September 17, 2026

MEMORANDUM FOR: MAREK LACO
Acting Assistant Secretary
for Employment and Training

FROM: LAURA B. NICOLOSI
Assistant Inspector General
for Audit

SUBJECT: **Alert Memorandum:** Fictitious Employer Schemes Pose a Persistent and Escalating Fraud Threat to the Unemployment Insurance Program
Report Number: 19-26-004-03-315

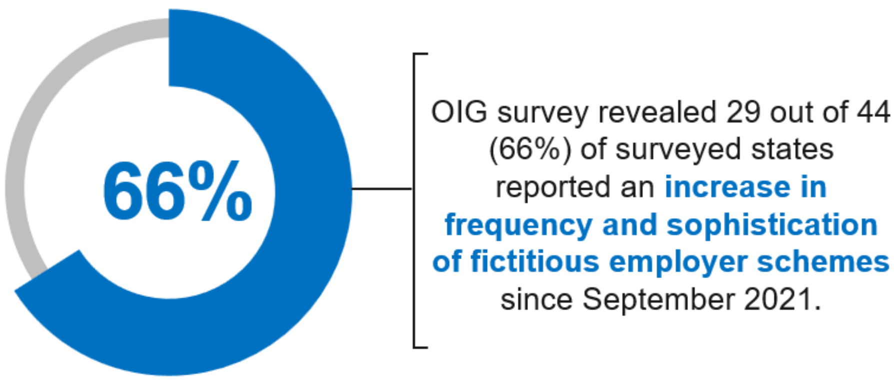
The purpose of this memorandum is to alert the Employment and Training Administration (ETA) to urgent fraud concerns regarding fictitious employer schemes in the unemployment insurance (UI) program that require immediate attention. Specifically, the U.S. Department of Labor (DOL or Department) Office of Inspector General (OIG) has identified through investigations, audits, and analyses of federal and state workforce agency[1] (state) data that fictitious employer schemes in the UI program have grown in frequency and sophistication. Since January 2024, the OIG has investigated fictitious employer schemes involving over $60.5 million in stolen federal and state UI funds. ETA and states are aware of fictitious employer schemes and have taken significant steps to combat them. However, we assess that without additional action, these schemes will likely continue to grow, significantly risking the continued misuse of taxpayer dollars.

During an ongoing audit,[2] 42 of 45 surveyed states (93 percent) reported that UI fraud methods have become more sophisticated since federal pandemic UI programs came to an end in September 2021. A follow-up survey further found

[1] This report uses “state” to refer to the body that administers the UI program within the state, district, or territory. For the 50 states, as well as the U.S. Virgin Islands, the Commonwealth of Puerto Rico, and the District of Columbia, that administrative body is a state workforce agency. Therefore, there are 53 state workforce agencies.
[2] The engagement letter for the OIG’s audit, titled COVID-19: Coronavirus Aid, Relief, and Economic Security (CARES) Act UI Programs Results, is available at: https://oig.dol.gov/public/oaprojects/Audit%20of%20COVID-19%20CARES%20Act%20UI%20ProgramsEngagement%20Ltr_012626.pdf

that 29 of 44 surveyed states (66 percent) reported an increase in both the frequency and sophistication of fictitious employer schemes over the same period. These self-reported survey findings are corroborated in part by our independent data analysis, discussed below, which found that states paid approximately $5.3 million in benefits on potentially fraudulent UI claims associated with Employer Identification Numbers (EIN) reported as belonging to fictitious employers.[3] These funds are intended to support the needs of program recipients and should be recovered as appropriate and put to better use (see Exhibit).[4] Figure 1 illustrates the survey results on the increased frequency and sophistication of fictitious employer schemes.

Figure 1: Rise in Fictitious Employer Schemes Since September 2021



Source: Survey responses received from 44 states

The OIG did not perform this work under Generally Accepted Government Auditing Standards; however, we followed our internal procedures to ensure independence, due professional care, quality assurance, and the accuracy of the information presented. This memorandum identifies vulnerabilities that enable fictitious employer fraud and recommends targeted, risk-based actions for ETA to strengthen states' prevention and detection efforts while preserving timely access to benefits for legitimate claimants.

