

This copy is for your personal, non-commercial use only. To order presentation-ready copies for distribution to your colleagues, clients or customers visit <https://www.djreprints.com>.

<https://www.wsj.com/articles/unemployment-fraud-spreads-across-u-s-as-coronavirus-boosts-claims-11591189201>

ECONOMY

Unemployment Fraud Spreads Across U.S. as Coronavirus Boosts Claims

Cases reflect vulnerabilities that workers and governments face during the pandemic



A recent surge in unemployment claims has helped make states more vulnerable to unemployment-benefit fraud.

PHOTO: TONY DEJAK/ASSOCIATED PRESS

By [Sarah Chaney](#)

Updated June 3, 2020 11:39 am ET

States across the country are being hit by unemployment-benefit fraud that could amount to billions of lost dollars, reflecting the vulnerabilities that workers and governments face

in the midst of historically high levels of jobless claims related to the coronavirus pandemic.

In recent days, states including North Dakota, Maine and Pennsylvania have said they detected cases or attempts of unemployment fraud, largely tied to identity theft.

A surge of unemployment claims, which total more than 40 million since mid-March, is one reason that states are more vulnerable to fraud during the pandemic. Another, according to the U.S. Labor Department's Office of Inspector General, is the way some states have been implementing a new federal program to process unemployment claims from independent contractors and self-employed people.

Scott Dahl, the inspector general for the U.S. Labor Department, said at least \$26 billion in unemployment insurance payments could be wasted during the pandemic.

"A large portion of that will be pocketed by fraudsters instead of going to legitimate workers," Mr. Dahl said Monday at a briefing with the House Subcommittee on Government Operations.

Unemployment fraud can take many forms, including identity theft or a claims recipient "knowingly submitting false information" or "knowingly continuing to collect benefits when ineligible," according to the Labor Department. Many states rely on outdated technology systems and vulnerable web portals that make them more susceptible to fraudulent claims, according to security experts.



Scott Dahl of the Labor Department said at least \$26 billion in unemployment insurance payments could be wasted during the coronavirus pandemic.

PHOTO: RON SACHS/CNP/ZUMA PRESS

In one case that officials are investigating, more than three dozen health-care workers' identities were allegedly stolen, Mr. Dahl said. He said fraudsters allegedly used the stolen identities to file illegitimate unemployment claims in multiple states.

The U.S. Secret Service issued a memo last month saying a Nigerian fraud ring was targeting state unemployment systems. The Secret Service highlighted Washington as the hardest-hit state but said there was evidence attacks had occurred in North Carolina, Massachusetts, Rhode Island, Oklahoma, Wyoming and Florida.

"It is extremely likely every state is vulnerable to this scheme and will be targeted if they have not been already," the Secret Service memo said. The tactics described resembled

attempts to file fraudulent income-tax returns, a problem the Internal Revenue Service and states have faced for years.

 YOUR MONEY BRIEFING



Unemployment Fraud Rises as Claims Hit Record Levels



00:00 / 05:44

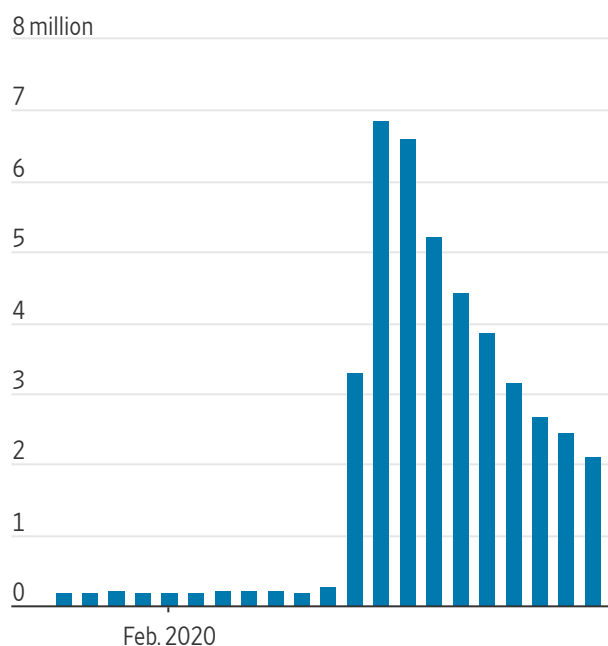


SUBSCRIBE

The Secret Service said hundreds, if not thousands, of “mules,” or intermediaries that help launder stolen money out of the country, appeared to be supporting the fraud scheme, in some cases unknowingly. Local and national banks, as well as credit unions, have been targets.

