

# Office of the Auditor General

## Performance Audit Report

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### **Claims Processing During the COVID-19 Pandemic**

Unemployment Insurance Agency  
Department of Labor and Economic Opportunity

January 2023

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The auditor general shall conduct post audits of financial transactions and accounts of the state and of all branches, departments, offices, boards, commissions, agencies, authorities and institutions of the state established by this constitution or by law, and performance post audits thereof.

The auditor general may make investigations pertinent to the conduct of audits.

*Article IV, Section 53 of the Michigan Constitution*

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Office of the Auditor General

## Report Summary

### *Performance Audit*

### *Claims Processing*

### *During the COVID-19 Pandemic*

### *Unemployment Insurance Agency (UIA)*

### *Department of Labor and Economic*

### *Opportunity*

**Report Number:**

**186-0319-21**

**Released:**

**January 2023**

To slow the spread of COVID-19 after the first confirmed cases in Michigan in March 2020, the Governor declared a state of emergency and issued a series of executive orders that placed restrictions on public gatherings. These orders temporarily closed schools, businesses, and other employers resulting in the largest spike in unemployment in Michigan history. The federal Coronavirus Aid, Relief, and Economic Security (CARES) Act created new federal unemployment compensation (UC) programs, including Pandemic Emergency Unemployment Compensation (PEUC), Pandemic Unemployment Assistance (PUA), and Pandemic Unemployment Compensation (PUC), increasing the weekly benefit amount (WBA) and expanding eligibility to claimants not otherwise eligible for unemployment benefits. From March 15, 2020 through June 30, 2022, UIA paid \$39.9 billion in UC claims from 5.8 million claims created for 3.48 million claimants.

This audit report is the fourth of a series of five audit reports on UIA claims processing during the COVID-19 pandemic.

Audit Objective			Conclusion
Objective 1: To assess the effectiveness of UIA's efforts to process unemployment insurance (UI) claims in accordance with selected State and federal requirements during the COVID-19 pandemic.			Not effective
Findings Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
Although UIA made billions of dollars of fraudulent overpayments in various unemployment programs, it identified that only 28 PUA claims, totaling \$342,000, were the result of intentional misrepresentation by claimants ( <a href="#">Finding 1</a> ).	X		Partially agrees
As a means of expediting payments to claimants at the onset of the COVID-19 pandemic, UIA temporarily reassigned its Investigations Division staff and removed many of its fraud detection and prevention controls, significantly diminishing its ability to ensure UI program integrity ( <a href="#">Finding 2</a> ).	X		Agrees

<b>Findings Related to This Audit Objective (Continued)</b>	<b>Material Condition</b>	<b>Reportable Condition</b>	<b>Agency Preliminary Response</b>
UIA could not support the appropriateness of \$10.2 billion in PUA payments, mostly related to its inclusion of invalid eligibility criteria in the PUA application and lack of eligibility criteria in the weekly benefit certifications at the onset of the PUA program ( <a href="#">Finding 3</a> ).	X		Agrees
UIA may have improperly granted an estimated \$1.7 billion in overpayment waivers but did not consider waivers for PUA claims totaling \$280.7 million which met the waiver criteria ( <a href="#">Finding 4</a> ).	X		Partially agrees
UIA became aware of 314,000 PUA claimants without prior qualifying employment (prior attachment to the workforce). Although it paid at least \$3.3 billion in benefits to them, UIA did not take timely action to limit further overpayments or begin collection efforts ( <a href="#">Finding 5</a> ).	X		Agrees
UIA changed its criteria for flagging benefit payments needing a manager review prior to release. This allowed high dollar and high-risk benefit payments without review, and some managers' reviews were ineffective because UIA did not provide adequate training and guidance ( <a href="#">Finding 6</a> ).	X		Partially agrees
UIA did not ensure the Michigan Integrated Data Automated System (MiDAS) contained claimants' original PUA applications, which could impact future appeals or protests involving the claims ( <a href="#">Finding 7</a> ).	X		Agrees
During much of the COVID-19 pandemic, UIA did not timely identify and follow up on situations in which claimants received UC benefits and earned wages during the same quarter. UIA may not be able to recoup improper benefits because of the delays in follow-up ( <a href="#">Finding 8</a> ).	X		Partially agrees
UIA improperly waived the requirement for claimants in certain programs to certify they were able and available for full-time work ( <a href="#">Finding 9</a> ).	X		Agrees
UIA programmed MiDAS to automatically approve an increased weekly benefit amount based on the claimant's self-attestation of earnings. However, it did not review the appropriateness of income documentation submitted by claimants with their initial PUA applications before approving the increase ( <a href="#">Finding 10</a> ).		X	Agrees
UIA should have required claimants to seek work in November 2020; however, it did not do so until the benefit week ended June 5, 2021 ( <a href="#">Finding 11</a> ).		X	Agrees
UIA did not consistently meet select federal claims processing performance standards ( <a href="#">Finding 12</a> ).		X	Agrees

Observations Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
UIA could analyze its claims data to identify and follow-up with claimants receiving UC benefits whose separation reasons or COVID-19 related attestations could trigger its reasonable suspicion protocol ( <u>Observation 1</u> ).	Not applicable for observations.		
Establishing and monitoring metrics related to case and document processing for claims could help UIA ensure the timely processing of claims-related information and address longstanding deficiencies in meeting the U.S. Department of Labor's broader performance goals ( <u>Observation 2</u> ).			

Audit Objective			Conclusion
Objective 2: To assess the effectiveness of UIA's communications with UI claimants during the COVID-19 pandemic.			Not effective
Findings Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
See ( <u>Finding 4</u> ).	X		Partially agrees
UIA was unable to respond or timely respond to claimants' communications throughout much of the COVID-19 pandemic. Also, some of UIA's written communications to claimants contained confusing wording or wording that appeared contradictory ( <u>Finding 13</u> ).	X		Agrees
UIA increased its staff assisting in its call center but did not ensure that it or its contractors sufficiently monitored the new and inexperienced staff to ensure a positive customer experience for its claimants ( <u>Finding 14</u> ).		X	Agrees

Audit Objective			Conclusion
Objective 3: To compile and provide information on UI claims processed by UIA during the COVID-19 pandemic and other relevant data.			Information provided
Findings Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
None reported.	Not applicable.		

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**Doug A. Ringler, CPA, CIA**  
Auditor General

January 6, 2023

Ms. Susan R. Corbin, Director  
Department of Labor and Economic Opportunity  
300 North Washington Square  
Lansing, Michigan  
and  
Ms. Julia Dale, Director  
Unemployment Insurance Agency  
Cadillac Place  
Detroit, Michigan

Dear Ms. Corbin and Ms. Dale:

This is our performance audit report on Claims Processing During the COVID-19 Pandemic, Unemployment Insurance Agency, Department of Labor and Economic Opportunity. This is the fourth issued report in a series of performance audits of UIA.

We organize our findings and observations by audit objective. Your agency provided preliminary responses to the recommendations at the end of our fieldwork. The *Michigan Compiled Laws* and administrative procedures require an audited agency to develop a plan to comply with the recommendations and to submit it to the State Budget Office upon completion of an audit. Within 30 days of receipt, the Office of Internal Audit Services, State Budget Office, is required to review the plan and either accept the plan as final or contact the agency to take additional steps to finalize the plan.

Sincerely,

Doug Ringler  
Auditor General





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## AUDIT OBJECTIVES, CONCLUSIONS, FINDINGS, AND OBSERVATIONS

# **PROCESSING UI CLAIMS IN ACCORDANCE WITH SELECTED STATE AND FEDERAL REQUIREMENTS DURING THE COVID-19 PANDEMIC**

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## **BACKGROUND**

To slow the spread of COVID-19\* after the first confirmed cases in Michigan in March 2020, the Governor declared a state of emergency and issued a series of executive orders (EOs) placing restrictions on public gatherings. These orders temporarily closed schools, businesses, and other employers resulting in the largest spike in unemployment in Michigan history, which peaked at 23.6% in April 2020.

The Coronavirus Aid, Relief, and Economic Security (CARES) Act, effective March 27, 2020, created several new federally funded pandemic unemployment compensation (UC) programs, including:

- Pandemic Emergency Unemployment Compensation (PEUC)
- Pandemic Unemployment Assistance (PUA)
- Pandemic Unemployment Compensation\* (PUC)

The Consolidated Appropriations Act (CAA) and the American Rescue Plan Act (ARPA), effective December 27, 2020 and March 11, 2021, respectively, continued these federally funded pandemic programs through September 6, 2021. See Exhibit 1 for additional information on these and other programs.

The PUA program differed from other UC programs in that it covered individuals not traditionally eligible for unemployment insurance (UI) benefits, such as the self-employed, independent contractors, and others. The CARES Act and U.S. Department of Labor Employment Training Administration (USDOL ETA) Unemployment Insurance Program Letters (UIPLs) established eligibility and administrative requirements for PUA. Because most PUA claimants did not have wage records on file with the Unemployment Insurance Agency (UIA), eligibility was based on self-attestation they were unemployed, partially unemployed, or unable or unavailable to work because of one or more of the eligibility reasons included in the CARES Act and related UIPLs.

Because of the uniqueness of the PUA program, UIA had to develop, implement, and program the Michigan Integrated Data Automated System\* (MiDAS) with new forms and controls for administering the program, including a new application, weekly benefit certifications, fact-finding forms, monetary determinations, and other items at the onset of and during the COVID-19 pandemic. UIA acknowledged challenges in standing up this new program in its response to a finding related to ensuring claimant

*\* See glossary at end of report for definition.*

eligibility. This was included in the single audit report on the Unemployment Compensation Fund for fiscal year ended September 30, 2020. UIA stated:

The Agency's existing policies and procedures, for the most part, did not adequately cover the PUA program - which is not a traditional UI program. For PUA, the Agency was essentially implementing an entirely new unemployment program - in the middle of the pandemic. Although states were expected to utilize current UI systems, several elements that support controls for UI (i.e.: covered wages and employment verification) were not a requirement for PUA.

We previously reported on UIA's control environment related to the administration of the PUA program in Finding 1 of our November 2021 performance audit\* report, Establishing Pandemic Unemployment Assistance Eligibility Criteria (186-0319-21A), located at [audgen.michigan.gov/wp-content/uploads/2021/11/r186031921A-8294.pdf](https://audgen.michigan.gov/wp-content/uploads/2021/11/r186031921A-8294.pdf). In addition, in Finding 6 of our May 2022 performance audit report, Michigan Integrated Data Automated System and Michigan Web Account Manager\* (MiWAM) - Selected General and Application Controls (186-0593-21), located at [audgen.michigan.gov/wp-content/uploads/2022/05/r186059321-8235.pdf](https://audgen.michigan.gov/wp-content/uploads/2022/05/r186059321-8235.pdf), we reported UIA, in conjunction with the Department of Technology, Management, and Budget (DTMB), did not fully implement effective change controls over MiDAS and MiWAM applications and data to ensure all system changes were authorized and operating as intended before implementation. Many of the findings with UIA's administration of UC programs included within this report directly or indirectly resulted from internal control\* weaknesses identified in these prior reports.

According to a May 2021 USDOL Office of Inspector General (OIG) report, many states, including Michigan, struggled to stand up and administer their PUA programs. A September 2022 OIG report, which included an in-depth review of Michigan and three other states, noted all three prioritized payment expediency over safeguards and suspended their eligibility and payment controls. The report also acknowledged that guidance, issued by the federal Office of Management and Budget on April 10, 2020, required states to prioritize expediency, defined as the rapid issuance of awards to meet crucial needs, but also reminded states to balance the need for expediency with steps to mitigate fraud, waste, abuse, and improper payments.

By May 2020, UIA was aware of potentially significant exposure to fraud, including imposter fraud\* and intentional misrepresentation\*. In response, the Department of Labor and Economic Opportunity (LEO) contracted with Deloitte to lead a cybersecurity and forensics assessment and a review of UIA's efforts to balance expedient payment with program integrity.

\* See glossary at end of report for definition.

Deloitte provided a forensic report in November 2020 and a fraud measurement estimation report in December 2021. LEO released both reports publicly. As noted in Findings 1 and 4, the opportunity still exists for UIA to attempt to identify and recover overpayments caused by claimant intentional misrepresentation and grant waivers for overpayments caused by agency error.

We identified various conditions that likely resulted in significant UC benefit overpayments. When appropriate, we estimated the total dollar amount of overpayments associated with each condition. Because many of the issues in this report involving the PUA program were not mutually exclusive in terms of the population of claims, there is likely significant overlap between some of our estimates. Exhibit 2 shows the total UC benefit claims and payments by program which UIA made to claimants for weeks ended from January 4, 2020 through October 2, 2021.

Exhibits 3 through 6 provide information related to total UC benefits Michigan and other states paid during the COVID-19 pandemic and show Michigan was among the highest and longest UC benefit payers both nationally and within USDOL Region 5. In addition, Exhibit 7 provides information on benefit overpayments from January 1, 2020 through June 30, 2022.

#### **AUDIT OBJECTIVE**

To assess the effectiveness\* of UIA's efforts to process UI claims in accordance with selected State and federal requirements during the COVID-19 pandemic.

#### **CONCLUSION**

Not effective.

#### **FACTORS IMPACTING CONCLUSION**

- Nine material conditions\* related to UIA's claims processing efforts during the COVID-19 pandemic (Findings 1 through 9).
- Three reportable conditions\* related to UIA's claims processing efforts during the COVID-19 pandemic (Findings 10 through 12).
- Two observations\* related to opportunities to improve claims processing (Observations 1 and 2).
- UIA appropriately administered the Work Share program based on our review of 80 randomly selected Work Share claims.
- UIA correctly denied or otherwise precluded payment on 79 (98.8%) of 80 randomly selected unpaid claims we reviewed.

\* See glossary at end of report for definition.



## FINDING 1

### **Intentional misrepresentation on PUA claims not established.**

UIA may miss the opportunity to investigate and identify billions of dollars in existing overpayments as potentially fraudulent.

UIA did not investigate potentially misleading or inaccurate information provided by PUA claimants to identify benefit overpayments or determine when PUA benefit overpayments resulted from claimant intentional misrepresentation. Therefore, UIA may miss the opportunity to investigate and identify a significant dollar amount of potentially fraudulent PUA overpayments.

UIA Manual Section 7930 defines intentional misrepresentation as "an act of willful misrepresentation or nondisclosure of a material fact for the purpose of obtaining benefits to which the claimant is not entitled or preventing benefit payments where an individual is entitled." In addition, it requires UIA staff to notify claimants when information they provided to UIA conflicts with information UIA received from another source and to conduct additional fact-finding activities to establish the correct information. For UC benefit programs other than PUA, when UIA received conflicting information on a claim, UIA had programmed MiDAS to allow for a protocol that included stopping payments on the claim, creating an applicable nonmonetary issue, establishing overpayments when applicable, and sending fact-finding questionnaires to resolve the conflict and potential intentional misrepresentation. Section 62(a) of the Michigan Employment Security (MES) Act prohibits UIA from issuing a determination of intentional misrepresentation more than three years from the date of any related improperly paid benefits.

Although the CARES Act established claimant self-attestation as the basis for PUA eligibility, UIPL No. 16-20, Change 2, issued July 21, 2020, authorized UIA to request supporting documentation from a claimant when it had a reasonable suspicion the claimant provided fraudulent information on a PUA claim. In addition, UIA Manual Section 6637 requires UIA to consider whether overpayments resulted from claimant misrepresentation. Further, UIA issued guidance to staff in October 2020 requiring them to issue a secondary intentional misrepresentation determination, as appropriate, when reviewing claimant eligibility issues related to an overpayment. Our review determined:

- a. UIA e-mails from the beginning of the COVID-19 pandemic indicated the then UIA director instructed staff not to find fraud against claimants. Also, until their resignation in early November 2020, e-mails show the UIA director instructed staff not to question PUA claimants' self-attestations because they believed UIA lacked the authority to do so. In addition, e-mails show UIA senior managers disagreed with this instruction.
- b. UIA did not program MiDAS to ensure it followed its misrepresentation identification protocol when it established overpayments on PUA claims, including sending fact-finding requests to claimants to determine the cause for the overpayment(s). When denying a paid PUA

claim and establishing overpayments for all benefit weeks, UIA programmed MiDAS to automatically create and close a misrepresentation nonmonetary issue without investigation or adjudication.

- c. UIA did not address other MiDAS programming deficiencies which its staff informed us limited their ability to create nonmonetary issues when UIA had a reasonable suspicion of fraud, confirm intentional misrepresentation and issue redeterminations\*, establish overpayments, and prevent additional payments on PUA claims. This included claims UIA had previously confirmed as fraudulent after a fraud investigation or learned were potentially fraudulent subsequent to initial improper adjudication. E-mails show UIA discussed these MiDAS programming deficiencies in September 2020 and possibly earlier.

UIA established at least \$6.6 billion in PUA claim overpayments.

UIA established at least \$6.6 billion in overpayments for PUA claims (PUA and associated PUC and Lost Wages Assistance [LWA] program benefits) and identified various conditions with the claims which should have triggered its intentional misrepresentation protocol to determine the cause of the overpayments. See Exhibit 7 for UIA's established overpayments by UC program from January 1, 2020 through June 30, 2022. The various conditions included paying PUA claimants who:

- Had no apparent recent attachment to the Michigan workforce (see Finding 5).
- Could not provide or provided UIA with conflicting employment and/or identity verification documentation (see Finding 5).
- Did not report the wages they earned while collecting UC benefits (see Finding 8).
- Were potentially eligible for an overpayment waiver because of agency error but had other open nonmonetary issues including potential fraud (see Finding 4).

In addition, we reviewed information in MiDAS for 60 randomly selected PUA claims to determine if the claimants appeared to meet the program eligibility requirements based upon their self-attestations. We noted 20 (33.3%) claims in which the claimant's self-attested eligibility reasons were reasonably suspicious and should have warranted a request for supporting documentation from the claimant. Suspicious conditions included those mentioned in the bullets above and others.

UIA informed us the opportunities it missed to properly program MiDAS and the former director's instructions precluded it from

\* See glossary at end of report for definition.

UIA confirmed intentional misrepresentation on only 28 PUA claims, although billions of dollars in overpayments occurred.

taking action to determine the cause for the PUA overpayments, to follow up on PUA claims for which it had a reasonable suspicion of fraud, and to determine whether the claimants meet the PUA eligibility requirements based on their self-attestation and, if not, if intentional misrepresentation was involved. In December 2021, Deloitte estimated UIA paid billions of dollars in fraudulent UC payments because of intentional misrepresentation, after reviewing nearly 15,000 UC claims, including PUA claims. However, UIA informed us it had not taken any action to confirm the suspected fraudulent claims identified by Deloitte were indeed fraudulent and to recover the associated overpayments. As of March 2022, UIA determined intentional misrepresentation on only 28 PUA claims totaling approximately \$342,000.

UIA informed us as of August 2022, it was in the process of making the necessary changes to MiDAS to confirm intentional misrepresentation on PUA claims. UIA stated until these changes are completed, it has no way to establish intentional misrepresentation and issue related nonmonetary redeterminations. UIA explained that even a manual case-by-case review outside of MiDAS would be impractical and potentially hindered by UIA's previous actions with these claims. The three-year window for UIA to confirm intentional misrepresentation for the PUA overpayments starts to close in April 2023.

We consider this finding to be a material condition because of the significant number of PUA claimants UIA has not contacted to establish the cause of their overpayments, UIA's failure to take timely and appropriate action to address the MiDAS programming deficiencies, and UIA's inability to establish and collect on overpayments for which it had not timely established overpayments. In addition, not confirming intentional misrepresentation on PUA overpayments has likely resulted in UIA granting waivers to claimants who submitted fraudulent PUA claims (see Finding 4).

## **RECOMMENDATION**

We recommend that UIA investigate potentially misleading or inaccurate information provided by PUA claimants to identify benefit overpayments and determine when PUA benefit overpayments resulted from claimant intentional misrepresentation before the three-year window to do so on these claims closes.

## **AGENCY PRELIMINARY RESPONSE**

UIA partially agrees with the Finding. Given the length of its preliminary response, the response and our auditor's comments are presented on page 80.

## FINDING 2

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### **UIA needs to consistently apply its fraud controls.**

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UIA temporarily reassigned its Investigations Division (ID) staff and removed many of its business rules from its automated fraud detection and prevention controls at the onset of the COVID-19 pandemic.

Although these actions allowed for more staff to assist with claims processing and more expedient payments to claimants, they did not align with USDOL guidance and significantly diminished UIA's ability to help ensure UI program integrity. In a December 2021 report, Deloitte estimated \$2.7 billion (9.5%) of \$28.3 billion in total benefits UIA paid for claims filed from March 1, 2020 through October 2, 2020 likely involved imposters. UIA's fraud controls would likely have flagged and prevented at least some portion of these claims. Conversely, Deloitte estimated less than 0.5% of the \$6.2 billion in total benefits paid for claims filed from October 3, 2020 through September 30, 2021, which was after UIA reinstated its fraud controls, likely involved imposters.

UIPL No. 19-11 calls on all states to ensure UI integrity is a top priority and develop state specific strategies to bring down the UI improper payment rate and help to create and cultivate a culture of integrity throughout the entire UI system. Also, the UIPL states the best way to effectively reduce an improper payment rate is to prevent improper payments before they occur. In addition, it states integrity programs must be designed to discourage fraud and uncover potential issues of fraud at the earliest possible time.

USDOL issued UIPL No. 16-20 on April 5, 2020, and several other UIPLs thereafter, which reminded states of the importance of program integrity and required them to take reasonable and customary precautions to deter and detect fraud. UIA developed and implemented its Fraud Manager software in 2018, which scans claims at filing and certification to identify questionable claims requiring further review. Rather than maintaining or enhancing its fraud detection efforts at the onset of the pandemic, UIA considerably weakened them. Specifically, we noted:

UIA reassigned the ID administrator and staff to a special project within LEO and other work within UIA resulting in limited oversight of Fraud Manager.

- a. On March 30, 2020, UIA's former deputy director, at the direction of the then UIA director, reassigned the ID administrator to a special project involving data analytics for LEO and the 76 ID staff to other work within UIA. This action resulted in limited oversight of Fraud Manager and limited staff to investigate suspected fraudulent claims identified by Fraud Manager, referral, or other means.
- b. On March 31, 2020, UIA disabled its customary first payment review holds on newly filed regular UI claims. When used, this fraud prevention tool delays payment on new claims for 10 business days to allow claimants' prior employers to protest claimants' monetary determinations and separation reasons, as warranted.

UIA stated it took this action to expedite benefit payments and because it believed many employers would be unavailable to timely respond to UIA requests when they were closed by the Governor's EO, which prohibited in-person work for nonessential businesses.

Although the Governor lifted the stay-at-home order for various industries beginning May 1, 2020, and for all employers by June 1, 2020, UIA did not reestablish the first payment review hold until September 24, 2020. UIA made 1.1 million first payments totaling \$2.0 billion on regular UI claims while the first payment review hold was inactive.

UIA's former director requested all but one of the rules used by Fraud Manager to identify and stop payment on potentially fraudulent claims to be temporarily suspended.

- c. On April 13, 2020, UIA's former director requested all but one of the rules used by Fraud Manager to identify and stop payment on potentially fraudulent claims be temporarily suspended. This included rules to identify claimants using blacklisted e-mail domains and/or blacklisted IP addresses; claimants with out-of-state addresses; multiple claimants using the same information, including bank account, IP address, and physical address; and other conditions closely correlated with fraud, including the distance between the IP address and physical address.

UIA informed us it was under pressure from various places, including the Legislature, to quickly process and pay unemployment claims.

A sequencing error allowed new claims to be processed and paid before going through Fraud Manager. UIA made first payments totaling \$3.2 billion during this time.

- d. From March 31, 2020 through May 19, 2020, UIA made 4.0 million payments totaling \$6.3 billion, including 1.5 million first payments totaling \$3.2 billion, for regular UI and PUA claims. Although Fraud Manager screened the claim information, it was after UIA made the payments, thus rendering the screening ineffective at preventing potentially fraudulent payments. According to Deloitte's November 2020 report, when UIA disabled its first payment review hold (part b.), this change led to a sequencing error which allowed new claims to be processed and paid before going through what remained of Fraud Manager, and UIA did not identify this sequencing error during post implementation testing.

On May 22, 2020, the former director moved the ID administrator back to their original position, began reassigning staff back to the ID, and began approving staff to program rules back into Fraud Manager. UIA reinstated Fraud Manager by June 29, 2020. However, as noted in Deloitte's November 2020 report, several of the controls did not initially work as intended, including the controls related to the out-of-state addresses. UIA continued to address programming issues with Fraud Manager until at least

September 2020. We noted \$26.2 billion (92.5%) of the \$28.3 billion previously noted related to claims filed by June 29, 2020.

We consider this finding to be a material condition because of the significant number of fraudulent UC benefit payments UIA may have prevented. This policy decision and others depicted in this report reflected an overall poor tone at the top that significantly hindered UIA's ability to ensure the integrity of and effectively administer the new federal programs at the onset of the pandemic.

**RECOMMENDATION**

We recommend that UIA consistently administer fraud detection and prevention controls to help ensure the integrity of its UI programs.

**AGENCY  
PRELIMINARY  
RESPONSE**

UIA and LEO agree with the Finding. Given the length of their preliminary response, the response and our auditor's comments are presented on page 82.

### FINDING 3

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**Improvement needed to ensure claimants meet federal eligibility criteria.**

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UIA paid \$8.3 billion in PUA claims without requiring claimants to certify they met federal eligibility criteria.

UIA made improper payments totaling at least \$1.7 billion to claimants who selected only 1 or more of 5 invalid eligibility criteria.

UIA did not require some PUA claimants to certify they met federal eligibility criteria for those benefits and, therefore, UIA could not support the appropriateness of PUA payments of \$10.2 billion.

The CARES Act and UIPL No. 16-20 contained a combined total of 11 COVID-19 related eligibility criteria for the PUA program. UIPL No. 16-20, Change 5, added 3 COVID-19 related eligibility criteria in February 2021. To qualify for PUA benefits, claimants had to certify they met at least 1 of the 14 criteria when applying for program benefits and each week thereafter when claiming PUA benefits. Our review disclosed:

- a. UIA paid \$8.3 billion in PUA claims for benefit weeks ended February 8, 2020 through June 27, 2020 without requiring claimants to certify they met 1 of the 11 (at that time) federal eligibility criteria, because UIA did not include the criteria on its weekly continued claim certification form during this period. Based on these claimants' original applications, which preceded the weekly certifications required to establish eligibility for payment, claimants selected 1 of 5 invalid reasons UIA erroneously included on the original application, without selecting a valid eligibility criterion. This resulted in improper payments totaling \$3.0 billion (36.6%) of the \$8.3 billion. UIA provided the claimants who selected 1 of 5 invalid reasons on their application the opportunity to requalify to 1 of the 14 (at that time) valid COVID-19 eligibility criteria in summer 2021 (see Finding 4). We did not obtain data from UIA to determine how many applicants requalified with a valid criterion. UIA did not require claimants who had not certified to any criteria for the benefit weeks ended February 8, 2020 through June 27, 2020 to retroactively certify for those weeks.

We reported this issue in Finding 2 of our November 2021 performance audit report on Establishing Pandemic Unemployment Assistance Eligibility Criteria (186-0319-21A). However, during our fieldwork for that audit, UIA had not yet provided data we requested to quantify the potentially improper benefit payment amount for the entire population of affected claimants. In addition to the 4 unauthorized criteria noted in Finding 2 of our report, UIA modified the CARES Act criteria for self-employed individuals, making it also invalid.

- b. UIA made improper payments totaling at least \$1.7 billion to claimants who selected 1 or more of 5 invalid eligibility criteria UIA included in its weekly certification forms but none of the 11 (at that time) valid federal eligibility criteria for benefit weeks ended July 4, 2020 through February 27, 2021. We cited this condition in Finding 2 of our audit report mentioned in part a., and UIA had not provided requested data at that time to allow us to quantify the improper payment amount. UIA provided these claimants

the opportunity to requalify or recertify to one of the 14 (at that time) valid COVID-19 eligibility criteria in summer 2021. The \$1.7 billion in improper payments is independent of those claimants who recertified to a valid COVID-19 eligibility criteria for these benefit weeks.

- c. UIA paid \$70.2 million to claimants who certified they did not meet any of the 14 federal eligibility criteria or UIA's 5 invalid eligibility criteria on 134,779 weekly certifications filed for benefit weeks ended July 4, 2020 through September 4, 2021. Also, UIA paid at least \$25.1 million to claimants who certified they were eligible for PUA benefits for a reason other than the 14 federal eligibility criteria or UIA's 5 invalid eligibility criteria on 54,887 weekly certifications filed for the same period. When claimants certified in either of these ways, they were prompted to answer additional questions that UIA adjudicators had to manually review to determine if the claimants' responses showed the claimants met at least one of the federal eligibility criteria for each of the week(s) in question. Rather than working with its MiDAS vendor to create a nonmonetary eligibility issue for this specific issue (because one did not exist within existing MiDAS functionality for PUA claims), UIA used an existing nonmonetary issue related to the claimants' availability for work which may or may not have been applicable. We randomly sampled and reviewed 25 and 30 weekly certifications from each of the identified populations, respectively, and noted UIA did not identify or document in MiDAS which of the valid eligibility criteria 22 (88.0%) and 26 (86.7%) claimants met that qualified them for benefits. Consequently, we estimate UIA made improper PUA benefit payments totaling \$64.3 million and \$22.4 million from each of the populations, respectively. Our detailed examination of the 55 weekly certifications disclosed:

- (1) UIA staff inappropriately adjudicated the eligibility issues associated with 11 (20.0%) weekly certifications as claimant availability issues. This was likely caused by UIA incorrectly identifying the issues in MiDAS as availability issues. UIA informed us it did not train or otherwise provide written instructions to adjudicators to correctly identify and adjudicate these issues.
- (2) UIA staff did not create notes in MiDAS supporting their adjudications on 27 (49.1%) weekly certifications and there was no evidence in the certifications or MiDAS showing the claimants met any of the 14 federal eligibility criteria. Also, UIA staff did not document in their notes which of the



14 federal eligibility criteria claimants met to support adjudications for 2 (3.6%) other weekly certifications. UIA informed us that after performing any action on a claimant account, staff must leave a note detailing what they did and why they did it. As discussed in part c.(1), it is possible UIA staff inappropriately adjudicated many of these eligibility issues as availability issues.