Fictitious Employer Schemes Are a Growing Threat to UI Program Integrity

During the COVID-19 pandemic, fraud attacks using stolen and synthetic identities against state UI programs increased significantly. These attacks against and risks to the UI program did not end with the pandemic. Domestic and international criminal organizations continue to target the UI system with

[3] Not all of these claims are necessarily fraudulent, as some may reflect legitimate employment or false positives in the matching process.
[4] As defined by the Inspector General Act of 1978, as amended, "funds for better use" means funds that could be used more efficiently or achieve greater program effectiveness if management took certain actions. These actions include reduction in future outlays and deobligation of funds from programs or operations.

sophisticated and evolving fraud schemes. Fictitious employer schemes are one example of the continuing risks to the program.

Fictitious employer schemes involve creating companies that exist only on paper, with no actual employees or business operations, for the purpose of reporting false wages and filing fraudulent UI claims. These schemes tend to be large and complex, which can result in high amounts of benefits paid if the scheme is not detected quickly.

Fictitious employer schemes take advantage of vulnerabilities in the UI system, such as weaknesses in verifying the authenticity of UI claimants' employment records. States rely on employer-reported wages earned or time worked to determine benefit eligibility. To manipulate the employer registration process, an individual or a group creates a company using false documentation—including employee paystubs, W-2s, quarterly tax reports, and annual tax returns—to give the appearance that the company is legitimate. The criminals perpetrating this fraud then file UI benefit claims using the fictitious company name, which triggers benefits to be paid by the state. These coordinated attacks often utilize synthetic identities and automated systems to overwhelm agency defenses.

This type of fraud is not a new phenomenon. In a 2015 Investigative Advisory Report,[5] the OIG identified fictitious employer schemes as one of the four primary methods used by criminals to defraud the UI system. The report highlighted how these operations exploit systemic weaknesses.

As the primary federal law enforcement agency responsible for oversight of the UI program, we are concerned that fictitious employer schemes are growing. Both domestic and international bad actors target the UI system. Prior to the pandemic, the threat came mostly from domestic identity thieves. During the pandemic, domestic and foreign cyber-enabled bad actors gained access to the UI system. As the pandemic-era programs ended, these domestic and foreign actors shifted to fictitious employer schemes. Over time, lower-level fraudsters have been able to graduate to more sophisticated schemes. These schemes involve the use of automated systems, including AI-driven bots, to file fraudulent claims at scale.

ETA and States Have Taken Steps to Address These Schemes

ETA and states have implemented many strategies to address fictitious employer schemes. According to ETA, it has taken a three-pronged approach: (1) holding states accountable for reporting their fraud risk mitigation strategies;

[5] Investigative Advisory Report: Weaknesses Contributing to Fraud in the Unemployment Insurance Program, Report No. 50-15-001-03-315 (July 24, 2015), available at: https://www.oig.dol.gov/public/reports/oa/2015/50-15-001-03-315.pdf

(2) strategically investing in systemwide tools; and (3) organizing events for states to share risk mitigation strategies and lessons learned.

To hold states accountable, ETA requires states to provide their plans to strengthen program integrity, including fictitious employer schemes. Specifically, in ETA's Fiscal Year 2024 guidance to states on their State Quality Service Plans,[6] ETA began requiring states to provide their plans to strengthen program integrity, including activities and plans to identify and prevent fictitious employer schemes.[7] Furthermore, ETA requires states to report overpayment amounts detected through multi-claimant scheme systems, including Fictitious Employer Detection Systems. In August 2021, ETA directed states to report any suspected fraud involving fictitious employer schemes to the OIG, regardless of the dollar amount, unlike certain other categories of UI fraud, which carry a reporting threshold.[8]

Additionally, ETA has invested in the UI Integrity Center to provide states with systemwide tools to prevent and detect fraud, including fictitious employer schemes. The UI Integrity Center provides resources, tools, and UI program training to help states implement strategies that strengthen program integrity, address fraud, reduce improper payments, and improve overpayment recovery. The UI Integrity Center also operates the UI Integrity Data Hub (IDH), which provides states with cross-matching, fraud alerting, and data analysis capabilities.

In September 2024, ETA piloted the Employer Data Module to the IDH. The Employer Data Module allows participating states to compare employer registration data against alerts and records in the Fictitious Employer Repository, which collects and stores known fictitious employer data from schemes identified by states, returning real-time results for state review and investigation. As of March 2026, a total of 29 states use the Employer Data Module, and as of May 2026, 33 states have reported EINs to the Fictitious Employer Repository.

