



TO: Vice Chairman Lang
Members of the Interim Budget Committee
FROM: Commissioner Laurie Esau
Jeannie Keller, UI Fraud Prevention Supervisor
DATE: March 16, 2022
RE: UI Benefits Fraud in the COVID-19 Pandemic

The surge in joblessness as a result of the COVID-19 pandemic, the resultant increase in UI benefit claims, and the enormous flow of federal dollars into UI payments fostered an unprecedented increase in fraudulent activity targeted at state UI benefit programs.

Fraud Prevention in Montana Unemployment Insurance looks different today than it did at the start of 2020. At Governor Gianforte's direction, the Department has taken aggressive steps to prevent fraud. This document responds to a request by the Committee to report on unemployment insurance fraud here in Montana.

Background

The COVID-19 pandemic placed significant strain on Montana's UI benefits system. Practically overnight, Montana UI went from approximately 12,000 claimants to approximately 83,000. Montana's outdated UI benefits system, known as MISTICS, struggled to cope with the enormous increase in claims volume.

Changes made by the federal government to UI benefits and eligibility also increased the workload on DLI's claims personnel and programmers. The CARES Act, signed into law in March of 2020, included several significant changes to UI benefits, including the creation of Pandemic Unemployment Assistance, a new federal program that extended benefits to self-employed individuals and others that would not be eligible for benefits under traditional UI.

Concurrent with the dramatic increase in UI claims, states across the country began to see a significant uptick in potentially fraudulent activity, as bad actors sought to take advantage of the outflow of billions of dollars in new UI benefit payments.

Types of Fraud

When discussing fraudulent UI activity, it is important to distinguish between two distinct types of fraud. Eligibility fraud involves individuals falsifying employment or wage data. Claimants can knowingly submit false information, continue to collect benefits when they know they are no longer eligible, or intentionally not report wages or income while collecting benefits. Identity theft fraud involves a bad actor using stolen personal information of a claimant to obtain benefits and is not usually the fault of the identity theft victim. Employer fraud can include certain actions to avoid tax liability or establishing a fictitious employer account to enable fraudulent claims against that account.

The Pandemic & UI Fraud

Like other states, Montana's Unemployment Insurance Division began to detect signs of an uptick in potentially fraudulent activity as the number of claims skyrocketed. Additionally, the creation of the Pandemic Unemployment Assistance program expanded eligibility for benefits to self-employed workers

and independent contractors, creating a universe of new beneficiaries with difficult-to-verify income and wages.

The majority of potential fraudulent activity detected by the Department was through identity theft, with bad actors – including individuals from overseas – utilizing stolen personal data to fraudulently apply for benefits. The scammers filed for unemployment benefits using data they gained in other data hacks. Through these data breaches, they obtained sensitive personally identifiable information belonging to their victims, including names, addresses, phone numbers, email addresses, and social security numbers. While some fraud attempts included PII obtained through data breaches, others were a result of stuffing attempts. Credential stuffing is a cyberattack method in which attackers use lists of compromised user credentials to breach into a system. The attack uses bots for automation and scale and is based on the assumption that many users reuse usernames and passwords across multiple services.

In response to these fraud schemes, the department put some new procedures into production to help protect and restrict access to payment options. The department also put fraud notices on the DLI website, on MontanaWorks and used social media and press releases to help educate Montana citizens. The department also automated an existing crossmatch process that identifies fraud risk for each claim. Prior to the pandemic, this crossmatch and review process was a manual process with one fraud investigator doing the review. Using resources and staff from our Workforce Services Division, UI was able to develop a system that put high risk accounts on hold and provided daily automated files to staff for a more efficient and effective review.

Additionally, in October of 2020, DLI leadership made the determination that additional tools to combat identity theft were necessary and ID.me was procured through the COVID-19 exigency to verify a claimant’s identity when making a claim. ID.me utilizes remote document verification, facial recognition, mobile phone verification and multi-factor authentication to prevent identity theft.

The Department believes that the utilization of ID.me’s services significantly reduced fraudulent activity during the pandemic. As the volume of claims has decreased as the economic disruption from the pandemic has diminished, the Department is revisiting its utilization of ID.me. A security assessment, being conducted by State SITSD, is underway and decisions about ID.me’s continued use will be made following that assessment.

Through the pandemic, DLI expanded its efforts to prevent fraud, hiring a Fraud Prevention Manager and adding three additional fraud investigators and a data analyst. DLI continues to review and adjudicate claims while attempting to detect fraudulent activity. Below is an overview of the fraudulent activity DLI has identified to date through June 30, 2021 when pandemic unemployment benefits terminated and the volume of claims reduced dramatically.

| Fraud Payments by Type | | |
|-------------------------------|-------------------|---------------|
| | Regular UI | PUA |
| Total Payments | \$1,098,270,710 | \$406,045,919 |
| Identity Fraud | \$22,475,429 | \$4,447,329 |
| Eligibility Fraud | \$2,660,243 | Unknown |
| Fraud Identified | \$25,135,672 | \$4,447,329 |
| % of Total Payments Fraud | 2.3% | 1.1% |

Source: MTDLI UI claims for 3/1/2020 to 6/30/2021. PUA data from FAST data system.

The below breakdown illustrates the share of fraudulent claims before and after the Department began utilizing ID.me in November of 2020:

| Fraud Classification | Pre-ID Me | Post ID Me |
|-----------------------------|----------------------|----------------------|
| Fraud | \$20,144,275 | \$2,331,154 |
| No or Low Risk | \$948,110,940 | \$127,684,341 |
| Total Payments | \$968,255,215 | \$130,015,495 |
| Percent Fraudulent | 2.1% | 1.8% |

It's important to note a few things about these numbers: first, DLI is continuing to evaluate and adjudicate claims and these numbers will increase as that process continues. This in no way should be construed as a final or full accounting of fraudulent activity that took place over the course of the pandemic. Additionally, the majority of the fraudulent activity so far took place in the first few months of the pandemic, before the Department began utilizing ID.me to prevent identity theft fraud.

Part of the overall fraud prevention program is to constantly evaluate our process. It's a fluid process and requires us to be agile and responsive to everchanging fraud scams. The Fraud team works with state and federal partners to maximize all the tools available to us in this fight against fraud. It will be some time before we have a complete picture of overall fraud during the pandemic. We are committed to not only accurately reporting our past performance but working to develop a robust fraud prevention program to protect Montana citizens and Montana businesses.

Thank you for your attention to this matter and your work on behalf of Montana taxpayers.