



Michigan
Office of the Auditor General
REPORT SUMMARY

Performance Audit

*Unemployment Insurance Benefit Overpayments
and Nonmonetary Eligibility Determinations*

Unemployment Insurance Agency

Department of Energy, Labor & Economic Growth

Report Number:
641-0315-10

Released:
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The Unemployment Insurance Agency's (UIA's) primary responsibility is to collect State unemployment taxes from employers and pay State and federal unemployment insurance (UI) benefits to eligible claimants. Eligible claimants can receive up to 99 weeks of UI benefits. For the three-year period ended September 30, 2010, UIA paid UI benefits totaling \$15.4 billion. UIA reported overpayment recoveries totaling \$89.7 million for calendar years 2007 through 2009. Prolonged high unemployment depleted UIA's funding reserves and required borrowing from the federal government to pay State UI benefits. As of September 30, 2010, the outstanding loans totaled \$3.8 billion.

Audit Objective:

To assess the effectiveness of UIA's efforts to prevent, detect, and recover UI benefit overpayments.

Audit Conclusion:

We concluded that UIA's efforts to prevent, detect, and recover UI benefit overpayments were not effective. We noted two material conditions (Findings 1 and 2) and five reportable conditions (Findings 3 through 7).

Material Conditions:

UIA needs to improve its controls to help ensure that it correctly classifies claimants' intentional misrepresentations or concealment of material facts to obtain UI benefits as fraud. As a result of the control weaknesses, we estimate that UIA did not assess fraud-related penalties totaling from \$81.5 million to \$191.8 million. ([Finding 1](#))

The Benefit Payment Control Unit (BPC) did not have effective controls to ensure that its claimant wage and UI benefit payment cross match process consistently detected overpayments to claimants. As a result, we estimate that during fiscal years 2007-08 and 2008-09, BPC may not have detected and recovered as much as \$55.7 million to \$61.3 million in UI benefit overpayments and associated penalties. ([Finding 2](#))

Reportable Conditions:

BPC did not properly investigate or document its investigation of potential false claims identified in its cross matches of new hire databases ([Finding 3](#)).

UIA had not established a reciprocal agreement with the U.S. Department of Labor to allow for a cross-program benefit offset process to recover UI benefit overpayments ([Finding 4](#)).

BPC did not consistently verify claimants' identities with the Social Security Administration. Also, BPC frequently did not document, retain documentation of, or timely complete its claimant identity verification efforts. ([Finding 5](#))

The Benefit Overpayment Collections Unit (BOC) did not consistently request the Department of Attorney General to obtain civil judgments against claimants who were delinquent in paying restitution for overpaid UI benefits. Also, BOC did not effectively monitor the employment status of those claimants with civil judgments obtained against them. ([Finding 6](#))

UIA had not established and implemented procedures to identify and recover UI benefits improperly paid to deceased claimants ([Finding 7](#)).

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Audit Objective:

To assess the effectiveness of UIA's efforts to complete nonmonetary eligibility determinations in a timely manner.

Audit Conclusion:

We concluded that UIA's efforts to complete nonmonetary eligibility determinations in a timely manner were not effective. We noted three reportable conditions (Findings 8 through 10).

Reportable Conditions:

UIA did not timely adjudicate nonmonetary issues regarding claimants' eligibility for UI benefits (Finding 8).

UIA did not ensure that alien claimants met federal and State eligibility requirements for receiving UI benefits (Finding 9).

UIA did not promptly issue new determinations holding claimants ineligible for UI benefits for those claimants strongly suspected of UI benefit fraud exceeding \$5,000 (Finding 10).

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Summary of Effects:

We estimate that UIA failed to identify and pursue recovery of UI benefit overpayments of up to \$72.5 million as identified in Findings 2, 4, 5, 7, 8, and 9:

Overpayments (in millions)

Claimant wage and benefit cross match process (Finding 2)	\$17.9
Cross-program benefit offset process (Finding 4)	12.1
Verification of claimant identity (Finding 5)	8.2
Deceased claimants (Finding 7)	0.4
Untimely nonmonetary eligibility determinations (Finding 8)	26.0
Ineligible alien claimants (Finding 9)	7.9
Total	<u><u>\$72.5</u></u>

We estimate that UIA did not assess fraud-related penalties ranging between \$120.0 million and \$236.6 million as identified in Findings 1, 2, and 7:

Unassessed Penalties (in millions)

Classification of claimants' misrepresentations (Finding 1)	\$ 81.5 - \$191.8
Claimant wage and benefit cross match process (Finding 2)	37.8 - 43.4
Deceased claimants (Finding 7)	0.7 - 1.4
Total	<u><u>\$120.0 - \$236.6</u></u>

For Findings 1, 4, 5, and 8, we estimated our results by projecting the results of our nonstatistical tests of randomly selected sample items to the population of items subject to testing. Although nonstatistical sampling does not provide an explicit level of confidence for the projection of test results to a population, it is a commonly used and industry-accepted audit sampling methodology. Our nonstatistical sampling methodology utilized randomly selected samples from the identified periods, thus attempting to ensure that the items tested provided true representations of the entire population.

For Finding 2, we estimated our results based on UIA's identified overpayments from other quarterly periods.

For Findings 7 and 9, the reported overpayments and unassessed penalties were derived from a full review of applicable UIA database records.

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Agency Response:

Our audit report includes 10 findings and 14 corresponding recommendations. UIA's preliminary response indicated that it agrees with 13 recommendations and partially agrees with 1 recommendation.

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A copy of the full report can be obtained by calling 517.334.8050 or by visiting our Web site at: <http://audgen.michigan.gov>



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