

Unemployment Insurance Program: Billions of Dollars of Waste, Fraud and Mismanagement

With unemployment rates persistently exceeding 8 percent, the Unemployment Insurance (UI) program has provided a safety net for tens of millions of Americans during these tough economic times. More than 13.5 million Americans filed unemployment insurance claims last month.¹ The \$156 billion a year joint federal-state program is intended to provide temporary financial support for those who are unemployed through no fault of their own.²

Because of the prolonged need for UI, it is imperative we guarantee only those who truly need the support of this program are eligible and only those eligible are receiving assistance. As you probably know, in a rare show of bipartisan unity, the Senate voted 100 to 0 to end unemployment benefits to millionaires and billionaires.³

It is also equally important that funds made available for the program are not wasted, misspent, or defrauded. Yet, the UI program continues to improperly spend billions of dollars every year that could help struggling out of work Americans and their families or reduce our \$14 trillion national debt.

The following are just a few of the most recent examples of questionable UI spending:

- The UI program made \$17.5 billion in improper payments last year. The vast majority of these erroneous payments were to individuals who did not meet the active work search requirements. This includes those who continued to claim UI benefits after returning to work as well as those who were ineligible for benefits because they voluntarily quit their jobs or were fired for misconduct. About 2.4 percent of UI payments were fraudulent. The 2010 overpayment rate, which was 10.6 percent, increased from the 2009 rate of 9.6 percent.⁴

¹ "THE EMPLOYMENT SITUATION -- MARCH 2011," U.S. Bureau of Labor Statistics, April 1, 2011; <http://www.bls.gov/news.release/empsit.nr0.htm>.

² Katelin P. Isaacs and Julie M. Whittaker, "Unemployment Insurance: Programs and Benefits (RL33362)," Congressional Research Service, March 1, 2011.

³ Senate amendment 281 to S. 493 (SBIR/STTR Reauthorization Act of 2011) offered by Senator Tom Coburn of Oklahoma, roll call vote #55, 112th Congress, 1st Session, April 6, 2011; http://www.senate.gov/legislative/LIS/roll_call_lists/roll_call_vote_cfm.cfm?congress=112&session=1&vote=00055.

⁴ "High-Error Programs » Unemployment Insurance (UI)," PaymentAccuracy.gov website, accessed April 12, 2011; <http://www.paymentaccuracy.gov/programs/unemployment-insurance#learnmore>.

- Through the Employment Security Administration Account (ESAA), the federal government provides \$5.5 billion annually to states to administer Unemployment Compensation (UC). The American Recovery and Reinvestment Act of 2009 (Public Law 111-5, the federal stimulus program) also provided a total of \$500 million in additional funds to states to help with administrative costs of unemployment benefits.⁵ This is an excessive amount of money to run a single program, especially one with such a significant payment error rate. Workforce Central Florida “a federally funded labor development agency that last year received almost \$24 million in public money,” is spending \$73,000 on a public relations campaign featuring a cartoon character named “Dr. Evil Unemployment.” The agency has spent more than \$14,200 to purchase 6,000 red superhero capes which it is distributing to out of work job seekers and \$2,300 for foam cutouts of Dr. Evil Unemployment. The campaign has been “met with derision” by many unemployed Floridians, according to *The Orlando Sentinel*⁶ and these expenditures do not represent a reasonable administrative use of federal funds.
- States have some discretion to spend federal UI dollars to pay for employment office furnishings. While basic office needs may be a reasonable expenditure, other expenditures are questionable. Maine spent \$60,000 of federal UI funds to pay for a 36-foot mural containing images of labor unions strikes.⁷
- Unemployment payments were made to prison inmates, including more than \$690,000 paid to prisoners in Wisconsin,⁸ New York,⁹ Washington state,¹⁰ and Maine.¹¹ The prevalence of inmates receiving unemployment benefits was surprising, according to New York Labor Department Commissioner Colleen Gardner.¹²
- California wrongly paid \$1.3 million in unemployment benefits to 186 state employees who were fired for misconduct, including a correctional officer who was arrested after a hit-and-run incident while driving drunk, a prison guard who was involved in drug

⁵ Katelin P. Isaacs and Julie M. Whittaker, “Unemployment Insurance: Programs and Benefits (RL33362),” Congressional Research Service, March 1, 2011.

⁶ Jim Stratton, “State launches probe into campaign to provide superhero capes to jobless,” *Orlando Sentinel*, April 18, 2011; <http://www.orlandosentinel.com/business/os-jobless-cape-probe-20110418,0,1218799.story>.

