



Testimony

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UNEMPLOYMENT INSURANCE

DOL Needs to Address Substantial Pandemic UI Fraud and Reduce Persistent Risks

Statement of Gene L. Dodaro
Comptroller General of the United States

GAO Highlights

Highlights of [GAO-23-106586](#), a testimony before the Committee on Ways and Means, House of Representatives

Why GAO Did This Study

The UI system has faced long-standing challenges with program integrity, which increased dramatically during the pandemic. According to DOL data, expenditures across all UI programs totaled approximately \$878 billion from April 2020 through September 2022. This included benefits as part of four new UI programs Congress created to support workers during the pandemic. The unprecedented demand for benefits and the need to quickly implement the new programs increased the risk of financial fraud. Due to these circumstances and other challenges, GAO added the UI system to its High Risk Program in June 2022.

This statement addresses: (1) fraud in the UI programs, (2) UI fraud risks and management of such risks, (3) continued UI improper payment problems, and (4) the addition of the UI system to GAO's High Risk Program.

This statement is based on GAO's body of work related to the UI system during the pandemic. More detailed information on the objectives, scope, and methodology that form the basis of the statement can be found in individual reports, which are listed in the full hearing statement.

What GAO Recommends

As of January 2023, GAO has 19 open recommendations to DOL, including eight to strengthen its management of UI fraud risks. Recommendations include considering options to prevent fraud in programs designed to help self-employed and contingent workers, designating an entity to manage fraud risks, performing fraud-risk assessments, and developing and implementing an antifraud strategy.

View [GAO-23-106586](#). For more information, contact Seto Bagdoyan at (202) 512-6722 or bagdoyans@gao.gov or Jared B. Smith at (202) 512-2700 or smithjb@gao.gov.

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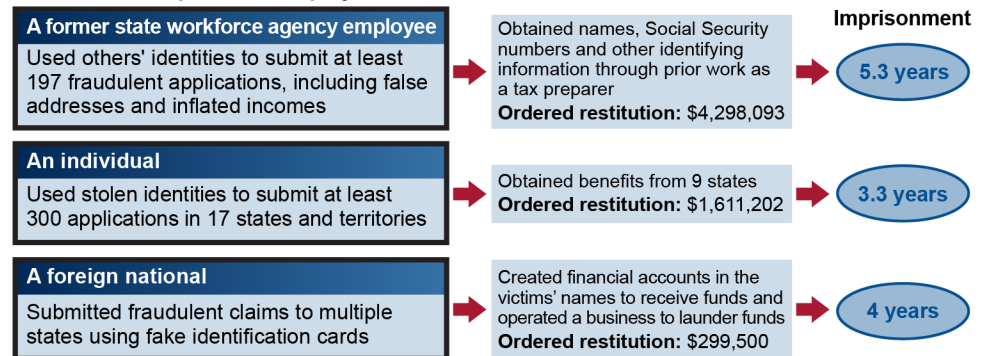
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What GAO Found

GAO found evidence of substantial levels of fraud and potential fraud in unemployment insurance (UI) during the pandemic. GAO estimated over \$60 billion in fraudulent UI payments by extrapolating the lower bound of the Department of Labor's (DOL) 2021 estimated national fraud rate for the regular UI program. However, such an extrapolation has inherent limitations and should be interpreted with caution. GAO is working to develop a more comprehensive estimate on the total extent of UI fraud during the pandemic. The DOL Office of Inspector General's UI fraud investigations resulted in over 1,200 indictments or initial charges from April 2020 through January 2023. Each week that office continues to open over 100 new UI fraud-related investigative matters.

Illustrative examples of unemployment insurance fraud cases



Source: GAO analysis of Department of Justice information. | [GAO-23-106586](#)

DOL and the states were not adequately prepared to handle UI fraud risks when the pandemic began. DOL has taken some recent steps to address UI fraud risks. For example, it has provided state workforce agencies with fraud-related guidance, integrity tools, and grant funding. DOL, however, has not yet implemented an antifraud strategy as called for by leading practices in GAO's Fraud Risk Framework.

The expediting of COVID-19 relief funding exacerbated an underlying improper-payment problem in the federal government, including UI, which predated the pandemic. For example, DOL reported an increase in estimated improper payments from \$8.0 billion (9.2 percent estimated improper payment rate) for fiscal year 2020 to \$78.1 billion (18.9 percent estimated improper payment rate) for fiscal year 2021. For fiscal year 2022, DOL reported estimated improper payments of \$18.9 billion (22.2 percent estimated improper payment rate).

In June 2022, GAO added the UI system to its High Risk Program based on the system's need for transformation. The system's administrative and program integrity challenges pose significant risks to service delivery and expose the system to significant financial losses. Long-standing challenges with UI administration and outdated IT systems have further affected states' ability to meet the needs of unemployed workers, especially during economic downturns. Such challenges have also contributed to impaired service, declining access, and disparities in benefit distribution.

Chairman Smith, Ranking Member Neal, and Members of the Committee:

I appreciate the opportunity to discuss our work on fraud risks in the Department of Labor's (DOL) unemployment insurance (UI) programs during the COVID-19 pandemic. The UI system, which is jointly administered with states, has faced long-standing challenges with effective service delivery and program integrity. These challenges increased dramatically during the pandemic because of historic levels of job losses, among other factors. The CARES Act created three federally funded temporary programs that expanded UI benefit eligibility, enhanced benefits, and extended benefit duration.¹ These programs were:

1. *Pandemic Unemployment Assistance (PUA)* authorized UI benefits for individuals not otherwise eligible for UI benefits, such as self-employed and certain gig economy workers, who were unable to work because of specified COVID-19-related reasons.²
2. *Federal Pandemic Unemployment Compensation (FPUC)* generally authorized an additional weekly benefit for individuals who were

¹In this testimony, we refer to the UI program—excluding the temporary UI programs created by the CARES Act and other legislation—as the regular UI program and the benefits paid under the program as regular UI benefits. We refer to the temporary UI programs created by the CARES Act and the Consolidated Appropriations Act, 2021, as pandemic UI programs. CARES Act, Pub. L. No. 116-136, 134 Stat. 281 (2020) and Consolidated Appropriations Act, 2021 Pub. L. No. 116-260, div. M and N, 134 Stat. 1182 (2020).

²At the time of the program's expiration in September 2021, PUA generally authorized up to 79 weeks of benefits. Pub. L. No. 117-2, § 9011(a), (b), 135 Stat. 4, 118; Pub. L. No. 116-260, div. N, tit. II, § 201(a), (b), 134 Stat. 1182, 1950-1951 (2020); Pub. L. No. 116-136, § 2102, 134 Stat. 281, 313 (2020).

eligible for weekly benefits under the permanent UI programs—e.g., regular UI—and the temporary CARES Act UI programs.³

3. *Pandemic Emergency Unemployment Compensation (PEUC)* generally authorized additional weeks of UI benefits for those who had exhausted their regular UI benefits.⁴

In addition, the Consolidated Appropriations Act, enacted in December 2021, created the Mixed Earner Unemployment Compensation (MEUC) program, which was extended by the American Rescue Plan Act of 2021.⁵ According to DOL, the MEUC program was intended to cover regular UI claimants whose benefits do not account for significant self-employment income and who thus may have received a lower regular UI benefit than they would have received had they been eligible for PUA.

