

Exhibit 3

U.S. Department of Labor

Office of Inspector General
Washington, D.C. 20210

February 22, 2021

MEMORANDUM FOR: SUZAN G. LEVINE
Principal Deputy Assistant Secretary for
Employment and Training

A handwritten signature in cursive script that reads "Carolyn R. Hantz".

FROM: CAROLYN R. HANTZ
Assistant Inspector General
for Audit

SUBJECT: **Alert Memorandum:** The Employment and
Training Administration (ETA) Needs to Ensure
State Workforce Agencies (SWA) Implement
Effective Unemployment Insurance Program
Fraud Controls for High Risk Areas
Report Number: 19-21-002-03-315

The purpose of this memorandum is to alert you to a concern the Office of Inspector General (OIG) identified during our ongoing audit of the Department of Labor's (DOL) response to the Unemployment Insurance (UI) Program's expansion under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). The information provided herein was developed in collaboration with the OIG's Office of Investigations. We identified more than \$5.4 billion¹ of potentially fraudulent UI benefits paid to individuals with social security numbers filed in multiple states, to individuals with social security numbers of deceased persons and federal inmates, and to individuals with social security numbers used to file for UI claims with suspicious email accounts. The Department needs to take immediate action and increase its efforts to ensure SWAs implement effective controls to mitigate fraud in these high risk areas.

This alert memo only captures a subset of the potential fraudulent UI activities from March 2020 through October 2020, and is the result of our comprehensive data analysis

¹ The \$5.4 billion covers the period March 2020 through October 2020. To prevent double counting, over \$313 million in UI claims filed using two or more of the methods noted in this report were counted only once.

performed. The OIG expects that the actual amount of potential fraud is much larger. For example, in January 2021, California reported it paid at least 10 percent (\$11 billion) of its UI benefits to fraudulent claims since the pandemic began and believes the amount could be as high as 27 percent (\$29 billion). Other states have also reported instances of major fraud including New York (\$1 billion), Washington (\$600 million) and Maryland (\$501 million). The SWAs paid out a total of \$400 billion in CARES Act UI benefits in calendar year 2020. If other SWAs have problems similar to California, the potential fraud occurring throughout the nation could easily range into the tens of billions of dollars. It is incumbent on DOL's ETA to ensure SWAs employ more effective fraud controls.

ETA issued Unemployment Insurance Program Letter (UIPL) No. 23-20, and UIPL No. 28-20 on May 11, 2020, and August 31, 2020, respectively.² The purpose of these UIPLs was to remind SWAs of their program integrity functions for the regular UI and CARES Act UI programs and their roles and responsibilities in addressing fraud. Additionally, these UIPLs address techniques and strategies available to assist SWAs with their fraud management operations and provide SWAs with funding to assist with efforts to prevent and detect fraud and identity theft and recover fraud overpayments.

UIPL 28-20 provides direction to SWAs on implementing controls for detecting fraudulent claims, including use of the National Association of State Workforce Agencies' (NASWA) Integrity Data Hub (IDH). The IDH was designed and is administered by the NASWA Integrity Center's group of unemployment insurance experts. The secure, centralized platform brings SWAs together in collective action to compare and analyze UI claims data for enhanced detection and prevention of fraud and improper payments. The IDH allows the SWAs to perform various cross-matches of UI data, such as, identifying claims filed in two or more states and claims filed using deceased persons' social security numbers. When the IDH detects suspicious or fraudulent claims, the IDH provides match results to the affected SWA. However, IDH use is optional for SWAs. According to ETA, SWA use of the IDH has increased throughout the pandemic; and as of December 2020, 32 of the 54 SWAs use or partially use the IDH. Per NASWA, the use of the IDH during the pandemic has helped to prevent more than \$178 million in improper payments.³

On June 19, 2020, the OIG issued subpoenas to the SWAs for specific data elements related to SWA UI claims for the period March 2020 through June 2020. The SWAs generally provided the data available to them; however, some SWAs had difficulty with full and timely compliance for varied reasons.⁴ Specifically, 35

² On January 15, 2021, ETA issued Change 1 to UIPL 28-20 to the SWAs. The UIPL outlines further efforts to prevent and detect fraud and imposter claims. Additionally, the UIPL provides solutions to validate the identity of UI claimants. The change was issued after our period of UI data review.

