

Office of the Auditor General  
Performance Audit Report

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**Fraud and Investigation Activities**

Unemployment Insurance Agency  
Department of Labor and Economic Opportunity

December 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*

**Report Number:**  
**186-0320-22**

### *Fraud and Investigation Activities*

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

**Released:**  
**December 2023**

UIA's Investigations Division (ID) promotes and maintains the integrity of the unemployment insurance (UI) program through prevention, detection, investigation, establishment, recovery, and prosecution of UI overpayments made to claimants. As of September 2022, ID consisted of 38 full-time staff and 38 limited-term staff scheduled through September 30, 2023. ID is composed of the Benefit Payment Control (BPC) and two investigation sections.

From March 15, 2020 through December 31, 2022, UIA paid \$40.0 billion in unemployment compensation (UC) claims to 2.5 million individual claimants. UIA confirmed intentional misrepresentation for 2,314 claimants between January 2020 and December 2022 and reported 158 individuals were charged with UI fraud as of July 31, 2023.

This audit report is the fifth and final of a series of audit reports on UIA claims processing during and after the COVID-19 pandemic.

| Audit Objective  |                    |                      | Conclusion                  |
|--|--------------------|----------------------|-----------------------------|
| Objective: To assess the sufficiency of UIA's efforts to identify and investigate potential claimant fraud.  |                    |                      | Not sufficient              |
| Findings Related to This Audit Objective   | Material Condition | Reportable Condition | Agency Preliminary Response |
| UIA undercalculated fraud penalties by at least 49.4% because it did not address programming issues with its Michigan Integrated Data Automated System. In addition, the opportunity may exist for UIA to assess an additional \$840 million in fraud penalties ( <a href="#">Finding 1</a> ). | X                  |                      | Partially agree             |

| <b>Findings Related to This Audit Objective<br/>(Continued)</b>  | <b>Material<br/>Condition</b> | <b>Reportable<br/>Condition</b> | <b>Agency<br/>Preliminary<br/>Response</b> |
|--|-------------------------------|---------------------------------|--|
| <p>For the claims we reviewed, ID did not:</p> <ul style="list-style-type: none"> <li>• Attempt to identify 70.0% of the individuals filing UC claims using others' identities (imposters).</li> <li>• Attempt to recover 96.7% of related payments or assess fraud penalties.</li> <li>• Refer 90.0% of the fraudulent claims to law enforcement.</li> </ul> <p>The three-year window for UIA to address fraudulent payments excludes cases of suspected identity theft, and therefore, UIA could still take action on these claims (<u>Finding 2</u>).</p> | X                             |                                 | Partially agree                            |
| <p>Between January 2020 and October 2022, UIA made \$245.1 million in potentially improper payments to individuals who were incarcerated, deceased, or residing in long-term care facilities; UIA contract or LEO employees; or those above and below the typical working age. UIA did not identify and/or took no action to assess the appropriateness of these payments. UIA paid at least \$1.7 million to claimants even after determining they were incarcerated or deceased (<u>Finding 3</u>).</p>  |                               | X                               | Partially agree                            |
| <p>BPC did not always follow up with the nonresponsive employers and claimants it identified in new hire crossmatches. Also, it sometimes discarded or closed issues without conducting required investigation or fact finding to determine the appropriateness of payments to claimants who appeared to be ineligible (<u>Finding 4</u>).</p>   |                               | X                               | Partially agree                            |

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

December 27, 2023

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

Director Corbin and Director Dale:

This is our performance audit report on the Fraud and Investigation Activities, Unemployment Insurance Agency, Department of Labor and Economic Opportunity. This is the fifth and final issued audit report in a series of performance audits of UIA.

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.

We appreciate the courtesy and cooperation extended to us during this audit.

Sincerely,

Doug Ringler  
Auditor General



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# AUDIT OBJECTIVES, CONCLUSIONS, FINDINGS, AND OBSERVATIONS

# IDENTIFYING AND INVESTIGATING POTENTIAL CLAIMANT FRAUD

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## BACKGROUND

This audit report is the fifth and final in a series of audit reports on Unemployment Insurance Agency (UIA) claims processing during the COVID-19\* pandemic.

The first four performance audits\* focused on UIA's efforts to establish eligibility criteria, manage personnel, process claims, and assess IT controls. This audit focused on selected efforts of UIA's Investigations Division (ID) to identify and investigate potential claimant fraud during and after the COVID-19 pandemic. We previously reported several internal control\* deficiencies which impacted UIA's overall fraud detection and prevention efforts in our January 2023 performance audit report on Claims Processing During the COVID-19 Pandemic (186-0319-21), located at

[audgen.michigan.gov/wp-content/uploads/2023/02/r186031921-3696.pdf](https://audgen.michigan.gov/wp-content/uploads/2023/02/r186031921-3696.pdf).

