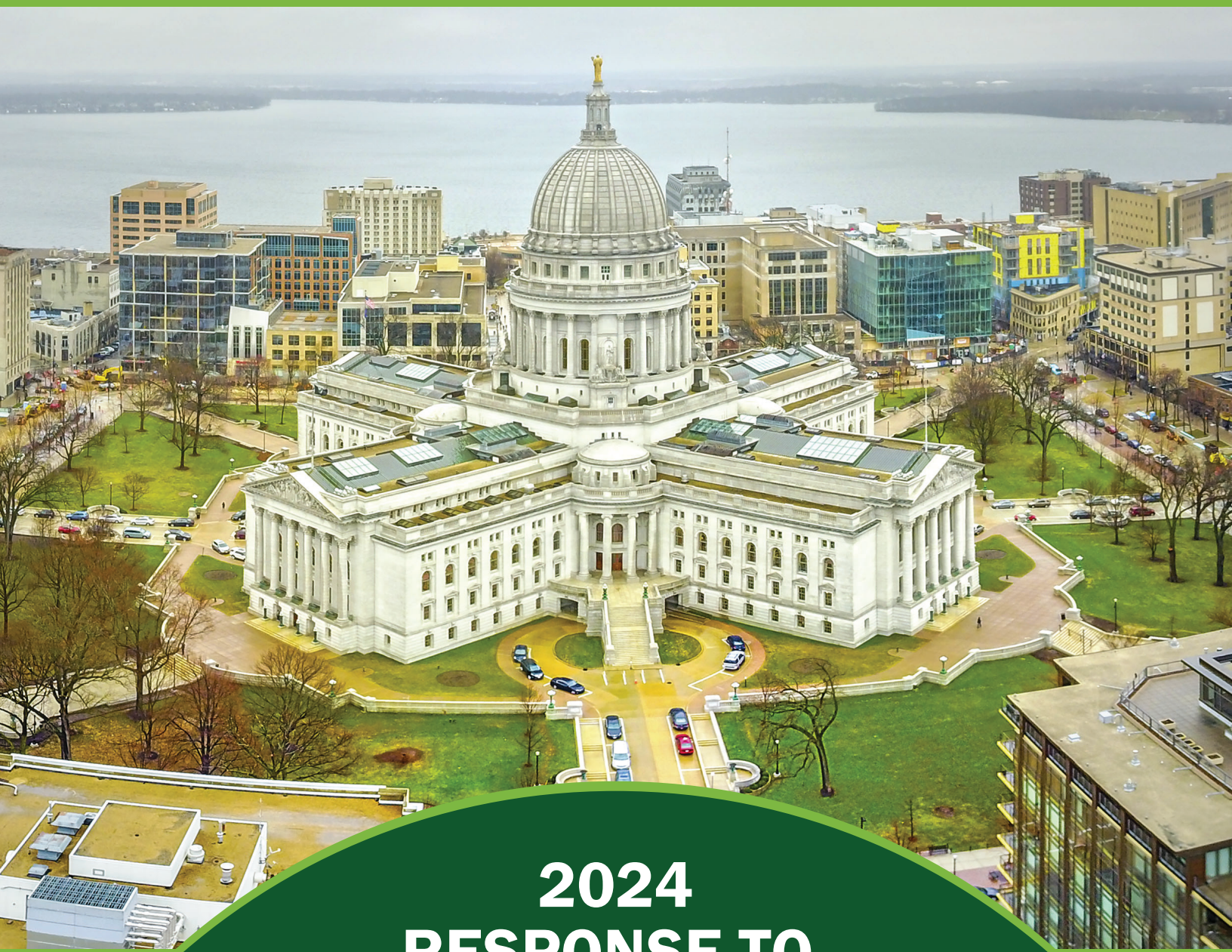




WISCONSIN DEPARTMENT OF
WORKFORCE DEVELOPMENT
UNEMPLOYMENT INSURANCE



2024
RESPONSE TO
RESEARCH REQUEST
TO THE UNEMPLOYMENT INSURANCE
ADVISORY COUNCIL

June 13, 2024

Dear Members of the Unemployment Insurance Advisory Council:

Wisconsin pioneered the nation's first Unemployment Insurance (UI) system in 1932, and today the Wisconsin Department of Workforce Development's (DWD) UI Division continues to lead the way with a system that promotes economic stability and supports an exemplary workforce.

Unemployment benefits, funded by employer contributions, provide temporary economic assistance to Wisconsin's eligible workers during times of unemployment. By contributing to the UI system, Wisconsin employers protect the pool of highly skilled workers and reduce the likelihood that workers affected by a layoff or temporary downturn will take their skills and talents to other states.

Wisconsin's UI system benefits from strong collaboration among business and labor groups through the [Unemployment Insurance Advisory Council](#) (UIAC). DWD appreciates the council's support for its ongoing program integrity initiatives.

The COVID-19 pandemic drove the creation of six federal UI programs and a record volume of claims and benefit payments. From March 15, 2020 through the end of 2021, \$7.18 billion in UI benefits was paid to approximately 677,000 claimants. Of those payments, 70% were from federal programs and 30% were from the Wisconsin UI program.

As the impact of the pandemic diminished, Wisconsin's historic economic recovery reduced regular benefit payments to \$344.5 million in 2022. The positive economic momentum has continued into 2024, with Wisconsin achieving record highs of 3,047,900 in total employment and 3,036,100 in total nonfarm jobs in February, as well as a near record low unemployment rate of 2.9% in April.

At the March 21, 2024 meeting of the UIAC, council members reviewed the [2024 Fraud Report](#) and expressed interest in learning more about DWD's fraud prevention and detection efforts. DWD welcomes the opportunity to provide additional information regarding its program integrity efforts and has prepared the following report to offer helpful insights and context.

In reviewing metrics regarding UI fraud, it is important to note that these point-in-time measures are lagging indicators that will change over months and years as fraud cases are identified and adjudicated or prosecuted.¹

While the department takes numerous steps to prevent fraud – more than most states, in fact – there is no way to prevent all fraud. Efforts, therefore, occur on many fronts. In addition to taking steps to prevent fraud, the department has also implemented increasingly sophisticated measures to detect fraudulent activity through crossmatches and audits. Over the past five years, more than 30 program integrity projects and activities have been adopted, expanded, and initiated to strengthen the UI program. The work does not end there. The department's strong collection program also recovers a considerable portion of overpayments when they do occur.

State law requires the department to submit to the council on an annual basis, "a report summarizing the department's activities related to detection and prosecution of unemployment insurance fraud in the preceding year."² Consistent with the point-in-time snapshot of these metrics, the reporting is subject to change over time as fraudulent activity is detected.

The 2024 Fraud Report cited the following:

- In 2023, of the \$337.6 million UI payments, 0.46% are known Fraud overpayments.
- In 2022, of the \$344.5 million UI payments, 0.72% are known Fraud overpayments.
- In 2021, of the \$2.5 billion UI payments, 1.1% are known Fraud overpayments.
- In 2020, of the \$4.8 billion UI payments, 0.77% are known Fraud overpayments.

In accordance with the department's commitment to transparency, this comprehensive response is also designed to proactively address items that may be raised in the Legislative Audit Bureau's (LAB) fraud audit, which is expected to be published later this year. This proactive response is intended to provide council members with context on any supplemental fraud items that may have been identified in the LAB scope letter³ but not statutorily required for inclusion in the Annual Fraud Report.