(3) UIA did not require claimants to answer certification questions to establish their benefit eligibility on 3 (5.5%) weekly certifications. The questions were originally related to claims against another UC program with different eligibility criteria and 3 (5.5%) certifications for then non-current benefit weeks the claimants had earlier declined to certify for.

(4) UIA staff properly adjudicated that the claimants associated with 3 (5.5%) certifications were not eligible for PUA benefits for the applicable weeks, but they failed to take the necessary action in MiDAS to stop the payments from being made.

USDOL issued updated guidance in August 2020 stating claimants whose children had the option to attend in-person classes were ineligible for PUA; however, UIA did not update its weekly benefit certification form until more than six months later.

d. UIA paid up to \$163.3 million in payments to claimants who selected an eligibility reason related to their children without requiring them to certify their children had no option to attend school in person, facility care for a child was required for the claimant to work and their care facility was closed, or without properly adjudicating the claimant's responses when necessary. Although USDOL issued updated guidance in August 2020 prior to the beginning of a typical school year stating claimants whose children had the option to attend in-person classes were ineligible for PUA, UIA did not update its weekly benefit certification form until more than six months later, and it may not have properly adjudicated claimant responses to related questions after the update because of reasons mentioned in part c.

UIA informed us it bypassed established procedures requiring approvals from key UIA personnel when developing its PUA certifications because of the urgency to make them available in response to the COVID-19 pandemic.

We consider this finding to be a material condition because of the significant dollar amount of benefits paid to ineligible and potentially ineligible claimants and the significant impact on the overall integrity of the PUA payments.

**RECOMMENDATION**

We recommend that UIA accurately determine claimant eligibility for UC benefits in accordance with the requirements associated with each UC program.

**AGENCY  
PRELIMINARY  
RESPONSE**

UIA and LEO agree with the Finding. Given the length of their preliminary response, the response and our auditor's comments are presented on page 85.

## FINDING 4

### **Improvements needed to UIA's PUA requalification, recertification, and overpayment waiver processes.**

UIA established at least \$5.2 billion in overpayments for the \$10.4 billion paid to the associated 650,000 PUA claimants.

33.3% of the claimants granted overpayment waivers had open eligibility issues at the time of the waiver.

UIA should improve its administration of PUA requalification, recertification, and overpayment waiver processes.

Improved administration will help UIA ensure it:

- Accurately identifies claimants it incorrectly paid PUA benefits who are eligible for an overpayment waiver and those who should repay the benefits.
- Calculates overpayment waiver amounts and grants overpayment waivers in accordance with statute and USDOL guidance.
- Appropriately communicates with potential waiver recipients.

We estimate UIA may have improperly granted \$1.7 billion in overpayment waivers and did not consider waivers for claims totaling \$280.7 million that met its waiver criteria.

As noted in Finding 3, UIA included 5 unauthorized criteria in its initial PUA application and weekly benefit certification forms. To ensure PUA benefits only went to claimants meeting at least one of the federally specified criteria, USDOL required UIA to re-evaluate affected claimants' PUA eligibility. Consequently, in June 2021, UIA asked nearly 650,000 PUA claimants to requalify and/or recertify, as applicable, using the specific federal criteria only. As of October 2021, UIA had paid these claimants a total of \$10.4 billion, most of which it had paid prior to UIA's requalification and recertification efforts. UIA established overpayments totaling at least \$5.2 billion, most of which resulted from the requalification and recertification process.

In July 2021, UIA began a process to waive the overpayments it caused by using the unauthorized criteria. UIA's methodology to identify claimants eligible for overpayment waivers included programming MiDAS with broad criteria based primarily on if they had selected one or more of the 5 unauthorized criteria. Generally, the 331,800 claimants granted these waivers, which totaled \$3.7 billion, were PUA claimants who did not respond to UIA's requalification or recertification request or responded to the requests without selecting an eligible reason and did not have a previously identified overpayment associated with their specific claims. UIA's methodology did not always consider previous adjudications or other potential eligibility issues with the claims.

We reviewed 60 of these waivers totaling \$677,000 and determined:

- a. UIA automatically closed and discarded one or more open claimant eligibility issues without review and potential adjudication on 20 (33.3%) claims granted overpayment waivers totaling \$312,400. The issues included, but were not limited to, potential fraud; employment, income, and

identity verification; and claimant availability for work. By closing these issues without review and adjudication, when applicable, UIA likely missed opportunities to identify imposter claims, claimants misrepresenting their attachment to the workforce, and other issues that should have resulted in UIA enforcing repayment and pursuing fraud investigations, when necessary. Assuming a comparable rate of occurrence exists in the waiver population, we estimate UIA may have granted waivers totaling \$1.7 billion for claims with similar open eligibility issues.

- b. UIA granted 2 (3.3%) overpayment waivers totaling \$12,000 without first considering the impact of previously adjudicated employment-related eligibility issues that found the claimants ineligible for PUA benefits. Also, UIA did not rescind 3 (5.0%) overpayment waivers totaling \$14,600 after it subsequently identified employment-related claimant eligibility issues making them ineligible for some of the overpaid benefits. In all 5 of these instances, the claimants could not substantiate employment or confirmed they had not been employed in 2019 or 2020 and, therefore, may not be eligible for the overpayment waivers because of potential intentional misrepresentation. Assuming a comparable rate of occurrence exists in the waiver population, we estimate \$147.0 million of the overpayment waivers may relate to claims with confirmed eligibility issues unrelated to agency error.

UIA did not consider open or previously adjudicated benefit eligibility issues when identifying overpayments and related waivers because it believed its error of including the unauthorized criteria made all other issues irrelevant.

UIA informed us it did not consider open or previously adjudicated benefit eligibility issues when identifying overpayments and related waivers because it believed its error of including the unauthorized criteria made all other issues irrelevant. However, the selection of the COVID-19 reason was only one of several PUA eligibility criteria, which the claimant certified as accurate under penalty of fraud. For example, claimants' employment which led to their unemployment had to have occurred in Michigan; claimants had to be able and available for work except for their COVID-19 reason; and claimants had to have worked and earned income that was reported to them on a federal 1099 or W-2 tax form, had earned wages in self-employment, or could provide proof for a planned start of a new job. Failure to meet any of these or other eligibility criteria or to provide false information or withhold relevant information would make them ineligible for PUA benefits, as would overreporting their income to obtain a higher weekly benefit amount (WBA).

UIPLs No. 20-21 and 20-21, Change 1, permit a State to grant an overpayment waiver only when the affected claimant was not at fault for the overpayment and preclude granting waivers on overpayments involving claimant fraud or intentional misrepresentation. The MES Act contains

similar waiver allowances and prohibitions. UIA's waiver granting methodology, which included granting waivers to claimants who did not respond to UIA's only request for requalification and/or recertification and did not always consider other eligibility issues including potential fraud, did not always comply with these requirements. UIA informed us it did not seek USDOL guidance on the appropriateness of its methodology.

- c. UIA overstated 7 (11.7%) overpayments and related waivers by a total of \$25,600 by erroneously including the first benefit week of the claimants' ineligibility and all subsequent weeks the claimant received benefits, which mistakenly included some weeks the claimants' weekly certifications made them eligible for PUA benefits. Assuming a comparable rate of occurrence in the waiver population, we estimate UIA may have overstated claimant overpayments and related waivers by \$141.2 million.

We also reviewed MiDAS claim data and documentation related to UIA's requalification, recertification, and waiver processes and noted:

- d. UIA did not identify all claimants who needed to requalify their overall PUA eligibility and/or recertify their eligibility for one or more individual benefit weeks.

We identified 107,800 claims whose filers selected only unauthorized criteria on their PUA applications and/or one or more weekly benefit certifications UIA did not ask to requalify and/or recertify, as applicable.

We identified 107,800 claims whose filers selected only unauthorized criteria on their PUA applications and/or one or more weekly benefit certifications UIA did not ask to requalify and/or recertify, as applicable. These claimants received questionable payments totaling \$200.7 million. Also, we identified 34,800 claims whose filers selected authorized reasons on their original PUA applications but selected only unauthorized criteria when reopening their applications after their original claims became inactive, and UIA did not ask to requalify. These claimants received payments totaling \$80.0 million after they reopened their claims.

UIA informed us it did not use the reasons from the reopened applications to determine claimants' eligibility going forward as it relied on the reasons provided on the subsequent weekly benefit certifications instead.

However, this methodology was inconsistent with that used for other claimants for whom UIA established overpayments based only on reasons included on the claimants' original applications.

- e. UIA did not accurately communicate the requalification and recertification process to PUA claimants and UIA employees.

UIA's June 2021 communication identified only 4 of the 5 unauthorized COVID-19 reasons UIA included on the PUA applications and weekly certifications.

UIA's June 2021 communication identified only 4 of the 5 unauthorized COVID-19 reasons UIA included on the PUA applications and weekly certifications. In addition, UIA's Web site and public statements at the time of the waivers mentioned only 4 of the 5 unauthorized criteria. However, 284,500 (43.8%) of the nearly 650,000 claimants UIA asked to requalify and/or recertify selected a fifth reason (self-employed) on their original PUA applications and/or weekly certifications. UIA ultimately determined 145,400 (51.1%) of these 284,500 claimants were ineligible for and overpaid benefits totaling \$1.8 billion, which UIA then waived. Based upon the results of our sample review, most of these claimants did not respond to UIA's request. It was not obvious UIA's request letter was applicable to them.

The error in UIA's communication demonstrated apparent confusion between UIA senior management who had different understandings of the criteria UIA would use to identify affected claimants. This was also evident during our audit when UIA senior management incorrectly explained it included only 4 of the unauthorized criteria to identify affected claimants. We identified UIA included all 5 unauthorized criteria when it programmed MiDAS when we reviewed the related programming language.

UIA publicly announced in early May 2022 it issued additional overpayment waivers to approximately 55,000 claimants totaling \$431.0 million. However, we could not assess the appropriateness of these waivers because UIA would not provide us with information related to them. Although UIA informed us it planned to complete the waiver process in July 2022 and provide us with requested information at that time, it did not provide the information to us.

We consider this finding to be a material condition because UIA's unauthorized COVID-19 reasons directly impacted over 25% of all UC benefits paid out from March 15, 2020 through June 30, 2022. These benefits were entirely federally funded and it is important UIA ensure only eligible claimants receive them and it only grant overpayment waivers in strict adherence to USDOL directives and other established requirements. Our review of overpayment waivers only included the first round of waivers UIA granted, and UIA has since granted additional overpayments and has indicated it may consider additional waivers as well.

**RECOMMENDATIONS**

We recommend that UIA improve its administration of PUA requalification, recertification, and overpayment waiver processes.

We also recommend that UIA seek legal guidance from the Department of Attorney General regarding its position contending claimants who selected unauthorized criteria could not have committed fraud.

**AGENCY  
PRELIMINARY  
RESPONSE**

UIA and LEO partially agree with the Finding. Given the length of their preliminary response, the response and our auditor's comments are presented on page 87.

## FINDING 5

### **UIA needs to ensure claimants' prior attachment to the workforce.**

UIA did not require or timely require 314,000 known PUA claimants with no identifiable wages or recent income tax records to provide additional information to demonstrate they had a previous attachment to the workforce and were unemployed due to the COVID-19 pandemic. UIA paid these claimants at least \$4.9 billion in PUA and associated PUC and LWA benefits between April 2020 and September 2021, an average of \$15,600 per claimant.

USDOL issued UIPL No. 16-20 on April 5, 2020, which promoted the importance of program integrity and states' fundamental roles in ensuring the integrity of the PUA program. The guidance required states to ensure individuals only receive benefits in accordance with statutory provisions. USDOL issued UIPL No. 16-20, Change 1, on April 27, 2020, which clarified PUA claimants must have an attachment to the labor market and must have experienced a loss of wages and hours or have been unable to start employment following a bona fide job offer due to the pandemic. In addition, USDOL issued UIPL No. 16-20, Change 2, on July 21, 2020, which indicated if a state has reasonable suspicion of fraudulent activity on a claim, the state may request supporting documentation to address the concern.

UIA issued guidance to its staff on how to proceed on claims with reasonable suspicion of fraud in October and December 2020. The December guidance stated an example would include instances when the individual certifies their prior income or employment on their initial claim and UIA cannot verify their wages via the employer wage record in MiDAS or a crossmatch with Department of Treasury income tax data. UIA advised its staff this generally warrants reasonable suspicion when the individual does not have a labor force attachment. In these cases, a request that the claimant provide proof of prior income or employment is typically warranted.

E-mails show UIA management began expressing concerns to UIA and LEO executive leadership in April 2020 regarding the risks associated with the PUA program's eligibility requirements. UIA management repeated these concerns multiple times in the early months of the pandemic and proposed alternative approaches to ensuring program integrity, including forming a task force to review all PUA claims. UIA did not implement the proposals.

UIA management began expressing concerns to UIA and LEO executive leadership in April 2020 regarding the risks associated with the PUA population of claimants.

As of November 2020, UIA paid at least \$3.3 billion to 314,000 PUA claimants who had no identifiable wage records in MiDAS or income tax records with the Department of Treasury.

In late October 2020, LEO's contracted special fraud advisor and another consultant requested UIA and LEO approve a crossmatch between PUA claimants and the Department of Treasury income tax records to "aid in our efforts to determine the extent of potential fraud." At that time, only 13.7% of the PUA claimants which UIA deemed eligible and paid based on their self-attestations had identifiable wages in MiDAS. UIA received the results of the crossmatch in early November 2020, which indicated UIA paid at least \$3.3 billion in PUA and associated PUC and LWA benefits to 314,000 (31.8%) PUA claimants who



had no identifiable wage records in MiDAS or income tax records with the Department of Treasury.

E-mails show after receiving the results of the crossmatch, UIA and LEO executive leadership, management, the special fraud advisor, and representatives from a third consultant met to discuss options on how to proceed. The table below includes the options and impact of each option on active, inactive, and future claimants, as depicted in documentation provided by the third contracted consultant:

	Option 1: Stay the Course	Option 2: Update Requirements for Future Claimants	Option 3: Update Requirements for All Claimants	Option 4: Recover Payments and Update Requirements
Active claimants (138,000)	No changes.	No changes.	Require proof of income for future payment.	Require proof of income and recover payments (if needed).
Inactive claimants (175,000)	No changes.	No changes.	No changes.	Require proof of income and recover payments (if needed).
Future/New claimants	No changes.	Require proof of income.	Require proof of income.	Require proof of income.

E-mails between UIA and LEO indicate potential implications, which included economic and political repercussions, of finding the claimants to be ineligible and establishing overpayments.

E-mails, Microsoft Teams messages, and other documentation indicated UIA and LEO executive leadership and management agreed to move forward with option 3 in November 2020. The communications also indicated decisions on how to proceed with a policy decision of the magnitude in this circumstance would require approval from the Executive Office of the Governor. An e-mail from LEO's then chief strategist to UIA and LEO executive leadership communicated potential implications, which included economic and political repercussions, of finding the claimants to be ineligible and establishing overpayments. The e-mail also stated the option of not making any changes was "not viable, obviously." Although it appeared option 3 was chosen, UIA ultimately did not take any immediate action to address the crossmatch results. Neither UIA nor LEO executive leadership could explain why.

The CAA, enacted on December 27, 2020, required all active PUA claimants to provide employment verification (EV) documentation supporting their previous employment or self-employment within 90 days of UIA notifying them to do so. UIA began requesting this documentation in February 2021.

Although UIA had previously established reasonable suspicion on the 314,000 PUA claimants without identifiable income, it continued to pay these PUA claimants until UIA staff reviewed the EV documentation and responses provided by the claimants. These reviews generally occurred between May and December 2021. By then, UIA had made additional payments totaling

UIA staff did not consistently apply EV guidance when establishing overpayments on PUA claims.

\$1.5 billion to these claimants. UIA issued guidance for its staff to deny PUA claims for claimants they determine were not employed just prior to claiming benefits or who were unable to provide evidence to rebut a reasonable suspicion of fraud. The guidance also provided direction as to when UIA staff should deny an entire PUA claim and when UIA should determine the claimant ineligible and establish overpayments for paid benefit weeks ended January 2, 2021 (the first benefit week after enactment of CAA) and later.

We reviewed randomly selected samples of 110 paid PUA claims, including 50 claims from the 314,000 PUA claimants noted above. For the 110 claims, we reviewed the applicable PUA EV cases for the 59 PUA claims active after the implementation of CAA and noted UIA staff did not consistently apply its claims processing guidance. Specifically:

- a. UIA did not deny the entire claim for 8 claimants it determined were not employed or self-employed prior to claiming PUA. Instead, UIA only established overpayments for benefit payments beginning the week ended January 2, 2021 and thereafter. UIA paid these claimants between \$800 and \$25,500 for weeks ended prior to January 2, 2021, totaling \$136,000.
- b. UIA accepted insufficient documentation for EV, including handwritten business receipts and incomplete Schedule C tax form information, submitted by 6 claimants and did not establish overpayments that should have ranged between \$8,300 and \$34,200, totaling \$104,100.

In addition, for one claim, UIA initially determined the claimant's handwritten business receipts were not sufficient for EV documentation and established overpayments totaling \$12,420. However, the claimant protested and UIA reversed the determination even though the claimant did not provide any additional EV documentation.

UIA had flagged only 10 of these PUA claimants for possible intentional misrepresentation.

As of November 2021, UIA established overpayments totaling \$2.3 billion (46.9%) for 172,000 (54.7%) of the claimants identified in the Department of Treasury crossmatch for reasons including EV and other eligibility issues. However, UIA flagged only 10 of these PUA claimants for possible intentional misrepresentation, which is key to initiating appropriate fraud investigation protocols (see Finding 1).

We consider this finding to be a material condition because of the significant amount of avoidable overpayments, UIA's lack of and delayed action to address known risks concerning PUA claimants' prior attachment to the workforce, and inconsistent establishment of overpayments for PUA claimants.

**RECOMMENDATION**

We recommend that UIA improve its processes to ensure it takes timely and appropriate action to address claimant eligibility concerns.

**AGENCY  
PRELIMINARY  
RESPONSE**

UIA and LEO agree with the Finding. Given the length of their preliminary response, the response and our auditor's comments are presented on page 93.

## FINDING 6

### Improvements needed to UIA's BPR process.

Some of the managers UIA assigned to respond to the increased need for BPRs did not have experience completing them or adjudicating claims.

UIA did not ensure it completed or effectively completed benefit payment reviews (BPRs) on high-risk payments. As a result, UIA likely made payments it should have rejected, adjusted, or held for additional information.

UIPL No. 23-20, issued by USDOL on May 11, 2020, reminded states to maintain a steadfast focus on UI functions and activities that ensure program integrity and detection of improper payments and fraud across all UI programs. The UIPL also reminded states to adhere to federal laws and guidance addressing program eligibility requirements and each state's fundamental established processes for ensuring accurate benefit payments. One of UIA's fundamental processes is the BPR, which is a comprehensive manual review of the UC claim. These reviews are completed by UIA managers regarding the appropriateness of scheduled payments UIA has flagged as high risk based on certain factors, including the amount of and time frame covered by the payment. The BPR results in the manager approving, denying, or adjusting the scheduled payment or requesting additional information from the claimant or other responsible party to make the appropriate payment decision.

Prior to the COVID-19 pandemic, UIA programmed MiDAS to flag for BPR scheduled benefit payments exceeding \$3,000, which equated to 9 weeks of UC benefits at the highest available WBA. UIA explained that BPRs were relatively infrequent prior to the pandemic and, consequently, only a few managers would complete them. In April 2020, the new federal UC programs significantly increased the highest available WBA and relaxed claim backdating limitations, which together allowed for single benefit payments exceeding \$40,000. To respond to the increased need for BPRs, UIA increased the number of managers assigned to complete them. However, some of these managers did not have experience completing BPRs or adjudicating claims.

UIA changed its BPR criteria multiple times during the pandemic. E-mails show UIA's then director requested some of the changes to reduce the volume of benefit payments being flagged for review and to minimize claims payment delays. The changing criteria resulted in UIA not consistently flagging benefit payments for a BPR using sound risk-based criteria that aligned with changing conditions during the pandemic. The following table reflects the

changing criteria and the impact each change had on the number of BPRs UIA completed:

Change Start Date	Change End Date	BPR Is Completed When	Total BPRs Completed by UIA Staff	Average Per Day
Prior to audit period	April 21, 2020	Scheduled payments on same day exceed \$3,000.	1,237*	11*
April 22, 2020	June 11, 2020	Scheduled payments on same day exceed \$11,000.	305	6
June 12, 2020	June 19, 2020	Scheduled payments on same day are for four or more weeks of benefits.	27,181	3,883
June 20, 2020	July 7, 2020	Scheduled payments on same day exceed \$11,000.	1,576	93
July 8, 2020	January 30, 2021	Claim has no prior payments and is backdated four or more weeks.	91,009	442
January 31, 2021	April 4, 2021	UI, EB, PEUC, and other non-PUA programs - Claim has no prior payments and is backdated four or more weeks.	61,253	972
		PUA - Claim has no prior payments and is backdated before December 26, 2020.		
April 5, 2021	September 24, 2021	UI, EB, PEUC, and other non-PUA programs - Claim has no prior payments and is backdated four or more weeks.	116,687	678
		PUA - Claim has no prior payments and is backdated before February 1, 2021.		
September 25, 2021	December 31, 2021	UI, EB, PEUC, and other non-PUA programs - Claim has no prior payments and is backdated four or more weeks.	24,651	254
		PUA - Claim has no prior payments and is backdated before August 22, 2021.		

\* From January 1, 2020 through April 21, 2020.

We reviewed UIA's implementation of these criteria and noted:

UIA increased the threshold for benefit payments needing a BPR from \$3,000 to \$11,000 even though most could not have reached the \$11,000 threshold during that time period.

- a. UIA increased the threshold for benefit payments needing a BPR from \$3,000 to \$11,000 for April 22, 2020 through June 11, 2020. During that period, even when claimants backdated their claims to the beginning of the pandemic and were seeking the maximum benefit, most could not have reached the \$11,000 threshold. Although UIA made 5.5 million benefit payments totaling \$9.6 billion during this period, it completed a BPR on only 305 payments as a result of this change. We noted UIA had already flagged 294 (96.4%) of these payments on April 21, 2020 before increasing the threshold to \$11,000.
- b. Partly because of UIA changing the criteria after June 11, 2020, UIA paid over 16,500 individual benefit payments

UIA paid over 16,500 individual benefit payments ranging from \$11,000 to \$42,466 and totaling \$231.1 million without a BPR.

ranging from \$11,000 to \$42,466 and totaling \$231.1 million without a BPR. UIA excluded many of these payments from BPR if it had previously made payments for the claimants because UIA and its contract consultant determined benefit payments for claimants who UIA had previously paid were low risk. However, UIA had likely paid the previous claims during the time it had essentially eliminated fraud detection and prevention controls (see Finding 2), had not required claimants to certify meeting one of the authorized COVID-19 eligibility reasons for PUA claims (see Finding 3), and included invalid COVID-19 eligibility reasons for PUA claims (see Finding 3). From April 2020 to June 2020, UIA received 1,058,543 PUA applications and made first payments on 852,926 (80.6%) of those claims by the end of June 2020.

- c. E-mails show UIA senior management discussed and agreed to changing the BPR criteria to flag benefit payments totaling four or more weeks in June 2020. This change resulted in an influx of BPRs and created a backlog of approximately 170,000 benefit payments held for review. After one week, the former UIA director requested a change back to the \$11,000 benefit payment threshold. As part of this change, UIA programmed MiDAS to reject approximately 156,000 of the pending BPRs for benefit payments under \$11,000 and then automatically approved new benefit payments for these 156,000 claims. In July 2020, UIA changed the criteria back to flag new claims filed and backdated four or more weeks. By this time, the greatest influx of claims had passed.
- d. UIA excluded benefit payments scheduled from April 5, 2021 through September 24, 2021 from BPR when they were not backdated at least to February 1, 2021. Although this criterion may have been reasonable early on when the allowable number of backdated benefit weeks and associated payments were relatively low, the criterion became questionable as the number of allowable backdated weeks grew from 9 to 33 by September 24, 2021 and the maximum payment approximated \$22,000 (33 weeks at \$362 WBA, plus \$300 PUC). UIA informed us it planned to update the February 1, 2021 backdating date earlier in the cited period but did not because of other priorities. In addition, had UIA kept the \$11,000 threshold when updating the BPR criteria for various backdating scenarios, it could have still flagged significant dollar amount payments for BPR while also flagging smaller dollar amount payments deemed risky by UIA for backdating reasons.

We reviewed claim documentation for the 5 highest benefit payments made without a BPR between January 1, 2020 and

December 31, 2021, ranging from \$32,800 to \$42,466, and determined 4 (80.0%) payments had significant case complexities that should have warranted managerial review before the payment was released. For example, one claimant submitted a note, purportedly from a prospective employer, stating they were scheduled to start work on a specified date but did not end up doing so because the business was temporarily closed because of COVID-19. The note was printed on a plain piece of paper (not business letterhead) and was unsigned by the preparer, calling into question its authenticity.

In addition to the inconsistent and questionable criteria to flag a claim for a BPR, UIA did not monitor managers to identify when they were not spending sufficient time reviewing claim-specific information. We noted:

- e. From January 1, 2020 through December 31, 2021, UIA managers occasionally completed significantly more BPRs in a single day than realistically possible, assuming at least some type of a cursory review of the details of each claim. UIA informed us a BPR takes at least "several minutes" to complete. If taking only 3 minutes per BPR, managers working 8- and 12-hour shifts could complete 160 and 240 BPRs per day, respectively, without taking a break. Our review disclosed 6 managers completed between 250 and 1,621 BPRs per day on 46 different occasions, approving 21,457 benefit payments totaling \$114.9 million. On June 14, 2020 (a Sunday), the manager who completed 1,621 BPRs reported working 8 hours, averaging 17.8 seconds per BPR, with no break.

Six managers completed between 250 and 1,621 BPRs per day on 46 different occasions.

Despite an e-mail instructing the manager to complete a thorough review of each payment, the manager stated they were under the impression UIA deemed the scheduled payments to be low risk and, therefore, thought they only needed to approve the claims for payment without performing any type of meaningful review. Other managers we spoke with who completed at least 500 BPRs in a single day all stated they did not obtain any training, guidance, or written instructions for completing BPRs on PUA claims prior to conducting the BPRs. UIA first provided written instructions to its managers related to conducting BPRs on PUA claims in late July 2020, which was after 34 of the 46 instances previously noted of managers completing more than 250 BPRs per day. UIA did not provide official guidance and training to its staff related to adjudicating PUA claims until October 2020 and conducting BPRs until December 2020, approximately 6 and 8 months, respectively, after the PUA program started. Some stated they did not have any previous experience completing BPRs or adjudicating claims. UIA stated the former director delayed the issuance of formal guidance to UIA managers related to how UIA should adjudicate PUA claims because of disagreements

on PUA eligibility between UIA senior managers and the former director.

We reviewed claim documentation for the 5 largest scheduled payments and 5 other scheduled payments selected at random from BPRs approved during the week ended June 19, 2020. We identified potential issues with 9 (90.0%) of the 10 scheduled payments that, if identified, may have resulted in either payment rejection or reduction or a request for additional information. Examples of issues we identified in the sampled BPRs for the approved payments included:

- (1) Claimants backdating their claims prior to March 15, 2020, which is when the initial COVID-19 cases were confirmed in Michigan and the Governor began issuing EOs related to the pandemic.
- (2) Questions related to prior employment separations, including employer protests that UIA did not review and consider prior to approving the BPR and other separation issues prior to the pandemic.
- (3) Claimants entering gross income rather than net income, not providing sufficient documentation to support the amounts, and submitting questionable supporting documentation to increase their WBA from the minimum of \$160. In one example, the claimant stated they earned \$50,400 in self-employment income and \$50,400 in other income, but only provided a photo of a handwritten piece of paper as documentation, which stated, "Master Barber" and the name of a barbershop.

We found no evidence of a licensed barbershop under the name provided in the Department of Licensing and Regulatory Affairs' database and no reported wages for this individual in the Department of Treasury's tax records. Based upon the total wages the claimant reported of \$100,800, UIA approved the claimant for a WBA of \$362 and any additional benefits, such as PUC (\$300 to \$600, depending on the benefit week) and LWA (\$300) for applicable benefit weeks.

A UIA manager approved a BPR for a payment of \$6,840 purportedly to a member of LEO's executive leadership, who likely was a victim of identity theft.

In addition, we noted a UIA manager approved a BPR on June 15, 2020 for a payment of \$6,840 purportedly to a member of LEO's executive leadership, who likely was a victim of identity theft. Neither UIA nor LEO flagged this claim as potential fraud until we brought it to UIA's attention in January 2022.



We consider this finding to be a material condition because of the high number of large payments paid to claimants without a BPR and the ineffective BPRs completed. The conditions cited in this finding are based on UIA's activities to expedite payments during the pandemic. The opportunity for UIA to improve internal control and ensure the integrity of benefit payments and detect improper payments and fraud across all UI programs is relevant to UIA's current and future operations.

**RECOMMENDATION**

We recommend that UIA improve its process for requiring and conducting BPRs on high-risk payments.

**AGENCY  
PRELIMINARY  
RESPONSE**

UIA partially agrees with the Finding. Given the length of its preliminary response, the response and our auditor's comments are presented on page 95.

## FINDING 7

### **UIA needs to maintain claimants' original applications in MiDAS.**

UIA did not maintain claimants' originally completed PUA applications when it revised its PUA application forms and applied the revisions to those applications in MiDAS.

Claimants' original applications construct the basis for UIA's eligibility decisions, award amounts, and determinations and are critical to ensuring the fair resolution of protests by claimants, employers, and UIA and appeals within UIA, Michigan Office of Administrative Hearings and Rules, Unemployment Insurance Appeals Commission, and the courts. Failure to maintain the original documents could significantly jeopardize UIA's position in any related protests and appeals.

Title 20, Part 602B of the *Code of Federal Regulations*\* (CFR) requires UIA to keep a written record of the facts considered in reaching its determinations. This would include the original documents available to and used by claimants when filing their benefit applications.

UIA created and began using its original PUA application in early April 2020 and then revised it several times thereafter in response to updated guidance and feedback from USDOL and to correct errors. These revisions included changing income reporting instructions from requiring total income to requiring net income and rewording for some COVID-19 eligibility reasons. In addition to making the revisions for use prospectively, UIA added, removed, or changed information on already processed applications in MiDAS related to instructions for providing proof of income and documentation supporting base year employment; eligibility reasons and time frames for being unemployed, working reduced hours, and being able and available for work; and other eligibility-related information.

