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GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF LICENSING AND REGULATORY AFFAIRS
UNEMPLOYMENT INSURANCE AGENCY
STEVE ARWOOD
ACTING DIRECTOR

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DIRECTOR

May 27, 2011

Mr. Doug Ringler, Director
Office of Internal Audit Services
Department of Management & Budget
Romney Building – Seventh Floor
111 S. Capitol, P.O. Box 30026
Lansing, Michigan 48909

Dear Mr. Ringler:

We are enclosing our response to comments made in the Office of the Auditor General's Performance Audit of the Unemployment Insurance Benefit Overpayments and Nonmonetary Eligibility Determinations, Department of Energy, Labor & Economic Growth for the period October 1, 2007 through September 30, 2010.

If you have any questions regarding this report, please feel free to call me at (517) 373-3034.

Sincerely,

Steve Arwood, Acting Director
Unemployment Insurance Agency

Enclosure

cc: Governor Snyder
John Nixon
Steven H. Hilfinger
Allan Pohl
Allen Williams
Mike Zimmer

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AUDIT RESPONSE SUMMARY

Performance Audit of the Unemployment Insurance Benefit Overpayments & Nonmonetary Eligibility Determinations Michigan Department of Labor and Economic Growth (October 1, 2007 through September 30, 2010)

I. Citations fully complied with:

None

II. Citations to be complied with:

1. Corrective action is underway – we expect full compliance by September 30, 2011.
2. Corrective action is underway – we expect full compliance by September 30, 2012.
3. Corrective action is underway – we expect full compliance by September 30, 2011.
4. Corrective action is underway – we expect full compliance by October 31, 2012.
5. Corrective action is underway – we expect full compliance by July 31, 2011.
6. Corrective action is underway – we expect full compliance by December 31, 2013.
7. Corrective action is underway – we expect full compliance by October 31, 2012.
8. Corrective action is underway – we expect full compliance by October 31, 2011.
9. Corrective action is underway – we expect full compliance by June 30, 2011.
10. Corrective action is underway – we expect full compliance by June 30, 2011.

III. Citations agency disagrees with:

None

Audit Response
Unemployment Insurance Agency
Department of Licensing and Regulatory Affairs

A. Completed Improvements

1. Integrity Initiative: The UIA launched a new integrity initiative designed to identify claims that could potentially result in fraud. A Pilot launched in April 2011 and a new Fiscal Integrity unit is being formed to assemble all fraud related attributes within UIA into one division for coordination and communication. This initiative corresponds with each of the audit findings.
2. UI Fraud Data Mining Project: The UIA is utilizing the data and technology in its possession by running queries across multiple data-bases to identify claim anomalies. This practice was initiated in 2010 and is identifying larger-scale UI fraud rings for prosecution. This initiative corresponds with OAG audit finding numbers 1, 2, 3, 4, 5, 9, 10.
3. Treasury Offset Program: 2011 is the first year for which states can submit outstanding fraud assessments to the IRS for purposes of intercepting federal income tax refunds. Michigan is participating. This initiative corresponds with OAG audit finding numbers 4 and 6.

B. Improvements Under Development

1. Fraud Software: UIA is implementing On Point's Recover software, a proven industry leader in UI overpayment collections activities. On Point's implementation team is scheduled to begin 4/12/11, with an implementation date for their Recover product of 9/1/2011. This initiative corresponds with each of the audit findings.
2. Best Practices Review and Plan: A Project Control Office (PCO) has been created as an adjunct to the UIA-IS Project Management Office. The PCO has procured a personnel expert in UI practices and tasked them to a) review UIA's current business processes, b) identify and document nationally recognized best practices, and c) create a change plan for UIA business process to incorporate best practices. This effort began 4/4/2011. This initiative corresponds with each of the audit findings.
3. Computer System: The back-bone of the UIA's computer system is a 25 year old, Cobol programmed, mainframe system which results in a loss of productivity, efficiency, and agility. The functional requirements of the new system will address many of the conditions cited in the Audit and improve overpayment prevention efforts, quality control, and collections. The DTMB-selected vendor has committed to completion by December 2013. This initiative corresponds with each of the audit findings.
4. Applying Claimant Interest: UIA has begun creating the method to implement interest on claimant overpayment accounts. UIA and DTMB staff have identified several major programming areas that must be addressed to implement the new law and have begun the development process. These efforts began on 3/30/2011. This initiative corresponds with OAG audit finding numbers 4 and 6.