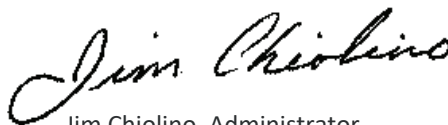
Wisconsin's longstanding commitment to fighting fraud is evidenced by discussions of fraud penalties in materials from the March 17, 1939 council meeting and in this poster from December 1950 as shown in [figure 1](#).

The department looks forward to continuing the important work of protecting program integrity through fraud education, prevention, and detection.

Sincerely,



Amy Pechacek, Secretary-designee
Department of Workforce Development



Jim Chiolino, Administrator
Unemployment Insurance Division

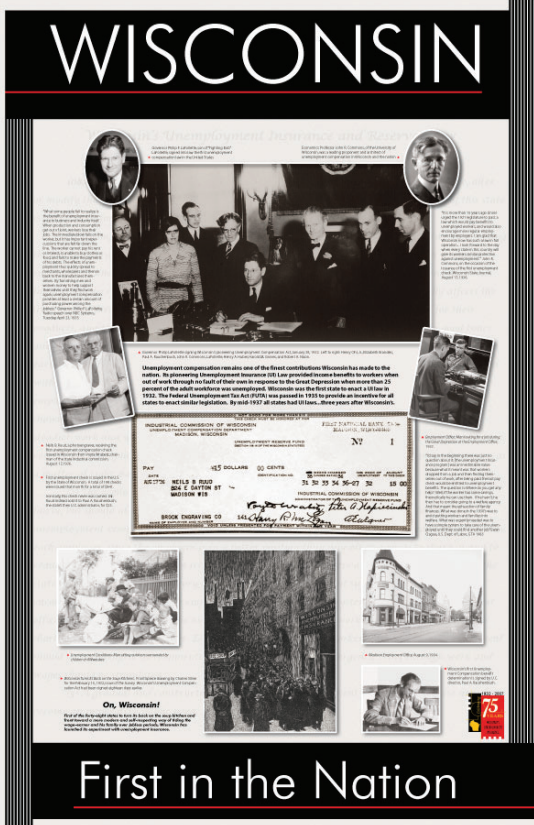
**U. G. CHEATERS CAUGHT
PENALTIES ARE APPLIED**



Figure 1. 1950 Wisconsin fraud penalties poster

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WISCONSIN

First in the Nation

Unemployment compensation remains one of the finest contributions Wisconsin has made to the nation. Its pioneering Unemployment Insurance (UI) Law provided income benefits to workers when out of work through no fault of their own in response to the Great Depression when more than 25 percent of the adult workforce was unemployed. Wisconsin was the first state to enact a law in 1932. The Federal Unemployment Tax Act (FUTA) was passed in 1935 to provide an incentive for all states to enact similar legislation. By mid-1937 all states had UI laws...three years after Wisconsin's.

FRAUD PREVENTION

Wisconsin vs. Neighboring States & the Nation

Wisconsin is proactive in its comprehensive approach to combating UI fraud. This section outlines some of the various information technology measures in place to detect and prevent fraud; best practices for fraud prevention; U.S. Department of Labor (US DOL) recognition of two effective prevention strategies in Wisconsin; and Fraud overpayment data comparing Wisconsin with its neighboring states, the Midwest, and nationally.

DWD's UI Division tracks instances where individuals are blocked from the UI Claimant Portal as one method to quantify fraud prevention. In 2023, the division identified 52,154 instances of potential "bad actors." These preventive measures include 15,266 instances of failed address verification, 19,201 instances of failed identity verification, and 17,687 instances of blocks based on other information technology measures.

Wisconsin participates in the National Association of Workforce Agencies' (NASWA) Integrity Data Hub (IDH). The IDH is a multistate data system that crossmatches and analyzes UI data provided by states across the country. The IDH flags claims with potential eligibility or fraud issues in Wisconsin and makes the results available for review by division staff. These issues include claims with suspect identity fraud, suspect IP addresses, suspect bank accounts, or claims filed in multiple states. Potential eligibility or fraud issues identified by the IDH may or may not be duplicative of other detection methods used by the division. The IDH serves as a useful tool in the department's layered approach to fraud detection and prevention.

During the COVID-19 pandemic, the division's detection methods identified over 94,000 claims and attempted claims that were suspected to be those of an imposter.⁴ The division's fraud detection methods prevented a large number of payments to potential imposters during the COVID-19 pandemic. As a conservative estimate, the division prevented over \$130 million of payments to potential imposters filing Pandemic Unemployment Assistance (PUA), Mixed Earners Unemployment Compensation (MEUC), or regular UI claims.⁵

In 2023, two of the overpayment prevention strategies implemented by the division through Wisconsin's partnership with NASWA garnered recognition by US DOL as "promising practices" for other states to consider adopting. The two overpayment prevention strategies feature prompts for claimants who have a fraud finding on an earlier UI claim and alert claimants to potential issues with unreported earnings.⁶

In addition, the division has implemented other strategies to enhance program integrity. These efforts include creation of the UI Community Partner Toolkit, updates to the initial claims and weekly claims processes, redesigned forms, and other claimant portal updates.

Wisconsin's adoption of fraud prevention and detection methods compares favorably to use of these methods by Minnesota, Iowa, Illinois, and Michigan. Some examples of publicly-available information on neighboring states' fraud prevention methods, which Wisconsin has also adopted, include:

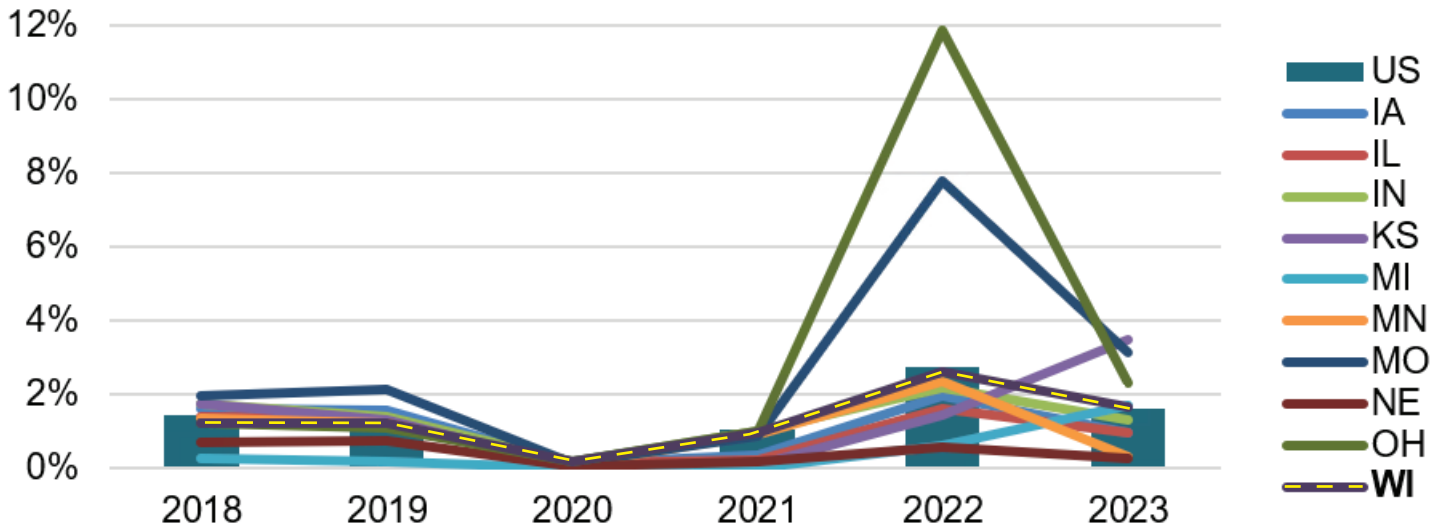
- Various fraud reporting methods (online, phone, mail);
- Education on fraud in claimant and employer handbooks;
- Verification of understanding of fraud penalties in claim filing;
- Random claim audits;
- List of fraud scams published;
- Information on worker misclassification available online; and
- Information on overpayment collections listed online.