[6] A State Quality Service Plan is the state's UI performance management and service plan. It represents an approach to the UI performance management and planning process that allows for an exchange of information between federal and state partners to enhance the UI program's ability to reflect their joint commitment to performance excellence and customer-centered services. The State Quality Service Plan is the principal vehicle that state UI programs use to plan, record, and manage improvement efforts.

[7] Unemployment Insurance Program Letter No. 09-23, Additional Planning Guidance for the Fiscal Year (FY) 2024 Unemployment Insurance (UI) State Quality Service Plan (SQSP) (June 30, 2023), available at: https://www.dol.gov/sites/dolgov/files/ETA/advisories/UIPL/2023/UIPL%2009-23/UIPL%2009-23.pdf

[8] Unemployment Insurance Program Letter No. 04-17, Change 1, Requirement for States to Refer Allegations of Unemployment Compensation (UC) Fraud, Waste, Abuse, Mismanagement, or Misconduct to the Department of Labor's (Department) Office of Inspector General's (DOL-OIG) and to Disclose Information Related to the Coronavirus Aid, Relief, and Economic Security (CARES) Act to DOL-OIG for Purposes of UC Fraud Investigation and Audits (August 3, 2021), available at: https://www.dol.gov/sites/dolgov/files/ETA/advisories/UIPL/2021/UIPL_04-17_Change_1.pdf

Moreover, ETA integrated external data sources in the IDH, including data sharing with other federal agencies.

Since 2022, ETA and the UI Integrity Center have organized events such as webinars, tax talks, and symposiums to help states detect and prevent fictitious employer schemes. These included efforts centered on using new tools, such as the IDH's Employer Data Module, additional cross-matches that provide risk scoring, and the validation of claims and employer data through a service provided by the U.S. Department of the Treasury. On July 6, 2026, ETA issued a letter to state UI directors sharing DOL's model National UI standards, which is a set of integrity practices states should incorporate to prevent improper and fraudulent payments, including monitoring for fictitious employer schemes.

States have also implemented strategies to combat these schemes. For example, surveyed states reported a wide range of red flag indicators for fictitious employer schemes. Furthermore, surveyed states reported using combinations of the following methods to detect the schemes:

- manual review;
- automated tools; and
- cross-matching techniques, such as the IDH's Employer Data Module, data analytics dashboards, business verification tools, fraud alerts, and internal rules that flag anomalies.

Additionally, according to state surveys, coordination between UI tax and benefits functions is consistent across states and typically involves shared communication channels, mutual referrals of suspicious accounts or claims, joint investigations, and cross functional workflows to ensure fraudulent employers are identified quickly, wages are not used for benefit eligibility, and schemes are tracked across systems.

Existing Controls Remain Insufficient to Address Fictitious Employer Schemes

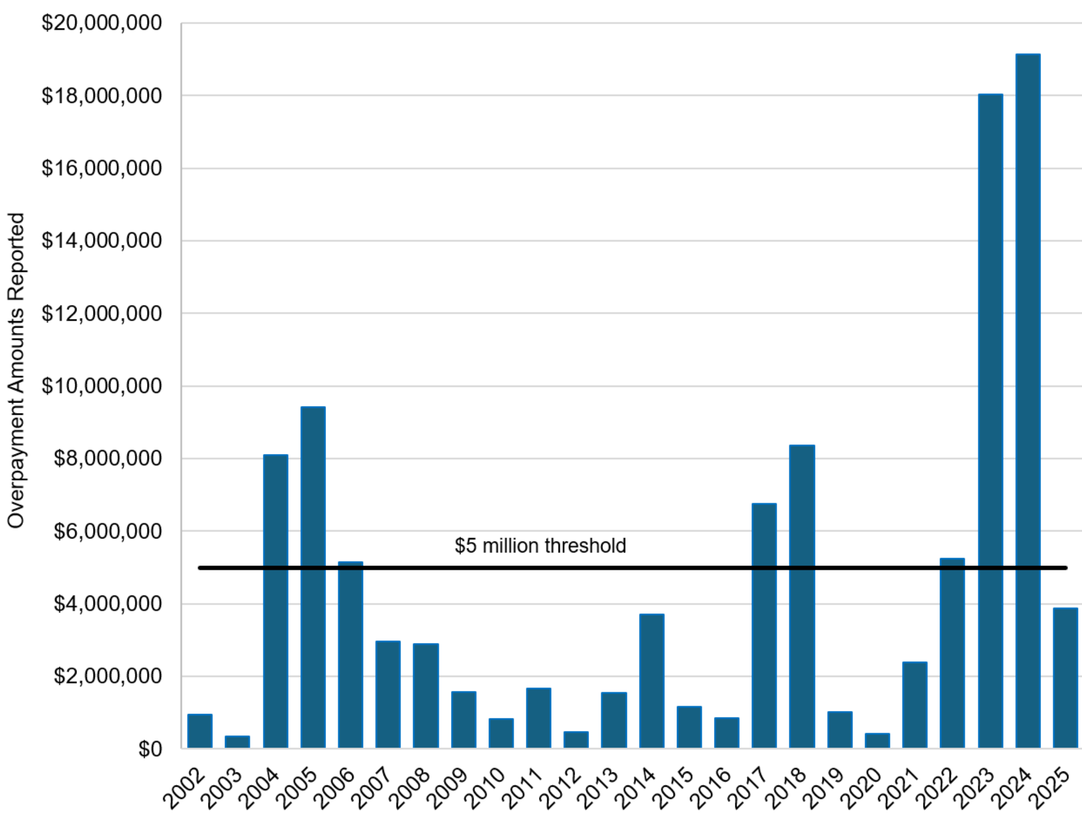
While ETA and states have taken these steps, existing controls have not prevented substantial losses from fictitious employer schemes. States are responsible for preventing, detecting, and investigating fraud, yet our investigations and data analyses show these schemes remain a persistent and costly threat.

