*
- ◆ *Discussions with employers about the importance of verifying employee identity and submitting accurate wage reports;*
- ◆ *Letters advising employers against discouraging employees from filing for UI;*
- ◆ *Correspondence to claimants educating them on accurate wage reporting requirements;*
- ◆ *Presentations to district attorneys regarding the importance of prosecuting unemployment fraud cases;*
- ◆ *Providing a pamphlet to employers, "How to Protect Your Business From Higher Taxes", which is posted at http://dwd.wisconsin.gov/dwd/publications/ui/uct_17287_p.pdf;*
- ◆ *Providing a pamphlet for claimants, "Top 10 Things You Should Know About the Unemployment Insurance System When Filing Your Claim", which is posted at <http://dwd.wisconsin.gov/dwd/publications/ui/ucb17144p.pdf>;*
- ◆ *Employer and Claimant handbooks contain information on how to accurately file a claim for UI benefits and how to properly classify a worker in accordance with Wisconsin law;*

- ◆ *Wisconsin's Worker Classification website is the only one in the nation that educates employers on proper classification of workers as either employees or independent contractors.*

Prevention and Detection

The Department has multiple tools to detect and prevent fraud at its disposal when educational efforts fail to achieve the desired results. By cross-referencing Federal Social Security Administration records and Wisconsin Department of Transportation records, the Department attempts to ensure 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.

Other fraud prevention tools include:

- ◆ *Benefit Payment Notices informing employers of UI benefit charges to their account;*
- ◆ *Non-citizen work authorization verification with United States Citizenship and Immigration Services (USCIS) when the claimant is not a U.S. citizen;*
- ◆ *Blocking everyone from using our bank account number to initiate unauthorized electronic fund transfer transactions;*
- ◆ *Scanning employer tax and benefit charge information to identify potential fictitious employers.*

Although the Department expends considerable time and resources in fraud prevention activities, when individuals are not deterred from committing UI fraud, the Department has a wide range of systems and methods to detect and recover fraudulently paid benefits.

The Department utilizes numerous cross-matches (described below) that assist in detecting "work and wage" and other types of UI fraud.

Quarterly Wage Cross-Match

The Department's primary fraud detection method is the cross-match of benefit payment records with the wage records submitted by employers on quarterly wage reports.

Interstate Wage Record Cross-Match

The Department utilizes a quarterly cross-match of benefit payment records with the wage records submitted by *interstate* employers on quarterly wage reports.

Wisconsin and National New Hire Cross-Match

Employers are required to report basic information about employees who are newly hired, rehired, or who return to work after a separation from employment. Additionally, department staff cross-match UI payment records and initial claims with new hire information.

Vital Statistics (Death Records) Cross-Match

The Department of Health Services provides a record of deaths in Wisconsin from the Vital Statistics section once per month. This data is then cross-matched with claimant data to determine if UI claims continue to be filed beyond the claimant's death.

Additional approaches utilized to prevent and detect fraud include:

- ◆ *Systematic Alien Verification for Entitlements (SAVE) Program with the USCIS;*
- ◆ *Audits of employers;*
- ◆ *Employer complaints and tips from the public concerning suspected fraudulent claims;*
- ◆ *Department staff detection during investigation and review of UI records;*
- ◆ *Post verification of weekly wages;*
- ◆ *Utilizing software, developed and furnished by the United States Department of Labor (USDOL), to identify potential cases of employer tax rate manipulation and undisclosed mandatory transfers of businesses.*
- ◆ *Using 1099 information from the Internal Revenue Service (IRS) to investigate employers who may be misclassifying employees as independent contractors;*
- ◆ *Contacts from local, state, and federal law enforcement officers and correctional officers reporting suspicious activities;*
- ◆ *U.S. Bank utilizes Predictive Risk Manager (PRM), a licensed neural-based fraud monitoring system, which allows the Department to monitor, predict, and respond quickly to suspected fraudulent activity.*

Proactive Fraud Prevention – Complex Data Analytics

The Department's current process proactively identifies suspect claims, allowing time to place holds on UI claims, investigate and prevent potential improper payments.

