	CLASSIFICATION
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ADVISORY: **UNEMPLOYMENT INSURANCE PROGRAM LETTER NO. 28-20**

TO: STATE WORKFORCE AGENCIES

FROM: JOHN PALLASCH /s/
  Assistant Secretary

SUBJECT: Addressing Fraud in the Unemployment Insurance (UI) System and Providing
  States with Funding to Assist with Efforts to Prevent and Detect Fraud and
  Identity Theft and Recover Fraud Overpayments in the Pandemic
  Unemployment Assistance (PUA) and Pandemic Emergency Unemployment
  Compensation (PEUC) Programs

1. **Purpose.** To remind states of their roles and responsibilities in addressing fraud in the UI system and the techniques and strategies available to assist states with their fraud management operations; and to provide states with funding to assist with efforts to prevent and detect fraud and identity theft and recover fraud overpayments in the PUA and PEUC programs using many of the tools and resources already available to states as discussed below.

2. **Action Requested.** The U.S. Department of Labor's (Department) Employment and Training Administration (ETA) requests that State Workforce Agency Administrators provide information contained in this Unemployment Insurance Program Letter (UIPL) to appropriate program and other staff in the state's workforce system.

3. **Summary and Background.**

   a. Summary – This UIPL provides guidance to states on addressing fraud in the UI system and reiterates fraud management requirements and tools, strategies, and services available to states that the Department has previously encouraged states to adopt. To further assist in these efforts, the UIPL also provides states with funding to assist with efforts to prevent and detect fraud and imposter claims resulting from identity theft and recover fraud overpayments in the PUA and PEUC programs.

   b. Background – In calendar year 2019, states established 296,749 cases of UI fraud amounting to $366.8 million. Since the enactment of the Coronavirus Aid, Relief, and Economic Security (CARES) Act of 2020, which created several new temporary unemployment compensation (UC) programs (including PUA and PEUC), UI fraud has

RESCISSIONS	EXPIRATION DATE
None	Continuing

increased significantly, further testing the integrity of individual state systems and the UI program as a whole.

Prior to COVID-19 and the enactment of the CARES Act, the Department had been working with states to address fraud in the UI program. As the Department became aware of fraud ticking up in the regular UI program and understood the vulnerabilities of remote claims taking and the potential for imposter claims, it began the development of tools and resources through the Integrity Data Hub, including the Suspicious Actor Repository and a suite of on-line training modules for fraud investigators. We also began the process of securing an identity verification solution to be make available to all states. These tools are discussed in more detail below.

Section 303(a)(1) of the Social Security Act (SSA) requires that, as a condition of a state receiving administrative grants for its UI program, state law must provide for "methods of administration . . . as are found by the Secretary of Labor to be reasonably calculated to insure full payment of unemployment compensation when due."

The Department has consistently interpreted section 303(a)(1) to require "that state law include provision for such methods of administration as are, within reason, calculated (1) to detect benefits paid through error by the agency through willful misrepresentation or error by the claimant or others, and (2) to deter claimants from obtaining benefits through willful misrepresentation." Employment Security Manual, Section 7511, *The Secretary's Interpretation of Federal Law Requirements*.[1] UIPL No. 04-01 interprets the "when due" requirement in section 303(a)(1) to also require states to ensure that payment of benefits is not made when payment is not due. Investigations of UI program fraud by claimants, employers, and state staff are necessary for the proper administration of the UI program.

The Department included program integrity language in all of the major pieces of guidance associated with state implementation of the CARES Act programs and other provisions. In addition, on May 11, 2020, ETA issued UIPL No. 23-20, which discusses program integrity requirements for the regular UC program and the UC programs authorized by the CARES Act. UIPL 23-20 makes clear that the temporary CARES Act programs operate in tandem with the fundamental eligibility requirements of the federal-state UI program. In addition, the CARES Act programs have new eligibility requirements that states must apply to ensure that only eligible individuals receive benefits.