The division conducts more than 30 scans and crossmatches to aid in fraud prevention. Wisconsin's comprehensive crossmatch program has been in place for many years. Other states conduct select, but not all, crossmatches. An Illinois audit found that while US DOL introduced the Prisoner Update Processing System and Bank Account Verification as additional crossmatches in October 2021, Illinois had not yet utilized them as of February 2022.⁷ An Iowa audit found the state did not perform incarceration crossmatches for the year ended June 30, 2020 and paid eight individuals who were incarcerated \$113,813 in benefits. While Iowa performed the Social Security Administration crossmatch in this period, the state did not identify six individuals who were deceased and paid \$124,698 in benefits.⁸

Other states across the country had issues with crossmatches, as well. In January 2021, the California State Auditor published its report on its high-risk audit of the Employment Development Department's (EDD) management of federal funds related to the COVID-19 pandemic. The report found, among other things, that EDD was not prepared to prevent inmate fraud that occurred during the federal PUA program because it did not have a system in place to crossmatch incarceration and claims data. EDD estimated \$810 million in benefit payments were made to 45,000 claimants who were incarcerated.⁹ Additionally, Colorado discontinued its quarterly wage crossmatch after March 31, 2020 and the crossmatch was not implemented again until Jan. 10, 2021.¹⁰

Data reported to US DOL can be used to calculate Fraud overpayments as a percent of total UI payments to compare Wisconsin's Fraud overpayments to other states. As shown in the graph below, data from 2018 to 2023 shows Wisconsin's Fraud overpayments as a percentage of total UI payments are consistent with states that neighbor Wisconsin, other states within its US DOL region (Region 5 - Chicago), and the national average.

Fraud Overpayments as a Percent of Total UI Payments by Year - WI, Region 5, and US



Source: ETA 227 and combined regular UI payments from the ETA 5159

As detailed in the 2024 Fraud Report, Wisconsin ranked second in total overpayment recoveries among the 10 states in Region 5 during 2023, which included both Fraud and Non-Fraud overpayments. Wisconsin's total overpayment recovery rate in 2023 also stands out nationally; Wisconsin ranks seventh of the 53 state agencies for its recovery rate. The below table depicts the total overpayment recovery rate for calendar year 2023, calculated by US DOL, for each of the 53 US DOL state workforce agencies.

US DOL Overpayments Recovered in 2023		US DOL Overpayments Recovered in 2023		US DOL Overpayments Recovered in 2023		*The recovery rate is the ratio of reported overpayments recovered to overpayments established in the same time period. However, the amounts recovered for any quarter may be from overpayments established in many previous time periods. In the past few years, states' implementation of the Treasury Offset Program to recover overpayments through federal tax offset has resulted in a high recovery of overpayments previously established. Due to this high recovery of overpayments established in previous quarters, the recovery rate ratio may show result exceeding 100% for a few states.
State	Recovery Rate*	State	Recovery Rate*	State	Recovery Rate*	
CT	278.91%	WY	83.07%	WV	34.65%	
MS	252.65%	IL	78.00%	KY	33.29%	
SC	168.27%	ID	73.15%	PA	28.94%	
KS	154.04%	AK	71.73%	PR	28.82%	
MT	137.38%	DC	71.09%	AL	27.90%	
SD	136.36%	CA	71.01%	TN	27.01%	
★ WI	131.69%	OK	66.96%	LA	21.91%	
MO	127.22%	DE	64.50%	VI	20.02%	
ME	116.03%	MN	64.31%	CO	11.67%	
NE	114.45%	NM	63.40%	FL	11.44%	
NC	113.56%	AR	61.63%	MA	10.54%	
ND	112.67%	VT	60.57%	NV	8.69%	
OR	98.84%	OH	56.72%	MD	7.56%	
NJ	97.55%	WA	56.11%	MI	4.43%	
TX	96.52%	IN	54.59%	VA	-12.15%	
UT	96.13%	GA	46.95%	NH	-51.48%	
HI	94.48%	RI	46.24%	AZ	-1037.77%	
IA	87.65%	NY	37.26%			

Source: ETA 227 and ETA 227 EUC reports
Prepared by US DOL Div. of Performance Management on March 5, 2024

Additional Data

Wisconsin has employed best practices in fraud and investigation activities and continues to seek additional ways to protect the integrity of the UI system. As mentioned, fraud activities are difficult to compare among states due to vast differences in state laws regarding fraud, the fact that fraud has varied interpretations, and how fraud is reported.

Wisconsin utilizes monetary and criminal deterrents for fraud – methods that are not universally deployed by other states. Maximum fines on claimants and employers total up to \$25,000 (depending on facts of fraud) in Wisconsin. Other states' fines vary depending on whether fraud is committed by a claimant or an employer and some maximum fines are only \$200.

Additionally, the maximum prison time for both claimants and employers is 10 years in Wisconsin, while the majority of states have shorter maximum sentences of two years or less (some as few as 30 days). Like most other states, Wisconsin provides for a 100% reduction in a claimant's weekly benefit allowance after a fraud finding, without limit (select states allow for a 100% reduction in weekly benefit allowance, though with a limit).

The department is supported in further strengthening protections against imposter fraud with UIAC's efforts to impose penalties to deter fraud. As part of the UIAC agreed bill process, the department proposed, and the council included an imposter penalty provision in one of the two agreed bills for the 2023-24 legislative session. While neither of the UIAC's agreed bills received a legislative hearing during the session, the shared dedication to expanding these deterrents shows Wisconsin's commitment to integrity in the UI system.

Wisconsin's claims applications processing also protects the integrity of the UI system. In Wisconsin, all separations on a claim are investigated. Many other states only investigate the last separation. This additional diligence on a claim can prevent fraud.

Wisconsin has also been a model for worker misclassification investigations and educational outreach. Wisconsin was one of a handful of states that, from 2013 to 2015, won competitive federal grants totaling over \$1 million to expand its Worker Classification Section.

Wisconsin, like the rest of the nation, faced numerous fraud challenges due to the COVID-19 pandemic, but other states fared much worse. A California audit report noted its identity theft reporting process was inundated with complaints in 2020. The state had only one staff person assigned to handle such reports, and this position later became vacant. As a result, from April to October of 2020, less than 2% of California's online complaints were responded to.¹¹ Written testimony by the Secretary of Labor and Workforce Development in Massachusetts indicated the state was "hit early and also particularly hard" by targeted criminal activity during the COVID-19 pandemic due to its high weekly benefit rate and early implementation of federal benefit programs.¹²