The Labor Department estimated that in 2019 about 10% of unemployment payments were “improper,” or ones that shouldn’t have been made, and 3% were fraudulent.

Mr. Dahl said the share of improper payments could be potentially much higher during the coronavirus crisis given the amount of federal money flowing into the unemployment system in response to the economic downturn. The U.S. Treasury sent out more than \$48 billion in unemployment payments in April, greater than three times the amount paid at the monthly peak of the 2007-09 recession, according to a Brookings Institution analysis.

Initial claims for jobless benefits, weekly

Note: Seasonally adjusted

Source: Labor Department

Vance Lucas, an Oklahoma City resident, said he received a prepaid debit card for unemployment benefits in the mail in mid-May, even though he was still fully employed and had never filed a claim.

The computer programmer quickly sent an email to the Oklahoma labor department to report the fraudulent claim. Mr. Lucas also reported the case to the police and froze his credit.

“I was definitely very concerned,” he said. “I wanted to take really quick action since I’m in the middle of buying a house.”

Elliot Lewis, assistant inspector general at the Labor Department, said in a memo that some states weren’t requiring workers who applied for unemployment aid under the new program for independent contractors to provide evidence of their wages, such as a pay stub.

Without this wage requirement, which is typical of another emergency unemployment program, the new program for independent contractors “presents substantial risks of the likelihood of loss of millions of taxpayer dollars,” Mr. Lewis said in the memo to the assistant secretary of the Employment and Training Administration, the federal agency that oversees unemployment insurance.

Maine's new federal program for contractors has exposed it to unemployment fraud. Maine officials warned that scammers were exploiting its new program to file fraudulent unemployment claims by using some residents' personal information.

In Pennsylvania, state officials detected attempted unemployment scams tied to its program for independent contractors and self-employed people.

State labor departments have been setting up fraud task forces in conjunction with state attorneys and the federal government to address the increase in fraud.

Oklahoma is one such state. It detected and prevented the payment of 100,000 fraudulent claims in the amount of \$35 million during the pandemic, said David Ostrowe, an Oklahoma state official involved in the investigation.

Mr. Ostrowe said the state detected identity fraud, in which fraudsters used bots to penetrate the state's unemployment application site and be approved for a bank card. The fraudsters would then siphon the funds outside of Oklahoma. To stem the flow of such fraud, Oklahoma put in a standard antibot measure that requires applicants to verify that they aren't a robot.

Another type of unemployment fraud is related to Oklahoma's suspension of employer notification of unemployment claims to speed up the delivery of payments during the pandemic. Eliminating that step likely means the state is paying people who aren't eligible for benefits, Mr. Ostrowe said.

Lyn Adams, executive director of Oklahoma Children's Theatre, has been reporting fraudulent claims to Oklahoma's fraud department through a state-supplied email address.

STAY INFORMED

Get a coronavirus briefing six days a week, and a weekly Health newsletter once the crisis abates: [Sign up here](#).

Though the theater she operates had to shut down because of the coronavirus, none of her nine full-time employees had been laid off, which raised red flags when she began receiving letters under names of unemployment applicants she didn't recognize.

Within a span of about three weeks, Ms. Adams said she received about 30 fraudulent claims.

“When this kind of deception rears its ugly head, just really disgusting to me,” Ms. Adams said.

—*Dustin Volz contributed to this article.*

Write to Sarah Chaney at sarah.chaney@wsj.com

Copyright © 2020 Dow Jones & Company, Inc. All Rights Reserved

This copy is for your personal, non-commercial use only. To order presentation-ready copies for distribution to your colleagues, clients or customers visit <https://www.djreprints.com>.