As previously communicated to States on May 11, 2020, States must make efforts to rapidly and proactively prevent, detect, and investigate fraudulent activity; establish and recover fraud overpayments; and pursue criminal and civil prosecution to deter fraud. State Benefit Payment Control (BPC) staff or other designated state staff have the primary responsibility for these activities. However, all state staff members are

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[1] Employment Security Manual, Part V, Sections 7510-7515, can be obtained at 20 C.F.R. Part 614, Appendix C, S*tandard for Fraud and Overpayment Detection*.

responsible for maintaining the integrity of the UI program. States can also mitigate UI fraud through the use of available prevention and detection methods and tools.

4. **Managing Fraud in the UI System.** This UIPL describes successful and cost-effective methods to target fraud and suspicious claims activity, including improvements, additions, and modifications to UI systems and operations, that the Department has long encouraged States to adopt. Please refer to UIPL No. 23-20 for an inventory of the required program integrity functions.

   a. **Fraud Prevention and Detection.** Intercepting fraud as early as possible minimizes its impact on the UI system. As UI claims are filed, states are strongly encouraged to employ multiple techniques to validate UI claims and uncover suspicious or fraudulent characteristics, including:

   - Identity Verification – to verify personal information supplied by individuals filing claims, using a variety of methods and resources, such as:
     - Social Security Administration Cross-match – to validate a Social Security Number supplied by a claimant.
     - Systematic Alien Verification for Entitlement (SAVE) – to verify the immigration status of non-U.S. citizens and to confirm the validity of the information supplied by individuals filing claims.
     - Incarceration cross-matches – to compare UI applicants' information to local, state, and federal prison databases.
     - Interstate Connection Network (ICON) – to compare UI applicants' information to detect duplicate claims filed in other states and under other UI programs using Interstate Benefits (IB) Cross-match and the State Identification Inquiry (SID) State Claims and Overpayment File, and the IB8606 applications.
     - Internet Protocol (IP) Address – to identify IP addresses linked to multiple claims or claims filed outside of the U.S.
     - Data Analytics – to cross-reference UI claims and identify shared characteristics among claims that can be indicators of suspicious or fraudulent claims activity.

   - Data mining and data analytics – to detect fraud when a claim is filed and on an ongoing basis throughout the lifecycle of a claim. Continuous efforts to prevent and detect fraud are critical since fraud can occur at any point during the continued claims series.

   As the Department has emphasized in the past, some of the most effective tools are contained in the Integrity Data Hub (IDH), many of which have been available to states for well over a year. The IDH is a secure, robust, centralized, multi-state data system that allows participating state UI agencies to submit claims for cross-matching, provides a national fraud alert system to states, and supports data analytics on multi-state claims. The following IDH functionalities are currently available to participating states:

- Suspicious Actor Repository (SAR) – allows states to match UI claims against other states' known suspicious claims data. This tool allows each state to benefit from the investigative work of all states as claims data associated with known or probable UI fraud is submitted and stored in the SAR for cross-matching purposes.
- Suspicious E-Mail Domains – allows participating states to cross-match their claims against a database of suspicious e-mail domains that have been associated with fraudulent activity (e.g., YOPmail). The IDH flags claims with these domains for further investigation by the submitting state.
- Foreign IP Addresses – allows participating states to receive flags on UI claims filed from IP addresses outside of the U.S.
- Data Analysis – provides the unique ability to analyze national claims data and conduct cross-state analysis within a secure system.
- Multi State Cross-Match (MSCM) – allows the IDH to collect and store claims data submitted by states creating a multi-state database of UI claims data. Using this database, the IDH is able to identify where UI claims data are being used across multiple states (i.e., flagging a Social Security Number that is being used across four different states). The MSCM also provides a lookback capability to identify after-the-fact matches based on new claims or fraud activity data submitted to the IDH.
- Identity Verification (IDV) – provides states with a centralized identity verification/identity proofing solution. The IDV solution provides fraud scoring information, including flagging of synthetic identities. The IDV solution is now operational and available for state use. Early adopter states have reported that it is a highly successful integrity resource to prevent and detect identity theft.
- Fraud Alert System – allows states to share information through the secure IDH environment on emergent fraud schemes/activities identified in their states. The capability allows all states to review and/or submit information on fraud schemes and to receive updates to improve awareness across the UI community. The IDH Fraud Alert System is available to all states independent of the state executing an agreement with the UI Integrity Center or participating in other IDH functionality.