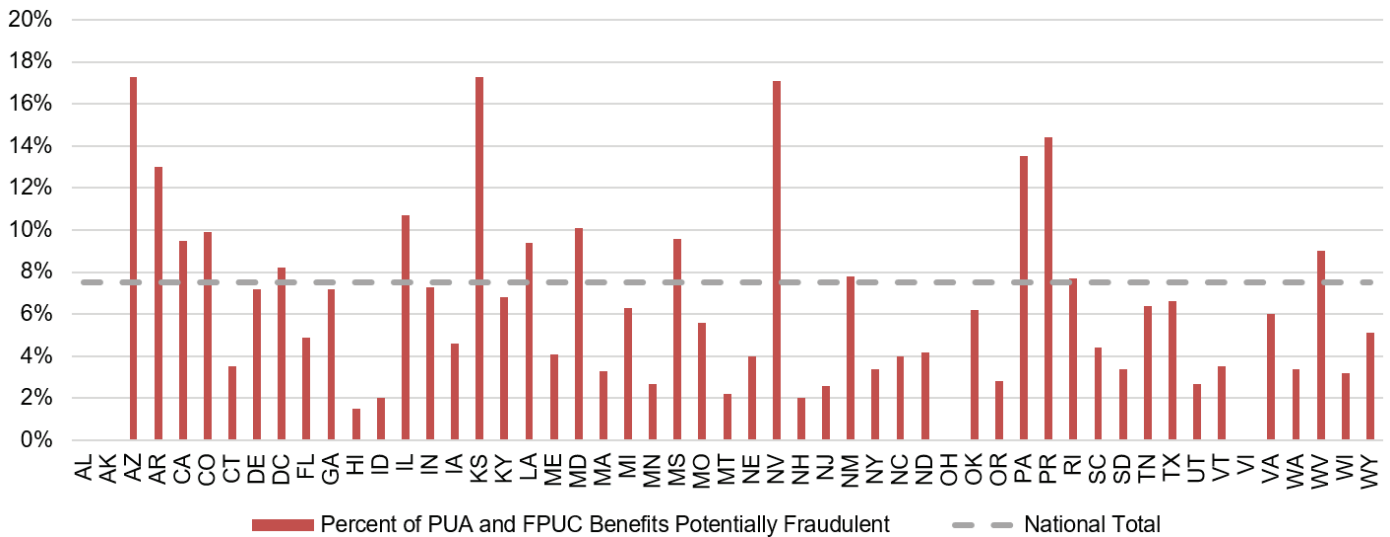
During the pandemic, the federal PUA program was initiated to assist people including self-employed individuals, gig workers, independent contractors, workers with limited work history, and others who would not normally qualify for regular UI benefits. While the federal program helped many of these workers and their families pay for essentials during the economic downturn, the program experienced fraud due to several factors beyond the control of state agencies charged with administering the benefits. First, the PUA program was a new program that allowed new categories of claimants to self-attest to their eligibility. Second, there were limitations to the verifications state programs could require, as compared to regular UI claims, because states were required to follow federal rules in administration and these rules varied throughout the course of the COVID-19 pandemic.

The federal PUA program was established to provide support for gig workers, self-employed individuals, and others whose employment was affected by the COVID-19 pandemic, but who would not normally qualify for regular UI benefits.



OIG conducted various audits on US DOL's guidance over federal pandemic programs. One [audit](#), conducted alongside contractor Key & Associates, P.C., examined potentially fraudulent payments made by states in PUA and Federal Pandemic Unemployment Compensation (FPUC) benefits paid to PUA claimants.¹³ Their data¹⁴ is summarized in the graph below:

**Submitted Claims Data by State Associated with Fraud Indicators
from April 1, 2020 to September 30, 2021**



Source: OIG analysis of claims data for pandemic-related UI programs submitted by the 53 state workforce agencies (obtained via OIG Report Number 19-23-014-03-315, Table 7)

A different [audit report](#) by OIG examined whether the US DOL agency responsible for guiding state UI programs, the Employment and Training Administration (ETA), initially implemented provisions to mitigate the risk of fraud, waste, and abuse within the CARES Act federal UI programs.¹⁵ One finding from the audit was:

"ETA guidance did not sufficiently address the risk of fraud, waste, or abuse."
 – U.S. Department of Labor Office of Inspector General

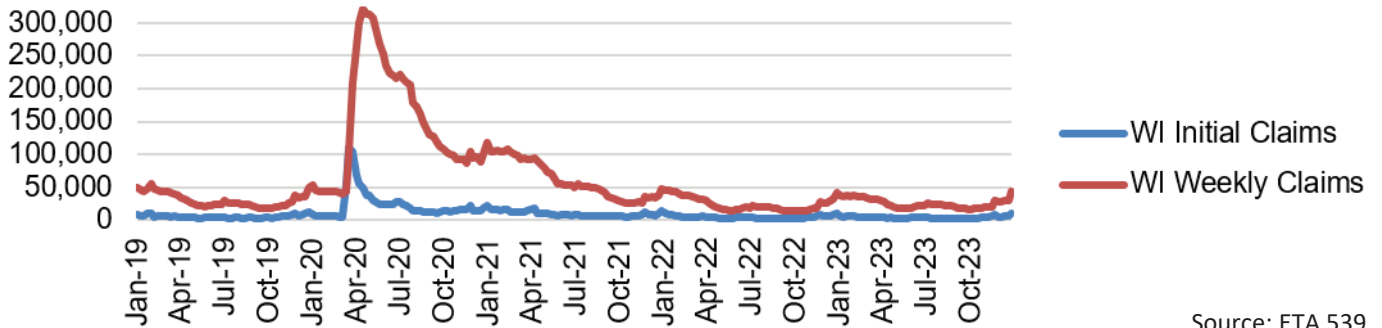
In 2021, the Pandemic Response Accountability Committee released a report that analyzed commonalities across 16 state auditor offices concerning the COVID-19 pandemic. The report identified four common issues in UI programs across 16 states: heightened workloads; exploitation of internal control weaknesses; increased fraud schemes; and IT system difficulties.¹⁶

Over the past five years in Wisconsin, more than 30 program integrity projects and activities have been adopted, expanded and initiated to strengthen the UI program and fight fraud.



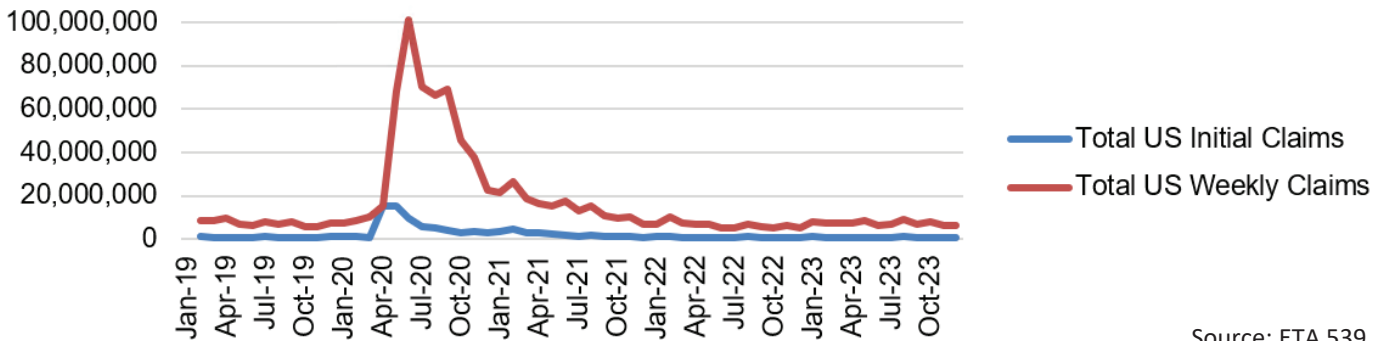
As seen across the nation, Wisconsin also saw a sharp increase in claims at the beginning of the COVID-19 pandemic. The graphs below illustrate Wisconsin's claim trends (top) from January 2019 to October 2023 compared to national claim trends (bottom) for the same period.