Timely payments allowed unemployed workers to address financial hardships such as inability to pay for rent, utilities, and groceries. As we found in June 2022, 30 empirical studies we reviewed showed the effect of UI program expansions during adverse times, such as the 2007-2009

³FPUC generally authorized an additional \$600 benefit through July 2020 as well as an additional \$300 benefit for weeks beginning after December 26, 2020, through the end of the program in September 2021. Pub. L. No. 117-2, § 9013, 135 Stat. 4, 119; Pub. L. No. 116-260, div. N, tit. II, § 203, 134 Stat. 1182, 1953; Pub. L. No. 116-136, § 2104, 134 Stat. 281, 318. In addition, on August 8, 2020, the President signed a memorandum directing the Department of Homeland Security's Federal Emergency Management Agency (FEMA) to provide up to \$44 billion in lost wages assistance. Pursuant to the presidential memorandum, upon receiving a FEMA grant, states and territories could provide eligible claimants \$300 or \$400 per week—which included a \$300 federal contribution—in addition to their UI benefits. The White House, Memorandum on Authorizing the Other Needs Assistance Program for Major Disaster Declarations Related to Coronavirus Disease 2019 (Aug. 8, 2020). FEMA approved 53 states and territories to provide lost wages assistance to eligible claimants for a maximum of 6 weeks of unemployment experienced from the week ending on August 1, 2020, through the week ending on September 5, 2020.

⁴At the time of the program's expiration in September 2021, PEUC generally authorized an additional 53 weeks of benefits for claimants who were fully unemployed. Pub. L. No. 117-2, § 9016(a), (b), 135 Stat. 4, 119-120; Pub. L. No. 116-260, div. N, tit. II, § 206(a), (b), 134 Stat. 1182, 1954; Pub. L. No. 116-136, § 2107, 134 Stat. 281, 323.

⁵The MEUC program, which was voluntary for states, authorized an additional \$100 weekly benefit for certain UI claimants who received at least \$5,000 of self-employment income in the most recent tax year prior to their application for UI benefits. The \$100 weekly benefit was in addition to other UI benefits received by claimants; however, individuals receiving PUA benefits could not receive MEUC payments. The MEUC program expired in September 2021. Pub. L. No. 117-2, § 9013(a), 135 Stat. 4, 119; Pub. L. No. 116-260, div. N, tit. II, § 261(a)(1), 134 Stat. 1182, 1961.

recession and the COVID-19 pandemic.⁶ The expansions specifically helped to stabilize the economy, prevented detrimental outcomes from worsening, and had a limited effect on workers' incentives to return to work. Some of the studies we reviewed also showed that UI expansion had other positive benefits such as an improved labor market.

However, the unprecedented demand for UI benefits and the programmatic flexibilities allowed during the pandemic also increased the risk of financial fraud as well as other improper payments.⁷ From April 2020 through September 2022, expenditures across the UI system totaled approximately \$878 billion, according to DOL data.⁸ Most of these funds went to the intended recipients in the intended amounts, providing needed assistance. In other instances, funds were paid improperly, including benefits going to those who sought to defraud the UI program.

In December 2022, we estimated over \$60 billion in fraudulent UI payments were dispensed to applicants by extrapolating the lower bound of DOL's 2021 estimated national fraud rate for the regular UI program.⁹ However, such an extrapolation has inherent limitations and should be interpreted with caution. One of the many challenges in determining the full extent of fraud is its deceptive nature. Programs can incur financial losses related to fraud that are never identified and such losses are difficult to reliably estimate. In ongoing work, we are seeking to calculate

⁶GAO, *Unemployment Insurance: Pandemic Programs Posed Challenges, and DOL Could Better Address Customer Service and Emergency Planning*, [GAO-22-104251](#) (Washington, D.C.: June 7, 2022).

⁷The Payment Integrity Information Act of 2019 defines an improper payment as any payment that should not have been made or was made in an incorrect amount (including overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements. 31 U.S.C. § 3351(4). As such, improper payments refer to all kinds of erroneous payments, including but not limited to those resulting from fraud. Fraud involves obtaining something of value through willful misrepresentation. All payments made as a result of fraudulent activities are considered to be improper payments. Improper payments could suggest that a program may be vulnerable to fraud. However, improper payments amounts are not a valid indicator of the extent of fraud in a particular program.

⁸This amount includes about \$209 billion in expenditures under the regular and Expanded Benefits programs and about \$669 billion in expenditures under the pandemic relief programs that expired on September 6, 2021.

⁹GAO, *Unemployment Insurance: Data Indicate Substantial Levels of Fraud during the Pandemic; DOL Should Implement an Antifraud Strategy*, [GAO-23-105523](#), (Washington, D.C.: Dec. 22, 2022).

a comprehensive estimate of UI fraud and are exploring ways to estimate the amount of fraud more broadly across the federal government.

The increased significance of the UI system during the pandemic highlights its vulnerabilities and susceptibility to improper payments, fraud, waste, abuse, and mismanagement. In an out-of-cycle action, we added the UI system to GAO's High Risk Program in June 2022.¹⁰ We did so based on findings from the DOL Office of Inspector General (OIG) and our prior work, as well as the urgent need to address persistent issues in the UI system—including funding uncertainties and outdated IT systems. This designation is intended to help spur sustained progress in resolving persistent issues by shining a spotlight on such deficiencies and ways the federal government can lead efforts to find solutions.

My comments today address our body of work on the UI programs. Specifically, I will discuss

1. Fraud in the UI programs,
2. UI fraud risks and the management of such risks,
3. Continued problems with UI improper payments, and
4. The addition of the UI system to GAO's High Risk Program.

We conducted the work on which this statement is based in accordance with generally accepted government auditing standards. More detailed information on the objectives, scope, and methodology that this statement is based on can be found in the individual reports from which we obtained this information. See appendix I for a list of related reports.

¹⁰GAO, *Unemployment Insurance: Transformation Needed to Address Program Design, Infrastructure, and Integrity Risks*, [GAO-22-105162](#) (Washington, D.C.: June 7, 2022). The High Risk Program highlights federal programs and operations that we have determined are in need of transformation. It also names federal programs and operations that are vulnerable to waste, fraud, abuse, and mismanagement. We release a High Risk series report every two years at the start of each new Congress. As in this case, we sometimes make out-of-cycle designations to highlight urgent issues, help ensure focused attention, and maximize the opportunity for the federal government to take action.

Federal and State Measures and Estimates Indicate Substantial Fraud and Potential Fraud in UI Programs during the Pandemic but Do Not Fully Reflect the Extent of Fraud

Existing sources highlight the substantial nature of UI fraud during the pandemic but do not reliably indicate the full extent of fraud. Multiple state and federal entities have reported on the elevated risks associated with UI during the pandemic. For example:

- In October 2021, we reported that fraudulent and potentially fraudulent activity increased substantially after implementation of the pandemic UI programs, relative to the amount of such activity in the regular UI program before the pandemic.¹¹
- In its fiscal year 2020 Agency Financial Report, DOL acknowledged an increase in potentially fraudulent activity related to organized fraud schemes targeting the pandemic UI programs.¹²
- According to National Association of State Workforce Agencies officials, the UI system faced unrelenting attacks by foreign organized crime groups during the pandemic.¹³
- In a March 2021 press release, the U.S. Secret Service noted that its early investigation and analysis indicated that international organized criminal groups have targeted UI funds using stolen identities to file for UI benefits.

The risk of fraud was especially high in the PUA program.¹⁴ The CARES Act created the PUA program and initially allowed applicants to self-certify their eligibility and did not require them to provide any documentation of self-employment or prior income. In addition, the expanded coverage offered under the PUA program posed significant challenges to states as they implemented processes to determine initial and continued program eligibility for participants. As we have previously reported, relying on

¹¹GAO, *COVID-19: Additional Actions Needed to Improve Accountability and Program Effectiveness of Federal Response*, [GAO-22-105051](#) (Washington, D.C.: Oct. 27, 2021).

¹²Department of Labor, *Agency Financial Report Fiscal Year 2020* (Washington, D.C.: Nov. 16, 2020).

¹³The National Association of State Workforce Agencies represents all 50 state workforce agencies, the District of Columbia, and U.S. territories.

