



Summary

Unemployment Insurance Program: Efforts to Prevent and Detect the Use of Stolen Identities

Not-Public Subject Matter

Under state law, many of the fraud prevention and detection processes that we discuss in this report are classified as nonpublic security information or are otherwise classified as not public.¹ As a result, we have redacted all not-public information from the public version of this report, and have provided the Department of Employment and Economic Development (DEED) with an unredacted version. This summary lists all of our public findings and recommendations.

Background

- Unemployment Insurance (UI) is a joint federal-state program; the UI Division within DEED administers the program in Minnesota.
- Employers pay for UI program benefits. Under state law, eligible unemployed workers may receive weekly UI benefits of up to 50 percent of their prior average weekly wages, up to a maximum set in law. Only individuals who are unemployed through no fault of their own, who are able and available to work, and who worked in “covered employment” are eligible for benefits.
- Individuals attempt to defraud the UI program in a variety of ways. In this report, we focused on the division’s efforts to prevent and detect fraud by “imposters” and “hijackers.” An imposter is an individual who uses the identity of someone who does not already have a UI account to create an account in their name. A hijacker is an individual who accesses and takes over a genuine accountholder’s existing account to steal their benefits.
- The UI Division’s information technology system contains a complex set of automated rules that verify applicants’ identities and determine their eligibility for benefits. The division also uses information from employers to crosscheck the accuracy of information that applicants submit. Division staff manually review some information that applicants and employers provide to verify applicants’ identities and determine their eligibility for benefits.
- In response to the COVID-19 pandemic, federal and state policymakers authorized temporary changes to the UI program. UI Division officials told us a drastic increase in UI applications during the pandemic, paired with temporary changes to program requirements, strained the division’s ability to perform its standard fraud prevention and detection processes.

¹ Minnesota Statutes 2021, 13.37, subds. 1(a), 1(b), and 2(a); 13.39; and 268.19, subd. 1.

Reporting and Investigations

- The reports that the UI Division submits to the U.S. Department of Labor do not capture the full extent of possible fraud that the UI program experiences, particularly the threat that imposters and hijackers pose. And, state law does not explicitly require DEED to report information about fraud in the UI program to the Minnesota Legislature.
 - **Recommendation ▶** The Legislature could consider requiring DEED to report, on a regular basis, about fraud in the UI program.
- The UI Division focuses more on preventing the loss of program dollars by imposters and hijackers than on investigating those individuals. The division has referred few cases to law enforcement in recent years.
 - **Recommendation ▶** The UI Division should evaluate its processes for referring fraud cases to the Bureau of Criminal Apprehension for investigation.
 - **Recommendation ▶** The UI Division should submit a formal request to the U.S. Department of Labor's Office of Inspector General for additional coordination and resources in investigating and combatting fraud from imposters and hijackers.

Fraud Prevention and Detection

- In Fiscal Year 2021, the UI Division received nearly 24,000 fraud allegation reports from the public, most alleging an imposter applied for benefits using a stolen identity. UI Division staff reviewed most of the fraud allegation reports and associated accounts in our sample quickly.
- The UI Division regularly conducts data analyses to identify and lock accounts with suspicious characteristics that indicate they may have been opened by imposters or hijackers. These processes were effective in quickly identifying and locking the suspicious accounts in our sample.
- During the COVID-19 pandemic, the UI Division began temporarily locking all accounts with certain characteristics to protect against phishing attacks, which likely affected payments to some genuine applicants.
- The UI Division relies on applicants to identify when it has incorrectly locked their accounts, which may cause burdens for those applicants.
- While temporary changes to the UI program may have addressed policy needs during the pandemic, they also complicated the UI Division's ability to prevent and detect fraud. Amid challenges presented by the pandemic, the division instituted new screening processes to prevent payments to imposter accounts.
- The UI Division's new imposter screening processes provided time for the division to stop initial payments on suspicious accounts; in June 2021, the division stopped payments on about 2,500 suspicious accounts—more than one-third of all new accounts opened that month.

While DEED uses a variety of processes to help prevent and detect the use of stolen identities in the UI program, it has not measured the efficacy of those processes or the extent to which they may affect timely payments to applicants.

- The UI Division's new imposter screening processes delayed payments to most applicants by more than a week, even though an executive order, and subsequent legislation, temporarily suspended the typical one-week waiting period. While the UI Division's new imposter screening processes helped prevent payments on suspicious accounts, they also likely created burdens for some genuine applicants who were entitled to benefits.
 - **Recommendation ▶** The UI Division should develop processes to proactively investigate accounts that may be incorrectly identified as suspicious.
- The UI Division has not established metrics or methods for evaluating the efficacy of its data analysis processes or its new imposter screening processes, nor has it collected the data to perform such evaluations.
 - **Recommendations ▶** The UI Division should: (1) establish metrics and methods for evaluating the efficacy of its data analysis processes and imposter screening processes; (2) evaluate these processes on a regular basis; (3) collect the necessary data to conduct such evaluations; and (4) use such evaluations to refine its processes.
 - **Recommendation ▶** As the initial challenges created by the COVID-19 pandemic subside, the UI Division should reevaluate some of the changes it implemented during the pandemic to prevent and detect fraud, as those changes competed with its responsibility to issue prompt payments to eligible applicants.

Summary of Agency Response

In a letter dated March 11, 2022, Department of Employment and Economic Development (DEED) Commissioner Steve Grove said that the COVID-19 pandemic, and the expansion of UI benefits during the pandemic, created an opportunity for cybercriminals. But, he said, DEED responded quickly to the various challenges presented by the pandemic.

The Commissioner suggested that it may be duplicative for DEED to report to the Minnesota Legislature in addition to the federal government, as OLA recommends that the Legislature consider. He also disagreed with OLA's finding that some of the new fraud prevention and detection processes that DEED instituted during the pandemic delayed payments to most applicants. In addition, he said DEED in fact took certain actions discussed in the report to prevent a delay in benefits created by cybercriminals. And, he said OLA misstated a purpose of Executive Order 20-05, which allowed workers "to become eligible for unemployment benefits as quickly as possible."

The Commissioner said that DEED is committed to continually monitoring and updating its approach to detecting and stopping cybercriminals, as recommended by OLA. He said DEED has a responsibility to work to maintain a balance between stopping cybercriminals and ensuring that genuine applicants can access the benefits for which they are eligible. The Commissioner said that DEED took, and continues to take, effective measures to ensure that the state's "UI application has a robust and resilient response to active and emergent cyberthreats."



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