PUA applications appear in MiDAS as though claimants had not followed UIA's instructions at the time they submitted income information.

Because UIA applied these revisions to processed applications already in MiDAS, the applications appear as though the claimants did not follow UIA's instructions, selected COVID-19 reasons that were worded differently from those they selected, and did not answer questions which UIA had not included at the time the claimant completed the application based on the time and date stamp on the processed application.

UIA did not annotate on the completed applications or otherwise communicate to the claims examiners or other potential users it applied these changes to processed applications. In the event the documents were needed to resolve protests or appeals, it would not be obvious the documents had been altered. For example, it appears UIA staff used the changed applications as the basis for issuing redeterminations and establishing overpayments related to higher WBAs it paid to claimants who had reported total income rather than net income as requested on their original applications. In these instances, the claimants may be eligible for a waiver because the overpayment was not their fault.

\* See glossary at end of report for definition.

UIA informed us it did not intend to apply its PUA application form changes to already processed applications, and its post-implementation review process did not identify it had done so. Although UIA informed us it should be able to restore the affected applications back to their original state, as of August 2022, it had not done so.

We consider this finding to be a material condition because UIA materially altered some claimants' applications without maintaining their original submissions.

## **RECOMMENDATION**

We recommend that UIA maintain claimants' original applications in MiDAS.

## **AGENCY PRELIMINARY RESPONSE**

UIA provided us with the following response:

*We agree UIA should maintain greater version control of all claimant documentation in MiDAS. Constantly shifting federal guidelines necessitated changes to policy and procedure. Consequently, the application was revised several times during the pandemic. These challenges placed a significant amount of stress on MiDAS and staff. At no other period in recent history did there ever need to be such rapid evolution of a program during such a period of historic unemployment rates.*

*The pandemic presented real time challenges for which Unemployment Insurance Agencies nationwide were ill prepared. At the start of the pandemic, UIA, responded quickly and with empathy to calls from both the legislature and claimants to get payments out the door and into the accounts of Michigan workers. The Michigan UIA was not alone in the challenges it faced. However, Michigan is uniquely equipped to respond and rectify these issues and has already begun the process of doing so.*

*The Benefits Division will submit an automation request to restore the original PUA application.*

*UIA will be more vigilant in new program development to ensure program eligibility and processes are clearly defined and align with statute and USDOL guidance. Also, the affected divisions will be consulted and will approve changes prior to implementation. UIA will also practice effective internal controls and ensure approvals are documented moving forward.*

## FINDING 8

### Wage crossmatch leads require follow-up.

UIA did not timely generate and follow up on leads from its federally required quarterly wage crossmatches to identify and recover UC benefit overpayments. This resulted in UIA not identifying or timely identifying paid claimants who were not unemployed or underemployed and, therefore, were ineligible for some or all their UC benefits.

A claimant must be unemployed or underemployed to be eligible for UC benefits. Federal regulation 20 *CFR* 603.23 requires state UC agencies to crossmatch quarterly wage information with UC payment information to the extent such information is likely, as determined by the Secretary of Labor, to be productive in identifying ineligibility for benefits and preventing or discovering incorrect payments to claimants who may not have been unemployed or underemployed.

UIA collects quarterly wage data from most Michigan employers. UIA programmed MiDAS to conduct a wage crossmatch quarterly using the wage and benefit payment data from two quarters earlier and to generate leads identifying claimants who received UC benefits for at least seven weeks and had significant wages during the quarter. MiDAS then creates nonmonetary issues for these leads and sends fact-finding forms to the applicable claimants and employers requesting a weekly breakdown of the wages earned during the quarter. When either or both parties fail to respond, UIA policy requires adjudicators to call the parties and request the information. The weekly wage breakdown is necessary for UIA to determine if claimants had unreported wages during the same weeks they received UC benefits, which could make the claimant ineligible for some or all benefits during those weeks and result in a determination of intentional or unintentional misrepresentation against the claimant.

Because of a technical issue in MiDAS, wage crossmatch nonmonetary issues were not established for each quarter.

UIA informed us it conducted the required wage crossmatches but, because of technical issues, MiDAS had been unable to generate or fully generate leads since September 2019. The following table depicts the number of nonmonetary issues created from the wage crossmatches conducted during each quarter of the audit period, as of March 2022:

Calendar Year	Quarter	Number of Nonmonetary Issues Created From Wage Crossmatch
2020	1	0
	2	0
	3	1,501
	4	438
2021	1	122
	2	0
	3	457
	4	823
2022	1	60,280
Total		63,621

UIA created 94.7% of the wage crossmatch nonmonetary issues during our audit period beginning in the first quarter of 2022.

As shown in the table, during the eight-quarter period ended December 2021, UIA did not create any quarterly wage crossmatch nonmonetary issues during three quarters and created a total of only 3,341 quarterly wage crossmatch nonmonetary issues over the entire period. In the first quarter of 2022, UIA created 60,280 quarterly wage crossmatch nonmonetary issues, 59,404 of which it created after we inquired with UIA about this issue. These 59,404 quarterly wage crossmatch nonmonetary issues related to 49,780 unique claims and were mostly for crossmatches missed during previous quarters. UIA had paid these claimants a total of \$552.6 million.

UIA informed us it restricted the number of wage crossmatch nonmonetary issues it processed each week to either 250 or 500 based on available staffing. However, because of the backlog of nonmonetary issues created in March 2022, UIA acknowledged it would take months or years to process them all.

We reviewed 25 randomly selected nonmonetary issues generated in March 2022 and determined UIA had only adjudicated 1 (4.0%) of them as of October 2022, despite receiving responses to UIA's fact-finding letters from 15 employers and 5 claimants related to 15 different issues. We reviewed these responses and noted at least 8 claimants failed to report earnings for weeks they received UC benefits, likely resulting in the need for UIA to establish overpayment for those weeks. UIA had not attempted to contact any of the nonresponding claimants or employers. Timely identification and follow-up of these leads is critically important because the MES Act prohibits UIA from issuing new determinations on non-fraud related issues and fraud related issues after one year and three years, respectively. Consequently, UIA may have already missed its opportunity to recover overpayments on some of these cases.

UIA stated it was aware of the technical issue within MiDAS preventing it from fully conducting the wage crossmatches but did not prioritize a fix because of the onset of the COVID-19 pandemic, expanded eligibility for UC, and the significant increase in UC claims.

We consider this finding to be a material condition because of UIA's delays in prioritizing corrective action to the technical issue within MiDAS which prevented it from timely completing the federally required crossmatch and the significant amount of benefit overpayments have likely gone undetected, some of which may no longer be recoverable.

## RECOMMENDATION

We recommend that UIA ensure the timely generation and follow up on quarterly wage crossmatch leads to identify possible benefit overpayments.

**AGENCY  
PRELIMINARY  
RESPONSE**

UIA partially agrees with the Finding. Given the length of its preliminary response, the response and our auditor's comments are presented on page 98.

## FINDING 9

### **Improvements needed to ensure claimants are able and available for full-time work.**

Being able and available to work is a fundamental component of eligibility. USDOL stated specifically in UIPL No. 13-20, Change 1, that states may not waive eligibility requirements in response to the spread of COVID-19.

UIA did not consistently require UI, extended benefits (EB), and PEUC claimants to certify they were able and available for full-time work. As a result, UIA did not sufficiently mitigate the risks of paying UC benefits to ineligible claimants.

Federal regulation 20 *CFR* 604 requires states to pay UC only to individuals who are able and available for work during the weeks they claim UC benefits. In addition, Section 421.28(1)(c) of the *Michigan Compiled Laws* states individuals are eligible to receive UC benefits only for weeks UIA finds the individuals are able and available to perform suitable full-time work. Being able and available to work is a fundamental component of UC eligibility. USDOL reiterated similar requirements in UIPL No. 10-20 and UIPL No. 13-20, Change 1, issued on March 12, 2020 and May 4, 2020, respectively. Although states had flexibility when establishing how individuals could demonstrate they met the able and available requirements, USDOL stated specifically in UIPL No. 13-20, Change 1, that states may not waive the requirement in response to the spread of COVID-19. Within UIPL No. 10-20, USDOL referenced federal regulation 20 *CFR* 604 stating the UC program is designed to provide temporary wage insurance for individuals who are unemployed due to a lack of suitable work. The able and available requirements implement this design by testing whether the reason an individual did not work for any week was involuntary due to the unavailability of suitable work.

UIA Manual Section 6335 states that to receive unemployment benefits, a claimant must be able and available to perform suitable full-time work during all hours and shifts of their normal occupation. Suitable full-time work includes work the claimant is qualified to perform and is generally similar to work for which wages were previously earned. UIA may require a claimant to provide documentation to substantiate they are able and available to perform suitable full-time work.

We reviewed the weekly benefit certification forms UIA required claimants to complete for UI, EB, and PEUC claims from January 2020 through December 2021 and noted for the 62 benefit weeks ended March 21, 2020 through May 29, 2021, UIA did not include questions requiring claimants to certify they were able and available for full-time work. Pursuant to EO 2020-24, issued in March 2020, UIA suspended the requirement that a claimant certify to seeking work and to questions about being able and available as conditions for eligibility. However, when the Governor issued EO 2020-57 and rescinded EO 2020-24 on April 22, 2020, effectively reinstating the eligibility requirement that claimants certify they are able and available for full-time work, UIA did not promptly restore the applicable questions to the weekly benefits certification form. UIA resumed requiring claimants to certify they were seeking work for weeks beginning May 30, 2021, and at that time restored the questions on the certification forms regarding being able and available.

E-mails show UIA helped draft many of the unemployment-related changes in EO 2020-24, including the provisions that waived State and federal able and available requirements. UIA did not provide us with an explanation as to why it did not immediately revise its weekly certification form subsequent to the issuance of EO 2020-57. UIA previously informed us it bypassed established procedures requiring approvals from key UIA personnel when developing the weekly certification criteria because of the urgency to make the forms available in response to the COVID-19 pandemic. As a result, UIA did not practice effective internal control and could not provide any documented approvals for the weekly certifications which removed or did not include the able and available questions.

When UIA reinstated the able and available questions, the related potential eligibility issues identified in MiDAS increased approximately 450%.

When UIA reinstated the able and available questions, the related potential eligibility issues identified in MiDAS increased approximately 450% from May 2021 (22,400 cases) to June 2021 (123,800 cases). The lack of including required criteria on the weekly certifications likely factored into Michigan's high ranking in number of benefit weeks compensated by Labor Force Participant compared with other states, as shown in Exhibit 6.

We consider this finding to be a material condition because, despite USDOL explicitly expressing in its May 2020 guidance states could not waive the able and available requirements in response to the spread of COVID-19, UIA continued to waive them for over a year. To identify if there were overpayments to claimants who may not have been able and available during the 62 benefit weeks for reasons such as being a full-time student, needing childcare or transportation, and having medical issues, UIA would need to seek recertifications. However, UIA likely would also need to seek guidance from USDOL to determine if it could waive any related overpayments due to agency error for the omission of the able and available questions on the original certification forms.

## **RECOMMENDATION**

We recommend that UIA improve its internal control to ensure claimants consistently certify to all applicable eligibility requirements on their weekly benefit certifications.

## **AGENCY PRELIMINARY RESPONSE**

UIA agrees with the Finding. Given the length of its preliminary response, the response and our auditor's comments are presented on page 100.



## FINDING 10

### Improvements needed to accurately calculate WBAs.

UIA did not review or timely review income documentation supporting many PUA claimants' requests for WBAs above the minimum established by law for the program.

Accordingly, UIA did not determine the correct WBA for some claimants and did not timely adjust the WBA for other claimants whose income documentation supported a WBA different from their original monetary determinations.

UIPL No. 16-20 requires the WBA for PUA claims to be the same amount as the WBA authorized under each state's UC law for regular UI benefits, except in no case will the amount be less than the minimum WBA described in federal regulation 20 *CFR* 625.6, which for Michigan was \$160 throughout the COVID-19 pandemic. UIPL No. 16-20, Change 1, issued April 27, 2020, required PUA claimants to provide income documentation supporting requests for PUA payments above the minimum WBA and noted acceptable documentation included income tax returns, state agency wage records, paycheck stubs, bank receipts, and other items.

When UIA needs to change a claimant's previously determined WBA, section 32a(2) of the MES Act states UIA must initiate a redetermination of an earlier adjudication within one year of the date of mailing the original determination on the disputed issue or, if the original determination involved a finding of fraud, within 3 years of the date of mailing or personal service of the original determination.

We reviewed a random sample of 25 PUA income verification cases from benefit weeks ended February 8, 2020 through September 4, 2021 and noted:

- a. UIA staff did not review the income documentation submitted by 9 (36.0%) claimants to potentially receive a WBA above the minimum amount when initially applying for PUA benefits. We reviewed the income documentation for these claimants and noted it did not support the higher benefit amount UIA established and paid to 2 claimants, resulting in likely overpayments totaling \$13,610 (7.9%) of the \$173,191 benefits UIA paid to the 9 claimants. The overpayments related to apparent data entry mistakes by the two claimants. These likely overpayments had occurred on claims in which UIA had made the original monetary determination more than one year earlier.

UIA programmed MiDAS to automatically increase a claimant's WBA based on self-attestation of earnings without any manual review of the appropriateness of income documentation submitted by claimants in their initial PUA applications.

UIA programmed MiDAS to automatically open, approve, and close an income verification case based on a claimant's self-attestation of earnings. It also resulted in issuance of a monetary determination for the higher WBA, if applicable, without manually reviewing the appropriateness of income documentation the claimants submitted with their initial PUA applications. UIA established a process for workers to review the income

documentation and adjust the claimant's WBA, if necessary, only when claimants provided their income information after submitting their initial PUA application. In total, UIA approved 110,303 (31.2%) of the 353,479 income verification cases without staff review. These claimants received total payments of \$1.4 billion and, assuming a similar error rate from our sampled items, we estimate overpayments could total \$112.0 million for improper WBA increases.

- b. UIA reviewed supporting documentation for 16 (64.0%) income verification cases an average of 471 days after the case was opened, ranging from 68 to 555 days. UIA reviewed the supporting documentation for these cases because the claimants provided the income information and supporting documentation separate from their PUA applications. In these instances, UIA established the WBA after it reviewed the income documentation. However, delays in UIA's review could result in the claimants not timely receiving their full benefit amounts, UIA not timely identifying PUA claimants that should have received regular UI benefits instead of PUA, and other issues.

UIA stated it anticipated the requirement for claimants to provide proof of income during the claim filing application would prevent overpayments.

UIA informed USDOL in June 2020 it anticipated the requirement for claimants to provide proof of income during the claim filing application would prevent PUA overpayments. However, as cited above, UIA did not manually review the income documentation claimants provided with their initial PUA applications.

UIA stated its former director and others lacking in-depth knowledge of UC developed and designed the PUA application and processing methodology without assistance from more knowledgeable managers and staff. Although income verification was a unique requirement applicable to PUA claims, UIA needs to ensure proper internal control to establish WBA on all UI claims.

## **RECOMMENDATION**

We recommend that UIA ensure it determines claimants' WBAs timely, accurately, and in accordance with applicable laws.

## **AGENCY PRELIMINARY RESPONSE**

UIA agrees with the Finding. Given the length of its preliminary response, the response and our auditor's comments are presented on page 103.

## FINDING 11

### **Improvement needed for reinstating UC requirements temporarily waived.**

UIA should have resumed the seeking work requirement in November 2020. UIA did not do so until the benefit week ended June 5, 2021.

UIA did not timely reinstate work search requirements after its statutory authority to temporarily waive them had expired. This delay likely allowed claimants who would otherwise be ineligible for benefits to continue to receive them for up to 7 months and was in noncompliance with the MES Act. From November 1, 2020 through May 31, 2021, UIA made UC claims payments totaling \$9.5 billion without requiring claimants to actively seek work.

Section 421.28(1)(a) of the MES Act requires claimants to be actively seeking work to receive UC benefits. However, on March 22, 2020, USDOL issued UIPL No. 13-20, which encouraged states to adopt measures to suspend the requirement, as needed, to respond to the spread of COVID-19. On March 25, 2020, the Governor signed EO 2020-24, suspending Michigan's work search requirement. This and subsequent EOs extended the suspension until October 2, 2020. In addition to the EOs, *Michigan Administrative Code Rule* 421.216(2) provides UIA the authority to waive the seeking work requirement when Michigan's unemployment rate is 8.5% or above. Michigan's unemployment rate reached this threshold in April 2020 before falling back below it in October 2020. Given the simultaneous expiration of the EO requirement and the State's unemployment rate falling below 8.5%, as well as the continued easing of restrictions on public gatherings and temporary business shutdowns occurring at the time, UIA should have resumed the seeking work requirement in November 2020. UIA did not do so until benefit week ended June 5, 2021.

For the benefit week ended June 5, 2021, the number of paid claims and payments dropped by 92,386 (15.7%) and \$49.5 million (15.9%) from the prior benefit week. This also coincided with UIA's reestablishment of the requirement claimants be able and available for work. Sufficient information was not available for us to determine how much of the claims and payment reductions were attributable to each of the specific requirements. However, because the simultaneous reestablishment of all three requirements generated a significant number of related nonmonetary issues, each likely had an immediate impact on the reduction of claims paid. The number and dollar amount of paid claims and payments continued to decline each week through September 4, 2021, when the federal UC programs ended. As noted in Finding 9, the lack of eligibility issues prior to UIA's reinstatement of the ability and availability questions, combined with untimely implementation of work search requirements, likely factored into Michigan's high ranking in number of benefit weeks compensated by labor force participant compared with other states as shown in Exhibit 6.

UIA informed us it had intended to reinstate the work search requirement by the end of November 2020, but other priorities, including implementing provisions of the CAA and the need to update claimant notification documents and pertinent sections of its operations manual, were more pressing.

## RECOMMENDATION

We recommend that UIA timely reinstate program requirements that help ensure proper administration of UC funds.

## AGENCY PRELIMINARY RESPONSE

UIA provided us with the following response:

*We agree and have begun steps to timely implement program requirements to help ensure efficient administration of UC funds. We are also confident that with the implementation of a new UI system we will be able to achieve this expectation. On November 15, 2022, the UIA announced it had chosen a new vendor to design and install a modern, innovative, user-focused unemployment insurance computer system that prioritizes ease of access for workers and employers while also streamlining jobless claims processing. The new system will replace the Michigan Integrated Data Automated System (MiDAS), first put into use nearly a decade ago.*

*The pandemic presented real time challenges for which unemployment insurance agencies nationwide were ill prepared. At the start of the pandemic, UIA responded quickly and with empathy to calls from both the legislature and claimants to get payments out the door and into the accounts of Michigan workers. The Michigan UIA was not alone in the challenges it faced. However, Michigan is uniquely equipped to respond and rectify these issues and has already begun the process of doing so.*

*UIA prioritized the implementation of federal program extensions to ensure minimal impact on unemployed workers relying on benefits to sustain them and their families. UIA will continue to evaluate competing priorities to timely implement program requirements that help ensure efficient administration of UC funds. UIA will also institute and maintain a communication plan so that, as the need arises, timely notice can be provided to customers when there are changes in a program's requirements, such as work search obligations. The UIA is already working with a Detroit-based nonprofit to improve our communication with claimants as well as to create a better system to walk customers through both eligibility guidelines and applying for benefits.*

*The UIA is committed to ensuring that all workers who are eligible for benefits receive them. Accuracy and efficiency are central to the success of any UI program and to the determination of eligibility for UC benefits in accordance with associated requirements. However, it cannot be stressed enough how greatly the UIA is hamstrung by the limitations and support of our current database. The same system limitations noted in the response to the ninth finding continue to plague the agency's ability to respond in a timely manner to the concerns noted in this one. Wholesale change is necessary to the UIA's operating system to deliver the level of service Michigan workers and businesses expect.*

## FINDING 12

**Improvement needed to consistently meet select federal claims processing performance standards.**

UIA's monthly performance was below standard for 85.7% of the months we reviewed.

UIA did not consistently meet select federal claims processing performance standards. Improved performance will help UIA ensure timely and accurate payments and appropriate claim adjudications.

USDOL ETA establishes performance standards or UI Performs core measures as its performance management system to ensure increasingly effective, consistent, and efficient service to workers and employers. The core measures within UI Performs monitor key activities that have uniform national acceptable levels of performance. We reviewed UIA's compliance with select core measures for January 1, 2020 through September 30, 2021 and noted:

- a. UIA did not consistently meet the UI Performs core measure requiring it to make at least 87% of all initial benefit payments within 21 days of the week ending date of the first compensable week of a claimant's benefit year. UIA's monthly performance was below standard for 18 (85.7%) of the 21 months we reviewed. UIA's performance for the 18 months ranged from 34.8% to 81.5% and averaged 53.5%.

Starting in 2014 and continuing through 2019, USDOL designated Michigan as "At-Risk" for consistently failing to meet ETA's UI Performs core measure related to first payment timeliness. UIA stated it did not receive any "At-Risk" letters from USDOL for fiscal year 2020 or 2021. UIA stated it was working with ETA to improve its first payment timeliness before the COVID-19 pandemic but halted the collaboration when the pandemic began.

- b. UIA did not meet the UI Performs core measures requiring it to complete at least 80% of nonmonetary separation determinations and nonseparation determinations within 21 days of their issue detection dates for 7 (100.0%) of the 7 quarters and 5 (71.4%) of the 7 quarters we reviewed, respectively. UIA's performance for separation determinations ranged from 6.0% to 61.0% and averaged 23.3%, while its performance for nonseparation determinations for the 5 quarters ranged from 24.1% to 59.9% and averaged 43.0%. For the most recently reviewed quarter, being quarter ended September 30, 2021, Michigan was ranked 24th and 30th among the 50 states for its performance on the separation and nonseparation determination core measures, respectively.
- c. Michigan did not meet the UI Performs core measure requiring the average age of pending lower authority appeals to be 30 days or less for 6 (85.7%) of the 7 quarters we reviewed. For the 6 quarters, the average age of pending lower authority appeals ranged from 33.5 days to 156.0 days and averaged 71.6 days. For the most recent quarter, being quarter ended September 30, 2021,

Michigan was the 5th highest performing state for this core measure.

- d. UIA did not meet the UI Performs core measure requiring at least 75% of nonmonetary determination quality scores be equal to or greater than 95 points for 2 (40%) of 5 quarters we reviewed for separation-related determinations and 1 (20%) of 5 quarters for non-separation determinations. The number of quarters tested was limited because USDOL did not require reporting of nonmonetary quality scores during the first 2 quarters of the pandemic, being January 1, 2020 through June 30, 2020.

After missing the standard for both separation and non-separation issues in the quarter ended September 30, 2020, UIA significantly improved the quality of its determinations during the remainder of the review period. During this period, UIA missed the core measure for separation determinations for only one quarter and by only 1.3%.

We reported similar issues in Finding 6 of our April 2016 performance audit report on Claimant Services (641-0318-14), and our subsequent February 2020 follow-up report on Claimant Services (641-0318-14F). Our follow-up report noted UIA was not consistently meeting federal standards for first payment and nonmonetary determination timeliness but had met standards for lower authority appeal timeliness and nonmonetary determination quality.

UIA informed us the large influx of UI claims and other workload during the pandemic led to difficulties in meeting federal claims processing performance requirements. We reviewed the timeliness of UIA's adjudication of MiDAS cases and its review of other documentation. See Observation 2 for details, which in part contributed to UIA's inability to consistently meet federal performance standards.

## **RECOMMENDATION**

We again recommend that UIA continue to take actions to consistently meet federal claims processing performance standards.

## **AGENCY PRELIMINARY RESPONSE**

UIA provided us with the following response:

*We agree. UIA will implement measures to consistently meet federal performance standards related to initial benefit payments, nonmonetary determination, and lower authority appeals processing. We will also take action to ensure the consistent quality of our separation-related and non-separation related nonmonetary determinations.*

*Throughout the pandemic the UIA was acting swiftly and with empathy to address hardships that people were going through due to a global pandemic. The volume of claims filed in the spring of 2020 peaked with a high of over 388,000 in a single week, compared with just 5,000 claims before the pandemic and a weekly high of 77,000 claims during the Great Recession. Since March 15, 2020, over \$40 billion in benefits has been paid to over 3.5 million workers. The UIA has increased capacity, improved workflow and other internal systems, and reduced red tape to meet the unprecedented level of claims that have been filed since the pandemic began.*

*At the height of the pandemic, customer facing staff more than quadrupled. Before the pandemic, the UIA had around 650 staff; at its peak nearly 3,000 UIA team members were helping claimants. These numbers were documented at length by the OAG in the Personnel Management Audit released earlier this year.*

*If there were slowdowns, it was not due to a lack of diligence and commitment to getting money out the door to eligible workers. Rather, it was because of technological and resource limitations; limitations the present director has a plan to resolve as documented in response to both the MIDAS, Personnel Management, and this present audit. This plan is evident with the November 15, 2022, announcement that the UIA had chosen a new vendor to design and install a modern, innovative, user-focused unemployment insurance computer system that prioritizes ease of access for workers and employers while also streamlining jobless claims processing. The new system will replace the Michigan Integrated Data Automated System (MiDAS), first put into use nearly a decade ago.*

*Specifically related to the elements within this finding:*

*Parts a. and b.: UIA introduced a continuous improvement program and successfully piloted several initiatives with three teams beginning in June 2022 resulting in at least a 20% increase in staff productivity. The initiatives include one-on-one coaching, individual and team goal setting, daily team huddles, and interactive desk aids. In August 2022, UIA expanded the pilot program to an additional 33 teams resulting in a peak 39% increase in staff productivity with an average increase in productivity of 29%. UIA plans to expand the continuous improvement program agencywide by the end of 2023 and to continue exploring additional initiatives to help increase staff productivity.*

*Additionally, UIA is working with its partner, a Detroit-based nonprofit, to improve claimant and employer communication and make the claimant portal more user-friendly. These improvements will reduce the number of customer contacts so that staff may focus on processing work resulting in timelier*

*determinations and issuance of first payments. The improvements are expected to be implemented by the end of 2023.*

*Part c. (Response provided by Michigan Office of Administrative Hearings and Rules [MOAHR]):*

*Failure to meet this metric is attributable to multiple factors including the fact that during the period subject to the finding UIA transferred cases to MOAHR on average 33 days after the appeal was filed. During the last 3.5 quarters of the current fiscal, January 1, 2022, through August 22, 2022, this metric has grown to 61 days. Additionally, as UIA focuses resources on backlog processing, absent additional resources for appeals processing, case volume exceeds MOAHR's capacity constraints. Finally, as older cases continue to be transferred from UIA's backlog to MOAHR's pending cases, the older cases take precedence in scheduling and therefore push the more recent cases back in the queue such that they cannot be processed within the established metric.*

*MOAHR has no ability to impact timeliness from case filing to transfer to MOAHR, but has initiated several processes to expedite processing cases once the appeal is received, including: seeking funding for additional limited-term staff; cross utilization of other staff within MOAHR to address unemployment case volume; implementation of expedited dockets to increase case throughput; and IT system upgrades and implementation of various protocols and procedures to increase efficiency and avoid case adjournments, decrease lag time in transfer of cases, etc.*

*Part d.: UIA requires managers to review each team member's work for quality at least once bi-weekly and review the results with staff when improvement is required. The manager then determines plans to assist staff in improving their quality of work. This requirement has been incorporated into the continuous improvement program one-on-one coaching. Managers are required to report weekly the results of both the productivity and quality of work for their team.*

*The Benefits Customer Service and Operations Divisions are also working on a training plan to ensure all staff are trained appropriately for the work to which they are assigned. The plan will include additional practice time where staff will work in pods and have immediate access to assistance as questions arise ensuring better quality after training.*



## OBSERVATION 1

### Data analytics could help UIA identify suspicious claims.

UIA could analyze its claims data in MiDAS to identify and follow up with claimants receiving UC benefits whose separation reasons or COVID-19 related attestations could trigger its reasonable suspicion protocol.

When applying for regular UI benefits during the COVID-19 pandemic, UIA required claimants to identify the reason they were no longer working for their last employer (e.g., temporary shutdown) along with their separating circumstance (e.g., layoff/temporary leave due to COVID-19). Similarly, PUA claimants had to self-attest to the COVID-19 related reason(s) responsible for their unemployment, underemployment, or inability or unavailability for work both upon application and each week thereafter when they certified for UC benefits (starting for weeks ended after July 4, 2020). UIA used this information in verifying a claimant's initial eligibility for PUA and their eligibility for weekly benefit payments thereafter.

UIPL No. 16-20, Change 2, issued on July 21, 2020, authorized states to request supporting documentation to address cases when there was a reasonable suspicion of fraud on a PUA claim. UIPL No. 16-20, Change 4, issued on January 8, 2021, took this a step further and highlighted specific circumstances that would raise the specter of fraud. Specifically, it stated some of the valid COVID-19 related reasons PUA claimants could attest to on their applications and weekly benefit certifications were likely to be valid for only a short duration. It also reiterated the COVID-19 reason regarding school closures did not apply to weeks after the date the school year was originally scheduled to end (i.e., summer break) as originally stated in UIPL No. 16-20, Change 1, issued April 27, 2020.

One third of sampled UI, EB, and PEUC claimants selected a temporary separation reason and/or temporary separation circumstance but claimed UC benefits for an average of 59 weeks.

We reviewed 60 paid UI, EB, and PEUC claims and identified 20 claimants who selected a temporary separation reason and/or temporary separation circumstance and claimed UC benefits for 34 to 81 weeks, or an average of 59 weeks. To assess the appropriateness of these claims, UIA would need to review its employer reported wage records and contact the claimants and their separating employers to determine whether the claimants had unreported wages for the benefit weeks in question, refused a request to return to work, returned to work but continued claiming benefits, or went to work for another employer while continuing to claim benefits.