¹⁴PUA expanded unemployment benefit eligibility to traditionally ineligible workers, including self-employed and certain contingent workers. In June 2022, we recommended, among other things, that DOL consider options for fraud prevention when studying and advising Congress and policy makers on options for supporting self-employed and contingent workers during the period of involuntary unemployment. DOL agreed with the recommendation. GAO, *Pandemic Unemployment Assistance: Federal Program Supported Contingent Workers amid Historic Demand, but DOL Should Examine Racial Disparities in Benefit Receipt*, [GAO-22-104438](#) (Washington, D.C.: June 7, 2022).

program participants to self-report and self-certify information on agency forms, instead of verifying such information independently, could cause an agency to miss opportunities to prevent program fraud and abuse.¹⁵ To help address this risk, the Consolidated Appropriations Act of 2021 included a requirement for individuals to submit documentation of employment or self-employment when applying for the PUA program.¹⁶

According to DOL OIG officials, since the pandemic started, it has seen an increase of more than 1,000 times in the volume of its UI work involving complaints and investigations. For instance, from April 1, 2020, through January 10, 2023, DOL OIG opened over 198,000 investigative matters involving UI.¹⁷ The DOL OIG continues to open about 100 to 300 new UI fraud-related matters each week. From April 1, 2020, through January 10, 2023, DOL OIG UI fraud investigations resulted in over 1,239 indictments or initial charges, according to DOL OIG officials. In addition, according to these officials, their investigations and investigative assistance to state workforce agencies has produced \$905 million in seizures, court-ordered restitutions, and other UI fraud monetary results.¹⁸

Through our review of DOL OIG reports, state audits, and Department of Justice (DOJ) cases, we previously identified several fraud risks in the UI programs and identified factors contributing to fraud risk.¹⁹ Specifically, we identified several fraud cases that relied on a variety of mechanisms, which illustrate some of the fraud risks in pandemic UI programs including:

¹⁵[GAO-22-105051](#).

¹⁶The Consolidated Appropriations Act, 2021, extended the PUA program and included a requirement that all PUA claimants must submit documentation substantiating employment, self-employment, or the planned commencement of employment or self-employment. Pub. L. No. 116-260, div. N, tit. II, § 241(a), 134 Stat. 1182, 1959-60.

¹⁷The DOL OIG categorizes all investigative matters as either a complaint or an investigation. Complaints include those received through the DOL OIG's hotline or the Department of Justice's National Center for Disaster Fraud. Complaints require further review before determining if the DOL OIG will open an investigation. An investigation is something that, if proven, the DOL OIG anticipates will result in some type of criminal, civil, or administrative outcome.

¹⁸According to the DOL OIG, these include, but are not limited to, funds seized through forfeiture from bank accounts used to receive illicit proceeds of UI fraud, funds administratively returned to state workforce agencies by financial institutions based on the DOL OIG's work, and court-ordered restitution amounts.

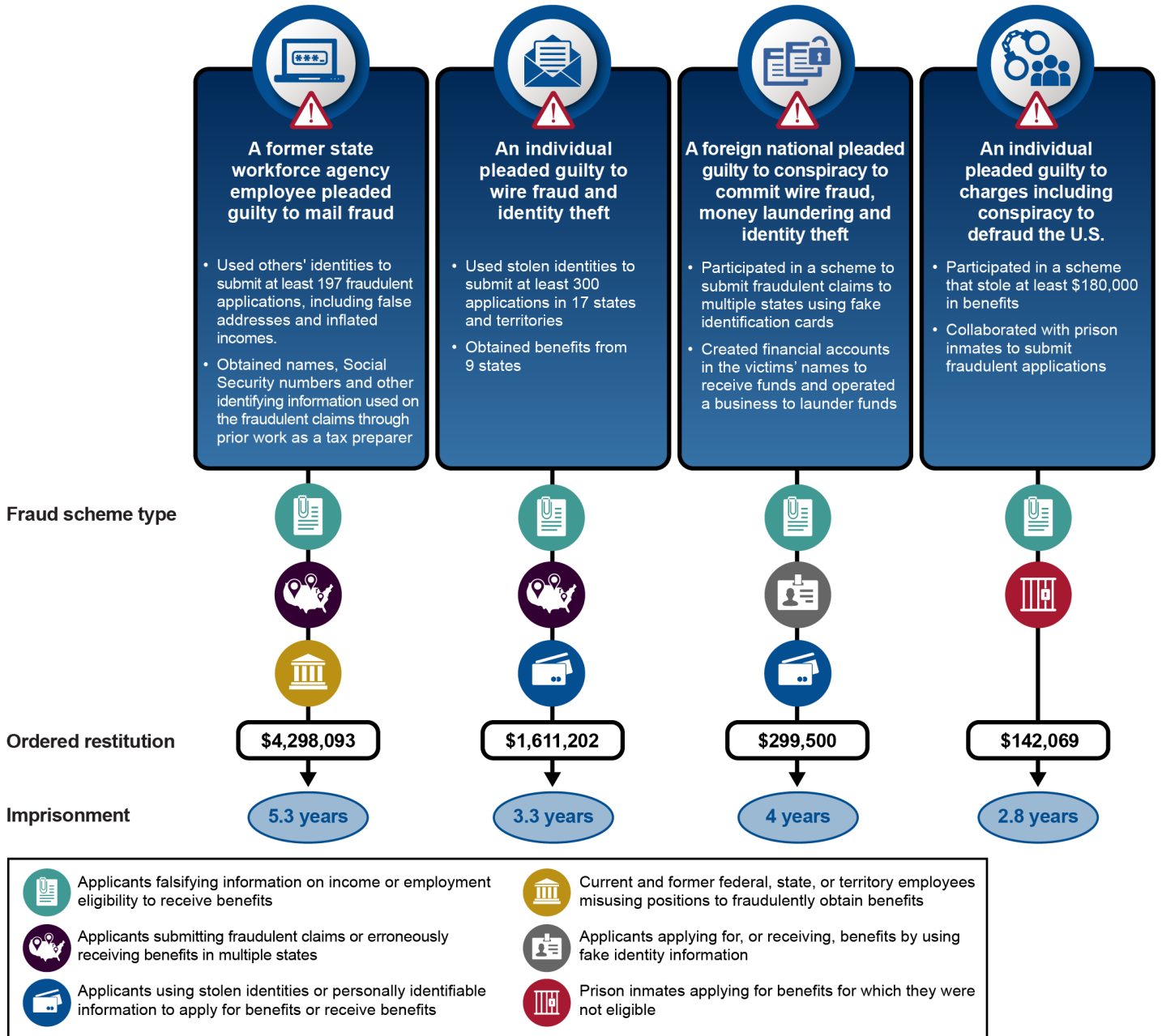
¹⁹[GAO-22-105051](#).

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- applicants falsifying information on income or employment eligibility to receive benefits,
 - applicants using stolen identities or personally identifiable information to apply for benefits or receive benefits,
 - applicants applying for, or receiving, benefits by using fake identity information,
 - applicants submitting fraudulent claims or erroneously receiving benefits in multiple states,
 - prison inmates applying for benefits for which they were not eligible, and
 - current or former federal or state or territory employees' misusing their positions to fraudulently obtain benefits for themselves or others.

Figure 1 provides four specific examples of UI fraud cases along with the outcomes of the court adjudications.