³ An improper payment is any payment that should not have been made or that was made in an incorrect amount, including an overpayment or underpayment, under a statutory, contractual, administrative, or other legally applicable requirement. Improper payments broadly fall into three categories: intentional fraud and abuse, unintentional payment errors, and instances where the documentation for a payment is insufficient to discern whether a payment is proper.

⁴ One SWA did not provide dollar amounts with their UI claimant data.

of the 54 SWAs provided UI claimant data past the June 2020 date with the last SWA providing UI claimant data as of October 10, 2020. We included all data provided by the SWAs in our analysis to identify potential fraudulent activities.

As noted, this memorandum is alerting you to a concern we identified during our ongoing audit of the Department's response to the UI program's expansion under the CARES Act. We identified potential fraudulent benefits paid in four areas:

1. Multi-State Claimants – totaling \$3.5 billion in UI benefits paid;
2. Social Security Numbers of Deceased Individuals – totaling \$58.7 million in UI benefits paid;
3. Federal Prisoners – totaling \$98.3 million in UI benefits paid; and
4. Suspicious Email Accounts – totaling \$2 billion in UI benefits paid.

Multi-State Claimants

According to the CARES Act, a claimant who worked in more than one state and became unemployed due to COVID-19 related reasons can only file for UI benefits in one state. The OIG reviewed UI benefits paid, from March 2020 to October 2020, to individuals via their social security numbers filed in two or more states, and revealed individuals used a total of 226,829 social security numbers to receive UI benefits totaling more than \$3.5 billion. In one instance, a claimant used a social security number to file a claim in 40 states and received, a total of \$222,532 in UI benefits from 29 states.

During our review, we determined that the \$3.5 billion in multi-state claims were filed in states with SWAs using the IDH and SWAs that did not; and that the SWAs did not consistently or effectively identify potential fraud involving multi-state claimants. For example, a review conducted by an independent public accounting firm discovered one SWA, processed UI claims without running the claims through its fraud screening program. As a result, the state exposed "hundreds of millions of dollars" to fraud. Our review identified this SWA paid over \$191 million in potentially ineligible multi-state claims.

ETA must increase its efforts to ensure all SWAs have established and implemented an effective fraud detection system to mitigate improper multi-state claimant payments. While not the only tool available to SWAs, all SWAs have the ability to perform cross matches as a tool to mitigate fraudulent activity. However, SWAs efforts will not be fully effective unless all 54 SWAs consistently and effectively perform multi-state cross-matches.

Social Security Numbers of Deceased Individuals

Our analysis determined over 91,000 social security numbers of deceased persons were used to file claims for UI benefits. To identify potential fraudulent benefit payments, the OIG identified cases where benefit claims were submitted after the date

of death associated with certain social security numbers. Based on our analysis, the total potentially fraudulent benefits paid to claimants using these social security numbers was \$58.7 million. The OIG's identification of \$58.7 million in potential fraudulent benefit payments further supports the need for greater involvement by ETA in determining why this is occurring and assisting SWAs to mitigate fraud and other improper payments to ineligible claimants.

Federal Prisoners and State Prisoners

Our analysis determined that the social security numbers of 13,446 potentially ineligible federal prisoners were used to file for UI claims that paid out more than \$98 million in UI benefits. Even though ETA UIPL No. 28-20, strongly encourages SWAs to cross-match state prisoner information, this problem is still occurring at the state prisoner level. On November 23, 2020, the California District Attorneys Association notified Governor Gavin Newsom that, "there is rampant and large scale pandemic unemployment assistance (PUA) fraud occurring in our communities, in the jails and in state and federal prisons...Undoubtedly, this money has been utilized to fund further criminal conduct." The District Attorneys also noted, "Police arrested 100 people in a massive PUA scheme, totaling millions of dollars in illegally obtained benefits."

The OIG's identification of more than \$98 million in potentially fraudulent benefit payments to federal prisoners further emphasizes the need for greater ETA assistance. ETA needs to determine how SWAs can cross-match federal prisoner UI data to prevent additional improper payments. In addition to cross-matching federal prisoners and UI data, ETA must assist SWAs to ensure they implement controls to cross-match state prisoner data to mitigate fraud.