We also analyzed the COVID-19 related reasons PUA claimants selected in their weekly benefit certifications for weeks ended after July 4, 2020 and noted the following conditions UIA may determine meet its reasonable suspicion criteria:

- a. As shown in the following chart, we identified a number of claims in which claimants selected COVID-19 related

reasons that would typically be used on a short-term basis but claimants used on a long-term basis:

Number of Claims in Which the Claimant Selected the Following COVID-19 Related Reason				
Number of Weeks	Claimant Diagnosed With COVID-19 or Experiencing Symptoms and Seeking Diagnosis	Member of Claimant's Household Diagnosed With COVID-19	Claimant Unable to Work Because of Imposed Quarantine or Was Advised to Self-Quarantine Due to COVID-19	Claimant Unable to Work Because of Providing Care for a Household Member Who Was Diagnosed With COVID-19
	Claimant Selected the Identified Reason			
27 to 52	9,853	11,830	41,101	9,793
53 or more	4,002	4,958	17,042	3,766
Claimant Selected the Identified Reason Without Selecting Other Authorized Reasons				
27 to 52	640	473	7,728	317
53 or more	154	68	2,161	48

- b. As shown in the following chart, we identified a sizable number of claims in which claimants selected an unusually large number of different COVID-19 related reasons in the same weekly certification or in multiple certifications over the lifetime of a claim:

Claimant Certified Using Multiple COVID-19 Reasons in a Single Week		Claimant Certified Using Multiple COVID-19 Reasons Over the Lifetime of the Claim	
Number of Reasons Selected	Number of Instances	Number of Reasons Selected	Number of Claims
9 to 12	118,468	9 to 12	45,817
13 to 15	719	13 to 15	2,628

It was not unusual for claimants to select more than one COVID-19 related reason during a given week. However, the varied reasons available for selection made it unlikely a large number of them would be applicable in any given week and to a lesser degree over the life of the claim.

- c. Claimants made 1.37 million certifications for benefit weeks between mid-June and mid-August in 2020 and 2021 indicating they were the primary caregiver for a child who was unable to attend school or other facility closed due to COVID-19. This period was typically after the end of their school year and before the beginning of the next school year. In 232,515 instances, this was the only COVID-19 reason the claimants selected.
- d. Claimants made 277,289 certifications in which they attested they had quit their job as a direct result of COVID-19 and their place of employment was closed as a direct result of COVID-19, which we view as mutually exclusive reasons for their unemployment, underemployment, etc.

Exhibit 8 shows the number of weeks and dollar amount of benefits paid on individual claims over the pandemic. UIA paid UC benefits on approximately one-third of all claims for 27 weeks or more with nearly 500,000 claims receiving benefits for over a year. Exhibit 9 shows the number of weeks claimants in each standard occupational classification (SOC) code major group received benefits. The SOC group with the largest number of claimants receiving benefits the longest was for food preparation and serving related jobs.

Although UIA was not required to conduct any of these specific analyses and follow up on suspicious claims identified by them, they represent an opportunity for UIA to contribute to the overall integrity its UC programs. Further, as noted in Finding 1, the time limit for issuing a determination on intentional misrepresentation is three years from the date of the improperly paid benefits.

## OBSERVATION 2

### **Establishing and monitoring metrics could help improve the timeliness of case and document processing.**

Establishing and monitoring metrics related to case and document processing for claims could help UIA ensure the timely processing of claims-related information and address longstanding deficiencies in meeting USDOL's broader performance goals highlighted in Finding 12.

We reviewed 120 randomly selected paid UC claims and 80 randomly selected UC claims with no associated payments as of October 2021. We noted these 200 claims had a total of 731 associated cases (e.g., nonmonetary issues, protests, or identification verification) and 171 work items, tasks, or claims-related documents.

As can be seen in the following charts, UIA took or is taking a significantly long period of time processing many of these items:

#### a. Cases

UIA processed 58 (7.9%) and 26 (3.6%) cases more than 6 and 12 months, respectively, from the date it opened them. In addition, as of March 31, 2022, 75 (10.3%) cases remained unprocessed. These cases have been open between 7 and 729 days, averaging 391 days.

	Cases Closed/Discarded					Cases Still Open as of March 31, 2022
	Within 21 Days	From 22 to 90 Days From Creation	From 91 to 180 Days From Creation	From 181 to 365 Days From Creation	Over 365 Days From Creation	
PUA	171	101	41	47	23	41
UI, EB, and PEUC	207	34	18	11	3	34
Total	378	135	59	58	26	75

#### b. Work Items, Tasks, or Claims-Related Documents

UIA processed 56 (32.8%) and 15 (8.8%) of the work items, tasks or claims related documents for more than 6 and 12 months, respectively, from when it established or received them. In addition, as of March 31, 2022, 38 (22.2%) items remained unprocessed. UIA had established or received these items between 41 and 800 days, or an average of 430 days, earlier.

	Reviewed 0 to 90 Days From Receipt	Reviewed 91 to 180 Days From Receipt	Reviewed 181 to 365 Days From Receipt	Reviewed Over 365 Days From Receipt	Not Reviewed
PUA	13	22	33	3	9
UI, EB, and PEUC	20	7	23	12	29
Total	33	29	56	15	38

In Finding 8 of our February 2016 performance audit report on MiDAS, Department of Talent and Economic Development (641-0593-15), we noted UIA had not fully reviewed and implemented methods to automate MiDAS claim processing related to documents it received via mail or facsimile, which required UIA to manually input responses into MiDAS. UIA informed us it still does not have a way to automate claimant or employer fact-finding responses received via mail or facsimile to the MiDAS case.

Delayed adjudication of employer protests led to benefit overpayments approximating \$33,000 and \$43,000 for two sampled claimants.

Timely adjudications and processing or review of claims-related information can significantly impact the appropriateness of a claimant's overall eligibility determination for UC benefits and/or the amount of UC benefits they are approved to receive. For example, we noted a claimant in our sample had filed for regular UI benefits in June 2020, and the claimant's separating employer timely protested the claim approximately two weeks later. However, UIA did not review the protest until July 2021, at which time it sent fact-finding requests to the claimant and employer and ultimately determined the claimant was ineligible for benefits and needed to return approximately \$33,000 in benefit overpayments. In another sampled claim, a claimant filed for UI benefits in May 2020, and UIA received a timely employer protest to a claim but did not attach it to a case associated with the claim and send fact-finding requests for over a year. After approximately 10 more months, UIA adjudicated the case and found the claimant ineligible for benefits and owing approximately \$43,000 in improperly paid benefits. Timely processing of the employer protests could have prevented the improper payments.

## COMMUNICATING WITH UI CLAIMANTS

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### BACKGROUND

UIA communicates with claimants via a Web-based program, telephone calls, and live online chats. UIA's MiWAM allows claimants to apply for UC benefits and submit documents to UIA and UIA to receive and respond to claimant inquiries via Web notices. In addition, UIA has call centers and interactive chat lines claimants can use to file claims and resolve claims-related questions. UIA also communicates with claimants through United States Postal Service (USPS) mail.

In September 2019, UIA implemented its InContact system, which allowed UIA staff to handle claim accounts by telephone and interactive chat. The InContact system allows for telephone calls to be distributed to staff based on wait time and the needs of claimants. Beginning in April 2020, UIA began using workers from multiple staffing agencies to supplement its existing operations, as reported in our March 2022 performance audit report on UIA's Personnel Management Processes During the COVID-19 Pandemic (186-0310-21).

In early 2020, before the COVID-19 pandemic, UIA received approximately 19,500 telephone calls and online chats (contacts) per week. UIA call center employees handled about 17,700 (90.8%) of these claimant contacts per week. During the first 3 months of the pandemic, the average number of claimant contacts per week increased to approximately 859,000. UIA's staff handled an average of about 30,300 of these contacts per week. As the pandemic progressed, UIA significantly increased its number of call center staff and handled up to 180,630 claimant contacts per week. See Exhibit 11 for monthly call center data.

### AUDIT OBJECTIVE

To assess the effectiveness of UIA's communications with UI claimants during the COVID-19 pandemic.

### CONCLUSION

Not effective.

### FACTORS IMPACTING CONCLUSION

- The communication issue noted in the material condition related to administering the PUA requalification, recertification, and overpayment waiver processes (Finding 4).
- The material condition related to UIA's responses to claimants who contacted UIA and UIA's unclear communication provided to claimants (Finding 13).
- The reportable condition related to UIA's insufficient monitoring of the quality of call center workers (Finding 14).

## FINDING 13

### **Improvements needed to UIA's responsiveness to claimant contacts and communications.**

UIA was not sufficiently responsive to claimant contacts during the COVID-19 pandemic. Also, some of UIA's standard written claimant communications were confusing or appeared contradictory.

These conditions negatively impacted UIA's ability to meet its stated goal of providing excellent customer service. It also frustrated claimants as evidenced in a June 2021 claimant survey administered by a consultant hired by LEO in which 62% of 1,457 respondents indicated they were either extremely dissatisfied or somewhat dissatisfied with UIA's unemployment services. Specifically, 69.0% and 41.0% of claimants reported the hardest part of the unemployment process was resolving an issue on their claims and getting status updates on their benefits, respectively. The same survey reported over 33.0% of respondents found it challenging to understand UIA's communications.

UIA offered claimants four primary means for contacting it with claims inquiries: telephone call, live online chat, MiWAM Web notice, and USPS mail. Despite significantly increasing its telephone line count in the early weeks and months of the pandemic to handle more incoming calls along with the number of workers to take these calls and respond to claimants' chats and Web notices, UIA was unable to respond or timely respond to claimants' communications throughout much of the pandemic. Also, some of UIA's written communications to claimants contained confusing wording or wording which, when considered with other communications sent to the same claimants around the same time, appeared contradictory.

We reviewed UIA's weekly telephone call and online chat data from the COVID-19 pandemic (see Exhibit 11) and claimant Web notices UIA received through MiWAM and UIA written communications sent to claimants for a random sample of 120 paid claims and 80 unpaid claims and noted:

UIA's telephone system did not track the number of calls to its call center that received busy signals.

- a. UIA's telephone system did not track the number of calls to its call center that received busy signals and, therefore, were unable to connect with UIA, which prevented full measurement of UIA's effectiveness at receiving and responding to claimant telephone inquiries during the pandemic. However, anecdotal evidence provided by multiple sources suggested UIA's telephone system, insufficient staffing, staff inexperience, and complexities of the new federal UC benefit programs precluded it from handling much of the extremely large call volume during much of the pandemic despite UIA significantly increasing staffing and the number of available lines in the call center throughout the pandemic.
- b. UIA did not respond to approximately 15.7 million (93.5%) of 16.8 million claimant chat attempts from March 29, 2020 through October 2, 2021. While UIA's response rate

UIA did not respond to approximately 93.5% of 16.8 million claimant chat attempts.

averaged less than 1% per week from March 29, 2020 through September 26, 2020, its response rate varied significantly from week to week thereafter as its staffing increased and the volume of chat attempts ebbed and flowed. UIA improved its response rate to combined claimant call and chat contacts to a peak of 93% in August 2021.

- c. UIA did not respond to 57 (27.7%) of 206 claimants' questions received through MiWAM Web notices. Also, UIA indirectly responded to 79 (38.3%) Web notices through other actions (e.g., claims payment or issuance of a determination) and directly responded to 70 (34.0%) Web notices, although in many instances these responses were not timely. The following chart depicts the timeliness of UIA's responses for all 206 Web notices.

Form of Response	Number of Claimant Web Notices in Sample	Percent of Total	Response or Resolution					Average Number of Days to Respond or Resolve
			Within 1 Week	Between 1 and 4 Weeks	Between 4 and 8 Weeks	Between 8 and 26 Weeks	Between 26 and 52 Weeks	
No response	57	27.7%						
Indirect response	79	38.3%	26	33	14	4	2	26
Direct response	70	34.0%	38	16	6	4	6	40
Total	206	100.0%	64	49	20	8	8	33

UIA informed us it did not have sufficient staffing to respond or timely respond to the extremely high volume of claimant contacts received during the pandemic.

- d. UIA did not include the claimant's overall eligibility status and any remaining open issues in its written claimant communications and used language including double negatives which resulted in confusing nonmonetary redetermination communications to claimants.

When an issue arose about a claimant's eligibility for UI benefits, UIA sent the claimant a request for additional information and upon adjudication sent the claimant a nonmonetary redetermination letter regarding the claimant's benefit eligibility in relation to the subject issue. However, when multiple issues were open simultaneously, the resulting nonmonetary redetermination letters could confuse the claimant's ultimate benefit eligibility status. For example, a claimant received a nonmonetary redetermination in July 2021 stating the claimant was not eligible for benefits beginning July 3, 2021 and another nonmonetary redetermination in September 2021 stating the claimant was eligible for benefits even though the claimant remained ineligible for benefits based on the July 2021 nonmonetary redetermination. Another claimant received two nonmonetary determinations on the same day, one stating the claimant was "not disqualified" for



Federal plain language guidelines suggest avoiding the use of double negatives to improve the clarity of official federal communications.

benefits and one stating the claimant was ineligible for benefits. Also, UIA sometimes used double negatives in its nonmonetary eligibility determinations. For example, when UIA reversed a prior determination finding a claimant ineligible for benefits, it stated the claimant was "not ineligible" for benefits rather than simply stating the claimant was "eligible" for benefits. Federal plain language guidelines suggest avoiding the use of double negatives to improve the clarity of official federal communications.

UIA informed us it began working to improve claimant communications and incorporate plain language into its claimant communications in 2019 but had to stop because of the pandemic. On May 1, 2021, LEO contracted with a vendor to improve its claimant communications. Improved communications should help to reduce the number of claimant telephone calls, online chats, and Web notices and allow UIA to use its limited staffing resources more effectively.

We consider this finding to be a material condition because of the difficulties claimants had reaching UIA during the pandemic and confusing communications.

## **RECOMMENDATION**

We recommend that UIA improve its responsiveness to claimant contacts and the clarity of claimant communications.

## **AGENCY PRELIMINARY RESPONSE**

UIA agrees with the Finding. Given the length of its preliminary response, the response and our auditor's comments are presented on page 105.

## FINDING 14

### **UIA needs to ensure the completion of call center staff monitoring.**

Workers generally had no prior experience working with unemployment claims and most workers lacked prior call center experience.

UIA did not sufficiently monitor or ensure contracted staffing agencies sufficiently monitored the quality of the work of contract workers and limited-term State employees brought on to assist in UIA's call center during the COVID-19 pandemic.

Increased monitoring would help UIA timely identify workers requiring additional training to improve their communication skills, unemployment-related knowledge, and understanding of UIA systems or processes and their assigned tasks, all of which help ensure more positive customer service, including providing claimants with accurate and complete information.

From March 29, 2020 through October 2, 2021, UIA received approximately 8.7 million claimant calls and 16.8 million claimant chat messages (see Exhibit 11). To assist it in handling these claimant contacts, UIA contracted with 3 staffing agencies (Accenture, Robert Half, and Provalus) and 16 Michigan Works! Agencies\* (MWAs) to provide approximately 5,500 workers. UIA also hired approximately 590 limited-term State employees to assist in handling these communications. Except for MWA workers, these workers generally had no prior experience working with unemployment claims/claimants and most workers lacked prior call center experience. Before beginning their official duties, most workers received an abbreviated three-day training covering UIA's automated claims processing and telephone systems, call center operations and related expectations, and task specific training. Because of these conditions, it was imperative the new workers be closely monitored to ensure they provided timely, accurate, and complete information to claimants; treated claimants appropriately; and accurately documented their claimant contacts in MiDAS when warranted.

UIA's contracts with Accenture and Robert Half required their supervisors to monitor the quality of their workers' services; however, the requirements were not effective until approximately one month and seven months after the agencies began providing workers to UIA, respectively. Although the two contracts did not delineate the specific monitoring procedures the agencies were to employ, UIA informed us it informally agreed with Accenture that its supervisors were to listen in on and review a call or review and evaluate a text chat for five workers from each of the agency's teams, weekly. UIA informally agreed with Robert Half that its supervisors were to listen in on and evaluate two calls or review and evaluate two text chats for each worker, weekly. UIA did not contractually establish any service quality monitoring requirements for Provalus or the MWAs even though the MWAs used their own telephone systems, which UIA was unable to access. UIA informed us it planned to monitor the quality of services delivered by Accenture and Robert Half workers before the staffing agencies started doing it themselves and for its own limited-term employees by reviewing two calls per worker per week. However, UIA later informed us its managers did not have

\* See glossary at end of report for definition.

sufficient free time to conduct any call or chat monitoring for the staffing agencies' workers during these time periods. We reviewed UIA's and the staffing agencies' call and chat quality monitoring activities and noted:

- a. Accenture did not conduct call or chat monitoring reviews for 10 (26.3%) of 38 workers from a randomly selected team from each of 8 randomly selected weeks Accenture was contractually responsible for monitoring. Accenture did not provide us a reason for not conducting the reviews, and UIA had not established controls to ensure Accenture completed them. We listened to the 19 available call recordings Accenture reviewed and agreed with Accenture's evaluation results. Accenture noted deficiencies in 1 (5.3%) of 19 reviews.
- b. Robert Half did not conduct 2 (100.0%) of 2 call or chat monitoring reviews for 9 (47.4%) workers and 1 (50.0%) of 2 reviews for 6 (31.6%) workers for 1 randomly selected week for each of 19 randomly selected workers Robert Half was contractually responsible for monitoring. Robert Half noted record retention issues for missing reviews. UIA had not established controls to ensure Robert Half completed them. We listened to the 16 available call recordings and the 1 available text chat Robert Half had reviewed and agreed with Robert Half's evaluation results. Robert Half noted deficiencies in 3 (17.6%) of 17 reviews.
- c. UIA did not conduct any call or chat monitoring reviews for 1 randomly selected week for each of 8 (88.9%) of 9 randomly selected limited-term workers working as call center agents. UIA informed us its managers did not have sufficient free time to conduct the reviews.

UIA did not have a process to ensure UIA staff and the contracted agencies documented corrective action and any necessary training or coaching to address deficiencies noted in call or chat monitoring reviews.

UIA stated it did not have a process to ensure UIA staff and the contracted agencies documented corrective action and any necessary training or coaching, when applicable, to address deficiencies noted in call or chat monitoring reviews and improve claimants' customer service experience.

UIA had a process for electronically monitoring various worker productivity measures, such as the number of calls taken daily, the average length of time spent on individual calls, and the total amount of time spent on calls versus other activities. UIA informed us it met weekly with staffing agencies to discuss these metrics and some quality measures to make sure workers were performing appropriately. However, without the monitoring of worker telephone calls and text chats, UIA's efforts to evaluate the quality of each worker's efforts were insufficient.

**RECOMMENDATION**

We recommend that UIA sufficiently monitor or ensure the sufficient monitoring of the quality of work of all call center workers.

**AGENCY  
PRELIMINARY  
RESPONSE**

UIA agrees with the Finding. Given the length of its preliminary response, the response and our auditor's comments are presented on page 107.

## PROCESSING UI CLAIMS AND OTHER RELEVANT DATA

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### AUDIT OBJECTIVE

To compile and provide information on UI claims processed by UIA during the COVID-19 pandemic and other relevant data.

### CONCLUSION

Information provided.

### FACTORS IMPACTING CONCLUSION

- Exhibit 1 presents a description of unemployment programs and program progression from January 1, 2020 through June 30, 2022.
- Exhibit 2 presents the timing and total count of UC claims paid by benefit week, dollar amount of UC benefit payments by week paid, and total dollar amount of payments by claim type and benefit week for weeks ended from January 4, 2020 through October 2, 2021.
- Exhibit 3 presents the top 15 states with the largest UC benefit payments and UC benefit payments for USDOL Region 5 from January 1, 2020 through June 30, 2022.
- Exhibit 4 presents the top 15 states with the largest UC benefit payments by labor force participant and UC benefit payments by labor force participant for USDOL Region 5 from January 1, 2020 through June 30, 2022.
- Exhibit 5 presents the top 15 states with the largest number of benefit weeks compensated and the number of benefit weeks compensated for USDOL Region 5 from January 1, 2020 through June 30, 2022.
- Exhibit 6 presents the top 15 states with the largest number of benefit weeks compensated by labor force participant and the number of benefit weeks compensated by labor force participant for USDOL Region 5 from January 1, 2020 through June 30, 2022.
- Exhibit 7 presents Michigan's UC benefit payments by program and their related overpayments from January 1, 2020 through June 30, 2022.
- Exhibit 8 presents the range of weekly benefit payments by UC claim type and the range of dollar amount of benefit payments by UC claim type for claims active from January 1, 2020 through September 30, 2021.
- Exhibit 9 presents the weekly UC benefit payment ranges by SOC code major groups for claims active from January 1, 2020 through September 30, 2021.

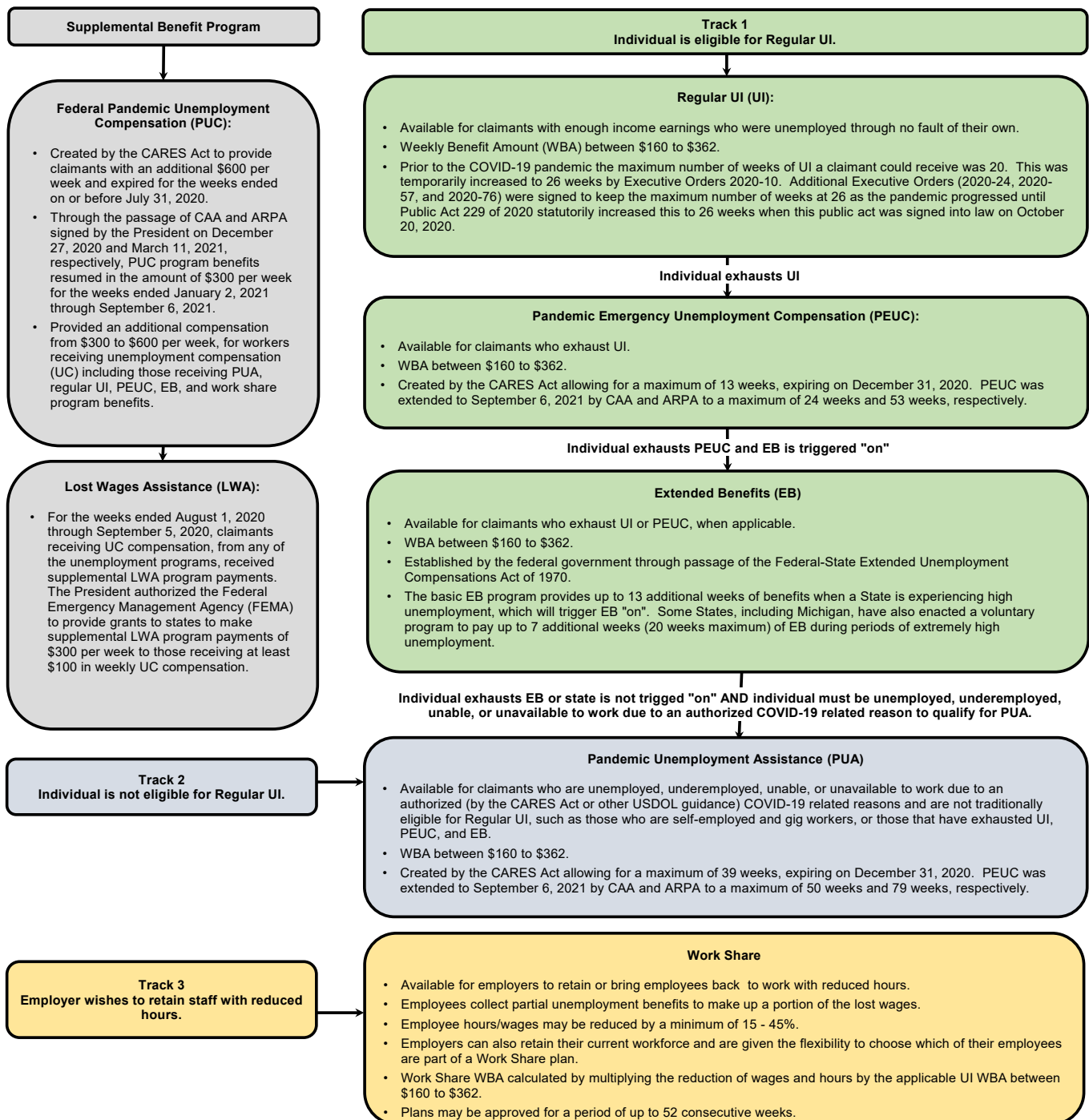
- Exhibit 10 presents the total UC benefit payments by SOC code major groups for claims active from January 1, 2020 through September 30, 2021.
- Exhibit 11 presents the call center activity from October 1, 2019 through September 30, 2021.

# SUPPLEMENTAL INFORMATION

UNAUDITED  
Exhibit 1

## CLAIMS PROCESSING DURING THE COVID-19 PANDEMIC Unemployment Insurance Agency (UIA) Department of Labor and Economic Opportunity (LEO)

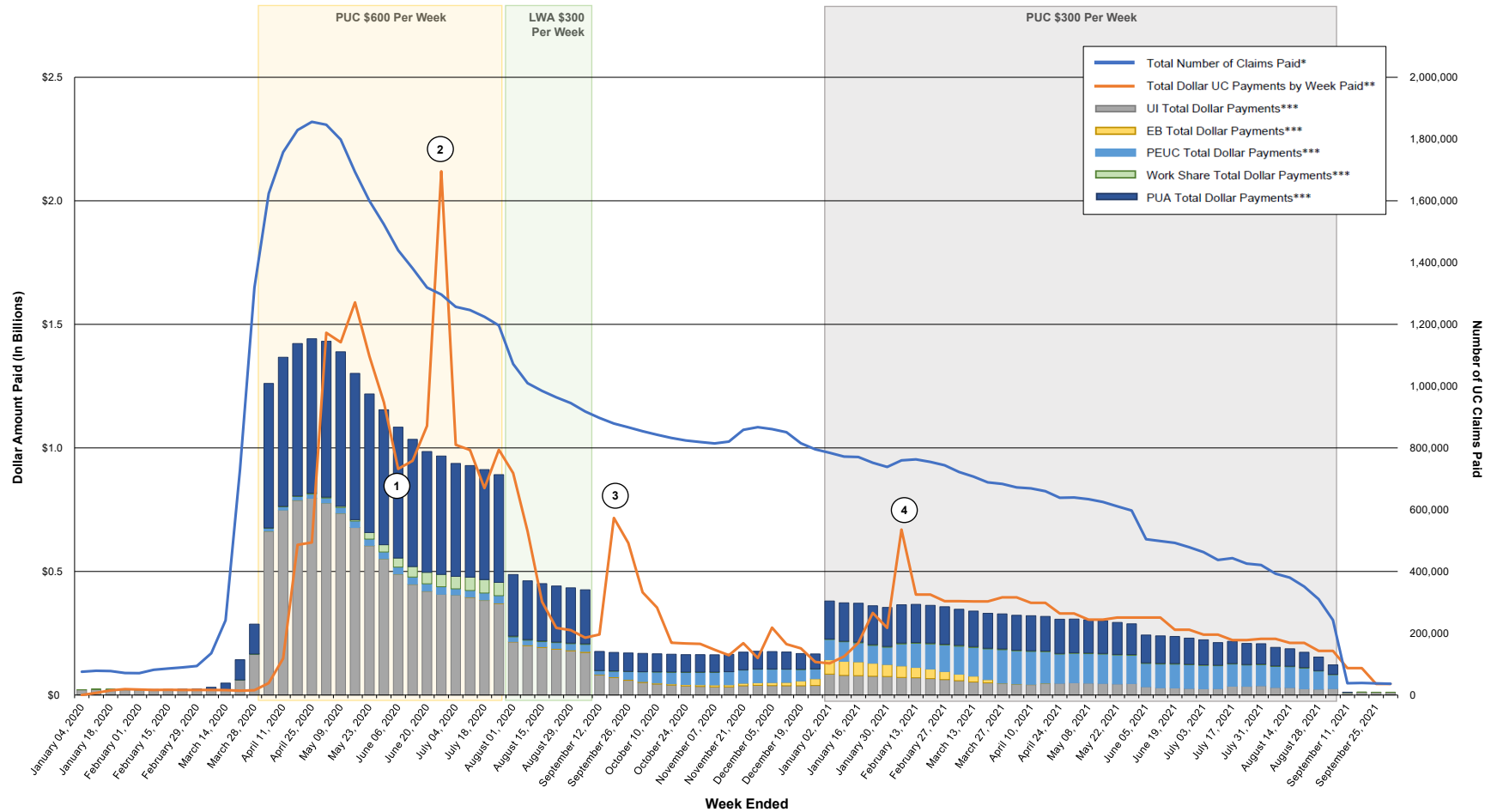
Description of Unemployment Programs and Program Progression  
January 1, 2020 Through June 30, 2022



Source: The OAG created this exhibit based on review of the CARES Act, CAA, ARPA and other USDOL, FEMA, and UIA documentation.

**CLAIMS PROCESSING DURING THE COVID-19 PANDEMIC**  
 Unemployment Insurance Agency (UIA)  
 Department of Labor and Economic Opportunity (LEO)

Timing of Total Count of UC Claims Paid by Benefit Week, Dollar Amount of UC Benefit Payments by Week Paid, and Total Dollar Amount of Payments by Claim Type and Benefit Week  
 For Weeks Ended From January 4, 2020 Through October 2, 2021



**Explanation of Spikes and Dips in Benefit Payment Timing**

1. May 19, 2020 - UIA corrected the Fraud Manager sequencing issue, see Finding 2.
2. June 19, 2020 - UIA rejected approximately 156,000 pending BPRs, for payments under \$11,000, resulting in UIA issuing benefit payments without the need for manual review, see Finding 6.
3. September 19, 2020 - UIA began to pay LWA benefits to claimants this week.
4. February 6, 2021 - UIA began to pay PUA, PEUC and associated PUC for benefit weeks under CAA, after CARES Act expiration.

**Explanation of Key**

\* The amounts represent total claims paid for each benefit week, not claims paid during each benefit week.

\*\* The amounts represent the total benefit payments made in the week, not which benefit weeks they were paid for. Starting with the week ended February 12, 2021, benefit payments are averaged biweekly to smooth immaterial spikes and dips in the trend.