Figure 1: Examples of Court-Adjudicated Unemployment Insurance Cases during the Pandemic and Related Fraud Risks, Charges, Sentences, and Restitution Amounts

Illustrative Examples of Court-Adjudicated Pandemic Unemployment Insurance Resolved Cases



Source: GAO analysis of Department of Justice information and freebird/stock.adobe.com (icons). | GAO-23-106586

Many individuals have already pleaded guilty to federal charges of defrauding UI. Based on our analysis of DOJ public statements and court documentation, we found that from March 2020 through January 13, 2023, at least 380 individuals pleaded guilty to and three individuals were convicted at trial of federal charges of defrauding UI programs. Of the 380 individuals, at least 40 also pleaded guilty to fraud related to other pandemic relief programs.²⁰

The number of individuals or entities facing UI fraud-related charges has grown since March 2020 and will likely continue to increase, as these cases take time to develop.²¹ Based on our analysis of DOJ public statements and court documentation through January 13, 2023, federal charges were pending against at least 240 individuals for attempting to defraud pandemic UI programs.

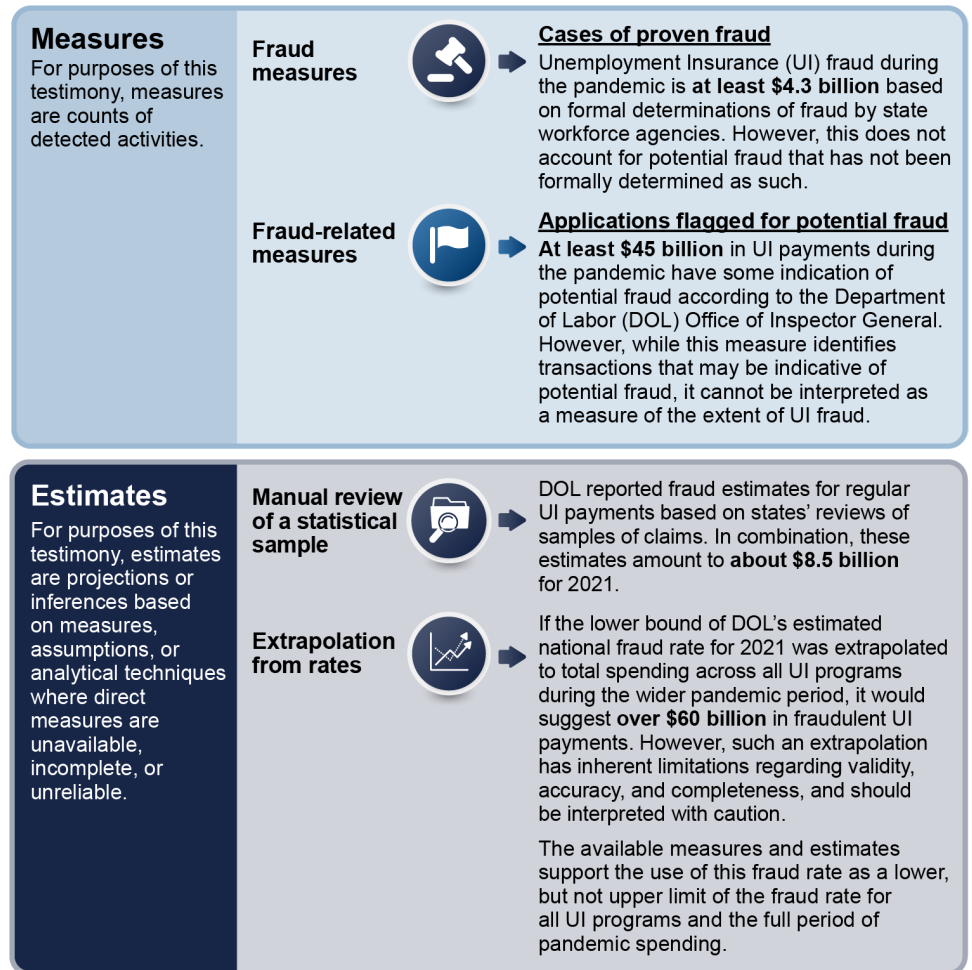
Federal and state entities have produced several measures and estimates of UI fraud during the pandemic that highlight the substantial fraud and potential fraud in UI programs. While each type of measure and estimate has strengths and limitations, as described below, none completely and reliably indicates the extent of fraud in UI programs during the pandemic.

UI fraud during the pandemic is at least \$4.3 billion according to reporting by states from April 2020 through June 2022. This total is based on the amount of payments associated with a formal determination of fraud reported by state workforce agencies. This amount and other similar fraud measures do not account for potential fraud that has not yet been formally determined as such. See figure 2.

²⁰Of the individuals or entities who pleaded guilty to or were convicted at trial, at least 291 had been sentenced as of January 13, 2023. This analysis is limited to the DOJ cases we identified from public sources, which may not include all criminal and civil cases charged by DOJ as of January 13, 2023. This analysis does not include criminal and civil cases charged by states.

²¹Generally, the statute of limitations for mail fraud and wire fraud prosecutions is 5 years (18 U.S.C. § 3282); however, the statute of limitation for prosecutions of mail and wire fraud that affect a financial institution is 10 years (18 U.S.C. § 3293).

Figure 2: Examples and Definitions of Measures and Estimates



Source: GAO, rashadashurov/stock.adobe.com and rawku5/stock.adobe.com (icons). | GAO-23-106586

Reporting on potential fraud, DOL OIG found that at least \$45 billion in UI payments from March 2020 through April 2022 had some indication of fraud in four high risk areas.²² The risk areas were: (1) multi-state claimants, (2) Social Security numbers of the deceased, (3) federal prisoners, and (4) suspicious email accounts. However, some of these flagged transactions may not be fraudulent and not all fraudulent

²²Department of Labor, Office of Inspector General, *Alert Memorandum: Potentially Fraudulent Unemployment Insurance Payments in High Risk Areas Increased to \$45.6 Billion*, Report No. 19-22-005-03-315 (Washington, D.C.: Sept. 21, 2022).

transactions may be flagged. More generally, these types of potential fraud measures can be used to identify transactions that may be indicative of potential fraud. They cannot, though, be interpreted directly as measures of the extent of fraud in the UI programs during the pandemic.

In addition to fraud and fraud-related measures, estimates can be used to approximate the extent of fraud and potential fraud beyond what can be directly counted. No national estimate of UI fraud has been reported that covers all UI programs for the full period of pandemic spending. However, DOL has reported an estimated \$8.5 billion in fraud for regular UI payments during the performance year 2021, covering July 1, 2020, through June 30, 2021. If the lower bound of this fraud rate (7.6 percent) was extrapolated to total spending across all UI programs during the wider pandemic period, it would suggest over \$60 billion in fraudulent UI payments. From our review of the available measures and estimates, we found that the 2021 regular fraud rate served as an approximate lower limit of the fraud rate for all UI programs and the wider period of pandemic spending. The actual amount of fraud in UI programs during the pandemic may be substantially higher than the estimated \$60 billion lower limit.²³

DOL OIG relied on a similar approach when it reported an estimated \$163 billion in pandemic UI payments could have been paid improperly and noted that a significant portion of this total may be attributable to fraud. To complete its improper payment calculation, DOL OIG multiplied DOL's estimated improper payment rate for the regular UI program to all of the pandemic spending.²⁴

Both the DOL OIG estimate of improper payments and our \$60 billion estimate of fraud treat the higher risk PUA program claims as having the same improper payment and fraud rates as the regular UI claims. Therefore, the actual improper payment and fraud totals are likely substantially higher than the estimates reported here. DOL has started an effort to create a national estimate of the improper payment rate for the

²³Extrapolation is a technique that can offer a rough or notional estimate of fraud or potential fraud even if data on a specific measure or rate are unavailable but may have limitations related to validity, accuracy, and completeness.

²⁴U.S. Department of Labor Office of Inspector General, Testimony before the U.S. Senate Committee on Homeland Security and Governmental Affairs, *Pandemic Response and Accountability: Reducing Fraud and Expanding Access to COVID-19 Relief through Effective Oversight*, Number 19-22-003-03-315, March 17, 2022.