FINDING #1 – Classification of Claimants’ Misrepresentations

Auditor General Recommendation:

We recommend that UIA improve its controls to help ensure that it correctly classifies claimants’ intentional misrepresentations or concealment of material facts to obtain UI benefits as fraud.

Process/Procedures/Training:

Strategy	Completion Date
Management will review a 10% sample of misrepresentation determinations weekly to substantiate that proper decisions are being made and provide additional and training.	Internal Policy - Ongoing
Public education strategy to provide multi-media education (i.e. PSA’s, webcasts) to educate claimants on fraud, and employers on how to detect and prevent fraud.	June 2011
Revise policies and procedures for identification of intentional misrepresentation.	June 2011
Contact other states and USDOL to leverage their best practices.	Research to be completed by June 2011
Agency to schedule training on <i>Identification and Issuing Misrepresentation Determinations</i> for new and current staff.	September 2011

Performance Metrics:

- The following data will be used as a baseline by which improvement will be measured.

<u>Quarter</u>	<u># of Fraud Decisions</u>	<u>Dollar Amounts Established</u>
4 th Quarter CY 2010	955	\$1,906,066
1 st Quarter CY 2011	886	\$1,754,162
- Continuing improvement will be measured by a 10% increase in fraud decisions/dollar amounts established each quarter beginning the 4th quarter 2011 as compared to the average of the prior four quarters.
- Continuing improvement will also be measured using the annual Benefit Accuracy Measurement Report for CY 2011, when published, by comparing Michigan’s percentage of identified fraud for CY 2010 (.74%) to what is reported for CY 2011, and showing an increase in alignment with the national average of 2.04%. By end of CY 2011 the agency will achieve 1.0%. By end of CY 2012 the agency will achieve 1.5%. By end of CY 2014 the agency will achieve 2.0%.

FINDING #2 – Claimant Wage and UI Benefit Payment Cross Match Process

Auditor General Recommendation:

We recommend that Benefit Payment Control (BPC) establish effective controls to ensure that its claimant wage and UI benefit payment cross match process consistently detects overpayments to claimants.

We also recommend that BPC recover overpayments and associated penalties related to claimants who received UI benefits for which they were ineligible.

Process/Procedures/Training:

Strategy	Completion Date
The wage/benefit cross match has been completed quarterly since the 3 rd quarter of 2009 and will continue to be completed on a quarterly basis.	Internal Policy – Ongoing
Management is reviewing 10% of cases on a weekly basis for accuracy, timeliness, and documentation.	Internal Policy – Ongoing
A new report has been developed to track employers who do not respond to the Agency’s request for information about the specific week(s) that earnings were paid to the claimant. The Benefit Enforcement Unit will contact employers who have consistently not responded (or not provided adequate or specific information), to improve the percentage of cases that can be closed based on adequate information.	The report has been completed. The process of contacting the employers will be complete by July 2011
Contact other states and leverage their best practices.	Research to be completed by June 2011
Additional staff to be assigned to the unit.	June 2011
Create Weekly & Monthly Production Reports that will be used to track unit/individual progress.	June 2011
The Case Audit Management System (CAMS) database is being updated to include management reports to track status, timeliness and assignment of cases.	July 2011
The Benefit Payment Control will review thresholds to increase the investigation of high dollar fraud cases.	September 2011
Adjudication training, specifically pertaining to overpayments and restitution will be required of staff.	September 2011

Legislation:

Strategy	Completion Date
Request legislation to require employers to receive and provide information to the agency through the Employer Web Account Manager (EWAM).	TBD

Performance Metrics:

- The following data (from the Wage/Benefit Cross Match) will be used as a baseline by which improvement will be measured.