Unemployment insurance (UI) claim fraud includes imposter fraud\* (claims filed with stolen identities), internal fraud (UIA employee and/or UIA contractor staff), and intentional misrepresentation\* (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).

UIA developed and implemented its Fraud Manager software in 2018 and uses it to analyze claims at filing and certification and identify potential UI claim fraud. UIA creates fraud investigation cases in the Michigan Integrated Data Automated System\* (MiDAS) from fraud referrals or from applying risk criteria to claims identified by Fraud Manager or the federal Integrity Data Hub.

From January 1, 2020 through December 8, 2022, UIA created 300,000 fraud referrals in MiDAS and 2.1 million fraud investigation cases. As of December 8, 2022, UIA closed 99.9% of the fraud referrals after manual review. UIA closed 1.5 million (72.7%) of the fraud investigation cases in part based on how it programmed MiDAS to automatically resolve simultaneously created identity verification cases. Deloitte previously reported on issues regarding UIA's handling of identity verifications at the onset of the COVID-19 pandemic in its November 2020 forensic report. UIA had not made payments related to the claims for nearly 80% of the approximately 600,000 open fraud investigation cases as of December 8, 2022.

On August 31, 2020, the U.S. Department of Labor (USDOL) issued Unemployment Insurance Program Letter (UIPL) No. 28-20 to remind states of their roles and responsibilities in addressing fraud in the UI system and the techniques and strategies available to assist states with their fraud management operations. This

\* See glossary at end of report for definition.

UIPL also provided states with funding to help prevent and detect fraud and likely identity theft. The funding was also intended to help states recover fraud overpayments in the Pandemic Unemployment Assistance (PUA) and Pandemic Emergency Unemployment Compensation (PEUC) programs. Michigan was allocated \$2,041,200 and \$388,800 for PUA and PEUC efforts, respectively, which it used to hire 38 limited-term staff within ID.

**AUDIT OBJECTIVE**

To assess the sufficiency of UIA's efforts to identify and investigate potential claimant fraud.

**CONCLUSION**

Not sufficient.

**FACTORS  
IMPACTING  
CONCLUSION**

- Material condition\* related to UIA's undercalculation of fraud penalties assessed on claims with intentional misrepresentation (Finding 1).
- Material condition related to ID's procedures for identifying imposters and making required referrals to law enforcement (Finding 2).
- Reportable condition\* related to UIA's claim data analysis procedures to identify and recover potential unemployment compensation (UC) benefit overpayments (Finding 3).
- Reportable condition related to ID's processes for investigating leads identified in its crossmatches of new hire databases (Finding 4).
- Over the course of the audit period, UIA created new daily and weekly reports in response to the COVID-19 pandemic, which ID monitored to enhance fraud detection and prevention.
- UIA's Fraud Manager software flagged 1.4 million claims as potentially fraudulent from January 1, 2020 through December 8, 2022. In addition, UIA's use of the Integrity Data Hub flagged 229,000 additional claims as potentially fraudulent during this same period. UIA sent identity verification nonmonetary issues to claimants for these flagged claims. Our review of MiDAS claim application data determined Fraud Manager generally flagged claims meeting its business rules.
- UIA closed 99.9% of fraud and identity theft referrals created from January 1, 2020 through December 8, 2022. During our review of a random sample of 100 fraud referrals, we did not identify significant issues with how UIA closed the fraud referrals.

\* See glossary at end of report for definition.

## FINDING 1

### Fraud penalties not accurately assessed.

UIA had not assessed or assessed incorrect fraud penalties on 21 (84.0%) of 25 sampled intentional misrepresentation cases.

UIA did not accurately assess fraud penalties on claims when it determined intentional misrepresentation occurred. We estimate UIA undercalculated penalties on these claims by at least 49.4%. In addition, the opportunity may exist for UIA to assess an additional \$840 million in fraud penalties.

Section 421.54(b)(i) of the *Michigan Compiled Laws* allows UIA to recover the UI payments made to claimants based on fraudulent claims and monetary damages in the same amount for the first offense and 1.5 times for all subsequent offenses. UIPL No. 20-21, issued in May 2021, requires states to assess a monetary penalty of at least 15% to fraud-related overpayments from Coronavirus Aid, Relief, and Economic Security (CARES) Act UC programs. Fraud includes instances where an individual has knowingly made, or caused to be made by another, a false statement or representation of a material fact or knowingly has failed, or caused another to fail, to disclose a material fact.

From January 1, 2020 through December 31, 2022, UIA issued 3,246 determinations of intentional misrepresentation on 2,800 individual claims, impacting 2,314 individual claimants. UIA established fraud totaling \$16.9 million in principal and calculated \$5.6 million in penalties for the 3,246 determinations.