⁷ “Uncle Sam Tells Maine Governor to Repay Cost of Removed Mural of Labor History,” *FOX News*, April 5, 2011; <http://www.foxnews.com/politics/2011/04/05/uncle-sam-tells-maine-governor-repay-cost-removed-mural-labor-history/>.

⁸ Scott Bauer, “Audit finds Wis. prisoners got federal benefits,” *Associated Press*, April 1, 2011; <http://www.chicagotribune.com/news/chi-ap-wi-wisconsin-aidaudi.0.6735503.story>.

⁹ “Labor Department and County Sheriffs Crack Down on Inmates who Attempt to Collect Unemployment Insurance Behind Bars,” *New York State Department of Labor*, November 16, 2010; <http://www.labor.ny.gov/pressreleases/2010/november-16-2010.shtml>.

¹⁰ “Investigators finding more benefits fraud,” *Washington State Employment Security Department*, April 12, 2011; <http://www.esd.wa.gov/newsandinformation/releases/investigators-finding-more-benefits-fraud.php>.

¹¹ Betty Adams, “Portland man faces charges in jailtime unemployment; Accused of collecting \$3,000,” *Kennebec Journal (Maine)*, April 6, 2011; http://www.kjonline.com/news/portland-man-lands-in-hot-water-for-jailtime-unemployment_2011-04-05.html.

¹² Dave Canfield, “Inmates in New York’s county jails collecting unemployment benefits illegally,” *The Record (New York)*, November 17, 2010; <http://www.troyrecord.com/articles/2010/11/17/news/doc4ce3748d5af97158939452.txt>.

dealing and a prison gang, and an employee who did not show up for work for six months.¹³

- Thousands of non-citizens, including illegal immigrants, are receiving millions of dollars of UI payments. The Michigan Unemployment Insurance Agency (UIA) “did not ensure that alien claimants met federal and State eligibility requirements for receiving UI benefits. As a result, from October 1, 2007 through June 30, 2010, UIA potentially made improper UI benefits payments totaling up to \$7.9 million to 1,201 alien claimants,” according to the Michigan Auditor General.¹⁴ “The Colorado Department of Labor and Employment (CDLE) regularly makes unemployment insurance payments to illegal aliens and other citizens who don’t qualify for the taxpayer-funded benefit,” according to the *Fort Collins Republican Examiner*. Two years ago, the department “shut down the system responsible for identifying unqualified residents” and “stopped questioning immigration status of applicants.”¹⁵
- UI payments continue to be made to dead people. Michigan paid \$350,000 in jobless benefits to 115 deceased claimants between October 1, 2007 and June 30, 2010. One deceased recipient was paid \$32,594 and other dead beneficiaries received payments for as many as 87 weeks.¹⁶ In New York, “14 UI claims totaling \$12,268 were paid after the claimant’s date of death.”¹⁷ “People collected jobless benefits under the names of family members who were dead” in Washington state.¹⁸
- Individuals already receiving disability-related compensation have also received UI payments. In one case, a Pennsylvania man employed as a Burger King manager faked being both unemployed and disabled to collect more than \$13,000 in unemployment benefits.¹⁹ In Washington state, an individual was collecting unemployment benefits and worker’s compensation at the same time even though he “wasn’t eligible for unemployment benefits because he was unable to work due to an injury.”²⁰

¹³ Michael Rothfeld, “California corrections agency wrongly paid \$1.3 million to fired workers,” *The Los Angeles Times* (California), March 31, 2009; <http://articles.latimes.com/2009/mar/31/local/me-prisons31> .

¹⁴ “Performance Audit of Unemployment Insurance Benefit Overpayments and Nonmonetary Eligibility Determinations,” Michigan Office of the Auditor General, March 2011, page 38; <http://audgen.michigan.gov/comprpt/docs/r641031510.pdf> .

¹⁵ Michelle Hurni, “Illegal Immigrants in Colorado Receive Unemployment Insurance,” *Fort Collins Republican Examiner* (Colorado), November 9, 2010; <http://www.examiner.com/republican-in-fort-collins/illegal-immigrants-colorado-receive-unemployment-insurance> .

¹⁶ “Performance Audit of Unemployment Insurance Benefit Overpayments and Nonmonetary Eligibility Determinations,” Michigan Office of the Auditor General, March 2011, pages 33- 34; <http://audgen.michigan.gov/comprpt/docs/r641031510.pdf> .