<u>Quarter</u>	<u># of Fraud Cases Written</u>	<u>Dollar Amounts Established</u>
3 rd Quarter CY 2010	124	\$145,474
4 th Quarter CY 2010	139	\$218,210
1 st Quarter CY 2011	281	\$369,499
- By the 3rd quarter CY 2011, there will be a 10% increase in the percentage of fraud cases written as compared to the total number of overpayment cases written and initial claims load.
- 100% of the wage/benefit cross matches will be completed on a quarterly basis effective immediately.

FINDING #3 – New Hire Cross Matches

Auditor General Recommendation:

We recommend that BPC properly investigate and document its investigation of potential false claims identified in its cross matches of new hire databases.

IT:

Strategy	Completion Date
Implement overpayment detection software (On Point RECOVER). On Point's Recover will help the agency more efficiently recover overpayments using private industry expertise and UI best practices to replace manual processes with streamlined and efficient automated processes.	September 2011

Process/Procedures/Training:

Strategy	Completion Date
Refine policy and procedures to consistently follow-up for information (in line with USDOL standards).	Complete
Disseminated updated procedures for properly processing of New Hire reports.	Complete
Implemented OAG recommendation by conducting New Hire cross matches on a quarterly basis.	Internal Policy - Ongoing
Management is reviewing 10% of cases on a weekly basis for accuracy, timeliness, and documentation.	Internal Policy - Ongoing
Currently using the following databases: <ul style="list-style-type: none"> - Interstate Benefits Cross Match used ICON system to send a request to the interstate clearing house, or HUB. The HUB collects the wage and benefit information from all states for this cross match. - State Data Warehouse database to match the state new hire information with our benefit information. - National cross match using the National New Hire Database. 	Internal Policy - Ongoing
Contact other states and leverage their best practices.	Research to be completed by June 2011
Additional staff to be assigned to the unit.	June 2011
The Case Audit Management System (CAMS) database is being updated to include management reports to track status, timeliness and assignment of cases.	July 2011
Adjudication training, specifically pertaining to overpayments and restitution will be required of staff.	September 2011
The State Directory of New Hires cross match results will be analyzed to determine whether there is a benefit in continuing this cross match (information is duplicated on the NDNH cross match).	September 2011
A retention schedule for reports be established in the CAMS system and reports will be purged using Agency and NDNH guidelines.	September 2011

Performance Metrics:

- The following data (from the New Hire Systems Cross Match) will be used as a baseline by which improvement will be measured.

<u>Quarter</u>	<u># of Fraud Cases Written</u>	<u>Dollar Amounts Established</u>
3 rd Quarter CY 2010	31	\$58,869
4 th Quarter CY 2010	18	\$7,116
1 st Quarter CY 2011	14	\$18,298

- By the 3rd quarter CY 2011, there will be a 10% increase in the percentage of fraud cases written as compared to the total number of overpayment cases written and initial claims load.
- 100% of the New Hire cross matches will be reviewed on a quarterly basis beginning July 2011.

FINDING #4 – Cross-Program Benefit Offset Process

Auditor General Recommendation:

We recommend that UIA establish a reciprocal agreement with USDOL to allow for a cross-program benefit offset process to recover UI benefit overpayments.

IT:

Strategy	Completion Date
Implementation of the reciprocal agreement will be part of the new computer system project. The requirements and subordinate business rules for three main functional areas (Overpayments, Collections and Trust Fund) include requirements to bring the new UIA system into compliance with the reciprocal agreement. These components are to be fully implemented within the benefits phase of the Integrated System rewrite project.	October 2012

Process/Procedures/Training:

Strategy	Completion Date
UIA will establish a reciprocal agreement with USDOL to allow for this offset.	October 2012

Performance Metrics:

- Performance metrics will be developed once the USDOL agreement has been implemented.

FINDING #5 – Verification of Claimant Identity

Auditor General Recommendation:

We recommend that BPC consistently verify all claimants' identities with SSA.

We also recommend that BPC document, retain documentation of, and timely complete its claimant identity verification efforts.

We further recommend that BPC identify and investigate all discrepancies that it did not previously investigate.