The foundation of this program is access to numerous data points and the ability to add more data as it becomes relevant. The Department compares fraudulent and legitimate

claims to identify data anomalies or irregularities and monitors UI claims filed, flagging those that may be suspect. Employees perform manual reviews to further filter the claims and constantly share information on what patterns they are seeing. The Department is constantly evaluating and adding criteria as fraudsters adapt to our detection.

Front-Lines of Fighting Fraud

Across the Department, all employees are fully trained to recognize and report any suspicious activity, including all claims staff. In addition, the Department has a dedicated program integrity unit consisting of approximately 20 employees who investigate "work and wage" fraud and answer calls on our New Hire and Fraud Tip lines. In addition, intermediate and senior adjudicators (approximately 80 employees) investigate "work and wage" fraud and other fraud related to benefits such as "able and available", employer aiding and abetting and identity theft, while Bureau of Tax and Accounting staff review data to catch potential fictitious employer schemes.

The Department aggressively pursues additional federal funding when it is made available, evidenced by the recent federal grant award allowing the Department to hire additional fraud workers to address worker misclassification and to assist with benefit fraud investigations. These benefit fraud investigators have extensive backgrounds in criminal investigations and work on more complex and organized efforts to scam the system, such as: fictitious employer schemes; check counterfeiting; and identity theft rings. Although federal funding has been acquired for these positions in the past, there is no guarantee that funding will be made available from year-to-year. A sustainable funding source for all of our experienced investigators is critical to future fraud fighting efforts.

Outcomes for Calendar Year 2014

A portion of benefits paid are obtained fraudulently. For perspective, in 2014 the Department paid **\$732 million** in UI benefits compared to over **\$1.2 billion** in 2013. In 2014, the Department detected approximately \$20.5 million in fraud overpayments and \$16.9 million in non-fraud overpayments.

Benefit overpayments identified for a calendar year include benefit payments made in prior years.

The table on the following page illustrates historical data on benefit payments.

Combined State and Federal	2011	2012	2013	2014
Total Federal & State UI Paid	\$2,094,416,632	\$1,612,616,543	\$1,270,761,600	\$732,327,104
Fraud Overpayment	\$41,607,913	\$31,505,810	\$24,796,194	\$20,455,759
Number of cases	37,009	15,825	14,682	13,034
Avg. Overpayment	\$1,124	\$1,991	\$1,688	\$1,569
Non- Fraud Overpayment	\$46,396,840	\$31,924,842	\$26,736,198	\$16,891,298
Number of Cases	374,583	205,179	153,211	105,758
Avg. Overpayment	\$124	\$156	\$175	\$160
OVERPAYMENT TOTALS	\$88,004,753	\$63,430,652	\$51,532,392	\$37,347,057
CASE TOTAL	411,592	221,004	167,893	118,792
Avg. Overpayment	\$213	\$287	\$307	\$314

The Department follows Generally Accepted Accounting Principles and uses historical collection activity to determine the collectability of overpayments. A longitudinal study tracked overpayment collections over ten years and determined 78.3% of both fraud and non-fraud overpayments were collected. **Over the next ten years, based on this historical data, the Department estimates that \$29.2 million (78.3%) of the \$37.3 million overpayments established in 2014 will be recovered and deposited into the UI Trust Fund.**

The Department recovered nearly **\$40.5 million** of fraud and non-fraud overpayments in 2014, including \$2.5 million of debts 5 years and older utilizing various mechanisms, including:

Department of Revenue Offset

- ◆ The Department certifies a debt to the Wisconsin Department of Revenue to intercept a claimant's Wisconsin state tax refund.

Insolvency

- ◆ Fraud debts are not dischargeable in bankruptcy. The Department files adversary petitions to dispute discharge of the debt. A claim is also filed against the assets of the debtor.

Warrant

- ◆ A lien is placed on the debtor's personal property to secure repayment of a delinquent debt.

Payment Agreements

- ◆ Repayment agreements are available dependent upon the type and size of the debt.

Levy Against Wages and Bank Accounts

- ◆ A levy is issued against wages, bank accounts or any property belonging to the debtor.

Financial Record Matching Program

- ◆ A financial record matching program used to identify the accounts of delinquent Unemployment Insurance debtors, for the purpose of collecting delinquent debts.

The following chart depicts overpayment recoveries in 2014 by year of the decision.

