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## Joint Legislative Audit Committee

Wednesday, Nov. 8, 2023  
10 a.m.  
411 South

### Department of Workforce Development Testimony on Proposed Audit of Unemployment Insurance Fraud and Investigation Activities

Thank you Chair Wimberger, Chair Wittke, and committee members for inviting me here today. My name is Amy Pechacek. I am the Secretary-designee for the Department of Workforce Development (DWD). I look forward to continuing DWD's work with the Legislative Audit Bureau (LAB) to learn more about how the department can build upon its efforts to prevent, detect, and investigate unemployment insurance (UI) fraud.

At DWD, we take the integrity, customer service, and accountability of our unemployment insurance system very seriously. For me, these matters are both professional and personal. Before working in the Evers administration, my career focused on public sector risk management, fraud detection, and investigation of white-collar crime. So, it is an honor for me to be here today and share with you that Wisconsin is recognized as a national leader in combating fraud, and we continue to innovate with new tools and tactics.

DWD is charged with building and strengthening Wisconsin's workforce in the 21<sup>st</sup> century and beyond. In addition to administering the state's unemployment insurance program, DWD offers a wide variety of employment programs to connect employers with job seekers, secure jobs for Wisconsinites with disabilities, administer the state's Worker's Compensation insurance program, and protect and enforce worker's rights.

#### Wisconsin's Current Economic Momentum

Currently, Wisconsin's economy is on a winning streak. We've broken our own record high for the number of jobs three times this year with total nonfarm jobs now at more than 3 million. Meanwhile, our unemployment rate remains at historically low levels and our labor force participation rate now stands a full 3 percentage points above the national average. For the purposes of our discussion today, it's also important to emphasize that initial and continuing weekly unemployment insurance claims continue near seasonal historic lows.

#### Modernization Efforts Fight Fraud, Overcome Pandemic Challenges

During the COVID-19 pandemic, UI fraud issues gained national attention as states including Wisconsin administered new federal programs and delivered unprecedented payments to Americans in desperate need of immediate economic relief.

When I arrived at DWD, I was shocked to find these payments were being administered through a Nixon-era, COBOL-based mainframe system. Facing a backlog of hundreds of thousands of unpaid unemployment insurance claims, DWD contracted with industry leader Google Cloud Professional Services (Google) to develop comprehensive predictive analytics models so that DWD could resolve the pending UI claims.

The steps we took at that critical moment in time laid the groundwork for the increasingly sophisticated methods and technologies we are deploying to secure the integrity of our UI program today. And the numbers bear us out. As noted in UI's 2023 Fraud Report, of the \$344.5 million UI payments made in 2022, 0.4% were found to be fraud overpayments. In 2021, of the \$2.48 billion UI payments, 1.2% were found to be

fraud overpayments. In 2020, of the \$4.84 billion UI payments, 0.5% were found to be fraud overpayments. Meanwhile, we've gone from the hundreds of thousands of backlogged UI claims during the pandemic to ranking 7th in the nation in terms of UI claim processing timeliness in 2023.

As many of you know, we are now two years into a four-year, nationally recognized modernization of our UI system. That modernization includes the aggressive pursuit of competitive federal grants and technical assistance to fight fraud and secure public trust.

To address the points identified in the scoping proposal, I'd like to share more about the impact of our recent initiatives, ongoing staff activities, and engagement with partners to detect and combat fraud. Additionally, I will highlight the agency's efforts to provide transparency into UI operations, including DWD's full cooperation with previous audits.

## **U.S. Department of Labor Tiger Teams Award Drives Best Practices**

In August 2021, Wisconsin was one of the first states to proactively apply for technical assistance through the U.S. Department of Labor's Tiger Teams initiative to help identify and fund additional process improvements to speed benefit delivery, improve access, and fight fraud.

The Tiger Team (a team of specialists who address specific goals or problems) assessed Wisconsin's systems and processes and worked with UI Division staff to develop several short-term, high-impact project ideas. These included an identification proofing solution, development of a knowledge base tool to help UI staff find relevant resources, and participation in a national data hub project that I'll explain in further detail.

The partnership with U.S. DOL has resulted in the adoption of a variety of best practices and encouraged UI Division staff to implement innovative approaches that minimize fraudulent overpayments.

One example of the division's innovative prevention methods is IP Blocking & reCAPTCHA implementation, which blocks initial and weekly claims originating from foreign IP addresses. DWD also incorporated additional fraud detection services from LexisNexis called ThreatMetrix and Email Risk Assessment for new users. These services establish the validity of the digital identity of a user, leverage a large repository of digital identity data, and provide a scoring system to determine the likelihood of fraudulent activity.