**Wisconsin UI Claims
2019-2023**



Source: ETA 539

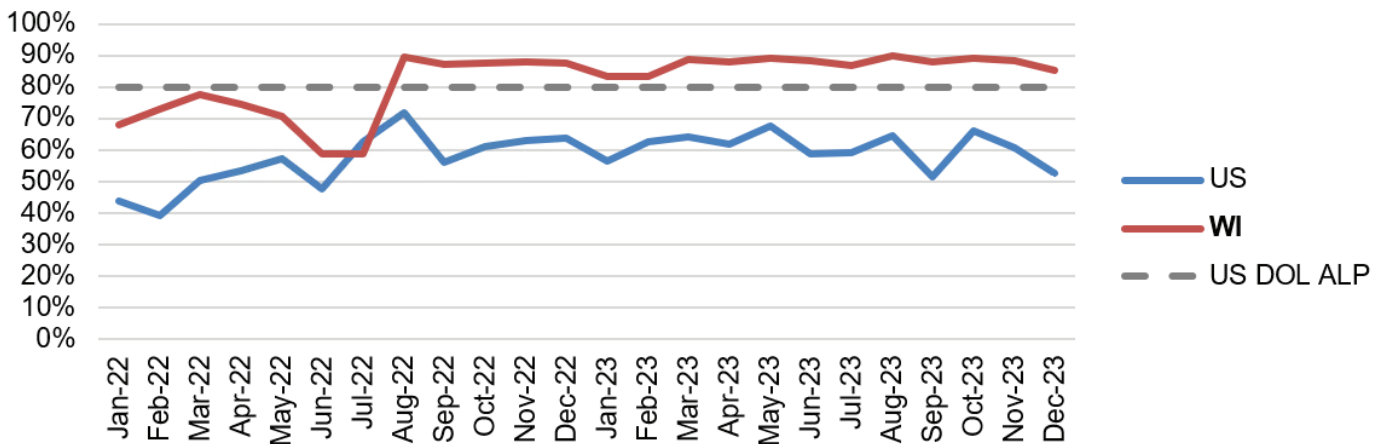
**US UI Claims
2019-2023**



Source: ETA 539

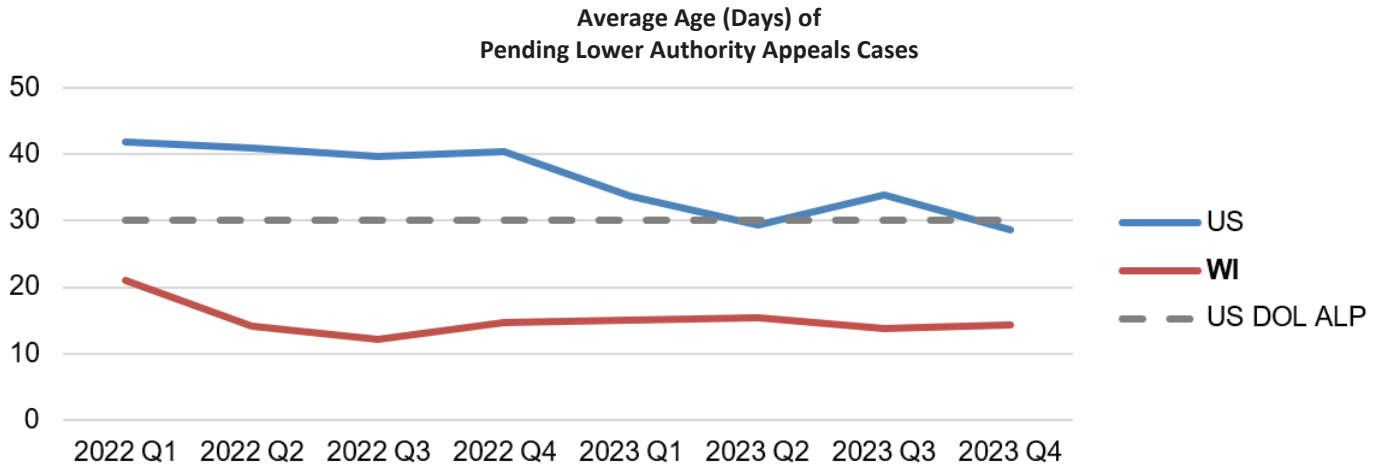
In a number of areas, Wisconsin has performed better than other states and even above the US DOL acceptable levels of performance.¹⁷ The graph below displays the percentage of nonmonetary determinations made within 21 days for Wisconsin (red) from January 2022 through December 2023 and for the nation (blue) during the same period. A nonmonetary determination is a determination for UI benefits based on factors other than whether a claimant has earned enough in wages to qualify for benefits (for example, separation issues).

Percent of Nonmonetary Determination Made within 21 Days



Source: ETA 9052

Wisconsin has also outperformed other states and US DOL's acceptable level of performance¹⁸ in the average age (days) of pending lower authority appeals cases (the number of days cases wait before being decided by division appeals staff). The graph below displays Wisconsin's performance (red) from 2022 Quarter 1 through 2023 Quarter 4 compared with the nation (blue) for the same period. Shorter times for pending lower authority appeals cases are beneficial because it means issues are being processed more quickly.



Additionally, Wisconsin has consistently maintained a low exhaustion rate, ranking in the bottom quarter of states in terms of the percentage of exhaustions during typical benefit years, meaning the majority of the unemployed population are not receiving UI benefit payments for the entire period they are eligible. During 2023, Wisconsin UI recipients received benefits for an average of 11.8 weeks, compared with the maximum eligibility of 26 weeks, signaling that Wisconsin workers are actively seeking and connecting with employment to return to self-sufficiency.

During 2023, Wisconsin workers who received UI benefits successfully connected with employment and returned to self-sufficiency without exhausting their benefits. Recipients received benefits for an average of 11.8 weeks, compared with maximum eligibility of 26 weeks.



WORK SEARCH COMPLIANCE

Understanding Audit Results

The division has a comprehensive work search audit process, which includes targeted and random audits of claims.

In 2023, a total of 15,488 work search audits were conducted, which identified 4,524 Non-Fraud overpayment decisions and 10 Fraud overpayment decisions. This led to almost \$2 million in overpayments being collected in 2023. Additionally, 6,087 adverse decisions resulted in the denial of benefits, and 24,313 claims were not paid due to failure to answer the work search question or provide required information on the weekly claim. As shown above, instances of work search Fraud are uncommon.

The two most common work search issues identified in audits are falsified work search actions (reporting actions not actually completed) and invalid work search actions.¹⁹ Claimants could fail an audit for these reasons or others, such as making duplicative entries or failing to keep work search records. The UI claims system automatically denies claims when claimants fail to enter four work search actions if required. In 2023, the system denied 23,070 claims for this reason.