Other valuable assets provided by the UI Integrity Center include the following:

- UI Integrity Center Fraud Calls – states, ETA, and Office of Inspector General (OIG) staff have been engaging in periodic conference calls since fraud was first being detected in the early stages of the CARES Act program to discuss and share information on UI fraud schemes. These calls are conducted by the UI Integrity Center to share information on UI Integrity Center services, tools, and resources, and to provide a secure forum for states to discuss emergent fraud schemes and share best practices to prevent and detect fraud activity affecting the UI system.
- State Services – the UI Integrity Center employs a diverse group of UI professionals with a broad range of experience. The State Services team provides both virtual and onsite consultation services to states to provide state-specific recommendations and operational best practices in the prevention and detection of identity theft and fraud, and the recovery of improper payments. These services have been available to states for over 2 years.

- National Integrity Academy (NIA) – one of the first offerings of the Integrity Center, the Academy currently provides 126 eLearning lessons and modules, including course bundles targeted to new Claims Takers, Adjudicators, and staff administering the Pandemic Unemployment Assistance (PUA) program, and includes four NIA certificate programs: UI Operations Integrity Certificate, UI Tax Integrity Certificate, UI Fraud Investigations, and UI Program Leadership. Additional information about course offerings, along with the online course catalog, can be found at: https://www.naswa.org/learning.
- Integrity Knowledge Exchange – an increasingly valuable tool that captures information on state practices and provides recommendations to states on ways to combat UI fraud and improve integrity. Through the Integrity Knowledge Exchange, the UI Integrity Center documents specific practices, creates model operational blueprints, and shares information with all states. Nearly 1,900 resource documents are currently available on the knowledge exchange, including 96 documented successful integrity practices that support the Model BPC Blueprint.

As the Department has previously communicated, States are on notice that they should engage with the UI Integrity Center and utilize its important integrity tools and resources; implement and fully utilize all IDH functionalities; submit and review emergent fraud schemes through the IDH Fraud Alert System; and participate in UI Integrity Center fraud calls. State's failure to take advantage of these resources may result in a state's inability to comply with Federal law to prevent, detect, and recover improper and fraudulent payments. Technical assistance, tools, and resources are available through the UI Integrity Center at https://integrity.naswa.org/ and the UI Community of Practice on the Department's knowledge sharing site, WorkforceGPS at https://www.workforcegps.org/login?returnUrl=https://ui.workforcegps.org/&siteFor=ui. Additionally, states may contact the UI Integrity Center State Liaison for their region for additional assistance at https://integrity.naswa.org/contact-us.

States are also encouraged to explore other tools, methods, and strategies to deter and prevent fraud, such as the Social Security Administration's Death Cross-match, Vital Statistics Cross-matches, Department of Motor Vehicles Cross-matches, Fictitious Employer Cross-matches, and other comparisons that detect shared characteristics (i.e., phone numbers, mailing addresses, email address, and banking information) on multiple claims.

b. **Fraud Civil and Criminal Prosecutions.** The prosecution of cases is usually aided by law enforcement agencies, such as the OIG, Department of Justice, and other federal, state, and local enforcement agencies. States should work collaboratively with law enforcement agencies to administer their prosecutorial actions, and continue to make referrals to the OIG in accordance with established agreements and following the requirements outlined in UIPL Nos. 04-17 and 29-05, reporting known or alleged fraudulent activities and providing related claims data to the OIG's Office of Investigations.