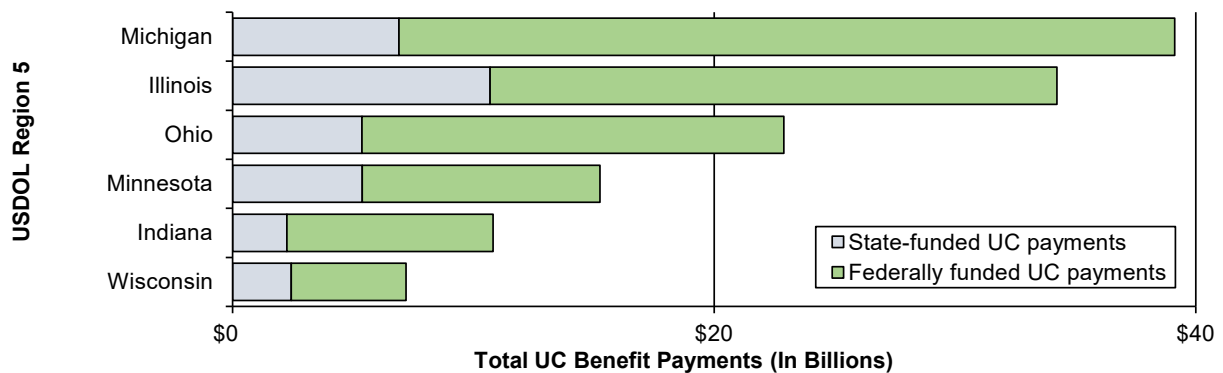
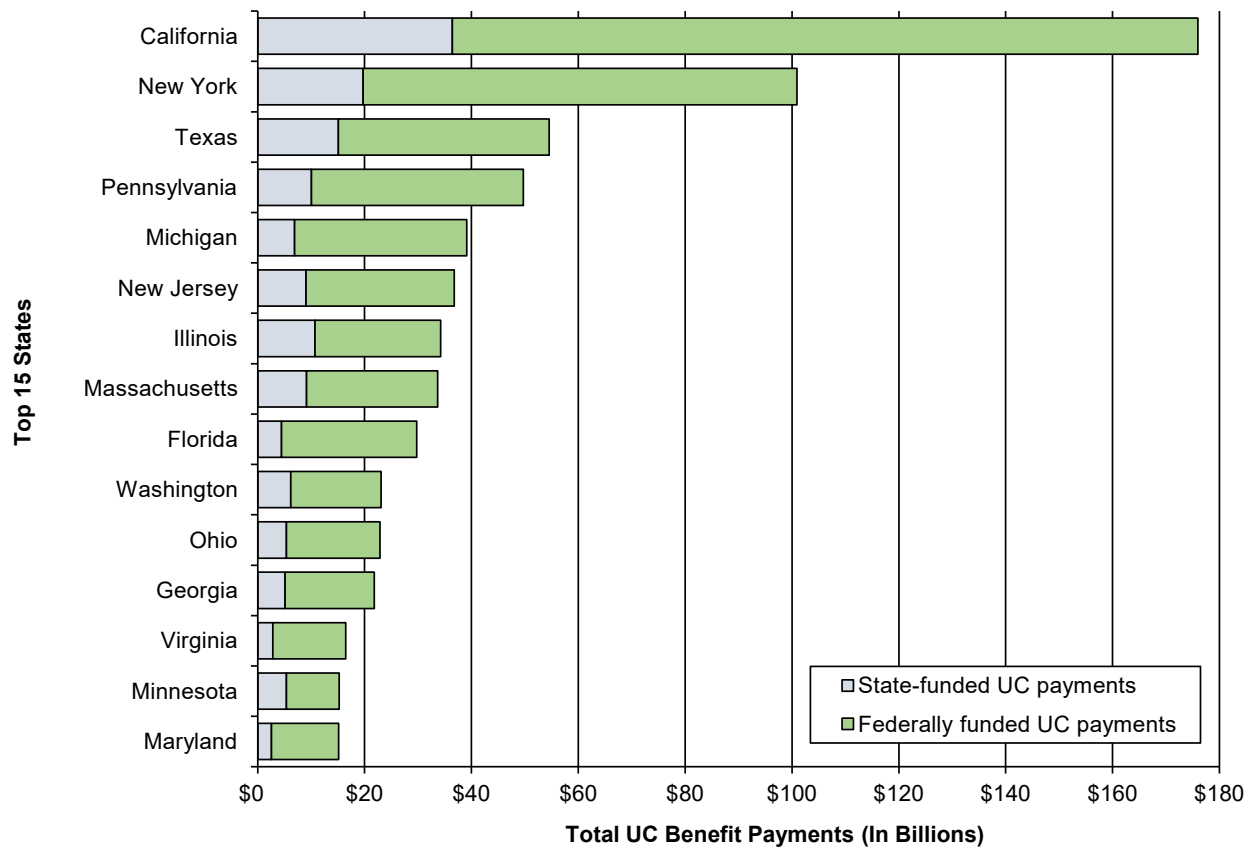
\*\*\* The amounts represent total benefit payments for each benefit week, not payments made during each benefit week.

Source: The OAG created this graph from UIA's claim and benefit data from MiDAS.



**CLAIMS PROCESSING DURING THE COVID-19 PANDEMIC**  
Unemployment Insurance Agency (UIA)  
Department of Labor and Economic Opportunity (LEO)

Top 15 States With the Largest UC Benefit Payments\* and UC Benefit Payments\* for USDOL Region 5  
From January 1, 2020 Through June 30, 2022



\* UC benefit payments include State UI, EB, PEUC, PUA, and PUC.

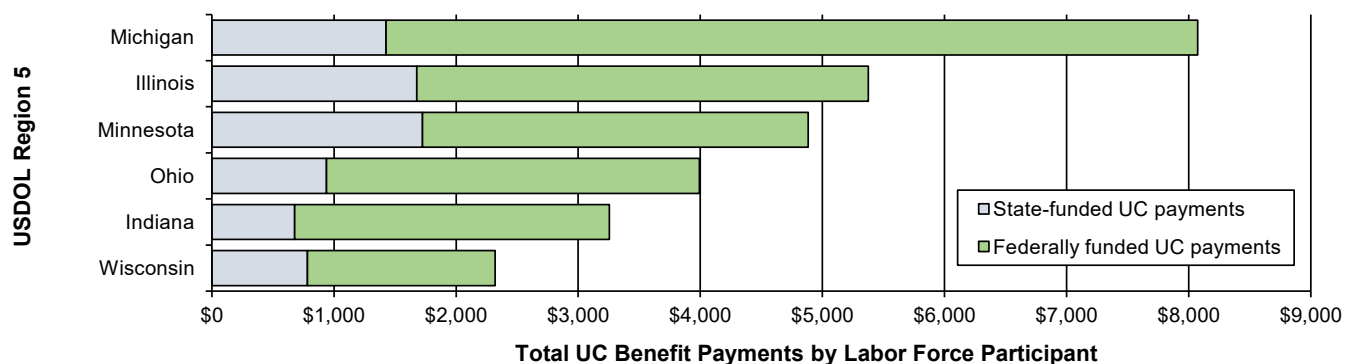
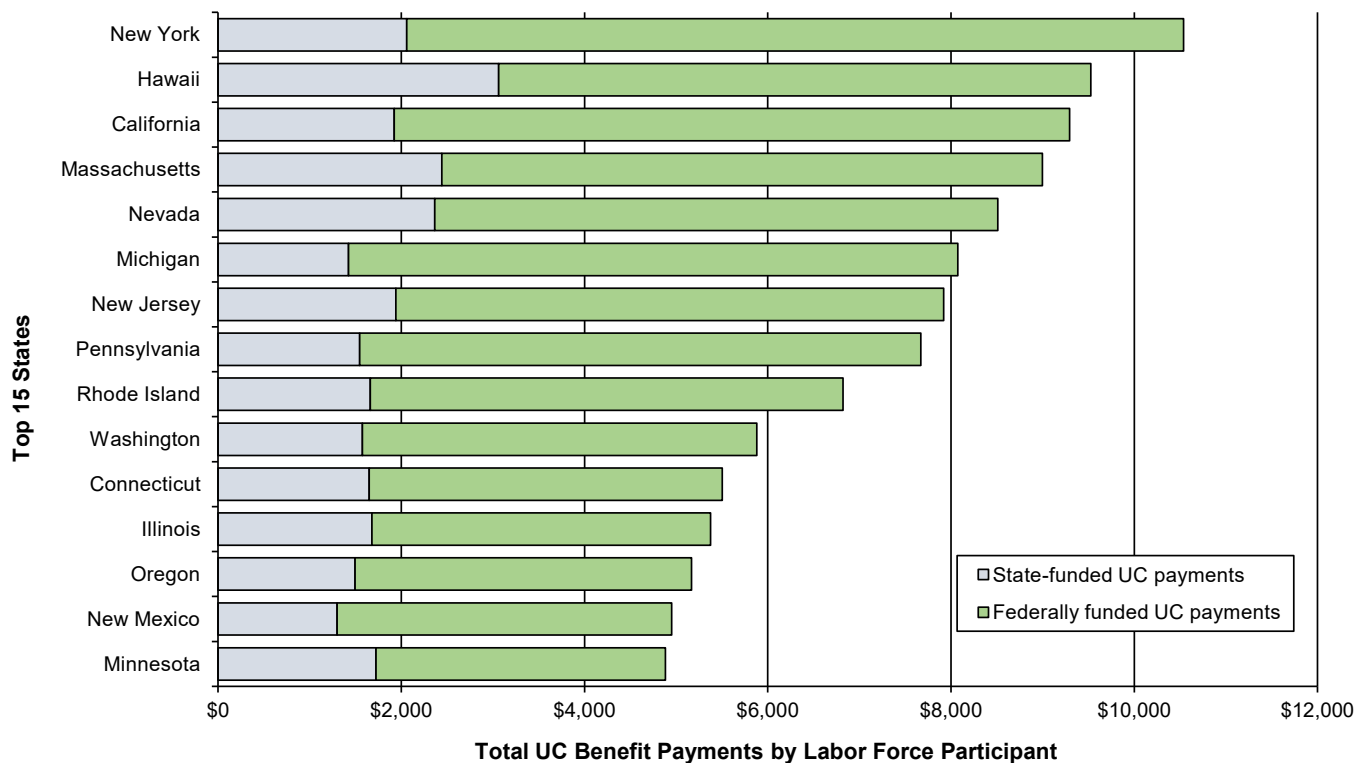
Source: The OAG created this exhibit with data obtained from USDOL.

CLAIMS PROCESSING DURING THE COVID-19 PANDEMIC

Unemployment Insurance Agency (UIA)

Department of Labor and Economic Opportunity (LEO)

Top 15 States With The Largest UC Benefit Payments<sup>1</sup> by Labor Force Participant<sup>2</sup> and  
UC Benefit Payments<sup>1</sup> by Labor Force Participant for USDOL Region 5  
From January 1, 2020 Through June 30, 2022



<sup>1</sup> UC Benefit Payments includes State UI, EB, PEUC, PUA, and PUC.

<sup>2</sup> We calculated the information by dividing each state's benefit payments by their respective 2020 civilian labor force.

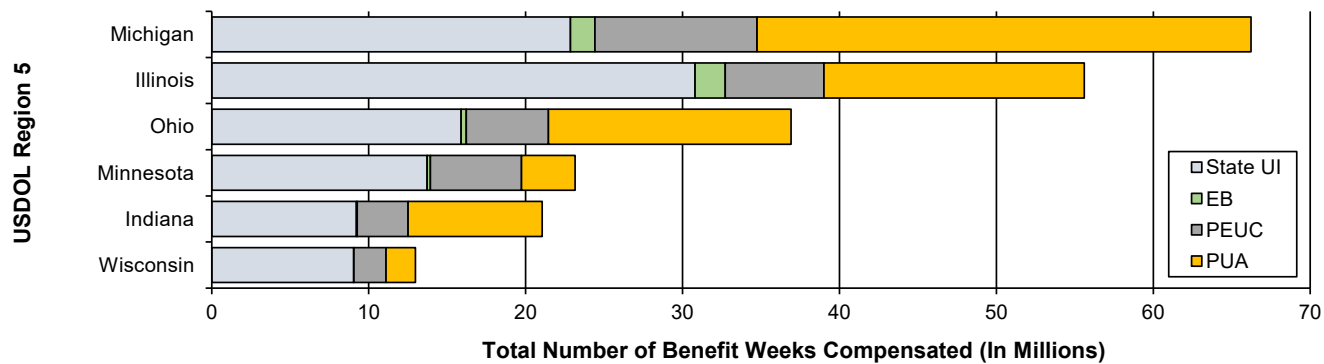
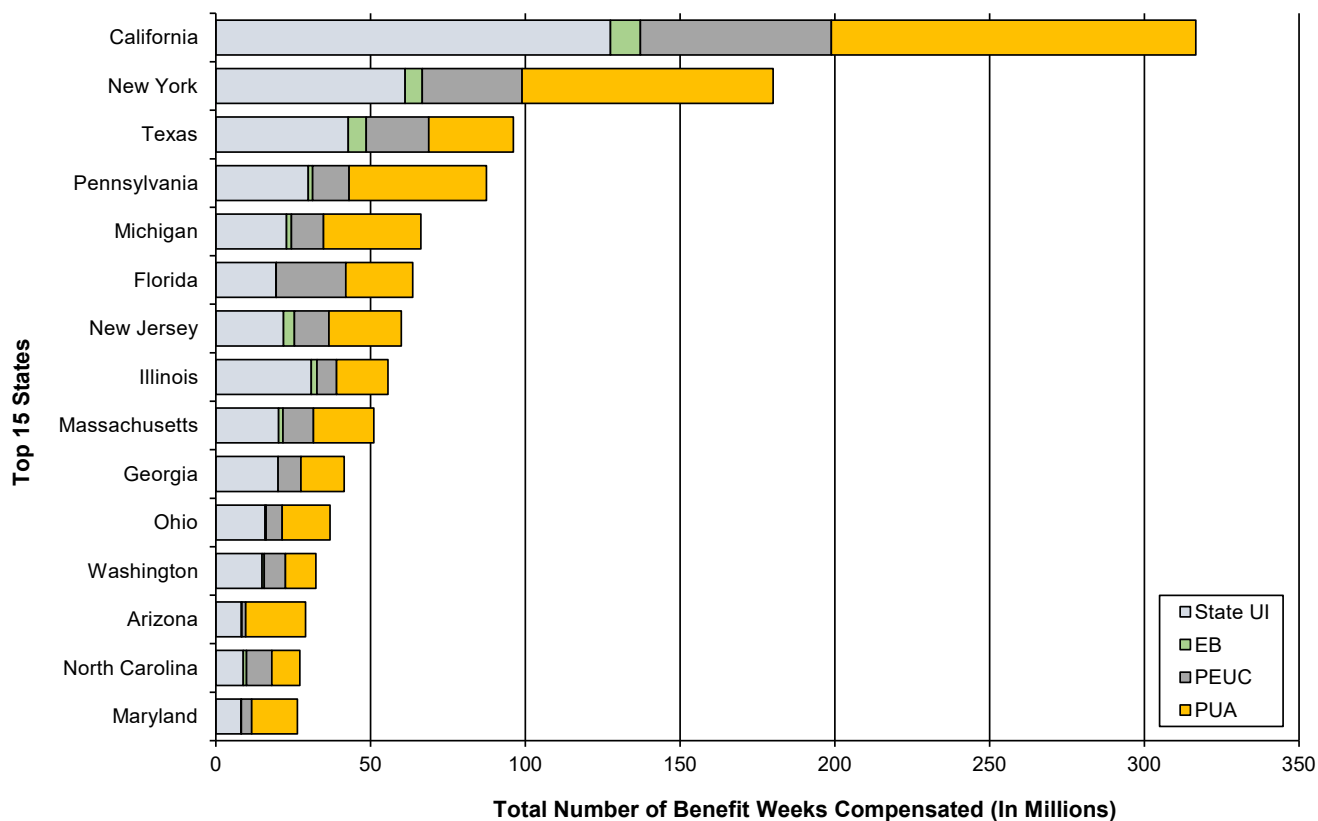
Source: The OAG created this exhibit with data obtained from USDOL and the U.S. Bureau of Labor Statistics.

CLAIMS PROCESSING DURING THE COVID-19 PANDEMIC

Unemployment Insurance Agency (UIA)

Department of Labor and Economic Opportunity (LEO)

Top 15 States With the Largest Number of Benefit Weeks Compensated and  
Number of Benefit Weeks Compensated for USDOL Region 5  
From January 1, 2020 Through June 30, 2022



Source: The OAG created this exhibit with data obtained from USDOL.

CLAIMS PROCESSING DURING THE COVID-19 PANDEMIC

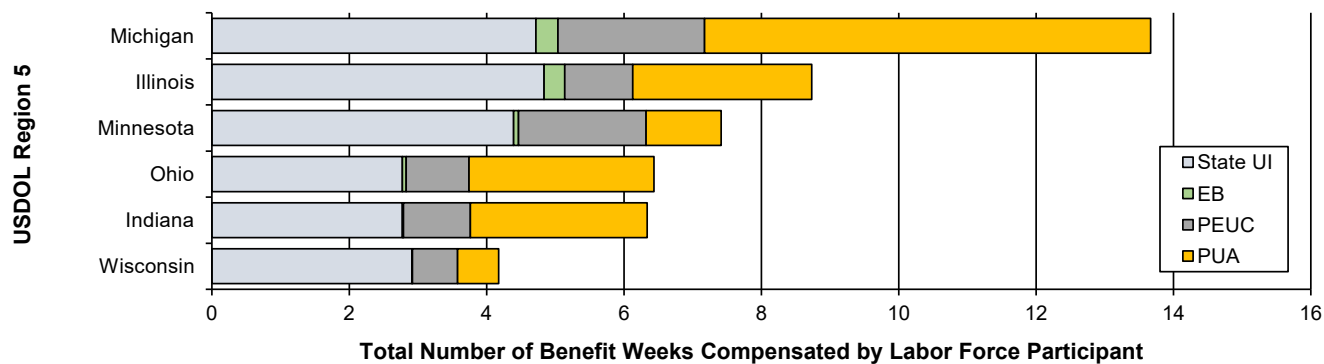
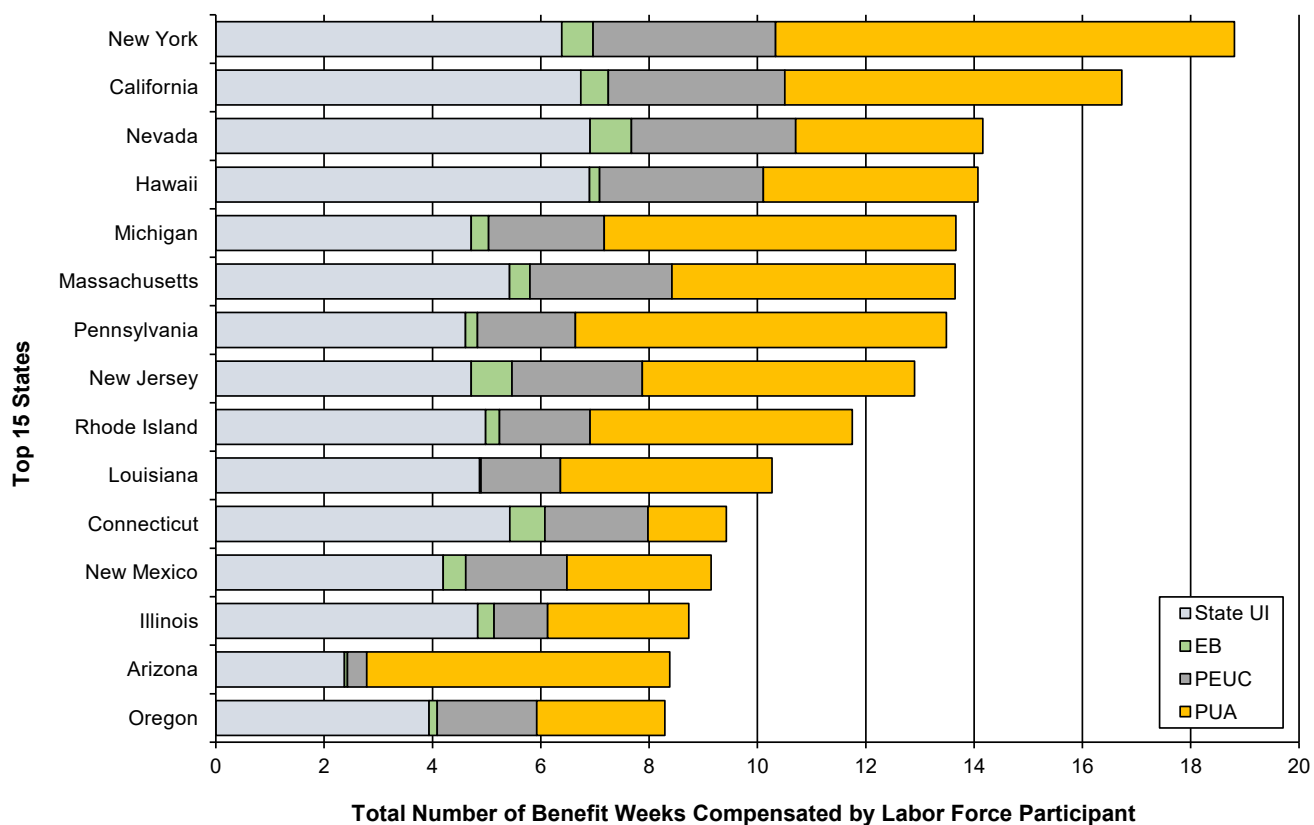
Unemployment Insurance Agency (UIA)

Department of Labor and Economic Opportunity (LEO)

Top 15 States With the Largest Number of Benefit Weeks Compensated by Labor Force Participant\* and

Number of Benefit Weeks Compensated by Labor Force Participant for USDOL Region 5

From January 1, 2020 Through June 30, 2022



\* We calculated the information by dividing each state's number of benefit weeks compensated by their respective 2020 civilian labor force.

Source: The OAG created this exhibit with data obtained from USDOL and the U.S. Bureau of Labor Statistics.

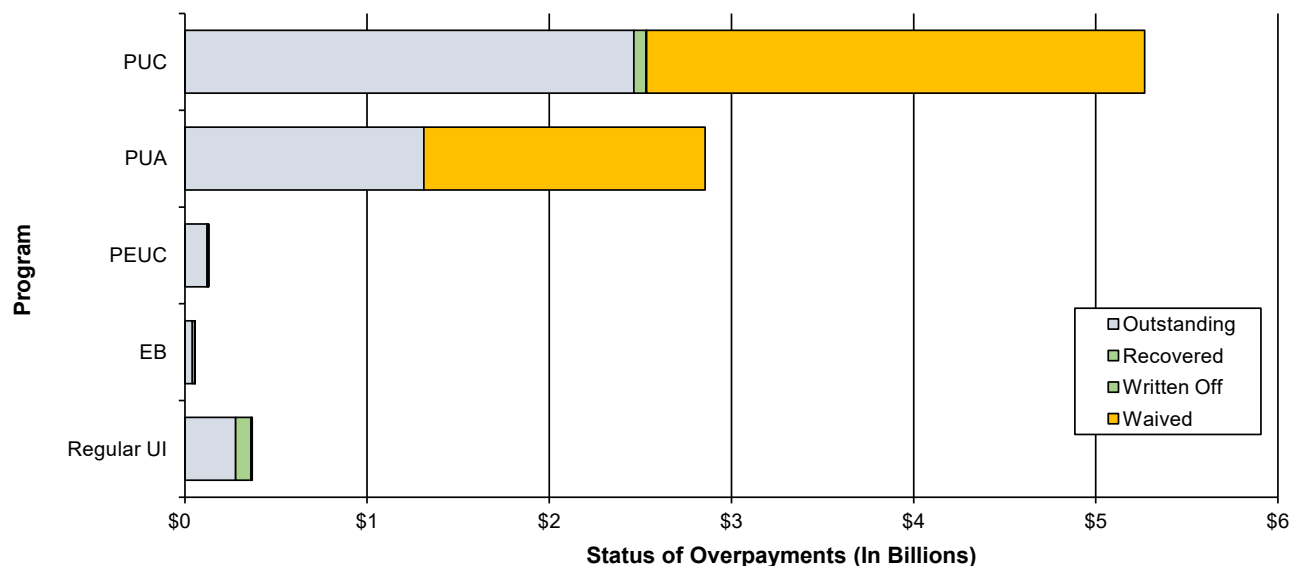
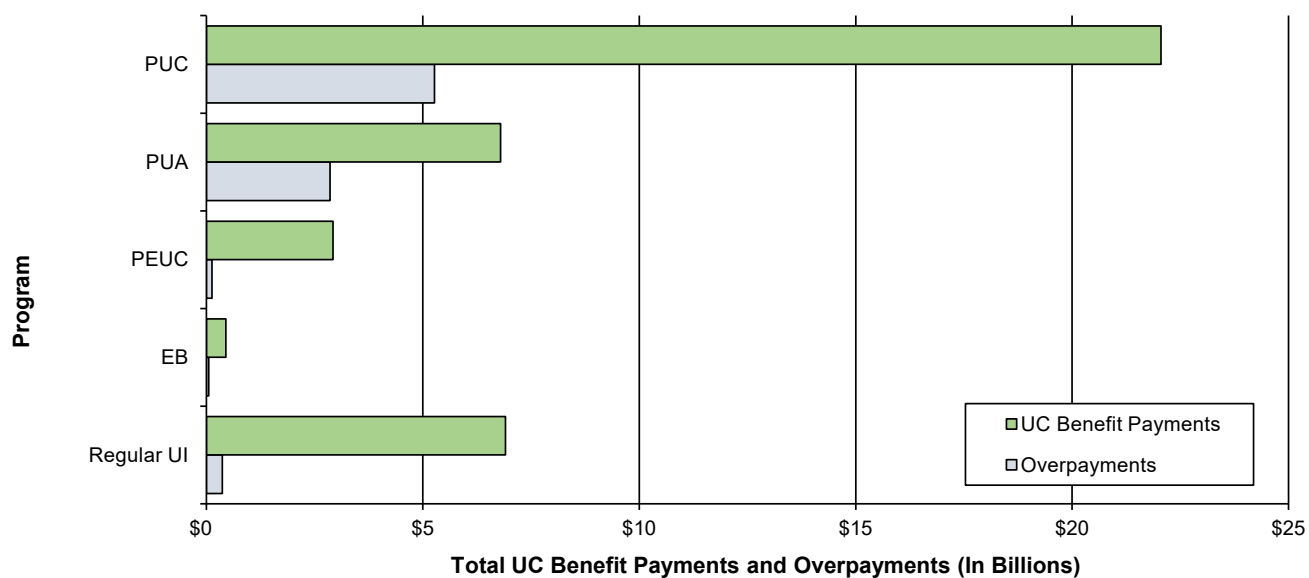
CLAIMS PROCESSING DURING THE COVID-19 PANDEMIC

Unemployment Insurance Agency (UIA)

Department of Labor and Economic Opportunity (LEO)

Michigan's UC Benefit Payments by Program and Their Related Overpayments

From January 1, 2020 Through June 30, 2022



Source: The OAG created this exhibit with data obtained from USDOL and UIA.

CLAIMS PROCESSING DURING THE COVID-19 PANDEMIC

Unemployment Insurance Agency (UIA)  
Department of Labor and Economic Opportunity (LEO)

Range of Weekly Benefit Payments by UC Claim Type and  
Range of Dollar Amount of Benefit Payments by UC Claim Type  
For Claims Active from January 1, 2020 Through September 30, 2021

UC Claim Type	Total Claims	Number of Claims Receiving Benefit Payments					
		1 to 4 Weeks	5 to 12 Weeks	13 to 26 Weeks	27 to 52 Weeks	53 to 76 Weeks	More Than 76 Weeks
State UI, PEUC, EB	1,651,721	260,040	539,097	433,397	222,449	176,056	20,682
PUA	1,035,047	63,259	228,171	230,938	225,265	253,609	33,805
Work Share	187,385	84,984	85,864	13,315	3,205	17	
Other	345	3	17	65	100	78	82
Total	<u>2,874,498</u>	<u>408,286</u>	<u>853,149</u>	<u>677,715</u>	<u>451,019</u>	<u>429,760</u>	<u>54,569</u>

UC Claim Type	Total Claims	Number of Claims Receiving Benefit Payments Totaling Between					
		\$0 to \$10,000	\$10,000 to \$20,000	\$20,000 to \$30,000	\$30,000 to \$40,000	\$40,000 to \$50,000	More Than \$50,000
State UI, PEUC, EB	1,651,721	900,874	402,042	164,781	109,579	62,344	12,101
PUA	1,035,047	343,336	337,228	156,450	180,096	15,241	2,696
Work Share	187,385	184,622	2,708	55			
Other	345	77	71	70	42	30	55
Total	<u>2,874,498</u>	<u>1,428,909</u>	<u>742,049</u>	<u>321,356</u>	<u>289,717</u>	<u>77,615</u>	<u>14,852</u>

Source: The OAG created this exhibit with UIA provided data.