PUA program. According to DOL, the outcomes are expected in fiscal year 2023.

The national estimation efforts coordinated by DOL allow for the meaningful combination of state-level estimates. States have also produced separate reviews of their own UI programs, and these reviews have sometimes included individual state estimates. The Pandemic Response Accountability Committee has tracked such estimates and found that 21 states have reported \$58.4 billion in fraud estimates across pandemic programs.²⁵ This total should be interpreted with caution since it does not cover all states and the states it does cover differ in terms of the approaches used, populations assessed, and time periods covered.

Given the significant uncertainty remaining, we continue to study the extent of fraud in UI programs during the COVID-19 pandemic. We plan to develop a more comprehensive estimate, including a lower and upper range, on the total extent of UI fraud during the COVID-19 pandemic.

²⁵See Pandemic Response Accountability Committee (PRAC), *Pandemic Unemployment Insurance: How much has been paid to fraudsters?* (Accessed on February 1, 2023, at <https://www.pandemicoversight.gov/spotlight/unemployment-insurance-fraud>). The CARES Act established the PRAC within the Council of Inspectors General on Integrity and Efficiency, the oversight and coordination body for the Inspector general community. Pub. L. No. 116-136, § 15010(b), 134 Stat. 281, 534 (2000). The PRAC is composed of 21 inspectors general.

While DOL Faced Shortcomings in Addressing Pandemic Fraud Risks, It Has Taken Some Steps to Address Such Risks but Has Not Implemented an Antifraud Strategy

DOL Faced Shortcomings in Addressing Pandemic Fraud Risks

Because of shortcomings in managing risk strategically, including lack of appropriate internal controls, DOL and the states were not adequately prepared to handle UI fraud risks when the pandemic began. In July 2015, we issued *A Framework for Managing Fraud Risks in Federal Programs (Fraud Risk Framework)*.²⁶ This framework provides a comprehensive set of key components and leading practices to help agency managers combat fraud in a strategic, risk-based way. The Fraud Reduction and Data Analytics Act of 2015 (FRDAA) required the Office of Management and Budget (OMB) to establish guidelines for federal agencies to create controls to identify and assess fraud risks and to design and implement anti-fraud control activities.²⁷ The act further required OMB to incorporate the leading practices from the Fraud Risk Framework in the guidelines.²⁸ In its 2016 Circular No. A-123 guidelines, OMB directed agencies to adhere to the Fraud Risk Framework's leading

²⁶GAO, *A Framework for Managing Fraud Risks in Federal Programs*, [GAO-15-593SP](#) (Washington, D.C.: July 28, 2015).

²⁷Pub. L. No. 114-186, 130 Stat. 546 (2016).

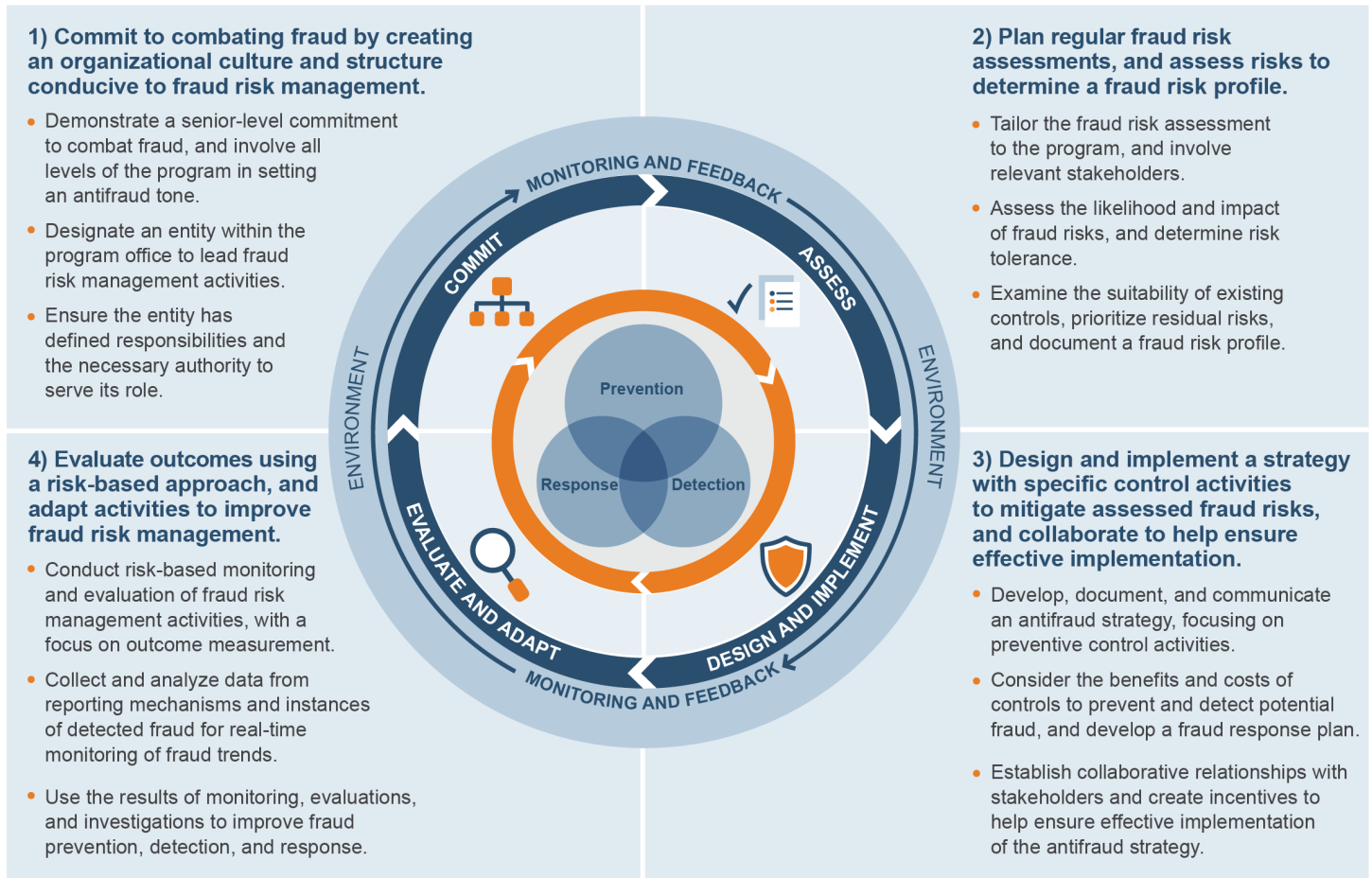
²⁸The Payment Integrity Information Act of 2019 requires these guidelines to remain in effect, subject to modification by OMB as necessary and in consultation with GAO. Pub. L. No. 116-117, § 2a, 134 Stat. 113, 131-132 (2020), codified at 31 U.S.C. § 3357.

practices as part of their efforts to effectively design, implement, and operate an internal control system that addresses fraud risks.²⁹

As shown in figure 3, the Fraud Risk Framework contains four components: (1) commit, (2) assess, (3) design and implement, and (4) evaluate and adapt. Within the four components, there are overarching concepts and leading practices.

²⁹Office of Management and Budget, *Management's Responsibility for Enterprise Risk Management and Internal Control*, OMB Circular No. A-123 (Washington, D.C. July 15, 2016). In October 2022, OMB issued a Controller Alert, which reminded agencies that they must establish financial and administrative controls to identify and assess fraud risks. In addition, OMB reminded agencies that they should adhere to the leading practices in GAO's Fraud Risk Management Framework as part of their efforts to effectively design, implement, and operate an internal control system that addresses fraud risks. OMB, CA-23-03, *Establishing Financial and Administrative Controls to Identify and Assess Fraud Risk* (Oct. 17, 2022).