5. **Funding for States to Address Fraud in the PUA and PEUC Programs.** Many states have experienced a significant number of fraudulent claims in the CARES Act programs, including PUA and PEUC, and are working with federal, state, and local law enforcement to investigate, prosecute, and, in collaboration with banking institutions, recover identified fraudulent payments. As a result of the significant increase in fraud and the need for states to have additional funding to support fraud prevention, detection, and investigation activities, the Department is providing a total of $100 million in administrative funding targeted specifically at addressing fraud and identity theft in the PUA and PEUC programs as part of its responsibility to provide "such sums as… necessary" for administration of the CARES Act programs.

Attachment I, *State Size Classifications and Funding Allocation for Fraud Investigation Activities in the Pandemic Unemployment Assistance (PUA) and Pandemic Emergency Unemployment Compensation (PEUC) Programs*, lists the amounts of PUA and PEUC funding provided for fraud investigation activities for each state.

The methodology for state funding levels is based on state size.[2] For purposes of this methodology, States are assigned to three groups (Small, Medium and Large) based on the 12-month average of UI covered employment for the four quarters in calendar year 2019 reported on the ES 202 (Employment, Wages and Contributions) report published by the Bureau of Labor Statistics. States are assigned to the size groups as follows:
   - Small: covered employment under 1 million employees
   - Medium: covered employment between 1 million and 2 million employees
   - Large: covered employment greater than 2 million employees

a. **Use of Funds.** States are permitted to use this targeted funding for staff or contract services to conduct fraud investigations and other fraud detection-related activities, or to implement tools to increase prevention, detection, and recovery of fraudulent improper payments in the PUA and PEUC programs. States may also work collaboratively to invest these funds to benefit multiple states. It is ETA's expectation that states will use at least 50 percent of the funds for staff to conduct fraud prevention, detection, and investigatory activities. Examples of activities that these funds may be used for include, but are not limited to:
   - Accessing and utilizing the private or public data sets available through the UI Integrity Center's IDH (see Section 4(a) above for details). ETA expects that all states will be positioned to use this data as soon as administratively feasible, and no later than March 31, 2021.
   - Implementing data mining tools, including the use of staff or contractor services for conducting data mining activities.
   - Implementing software/tools to conduct data analytics, including the use of staff or contractor services for conducting data analytics activities.

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[2] The Pacific territories are included in PUA pursuant to CARES Act Section 2101(a)(5), but not in PEUC. Since the Pacific territories have relatively small populations and do not operate regular UI programs (and therefore lack information on covered employment), their PUA funding is based on estimated claims workloads.

b. **Application Instructions.** States are required to submit an SF-424 for each funding allotment (i.e., one SF-424 for the PUA funding and a second SF-424 for the PEUC funding). ETA encourages states to submit these forms as soon as possible, but no later than **September 15, 2020**, by electronic submission to the National Office at covid-19@dol.gov, with a copy to the appropriate ETA Regional Office. For additional information on completing the SF-424, please refer to Attachment II, *Instructions for Completing the SF-424*. Attachment I, *State Size Classifications and Funding Allocation for Fraud Investigation Activities in the Pandemic Unemployment Assistance (PUA) and Pandemic Emergency Unemployment Compensation (PEUC) Programs*, lists the funding allotment(s) for both the PUA and PEUC programs for each state.

c. **Reporting Requirements.**

States will report quarterly progress on the form ETA 9178-F, provided at Attachment III.[3] The ETA 9178-F is intended to be a monitoring instrument used by ETA to track each state's progress in addressing fraud in the PUA and PEUC programs with these funds. The form ETA 9178-F will be used by the states to provide ETA with narrative updates on fraud investigation activities to help ensure that the goals described in section (5)(a) of this UIPL are met. Please refer to Attachment III for instructions for completion and the timeline of submission for the ETA 9178-F.

6. **Inquiries.** Please direct inquiries to the appropriate ETA Regional Office.