Process/Procedures/Training:

Strategy	Completion Date
A repository for paper reports has been established (the SSA process is not automated) and reports are purged using Agency and SSA guidelines.	Complete
Unit processes have been updated to improve the timeliness of investigation, the resolution of discrepancies, and the documentation of cases.	Complete
Additional staff to be assigned to the unit to investigate cases and issue determinations.	June 2011
The Case Audit Management System (CAMS) database is being updated to include management reports to track status, timeliness, production, and assignment of cases.	July 2011

Performance Metrics:

- By July 2011, 100% of claimant verification of identity cases will be documented and completed on a timely basis.

FINDING #6 – Civil Judgments and Wage Garnishments

Auditor General Recommendation:

We recommend that Benefit Overpayment Control (BOC) consistently request the Department of Attorney General to obtain civil judgments against claimants who are delinquent in paying restitution for overpaid UI benefits.

We also recommend that BOC effectively monitor the employment status of claimants with civil judgments obtained against them.

IT:

Strategy	Completion Date
New software will be obtained to identify and manage the garnishment process (On Point ENFORCE). The ENFORCE software will automate and streamline the lien and garnishment processes.	December 2013

Process/Procedures/Training:

Strategy	Completion Date
The Benefit Enforcement Unit will pursue payment plans and collection of delinquent overpayments, penalties, and interest.	Internal Policy - Ongoing
Agency and AG is regularly reviewing partnership programs to determine proper methods to more aggressively pursue garnishment enforcement.	Internal Policy - Ongoing
Contact other states and leverage their best practices.	Research to be completed by June 2011
Refine policies and procedures within the Benefit Enforcement Unit (BEU) to increase the number of referrals for Civil Actions.	August 2011
The garnishment process will be moved to the Benefit Enforcement Unit.	January 2012

Legislation:

Strategy	Completion Date
The Agency is researching methods of obtaining garnishments without the need for a civil judgment, similar to the Minnesota statute.	Research to be complete by July 2011

Performance Metrics:

- The following data will be used as a baseline by which improvement will be measured.

<u>Quarter</u>	<u># of Referrals</u>	<u># of Civil Actions Obtained</u>
3 rd Quarter CY 2010	7	37
4 th Quarter CY 2010	4	35
1 st Quarter CY 2011	7	44
- Goal is a 20% increase in wage garnishments referrals by 4th quarter CY 2011.

FINDING #7 – UI Benefit Payments to Deceased Claimants

Auditor General Recommendation:

We recommend that UIA establish and implement procedures to identify and recover UI benefits improperly paid to deceased claimants.

Process/Procedures/Training:

Strategy	Completion Date
The cross match will be implemented as part of the new computer system project.	TBD
Additional staff will be assigned to the unit to perform manual processes, investigate cases and issue determinations.	June 2011
A management report will be developed to track the timeliness, status, and ownership of the cases.	July 2011

Strategy	Completion Date
The unit will develop a process to investigate, resolve, and document the cases.	July 2011
Put into practice an interface to exchange death certificate data from DCH to detect deceased claimants.	December 2011

Performance Metrics:

- Goal will be zero deceased claimants undetected effective immediately.

FINDING #8 – Nonmonetary Eligibility Determinations

Auditor General Recommendation:

We recommend that UIA timely adjudicate nonmonetary issues regarding claimants’ eligibility for UI benefits.

Agency Plan:

To date, UIA has taken the following action in response to the finding that the agency did not timely adjudicate nonmonetary issues regarding claimants’ eligibility for unemployment benefits:

Strategy	Completion Date
Development and Implementation of a New Work Plan Strategy to eliminate backlog and maintain pace with the incoming volume.	The anticipated date of completing entire backlog is October 2011.
Mandatory overtime to reduce backlogs.	Ongoing
Obtain assistance from other Agency areas. (Trained staff from other areas recruited to work overtime with focus being nonmonetary workload.)	Ongoing
Redeployment of Additional Staff to the Nonmonetary Workload	Complete
Implementation of System Nonmonetary Adjudication Process (SNAP). (Allows for the automation of decisions on certain nonmonetary issues.)	Complete
Comprehensive training to increase staff performing nonmonetary work.	September 2011

Performance Metrics:

- Since execution of this plan, the agency has achieved a 60.3% decrease in backlogged work items. The backlog is expected to continue to decrease by several thousand weekly, until eliminated. Projected date of elimination is October 2011.
- Achieve 100% decrease in backlogged work items by October 2011. Meet Federal Acceptable Levels of Achievement (ALP) for nonmonetary time lapse for separation and non-separation issues during second calendar quarter 2012.