Year Identified	Fraud	Non-fraud	Total
2014	\$2,019,138	\$9,219,534	\$11,238,672
2013	7,076,411	4,354,600	11,431,011
2012	4,986,712	1,836,201	6,822,913
2011	3,634,653	1,550,658	5,185,311
2010	2,429,473	831,355	3,260,828
2009	810,950	399,430	1,210,380
Greater than 5 years old	<u>816,319</u>	<u>494,608</u>	<u>1,310,927</u>
Total Collected in 2014	\$21,773,656	\$18,686,386	40,460,042

Other Notable Programs

Prosecution Efforts

The Department pursues criminal prosecution in cases of egregious fraudulent activity and works cooperatively with district attorneys, the Wisconsin Department of Justice (DOJ), and federal prosecutors. In 2014, 19 cases were referred for state criminal prosecution and five individuals were convicted in the United States Eastern District of Wisconsin for a fictitious employer scam.²

Cases referred for criminal prosecution can take several years to resolve. The prosecution of UI fraud as not only punishes the offender but serves as a deterrent against future fraudulent activity.

In 2015, the Department established a new procedure for referring criminal cases to prosecutors. All potential criminal prosecutions will be referred to the Bureau of Legal Affairs (BOLA). The potential prosecutions will be reviewed by BOLA legal and investigative staff to determine if the investigation meets Department standards for criminal prosecution. After the review is completed, BOLA staff will refer the case to either a county district attorney or the DOJ and act as liaison between the Department and the prosecuting agency as the case moves through the criminal justice system.

² Appendix E

BOLA staff will also serve as advocates at sentencing, not only for the Department but our partners in the business and worker community who properly utilize the UI program.

Incarceration Cross-Match

When a claimant files for UI while incarcerated, their eligibility for benefits is investigated. Anyone incarcerated for greater than 48 hours in a week is deemed unavailable for work and is ineligible for benefits, unless the claimant has been granted work release privileges.

The Department has a data sharing agreement with the Federal Social Security Administration (SSA) that allows the Department to cross-match benefits data against an incarceration database maintained by SSA; however, the SSA data is not very timely and quite often the data is received after the UI benefit payment has been made. Due to this delay and in an effort to prevent improper payments from occurring, the Department contracted with Appriss Incorporated (Appriss) in July 2014.

The Appriss cross-match identifies incarcerated claimants sooner as the information is generated on a weekly basis compared to the monthly SSA cross-match. In addition to cross-matches, the Department also uses tips, news reports, and calls from incarceration facilities to identify claims being filed by incarcerated individuals.

The graph below illustrates detection of overpayments due to incarceration.

Decision Date Year	Cross Match Type	Overpayment Amount	Avg. OP	Number of Decisions
2014	Appriss	\$60,064	\$277	217
	Other	\$59,526	\$441	135
	SSA	\$232,432	\$1,042	223
2014	All	\$308,267	\$536	575

Efforts to Authenticate Claimant Work Search

2013 Wisconsin Act 36 requires the Department to conduct random work search audits on UI claimants. In 2014, the Department conducted 11,394 random audits and issued 4,780 decisions denying benefits (a 42% denial rate) which resulted in over \$1.2 million in savings to the UI Trust Fund.

Beginning in September 2014, claimants who file their weekly claims online and are required to search for work must enter their four work search actions for each week. The Department will continue to improve its online services in an effort to increase the number of claimants reporting their weekly work search activities.

The Department will continue to conduct work search audits in 2015 and plans to dedicate more staff to conducting audits.

Efforts to Prevent Worker Misclassification

Worker misclassification is a problem facing UI programs across the nation, including Wisconsin. During 2014, Wisconsin UI auditors have identified misclassified workers on 31% of the audits that involve the construction industry. On average, each audit involving the construction industry has resulted in the reclassification of four to five workers.

Worker misclassification contributes to waste and fraud in the UI program in the following ways: the loss of UI tax revenues from employers who misclassify workers; the payment of UI claims to workers who are misclassified which result in a decrease in the reserve fund balance of the program; and, the creation of a climate of tax avoidance by employers that contributes to a decrease in voluntary tax compliance.

The Department has demonstrated its commitment to fighting worker misclassification through an ongoing initiative combining education of employers and workers and a robust program of worksite misclassification investigations.