CLAIMS PROCESSING DURING THE COVID-19 PANDEMIC

Unemployment Insurance Agency (UIA)  
Department of Labor and Economic Opportunity (LEO)

Weekly UC Benefit Payment Ranges By Standard Occupational Classification (SOC) Code Major Groups  
For Claims Active from January 1, 2020 Through September 30, 2021

SOC Code Major Group	Occupation Description	Total Claims	Number of Claims Receiving Benefit Payments*					
			1 to 4 Weeks	5 to 12 Weeks	13 to 26 Weeks	27 to 52 Weeks	53 to 76 Weeks	More Than 76 Weeks
51-0000	Production	326,591	68,498	142,590	61,459	26,724	25,013	2,307
35-0000	Food Preparation and Serving Related	230,169	14,678	40,967	65,861	55,577	47,995	5,091
43-0000	Office and Administrative Support	195,328	25,642	55,511	48,115	32,644	30,650	2,766
11-0000	Management	184,191	28,703	51,976	44,425	29,823	26,538	2,726
53-0000	Transportation and Material Moving	181,659	24,170	52,295	43,333	28,480	30,241	3,140
41-0000	Sales and Related Occupations	178,547	17,820	47,179	44,379	32,996	33,094	3,079
47-0000	Construction and Extraction	168,051	20,421	56,105	44,431	22,994	21,786	2,314
39-0000	Personal Care and Service	146,074	6,695	37,083	38,438	27,554	32,086	4,218
37-0000	Building and Grounds Cleaning and Maintenance	113,770	9,714	25,489	29,904	21,104	24,734	2,825
31-0000	Healthcare Support	87,029	9,915	23,113	20,987	15,261	16,299	1,454
49-0000	Installation, Maintenance, and Repair	82,357	14,621	30,029	15,934	10,196	10,500	1,077
29-0000	Healthcare Practitioners and Technical	74,424	13,755	30,162	15,948	8,186	5,935	438
27-0000	Arts, Design, Entertainment, Sports, and Media	47,985	3,682	8,805	11,378	11,107	11,525	1,488
13-0000	Business and Financial Operations	45,987	7,892	11,216	11,400	8,030	6,672	777
25-0000	Education, Training, and Library	45,716	3,670	11,416	13,731	8,855	7,185	859
17-0000	Architecture and Engineering	41,472	12,550	13,752	7,424	4,492	3,004	250
15-0000	Computer and Mathematical	19,314	3,839	4,945	4,647	3,215	2,403	265
33-0000	Protective Service	18,039	1,906	3,707	4,986	3,782	3,387	271
21-0000	Community and Social Service	15,931	1,889	3,623	4,084	3,156	2,896	283
19-0000	Life, Physical, and Social Science	8,493	1,240	2,343	2,464	1,396	937	113
45-0000	Farming, Fishing, and Forestry	8,339	907	1,846	2,678	1,519	1,258	131
23-0000	Legal	7,262	949	1,901	1,960	1,230	1,114	108
55-0000	Military Specific	1,727	222	412	476	348	240	29
Not Specified		279,822	15,998	65,818	55,237	61,900	71,474	9,395
Total		2,508,277	309,376	722,283	593,679	420,569	416,966	45,404

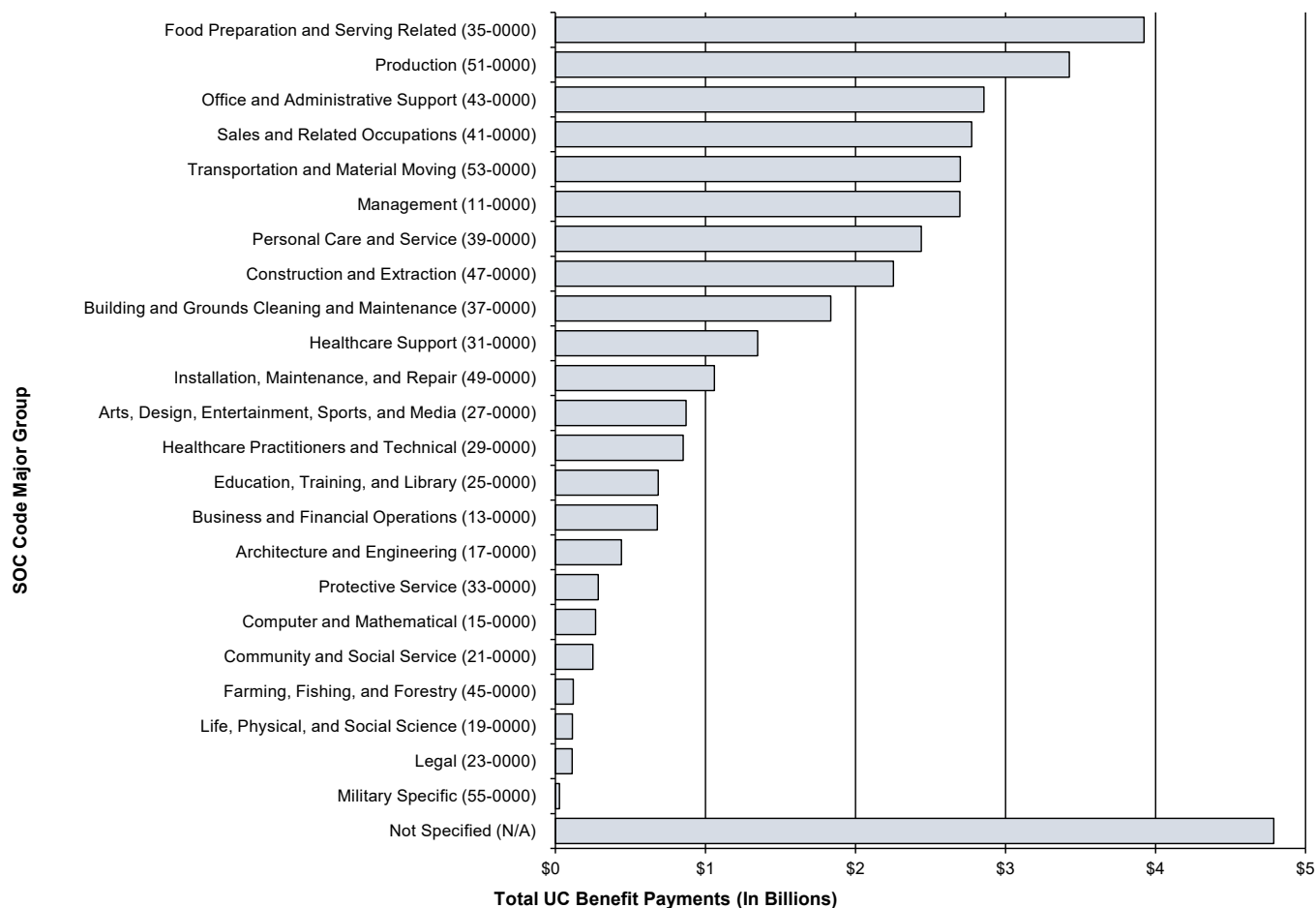
\* Does not include Work Share Program claims or payment data for UC claims filed prior to January 1, 2020.

Source: The OAG created this exhibit with UIA provided data.

CLAIMS PROCESSING DURING THE COVID-19 PANDEMIC

Unemployment Insurance Agency (UIA)  
Department of Labor and Economic Opportunity (LEO)

Total UC Benefit Payments by SOC Code Major Groups  
For Claims Active from January 1, 2020 Through September 30, 2021



\* Does not include Work Share Program claims or payment data for UC claims filed prior to January 1, 2020.

Source: The OAG created this exhibit with UIA provided data.



CLAIMS PROCESSING DURING THE COVID-19 PANDEMIC

Unemployment Insurance Agency (UIA)  
Department of Labor and Economic Opportunity (LEO)

Call Center Activity  
From October 1, 2019 Through September 30, 2021

	Month <sup>1</sup>	Number of Claimant Contacts <sup>2</sup>	Number (Percent) of Claimant Contacts Handled by UIA	
Prepandemic	October 2019	56,333	45,878	(81%)
	November 2019	67,020	56,881	(85%)
	December 2019	69,808	60,421	(87%)
	January 2020	82,657	72,658	(88%)
	February 2020	82,518	76,040	(92%)
	March 2020 (1st - 14th)	29,652	28,334	(96%)
Pandemic	March 2020 (15th - 31st)	137,737	55,128	(40%)
	April 2020	3,495,768	161,165	(5%)
	May 2020	5,167,867	133,038	(3%)
	June 2020 <sup>3</sup>	2,365,297	44,769	(2%)
	July 2020	1,278,582	446,147	(35%)
	August 2020	1,329,891	643,918	(48%)
	September 2020	930,064	423,755	(46%)
	October 2020	1,139,872	648,990	(57%)
	November 2020	775,192	552,443	(71%)
	December 2020	681,102	439,481	(65%)
	January 2021	773,609	256,691	(33%)
	February 2021	1,594,456	421,787	(26%)
	March 2021	1,005,693	540,287	(54%)
	April 2021	914,373	586,434	(64%)
	May 2021	964,945	797,182	(83%)
	June 2021	695,668	616,525	(89%)
	July 2021	722,812	652,631	(90%)
	August 2021	542,524	506,231	(93%)
	September 2021	589,700	498,959	(85%)
Total		25,493,140	8,765,773	

<sup>1</sup> Includes weekly summary data for weeks ended in each month.

<sup>2</sup> Includes connected calls and chats. Does not include calls receiving a busy signal.

<sup>3</sup> Excludes data for the week ended June 27, 2020 because it was unavailable.

Source: The OAG created this exhibit with UIA provided data.

# AGENCY PRELIMINARY RESPONSES

## CLAIMS PROCESSING DURING THE COVID-19 PANDEMIC

Unemployment Insurance Agency  
Department of Labor and Economic Opportunity

### Finding 1 Agency Preliminary Response and Auditor's Comments to Agency Preliminary Response

This section contains UIA's preliminary response to Finding 1 and our auditor's comments providing further clarification and context where necessary.

#### Overall Auditor's Comment

UIA's preliminary response indicates it has increased staffing and is in the process of making necessary revisions to MiDAS that may result in intentional misrepresentation determinations on PUA claims. As noted in the Finding, the three-year window for UIA to attempt to identify the cause of the billions of dollars in PUA overpayments and confirm intentional misrepresentation starts to close in April 2023.

#### Finding 1: Intentional misrepresentation on PUA claims not established.

UIA provided us with the following response:

#### AGENCY PRELIMINARY RESPONSE

*We agree in part. The UIA agrees that in the midst of a global pandemic there were opportunities for improvement. There were also emergent demands for new systems and processes. In the future, the Agency will evaluate all claim types to create necessary nonmonetary issues, send fact finding questionnaires and make determinations of intentional misrepresentation, as appropriate.*

*The Agency has followed UIA Manual Section 7930 and all related procedures to identify instances of intentional misrepresentation on claims that have a direct impact on the Unemployment Insurance Trust Fund. These procedures result in full due process rights for claimants. During the current review period for the OAG Audit, the Agency has issued over 3,200 intentional misrepresentation determinations as of December 2022. Furthermore, the Agency has utilized the funding provided by the Department of Labor through Unemployment Insurance Program Letter (UIPL) 28-20 and all related changes and has also utilized funding provided by the Michigan Legislature to hire Limited-Term Staff for program integrity functions. This has increased the number of staff within the Agency that perform these core program integrity functions, including finding intentional misrepresentation. Limited-Term Staff*

#### AUDITOR'S COMMENTS TO AGENCY PRELIMINARY RESPONSE

The vast majority of overpayments UIA identified during our audit period were for the federally funded PUA claims. These statements from UIA have no relevance to UIA's efforts to establish intentional misrepresentation for the PUA overpayments cited in the Finding. Although it is encouraging to learn UIA has issued intentional misrepresentation determinations for non-PUA claims, we cannot confirm the accuracy of the information provided after our fieldwork or outside of our audit period.

serving in this capacity have a current service date ending September 30, 2023. Finally, as noted by the OAG, the Agency is in the process of making the necessary changes to MiDAS to take administrative steps and preserve due process rights to PUA claimants. These actions may result in intentional misrepresentation determinations on PUA claims.

The OAG stated that "UIA informed us it had not taken any action to confirm the suspected fraudulent claims identified by Deloitte were indeed fraudulent and to recover the associated overpayments." This statement is not entirely accurate as the UIA Fraud and Investigations Division provided the team that performed the review of the sample of the 15,000 claims.

UIA's Fraud and Investigations Division Administrator informed us on August 25, 2022 that UIA staff assisted Deloitte with contacting sampled claimants to obtain additional information, and took no further action to flag likely fraudulent claims in MiDAS or recover overpayments due to the programming deficiencies identified in the Finding.

Specifically related to the subparts of this finding:

- Subpart a. - UIA is in the process of developing a procedure whereby leadership collaborations regarding key Agency decisions are formally documented. In the event of significant divergences, the issue will be brought forward to LEO Executive Leadership for guidance. Furthermore, since joining the agency in October 2021, the UIA director has established a weekly cadence for executive leadership meetings with a formalized process for identifying agenda items and necessary decisions. At the same time, the UIA director initiated a weekly one-on-one meeting with each of the UIA division administrators. That cadence has since shifted to a biweekly schedule and includes a template agenda requiring the division administrators to identify needed approvals. The agency has conducted a review and revision of the Solution Request (SQR) process with a focus on engaging the necessary subject matter experts throughout the entire process and clearly identifying ownership and next steps. Finally, the UIA Director has a regular cadence of meetings with LEO Executive Leadership to discuss matters of concerns and to address any key points of contention. Each of the above touchpoints provides ample opportunity for discussion and collaboration on key matters of policy and procedure.

- Subparts b. & c. - In the case of future Black Swan events, such as the PUA program, the Agency will include the Internal Controls Division and additional consultation from executive leadership and other outside parties, as deemed necessary, to ensure proper system programming.

As noted in the Finding, UIA discussed the related MiDAS programming deficiencies in September 2020 and possibly earlier. The three-year window for UIA to attempt to identify the cause of the billions of dollars in PUA overpayments and confirm intentional misrepresentation starts to close in April 2023.

CLAIMS PROCESSING DURING THE COVID-19 PANDEMIC

Unemployment Insurance Agency  
Department of Labor and Economic Opportunity

Finding 2 Agency Preliminary Response and Auditor's Comments to  
Agency Preliminary Response

This section contains UIA and LEO's preliminary response to Finding 2 and our auditor's comments providing further clarification and context where necessary.

**Finding 2: UIA needs to consistently apply its fraud controls.**

UIA and LEO provided us with the following response:

**AGENCY PRELIMINARY RESPONSE**

*We agree that UIA should consistently administer fraud detection and deterrence controls to ensure the integrity of its UI programs. While the Agency's previous decisions sought to balance fraud prevention and timely payment to eligible claimants, we agree (as first documented in the Deloitte Report released November 25, 2020) that policy, technological, and organizational changes increased the Agency's potential exposure to fraud.*

*As noted above within the finding, fraud detection and deterrence controls were fully restored by June 29, 2020. Moving forward, UIA will continue to utilize and monitor fraud detection and deterrence controls, including Fraud Manager, referrals, and other means, to ensure prioritization of UI program integrity. UIA has already taken action to enhance its fraud risk management capabilities to address those identified vulnerabilities in the unemployment system.*

*Since the release of the first Deloitte Report in November 2020, we have worked diligently to pursue bad actors and those who defrauded Michigan workers and businesses. This aggressive action has resulted in 109 executed search warrants, 94 pending cases, 90 individuals charged, 28 who have pled and 15 sentenced. Further, the UIA requested and received supplemental funding in the state budget to augment our already vigorous fraud initiatives; participated in the U.S. Department of Labor Tiger Teams program with an eye toward enhancing our fraud initiatives, and prioritized fraud deterrence capabilities in our recent Request for Proposals (RFP) to replace our existing UIA computer system.*

**AUDITOR'S COMMENTS TO  
AGENCY PRELIMINARY RESPONSE**

As noted in the Finding, several of the controls did not initially work as intended when UIA restored Fraud Manager. We will further review the effectiveness of Fraud Manager and UIA's efforts to pursue bad actors and those who defrauded Michigan workers and businesses in our upcoming audit of UIA's fraud and investigation activities.

*Specifically related to the elements within this finding:*

- a. *We agree. Resources from most divisions throughout the Agency were necessarily reallocated to assist with the influx of claims*

at the peak of the pandemic. It is important to note that UIA received requests from across the legislature to speed up responding to claims and getting payments out the door. Nationwide, UI programs faced urgent calls to get relief to workers.

We agree in part. Fraud Manager was still running after an initial payment was issued. The UIA temporarily reassigned key personnel in its Investigations Division to help issue timely payments to eligible claimants. The ID Director and staff were transferred to assist with claims in March 2020. The Agency reestablished the Investigations Division on May 22, 2020, assembled the State's Unemployment Insurance Fraud Task Force on June 5, 2020, and appointed retired Special Agent in Charge for the U.S. Secret Service Jeffrey Frost as a Special Fraud Advisor to serve on the task force on June 30, 2020. The former Agency Director reassigned several Benefits Division staff to the ID (approximately 85-90 individuals) to assist with fraud investigations.

As noted in the Finding, UIA's former director requested all but one of the rules used by Fraud Manager to be temporarily suspended. Although Fraud Manager was still running after initial payment was issued during this period, it was limited to only identifying claims associated with blacklisted bank routing numbers. In addition, as noted in part d., a sequencing issue rendered Fraud Manager ineffective at preventing potentially fraudulent payments during this time because it only ran after UIA released payment.

- b. We agree. The UIA suspended first payment review on claims, commonly referred to as the "10-day hold requirement" which previously allowed employers 10 business days to help verify eligibility and respond to/dispute new claims before being released for certification. The removal was in line with actions taken by other states and helped ensure the expedited delivery of benefit payments. Though as a result, UIA personnel had less ability and time to review claims for eligibility before payments were released. The Agency reinstated the 10-day hold requirement for new claims on September 24, 2020.
- c. We agree. When the ID Director and key staff returned, the first course of action was to reinstate and add additional rules within Fraud Manager. There are several filters used by Fraud Manager to identify claims for additional investigation or review. While the filter regarding suspicious bank routing numbers remained, many of these filters were turned off in April due to concerns that they were incorrectly identifying too many legitimate claims for review. The Agency reactivated all filters on May 22, 2020, and additional filters were later added at the recommendation of outside fraud consultants. All claims filed during this period were then re-run through Fraud Manager. Cases of fraud were identified and investigated. Referrals were made, and continue to be made, to the DOL-Office of Inspector General,

As noted in the Finding, several of the controls did not initially work as intended when UIA restored Fraud Manager.

We will further review the effectiveness of Fraud Manager and UIA's efforts to pursue bad actors and those who defrauded Michigan workers and businesses in our upcoming audit of UIA's fraud and investigation activities.

*Department of Attorney General, and other law enforcement agencies that participate as part of the UI Fraud Task Force. Under Executive Directive 2021-14, the Agency is required to do the following: "Consistently use Fraud Manager, or similar technology, to detect anomalies that indicate a claim requires further review prior to payment. Fraud Manager, or similar technology, must not be suspended for any reason without prior approval from the Director of the Department of Labor and Economic Opportunity."*

- d. We agree that effective change controls should be fully implemented over the MiDAS and MiWAM applications and data to ensure all system changes are authorized and operating as intended before implementation. UIA is in the process of developing a change management procedure to address these findings. The UIA re-sequenced the claims payment process so that claims and certifications (regardless of type) are run through Fraud Manager prior to being paid (effective as of May 19, 2020).*

*We remain committed to righting past wrongs at the state and federal level and making sure that money goes to eligible workers. The Agency has strengthened its efforts to combat fraud and continues to collaborate with the Department of Attorney General as well as with our local, state, and federal law enforcement partners.*

## CLAIMS PROCESSING DURING THE COVID-19 PANDEMIC

Unemployment Insurance Agency  
Department of Labor and Economic Opportunity

### Finding 3 Agency Preliminary Response and Auditor's Comments to Agency Preliminary Response

This section contains UIA and LEO's preliminary response to Finding 3 and our auditor's comments providing further clarification and context where necessary.

#### **Finding 3: Improvement needed to ensure claimants meet federal eligibility criteria.**

UIA and LEO provided us with the following response:

##### **AGENCY PRELIMINARY RESPONSE**

*We agree the UIA should accurately determine claimant eligibility for UC benefits in accordance with the requirements associated with each program and should an expired program such as this ever be enacted again the agency will be prepared.*

*The pandemic presented real time challenges for which Unemployment Insurance Agencies nationwide were ill prepared. At the start of the pandemic, the Michigan Unemployment Insurance Agency (UIA) responded quickly and with empathy to calls from both the legislature and claimants to get payments out the door and into the accounts of Michigan workers. The Michigan UIA was not alone in the challenges it faced. However, Michigan is uniquely equipped to respond and rectify these issues and has already begun the process of doing so.*

*As noted above, UIA has taken dramatic steps to build upon and improve our internal controls. In prior audits the OAG received from the UI Director a firm commitment to adhere to documented approval paths moving forward for all program areas. The unwavering assurances offered in the UIA response to the Personnel Management Processes Audit released in March 2022 apply here as well.*

*The UIA is committed to ensuring that all workers who are eligible for benefits receive those benefits. Accuracy and efficiency are central to the success of any UI program and the determination of eligibility for unemployment compensation benefits in accordance with the associated requirements. **However, it cannot be stressed enough how greatly the UIA is hamstrung by the limitations and support of our current database.** The same system limitations noted in the response to the ninth finding continue to plague the agency's ability to respond in a timely manner to the concerns noted in this one. Wholesale change is necessary to the UIAs operating system in order to deliver the level of service Michigan workers and businesses expect.*

##### **AUDITOR'S COMMENTS TO AGENCY PRELIMINARY RESPONSE**

The improper payments noted in this finding relate specifically to UIA's deficient internal control to accurately determine claimant eligibility. As noted in the Finding, UIA informed us it bypassed established procedures. In addition, as noted in Finding 10, UIA stated its former director and others lacking in-depth knowledge of UC developed and designed the PUA application and processing methodology without assistance from more knowledgeable managers and staff. While we have no comment on UIA's contention it is hamstrung by the limitations and support of its current database, it has little relevance to the internal control deficiencies that caused these claimant eligibility issues.



*On November 15, 2022, the UIA announced it has chosen a new contractor to design and install a modern, innovative, user-focused unemployment insurance computer system that prioritizes ease of access for workers and employers while also streamlining jobless claims processing. The new system will replace the Michigan Integrated Data Automated System (MiDAS), first put into use nearly a decade ago under former Gov. Rick Snyder.*

*UIA will accurately determine claimant eligibility for unemployment compensation benefits in accordance with each program by establishing requirements in accordance with statutory guidance. Where UIA believes the requirements to be unclear or that there is any ambiguity in the requirements, guidance will be sought from the United States Department of Labor (USDOL) to ensure UIA is properly implementing the requirements.*

*Beginning in October 2021, the UIA required managers to perform quality reviews of each employee's work to ensure claims are processed properly. Managers work closely with staff who need improvement to ensure they receive the support needed to meet quality standards.*

*The Benefits Customer Service and Operations Divisions are refining a training plan that ensures all staff are trained appropriately for the work they are assigned. The plan includes additional practice time where staff will work in pods and have immediate access to assistance as questions arise ensuring a higher quality of support and follow-through once training is complete. An important component of the training materials will emphasize the necessity of making system notes supporting a particular determination.*



## CLAIMS PROCESSING DURING THE COVID-19 PANDEMIC

Unemployment Insurance Agency  
Department of Labor and Economic Opportunity

### Finding 4 Agency Preliminary Response and Auditor's Comments to Agency Preliminary Response

This section contains UIA's preliminary response to Finding 4 and our auditor's comments providing further clarification and context where necessary.

#### Overall Auditor's Comment

While UIA's response includes extraneous information and legal jargon, it lacks any mention of its intentions related to our recommendation that UIA seek legal guidance regarding its position claimants who selected unauthorized criteria could not have committed fraud. As we noted in Finding 1, UIA had not found fraud or intentional misrepresentation for PUA overpayments essentially because it had not looked. By its own admission in its response to Finding 5, "...the Agency has not established intentional misrepresentation on these claims..." and "Should intentional misrepresentation be established along with an overpayment, claimants would be ineligible for a waiver." UIA's response below indicates imposters filing claims using identities that were not their own and individuals knowingly using false information to obtain benefits could not have committed fraud if they also selected one of the unauthorized criteria UIA had included on the applications. We do not believe federal and state law support this position, and thus we recommend UIA seek legal guidance.

#### Finding 4: Improvements needed to UIA's PUA requalification, recertification, and overpayment waiver processes.

UIA provided us with the following response:

##### AGENCY PRELIMINARY RESPONSE

*We agree in part with this finding. UIA agrees that it should improve administration over the remaining PUA requalification and recertification activities, as well as reviews of PUA overpayments for possible waivers. UIA disagrees with characterizations of certain processes and various sub-findings as specified below and provides clarity as follows.*

*Through the worst of the pandemic, UIA worked to quickly provide claimants with the benefits they were owed, despite shifting and unclear federal guidelines and a historic number of Michigan workers claiming benefits from new federal programs.*

*The pandemic presented real-time challenges for which Unemployment Insurance Agencies nationwide were ill prepared. At the start of the pandemic, UIA responded quickly and with empathy to calls from both the legislature and claimants to get payments out the door and into the accounts of Michigan workers. The Michigan UIA was not alone in the challenges it faced. However, Michigan is uniquely equipped to respond and rectify these issues and has already begun the process of doing so.*

*USDOL guidance in UIPL 20-21 and UIPL 20-21, Change 1 provides that overpayments can be waived*

##### AUDITOR'S COMMENTS TO AGENCY PRELIMINARY RESPONSE

and that states could waive overpayments under state law. USDOL further noted that if a state's law did not have a definition of equity and good conscience, the federal definition should be used. Michigan does have a state law applicable to waivers, and that state law does include a definition of equity and good conscience that is defined by law as three things, one of them being overpayments due to the agency's error. Subsequently, overpayments resulting from an individual having selected one or more of the invalid PUA eligibility reasons erroneously included on the application and certification for PUA benefits were waived on the basis of agency error as required in Section 62(a) of the MES Act. The UIA followed DOL guidance and state law when identifying those individuals who were improperly paid benefits.

UIA's response omits a critical component of the MES Act that could undermine its position. Section 62(a) of the MES Act states, "Except in a case of intentional false statement, misrepresentation, or concealment of material information, the unemployment agency shall waive recovery of an improperly paid benefit if repayment would be contrary to equity and good conscience and shall waive any interest." Many claimants likely were ineligible for the payments they received, through no fault of their own. However, the prevalence of fraudulent submissions widely reported and acknowledged by UIA, result in the potential for many claimants to fall within the exception to the automatic waiver allowed by law and therefore not be entitled to a waiver.

UIA disagrees that it "missed opportunities to identify imposter claims, claimants misrepresenting their attachment to the workforce, and other issues." This assumption is speculative and inappropriately shifts liability to claimants who were improperly paid as a result of UIA error. The waiver provision of Section 62(a) is not permissive. The statute provides that UIA shall waive an overpayment that is the result of agency error. Any assertion otherwise is not supported by statute.

As previously noted, UIA does not mention a critical component of the MES Act that precludes UIA from granting waivers for fraudulent claims. Our contention that UIA likely missed opportunities to identify imposter claims, claimants misrepresenting their attachment to the workforce, and other issues is not speculative. Instead, it is based on factual information obtained from UIA's records, reviewed as part of our audit sampling, and presented within this Finding and other Findings in this report.

With respect to the finding subparts (a-e.):

- a. The UIA disagrees. Adjudication issues opened after the erroneous payment neither should nor could have resulted in enforcement of the debt and collection against these claimants. The issues for adjudication were opened on erroneously established claims and were closed without adjudication prior to application of the waiver.

As previously noted, the MES Act provides for an exception to the blanket application of waivers due to agency errors if there is claimant fraud. Further, UIA's contention does not reconcile with known actions it has taken to date, albeit in an inconsistent manner. UIA has rescinded waivers granted as part of the PUA requalification process when it determined the claims may be fraudulent. In one example, a claimant received the overpayment waiver in July 2021 for overpayments totaling \$25,000 related to the PUA requalification. In March 2022, UIA opened a fraud investigation on the claim, rescinded the waiver and left a note in MiDAS on the claim stating, "CARES Waiver reversed to allow for restitution".

Had the claims been denied properly, adjudication issues would not have been created, as issues cannot be generated on denied claims.

UIA cannot generate issues on denied claims due to the way UIA programmed MiDAS. As UIA states in its response to Finding 5 below, it is exploring a mechanism to establish intentional misrepresentation on denied claims.

Further, the process for identifying an imposter claim; verifying workforce attachment, when applicable; or a fraud investigation were not impeded. Absent a finding of either of these issues through an agency determination after fact-finding an investigation, a waiver can be considered where the established overpayment is final (meaning it is subject to collection). There was no agency determination of either of the above associated with claims or overpayments on which a waiver was granted.

By closing the eligibility issues without adjudication, the process of determining eligibility and potential fraud was impeded.

b. *UIA disagrees. The categories of claimants included in requalification and recertification included (1) those who had been denied PUA benefits as a result of a claim application filing or bi-weekly certification, and (2) those who were to be denied as a result of having selected one or more of the invalid PUA eligibility reasons erroneously included by UIA in the original PUA application and certification. UIA included the latter group in the requalification / recertification because if the individual responded with a valid PUA eligibility reason on application or certification, the individual would remain eligible for PUA benefits, and no overpayment would be established. For individuals who did not respond or who responded but still did not have a valid PUA eligibility reason, overpayments were established and subsequently waived. For clarity, if an eligibility or qualification issue exists, an issue is opened to be adjudicated by UIA. The result of the adjudication is that an individual is eligible, not eligible, or partially eligible, or qualified or disqualified for benefits. As noted above, UIA does not agree or believe that it should have first adjudicated issues opened on an erroneously established claim to enforce collection against claimants who were only paid as a result of UIA's error. Consequently, UIA disagrees with OAG's speculative estimate of \$1.847 billion (i.e., \$1.7 billion + \$147 million) in potentially improperly waived overpayments. The overpayments were properly waived in accordance with state law that requires waiver of overpayments that were the result of agency error.*

UIA's response does not identify the basis for disagreeing with the facts as presented regarding our review of the 5 waivers. As noted in the Finding, UIA determined the claimants were ineligible or not qualified for PUA, for reasons other than the unauthorized eligibility criteria. Our estimates are not speculative. The practice of projecting error rates from a random sample to the overall population is in line with professional auditing standards and used extensively in the auditing industry. Afterall, UIA has not appeared to challenge the \$8.4 billion estimated fraudulent claims reported in the Deloitte report, yet clearly the Deloitte team did not review every claim in reaching its estimate.

*UIA remains confident that the resulting waivers were properly granted in accordance with state law and USDOL requirements, as overpayments were waived that were not determined to be fraudulent by UIA or the result of fault as identified by USDOL. As the USDOL guidance made clear that overpayments could be waived under state law, UIA did not believe it was necessary to seek USDOL guidance on interpretations of state law. There is no statutory provision or guidance that provides that an improper payment originating from the Agency's error subsequently becomes subject to enforcement against the recipient of the improper payment because the Agency opens issues after the improper payment has occurred to determine whether an individual met additional eligibility or qualification requirements.*

As noted in Finding 1, UIA made only minimal effort to identify fraudulent PUA claim overpayments.

The majority (if not all) of the eligibility issues noted in the Finding were created by UIA prior to UIA granting the overpayment waiver. Either before or after the waiver was granted, UIA adjudicated and determined the claimants were ineligible or not qualified for PUA, for reasons other than the unauthorized eligibility criteria. Therefore, UIA either knowingly waived or did not rescind waivers for potentially fraudulent claims. As previously noted, the waiving of fraudulent claims is specifically precluded by the MES Act and federal guidance.

- c. UIA agrees in part. *The first two weeks of benefits payable are chargeable to the federal government as specified by USDOL. For individuals who were improperly paid those benefits as a result of the Agency's error, those overpayments were properly waived. As a result, UIA disagrees with this portion of the finding.*

It is unclear how UIA's reference to the first two weeks of benefits payable being chargeable to the federal government is relevant to this Finding. All PUA benefits were chargeable to the federal government. This portion of the Finding relates to UIA's overstatement of overpayments and related waivers due to a flawed calculation methodology. Given UIA's agreement with this part of the Finding, and stated action it has taken, the basis for any disagreement is unclear.