OIG investigations have uncovered fictitious employer schemes among the most significant UI fraud cases the Department has pursued. In one of the largest domestic UI fraud investigations in DOL's history, Operation Cordele Partial, the OIG and its law enforcement partners identified multiple schemes that created fictitious employers, defrauding the Georgia Department of Labor of more than

$45 million.[9] These schemes used stolen personally identifiable information from thousands of identity theft victims to file fraudulent UI claims and involved more than 20 states' UI programs.

Multi-claimant schemes, which include fictitious employer schemes, are not a one-time or pandemic-era problem. Since 2002, states have identified more than $120 million paid as part of these schemes under the three largest permanent UI programs.[10] Multistate reporting[11] from 2002 to 2025 shows amounts vary from year to year, these schemes occurred in every year of reporting. Notably, the amounts reported by states exceeded $5 million for 8 of 24 years, occurring both before and after the pandemic (see Figure 2).

Figure 2: Multistate Fictitious Employer Scheme Amounts Reported by States from 2002 to 2025



Source: OIG analysis of state reported overpayment data

[9] U.S. Department of Justice, "Two Men Sentenced for $17M COVID-19 Unemployment Fraud," press release (December 11, 2025), available at: https://www.justice.gov/opa/pr/two-men-sentenced-17m-covid-19-unemployment-fraud

[10] The three largest permanently authorized unemployment compensation programs are: State UI, Unemployment Compensation for Federal Employees, and Unemployment Compensation for Ex-servicemembers.

[11] Amounts are based upon publicly available state reporting on the ETA 227. The information is found at: https://oui.doleta.gov/unemploy/DataDownloads.asp. These reports are limited to schemes detected through proactive, systematic processes designed for this purpose.

The OIG analyzed IDH data on fictitious employer schemes, including EINs in the Fictitious Employer Repository, reported by states from August 2023 through May 2026. We matched these EINs against UI claims data nationwide and identified more than $128 million in benefits paid by states on UI claims submitted with EINs that states reported as belonging to fictitious employers. Some of these claims may have been legitimate; however, they are indicative of the potential scale of this type of fraud.

For example, of the $128 million, we calculated approximately $4.7 million in benefits was paid on claims established after the associated EIN was reported as a fictitious employer, indicating a potential gap in controls designed to prevent payments on EINs previously identified as potentially fraudulent. Specifically, the IDH listed EINs as potentially fictitious, but states continued to pay benefits on those associated claims. We excluded claims that—based on our review—were associated with large, well-known employers, as they may represent false positives in the matching process. However, it should be noted that criminals may use real business information as part of fictitious employer schemes. Regardless of these exclusions, we confirmed states paid benefits on EINs that were previously reported as belonging to fictitious employers.

Separately, we applied a fraud indicator analysis to the $128 million in claims paid by states on UI claims submitted with EINs that states reported as belonging to fictitious employers. Unlike the $4.7 million above, which was based on payment timing, this analysis did not consider when the claim was paid relative to when the EIN was reported. Instead, it identified claims that carried a second, independent fraud indicator, such as a Social Security number linked to a deceased person or a claimant filing across multiple states. We identified over $4.6 million in benefits paid on claims associated with both a reported fictitious employer EIN and at least one additional fraud indicator.

