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NEWS FOR IMMEDIATE RELEASE

October 9, 2026

Wisconsin DOJ, DWD, and Coalition Sue Trump Administration for Terminating Funding for Unemployment Insurance System Improvements

MADISON, Wis. – The Wisconsin Department of Justice, the Wisconsin Department of Workforce Development, and a coalition of 13 other states have [filed a lawsuit](#) challenging the U.S. Department of Labor’s unlawful decision to terminate millions of dollars in funding to prevent fraud and implement improvements in Wisconsin’s and other states’ unemployment insurance systems.

“Working to improve unemployment insurance systems—including by enhancing fraud prevention—isn’t flashy. It’s effective governance,” said AG Kaul. “The Trump administration shouldn’t have terminated these grants, and it certainly shouldn’t have done so in clear defiance of congressional intent.”

The lawsuit, filed Thursday in the U.S. Court of Federal Claims, challenges the U.S. Department of Labor’s unlawful decision in May 2025 to terminate approximately \$10 million of Wisconsin’s remaining grant funding intended to assist in modernizing unemployment insurance system technology and implementing measures to prevent fraud. Wisconsin’s portion is part of the more than \$45 million total in terminated grant funds the coalition is challenging.

Congress created the grants at issue as part of the American Rescue Plan Act (ARPA) of 2021, amid the pandemic-related surge in unemployment claims. The goal of the program is to improve the technology used to administer states’ unemployment insurance programs to better detect and prevent fraud, promote equitable access, and pay benefits in a timely fashion.

In total, the Department of Labor awarded more than \$780 million to states to modernize their unemployment insurance systems, with approximately \$31 million awarded to Wisconsin.

Six different grants were offered to states through the program:

- IT Modernization Grants, to develop resilient unemployment information technology systems that can continuously adapt to changing conditions and integrate evolving fraud prevention technologies.
- Integrity Grants, to strengthen unemployment insurance program integrity through ID verification.
- Navigator Grants, to help eligible workers learn about and apply for unemployment insurance benefits (i.e. navigate the unemployment insurance program) and support states in delivering timely benefits.
- Tiger Team Grants, to implement recommendations from multi-disciplinary experts in the areas of fraud prevention, equitable access to benefits, and payment timeliness.
- Equity Grants, to help eliminate barriers to access, improve timeliness of payments, and ensure equity in fraud prevention activities.
- Fraud Prevention Grants, to guard against improper payment reduction, assist overpayment recovery and other fraud prevention and detection efforts.

The U.S. Department of Labor reviewed and approved project plans under each grant program and set multi-year agreed upon performance periods in which the projects were to be completed. Wisconsin and other plaintiff states directed hundreds of millions of dollars in grant funding to projects that, once completed, would increase efficiency, help prevent and detect fraud and the improper use of federal unemployment insurance funds, improve resilience when the system experiences surges in claims, and improve the customer experience.

Examples of Wisconsin DWD's completed projects using the funding include implementing identity authentication and identity proofing tools, improving workflows, modernizing its portal design to include targeted messages to deter potential fraudsters, and launching a worker misclassification website to increase awareness and reduce worker misclassification.

On May 22, 2025, the Trump Administration's Department of Labor sent letters to DWD and the coalition state workforce agencies that abruptly and unlawfully terminated each grant agreement. The termination letters stated the agreements "no longer effectuate[] [Department of Labor's] priorities for its grant funding." The grant terminations rescinded unexpended funds under the grant agreements, interrupting

the unemployment insurance modernization work that the Department of Labor had approved and agreed to fund.

Consequently, approved projects were halted in the middle of the performance periods. States have had to reallocate funding from other sources, scale back project scopes or cancel projects altogether. The terminations have wasted funds and squandered opportunities to increase efficiencies for unemployment insurance system workers, employers, and administrative staff.

Wisconsin received funding from all six grant programs, and remaining funding was terminated in five, resulting in some project cancellations. DWD used its IT Modernization Grant to hire an IT vendor to upgrade its unemployment insurance system to secure communications, reduce fraud, and improve unemployment insurance claims verification. The unexpected grant termination resulted in DWD immediately halting work on the new system with no completed deliverables. To implement the full project plan, DWD would have to hire a new vendor and start from scratch. The \$8.2 million DWD already spent on the project cannot be recouped.

Similarly, DWD used Integrity Grant funds to build a repository of fictitious employers, but this work was canceled as a result of grant termination.

In its lawsuit, the coalition argues that the Department of Labor's grant terminations breached the express terms of each of the plaintiffs' grant agreements. The terms of the grant agreements do not allow the Department of Labor to unilaterally terminate the grant projects prior to the end of the performance period simply because the administration has changed its priorities. The coalition also argues the Department of Labor breached the implied duty of good faith and fair dealing by wrongfully imposing new terms and conditions, relying on an erroneous and bad faith interpretation of relevant regulations, relying on an erroneous and bad faith interpretation of authorizing statutes, and by failing to provide plaintiffs with formal notice and an opportunity to object to their grant terminations.

The states are seeking money damages as part of the lawsuit.

This lawsuit was co-led by Wisconsin Attorney General Josh Kaul and Maryland Attorney General Anthony Brown. They were joined by the attorneys general of California, Colorado, Delaware, Illinois, Maine, Michigan, New Jersey, New Mexico, New York, and Oregon, as well as the governors of Kentucky and Pennsylvania.