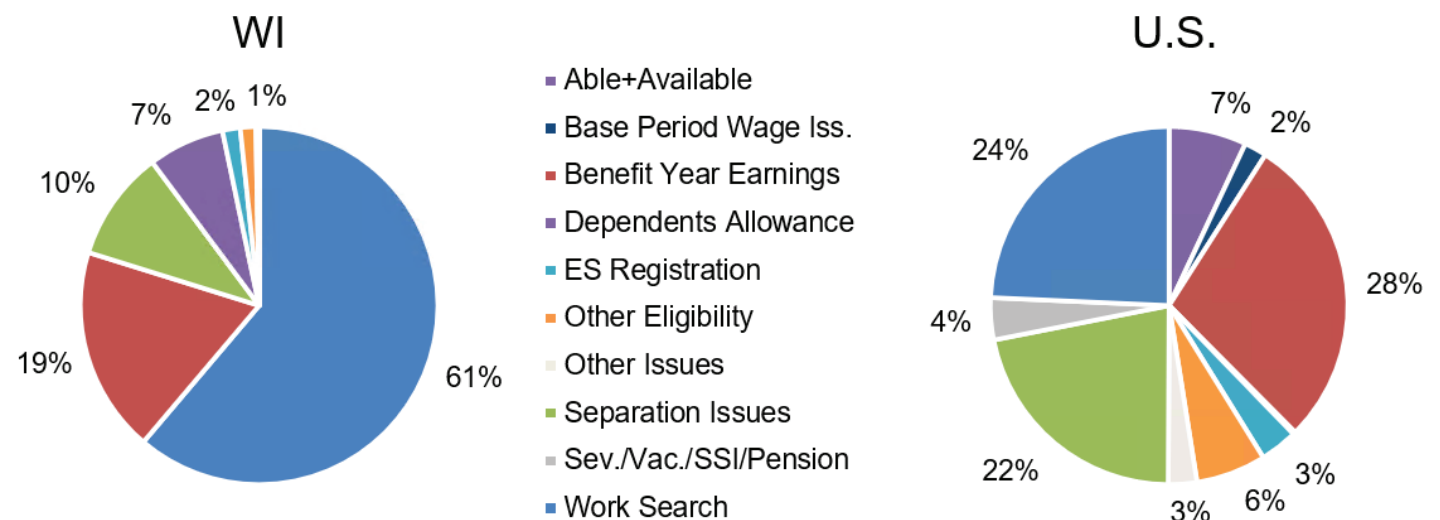
There are two types of work search audits: random and targeted. Random audits are regularly conducted on a sample of claims to ensure work search requirements are met. Targeted audits are regularly conducted and focus on claims exhibiting suspicious traits.

In 2023, the overall denial rate for work search audits was 39.3%. In 2023, the denial rate for random work search audits was 26.3% and the denial rate for targeted work search audits was 56%. Denial rates for targeted work search audits are typically higher than random work search audits since the claims already exhibit suspicious traits.

Regardless of the type of audit conducted, claimants who had any work search issues identified as part of their audit are educated on what is a valid work search action and acceptable proof of that action. This additional education helps prevent incorrect reporting and assists in re-employment.

The division is revising certain work search items to clarify requirements, making the process clearer and more concise. Some revisions include implementing plain language and behavioral insight principles into the current reporting process and online work search tracking.

Wisconsin detects a higher number of overpayments largely due to the number of required work search actions. In 2023, the average number of required work search actions was three, both nationally and among other Region 5 states. However, neighboring states vary in their weekly work search requirements, with Minnesota requiring claimants search for work but not specifying a minimum number of work search actions, Illinois focusing on quality over quantity, and Iowa and Michigan requiring only two work search actions. Wisconsin's higher work search action requirement contributes to estimated overpayments. The charts below depict the significantly higher percentage of estimated overpayments resulting from work search issues in Wisconsin (left) for the 12-month period ending June 30, 2023, compared to the rest of the nation (right) for the same period.



Source: PIIA 2023

Nationally, the highest root cause of estimated overpayments is benefit year earnings, followed by work search and separation issues. In Wisconsin, the highest root cause of estimated overpayments is work search, followed by benefit year earnings and separation issues.

DWD DIVISION OF UNEMPLOYMENT INSURANCE

Fraud Operations

The division's various approaches to fraud education and prevention, detection, investigation, collection, and penalty/prosecution activities are outlined in the 2024 Fraud Report. Context on how the division conducts specific activities is sensitive and, to protect the integrity of those activities, kept confidential. Over the past five years, more than 30 program integrity projects and activities have been adopted, expanded, and initiated to strengthen the UI program.

The following descriptions provide a high-level overview of recent program integrity efforts:

- **Plain language initiatives.** Multiple forms, web pages, and documents have been updated to incorporate plain language principles to help claimants avoid mistakes;
- **Modernization improvements.** The department has undertaken a multifaceted development strategy to replace outdated computer systems, integrate new technology, and overhaul training to streamline and update services to claimants and employers;
- **Weekly bureau director meetings.** The UI bureau directors from all bureaus now meet weekly (during the COVID-19 pandemic the meetings occurred two to three times per week), which has aided in cross-bureau communications and fraud discussions;
- **Claimant handbook.** In August 2022, the claimant handbook was rewritten to implement plain language principles and help ease administration of benefits. This update should decrease errors when filing claims;
- **Misclassification campaign.** In October 2023, the department developed marketing and collateral materials in English and Spanish (including billboards, social media ads, and digital displays) to build awareness of and help combat worker misclassification; and
- **Prevention strategies.** As further described in the 2024 Fraud Report, two of Wisconsin's overpayment prevention strategies have been named "promising practices" by US DOL.

As detailed below, DWD's vigilant UI staff members continue to serve as the department's strongest defense against fraud. UI staff at multiple levels contribute to, and gain actionable information from, a broad, multi-state ecosystem of UI experts committed to fighting fraud. Beyond DWD's own dedicated fraud investigators who handle the most complex and organized efforts to defraud the UI system, benefits specialists, employer assistance staff, legal affairs staff, and claims processing staff all play a role in the comprehensive program integrity efforts.

These comprehensive efforts have been enhanced by numerous federal grants, totaling more than \$7.1 million, for various program integrity enhancement projects and activities that are in process. Below are some examples of projects and activities:

Project Name	Project Description
Authorization Security Questions	Adds additional verification of online user identities.
Banking and Address Change Notification	Prevents fraud by notifying a claimant, via email or text message, when a bank change is initiated through the UI Claimant Portal.
Enhanced Identity Proofing	Integrates an enhanced identity verification product into current online user platforms.
Fictitious Employer Database	Creates a database to review information on fictitious employers.
Financial Investigative Technology	Enhances financial analytical abilities through purchase of a program for rapid evaluation and proofing of banking and financial data.
LexisNexis Fraud Detection and Data Assessment	Analyzes available data to verify identities.
Manual Authorization Enhancement	Will allow staff to verify a claimant's information using data from other government sources or the IDH.
New Fraud Scans	Expands current fraud prevention data scans using nationwide best practices.
Quarterly Crossmatch	Update processes and refine audits to better target proven fraudulent behavior.
ReliaCard Fraud Prevention	Creates queries for debit cards to detect potentially suspicious activity.
Internal System Access Audit and Analysis	Confirm only necessary division staff have access to sensitive information and re-evaluate users with access to sensitive information.
Work Search Audit Enhancement	Prevents benefit payment during a work search audit to prevent potential overpayments.
Worker Compensation Crossmatch	Creates a crossmatch to identify when a worker's compensation claim is paid concurrently with UI claimed weeks.

Staffing

Every member of the division plays a role in supporting the integrity of the UI program, even if fraud or program integrity duties are not explicitly outlined in their position description. Throughout the division, standard procedures and processes are designed to keep staff vigilant against fraud, ensuring they are equipped to detect and, when possible, prevent fraud. For example, staff exercise caution when encountering suspect information or suspicious tactics. Depending on the circumstances, staff are instructed to either place a hold on the claim or follow up with their supervisor who may then refer cases for investigation. Additionally, staff receive updates regarding fraud they may see in their role, such as new fraud schemes, tactics fraudsters may use, and other useful tips for identifying and preventing fraud.

The division's employees dedicate many thousands of hours each year to fraud prevention and detection activities. These include:

- Identifying potential issues;
- Investigating and resolving potential fraud and eligibility issues;
- Investigating instances of employer fraud²⁰ such as "State Unemployment Tax Act dumping" and fictitious employer matters;
- Investigating and auditing cases of worker misclassification;
- Investigating and referring criminal benefit fraud cases for prosecution;
- Investigating and resolving issues identified by fraud detection methods; and
- Participating in conferences, webinars, and other training to learn about emerging issues and evolving best practices.