In July of 2013, Wisconsin's worker classification website was published. The website (http://dwd.wisconsin.gov/worker_classification/), is the only one of its kind in the United States, providing employers with a clear and understandable process to assist them in determining if their workers are employees or independent contractors. The website also provides a mechanism for employers and workers to report businesses that are engaged in worker misclassification.

Worksite investigations are carried out by five experienced Department investigators, all of whom have law enforcement backgrounds. One of the investigators is full-time and the other four investigators are limited-term employees, all of which are funded temporarily through federal Supplemental Budget Request (SBR) grants. Department investigators interview suspected misclassified workers at work sites and obtain evidence for use by field auditors and legal staff.

The Department has financed the worker misclassification initiative almost exclusively through federal grants. For example, in 2013 and 2014, the Department received SBR grants from the USDOL for two limited-term investigators. The Department received additional federal funding in September of 2014 through a competitive federal grant award, for two additional limited-term investigators and a project field auditor.

The worker misclassification initiative has already demonstrated a record of success during its first full year of operation. The worker classification website has had **184,508** hits from unique Internet protocol addresses during 2014. The website has yielded 39 tips in 2014 which have resulted in 21 misclassification investigations. The investigative staff has conducted 76 field investigations resulting in 46 referrals to the Field Audit Section. On average, an audit conducted by the Department resulting from a referral by investigators has yielded 12 misclassified workers and an additional \$4,722.00 in unpaid UI taxes.

Through the additional resources made available by federal grant funding, the Department has committed to conducting a total of 300 worker classification field

investigations in 2015 and 2016. Members of the investigative team will hold meetings with a minimum of ten contractors that have utilized large numbers of misclassified workers. The goal of the meetings will be to educate the employers on worker misclassification, warn them of the legal and financial consequences of misclassification and work with the employers to bring them into voluntary compliance with the worker classification laws.

Members of the audit and investigative team will work proactively with the construction industry to educate all industry on worker misclassification and will provide presenters at a minimum of 12 construction industry events, labor union meetings and other public forums on worker misclassification.

Employer Audits

During 2014, the Department's Field Audit Section conducted 2,101 audits of employers, resulting in assessments totaling nearly \$1.3 million. Auditors identified 4,709 misclassified workers during the 2,101 audits, with over two misclassified workers being identified on average per audit.

Combatting Fictitious Employer Schemes

Department staff has developed a statistical model that involves extensive analysis of the data collected that detects the establishment of fictitious employers. The individuals who establish the fictitious businesses then submit fraudulent UI claims.

Tax Offset Program

The Department participates in the United States Treasury's Tax Offset Program (TOP) to intercept federal tax refunds. By utilizing the tools available through TOP, the Department was able to recover \$8.2 million in fraud overpayments, \$1 million in non-fraud overpayments and \$400,000 in fraud penalties in 2014.

MAINTAINING PROGRAM INTEGRITY

The Department remains committed to protecting the integrity of the UI program and in 2014, implemented a data analytics program to detect fraud quickly and prevent fraudulent UI benefit payments. The Department is in the early stages of creating a website specifically for identifying individuals who have been convicted of fraudulently claiming UI benefits and also for employers who have had a tax warrant issued due to unpaid UI taxes. The Department is also utilizing the following strategies to enhance the UI program:

- ◆ Implementing the standard operating procedures as recommended by the USDOL to process matches from the State and National Directories of New Hires.
 - The Department mails a letter to claimants instructing them to contact the Department and provide additional information regarding their employment status.

- This process reduces the potential for fraudulent overpayment of UI benefits.
- ◆ Building stronger relationships with other state's UI agencies and working closely with the USDOL Office of the Inspector General to identify and investigate criminal cases involving fraud and share information on preventing and detecting fraud.
- ◆ Enhancing Department computer systems to detect fraud by tracing internet protocol addresses and identifying claims filed for UI benefits from duplicate addresses or telephone numbers.

The Department continues to explore methods to detect fraudulent claim filing and is investigating the possible addition of identity-proofing technology, as described below.

21st Century Identity-Proofing Software

Since the migration from in-person claims servicing to a telephone and web-based system, a critical issue facing all agencies that administer UI programs is the inability to physically verify the identity of a claimant before the claim is paid. In an effort to modernize this process, the Department recently solicited input from multiple vendors that specialize in providing identity-proofing solutions in both the public and private sector.