7. **References.**
   - Coronavirus Aid, Relief, and Economic Security (CARES) Act (Pub. L. 116-136), Title II, Subtitle A – Relief for Workers Affected by Coronavirus Act;
   - Section 303 of the Social Security Act (42 U.S.C. 503);
   - 20 C.F.R. Section 603.23;
   - UIPL No. 15-20, *Coronavirus Aid, Relief, and Economic Security (CARES) Act of 2020 – Federal Pandemic Unemployment Compensation (FPUC) Program Operating, Financial, and Reporting Instructions*, issued April 4, 2020, https://wdr.doleta.gov/directives/corr_doc.cfm?DOCN=9297;
   - UIPL No. 15-20, Change 1, *Coronavirus Aid, Relief, and Economic Security (CARES) Act of 2020 - Federal Pandemic Unemployment Compensation (FPUC) Program Reporting Instructions and Questions and Answers*, issued May 9, 2020, https://wdr.doleta.gov/directives/corr_doc.cfm?DOCN=3946;
   - UIPL No. 15-20, Change 2, *Coronavirus Aid, Relief, and Economic Security (CARES) Act of 2020-New Data Collection Instrument and Revised Reporting Instructions for Federal Pandemic Unemployment Compensation (FPUC)*, issued June 15, 2020, https://wdr.doleta.gov/directives/corr_doc.cfm?DOCN=7785;

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[3] CARES Act, Section 2116 provides that Chapter 35 of Title 44 of the U.S. Code (commonly referred to as the "Paperwork Reduction Act of 1995") shall not apply to provisions of, and amendments made by, Subtitle A (Unemployment Insurance Provisions) of Title II of the CARES Act.

- UIPL No. 16-20, *Coronavirus Aid, Relief, and Economic Security (CARES) Act of 2020 – Pandemic Unemployment Assistance (PUA) Program Operating, Financial, and Reporting Instructions*, issued April 5, 2020, https://wdr.doleta.gov/directives/corr_doc.cfm?DOCN=4628;
- UIPL No. 16-20, Change 1, *Coronavirus Aid, Relief, and Economic Security (CARES) Act of 2020 – Pandemic Unemployment Assistance (PUA) Program Reporting Instructions and Questions and Answers*, issued April 27, 2020, https://wdr.doleta.gov/directives/corr_doc.cfm?DOCN=5899;
- UIPL No. 16-20, Change 2, *Coronavirus Aid, Relief, and Economic Security (CARES) Act of 2020 - Pandemic Unemployment Assistance (PUA) Additional Questions and Answers*, issued July 21, 2020, https://wdr.doleta.gov/directives/corr_doc.cfm?DOCN=5479;
- UIPL No. 17-20, *Coronavirus Aid, Relief, and Economic Security (CARES) Act of 2020 – Pandemic Emergency Unemployment Compensation (PEUC) Program Operating, Financial, and Reporting Instructions*, issued April 10, 2020, https://wdr.doleta.gov/directives/corr_doc.cfm?DOCN=8452;
- UIPL No. 17-20, Change 1, *Coronavirus Aid, Relief, and Economic Security (CARES) Act of 2020-Pandemic Emergency Unemployment Compensation (PEUC) Program: Questions and Answers, and Revised Reporting Instructions for the PEUC ETA 227*, issued May 13, 2020, https://wdr.doleta.gov/directives/corr_doc.cfm?DOCN=8689;
- UIPL No. 23-20, *Program Integrity for the Unemployment Insurance (UI) Program and the UI Programs Authorized by the Coronavirus Aid, Relief, and Economic Security (CARES) Act of 2020 - Federal Pandemic Unemployment Compensation (FPUC), Pandemic Unemployment Assistance (PUA), and Pandemic Emergency Unemployment Compensation (PEUC) Programs*, issued May 11, 2020, https://wdr.doleta.gov/directives/corr_doc.cfm?DOCN=4621;
- UIPL No. 13-19, *National Directory of New Hires (NDNH) and State Directory of New Hires (SDNH) Guidance and Best Practices*, issued June 7, 2019, https://wdr.doleta.gov/directives/corr_doc.cfm?docn=5373;
- TEN No. 12-16, *Unemployment Insurance (UI) State Information Data Exchange System (SIDES)*, issued September 27, 2016, https://wdr.doleta.gov/directives/corr_doc.cfm?DOCN=8026;
- UIPL No. 01-16, *Federal Requirements to Protect Individual Rights in State Unemployment Compensation Overpayment Prevention and Recovery Procedures*, issued October 1, 2015, https://wdr.doleta.gov/directives/corr_doc.cfm?DOCN=5763;
- UIPL No. 01-16, Change 1, *Federal Requirements to Protect Claimant Rights in State Unemployment Compensation Overpayment Prevention and Recovery Procedures - Questions and Answers*, issued January 13, 2017, https://wdr.doleta.gov/directives/corr_doc.cfm?DOCN=7706;
- UIPL No. 5-13, *Work Search and Overpayment Offset Provisions Added to Permanent Federal Unemployment Compensation Law by Title II, Subtitle A of the Middle Class Tax Relief and Job Creation Act of 2012*, issued January 10, 2013, https://wdr.doleta.gov/directives/corr_doc.cfm?DOCN=3698;