Suspicious Email Accounts

We found potentially fraudulent UI benefits were paid to individuals with social security numbers used to file for UI claims with suspicious email accounts. The OIG identified several methods for using certain types of email accounts to aid in suspected fraudulent UI claims. These particular account types enable users to establish email addresses that can hide personal information, such as the user's identity. The suspicious email addresses can also be used to apply for multiple UI benefits.

Email service providers that provided accounts offering anonymity were used extensively to file UI claims. For example, claimants using one service provider received \$269,656,737 in UI benefits. In total, we determined that 276,194 suspicious email addresses were used to file for \$2,029,572,986 in UI benefits.

Additional controls are needed to mitigate the use of suspicious email accounts to commit fraud. For example, ETA can require SWAs to request additional identity verification to file a UI claim when using suspicious email accounts. Additionally, ETA could prohibit claimants from using the particular account types used to commit fraud.

Conclusion

ETA needs to take immediate action and increase its efforts to ensure SWAs implement effective controls to mitigate fraud and improper payments. Without effective controls, the UI program is exposed to substantial risks, including the cost of improper payments to ineligible claimants. This memorandum outlined over \$5.4 billion of potentially fraudulent UI benefits paid to multi-state claimants, claimants who used the social security numbers of deceased persons, potentially ineligible federal inmates, and claimants with suspicious email accounts. Establishing effective controls in these areas will help to prevent similar or even greater amounts of fraud and allow those funds to be put to better use (see Attachment). Also, ETA needs to work with Congress to establish legislation requiring SWAs to cross match the high-risk areas identified in this alert memorandum.

ETA provided comments on the technical accuracy of this memorandum and we made adjustments as needed. ETA stated that actions have been taken since the end of our review period. This includes the addition of an identity verification solution as part of the IDH and additional fraud detection and identity verification tools implemented by some SWAs. However, the IDH is not fully utilized by all SWAs and ETA is unaware of the extent of potential fraud in its UI program. To effectively combat fraud, ETA needs to ensure all SWAs are effectively mitigating the fraud risk.

Recommendations

We recommend the Principal Deputy Assistant Secretary of Employment and Training:

1. Establish effective controls, in collaboration with SWAs, to mitigate fraud and other improper payments to ineligible claimants, including the areas identified in the memorandum: UI benefits paid to multi-state claimants, claimants who used the social security numbers of deceased individuals, potentially ineligible federal inmates, and claimants with suspicious email accounts. Effective controls will help prevent similar or greater amounts of fraud and allow those funds to be put to better use.
2. Work with Congress to establish legislation requiring SWAs to cross match high-risk areas, including the four areas identified in the memo.

We would appreciate your written response addressing this alert memorandum and its recommendations by March 1, 2021. If you have any questions, please contact Michael Kostrzewa, Audit Director, at (312) 933-8777.

Attachment

cc: Jim Garner, Acting Administrator, Office of Unemployment Insurance

Laura P. Watson, Administrator, Office of Grants Management
Greg Hitchcock, Special Assistant, Office of Grants Management
Julie Cerruti, Audit Liaison

Funds for Better Use⁵

Description	Amount	Area of Issue	Page of Issue
Reductions in future outlays:			
Multi-State Claimants	\$3,537,090,855	SWA Controls	3
Social Security Numbers of the Deceased	\$58,749,938	SWA Controls	3
Federal and State Prisoners	\$98,322,434	SWA Controls	4
Suspicious E-mail Accounts	\$2,029,572,986	SWA Controls	4
Total Reductions in Future Outlays	\$5,723,736,213		
Total and Net Funds for Better Use:			
Total Funds for Better Use	\$5,723,736,213		
Less Duplicative Funds for Better Use ⁶	\$313,770,015		
Net Funds for Better Use	\$5,409,966,198		

⁵ As defined by the Inspector General Act, "funds for better use" means funds that could be used more efficiently or achieve greater program effectiveness if management took certain actions. These actions include reduction in future outlays and deobligation of funds from programs or operations.

⁶ Duplicative funds for better use are any item of funds identified under more than one category include reduction in future outlays and deobligation of funds.