In daily operations, staff also prioritize educating claimants and employers on fraud prevention, such as accurate reporting, to mitigate potential fraudulent activity.

The Integrity and Quality Section within the Benefit Operations Bureau plays a pivotal role in the division's fraud investigation and detection efforts, with 38 total staff across three units: Training and Outreach, Program Integrity Wage, and Program Integrity Fraud.

The Training and Outreach unit is responsible for equipping staff with the necessary skills for fraud investigations and assisting in resolving eligibility issues as needed. Advanced adjudicators undergo a training that covers the mechanics of a fraud investigation and application of the statutes related to concealment and fraud.²¹ Training and Outreach staff now provide specialized training to the staff in the Program Integrity Wage unit and Program Integrity Fraud unit.

The Program Integrity Wage unit investigates and resolves issues involving unreported and underreported work and wages, including vacation, holiday, dismissal, sick, and other types of pay. Program Integrity Wage staff also investigate and resolve many issues that arise from various crossmatches, including, but not limited to, alien verification, new hire, and quarterly wage.

The Program Integrity Fraud unit investigates and resolves complex fraud, unknown and known imposter issues, conducts work search audits, and investigates and resolves certain crossmatches.

Coordination among the UI work units, department-wide staff, and state enterprise leaders occurs on a daily basis. However, consistent with best practices, access to sensitive information and specific tools is not universally shared. Likewise, rapid technological change and the increasing sophistication of organized fraud rings and rogue actors require staff to rely on evolving guidance and agile professional networks rather than a central "playbook" to deter and detect fraud.

The UI division's employees dedicate many thousands of hours each year to fraud prevention and detection activities. The activities range from the work involved to identify potential fraud issues to training on evolving best practices.



DWD DIVISION OF UNEMPLOYMENT INSURANCE

Additional Investigations and Outcomes

Investigations and Results

In 2023, the division received more than 1,000 total tips across the fraud hotline phone number, online web form, and by mail. Tips received from the various reporting methods are taken seriously and investigated then, when warranted, audited, though not all tips result in audits. Some informing parties contact the division in multiple ways or multiple times.

In 2023, there were over 2,300 identity theft investigations. Of these, the division identified 250 overpayments due to imposter fraud totaling \$333,836 in 2023.

As outlined in the 2024 Fraud Report, there were almost 4,700 total (Fraud and Non-Fraud) decisions due to crossmatch hits in 2023 accounting for approximately \$6.4 million in overpayments. As mentioned previously in this report, Wisconsin is successful in overpayment recovery and the division expects to recover the majority of this amount.

The division also addresses worker misclassification. Worker classification investigators conduct field investigations and, depending on the outcome, may refer cases to the division's tax auditors. Tax auditors then conduct worker misclassification audits and, if appropriate, assess unpaid UI taxes and interest to the subject employer.

In 2023, worker classification investigators conducted over 700 worker classification field investigations. Such investigations resulted in about 190 audit referrals to the division's tax auditors, which led to the identification of 2,471 misclassified workers and the assessment of approximately \$580,000 in UI taxes and interest. In total, in 2023, tax auditors conducted 1,968 worker misclassification audits, which identified 6,660 misclassified workers. As a result, employers were assessed a total of \$1.2 million in unpaid UI taxes and \$166,780 in interest in 2023.

This joint worker classification investigation and audit system have proven to be extremely successful in protecting the integrity of the UI program. As of Dec. 31, 2023, worker classification investigators have conducted a total of about 4,570 field investigations over the section's lifetime.²² About 25% of those total investigations have resulted in audits, which have identified a total of over 13,000 misclassified workers. As a result, employers have been assessed a total of approximately \$4.2 million in UI taxes and interest over the lifetime of worker classification investigations.

Outcomes and Referrals

In 2023, the division made three referrals to Wisconsin district attorneys for benefit fraud cases. Parties in all three cases have been charged. The division also referred two tax cases to federal agencies, one in 2022 and one in 2023. Both cases have now resulted in convictions. Additionally, the division assisted federal agencies with 103 benefit fraud cases in 2023, of which 29 have resulted in indictments, 14 are pending indictment, and 60 are under investigation.

As described in detail above, Wisconsin successfully recovers overpayments when they do occur. In 2023, Wisconsin recovered \$32.8 million total (Fraud and Non-Fraud) overpayments. Details on additional overpayment recovery tools, such as the Treasury Offset Program (TOP), are included in the 2024 Fraud Report.

Comparatively, other states have recently faced challenges in overpayment collections or do not attempt to recover overpayments. A Michigan fraud audit published in 2023 found the Department of Labor and Economic Opportunity failed to attempt to recover overpayments or assess fraud penalties in its sampled claims.²³ A Colorado audit published in 2021 explained Colorado suspended its TOP program in 2018 and was anticipated to implement the program again in December 2021.²⁴ Additionally, an OIG audit found 19 states (38%) did not perform required overpayment recovery activities from March 27, 2020 to July 31, 2020.²⁵

Wisconsin's fraud investigation and fund recovery work has produced favorable outcomes. In 2023, the UI division referred two tax cases to federal agencies and both cases resulted in convictions. Also during 2023, the state recovered \$32.8 million in total Fraud and Non-Fraud overpayments.



U.S. DEPARTMENT OF LABOR

Requirements and Best Practices

US DOL has requirements for states including: maintaining a Quality Control program; adhering to required data reporting and shared data requests; participation in various US DOL-sponsored research programs; participation in US DOL audits and audits of US DOL; and required data validation. Additionally, US DOL updates states on budget proposals which, if implemented, states must adhere to.

Federal regulations²⁶ require that each state maintain a Quality Control program, which must manage programs for Benefits Accuracy Measurement (BAM), Tax Performance System, and Benefits Operations Self-Assessment.²⁷ Wisconsin's Quality Control program ensures UI money moves as it should, verifies transactions are being conducted correctly and that policies and procedures are being adhered to. Wisconsin's Quality Control program has nine staff who review UI transactions, identify potential process improvements, and provide UI reporting to US DOL. Staff manage programs for paid and denied benefits claims, revenue operations and benefits operations self-assessment.

In addition to required Quality Control reporting, US DOL requires states provide various data across over 25 routine reports. There may also be additional data sharing requests or requirements to participate in US DOL-sponsored research programs. There are also various audits conducted by US DOL and audits of US DOL the division must take part in. Additionally, the division must validate its data reported to US DOL annually or every third year, depending on the type of data.

An example of required US DOL reporting is to report significant fraud claims to the Office of Inspector General (OIG). Wisconsin complies with this requirement, outlined in UIPL 4-17 Change 1. The division continues to refer cases to and work cooperatively with the OIG and the FBI.

The President's FY 2025 budget proposal outlines various program integrity improvements. For example, the proposal requires states to use NASWA's Integrity Data Hub, use the State Information Data Exchange System, implement various data crossmatches, disclose information to OIG, and other administrative improvements. Wisconsin has already implemented the improvements outlined in the President's FY 2025 budget proposal.

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DEPARTMENT OF WORKFORCE DEVELOPMENT

Conclusion

The COVID-19 pandemic highlighted the importance of the UI program in providing economic stability in Wisconsin. While the overnight increase in UI claims coupled with the implementation of new, untested federal pandemic benefit programs put severe strain on the UI program, the department identified potential solutions for addressing future challenges. Many of those solutions are now in place; others will be implemented as part of UI modernization efforts.