Of this amount, the OIG identified $620,982 in potentially fraudulent claims that we had not previously reported to ETA. All other claims with high-risk fraud indicators identified in this analysis were previously provided to ETA as part of an alert memorandum.[12] The OIG identified these benefits paid as funds to be reviewed, recovered as appropriate, and put to better use (see Exhibit).

In addition to our data analyses, we reviewed ETA's guidance and process regarding fictitious employer schemes. We found that, although ETA has required states to refer fictitious employer schemes to the OIG since 1985,[13] its most recent guidance on this requirement was in 2021, as one part of broader

[12] Alert Memorandum: ETA Needs to Incorporate Data Analytics Capability to Improve Oversight of the Unemployment Insurance Program, Report No. 19-23-012-03-315 (September 25, 2023), available at: https://www.oig.dol.gov/public/reports/oa/2023/19-23-012-03-315.pdf

[13] Unemployment Insurance Program Letter No. 16-85, Referral of Criminal Cases in Unemployment Insurance (UI) Programs to the Office of Inspector General (OIG) for Investigation and Prosecutive Action (May 13, 1985), available at: https://oui.doleta.gov/dmstree/uipl/uipl85/uipl_1685.htm

guidance during a period of historically high claims volume. As a result, the responsibility for identifying and referring these schemes for investigation may not have been clearly assigned within state agencies, and we observed reporting variabilities across states.

We recognize that OIG regional offices vary in how they request such referrals, with some setting dollar thresholds and others requesting all cases be referred, and they are often shaped by the capacity and interest of the local U.S. Attorney's Office. However, without a clearly designated state point of contact, ETA and the OIG do not have a consistent counterpart with whom to coordinate referrals of suspected fictitious employer schemes. ETA and the OIG have taken a step toward addressing this through the UI Strike Teams partnership established in Fiscal Year 2026, although additional opportunities remain to communicate expectations and strengthen coordination across all parties involved.

Surveyed states reported they need stronger verification tools, especially the ability to validate EINs and business identities through a trusted federal source, more robust identity-verification vendors, and access to external data sources to confirm employer legitimacy.

Many states emphasized the need for expanded data sharing, including better:

- interstate collaboration;
- integration with IDH (particularly expansion of the Employer Data Module);
- access to federal records such as Internal Revenue Service or state Department of Revenue business registration data; and
- automated cross-matching with banking, Internet Protocol (IP) address, Voice over IP, and business registration datasets.

Across states, there is a consistent call for greater federal funding, modernized tax and benefit systems, enhanced analytics tools, expanded staff capacity, and standardized national guidance and training to help detect emerging fraud schemes, improve real-time verification, and reduce reliance on manual reviews.

Based on our analyses, the OIG assesses there is a high risk of additional loss of taxpayer funds to fictitious employer schemes. Our recommendations are intended to strengthen states' prevention and detection efforts while preserving timely access to benefits for legitimate claimants.

Recommendations

We recommend the Assistant Secretary for Employment and Training:

1. Issue non-public technical guidance to state workforce agencies describing the operational characteristics of fictitious employer schemes and the actions needed to address fictitious employer claims investigations.

2. Enhance the systemwide tools facilitated by ETA to incorporate cross-matching of new employer registrations against additional data sources, such as publicly available business data (e.g., federal and state business registration records and commercial address and telephone databases) and banking, IP address, and Voice over IP data.

3. Require each state to identify one official as the fictitious employer schemes liaison with ETA and the OIG.

Analysis of Agency Comments

In response to a draft of this alert memorandum, ETA agreed with the concerns raised and our three recommendations and stated it is committed to working with the OIG to address them. The agency's response to the draft memorandum is included in its entirety in the Attachment.

Exhibit: Funds Put to Better Use

Table: Funds Put to Better Use

Description	Amount[14]
Claims established after the associated EIN was reported as a fictitious employer, excluding large, well-known businesses	$4,682,085
Claims with high-risk fraud indicators, not previously reported to ETA	$620,982
Total Funds Put to Better Use	**$5,303,067**

Source: OIG data analysis of state UI claims and IDH data

[14] We verified that these two amounts do not include duplicate claims to avoid double-counting funds for better use.