Figure 3: The Four Components of the Fraud Risk Framework and Selected Leading Practices



Source: GAO. | GAO-23-106586

In response to a 2018 GAO survey of federal agencies regarding their implementation of the FRDAA, DOL stated that it was moderately familiar with the Fraud Risk Framework and characterized its planning and implementation efforts as having started but not mature.³⁰ Had DOL, in conjunction with the states, already been strategically managing fraud

³⁰GAO, *Fraud Risk Management: OMB Should Improve Guidelines and Working-Group Efforts to Support Agencies' Implementation of the Fraud Reduction and Data Analytics Act*, GAO-19-34 (Washington, D.C.: Dec. 4, 2018).

risks, it would have been better positioned to identify and respond to the heightened risks that emerged during the pandemic.

In October 2021, in applying selected leading practices to DOL, we found that the agency had not implemented key aspects of the Fraud Risk Framework.³¹ Specifically, DOL had not clearly assigned defined responsibilities to a dedicated entity for designing and overseeing fraud risk management activities in a strategic manner. DOL also had not comprehensively assessed UI fraud risks in alignment with leading practices identified in the Fraud Risk Framework. Such assessments would provide reasonable assurance that DOL has identified the most significant fraud risks for the regular UI program that will exist after the pandemic.

The DOL OIG has similarly reported significant concerns about the ability of the agency and the state workforce agencies to deploy UI and other program benefits expeditiously while ensuring adequate oversight due to staffing and system resource constraints.³² The DOL OIG further noted that because many states were not prepared, many internal fraud controls were not initially implemented when the pandemic began.

DOL Has Taken Some Steps to Address UI Fraud Risks

DOL has taken some steps during the pandemic to address fraud risks in the UI system. Specifically, DOL has provided state workforce agencies with fraud-related guidance, tools, and funding.

Guidance: DOL provided states with advisory documents containing fraud-related information on various topics covering fraud prevention, detection, and response.

Tools: DOL provided funding for the UI Integrity Center, operated by the National Association of State Workforce Agencies. The UI Integrity Center supports state workforce agencies in adopting and implementing strategies to address fraud in UI programs at no cost to states.

³¹[GAO-22-105051](#).

³²U.S. Department of Labor Office of Inspector General, Testimony before the U.S. Senate Committee on Homeland Security and Governmental Affairs, *Pandemic Response and Accountability: Reducing Fraud and Expanding Access to COVID-19 Relief through Effective Oversight*, Number 19-22-003-03-315, March 17, 2022.

Funding: DOL provided grant opportunities to states, totaling up to about \$865 million, to improve UI systems and processes, including addressing fraud prevention and detection.

Further, DOL continues to invest in identity verification resources. For example, as we previously reported, DOL provided funding to procure and implement an identity verification service, which became available to states in July 2020, according to DOL officials.³³ This service provides access to new datasets to conduct enhanced UI claimant identity verification, which can help prevent payment of fraudulent claims based on false identities. It also contains a cross-match with the Social Security Administration Death Master File to identify the use of a deceased person's Social Security number when filing for benefits. As of October 2022, there were 41 states using the identity verification service, according to DOL officials.

DOL has also collaborated with its OIG to share information on emerging UI fraud issues and coordinate fraud prevention and recovery efforts. According to DOL officials, they meet regularly to discuss emerging UI fraud issues, streamline communication with states, and coordinate fraud prevention and recovery efforts.

DOL Has Not Implemented an Antifraud Strategy

While DOL has taken steps to address UI fraud risks, its approach has not been strategically organized and targeted at prioritized risks. Specifically, we found that it has not designed and implemented an antifraud strategy to guide its actions based on a fraud risk profile in alignment with leading practices in our Fraud Risk Framework.³⁴ We therefore recommended that DOL develop and implement such a strategy that is consistent with leading practices from GAO's Fraud Risk Framework. As of January 2023, this recommendation remains open.

In October 2021, we recommended that DOL assess fraud risks in alignment with the leading practices outlined in the Fraud Risk Framework.³⁵ Specifically, we recommended that DOL

³³[GAO-23-105523](#).

³⁴[GAO-23-105523](#).

³⁵[GAO-22-105051](#).

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1. identify inherent fraud risks facing the UI program,³⁶
 2. assess the likelihood and impact of inherent fraud risks facing the program,
 3. determine fraud risk tolerance for the program,³⁷
 4. examine the suitability of existing fraud controls in the program and prioritize residual fraud risks, and
 5. document the fraud risk profile for the program.

We also recommended in October 2021 that DOL designate a dedicated entity to assess fraud risks to the UI program and document its responsibilities for managing this process. This entity should have, as discussed in the Fraud Risk Framework's first component, clearly defined and documented responsibilities and authority for managing fraud risk assessment and facilitating communication among stakeholders regarding fraud-related issues. In August 2022, DOL officials told us that they are addressing this recommendation.

DOL officials further told us that DOL's Office of Unemployment Insurance in collaboration with DOL's Office of the Chief Financial Officer has begun implementing all of our fraud risk management-related recommendations. These officials further told us that DOL's Office of Unemployment Insurance is currently developing its fraud risk management process, including further identifying and documenting inherent risks, impacts, fraud likelihood, and fraud tolerance in the UI system. In addition, DOL officials stated they are in the process of developing a fraud risk profile for the UI program, in alignment with the leading practices in our Fraud Risk Framework. The UI antifraud strategy we recommended would then be based on the fraud risk profile.

However, DOL's work responding to our recommendations remains incomplete and they remain open. Until DOL completes these efforts expeditiously, it cannot ensure that it is effectively addressing fraud risks, some of which may persist in the regular UI program beyond the pandemic.

³⁶According to federal internal control standards, inherent risk is the risk to an entity prior to considering management's response to the risk (see GAO, *Standards for Internal Control in the Federal Government*, [GAO-14-704G](#) (Washington, D.C.: Sept. 2014)).

³⁷According to federal internal control standards, risk tolerance is the acceptable level of variation in performance relative to the achievement of objectives (see [GAO-14-704G](#)).

DOL Faces Continued UI Improper Payment Problems

The expediting of COVID-19 relief funding exacerbated a continued underlying problem with improper payments in the federal government, including UI, which predated the pandemic. In each of the three years prior to the pandemic, the estimated improper payment rate for UI was above 10 percent.

- In fiscal year 2017, estimated improper payments for UI totaled about \$4.1 billion (estimated improper payment rate of 12.5 percent).
- In fiscal year 2018, estimated improper payments totaled about \$3.7 billion (estimated improper payment rate of 13.1 percent).³⁸
- For fiscal year 2019, estimated improper payments totaled about \$2.9 billion (estimated improper payment rate of 10.6 percent).

Following the inception of the pandemic, DOL reported an increase in the estimated improper payment amounts from about \$8.0 billion (9.2 percent estimated improper payment rate) for fiscal year 2020 to about \$78.1 billion (18.9 percent estimated improper payment rate) for fiscal year 2021.³⁹ For fiscal year 2022, DOL reported estimated improper payments of about \$18.9 billion (22.2 percent estimated improper payment rate). The decline in the fiscal year 2022 amount was due to a significant decrease in UI-related outlays (about \$85 billion) from the fiscal year 2021 level (about \$413 billion) as the pandemic UI programs expired.⁴⁰

We have made a number of government wide recommendations to address improper payment and fraud risks. In our March 2022 testimony before the Senate Committee on Homeland Security and Governmental Affairs, we identified 10 actions that Congress could take to strengthen internal controls and financial and fraud risk management practices

³⁸The improper payment amounts and corresponding rates for fiscal years 2017 and 2018 reflect combined improper payment and unknown payments.

³⁹The president declared the pandemic an emergency in March 2020.