- UIPL No. 12-14, *Required Use of the Treasury Offset Program to Collect Covered Unemployment Compensation Debt*, issued May 20, 2014, https://wdr.doleta.gov/directives/corr_doc.cfm?DOCN=9344;
- UIPL No. 28-11, *Unemployment Insurance (UI) State Integrity Task Forces and Strategic Plans*, issued September 1, 2011, https://wdr.doleta.gov/directives/corr_doc.cfm?DOCN=3078;
- UIPL No. 19-11, *National Effort to Reduce Improper Payments in the Unemployment Insurance (UI) Program*, issued June 10, 2011, https://wdr.doleta.gov/directives/corr_doc.cfm?DOCN=3036;
- UIPL No. 29-05, *Memorandum of Understanding Regarding Unemployment Insurance Criminal Investigations Between the U.S. Department of Labor's Office of Inspector General and the Employment and Training Administration*, issued August 2, 2005, https://wdr.doleta.gov/directives/corr_doc.cfm?DOCN=2104;
- UIPL No. 04-01, *Payment of Compensation and Timeliness of Determinations during a Continued Claims Series*, issued October 27, 2000, https://wdr.doleta.gov/directives/corr_doc.cfm?DOCN=1746;
- TEN No. 3-20, *Unemployment Insurance (UI) Integrity Center's Integrity Data Hub (IDH) Fraud Alert System*, issued August 31, 2020, https://wdr.doleta.gov/directives/corr_doc.cfm?DOCN=5585;
- ET Handbook No. 336, 18th Edition, *Unemployment Insurance State Quality Service Plan Planning and Reporting Guidelines*, May 6, 2019, https://wdr.doleta.gov/directives/attach/ETAHandbook/ET_Handbook_No.336_18th_Edition_Change_4_acc.pdf;
- ET Handbook No. 401, 5th Edition, issued August 16, 2017, https://wdr.doleta.gov/directives/corr_doc.cfm?DOCN=7774;
- Employment Security Manual, Section 7511, *The Secretary's Interpretation of Federal Law Requirements, available at* 20 C.F.R. Part 614, Appendix C, *Standard for Fraud and Overpayment Detection.*

8. **Attachment(s).**
- Attachment I: State Size Classifications and Funding Allocation for Fraud Investigation Activities in the Pandemic Unemployment Assistance (PUA) and Pandemic Emergency Unemployment Compensation (PEUC) Programs
- Attachment II: Instructions for Completing the SF-424
- Attachment III: ETA 9178-F Quarterly Narrative Progress Report