FINDING #9 – Alien Claimants

Auditor General Recommendation:

We recommend that UIA ensure that alien claimants meet federal and State eligibility requirements for receiving UI benefits.

Agency Plan:

The Systematic Alien Verification for Entitlement (SAVE) Program will be centralized in a unit located in the Lansing Problem Resolution Office. Currently, this function is being handled by Unemployment Insurance Examiners (UIE) in the Remote Initial Claims Centers (RICC) in Detroit, Grand Rapids and Saginaw. The procedures have been updated to re-verify the work authorization after the document expiration date (for those documents that contain expiration dates) as noted in the finding. The training module is in the process of being revised in order to transfer the functions from the RICCs to the Lansing office.

Process/Procedures/Training:

Strategy	Completion Date
The procedures have been updated to re-verify the work authorization after the document expiration date, as noted in the finding.	Completed
Staff to be trained in all updated procedures.	Completed
The SAVE activities and workload will be centralized in a unit located in the Lansing Problem Resolution Office.	May 2011
The agency is revising the training modules for transferring the functions from the RICCs to the Lansing Office centralized unit.	May 2011
Contact other states and leverage their best practices.	Research to be completed by June 2011
A report will be maintained to review claims that will expire within 21 days for work authorization.	June 2011

Performance Metrics:

- By June 2011 will have 100% of claimants who have a work authorization expire during a benefit year identified and addressed prior to improper payments being issued.
- By June 2011 will have 80% of Non-Citizen Status completed within 21 days and 90% completed within 28 days of receipt.
- By June 2011 will have 95% of all non-citizen claims initially processed within 10 days of receipt.

FINDING #10 – Claimant Fraud**Auditor General Recommendation:**

We recommend that UIA promptly issue new determinations holding claimants ineligible for UI benefits for those claimants strongly suspected of UI benefit fraud.

Agency Plan:

UIAs Fraud Investigation Unit has implemented strategies that reduce the amount and the age of the current Fraud workload. The sum of these improvements are already taking-hold in the forms of: (1) increased collections during 2010 over any preceding year; (2) substantial increases in criminal convictions associated with UI fraud while maintaining a nearly 100% conviction rate; (3) an increase to the number of fraud investigations due to our proactive approach and (4) the new Fiscal Integrity unit is being formed to assemble all fraud related attributes within UIA into one division for coordination and communication.

Process/Procedures/Training:

Strategy	Completion Date
Fraud investigative staff has been doubled (to 20).	Complete
Implemented a triage work-flow process to allow for the more efficient division of labor between Investigators and support UI Examiners to increase Fraud referrals and production.	Complete
Overtime has been implemented for fraud staff.	Ongoing
New data mining initiatives are identifying hundreds of investigations that the agency would not have discovered otherwise.	Ongoing
Contact other states and leverage their best practices.	Research to be completed by June 2011
Review policy and procedures to expedite investigative process.	June 2011

IT:

Strategy	Completion Date
We are looking at the FACTS program to reformat the reports to allow us to concentrate on case aging and better identify production bottlenecks. The current reports do not allow tracking of steps along the production process.	June 2011

Performance Metrics:

- 20% reduction in average age of cases by June 30, 2011 (using 1st Qtr CY 2010 as baseline).
- 20% additional reduction in age of cases by September 30, 2011 (using 1st Qtr CY 2010 as baseline).
- Maintain a minimum of 95% fraud conviction rate.
- 100% increase in closed case production for CY 2011 (using CY 2010 as a baseline).
- 100% increase in the number of convictions for CY 2011 (using CY 2010 as a baseline).
- 100% increase in recommended penalties for CY 2011 (using CY 2010 as a baseline).