## **Integrity Data Hub Participation Brings Expanded Cross-Matching Tools**

As I mentioned, Wisconsin's participation in the National Association of State Workforce Agencies' Integrity Data Hub stemmed from the Tiger Teams initiative and began in August 2022. The data hub program provides states with cross-matching verification options for identifying potential unemployment fraud and improper payments.

The additional fraud identification tools now utilized through the data hub include:

- The Suspicious Actor Repository, which allows states to compare UI claims against a list of suspicious claims from other states.
- A database of suspicious email domains.
- A database of foreign IP addresses.
- Data analysis tools that allow states to compare claims to national data and conduct cross-state validation checks.
- A multistate database of UI claims data. A centralized identity verification service.
- The Fraud Alert System, which allows states to share information about new fraud schemes.
- Bank account verification, which enables states to validate bank account ownership and status.

## **UI Division Staff Employ Extensive Cross-Matching Methods**

The data hub fraud detection tools complement other cross-matching methods employed by the UI Division, including:

- The Quarterly Wage Cross-Match and the Interstate Wage Record Cross-Match, which compare benefit payment records with quarterly wage records submitted by in-state and out-of-state employers to verify that wages are properly reported on unemployment claims.
- The Inmate Cross-Match, which consists of two cross-match programs: one that compares benefit payment records to incarceration records for all of Wisconsin's county jails and prisons, and a second that compares benefit payment records to incarceration records for facilities nationwide.
- The Wisconsin and National New Hire Cross-Match, which uses new hire and wage data reported by employers as well as federal wage data from the National Directory of New Hires to detect employees who are newly hired, rehired, or have returned to work after a separation from employment.
- The Vital Statistics (Death Records) Cross-Match, which uses records of deaths in Wisconsin provided by the Department of Health Services (DHS) to detect if UI claims continue to be filed after a claimant is deceased.
- The Social Security Disability Insurance (SSDI) Cross-Match, which compares individuals currently listed as receiving SSDI with claimants filing initial and weekly unemployment claims.

## **Additional Verification, Recovery, and Staffing Strategies**

Every week, UI sends wage verification notices to employers to confirm the wages reported by claimants. Wage verification gives employers the opportunity to check reported wages and to raise any other potential eligibility issues.

DWD's UI staff are instrumental in carrying out these strategies using modern technology to prevent and detect fraudulent overpayments. Antifraud efforts are largely embedded within the entire UI Division's day-to-day operations and the division employs 122 staff members that investigate fraud.

Fraud debts are not dischargeable in bankruptcy, so the UI Division's attorneys file adversary petitions to dispute discharge of the debt and file claims against the assets of the debtor. The division may also issue levies against wages, bank accounts, or any property of the debtor. UI debt collectors use a financial record matching program to identify the bank accounts of delinquent UI debtors.

Other successful recovery tools include in-state and out-of-state benefit offsets that withhold UI benefits from claimants until the overpayment is repaid. Furthermore, the Interstate Reciprocal Overpayment Recovery Arrangement (IRORA) allows unemployment benefits paid in another state to be routed and applied to the overpayment in Wisconsin.

## **Innovation, Strategic Implementation Help Wisconsin Outperform Other States**

The agency's dedicated staff and various innovative fraud detection tools are successful in identifying overpayments related to fraud. Wisconsin outpaces neighboring states in recovering overpayments with a rate of 75.7%. Wisconsin also ranked well above the national overpayment recovery rate of 32.3% in 2022. According to an internal UI longitudinal state study spanning a 10-year period, 83% of fraud and 80% of non-fraud overpayments are collected. Wisconsin outperforms other states largely because DWD proactively implements tools that become available to recover overpayments.

## **Complex Cases and Cross-Jurisdictional Responses**

The COVID-19 pandemic led to a notable increase in the complexity of UI fraud attempts. In recent years, investigations to determine whether fraud has occurred have involved the cooperation of multiple public and/or private entities. To date, the UI Division's efforts have resolved numerous complex claims investigations filed during the COVID-19 pandemic. As identified in DWD's Fraud Report to the Unemployment Insurance Advisory Council earlier this year, during 2022, DWD collected approximately \$8.4 million of fraud overpayments.

Many of the UI Division staff have previous law enforcement experience, which is invaluable in investigating complex fraud cases. These professionals pursue criminal prosecution in cases of egregious fraudulent

benefit activity and work cooperatively with county district attorneys, the Wisconsin Department of Justice (DOJ), federal tax enforcement agencies (FBI, IRS), and federal prosecutors to determine which cases should be referred for prosecution.

