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## UNEMPLOYMENT INSURANCE

## Data Indicate Substantial Levels of Fraud during the Pandemic; DOL Should Implement an Antifraud Strategy

## Why GAO Did This Study

The UI system has faced long-standing challenges with program integrity, which worsened during the pandemic. Congress created four new UI programs to support workers during the pandemic. According to DOL data, approximately $878 billion in benefits were paid across all UI programs from April 2020 through September 2022. The unprecedented demand for benefits and the need to implement the new programs quickly increased the risk of financial fraud. Due to this risk and other challenges, GAO added the UI system to its High-Risk List in June 2022.

GAO was asked to review matters relating to the scope and severity of fraudulent activity in the UI system during the pandemic. This report examines what measures and estimates indicate about the extent of UI fraud during the pandemic and the extent to which DOL designed and implemented a strategy to manage UI fraud risks. GAO reviewed information that federal and state entities used to measure and estimate the extent of fraud in UI programs, then evaluated DOL's activities against leading practices in GAO's Fraud Risk Framework. This report is part of an ongoing body of work to better understand and manage federal fraud, including future work to improve estimates of fraud.

## What GAO Recommends

GAO recommends that DOL develop and implement an antifraud strategy for UI programs that is consistent with leading practices from GAO's Fraud Risk Framework. DOL partially agreed with the recommendation and noted plans to address it.

View GAO-23-105523. For more information, contact Seto Bagdoyan at (202) 512-6722 or BagdoyanS@gao.gov, or Jared Smith at (202) 512-2700 or SmithJB@gao.gov.

## What GAO Found

Considered together, measures and estimates indicate substantial levels of fraud and potential fraud in unemployment insurance (UI) programs during the pandemic. However, each measure and estimate has strengths and limitations, and none completely and reliably indicates the extent of fraud in UI programs during the pandemic.

Examples and Definitions of Measures and Estimates



**Measures**
For purposes of this report, measures are counts of detected activities.

**Fraud measures**

Cases of proven fraud
Unemployment Insurance (UI) fraud during the pandemic is at least $4.3 billion based on formal determinations of fraud by state workforce agencies. However, this does not account for potential fraud that has not been formally determined as such.

**Fraud-related measures**

Applications flagged for potential fraud
At least $45 billion in UI payments during the pandemic have some indication of potential fraud according to the Department of Labor (DOL) Office of Inspector General. However, while this measure identifies transactions that may be indicative of potential fraud, it cannot be interpreted as a measure of the extent of UI fraud.

**Estimates**
For purposes of this report, estimates are projections or inferences based on measures, assumptions, or analytical techniques where direct measures are unavailable, incomplete, or unreliable.

**Manual review of a statistical sample**

DOL reported fraud estimates for regular UI payments based on states' reviews of samples of claims. In combination, these estimates amount to about $8.5 billion for 2021.

**Extrapolation from rates**

If the lower bound of DOL's estimated national fraud rate for 2021 was extrapolated to total spending across all UI programs during the wider pandemic period, it would suggest over $60 billion in fraudulent UI payments. However, such an extrapolation has inherent limitations regarding validity, accuracy, and completeness, and should be interpreted with caution.

The available measures and estimates support the use of this fraud rate as a lower, but not upper limit of the fraud rate for all UI programs and the full period of pandemic spending.

Source: GAO, rashadashurov/stock.adobe.com and rawku5/stock.adobe.com (icons). | GAO-23-105523

DOL has taken steps to address UI fraud risks. For example, DOL issued guidance, provided funding to states, and deployed teams to recommend improvements to state UI programs. While these steps help prevent, detect, and respond to fraud, as of December 2022, DOL has not yet developed an antifraud strategy based on leading practices in GAO's Fraud Risk Framework. Also, it has not yet addressed the six October 2021 recommendations GAO made including to identify, assess the impact of, and prioritize UI fraud risks. These are essential pieces to inform an overall antifraud strategy. Without an antifraud strategy, DOL is not able to ensure that it is addressing the most significant fraud risks facing the UI system in alignment with the Fraud Risk Framework.

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**United States Government Accountability Office**