⁴⁰DOL received a modified opinion for its financial statements for fiscal years 2021 and 2022. The modified opinion was made in part because the auditors were unable to obtain sufficient appropriate audit evidence about the completeness of the benefit overpayment receivable for COVID-19 related UI benefits. DOL's auditor made three recommendations in its fiscal year 2022 auditor's report to address the issues related to the modified opinion.

across the government.⁴¹ These matters for congressional consideration remain open. We continue to believe that such actions will increase accountability and transparency in federal spending in both emergency and nonemergency periods. Appendix II provides a list of these matters, while appendix III lists the 19 open recommendations to DOL to improve the UI system.

UI System Added to GAO's High Risk Program

In June 2022, we added the UI system to our High Risk Program because it is in need of transformation.⁴² The system's administrative challenges pose significant risks to service delivery. Long-standing challenges with UI administration and outdated IT systems have affected states' ability to meet the needs of unemployed workers, especially during economic downturns. Such challenges have also contributed to impaired service, declining access, and disparities in benefit distribution. Further, in terms of program integrity, the risk of improper payments, including from fraud, greatly increased during the pandemic and as new UI programs were created, exposing the UI system to significant financial losses.

In our June 2022 report, we recommended that DOL develop and implement a plan for transforming UI that meets GAO's high-risk criteria for transformations. DOL agreed with the recommendation and described actions it is taking to address it, which include creating an UI modernization office. However, many longstanding challenges remain unaddressed that will likely heighten the multiple risks the UI program faces, including not meeting fundamental expectations of serving workers in a timely way and the broader economy and ensuring the responsible stewardship of government funds.

GAO has five criteria for evaluating a program's progress toward removal from the High-Risk List:

1. a demonstrated strong commitment and leadership support to address the risk(s),
2. the capacity (i.e., the people and other resources) to resolve the risks,

⁴¹GAO, *Emergency Relief Funds: Significant Improvements Are Needed to Ensure Transparency and Accountability for COVID-19 and Beyond*, [GAO-22-105715](#) (Washington, D.C.: Mar. 17, 2022). These matters were reiterated in a February 2023 testimony before the House Committee on Oversight and Accountability. GAO, *Emergency Relief Funds: Significant Improvements Are Needed to Address Fraud and Improper Payments*, [GAO-23-106556](#) (Washington, D.C.: Feb. 1, 2023).

⁴²[GAO-22-105162](#).

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3. a corrective action plan that defines root causes, identifies solutions, and provides for substantially completing corrective measures near term, including steps necessary to implement solutions we recommend,
 4. a program instituted to monitor and independently validate the effectiveness and sustainability of corrective measures, and
 5. the ability to demonstrate progress in implementing corrective measures.

We will be providing periodic reports to Congress on DOL's progress in meeting these criteria.

Chairman Smith, Ranking Member Neal, and Members of the Committee, this concludes my prepared statement. I would be pleased to respond to any questions.

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Contact information for our Office of Public Affairs may be found on the last page of this statement.

Appendix I: Related GAO Products

Emergency Relief Funds: Significant Improvements Are Needed to Address Fraud and Improper Payments. [GAO-23-106556](#). Washington, D.C.: February 1, 2023.

Unemployment Insurance: Data Indicate Substantial Levels of Fraud during the Pandemic; DOL Should Implement an Antifraud Strategy. [GAO-23-105523](#). Washington, D.C.: December 22, 2022.

Unemployment Insurance: Opportunities to Address Long-Standing Challenges and Risks. [GAO-106159](#). Washington, D.C.: September 21, 2022.

Unemployment Insurance: Transformation Needed to Address Program Design, Infrastructure, and Integrity Risks. [GAO-22-105162](#). Washington, D.C.: June 7, 2022.

Pandemic Unemployment Assistance: Federal Program Supported Contingent Workers amid Historic Demand, but DOL Should Examine Racial Disparities in Benefit Receipt. [GAO-22-104438](#). Washington, D.C.: June 7, 2022.

Unemployment Insurance: Pandemic Programs Posed Challenges, and DOL Could Better Address Customer Service and Emergency Planning. [GAO-22-104251](#). Washington, D.C.: June 7, 2022.

COVID-19: Current and Future Federal Preparedness Requires Fixes to Improve Health Data and Address Improper Payments. [GAO-22-105397](#). Washington, D.C.: April 27, 2022.

Emergency Relief Funds: Significant Improvements Are Needed to Ensure Transparency and Accountability for COVID-19 and Beyond. [GAO-22-105715](#). Washington, D.C.: March 17, 2022.

COVID-19: Significant Improvements Are Needed for Overseeing Relief Funds and Leading Responses to Public Health Emergencies. [GAO-22-105291](#). Washington, D.C.: January 27, 2022.

COVID-19: Additional Actions Needed to Improve Accountability and Program Effectiveness of Federal Response. [GAO-22-105051](#). Washington, D.C.: October 27, 2021.

COVID-19: Continued Attention Needed to Enhance Federal Preparedness, Response, Service Delivery, and Program Integrity. [GAO-21-551](#). Washington, D.C.: July 19, 2021.

Management Report: Preliminary Information on Potential Racial and Ethnic Disparities in the Receipt of Unemployment Insurance Benefits during the COVID-19 Pandemic. [GAO-21-599R](#). Washington, D.C.: June 17, 2021.

COVID-19: Sustained Federal Action Is Crucial as Pandemic Enters Its Second Year. [GAO-21-387](#). Washington, D.C.: March 31, 2021.

COVID-19: Critical Vaccine Distribution, Supply Chain, Program Integrity, and Other Challenges Require Focused Federal Attention. [GAO-21-265](#). Washington, D.C.: January 28, 2021.

COVID-19: Urgent Actions Needed to Better Ensure an Effective Federal Response. [GAO-21-191](#). Washington, D.C.: November 30, 2020.

COVID-19: Federal Efforts Could Be Strengthened by Timely and Concerted Actions. [GAO-20-701](#). Washington, D.C.: September 21, 2020.

COVID-19: Opportunities to Improve Federal Response and Recovery Efforts. [GAO-20-625](#). Washington, D.C.: June 25, 2020.

Unemployment Insurance: Actions Needed to Ensure Consistent Reporting of Overpayments and Claimants' Compliance with Work Search Requirements. [GAO-18-486](#). Washington, D.C.: August 22, 2018.

Unemployment Insurance: States' Customer Service Challenges and DOL's Related Assistance. [GAO-16-430](#). Washington, D.C.: May 12, 2016.

Unemployment Insurance: States' Reductions in Maximum Benefit Durations Have Implications for Federal Costs. [GAO-15-281](#). Washington, D.C.: April 22, 2015.

Federal Employees' Compensation Act: Case Examples Illustrate Vulnerabilities That Could Result in Improper Payments or Overlapping Benefits. [GAO-13-386](#). Washington, D.C.: April 3, 2013.

Information Technology: Department of Labor Could Further Facilitate Modernization of States' Unemployment Insurance Systems.

[GAO-12-957](#). Washington, D.C.: September 26, 2012.

Income Security: Overlapping Disability and Unemployment Benefits Should Be Evaluated for Potential Savings. [GAO-12-764](#). Washington D.C.: July 31, 2012.

