

RISK Alert

ACTIONABLE INSIGHTS FOR BOND POLICYHOLDERS.



Alert Type

Awareness

Watch

Warning

FinCEN Issues Advisory on Unemployment Insurance Fraud

The Financial Crimes Enforcement Network (FinCEN) recently issued an advisory (FIN-2020-A007) to alert financial institutions on the unemployment insurance fraud occurring during the pandemic. Credit unions across the country have assisted states in recovering unemployment insurance benefits that were fraudulently applied for by fraudsters.

Details

The FinCEN's unemployment insurance fraud [advisory](#) (FIN-2020-A007) is based on their analysis of COVID-19 related information obtained from Bank Secrecy Act (BSA) data, open-source reporting, and law enforcement partners. According to FinCEN, "many illicit actors are engaged in fraudulent schemes that exploit vulnerabilities created by the pandemic."

The advisory provides details on the COVID-19 related unemployment insurance (UI) fraud along with ten related red flags. The types of fraud detected include:

- **Fictitious employer-employee fraud:** filers falsely claim they work for a legitimate company, or create a fictitious company and supply fictitious employee and wage records to apply for UI payments;
- **Employer-employee collusion fraud:** the employee receives UI payments while the employer continues to pay the employee reduced, unreported wages;
- **Misrepresentation of income fraud:** an individual returns to work and fails to report the income in order to continue receiving UI payments, or in an effort to receive higher UI payments, an applicant claims higher wages than they previously earned;
- **Insider fraud:** state employees use credentials to inappropriately access or change UI claims, resulting in the approval of unqualified applications, improper payment amounts, or movement of UI funds to accounts that are not on the application; or
- **Identity-related fraud:** filers submit applications for UI payments using stolen or fake identification information to perpetrate an account takeover.

The advisory also provides special instructions for filing Suspicious Activity Reports (SARs) related to COVID-19 UI fraud.

In some cases, fraudsters elected UI benefits loaded direct to a P2P, such as Cash App. The fraudsters then transfer the funds to money mule accounts. Upon receipt, the mules wire the funds to accounts controlled by fraudsters.

Date: November 10, 2020

Risk Category: Scams, Fraud, ACH, Money Mules, ID Theft

States: All

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- Accounting
- Branch Operations
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FinCEN Issues Advisory on Unemployment Insurance Fraud

In a September 1, 2020 [news release](#), the U.S. Department of Labor (DOL) announced \$100 million in funding to support state efforts to combat UI fraud. The DOL indicated that states can use the funding for staff or contract services to conduct fraud investigations and other fraud detection-related activities, and to implement tools to increase prevention, detection, and recovery of improper payments.

Risk Mitigation Tips

In addition to following the guidance in the FinCEN advisory, credit unions should consider these risk mitigation steps:

- Review incoming ACH credit entries representing UI benefits for name mismatches. When returning ACH credit entries for name mismatches, [NACHA](#) recommends using return reason code R03 (no account/unable to locate account), R17 (file record edit criteria/entry with invalid account number initiated under questionable circumstances), or R23 (credit entry refused by receiver). Using R17 requires “QUESTIONABLE” to be inserted in the first 12 positions of the addenda record.
- If funds have been withdrawn, you should only return whatever is left in the account by issuing a check to the appropriate state.
- Be alert for multiple incoming transfers to member accounts via P2P that are outside of the normal activity for the account.
- Avoid accepting third-party state unemployment checks unless the original payee is present and properly authenticated. Credit unions will be liable for the loss if the original payee’s endorsement is forged.
- If you suspect members, as money mules, may have improperly received these ACH deposits or incoming transfers via P2P, contact the nearest [U.S. Secret Service field office](#).
- Follow FinCEN’s instructions for filing SARs and close the accounts.

Risk Prevention Resources

Access CUNA Mutual Group’s [Protection Resource Center](#) at [cunamutual.com](#) for exclusive risk and compliance resources to assist with your loss control efforts. The Protection Resource Center requires a User ID and password.

- RISK Alert: [Unnecessary Losses Incurred from Unemployment Benefits Fraud](#)
- RISK Alert: [Money Mule Scams Continue](#)
- [FinCEN’s unemployment insurance fraud advisory](#) (FIN-2020-A007)



Access the Protection Resource Center for exclusive resources:

- [Loss Prevention Library](#) for white papers & checklists
- [Webinars and Education](#)
- [RISK Alerts Library](#)

Check out these [areas of practice](#) to help you manage pressing risks.

The Protection Resource Center requires a User ID and Password.

Facing risk challenges?

[Schedule](#) a free personalized discussion with a Risk Consultant to learn more about managing risk.

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