Other improvements include processes for efficiently increasing staffing. From reassignments of department staff from other divisions and staff from other state agencies to adding staff from outside vendors, the department has processes in place for adjusting staffing in any future times of need. Additionally, the division has updated its recruiting methods. The division began to offer remote work (within the state of Wisconsin) during the COVID-19 pandemic, which has assisted with staff retention and offers the division more flexibility in filling positions. The total number of applications and number of qualified applicants for UI positions has increased since updating recruiting methods. There have also been numerous improvements in systems, processes, forms, and administrative matters, which were implemented in connection with the COVID-19 pandemic.

Additionally, the department is looking ahead to innovative solutions and strategies to protect the integrity of the UI program. The department has already put in place or started work on the various methods described in this report.²⁸

DWD's engaged and vigilant staff serve as the department's most valuable asset in fraud prevention and detection. The department conducts an annual survey on employee engagement and, in 2024, had great results and participation. Employee engagement is the level of satisfaction and commitment that employees feel for their job and their organization. The more employees are engaged in their organization and the work it does, the more likely they are to perform at a higher level than they otherwise would perform.²⁹

The UI Division had an 85.7% response rate to the employee engagement survey, while response rates to employee engagement surveys in large agencies are typically much lower, ranging from 31% to more than 77%.³⁰

Across the division, survey responses to, "I know what I need to do to be successful in my role," and "I have access to the materials, tools, and equipment I need to do my work well," ranked at a weighted 4.3 and 4.2 out of 5, respectively. Overall, survey results showed overwhelmingly positive outcomes with increases in multiple categories compared to 2023. The survey showed, among other things, that division staff are engaged, and that they feel safe and supported in their work.

Governor Philip LaFollette signing Wisconsin's pioneering Unemployment Compensation Act, January 28, 1932. Left to right: Henry Ohl, Jr., Elizabeth Brandeis, Paul A. Raushenbush, John R. Commons, LaFollette, Henry A. Huber, Harold M. Groves, and Robert A. Nixon.



NOTES

¹ The Fraud Report's descriptions and reporting on fraud conform to US DOL definitions of "Fraud" and "Non-Fraud". As used herein, capitalized "Fraud" has the meaning of "Fraud Overpayment," as defined by US DOL in the [Unemployment Insurance Report Handbook No. 401, 5th edition](#), as "[a]n overpayment for which material facts to the determination or payment of a claim are found to be knowingly misrepresented or concealed (i.e., willful misrepresentation) by the claimant in order to obtain benefits to which the individual is not legally entitled. . . [,]" p. 163, and "Non-Fraud" means a "Non-Fraud Overpayment" defined as "[a]n overpayment which the state agency determines is not due to willful misrepresentation . . . [,]" p. 165. When lowercase "fraud" is used, it shall be interpreted broadly so such terms could relate to claimant fraud, employer fraud, identity/imposter fraud, or any other examples of false, inaccurate, or withheld information.

² Wis. Stat. § 108.14(19)

³ The LAB scope letter can be found online: https://legis.wisconsin.gov/LAB/media/3654/110223_jac_ui-fraud-scope.pdf

⁴ Data from May 18, 2020 to January 3, 2023.

⁵ Data from June 1, 2020 to September 27, 2021

⁶ Specific information regarding these overpayment prevention strategies can be found in the 2024 Fraud Report.

⁷ State of Illinois Office of the Auditor General. "Performance Audit of the IDES Unemployment Insurance Programs." 26 July 2023.

⁸ Office of Auditor of State, State of Iowa. "Report of Recommendations to the Iowa Department of Workforce Development." 30 June 2020. Report Number: 2160-3090-BR00.

⁹ California State Auditor. "Significant Weaknesses in EDD's Approach to Fraud Prevention Have Led to Billions of Dollars in Improper Benefit Payments." January 2021. Report Number: 2020-628.2.

¹⁰ Colorado Office of the State Auditor. "Statewide Single Audit Fiscal Year Ended June 30, 2020." June 2021.

¹¹ California State Auditor. "Significant Weaknesses in EDD's Approach to Fraud Prevention Have Led to Billions of Dollars in Improper Benefit Payments." January 2021. Report Number: 2020-628.2.

¹² Acosta, Rosalin. "Senate Committee on Post Audit and Oversight Executive Session." Testimony presented to the Massachusetts Senate Committee on Post Audit and Oversight, December 10, 2021.

¹³ U.S. Department of Labor, Office of Inspector General - Office of Audit. "COVID-19: Pandemic Unemployment Assistance for Non-Traditional Claimants Weakened by Billions in Overpayments, Including Fraud." 27 September 2023. Report Number: 19-23-014-03-315

¹⁴ OIG notes data for Alabama, Alaska, Ohio, and the U.S. Virgin Islands was not processed in time to be published in its audit report.

¹⁵ U.S. Department of Labor, Office of Inspector General - Office of Audit. "COVID-19: More Can be Done to Mitigate Risk to Unemployment Compensation Under the CARES Act." 7 August 2020. Report Number: 19-23-008-03-315

¹⁶ Pandemic Response Accountability Committee. "Key Insights: State Pandemic Unemployment Insurance Programs." 16 December 2021.

¹⁷ The US DOL acceptable level of performance for nonmonetary determinations made within 21 days is greater than or equal to 80%.

¹⁸ The US DOL acceptable level of performance for average age of pending lower authority appeals is less than or equal to 30 days.

¹⁹ Invalid work search actions include actions such as, but are not limited to, viewing job leads but not applying, contacting an employer to learn no openings exist or applications are not being taken, submitting an application to the same employer within a 4-week period when there is not a new job available, re-posting the same résumé on job search websites unless applying for a specific job, or applying for work that is unreasonable considering the claimant's training and experience.

²⁰ Examples of employer fraud can be found in the 2024 Fraud Report.

²¹ Wis. Stat. § 108.04(11)

²² Worker classification field investigations began in May 2013.

²³ State of Michigan Auditor General. "Fraud and Investigation Activities." December 2023. Report Number: 186-0320-22

²⁴ Colorado Office of the State Auditor. "Statewide Single Audit Fiscal Year Ended June 30, 2020." June 2021.

²⁵ U.S. Department of Labor, Office of Inspector General - Office of Audit. "COVID-19: States Struggled to Implement Cares Act Unemployment Insurance Programs." 28 May 2021. Report Number: 19-21-004-03-315.

²⁶ 20 C.F.R. § 602

²⁷ Specific guidelines for each of these programs are set by US DOL. For example, BAM operations are outlined in the ET Handbook No. 395.

²⁸ While not enacted into law, AB152 was passed by the Legislature. The bill, among other things, included required identity verification, education materials, call center operations, and crossmatches for the UI program. The department already requires identity verification, provides various methods for claimant and employer education on the UI system, extends call center hours during high-volume call times, and runs extensive crossmatches beyond those proposed in AB152.

²⁹ Lavigna, B. (2013). So What Is Employee Engagement, Exactly? In *Engaging Government Employees: Motivate and Inspire Your People to Achieve Superior Performance* (pp. 11–21). AMACOM.

³⁰ Based on HR Monthly Position Report, the total number of UI employees as recorded on 03/01/24 was 558. A total of 478 UI employees responded to the employee engagement survey. The survey results have a margin of error of plus or minus 2 percentage points. Margin of Error Calculator. SurveyMonkey. (n.d.). Retrieved May 13, 2024, from <https://www.surveymonkey.com/mp/margin-of-error-calculator/>

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