From the responses received through the Request for Information (RFI), the Department will develop a strategy to accurately confirm the true identity of a claimant prior to a claim being filed. Identity-proofing technology is new to UI programs and is seen as a game-changer by UI experts across the nation. Wisconsin aims to be a leader in implementing this technology, joining only a handful of other states.

Conclusion

Unemployment Insurance fraud is a national problem and Wisconsin's strong commitment to enhancing program integrity demonstrates an unwavering commitment to the reduction of fraud in the Wisconsin UI program. 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 expects to collect 78% of overpayments established in 2014 over the next ten years.

In cases of egregious fraud, the Department will seek the maximum criminal penalty allowed under the law. In addition to seeking more convictions, individuals who have been convicted of UI fraud and businesses that have evaded UI tax payments will be posted on the Department website, putting a face on fraud.

The Department will continue to utilize existing tools to prevent, detect and recover fraudulent benefit payments and constantly adapt to the ever evolving nature of UI fraud. As fraud schemes change, our approach will change. In 2015 we will continue to enhance our ability to fight 21st century fraud with modern fraud prevention resources.

Appendices

Appendix A

Fraud Overpayment Detection Amounts and Decisions by Source for 2013-2014

Detection Method	2014 Amount	2013 Amount	2014 Decisions	2013 Decisions
Wage Record Cross match	\$7,858,128	\$8,108,195	4,242	3,941
Post Verification of Wages	931,004	933,150	553	510
Liable Employer Protests	1,755,427	2,608,499	1,487	1,798
Tips and Leads from Other than Liable Employer	478,163	935,648	386	554
State New Hire Cross match	1,003,429	945,372	1,357	1,522
National New Hire Cross match	151,749	94,586	101	58
Border Sate Cross match	16,452	612	8	1
Quality Control	87,570	61,062	28	29
Reversals	10,409	2,737	8	3
Field Audit Discoveries	73,248	34,435	16	21
Interstate Cross match	240,914	346,995	80	138
Agency Detection – Not Covered by Other Codes	7,228,377	9,793,813	4,289	5,442
State Payroll Cross match	538	0	1	0
Claimant Initiated	363,713	498,307	218	275
TOTALS	\$20,199,121	\$24,363,411	12,774	14,292

Appendix B

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

Detection Method	2014 Amount	2013 Amount	2014 Decisions	2013 Decisions
Wage Record Cross match	\$1,601,978	\$1,640,894	3,741	3,445
Post Verification of Wages	3,318,309	4,532,811	69,912	96,613
Liabile Employer Protests	3,128,835	4,600,983	7,725	11,658
Tips and Leads from Other than Liabile Employer	542,104	881,436	1,261	1,960
State New Hire Cross match	993,695	1,217,101	3,816	4,945
National New Hire Cross match	40,942	35,843	127	103
Border Sate Cross match	0	3,993	0	5
Quality Control	36,375	38,601	108	117
Reversals	1,103,884	1,480,710	612	818
Field Audit Discoveries	4,369	92,185	6	66
Project Clean Data	0	92	0	1
SSA Pension Check	0	324	0	1
SAVE (Alien Verification)	2,440	213	1	1
Interstate Cross match	28,392	32,978	49	86
Deceased Citizen Cross match	33,686	4,399	10	2
Agency Detection – Not Covered by Other Codes	3,795,646	8,151,183	8,856	19,494
Fictitious Employer Cases	285	134	1	2
Claimant Initiated	2,205,680	3,545,075	9,419	13,640
TOTALS	\$16,836,620	\$26,258,955	105,644	152,957

* 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

Forfeiture Assessment and Collection, Benefit Reduction Amount and Penalty Assessment and Collection 2011-2014*

Other fraud-related activity	2011	2012	2013	2014
Forfeitures Assessed*	\$40,775,475	\$39,469,232	\$11,949,972	\$2,073,555
Benefit Amount Reduction (BAR)	\$0	\$7,582,891	\$32,690,125	\$43,264,146
Penalties assessed**	\$0	\$20,768	\$2,202,840	\$2,823,964
Recovered for all years Assessed				
Forfeitures Collected	\$11,454,179	\$9,366,384	\$8,592,250	\$3,309,935
BAR Satisfied	\$0	\$50,632	\$3,102,731	\$5,133,741
Penalties collected**	\$0	\$603	\$327,106	\$1,774,331
Overpayments Collected				
Fraud	\$15,597,067	\$25,223,873	\$23,990,550	\$21,773,656
Non-fraud	\$28,099,276	\$24,945,202	\$25,112,055	\$18,686,386
Total	\$43,696,343	\$50,169,075	\$49,102,605	\$40,460,042