### **Successful Audit Cooperation**

Beyond the many innovative strategies and proactive approaches I have shared today, I want to emphasize DWD's commitment to transparency and cooperation. The department has cooperated with nine UI-related audits since December 2020, including two voluntary audits of the Unemployment Reserve Fund. Since December 2020, DWD has dedicated significant staff time to LAB's audits solely related to unemployment insurance. DWD's active participation in these audits further demonstrates the department's commitment to the integrity of the UI program and to combating fraud.

Looking ahead to the proposed audit, DWD welcomes opportunities to improve its antifraud efforts and implement best practices. I am happy to provide more details on the items LAB mentioned in its scoping statement that may be helpful to the committee as they determine the scope of this audit.

I hope you find this information about DWD's current efforts to prevent, detect, and investigate fraud helpful. Again, I look forward to working with the Legislative Audit Bureau to further improve the integrity of Wisconsin's unemployment insurance program.

Thank you for the opportunity to provide this information. I am happy to answer any questions.

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# Joint Legislative Audit Committee Public Hearing

Wisconsin Department of Workforce Development  
Nov. 8, 2023 | 10am | Wisconsin State Capitol



# Amy Pechacek

Secretary-designee,  
Wisconsin Department of  
Workforce Development

**65.8%**

Labor Force  
Participation

Record High  
**3M+**

Nonfarm Jobs  
3 months in  
a row!

**3.1%**

Low  
Unemployment



# Modernization Efforts Fight Fraud, Overcome Pandemic Challenges







## U.S. Department of Labor Tiger Teams Award Drives Best Practices



# Integrity Data Hub Brings Expanded Cross-Matching Tools



# UI Division Staff Employ Extensive Cross-Matching Methods



# Additional Verification, Recovery, and Staffing Strategies

# WISCONSIN UNEMPLOYMENT INSURANCE

2023

✓ Integrity

✓ Customer Service

✓ Accountability

**FRAUD REPORT TO THE  
UNEMPLOYMENT INSURANCE  
ADVISORY COUNCIL**



# Complex Cases and Cross-Jurisdictional Responses



# Successful Audit Cooperation



Questions?





**Thank You**



Testimony of Melissa Hughes - Secretary and CEO  
Wisconsin Economic Development Corporation  
Joint Legislative Audit Committee  
November 8, 2023

Thank you, Senator Wimberger, Representative Wittke, and members of the Joint Legislative Audit Committee for the opportunity today to discuss the Legislative Audit Bureau's biennial financial and programmatic audit of the Wisconsin Economic Development Corporation (WEDC), Audit 23-11.

I am joined by WEDC's Deputy Secretary and Chief Operating Officer Sam Ridders, Chief Financial Officer Khadija Mims and Chief Legal Officer Jennifer Campbell. We look forward to discussing the recommendations made in the audit and our corresponding action items for each of them.

Continuous improvement defines WEDC as an organization. I would like to thank WEDC's staff for their efforts as part of the audit process and for their ongoing commitment to the highest levels of transparency, accountability, and operational excellence. The team immediately remedied LAB's discovery that the WEDC website did not contain certain board agendas and meeting minutes. In addition, WEDC is committed to working with LAB to ensure the accuracy of data presented in the Annual Report on Economic Development and its online database.

I am pleased to note that the current audit contains no findings related to financial management, underwriting, procurement or other issues that have been highlighted in previous LAB reports.

WEDC's financial reporting continues to be strong. An independent audit of WEDC's Fiscal Year 2022 financial statements conducted by Sikich LLP resulted in a clean audit opinion and found no material weaknesses in our financial reporting. Additionally, for the tenth consecutive year, WEDC has received the Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers' Association of the United States and Canada. This certificate is the highest form of recognition in governmental accounting and financial reporting. WEDC also received the GFOA's Distinguished Budget Presentation Award for the first time earlier this year. That award recognizes clarity and transparency in effective budget presentation.

Finally, last year's annual audit of the Electronics and Information Technology Manufacturing Zone (EITMZ) program, Audit 22-24, contained no recommendations – which reflects that we have successfully implemented all of LAB's recommendations related to administration of that program. All of this reaffirms what I said at the outset: WEDC is an organization that embraces continuous improvement, and we view the LAB biennial audit as an opportunity to continue to learn and adapt.