Attachment: Agency Response to the Alert Memorandum

The agency's response to our draft alert memorandum follows.

U.S. Department of Labor

Employment and Training Administration
200 Constitution Avenue, N.W.
Washington, D.C. 20210

September 9, 2026

MEMORANDUM FOR: LAURA B. NICOLOSI
Assistant Inspector General for Audit

FROM: MAREK LACO
Acting Assistant Secretary for Employment and Training

SUBJECT: Response to Draft Alert Memorandum: Fictitious Employer Schemes Pose a Persistent and Escalating Fraud Threat to the Unemployment Insurance Program, Report Number: 19-26-004-03-315

The U.S. Department of Labor's (Department) Employment and Training Administration (ETA) appreciates the opportunity to respond to the above-referenced draft alert memorandum from the Office of Inspector General (OIG) regarding efforts to combat fictitious employer schemes.

ETA is taking aggressive action to reduce fraud, waste, and abuse in the unemployment insurance (UI) program, including through correspondence with state workforce agencies (SWA) on July 6, 2026, identifying model national UI standards. These model standards include practices that many SWAs have themselves determined necessary to run a secure program, though consistency in applying these practices is an area in need of improvement. ETA also makes several tools available at no cost and strongly encourages their use by SWAs. ETA will continue to hold states accountable and work with relevant stakeholders to ensure sufficient efforts are in place to prevent fraudulent activities, including fraud related to fictitious employer schemes. ETA appreciates the OIG's acknowledgement of these extensive and ongoing actions to work with SWAs in addressing fictitious employer schemes.

Responses to the OIG Recommendations

Please find below each of the OIG's recommendations contained in the draft alert memorandum, followed by ETA's response to each of the recommendations.

Recommendation 1: Issue non-public technical guidance to state workforce agencies describing the operational characteristics of fictitious employer schemes and the actions needed to address fictitious employer claims investigations.

ETA Response: ETA agrees with this recommendation. To supplement the ongoing technical assistance already provided to SWAs, ETA will provide non-public information to SWAs outlining characteristics of fictitious employer schemes and actions needed to detect them. ETA would appreciate collaborating with the OIG to ensure such guidance incorporates the OIG's insights and expertise.

The Administrator of the Office of Unemployment Insurance is responsible for the implementation of this recommendation. The estimated implementation date for this recommendation is June 30, 2027.

Recommendation 2: Enhance the systemwide tools facilitated by ETA to incorporate cross-matching of new employer registrations against additional data sources, such as publicly available business data (e.g., federal and state business registration records and commercial address and telephone databases) and banking, [Internet Protocol] IP address, and Voice over IP data.

ETA Response: ETA agrees with this recommendation. To address employer-related fraud, including fictitious employer schemes, ETA invested in the development of an Employer Data Module (EDM) in the Integrity Data Hub (IDH). The first phase of the EDM was launched in September 2024, and an EDM webinar was held on October 16, 2024 (*see* Training and Employment Notice No. 10-24). In Fiscal Year 2025, EDM functionality expanded by: (1) crossmatching incoming employer registrations with the IDH Suspicious Email Domain Repository; (2) same state matching on EDM Fictitious Employer Repository (FER) records; (3) providing SWAs the ability to activate and de-activate EDM records; and (4) developing a crossmatch of EDM comparison records with the IDH Suspicious Actor Repository. In late 2025, employer-related data from the U.S. Treasury's Bureau of the Fiscal Services, Do Not Pay system was integrated into the EDM, and in March 2026, additional business-related data was added to the EDM. These investments further strengthened ETA's and SWAs' ability to identify and prevent fictitious employer schemes. Ongoing enhancements to the EDM are underway, including the development of a Key Performance Indicator report to track outputs of these new solutions and assist with measuring effectiveness.

Given these efforts, ETA respectfully requests that the OIG consider this recommendation for closure.

Recommendation 3: Require each state to identify one official as the fictitious employer schemes liaison with ETA and the OIG.

ETA Response: ETA agrees with this recommendation and appreciates the OIG's acknowledgement of the step ETA has already taken to address it through the UI Strike Teams partnership. ETA will work with SWAs to identify a fictitious employer schemes liaison in each SWA and will provide the OIG with a list of SWA liaison contacts.

The Administrator of the Office of Unemployment Insurance is responsible for the implementation of this recommendation. The estimated implementation date for this recommendation is December 31, 2026.