BACKGROUND

The Unemployment Insurance (UI) program provides temporary partial wage replacement to workers who become unemployed or have their hours greatly reduced through no fault of their own.

Federal law establishes parameters that states must follow in administering their UI programs, such as basic eligibility requirements. States establish other parameters, such as additional eligibility requirements and benefit amounts and duration. The U.S. Department of Labor (DOL) oversees the administration of the UI program at the federal level; the UI Division of the Minnesota Department of Employment and Economic Development (DEED) administers the program in Minnesota.

Fraud in the UI program can come from a number of sources. For example, some applicants fail to report income that makes them ineligible for benefits. Employers sometimes collude with their employees so their employees appear eligible for benefits. Another source of fraud comes from outside parties who steal individuals' identities so they can apply for benefits in those individuals' names. Fraudsters also break into real applicants' online accounts to divert their benefits.

EVALUATION ISSUES

1. What processes does DEED use to detect fraudulent applications?

2. How effective are DEED's processes for detecting fraudulent applications?

DISCUSSION

In response to the COVID-19 pandemic, the U.S. Congress temporarily expanded eligibility requirements and benefits for UI. Governor Walz also modified certain UI program requirements. The program saw a marked increase in applications during the pandemic. According to DEED, fraud efforts also rose significantly during the pandemic.

OLA's Financial Audit Division recently conducted an audit of the UI program to determine the extent to which DEED correctly determined applicants' eligibility, paid the correct amounts of benefits, and recouped overpayments, among other things. This evaluation will review issues not covered by that audit. It will focus on DEED's efforts to detect fraudulent applications from fraudsters who steal Minnesotans' identities to apply for benefits in their names, or who take over real applicants' accounts to divert their benefits.

To conduct this evaluation, we will review state and federal requirements that DEED must follow to detect fraud, as well as best practices recommended by DOL. We will also review DEED's fraud detection procedures and interview DEED staff to learn about those procedures. In addition, we will review a sample of the fraud tips that DEED receives from the public, as well as other program data, to determine how well DEED detects fraud.

This evaluation is scheduled to be completed in spring 2022. For additional information, contact Laura Schwartz, evaluation manager, at 651-296-1232 or laura.schwartz@state.mn.us.