**LOOK FORWARD** ➤

The LAB released its audit of WEDC on August 30. On September 12, WEDC's Audit and Budget Committee met to receive the audit and to schedule an in-depth discussion of its findings. The committee will meet on November 14, to review management's response to the LAB recommendations. Once approved, WEDC is scheduled to bring the committee's action to the full WEDC Board of Directors on November 28, and we will submit our formal response to JLAC on or before December 6, 2023.

At this time, I'd like to make a few comments and would then welcome any questions the committee may have.

When I talk with businesses in Wisconsin interested in expanding their operations, and businesses interested in coming to Wisconsin, their focus is on understanding if their business will succeed here for the long term. Businesses are making twenty- and fifty-year decisions. They are focused on access to infrastructure, like power and water. They are focused on time – how long before their operation can be up and running. They are focused on the pipeline of the workforce, and understanding how Wisconsin is investing in educating and preparing that future workforce. The businesses I meet with and visit every day are eager to seize the opportunities the market is presenting.

#### Enterprise Zone Tax Credits

Under Wis. Stat. 238.399 and the accompanying DOR statutes, which govern the Enterprise Zone Tax Credit program, tax credits to companies are based on a percentage of "wages paid to full-time employees for services that are performed in an enterprise zone."

Currently, WEDC requires businesses seeking to receive enterprise zone tax credits to report and seek credits only for those employees whose worksite is based in Wisconsin. Despite this requirement, LAB audits have raised concerns that a business might receive tax credits for Enterprise Zone employees working outside the state of Wisconsin, because the LAB asserts that the current WEDC requirement does not guarantee that an employee has remained in Wisconsin for the entire reporting period. For example, if an employee travels out of state for work, LAB's position is that the employer should not receive tax credits for any wages paid to the worker during that time.

Our analysis leads us to conclude that a statutory language change is required to alleviate LAB's concerns. Given that the modern workforce will continue to be increasingly mobile, we believe that any attempt to require companies to verify that an employee was only paid for work performed in the state will be unduly burdensome to the businesses. We are concerned that this additional regulation may discourage businesses from seeking assistance under the Enterprise Zone Tax Credit program, which is aimed at attracting and retaining businesses. We have raised this issue with the legislative members on our board and will continue to work with them on a proposed solution.

#### Job Creation and Tax Credit Programs

The audit includes findings and recommendations regarding the evaluation of the performance of tax credit programs that provide incentives for job creation and capital investment.

When a company is seeking to locate or expand in Wisconsin, we work to support their growth by offering tax credits as incentives for them to create jobs and make capital investments. In many cases, these incentives enable companies to stretch their investments a little further and raise their goals a little higher by mitigating some of their risk and allowing them to strengthen their capital reserves.

When a company enters into a tax credit contract with WEDC they agree to create a specific number of jobs and invest a specific amount of money, usually over a three-year period. This is followed by a two-year maintenance period, where the company must maintain the number of jobs it created. Under current law, the company must create at least one job for every year it receives tax credits.

All of Wisconsin's tax credit programs are performance-based. WEDC only awards tax credits for jobs created and retained and for approved capital expenditures. If a business does not create or retain the jobs identified in the contract, or if the investments are not made, WEDC does not award the credits, and no payments are made to the business.

In today's environment, with nearly three jobs available in Wisconsin for every jobseeker, companies looking to expand are cautious about committing to even modest job creation requirements. Indeed, many companies are aiming to make investments that allow them to increase productivity without having to bring on more workers.

For those companies, current law does not allow them access to tax incentives. Senator Feyen and Representative Armstrong, who are members of the WEDC Board, have introduced an update to this program that would account for the workforce challenges facing Wisconsin businesses, while still providing incentives for investments to keep Wisconsin businesses competitive in the global marketplace.

In closing, I want to thank the committee for this opportunity to discuss the audit with you.

WEDC is committed to responsibly investing taxpayer dollars to create an economy where every person and community can thrive. WEDC's objective is to look forward – to anticipate and respond to our state's economic needs and to assist businesses and communities so Wisconsin remains a great place to live, work, and raise our families.

Today, our state is experiencing record growth, including the lowest unemployment rate in recent history, one of the highest labor participation rates in the nation, and the greatest number of non-farm employees at work in our state's history. We continue to set records for exports – because around the world, "Made in Wisconsin" is synonymous with quality. Wisconsin's economy continues to expand and excel – whether it is in the fields of advanced manufacturing, biohealth technology, rural innovation, or dozens of other areas.

Again, thank you for giving us the opportunity to be here today. We welcome any questions the committee may have.