* For benefit weeks before 10/12/2012 forfeitures (penalties) were assessed and future UI benefits were withheld to satisfy the assessment. With 2011 Act 198, the forfeiture concept was changed to Benefit Amount Reduction (BAR) or ineligibility for benefits in the amounts of 2 times the weekly benefit rate for the 1st act of fraud, 4 times the weekly benefit rate for the 2nd act of fraud and 8 times the weekly benefit rate for each act subsequent to the second determination.

**In November 2011, the federal government enacted a mandate that states impose a 15% penalty on fraud overpayments by October 21, 2013, to be placed in states' unemployment reserve funds.

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

Appendix E

Department of Justice
U.S. Attorney's Office
Eastern District of Wisconsin

FOR IMMEDIATE RELEASE

Wednesday, December 17, 2014

Milwaukee Man Sentenced to 6 Years in Prison for Unemployment Insurance Fraud and identity Theft

United States Attorney James L. Santelle of the Eastern District of Wisconsin announced that, on December 16, 2014, Calvin V. Sanders (52) of Milwaukee, Wisconsin was sentenced in the United States District Court to a total of 76 months imprisonment for his involvement in an unemployment insurance fraud scheme and aggravated identity theft.

In addition to Sanders, four other individuals were convicted of participating in the scheme to defraud by obtaining unemployment insurance benefits through mail and wire fraud. Sanders' co-conspirators, Travis Arrington (29), Ebony Bates (36), Nicole Porter (39) and Jacob Shaw-Downey (25), received sentences ranging from time served to 10 months imprisonment. Arrington, Bates, and Shaw Downey are Milwaukee residents, and Porter is a resident of Gary, Indiana. In the course of the scheme, the conspirators obtained a total of \$357,420 in unemployment insurance benefits from the Wisconsin Department of Workforce Development. The court ordered that \$357,420 in restitution be paid by the defendants jointly and severally.

Unemployment insurance benefits are provided by the federal and state government to individuals who have suffered involuntary job loss. According to information disclosed in court, Sanders created several fictitious companies for the purpose of defrauding the government of unemployment insurance benefits. Many accounts were created using the unlawfully obtained names and Social Security Numbers of unsuspecting individuals who were then registered as employees of the fictitious companies for the purpose of receiving unemployment insurance benefits despite the fact that no work was ever performed. In some instances, accounts were created in the names of individuals who knowingly participated in the scheme to defraud the government. A number of the identity theft victims resided in a rehabilitation center located in Gary, Indiana, where co-conspirator Nicole Porter was employed as certified nursing assistant.

In announcing these sentences, United States Attorney Santelle said: "The criminal conduct of these defendants, acting both individually and collectively, defrauded the government of significant amounts of money intended for the legitimate benefit of citizens who have lost employment involuntarily. The sentences imposed on them reflect the serious nature of the fraud and the purposeful victimization of individuals and government programs." Santelle specifically commended the agents and staff of the

United States Department of Labor, the United States Postal Inspection Service, the Wisconsin Department of Justice, and the Wisconsin Department of Workforce Development for their “purposeful, comprehensive, and effective identification and investigation of these defendants, resulting in their criminal convictions and the sentences imposed on them this week.”

“The prosecutions illustrate the Office of Inspector General’s commitment to combating unemployment insurance fraud. We would like to thank the Wisconsin Department of Workforce Development for their support in identifying the unemployment insurance fraud and their investigative partnership in ensuring the accountability and integrity of the program,” stated James Vanderberg, Special Agent-in-Charge of the United States Department of Labor’s Office of Inspector General, Office of Labor Racketeering and Fraud Investigations in Chicago.

The case was investigated by the United States Department of Labor in collaboration with the Wisconsin Department of Justice – Division of Criminal Investigation, the Wisconsin Department of Workforce Development, and the United States Postal Inspection Service. The case was prosecuted by Assistant United States Attorney Tracy M. Johnson.