¹⁷ Correspondence from Bernard J. McHugh, New York Director of State Expenditures, to Colleen C. Gardner, New York Commissioner of the Department of Labor, July 29, 2010, page 3; <http://www.osc.state.ny.us/audits/allaudits/093010/2009bse3a004.pdf> .

¹⁸ Derek Wang, “Unemployment Fraud Statistics Don’t Tell The Whole Story,” *KUOW Puget Sound Public Radio*; April 13, 2011; <http://www.kuow.org/program.php?id=23123> .

¹⁹ Cindy Stauffer, “Authorities: Man faked joblessness; Took unemployment while he worked,” *Lancaster New Era* (Pennsylvania), April 8, 2011; <http://articles.lancasteronline.com/local/4/372467> .

²⁰ “Investigators finding more benefits fraud,” Washington State Employment Security Department, April 12, 2011; <http://www.esd.wa.gov/newsandinformation/releases/investigators-finding-more-benefits-fraud.php> .

- Some have gamed system to get around the time limits, allowing them to collect thousands of dollars of UI payments every year. One man received UI benefits for 14 consecutive years, from 1995 to 2009, defrauding the program of more than \$300,000.²¹
- Thousands of individuals with incomes exceeding \$1 million are receiving unemployment benefits. As many as 2,840 households who reported an income of \$1 million or more on their tax returns were paid a total of \$18.6 million in UI benefits in 2008, according to the Internal Revenue Service. This included more than 800 earning over \$2 million and 17 with incomes exceeding \$10 million. In all, multimillionaires were paid \$5.2 million in jobless benefits in 2008.²² When the median income of working Americans is less than \$50,000,²³ it is illogical, even asinine, for the government to consider an individual earning millions of dollars as unemployed and thereby eligible for jobless benefits. Why should someone struggling to make ends meet working full time, or two jobs, pay into a system to provide benefits to someone who does not work yet earns millions of dollars a year?
- Most UI overpayments are to individuals who claim UI benefits despite returning to work.²⁴ Some of those with full time jobs, including federal employees, fraudulently receive UI payments. Nine U.S. Postal Service employees in South Carolina were recently indicted for claiming unemployment benefits.²⁵ A Texas man collected \$30,000 while working for the Postal Service.²⁶ A Texas Workforce Commission (TWC) employee who left the agency “stole multiple identities, and then used her inside knowledge of the UI process to file false claims” to collect \$14,534.²⁷ In New York, one man certified nine times that he was jobless and collected \$4,398 in benefits despite being employed.²⁸

Together these few examples represent billions of dollars misspent every year for unnecessary, questionable, erroneous, and often illegal purposes. This is inexcusable and no longer acceptable. Taxpayers and out of work Americans, all of whom are struggling to make ends meet, deserve answers to why this is occurring and immediate actions to stop it.

²¹ “FATHER AND DAUGHTER CHARGED WITH ILLEGALLY RECEIVING MORE THAN \$300,000 IN UNEMPLOYMENT BENEFITS,” United States Attorney’s Office District of Connecticut, U.S. Department of Justice, April 8, 2010; <http://www.justice.gov/usao/ct/Press2010/20100408.html> .

²² “SOI Tax Stats - Individual Statistical Tables by Size of Adjusted Gross Income,” Internal Revenue Service website, accessed April 13, 2011; <http://www.irs.gov/taxstats/indtaxstats/article/0,,id=96981,00.html> .

²³ “Income, Poverty and Health Insurance Coverage in the United States: 2009,” U.S. Census Bureau, September 16, 2010; http://www.census.gov/newsroom/releases/archives/income_wealth/cb10-144.html .

²⁴ “Unemployment Insurance Benefit Payment Integrity,” Employment and Training Administration website, accessed April 14, 2011; http://www.ows.doleta.gov/unemploy/improp_pay.asp .

²⁵ “Area USPS employees face fraud indictments,” The Times and Democrat (South Carolina), April 12, 2011; http://www.thetandd.com/news/local/crime-and-courts/article_e5a9c016-64b7-11e0-a793-001cc4c002e0.html .

²⁶ Walt Nett, “Surprisingly little prison time given for unemployment fraud,” Lubbock Avalanche-Journal (Texas), March 7, 2010; http://lubbockonline.com/stories/030710/col_571809288.shtml .

²⁷ “Criminal Prosecutions of Unemployment Insurance Fraud - Recent Dispositions,” The Texas Workforce Commission, February 7, 2011; <http://www.twc.state.tx.us/ui/bnfts/prosecutiondispo.html> .