*UIA agrees that it improperly waived some weeks of benefits paid as a result of a claimant's certification for which they were, in fact, eligible for payment and that the amount of waiver was improperly communicated to some claimants due to an error that was subsequently identified and corrected. The UIA has since taken action to improve and clarify internal communications and training for staff.*

- d. UIA disagrees. *UIA used consistent methodology to requalify all claimants using responses to all initial PUA applications and weekly certifications to requalify. Using these two types of responses ensures that every certification period on a PUA claim was covered. The response on the certification overrides the responses on the additional claim filing.*

In March 2022, the OAG provided UIA with the 107,800 and 34,800 claims identified in the Finding that met UIA's requalification and recertification criteria. UIA had not identified these as claims needing to requalify and/or recertify, and therefore, did not treat them consistently. Regarding UIA's contention the response on the certification overrides the responses on the additional claim filing for the 34,800 claims, we note in the Finding this methodology was inconsistent with that used for other claimants for whom UIA established overpayments based only on reasons included on the claimants' original applications.

- e. *UIA agrees that it did not accurately communicate the requalification and recertification process in its letters and notices, as the error in the letter was an oversight and lack of attention to detail, not the result of disagreement or confusion. UIA is working with its communications partner to improve overall clarity in claimant communications.*

*However, UIA disagrees that this was the result of confusion in understanding between senior management. OAG speculates that the letter "demonstrated apparent confusion between UIA senior management with different understandings of the criteria used to identify claimants" for the requalification and recertification process. Any varying explanations between managers could occur as each manager is assigned to a different Division and area within a Division. While it is expected that all managers have general knowledge of each area, it is not, and should not, be expected that every manager should be able to provide specific detail related to matters over which they may have no authority.*

We discussed this matter on multiple occasions with the UIA senior leadership UIA directed us to, and who should have been able to accurately explain how UIA identified claimants who needed to requalify and/or recertify. UIA's inference we asked the wrong individuals is unfounded.



OAG states that UIA has not provided information related to recent waivers granted. This posture is in direct contradiction to discussions between the UIA director and OAG staff beginning in early February 2022. On February 4, 2022, the UIA director provided the following response to an email inquiry from Senior Audit Supervisor Chad Monger.

*Good afternoon. As you can imagine, the question of waivers is one garnishing a lot of our time and attention. Several of the questions you raise are discussions we are having internally amongst ourselves and are still seeking answers to. I have been in recent conversations with leadership at the national office of the DOL requesting additional guidance on this issue. You might also be aware that NASWA sent a letter (attached) to Capitol Hill on behalf of its members. We have good reason to believe that additional guidance is forthcoming and would ask that you would allow our team time as we continue our own analysis and can consume anything that DOL might publish. I can assure you that we are open to meeting with the OAG but would prefer to do so when we are able to be better equipped and informed.*

On February 17, 2022, in response to another inquiry from Mr. Monger just two weeks later, the UIA director responded again to the OAG.

*We submitted close to a dozen questions to DOL regarding the recent guidance; these questions include direction related to the waivers granted thus far. As you may or may not be aware we are currently working to address several issues impacting a significant number of claimants. As you can appreciate there is a fair amount of urgency in addressing issues related to 1099s, waivers and collection activity. At this time, I am requesting a 30-day extension on your questions and requests to meet regarding the topic of overpayment waivers.*

*The UIA is committed to partnering with the OAG and believe we have demonstrated that in my relatively short tenure. We appreciate your consideration and patience in this.*

Following this second inquiry a meeting was setup between the UIA director and the Chief Investigator for the OAG on February 22, 2022, to discuss the audit of waivers. During that conversation the Chief Investigator offered assurances to the UIA director that the present audit would only include a review of those waivers issued in fall 2021. This position was reflected in a follow-up email from the UIA director on May 17, 2022, to the OAG Chief Investigator, following yet another request for information from Senior Audit Supervisor Chad Monger. Allen Williams, the Director of Internal Controls for the

We cite in the Finding UIA did not provide information specifically related to 55,000 waivers it granted in May 2022. UIA has no legal authority to deny the OAG's access to records. The OAG's Constitutional and statutory authority is broad within the context of conducting audits, as evidenced by State statute requiring agencies to produce records upon our demand.

The e-mails UIA has included in its response depict the UIA Director responding directly to our inquiries related to how UIA had established waivers and a meeting was necessary in February 2022 between the UIA Director and OAG senior leadership to reach agreement that UIA would provide information specific to waivers it had granted in 2021. Any assertions made by the OAG in February 2022 to the UIA Director were based on the circumstances and status of the audit at that time. UIA stated in February 2022 it did not know when or how the next round of waivers would occur, which is evident in the e-mails in UIA's response. After the OAG learned of the 55,000 waivers through a press release issued by UIA on May 4, 2022, we requested information to identify the population of claimants and to learn how UIA had established eligibility for those specific claimants. Even though UIA had already made decisions and approved waivers of \$431 million regarding this population, essentially completing the process for these claims, UIA refused to identify the claimants or explain how it reached those decisions under the premise the process was ongoing. We acknowledge in the Finding UIA may issue additional waivers, but it had already issued the 55,000 waivers.

The specific inquiries we made in February 2022 that resulted in the e-mails from the UIA Director related to UIA's policies and procedures for granting overpayment waivers, communications with and guidance provided by USDOL concerning the waivers, details concerning the 2021 waivers, and general information regarding potential future overpayment waivers. UIA only provided detail concerning the 2021 waivers.

On May 10, 2022, six days after UIA's press release concerning the \$431 million in overpayment waivers to 55,000 claimants, we sent UIA a request for the detail concerning them. On May 13, 2022, after no response, we sent UIA a follow-up request for updated details concerning all overpayment waivers UIA had issued.

The UIA Director's May 17, 2022 e-mail is the only response we received.

*Department of Labor and Economic Opportunity, was copied on this communication.*

*Bryan,  
Good afternoon. Our staff received the attached requests regarding our most recent effort regarding waivers. When we spoke a couple of months back concerning the initial waiver request you had agreed that the OAG scope would be focused on the waivers that occurred last fall.*

*UIA is working with FAST and DTMB to rollout another series of waivers, it is an ongoing process with developers that is expected to carry us at least through the Fourth of July. This effort requires a fair amount of work as we analyze the various populations and determine eligibility. It also includes our own internal audits as we work through each effort.*

*When the process is complete, we would be happy to respond to any requests you may have but at this time to do so would be premature.  
Sincerely,*

*Julia Dale (she, her, hers)*

*UIA repeatedly made clear to the OAG that it was in the very difficult and labor-intensive process of evaluating waiver populations and issuing waivers. Consideration of a waiver applies to all overpayments and not just those related to PUA requalification and recertification. Congruent with OAG's audit, UIA has continued to evaluate overpayments to determine if a waiver should be applied in accordance with state law or USDOL guidance to avoid unnecessary collections against claimants. Given the volume of overpayments for consideration, UIA resources are dedicated to identifying potential waiver populations and applicability of waivers for overpayments on all federal claim types, not just PUA. At the end of this process, UIA will provide additional information to OAG for review.*

## CLAIMS PROCESSING DURING THE COVID-19 PANDEMIC

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### Finding 5 Agency Preliminary Response and Auditor's Comments to Agency Preliminary Response

This section contains UIA's preliminary response to Finding 5 and our auditor's comments providing further clarification and context where necessary.

#### **Finding 5: UIA needs to ensure claimants' prior attachment to the workforce.**

UIA provided us with the following response:

##### **AGENCY PRELIMINARY RESPONSE**

*We agree that benefit payments should go to eligible workers. We also agree that with the ever-changing federal guidelines it is likely that certain PUA claimants may have misrepresented their eligibility. Early in the PUA program the DOL required that states allow self-attestation as an alternate factor for determining eligibility. This mandate greatly diminished UIA's ability to ensure that individuals who filed PUA claims only received benefits in accordance with statutory provisions.*

*UIA agrees with this finding and has taken steps to improve UIA's program eligibility determination processes, resolve outstanding overpayments, and increase the identification (and possible legal referral) of PUA claimants who intentionally misrepresented their eligibility. This finding is a direct result of the global pandemic and involves a hastily established federal program created to get much needed payments into the hands of workers and their families; money used to keep roofs over their heads, purchase needed medications and keep food on the table. Political leaders of both parties told UIA to do everything in its power to urgently provide unemployment benefits to the millions of Michiganders who lost their jobs virtually overnight. We proudly did so. The volume of claims filed in the spring of 2020 peaked with a high of over 388,000 in a single week, compared with just 5,000 claims before the pandemic and a weekly high of 77,000 claims during the Great Recession.*

*On October 7, 2020, the Agency implemented a Reasonable Suspicion policy and trained staff on the policy. Additionally, UIA completed the PUA Treasury crossmatch to identify PUA claimants, at a point in time, who were likely attached or were likely not attached to the workforce. Solution requests (SQRs) were developed to open remuneration cases, identity verification, and employment verification. Furthermore, additional crossmatches were run against PUA claims and non-monetary issues were opened. This resulted in \$2.3 billion in overpayments being established as of November 2021 for the PUA claimants identified in the Treasury crossmatch performed in November 2020. Though overpayments were established, the Agency has not*

##### **AUDITOR'S COMMENTS TO AGENCY PRELIMINARY RESPONSE**

As noted in the Finding, UIA did not take immediate action to address the population of 314,000 claimants identified in the Treasury crossmatch results received in early November 2020. Although UIA notified impacted claimants in February 2021, it generally did not begin its verification efforts until between May and December 2021. UIA continued to pay these claimants until it completed its verification efforts.

We identified these MiDAS programming deficiencies in parts b. and c. of Finding 1. UIA has been aware of these issues that preclude it from establishing intentional

*established intentional misrepresentation on these claims due to a lack of programming within the MiDAS system. As a result, these overpayments have been waived or are being considered for waivers.*

*In 2022, we waived more than \$555 million in overpayments on 76,000 claims and still have waiver implementation projects in progress. In 2021, we waived more than \$3.5 billion in overpayment debt related to federal pandemic jobless benefit programs on 345,000 claims.*

*The Agency is creating a non-monetary issue that will generate a fact-finding form for certain PUA claimants. Creating this non-monetary issue may lead to an overpayment and intentional misrepresentation determination being established on many PUA claimants. Should intentional misrepresentation be established along with an overpayment, claimants would be ineligible for a waiver. Upon implementation, the non-monetary issue will be created, the Investigations Division staff will investigate PUA claimants who likely misrepresented their attachment to the workforce, and appropriate action will be taken. In addition, the Agency is exploring a mechanism to establish intentional misrepresentation on denied claims. The Agency has three years from initial payment to establish intentional misrepresentation. UIA will also consider performing an additional crossmatch with the Department of Treasury for the entire pandemic assistance period to assist with determining workforce attachment, identifying potential remuneration issues, or other available actions.*

misrepresentation on PUA claims since at least September 2020. In addition, we identified UIA had improperly issued waivers in Finding 4. UIA's acknowledgment here it has waived or is considering waiving overpayments identified in the Treasury crossmatch population is concerning given the explicit language in federal and state law that preclude UIA from issuing waivers for fraudulent claims, which include intentional misrepresentation. Given UIA's intentions as described below to create a non-monetary issue that will generate a fact-finding form for certain PUA claimants it is likely UIA will need to consider rescinding waivers it has previously granted. As noted in Finding 1, the three-year window for UIA to attempt to identify the cause of the billions of dollars in PUA overpayments and confirm intentional misrepresentation starts to close in April 2023.



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Finding 6 Agency Preliminary Response and Auditor's Comments to  
Agency Preliminary Response

This section contains UIA's preliminary response to Finding 6 and our auditor's comments providing further clarification and context where necessary.

**Finding 6: Improvements needed to UIA's benefit payment review (BPR) process.**

UIA provided us with the following response:

**AGENCY PRELIMINARY RESPONSE**

We agree in part. UIA agrees with the findings above but disagrees with the numbers reported.

*The pandemic presented real time challenges for which Unemployment Insurance Agencies nationwide were ill prepared. At the start of the pandemic, the Michigan Unemployment Insurance Agency (UIA) responded quickly and with empathy to calls from both the legislature and claimants to get payments out the door and into the accounts of Michigan workers. The Michigan UIA was not alone in the challenges it faced. However, Michigan is uniquely equipped to respond and rectify these issues and has already begun the process of doing so.*

*The task inventory report is used to determine the number of Benefit Payment Reviews completed in one day by an individual manager. However, the task inventory report identifies the individual who was assigned the Benefit Payment Review (BPR), not the individual who actually processed the BPR, an important distinction.*

**AUDITOR'S COMMENTS TO  
AGENCY PRELIMINARY RESPONSE**

We provided UIA with the detail supporting the numbers reported in this Finding on July 8, 2022, and UIA did not dispute the numbers or provide additional data for us to consider during or after our fieldwork. UIA does not identify which numbers it disagrees with in its response.

The Benefits Section Administrator and Adjudication Manager informed us on April 7, 2022 that UIA did not monitor how many BPRs were assigned or completed by each UIA staff member. The task inventory report has no relevance to the issues noted in this Finding.

- a. Agree: The Agency was and remains committed to getting payments out to eligible claimants in a timely manner. UIA increased the threshold to \$11,000 for BPRs in April 2020 anticipating the potential weeks of delay in unemployed workers filing an application for benefits. UIA's online portal, MIWAM, and its Contact Center could not immediately offer enough capacity for all unemployed workers to access services, such as filing an initial application.
- b. Agree: The agency will ensure workflow includes examiner eligibility review prior to the creation of a BPR for future new unemployment programs. It cannot be emphasized enough that the volume of claims filed in the spring of 2020 peaked with a high of over 388,000 in a single week, compared with just 5,000 claims before the pandemic and a weekly high of 77,000

*claims during the Great Recession. The UIA was and remains committed to getting claims paid to eligible workers. With this context it is important to note that the BPR process is one of many internal control tools; it is not, nor was it ever intended to be, a part of review for eligibility. Prior to the pandemic, staff notified their manager of a pending BPR, explained the circumstances resulting in a BPR, and the manager would confirm the circumstances and ensure legitimacy of payment. A BPR was never created without an eligibility review by a frontline examiner. With the implementation of the Pandemic Unemployment Assistance (PUA) program, BPRs were created immediately upon application without any review by an examiner which then required a manager to complete an eligibility review versus a manager review.*

- c. Agree: As noted above, UIA has taken dramatic steps to build upon and improve our internal controls. In prior audits, the OAG received from the UI director a firm commitment to adhere to existing internal controls and documenting key decisions for all program areas. The unwavering assurances offered in the UIA response to the Personnel Management Processes Audit released in March 2022 apply here as well.*
- d. Agree: As noted above, UIA has taken dramatic steps to build upon and improve our internal controls. In prior audits, the OAG received from the UI director a firm commitment to adhere to existing internal controls and documenting key decisions for all program areas. The unwavering assurances offered in the UIA response to the Personnel Management Processes Audit released in March 2022 apply here as well.*
- e. Agree: At the height of the pandemic the UIA was committed to getting money out the door to eligible workers. The volume of claims filed in the spring of 2020 peaked with a high of over 388,000 in a single week, compared with just 5,000 claims before the pandemic and a weekly high of 77,000 claims during the Great Recession. Since March 15, 2020, over \$40 billion in benefits has been paid to 3.5 million workers. At the height of the pandemic, the number of customer-facing staff more than quadrupled. Before the pandemic, the UIA had around 650 staff; at its peak, nearly 3,000 UIA team members were helping claimants. The OAG knows this fact all too well as it went to great lengths to document it in the Personnel Management Audit released earlier this year.*

*The agency provided instructions to managers on processing BPRs on July 24, 2020, and provided training on processing BPRs beginning on December 10, 2020, after release of corrected official agency PUA Guidance and Reasonable Suspicion policy. Benefits leadership halted the processing of PUA BPRs in August 2020 due to the lack of official agency guidance. The agency agrees that training is necessary and it has been provided to all current managers. It will ensure training occurs with new managers moving forward. The agency will ensure workflow includes examiner eligibility review prior to the creation of a BPR for future new unemployment programs. Additionally, Benefits Leadership will conduct quarterly reviews of BPR processing to ensure both quality of review and quantity does not exceed reasonable expectations. Finally, it is important to note that the Agency took disciplinary action against the manager referenced in the above audit findings.*

According to data we obtained from UIA, UIA staff completed between 105 and 449 BPRs per day on PUA claims, averaging 210 per day, for work days between August 1, 2020 through December 9, 2020. Benefits leadership was unable to provide us with any communications to staff to halt the BPRs, and according to the data, staff continued to process them.

## CLAIMS PROCESSING DURING THE COVID-19 PANDEMIC

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### Finding 8 Agency Preliminary Response and Auditor's Comments to Agency Preliminary Response

This section contains UIA's preliminary response to Finding 8 and our auditor's comments providing further clarification and context where necessary.

#### **Finding 8: Wage crossmatch leads require follow-up.**

UIA provided us with the following response:

##### **AGENCY PRELIMINARY RESPONSE**

*We agree in part. The quarterly crossmatch is an important tool in detecting potential overpayments. It is one of many in the UIA arsenal. We agree that all federally required quarterly crossmatch leads should be followed up on to detect possible overpayments.*

*The pandemic presented real time challenges for which Unemployment Insurance Agencies nationwide were ill prepared. At the start of the pandemic, the Michigan Unemployment Insurance Agency (UIA) responded quickly and with empathy to calls from both the legislature and claimants to get payments out the door and into the accounts of Michigan workers. The Michigan UIA was not alone in the challenges it faced. However, Michigan is uniquely equipped to respond and rectify these issues and has already begun the process of doing so.*

*Contrary to the assertions in the above finding, the UIA did indeed identify, document, and pursue resolution when it became aware of inconsistencies in the generation of crossmatch leads. On February 14, 2020, at the beginning of the pandemic, the UIA submitted a Solution Request (SQR) documenting issues with the crossmatch system failing to create consistent leads. The SQR was created following conversations with developers on the FAST Enterprises (UIA's current system vendor) team that an SQR was necessary to remediate the issue. On February 19, 2020, the SQR was assigned to a developer for work. Less than one month later the Pandemic Emergency Declaration was made. The assigned developer never made progress on this SQR and eventually ended their role supporting the UIA.*

*Resolution of the crossmatch issue revealed multiple failures of the technical systems and processes. These failures existed outside of the scope of UIA staff oversight. These failures further highlight the challenges the current MiDAS system presented and continues to present to both UIA and Michigan workers. On*

##### **AUDITOR'S COMMENTS TO AGENCY PRELIMINARY RESPONSE**

We note in the Finding UIA had been aware of the technical issue within MiDAS since September 2019 which prevented it from fully conducting the wage crossmatches. UIA informed us during our fieldwork it did not prioritize a fix because of the onset of the pandemic, expanded eligibility for UC, and the significant increase in UC claims. Hence, the Finding is not significantly different or "contrary" to the verbiage UIA included in its response. UIA's response implies a disagreement that does not exist.

November 15, 2022, the UIA announced it had chosen Deloitte to design and install a modern, innovative, user-focused unemployment insurance computer system that prioritizes ease of access for workers and employers while also streamlining jobless claims processing. The new system will replace the Michigan Integrated Data Automated System (MiDAS), first put into use nearly a decade ago under former Gov. Rick Snyder.

When remediating the late crossmatch discoveries, the Agency performed the crossmatches for all prior quarters that had previously errored. These crossmatches were performed on all state claims. This resulted in fact-finding forms being sent to claimants and their employers seeking additional information for the benefit weeks in question. These fact-finding forms ask claimants and their employer for the gross wages earned for each week in question.

As responses are received, Agency staff adjudicate the issues based on responses from claimants and their employer. When there are no responses or insufficient responses, additional reasonable attempts are made to gather information. In many instances, overpayments are identified and then established due to a claimant receiving unemployment benefits for a given week or weeks and either failing to report or underreporting their gross earnings for that week.

In March 2022, issues with wage crossmatch were resolved. UIA has since revisited the systems and process for monitoring future failures with our IT partners. The crossmatches are run in a weekly job stream. When the job fails, an SQR is opened for follow up. Since the crossmatch jobs have been restored and running, only one intervention has been opened, worked, and closed to ensure UIA creates crossmatch cases for review in a timely manner. UIA will continue to follow this process to ensure the jobs successfully run and leads are reviewed.

As of September 1, 2022, the Agency has written over 2,000 intentional misrepresentation determinations since we remediated the late crossmatch discoveries.

UIA will continue to follow this process to ensure the jobs successfully run and leads are reviewed. In addition, UIA is working on a new IT governance model.

As noted in the Finding, as of October 2022, UIA had only adjudicated 1 out of 25 nonmonetary issues from its March 2022 wage crossmatch results we randomly selected. UIA did not inform us or provide information during or after our fieldwork related to the 2,000 intentional misrepresentation determinations it mentions in its response, and therefore, we did not validate this information.

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### Finding 9 Agency Preliminary Response and Auditor's Comments to Agency Preliminary Response

This section contains UIA's preliminary response to Finding 9 and our auditor's comments providing further clarification and context where necessary.

#### **Finding 9: Improvements needed to ensure claimants are able and available for full-time work.**

UIA provided us with the following response:

##### **AGENCY PRELIMINARY RESPONSE**

*We agree that internal controls could be improved during the pandemic. However, UIA disagrees that established procedures were bypassed.*

*The pandemic presented real-time challenges for which Unemployment Insurance Agencies nationwide were ill prepared. At the start of the pandemic, the Michigan Unemployment Insurance Agency (UIA) responded quickly and with empathy to calls from both the legislature and claimants to get payments out the door and into the accounts of Michigan workers. The Michigan UIA was not alone in the challenges it faced. However, Michigan is uniquely equipped to respond and rectify these issues and has already begun the process of doing so.*

*As noted in response to audits issued earlier this year, UIA has taken dramatic steps to build upon and improve our internal controls. In prior audits the Michigan Office of the Auditor General (OAG) received from the UI director a firm commitment to adhere to documented internal controls moving forward for all program areas. The unwavering assurances offered in the UIA response to the Personnel Management Processes Audit released in March 2022 apply here as well.*

*UIA reinstated the ability and availability questions in the weekly certification on May 30, 2021, in conjunction with the reinstatement of the work search requirement, in line with our belief that these were associated. The unemployment rate fell below 8.5% in November 2020 so seeking work should have been reinstated at that time but was not until six months later in May 2021. The primary reason for the delay in reinstating the seeking work requirements—and with it the able and available requirements—was the reallocation of Agency resources to extend federal programs under the Continued Assistance Act (CAA) so claimants could continue to receive their unemployment benefits. Additionally, delays in reinstating these requirements were due to the*

##### **AUDITOR'S COMMENTS TO AGENCY PRELIMINARY RESPONSE**

In the Finding we state UIA informed us it bypassed established procedures requiring approvals from key UIA personnel when developing the weekly certification criteria, because of the urgency to make the forms available. This statement was taken directly from UIA staff and we first reported this in our November 2021 performance audit report, and then again within Finding 3 in this audit. UIA did not provide us with any documentation, during or after our fieldwork, in which key UIA personnel approved the weekly certification criteria.

following: (1) technical changes were required to the phone certification process in Michigan's Automated Response Voice Interactive Network (MARVIN system) to allow claimants to submit their work search by phone and (2) the desire to provide claimants with sufficient notice that the requirement they look for work each week would be reinstated.

*In May of this year, the Michigan Office of the Auditor General (OAG) conducted an audit of the Michigan Integrated Data Automated System (MiDAS) and Michigan Web Account Manager (MIWAM) systems, shedding light on the significant challenges presented by the existing UIA database especially as it relates to change controls. The agency is hampered by an inability to implement changes quickly and efficiently to systems and processes. It is for this very reason that the UIA issued a Request for Proposals (RFP) to replace the existing database. This change is necessary to ensure that the UIA has the best technology solution available when serving Michigan workers and businesses. On November 15, 2022, the UIA announced it has chosen a new contractor to design and install a modern, innovative, user-focused unemployment insurance computer system that prioritizes ease of access for workers and employers while also streamlining jobless claims processing. The new system will replace MiDAS, first put into use nearly a decade ago under former Gov. Rick Snyder.*

The issues noted in this Finding in this report relate to UIA decisions to waive federal requirements, the delay to reinstate them, and the known and likely overpayments these actions allowed to ineligible claimants. This portion of UIA's response has no relevance to the issues reported in the Finding. Further, our MiDAS report from May 2022 focused on UIA and DTMB's internal control related to securing highly confidential federal tax information, developing effective access controls, timely removal of user access, adopting appropriate security benchmarks, improving security awareness training, and improving change controls. Our conclusions in the May 2022 report did not establish MiDAS to be at fault, but rather identified the need for improved human intervention in the form of sufficient internal control and processes. UIA will need to ensure it implements sufficient internal control in any system UIA employs or similar deficiencies will continue to exist.

*The agency is committed to improving processes and providing claimants the ability to certify that they are able and available for work. Over the last 11 months the agency has taken dramatic steps to improve and build upon existing internal controls and will continue to do so. As noted at the start of this response the UIA has articulated in prior audits a firm commitment to building upon and strengthening existing internal controls.*

*As noted above, UIA reinstated the ability and availability questions in the weekly certification on May 30, 2021. Significantly, the United States Department of Labor is not requiring UIA to recertify individuals who were not questioned regarding their ability and availability in their weekly certifications for the time period indicated. However, UIA has identified claimants with overpayments for this reason and is waiving the overpayments based on agency error as allowed by the Michigan Employment Security (MES) Act.*

*UIA will improve its internal controls to ensure all claimants certify that they are able and available for work unless a waiver of the requirement applies. To ensure that any such waiver is properly applied, UIA will review each waiver type to ensure that the application of the waiver only waives the specific requirement, i.e., able or available, as established by law. The UIA closely reviews the eligibility of certain claimant populations for waivers.*



*On July 21, 2022, the UIA announced it had applied another round of waivers for more than 7,300 claims. These waivers applied to individuals who had received overpayment determinations related to ability and availability for work. The agency published a release announcing the application of these waivers. So far this year the agency has issued three rounds of waivers. The UIA has issued more than 76,000 waivers and waived more than \$555 million in overpayments for Michigan workers. The other waiver populations include those impacted by the Lost Wage Assistance (LWA) program and confusion related to the reporting of gross v. net income.*



## CLAIMS PROCESSING DURING THE COVID-19 PANDEMIC

Unemployment Insurance Agency  
Department of Labor and Economic Opportunity

### Finding 10 Agency Preliminary Response and Auditor's Comments to Agency Preliminary Response

This section contains UIA's preliminary response to Finding 10 and our auditor's comments providing further clarification and context where necessary.

#### **Finding 10: Improvements needed to calculate accurate weekly benefit amounts.**

UIA provided us with the following response:

##### **AGENCY PRELIMINARY RESPONSE**

*We agree. The two years immediately preceding the pandemic marked a season of great change at the UIA; change that depleted the ranks of seasoned UIA staff and with it a wealth of historical and demonstrated program knowledge. The prior administration of Gov. Rick Snyder, addressing widespread system failures, closed out its term by replacing a once experienced team with a new executive team principally comprised of unemployment insurance novices. The new UIA team was unfortunately still partnered with a vendor and system with a troubled past in Michigan. On November 15, 2022, the UIA announced it had chosen a new vendor to design and install a modern, innovative, user-focused unemployment insurance computer system that prioritizes ease of access for workers and employers while also streamlining jobless claims processing. The new system will replace the Michigan Integrated Data Automated System (MiDAS), first put into use nearly a decade ago under former Gov. Snyder.*

*The global pandemic unleashed an economic hailstorm like nothing we may ever again see in this lifetime. New and shifting federal programs with constantly changing guidelines assaulted the UI systems across the country. As cited in the November 2020 Deloitte Report:*

*On March 18, 2020, the President signed into law the Families First Coronavirus Response Act ("FFCRA"). On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security ("CARES") Act was signed into law, which expanded states' ability to provide unemployment insurance for workers impacted by the Pandemic. Separate and apart from standard unemployment insurance ("UI"), the CARES Act provided funding for special Pandemic Unemployment Assistance ("PUA") for a period of up to 39 weeks and associated Federal Pandemic Unemployment Compensation ("FPUC"). In Michigan, qualified UI and PUA applicants were eligible for an additional \$600 a week in FPUC for the weeks between March 29, 2020 through July 25, 2020.*

##### **AUDITOR'S COMMENTS TO AGENCY PRELIMINARY RESPONSE**

While we noted the evolving guidance from USDOL through the issuance of numerous UIPLs, we also noted early and consistent guidance to help states place the requisite emphasis on program integrity while implementing the new programs in an expeditious manner. We cite these UIPLs many times within the Findings in this report.

Concurrent with the Pandemic, Michigan's unemployment rate increased from approximately 3.6% in February, 2020 to 24.0% in April, 2020. From March 15, 2020 through October 23, 2020, UIA received approximately 3.8 million claims filed for unemployment, which exceeded the previous six years combined. During the same period, UIA paid over \$22.9 billion to claimants, averaging over \$716 million in payments a week.

In the midst of all of the above, the Deloitte report notes explicitly:

"it is understood that UIA was receiving pressure to expedite payments from numerous directions within the State, including lawmakers. For example, on June 4, 2020, a letter was sent to the Governor from 20 Michigan state representatives that "[requested] the replacement of the Unemployment Insurance Agency leadership team" as there "[needed] to be some accountability for the department and [they needed] to get... benefits to the people of Michigan." Specifically, the letter noted, "When the [Pandemic] first started the legislature was told cases would have a response within four to seven days, then it was moved to ten business days and finally to three to four weeks. This is unacceptable."

It is with this context that the UIA makes clear its commitment to ensure it determines claimants' WBA timely, accurately, and in accordance with applicable laws. However, what the OAG fails to acknowledge is that prior to the pandemic and these federal programs, the UIA had no obligation for employment verification and once the federal programs ended, the obligation to verify also ended.

It is not accurate for UIA to indicate it had no obligation for employment verification prior to the pandemic and ended this once the federal programs ended. We note in the Finding that income verification was a unique requirement applicable to PUA claims. However, UIA has and will continue to have an obligation to establish proper internal control to establish a correct WBA on all UI claims. For regular UI claims (prior to, during, and after the pandemic) both employment and income requirements exist. UIA verifies both based upon reported employer quarterly wages within MiDAS and monetary determinations sent to the prospective claimant's previous employers. These monetary determinations include the claimant's WBA and number of weeks the claimant is monetarily eligible.