Appendix II: Matters for Congressional Consideration

In a March 2022 testimony before the Senate Committee on Homeland Security and Governmental Affairs, GAO made 10 matters for congressional consideration.¹

1. Congress should pass legislation requiring the Office of Management and Budget (OMB) to provide guidance for agencies to develop plans for internal control that would then immediately be ready for use in, or adaptation for, future emergencies or crises and requiring agencies to report these internal control plans to OMB and Congress.
2. Congress should amend the Payment Integrity Information Act of 2019 to designate all new federal programs making more than \$100 million in payments in any one fiscal year as “susceptible to significant improper payments” for their initial years of operation.
3. Congress should amend the Payment Integrity Information Act of 2019 to reinstate the requirement that agencies report on their antifraud controls and fraud risk management efforts in their annual financial reports.
4. Congress should establish a permanent analytics center of excellence to aid the oversight community in identifying improper payments and fraud.
5. Congress should clarify that (1) chief financial officers (CFO) at CFO Act agencies have oversight responsibility for internal controls over financial reporting and key financial management information that includes spending data and improper payment information; and (2) executive agency internal control assessment, reporting, and audit requirements for key financial management information.
6. Congress should require agency CFOs to (1) submit a statement in agencies’ annual financial reports certifying the reliability of improper payments risk assessments and the validity of improper payment estimates, and describing the actions of the CFO to monitor the development and implementation of any corrective action plans; and (2) approve any methodology that is not designed to produce a statistically valid estimate.

¹GAO, *Emergency Relief Funds: Significant Improvements Are Needed to Ensure Transparency and Accountability for COVID-19 and Beyond*, [GAO-22-105715](#) (Washington, D.C.: Mar. 17, 2022). These matters were reiterated in a February 2023 testimony before the House Committee on Oversight and Accountability. GAO, *Emergency Relief Funds: Significant Improvements Are Needed to Address Fraud and Improper Payments*, [GAO-23-106556](#) (Washington, D.C.: Feb. 1, 2023).

7. Congress should consider legislation to require improper payment information required to be reported under the Payment Integrity Information Act of 2019 to be included in agencies' annual financial reports.
8. Congress should amend the DATA Act to extend the previous requirement for agency inspectors general to review the completeness, timeliness, quality, and accuracy of their respective agency data submissions on a periodic basis.
9. Congress should amend the DATA Act to clarify the responsibilities and authorities of OMB and Department of the Treasury for ensuring the quality of data available on USAspending.gov.
10. Congress should amend the Social Security Act to accelerate and make permanent the requirement for the Social Security Administration to share its full death data with the Department of the Treasury's Do Not Pay working system.

Appendix III: Open Unemployment Insurance-Related Recommendations to the Department of Labor

Table 1 lists GAO's 19 open recommendations to the Department of Labor to improve the Unemployment Insurance system. The first five recommendations listed warrant priority attention from heads of key departments or agencies because implementation could:

- save large amounts of money,
- improve congressional and executive branch decision making on major issues,
- minimize mismanagement, fraud, and abuse, or
- ensure that programs comply with laws and funds are legally spent.

Table 1: GAO's 19 Open Recommendations to the Department of Labor (DOL) to Improve the Unemployment Insurance (UI) System, Open as of January 25, 2023

No.	Report Number, Date	Recommendation to DOL
1	GAO-22-104438 , June 7, 2022	(priority) The Secretary of Labor should ensure the Office of Unemployment Insurance examines and publicly reports on the extent and potential causes of racial and ethnic inequities in the receipt of Pandemic Unemployment Assistance (PUA) benefits, as part of the agency's efforts to modernize UI and improve equity in the system. The report should also address whether there is a need to examine racial, ethnic, or other inequities in regular UI benefit receipt, based on the PUA findings.
2	GAO-22-105051 , October 27, 2021	(priority) The Secretary of Labor should examine the suitability of existing fraud controls in the UI program and prioritize residual fraud risks.
3	GAO-21-191 , November 30, 2020	(priority) The Secretary of Labor should ensure the Office of Unemployment Insurance pursues options to report the actual number of distinct individuals claiming benefits, such as by collecting these already available data from states, starting from January 2020 onward.
4	GAO-18-486 , August 22, 2018	(priority) The Assistant Secretary of DOL's Employment and Training Administration should provide states with information about its determination that the use of state formal warning policies is no longer permissible under federal law.
5	GAO-18-486 , August 22, 2018	(priority) The Assistant Secretary of DOL's Employment and Training Administration should clarify information on work search verification requirements in its revised Benefit Accuracy Measurement procedures. The revised procedures should include an explanation of what DOL considers to be sufficient verification of claimants' work search activities.
6	GAO-23-105523 , December 22, 2022	The Secretary of Labor should design and implement an antifraud strategy for UI based on a fraud risk profile consistent with leading practices as provided in the Fraud Risk Framework.
7	GAO-22-105162 , June 7, 2022	The Secretary of Labor should develop and execute a transformation plan that meets GAO's high risk criteria for transformation; the plan should outline coordinated and sustained actions to address known issues related to providing effective service and mitigating financial risk, including ways to demonstrate improvements. Planned actions may include addressing audit recommendations, and determining whether legislative changes are needed, as appropriate. Planned actions may also include achieving quantifiable results in reducing improper payment rates, including those related to fraud; improving efficiency in claims processing and restoring pre-pandemic payment timeliness levels; better reaching current worker populations; and enhancing equity in benefit distribution.

**Appendix III: Open Unemployment Insurance-
Related Recommendations to the Department
of Labor**

No.	Report Number, Date	Recommendation to DOL
8	GAO-22-104438 , June 7, 2022	The Secretary of Labor should study and advise the Congress and other policymakers on the costs, benefits, and risks of various options to systematically support self-employed and contingent workers during periods of involuntary unemployment outside of declared disasters, including considering options' feasibility and approach to fraud prevention.
9	GAO-22-104251 , June 7, 2022	The Secretary of Labor should ensure the Office of Unemployment Insurance assesses lessons learned from the pandemic to inform its future disaster responses efforts and support the Congress on ways to address future emergencies.
10	GAO-22-105051 , October 27, 2021	The Secretary of Labor should designate a dedicated entity and document its responsibilities for managing the process of assessing fraud risks to the UI program, consistent with leading practices as provided in our Fraud Risk Framework. This entity should have, among other things, clearly defined and documented responsibilities and authority for managing fraud risk assessments and for facilitating communication among stakeholders regarding fraud-related issues.
11	GAO-22-105051 , October 27, 2021	The Secretary of Labor should identify inherent fraud risks facing the UI program.
12	GAO-22-105051 , October 27, 2021	The Secretary of Labor should assess the likelihood and impact of inherent fraud risks facing the UI program.
13	GAO-22-105051 , October 27, 2021	The Secretary of Labor should determine fraud risk tolerance for the UI program.
14	GAO-22-105051 , October 27, 2021	The Secretary of Labor should document the fraud risk profile for the UI program.
15	GAO-21-387 , March 31, 2021	The Secretary of Labor should ensure the Office of Unemployment Insurance collects data from states on the amount of overpayments waived in the PUA program, similar to the regular UI program.*
16	GAO-21-265 , January 28, 2021	The Secretary of Labor should ensure the Office of Unemployment Insurance collects data from states on the amount of overpayments recovered in the PUA program, similar to the regular UI program.*
17	GAO-18-633 , September 4, 2018	The Secretary of Labor should update agency guidelines to ensure that it clearly informs states about the range of allowable profiling approaches. ^a
18	GAO-18-486 , August 22, 2018	The Assistant Secretary of DOL's Employment and Training Administration should monitor states' efforts to discontinue the use of formal warning policies.
19	GAO-18-486 , August 22, 2018	The Assistant Secretary of DOL's Employment and Training Administration should monitor states' compliance with the clarified work search verification requirements.

*This recommendation is partially implemented.

Source: GAO. | GAO-23-106586

^aSince 1994, states have been required by law to develop and use profiling systems to identify UI claimants who are likely to exhaust their benefits, and to refer such claimants to reemployment services (Pub. L. No. 103-152, § 4, 107 Stat. 1516, 1517 (1993), codified at 42 U.S.C. § 503(j)). These claimants must generally participate in reemployment services as a condition of eligibility for UI benefits. In our September 2018 report, we found that state officials differed in their awareness of available options for developing profiling systems.

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