²⁸ Correspondence from Bernard J. McHugh, New York Director of State Expenditures, to Colleen C. Gardner, New York Commissioner of the Department of Labor, July 29, 2010, page 4; <http://www.osc.state.ny.us/audits/allaudits/093010/2009bse3a004.pdf> .

Even while some of these cases may have been caught, they likely represent just the tip of the iceberg. Just as concerning, there appears to be a systematic inclination to ignore, excuse, and even tolerate waste, fraud and abuse.

The Michigan Auditor General found it was the state agency's procedure that "when a claimant did not respond to UIA's initial request for information, UIA generally ceased its investigation" and "generally classified the misrepresentation as unintentional, citing that it did not have sufficient information to determine otherwise."²⁹ So only the most honest or dumbest criminals are likely to be caught or forced to pay restitution for UI fraud in Michigan. The auditor estimated the state "failed to identify and pursue recovery of UI benefit overpayments of up to \$38,550,000 and did not assess fraud-related penalties ranging from \$120,000,000 up to \$236,600,000."³⁰ With a 10.4 percent unemployment rate,³¹ taxpayers might wonder why Michigan would ignore tens of billions of dollars of fraud while its residents continue to face economic hardship.

As the number of UI fraud cases has increased in Connecticut, the amount recovered decreased as did the number of employees in the anti-fraud unit. The state rarely prosecutes unemployment fraud cases, according to a labor department official. It should be no surprise then that the number of fraud cases uncovered in 2010 hit a record 18,239, involving more than \$14 million.³²

"Surprisingly little prison time given for unemployment fraud," read a recent headline in a Texas newspaper article. Like Connecticut, the total amount recovered by Texas last year also declined.³³

Of the 7,000 people who fraudulently collected a total of \$14 million of unemployment payments in Washington state last year, only 13 could face criminal charges, according to the chief investigator for the State Employment Security department.³⁴

The failure to better protect against fraud and recover stolen or improperly paid funds is especially alarming since most state UI Trust Funds are on the brink of insolvency.

²⁹ "Performance Audit of Unemployment Insurance Benefit Overpayments and Nonmonetary Eligibility Determinations," Michigan Office of the Auditor General, March 2011, pages 14- 15; <http://audgen.michigan.gov/comprpt/docs/r641031510.pdf>.

³⁰ "Performance Audit of Unemployment Insurance Benefit Overpayments and Nonmonetary Eligibility Determinations," Michigan Office of the Auditor General, March 2011, page 14; <http://audgen.michigan.gov/comprpt/docs/r641031510.pdf>.

³¹ "Local Area Unemployment Statistics," U.S. Bureau of Labor Statistics website, accessed April 13, 2011; <http://www.bls.gov/lau/>.

³² Gregory B. Hladky, "Connecticut Decides Not to Pursue Some Cases of Unemployment Fraud. Lose Money to Save Money!," The Hartford Advocate (Connecticut), March 1, 2011.

³³ Walt Nett, "Surprisingly little prison time given for unemployment fraud," Lubbock Avalanche-Journal (Texas), March 7, 2010; http://lubbockonline.com/stories/030710/col_571809288.shtml.

³⁴ Derek Wang, "Unemployment Fraud Statistics Don't Tell The Whole Story," KUOW Puget Sound Public Radio; April 13, 2011; <http://www.kuow.org/program.php?id=23123>.

The Government Accountability Office (GAO) reported last year “by any measure, state UI trust funds are in historically poor financial condition. As of April 1, 2010, 34 of the 53 state trust funds have outstanding loans totaling \$38.9 billion from the federal government to pay benefits.” While state UI programs losing billions of dollars to fraud and mismanagement, GAO points out “states are responding to low trust fund levels by raising tax rates on employers, which could undermine recovery.” GAO further notes “any increased borrowing could change the nature of the program’s federal-state partnership, with the federal government taking on more chronic funding responsibility for paying benefits rather than providing, as originally envisioned, a backstop to states when they experience financial emergencies. Weakening forward funding could put pressure on states to reduce benefits, which might compromise the program’s goal of providing macroeconomic stability during recessions. Now is the time, therefore, to consider changes to federal program policies that could better assure the long-term financial structure of UI trust funds.”³⁵

³⁵ “UNEMPLOYMENT INSURANCE TRUST FUNDS; Long-standing State Financing Policies Have Increased Risk of Insolvency (GAO-10-440),” Government Accountability Office, April 2010, page 30; <http://www.gao.gov/new.items/d10440.pdf>.