Specifically, to the elements of this finding:

- a. Moving forward, UIA will be more vigilant in new program development to ensure program eligibility and processes are clearly defined and align with statute and U.S. Department of Labor guidance. Also, the affected divisions will be consulted and will approve changes prior to implementation. UI will also practice effective internal controls and ensure approvals are documented moving forward.
- b. Due to the historic number of unemployment applications filed during the pandemic, the workload exceeded UIA's ability to timely process work. UIA completed the backlog of PUA income verification work items by January 2022.

## CLAIMS PROCESSING DURING THE COVID-19 PANDEMIC

Unemployment Insurance Agency  
Department of Labor and Economic Opportunity

### Finding 13 Agency Preliminary Response and Auditor's Comments to Agency Preliminary Response

This section contains UIA's preliminary response to Finding 13 and our auditor's comments providing further clarification and context where necessary.

#### **Finding 13: Improvements needed to UIA's responsiveness to claimant communications.**

UIA provided us with the following response:

##### **AGENCY PRELIMINARY RESPONSE**

*We agree the UIA should improve its responsiveness to claimant contact and the clarity of claimant communications.*

*Throughout the pandemic, the UIA was acting swiftly and with empathy to address hardships that people were going through due to a global pandemic. The volume of claims filed in the spring of 2020 peaked with a high of over 388,000 in a single week, compared with just 5,000 claims before the pandemic and a weekly high of 77,000 claims during the Great Recession. Since March 15, 2020, over \$40 billion in benefits has been paid to over 3.5 million workers. The UIA has increased capacity, improved workflow and other internal systems, and reduced red tape to meet the unprecedented level of claims that have been filed since the pandemic began.*

*At the height of the pandemic, customer-facing staff more than quadrupled. Before the pandemic, the UIA had around 650 staff; at its peak, nearly 3,000 UIA team members were helping claimants. During the period of March and April 2020 that saw the most dramatic change in call volume, in terms of unique contacts our peak was April 27, 2020, when 193,717 individuals attempted to contact UIA versus our trough of 1,962 on March 6, 2020.*

*Prior to the pandemic, UIA typically had 65 staff assigned to incoming calls and chats. The remaining staff were performing other customer-service related work. If UIA had 65 staff handling 1,962 contacts on March 6 and our completion rate was 75%, We would have needed 81 staff to complete 100% of contacts on that day. UIA would have needed 100 times the staff, or 8,100, at the height of the pandemic to maintain that 100% completion rate. A fact the OAG knows too well as it went to great lengths to document in the Personnel Management Audit released earlier this year.*

##### **AUDITOR'S COMMENTS TO AGENCY PRELIMINARY RESPONSE**

Projecting staffing needs was not within the scope of this audit or the March 2022 performance audit, Personnel Management Processes During the COVID-19 Pandemic, UIA references in its response. We made no such assertions in either audit.

*Specifically, related to finding subparts a.-d.:*

- a. *UIA agrees that it did not track the number of calls into the Contact Center that received busy*

*signals. Since a call receiving a busy signal never reaches our InContact platform, there was no ability to track that data. UIA will work with its DTMB partners to determine whether a solution can be created that would allow the agency to track that data in the future.*

- b. UIA agrees that its claimant chat response rate was uneven during the pandemic. UIA is working to develop an appropriate staffing plan to address that situation, so the agency is prepared for another high-volume event. The UIA has created a daily dashboard shared with the Benefits Divisions managers and administrators as well as the UIA director. This dashboard provides timely data and insight about the total number of daily contacts (including chats) coming in and the response rate. This real-time data allows the agency to adjust our staffing assignments on a daily basis.*
- c. UIA agrees that its claimant web notice response rate was uneven during the pandemic. UIA is working to develop an appropriate staffing plan to address that concern, so the agency is prepared for another high-volume event. In the meantime, the agency is running regular queries of the types of web notices being submitted with special attention on those with protests and appeals with collections and restitution attached.*
- d. UIA agrees that communications to claimants were sometimes confusing. UIA is working with its a Detroit nonprofit partner to improve the most common claimant letters using plain language and giving clear next steps; create a clear digital roadmap to guide claimants through the unemployment eligibility, application, determination, and certification processes; and update the claimant portal to be more user-friendly. UIA held the project implementation phase kickoff on August 3, 2022, and expects improvements to be implemented by the end of 2023.*

## CLAIMS PROCESSING DURING THE COVID-19 PANDEMIC

Unemployment Insurance Agency  
Department of Labor and Economic Opportunity

### Finding 14 Agency Preliminary Response and Auditor's Comments to Agency Preliminary Response

This section contains UIA's preliminary response to Finding 14 and our auditor's comments providing further clarification and context where necessary.

#### Finding 14: UIA needs to ensure the completion of call center staff monitoring.

UIA provided us with the following response:

##### AGENCY PRELIMINARY RESPONSE

*We agree and have taken corrective action. UIA agrees that everyone contacting the Agency should expect and receive a high level of customer service. However, it is disingenuous of the OAG to suggest that the UIA was not committed to managing or monitoring calls in the midst of the pandemic. Despite facing extraordinary challenges during the pandemic, UIA remained committed to managing and monitoring contacts to ensure optimal quality and volume under the circumstances. On Monday, August 15, 2022, the UIA announced to staff that it would cease to utilize both Robert Half and Accenture contract staff effective Friday, September 30, 2022. For more than two years the work of the UIA has been supported by the invaluable efforts of our Limited-Term (LT) staff. Our LT employees are an integral part of the Agency's post-pandemic recovery and we have been working diligently to extend that partnership. In closing the contract with Robert Half and Accenture we were able to extend the term for those Limited-Term staff supporting our Benefits Operations and Benefits Customer Service Divisions through the first of February 2023. The Limited-Term staff supporting our two Benefits Divisions have transitioned to processing adjudication and other work items for customers who contact the agency by phone or chat or make a phone or virtual appointment.*

*Over 70 percent of customer contacts are due to pending work items. This shift allows us to respond in real time to claimant needs whether that means answering questions, making determinations, or processing work items. Since this transition, UIA has witnessed an extraordinary increase in customer satisfaction ratings based on our customer surveys. In the six months preceding the departure of the contract staff, the customer service positive rate was at 76%. Since the UIA's move on October 3 to have all limited term UIA staff answer calls, our positive rating is now at 90% (through November 11, 2022).*

*In the weeks prior to the pandemic up until the week ending March 13, 2020, the UIA call volume had been*

##### AUDITOR'S COMMENTS TO AGENCY PRELIMINARY RESPONSE

UIA's response contains extraneous information not relevant to the Finding. Also, the statement that the OAG is disingenuous does not reconcile with the fact that UIA agreed with the Finding and apparently has taken corrective action. We make no assertions or inferences in the Finding or elsewhere in this report which speculate about UIA's level of commitment to managing or monitoring calls during the pandemic.

"normal". Meaning 4,950 people attempted to reach us on a Monday and that number gradually reduced during the week to 2,129 individuals attempting to contact us on Friday. Our contact completion rate at that time was 72%-78% with 81 staff.

For the following week ending March 20, 2020, we saw the first indications of the impact of the pandemic on call volume. The numbers below are for unique incoming contacts:

March 16, 2020 - 14,720  
March 17, 2020 - 25,680  
March 18, 2020 - 28,466  
March 19, 2020 - 29,951  
March 20, 2020 - 34,708

The chart below depicts call volume from March 16, 2020, through April 30, 2020. March 23, 2020, marked an "overnight" jump from 34,000 incoming unique contacts on Friday to 129,000 unique incoming contacts on Monday. During the March and April 2020 period that saw the most dramatic change in call volume, our peak in terms of unique contacts was April 27, 2020, where 193,717 individuals attempted to contact UIA versus our trough of 1,962 on March 6, 2020.

Prior to the pandemic, UIA typically had 65 staff assigned to incoming calls and chats. The remaining staff were performing other customer-service related work. If UIA had 65 staff handling 1,962 contacts on March 6 and our completion rate was 75%, we would have needed 81 staff to complete 100% of contacts on that day. UIA would have needed 100 times the staff, or 8,100, at the height of the pandemic to maintain that 100% completion rate.

States across the country felt the crushing weight of this increased call volume. Michigan was not the only one to struggle. The OAG's focus in this finding on a "failure to adequately monitor" contract staff by the UIA is neither rooted in nor reflective of the reality and totality of the circumstances in which the agency found itself.

UIA is apparently attempting to attribute a quote to our Office that does not appear in this Finding or elsewhere in this report. Our conclusions and recommendation in the Finding are rooted in the facts as presented. UIA has provided no proof to refute the assertions we make and apparently agree with our assertions, because in its own words, UIA agreed and took corrective action.

The Agency is committed to effectively monitoring the quality of work of all call center employees and has since established procedures to address the OAG's concerns.

Since October 2021, there has been significant change to the structure and makeup of the UIA Executive Team. Specifically, we:

- Created and filled a new Administrator of Customer Service uniquely equipped to lead our local offices and call center staff in such a way that allows us to better serve our diverse clientele.
- Changed the executive level reporting structure so that now each Division Administrator reports directly to the UIA director; thus allowing the UIA



director to personally communicate to her team the expectations for and commitment to customer service.

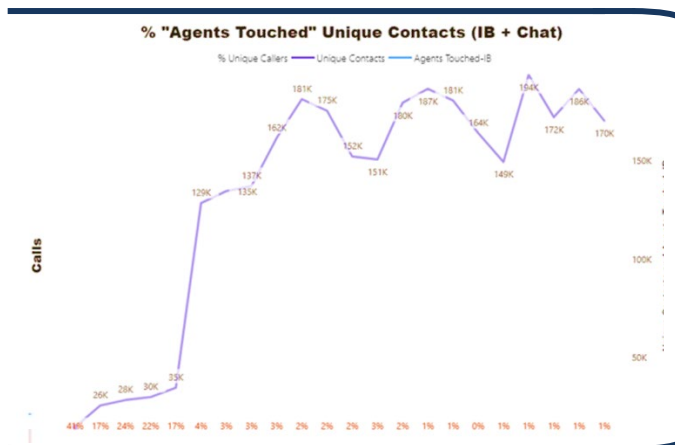
The staff and leadership have also been charged with identifying opportunities for change that will both position and equip the Agency to better meet the needs of claimants and employers at every point of their journey with UIA.

Further, UIA currently requires each contract staff manager and State of Michigan manager of an LT Customer Service team to complete one call or chat review per team member per week. The manager logs the specific review, the result, and any required follow up, including corrective action. These reports are made available to UIA management upon demand.

UIA also currently requires each contract staff manager and SOM manager of an LT phone team to review the customer service surveys that were completed and assigned to their staff member for the previous week. These customer service surveys provide customer feedback on individual staff members. While managers can review surveys with positive ratings, we ask that they focus on surveys with negative reviews of the first three questions of the survey that are specific to agent behavior:

- Was the representative professional and courteous?
- Was the representative knowledgeable?
- Was the information given easy to follow and understand?

We have asked that managers follow up with feedback both in team huddles and with individual staff members that reflects specific customer service survey feedback items.



UIA provided this chart with its response to this Finding. It was not subject to our audit procedures. Therefore, we have no comment or conclusion related to it.

## AGENCY DESCRIPTION

The federal Social Security Act of 1935 created the UC program as a joint federal-state partnership, with each state responsible for designing its own program within broad federal guidelines. In response to this Act, UIA was originally created as the Michigan Employment Security Commission by the Michigan Employment Security Act of 1936, being Sections 421.1 - 421.75 of the *Michigan Compiled Laws*. Under EO 2014-12, UIA was transferred from the Department of Licensing and Regulatory Affairs to the Talent Investment Agency, Department of Talent and Economic Development. Under EO 2019-13, the Department of Talent and Economic Development was renamed the Department of Labor and Economic Opportunity.

UIA operates Michigan's UI program, which collects unemployment taxes from employers and provides temporary income for workers who are unemployed through no fault of their own. UIA's mission\* is to lighten the burden of involuntary unemployment on the worker and their family. UIA strives to provide timely benefits to every eligible unemployed worker. To slow the spread of COVID-19 after the first confirmed cases in Michigan in March 2020, the Governor declared a state of emergency and issued a series of EOs placing restrictions on public gatherings. These orders temporarily closed schools, businesses, and other employers resulting in the largest spike in unemployment in Michigan history.

According to data on UIA's public Web site, from March 15, 2020 through June 30, 2022, UIA received 5.8 million claims from 3.5 million unique claimants and paid \$39.9 billion to 2.45 million claimants as shown below:

Claim Type	Claims Created (In Millions)
Regular UI	2.6
PUA	1.9
Extensions	1.1
Work Share	0.2
Others	0.0

Claimant Type	Claimants (In Millions)
Unique claimants	3.5
Ineligible / denied / not certifying claimants	1.0
Potentially eligible, certifying claimants	2.5
Paid claimants	2.5
Unpaid claimants	0.0

Category	Paid Out (In Billions)
PUC	\$22.0
Regular UI	\$ 6.3
PUA	\$ 6.1
PEUC	\$ 2.9
LWA	\$ 1.7
EB	\$ 0.4
Work Share	\$ 0.1
Other	\$ 0.4

\* See glossary at end of report for definition.



## AUDIT SCOPE, METHODOLOGY, AND OTHER INFORMATION

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### AUDIT SCOPE

To examine UIA's efforts to process UI claims in accordance with selected State and federal requirements during the COVID-19 pandemic and effectively communicate with claimants. We conducted this performance audit\* in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Generally accepted government auditing standards require us to report significant constraints imposed upon the audit approach. We could not assess the appropriateness of 55,000 overpayment waivers noted in Finding 4 because UIA would not provide us with the information related to them.

As part of the audit, we considered the five components of internal control (control environment, risk assessment, control activities, information and communication, and monitoring activities) relative to the audit objectives and determined all components were significant.

### PERIOD

Our audit procedures, which included a preliminary survey, audit fieldwork, report preparation, analysis of agency responses, and quality assurance, generally covered January 1, 2020 through June 30, 2022.

### METHODOLOGY

We conducted a preliminary survey to gain an understanding of UIA's processes and controls related to the regular UI, EB, PEUC, PUA, PUC, and other UC programs. During our preliminary survey, we:

- Reviewed the MES Act and *Michigan Administrative Code* rules related to UC programs.
- Reviewed EOs issued during the COVID-19 pandemic related to UC programs.
- Reviewed unemployment provisions of the CARES Act.
- Reviewed CAA and ARPA related to changes for unemployment programs.
- Reviewed applicable USDOL guidance in various UIPLs.

\* See glossary at end of report for definition.

- Reviewed UIA Manual sections related to claims processing.
- Reviewed UIA's Handbook for Unemployed Workers.
- Reviewed UIA's guidance to its staff during the COVID-19 pandemic.
- Interviewed UIA senior staff and executive leadership.
- Met with UIA staff regarding various business processes.
- Met with UIA consulting contractors.
- Reviewed USDOL OIG's May 2021 report entitled COVID-19: States Struggled to Implement CARES ACT UI Programs.
- Reviewed Deloitte's November 2020 Chronology of Key Fraud Risk Management Events report.
- Reviewed USDOL's February 2021 enhanced desk monitoring review (EDMR) report of UIA's administration of the PUA program and UIA's responses to findings from that report.

## **OBJECTIVE 1**

To assess the effectiveness of UIA's efforts to process UI claims in accordance with selected State and federal requirements during the COVID-19 pandemic.

To accomplish this objective, we:

- Evaluated UIA's processing of unemployment claims for selected attributes by randomly selecting and reviewing:
  - 60 of 1,035,147 PUA claims receiving UC for any benefit weeks from April 2020 to October 2021.
  - 40 of 478,471 PUA claims submitted from April 2020 through October 2021 with no related benefit payments.
  - 60 of 2,519,933 regular UI, EB, and PEUC claims and 40 of 187,354 Work Share claims filed or active at any time from January 1, 2020 through September 30, 2021 and received UC for any benefit weeks.
  - 40 of 1,003,171 regular UI, EB, and PEUC claims and 40 of 26,188 Work Share claims filed or active from January 1, 2020 through

September 30, 2021 that were not paid any unemployment benefits.

- Obtained an understanding of UIA's fact-finding process related to overpayments and intentional misrepresentation.
- Analyzed data for PUA claims for which UIA had established intentional misrepresentation.
- Analyzed data from PUA applications and weekly certifications submitted from April 2020 through October 2021 to identify claimants receiving payment who did not select a valid COVID-19 reason and for other indicators of potential intentional misrepresentation or fraud. We also randomly selected and reviewed 25 of 134,779 PUA weekly certifications in which the claimant had been paid but certified they did not meet any of the 14 federal eligibility criteria or UIA's 5 invalid eligibility criteria and 30 of the 54,887 PUA weekly certifications in which the claimant had been paid but certified they were eligible for PUA benefits for a reason other than the 14 federal eligibility criteria.
- Reviewed e-mails and interviewed UIA staff regarding UIA's decision to temporarily suspend its fraud controls at the onset of the COVID-19 pandemic.
- Assessed the appropriateness of UIA's benefit certification forms used in the regular UI, EB, and PEUC programs from January 2020 through December 2021. In addition, we assessed the impact of UIA's May 2021 form changes on its weekly benefit payment amounts and the nonmonetary issues created for UI, EB, and PEUC claims.
- Reviewed UIA's PUA requalification and recertification process to determine if UIA required all applicable claimants to requalify and/or recertify, as appropriate.
- Met with UIA personnel and reviewed State and federal laws and guidance to obtain an understanding of the overpayment waiver process.
- Reviewed e-mails and reports UIA sent to USDOL related to overpayments and overpayment waivers.
- Analyzed overpayments and overpayment waivers established between March 1, 2020 and December 14, 2021 and randomly selected and reviewed the appropriateness of 60 of the 331,751 overpayment waivers.

- Evaluated the sufficiency of UIA's internal guidance for ensuring it adjudicated PUA EV cases in accordance with CAA requirements.
- Assessed UIA's actions upon learning approximately 314,000 PUA claimants had no recent attachment to the workforce, as of November 2, 2020. Also, we randomly selected and reviewed UIA's adjudication of PUA EV cases for 50 of these claimants.
- Identified the multiple iterations of PUA applications UIA created and used during the COVID-19 pandemic and reviewed MiDAS to assess the authenticity of the PUA applications maintained for the same 60 randomly selected paid PUA claims identified in the first bullet of our methodology for Objective 1.
- Evaluated the effectiveness of UIA's BPR process at ensuring scheduled benefit payments were proper before releasing them. In addition, we reviewed claim documentation in MiDAS for the 5 largest scheduled payments and 5 randomly selected scheduled payments from 24,082 BPRs approved during the week ended June 19, 2020 to assess the effectiveness of completed BPRs. We also reviewed claim documentation for the 5 highest benefit payments made without a BPR between January 1, 2020 and December 31, 2021, for benefit weeks between January 1, 2020 and September 30, 2021, to assess the appropriateness of those benefit payments.
- Assessed UIA's federally required quarterly wage and new hire crossmatch processes and randomly selected and reviewed 25 of the 59,404 wage crossmatch nonmonetary issues UIA created in March 2022 to assess its follow-up efforts on matched claims.
- Analyzed data for PUA income verification cases and randomly selected and reviewed 25 of 353,479 PUA income verification cases established as of December 31, 2021 to determine whether UIA reviewed and appropriately processed the supporting income documentation.
- Compared UIA's claim processing timeliness against USDOL-ETA UI Performs core measures.
- Reviewed Deloitte's December 2021 Fraud Measurement Estimation report.

We selected our random samples to eliminate any bias and enable us to project our test results to their respective populations. For our judgmental samples, we selected high risk sample items for efficiency\* purposes, and therefore, we could not project the results to the respective populations.

\* See glossary at end of report for definition.

## OBJECTIVE 2

To assess the effectiveness of UIA's communications with UI claimants during the COVID-19 pandemic.

To accomplish this objective, we:

- Interviewed UIA and DTMB staff to gain an understanding of call center operations and staff monitoring activities and resources.
- Evaluated the timing, clarity, and accuracy of UIA's written claimant communications by reviewing the written communication for the same randomly selected UI, EB, and PEUC, and PUA claims identified in the first bullet of our methodology for Objective 1.
- Met with UIA staff and reviewed UIA's staffing contracts to identify the responsible parties and processes for monitoring the performance of call center workers. We randomly selected weeks ended from January 4, 2020 through October 2, 2021, in which UIA or its contractors had call center worker monitoring processes in place. We then randomly selected 8 of 75 applicable weeks for Accenture staff, 5 of 45 applicable weeks for Robert Half staff and 9 of 92 applicable weeks for UIA staff. Next, we randomly sampled a total of 109 staff for the selected weeks and reviewed the workers' performance reviews for the 69 applicable call center workers. We also listened to or reviewed 36 of the related calls or chats to assess the appropriateness of the completed monitoring activity.
- Assessed the service quality for 15 calls and 20 chats randomly selected from 496,033 calls and chats handled in randomly selected weeks from February, May, July, and August 2021.
- Reviewed aggregate call and chat data for January 2020 through September 2021.
- Assessed UIA's addition of telephone ports in response to increased call volume for January 2020 through September 2021.
- Evaluated the requalification and recertification letters sent to PUA claimants for clarity and accuracy.

We selected our random samples to eliminate any bias and enable us to project our test results to their respective populations.

### **OBJECTIVE 3**

To compile and provide information on UI claims processed by UIA during the COVID-19 pandemic and other relevant data.

To accomplish this objective, we obtained and reported as supplemental information:

- UI claims data from USDOL and UIA.
- UI overpayments data from USDOL and UIA.
- Call center data from UIA.
- Employment data from the U.S. Bureau of Labor Statistics.

### **CONCLUSIONS**

We base our conclusions on our audit efforts and any resulting material conditions or reportable conditions.

When selecting activities or programs for audit, we direct our efforts based on risk and opportunities to improve State government operations. Consequently, we prepare our performance audit reports on an exception basis.

### **AGENCY RESPONSES**

Our audit report contains 14 findings and 15 corresponding recommendations. UIA's preliminary response indicated UIA and LEO agree or partially agree with all of the recommendations. However, UIA's preliminary response does not specifically address the second recommendation in Finding 4.

The agency preliminary response following each recommendation in our report was taken from the agency's written comments and oral discussion at the end of our fieldwork. Section 18.1462 of the *Michigan Compiled Laws* and the State of Michigan Financial Management Guide (Part VII, Chapter 4, Section 100) require an audited agency to develop a plan to comply with the recommendations and to submit it to the State Budget Office upon completion of an audit. Within 30 days of receipt, the Office of Internal Audit Services, State Budget Office, is required to review the plan and either accept the plan as final or contact the agency to take additional steps to finalize the plan.

### **PRIOR AUDIT FOLLOW-UP**

Following is the status of the reported findings from our February 2016 performance audit of the Michigan Integrated Data Automated System (MiDAS), Unemployment Insurance Agency, Department of Talent and Economic Development (641-0593-15); our April 2016 performance audit of Claimant Services, Unemployment Insurance Agency, Department of

Talent and Economic Development (641-0318-14); and our February 2020 follow-up report on prior audit recommendations (641-0318-14F):

Prior Audit Project Number	Prior Audit Finding Number	Topic Area	Current Status	Current Finding Number
641-0593-15	1	UIA had not fully implemented a comprehensive MiDAS security management program.	Not in scope of this audit.	
641-0593-15	2	DTMB did not fully establish effective security and access controls on MiDAS servers.	Not in scope of this audit.	
641-0593-15	3	UIA did not implement effective MiDAS access controls.	Not in scope of this audit.	
641-0593-15	4	UIA and DTMB did not maintain effective security and access controls over the MiDAS database.	Not in scope of this audit.	
641-0593-15	5	UIA did not implement automated controls within MiDAS to detect claimants who had not submitted evidence of their work search efforts.	Complied	Not applicable
641-0593-15	6	UIA and DTMB did not fully analyze and review MiDAS data to help identify UI benefit payments needing further review.	Not in scope of this audit.	
641-0593-15	7	UIA had not fully implemented processing controls within MiDAS.	Not in scope of this audit.	
641-0593-15	8	UIA did not fully review and implement methods to further automate MiDAS claim processing.	Rewritten*	Observation 2

\* See glossary at end of report for definition.

Table continued next page

Prior Audit Project Number	Prior Audit Finding Number	Topic Area	Current Status	Current Finding Number
641-0318-14	3	Improvements are needed to process claimant and employer mail returned undeliverable and without a forwarding address.	Not in scope of this audit.	
641-0318-14	4	Improvements are needed to ensure employers posted notices informing workers they were covered for UI benefits.	Not in scope of this audit.	
641-0318-14	5	UIA should seek feedback from claimants to evaluate their satisfaction with UIA.	Complied	Not applicable
641-0318-14F	2	Continued enhancements are needed for communicating with current and prospective UI claimants.	Rewritten	Finding 13
641-0318-14F	6	Improvements are needed to consistently meet federal performance standards.	Repeated*	Finding 12
641-0318-14F	7	Evaluation of the Worker Profiling and Reemployment Services system is needed.	Not in scope of this audit.	
641-0318-14F	8	Improvements are needed to ensure claimants are referred to reemployment services.	Not in scope of this audit.	

Note: The status of one material condition (Finding 1) and four of the reportable conditions (Findings 2, 6, 7, and 8) and the eight corresponding recommendations from our April 2016 performance audit of Claimant Services (641-0318-14) was initially followed up and reported in our February 2020 follow-up report on prior audit recommendations (641-0318-14F).

#### **SUPPLEMENTAL INFORMATION**

Our audit report includes supplemental information presented as Exhibits 1 through 11. Our audit was not directed toward expressing a conclusion on this information.

\* See glossary at end of report for definition.



## GLOSSARY OF ABBREVIATIONS AND TERMS

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ARPA	American Rescue Plan Act.
auditor's comments to agency preliminary response	Comments the OAG includes in an audit report to comply with <i>Government Auditing Standards</i> . Auditors are required to evaluate the validity of the audited entity's response when it is inconsistent or in conflict with the findings, conclusions, or recommendations. If the auditors disagree with the response, they should explain in the report their reasons for disagreement.
BPR	benefit payment review.
CAA	Consolidated Appropriations Act.
CARES	Coronavirus Aid, Relief, and Economic Security.
<i>Code of Federal Regulations (CFR)</i>	The codification of the general and permanent rules published by the departments and agencies of the federal government.
COVID-19	The disease caused by a new coronavirus called SARS-CoV-2. The World Health Organization first learned of the new virus in December 2019.
DTMB	Department of Technology, Management, and Budget.
EB	extended benefits.
EDMR	enhanced desk monitoring review.
effectiveness	Success in achieving mission and goals.
efficiency	Achieving the most outputs and the most outcomes practical with the minimum amount of resources.
EO	executive order.
ETA	Employment Training Administration.
EV	employment verification.

<b>FEMA</b>	Federal Emergency Management Agency.
<b>ID</b>	Investigations Division.
<b>imposter fraud</b>	Claims often filed by criminals from other states or overseas who use stolen identities to file multiple false claims.
<b>intentional misrepresentation</b>	An act of willful misrepresentation or nondisclosure of a material fact for the purpose of obtaining benefits to which the claimant is not entitled or preventing benefit payments where an individual is entitled.
<b>internal control</b>	The plan, policies, methods, and procedures adopted by management to meet its mission, goals, and objectives. Internal control includes the processes for planning, organizing, directing, and controlling program operations. It also includes the systems for measuring, reporting, and monitoring program performance. Internal control serves as a defense in safeguarding assets and in preventing and detecting errors; fraud; violations of laws, regulations, and provisions of contracts and grant agreements; or abuse.
<b>IP</b>	Internet Protocol.
<b>LEO</b>	Department of Labor and Economic Opportunity.
<b>LWA</b>	Lost Wages Assistance.
<b>material condition</b>	A matter that, in the auditor's judgment, is more severe than a reportable condition and could impair the ability of management to operate a program in an effective and efficient manner and/or could adversely affect the judgment of an interested person concerning the effectiveness and efficiency of the program. Our assessment of materiality is in relation to the respective audit objective.
<b>MES</b>	Michigan Employment Security.
<b>Michigan Integrated Data Automated System (MiDAS)</b>	UIA's computer system used for processing and servicing all UI tax and benefit functions.

<b>Michigan Web Account Manager (MiWAM)</b>	UIA's computer system used by UI claimants and employers for filing and claim management.
<b>Michigan Works! Agencies (MWAs)</b>	The 16 regional agencies engaged in a Statewide network to provide workforce development services. The agencies are affiliated with local governments, private agencies, and nonprofit agencies. Employees of the various agencies are not State employees.
<b>mission</b>	The main purpose of a program or an entity or the reason the program or the entity was established.
<b>observation</b>	A commentary highlighting certain details or events that may be of interest to users of the report. An observation may not include all of the attributes (condition, effect, criteria, cause, and recommendation) presented in an audit finding.
<b>OIG</b>	Office of Inspector General.
<b>Pandemic Unemployment Compensation (PUC)</b>	Officially named Federal Pandemic Unemployment Compensation, which provided additional benefits up to \$600 each week a claimant was eligible for other unemployment programs.
<b>performance audit</b>	An audit that provides findings or conclusions based on an evaluation of sufficient, appropriate evidence against criteria. Performance audits provide objective analysis to assist management and those charged with governance and oversight in using the information to improve program performance and operations, reduce costs, facilitate decision-making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability.
<b>PEUC</b>	Pandemic Emergency Unemployment Compensation.
<b>PUA</b>	Pandemic Unemployment Assistance.
<b>redetermination</b>	A written statement issued on a form or letter by an authorized agent of the Agency, which affirms, modifies, or reverses a prior determination or redetermination.
<b>repeated</b>	The wording of the current recommendation remains essentially the same as the prior audit recommendation.

<b>reportable condition</b>	A matter that, in the auditor's judgment, is less severe than a material condition and falls within any of the following categories: a deficiency in internal control; noncompliance with provisions of laws, regulations, contracts, or grant agreements; opportunities to improve programs and operations; or fraud.
<b>rewritten</b>	The recurrence of similar conditions reported in a prior audit in combination with current conditions that warrant the prior audit recommendation to be revised for the circumstances.
<b>SOC</b>	standard occupational classification.
<b>UC</b>	unemployment compensation.
<b>UI</b>	unemployment insurance.
<b>UIA</b>	Unemployment Insurance Agency.
<b>UIPL</b>	Unemployment Insurance Program Letter.
<b>USDOL</b>	U.S. Department of Labor.
<b>USDOL ETA</b>	U.S. Department of Labor Employment and Training Administration.
<b>USPS</b>	United States Postal Service.
<b>WBA</b>	weekly benefit amount.





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