We selected a random sample of 25 of the 3,246 intentional misrepresentation determinations. We reviewed the 25 determinations in MiDAS and UIA's fraud penalty calculations, totaling \$45,770, and noted UIA had not programmed MiDAS to allow for assessment of the requisite fraud penalties on CARES Act UC programs including PUA, PEUC, and Pandemic Unemployment Compensation\*. As a result, UIA had not assessed or incorrectly assessed fraud penalties on 21 (84.0%) of 25 sampled intentional misrepresentation determinations. Specifically:

- a. UIA did not assess fraud penalties on 8 (32.0%) of 25 intentional misrepresentation determinations for claims under the CARES Act UI programs. The fraud penalties should have totaled at least \$20,456 for the 8 determinations.
- b. UIA undercalculated fraud penalties for 13 (52.0%) determinations that included regular UI, extended benefits, and CARES Act UC programs, primarily because MiDAS accounted for only the regular UI and extended benefits portion of those claims. The fraud penalties for the 13 determinations should have totaled at least \$59,744 compared with UIA's calculations totaling \$36,126.

In addition, for 5 of the 21 determinations noted in parts a. and b., UIA stated a separate MiDAS programming issue precluded it from establishing fraud penalties for the weeks it previously established restitution and not yet made the determination of intentional misrepresentation.

\* See glossary at end of report for definition.

Based on the error rate for the random sample of 25 determinations, we estimate UIA should have established fraud penalties totaling at least \$11.0 million rather than \$5.6 million for the 3,246 determinations of intentional misrepresentation. UIA created a Solution Quality Request (SQR) to update the programming in MiDAS to allow for fraud penalties on CARES Act UC programs including PUA, PEUC, and Pandemic Unemployment Compensation, initially in March 2022, and revised the SQR in June 2022. UIA informed us it had not completed the SQR as of December 2023 because of other resource constraints and priorities, including needing significant resources to make changes in MiDAS in response to an Injunctive Order stemming from ongoing litigation. In addition, UIA informed us it initially did not program MiDAS to calculate penalties for the CARES Act claims because guidance from USDOL at the onset of the pandemic indicated fraud penalties were not assessable for the federal claims.

Applying only the 15% required minimum penalty, we conservatively estimate fraud penalties for PUA overpayments could be \$840 million.

In its December 2021 report, Deloitte estimated UIA paid \$5.6 billion in fraudulent UC claims, the majority of which UIA informed us were PUA claims. If applying the 15% required minimum penalty, we conservatively estimate fraud penalties for PUA overpayments could be \$840 million. However, because of the resource constraints noted above, UIA informed us it had not fully implemented corrective action to address internal control deficiencies we reported in our January 2023 report concerning fraudulent PUA claims, and as a result, it had not yet identified most of the claims in Deloitte's estimate. Also, as of December 2023, UIA had awarded a contract and informed us it had begun the process of replacing MiDAS and expects the new system to be fully operational sometime in 2025.

We consider this finding to be a material condition because of UIA's failure to take timely corrective action to assess accurate fraud penalties on claims it determined as fraudulent.

## **RECOMMENDATION**

We recommend that UIA address the programming issues in MiDAS to help ensure it accurately assesses fraud penalties on claims in which intentional misrepresentation occurred.

## **AGENCY PRELIMINARY RESPONSE**

UIA partially agrees with the Finding. Given its length, the preliminary response and our auditor's comments are presented on page 20.

## FINDING 2

### **Improvement needed to ID's identification of imposters and referrals to law enforcement.**

UIA's ID needs to improve its procedures for identifying individuals who filed claims using others' identities (imposters) and referring them to law enforcement. This would help facilitate the recovery of fraudulent benefit payments and related penalties, while providing the opportunity for criminal prosecution.

The Michigan Employment Security (MES) Act requires that when UIA identifies an imposter claim, it shall attempt to recover UC benefits paid to the imposter, plus applicable fraud penalties. In addition, UIPL No. 04-17, Change 1, issued in August 2021, requires states to refer potential fraud to USDOL Office of Inspector General (OIG) when it exceeds \$10,000 or involves multiple claimants. UIA can also refer suspected fraud to the Department of Attorney General, which, in 2022, received over \$4,070,000 to employ attorneys and support staff to investigate and prosecute unemployment fraud in Michigan.

When ID completes a fraud investigation and determines UIA paid benefits to an imposter, it creates a repayment (proxy) claim to move the payments from the victim's social security number to the proxy claim and designates the claim as identity theft. This allows the victim to file an unemployment claim, if needed, and UIA to issue an adjusted federal 1099-G income tax form, as needed. During the fraud investigation, according to UIA Manual Section 6690, ID regulation agents have discretion to determine if they will submit the case for criminal prosecution.

From January 1, 2020 through December 31, 2022, UIA created 19,121 proxy claims, totaling \$106.3 million.

We selected a sample of 30 of the proxy claims totaling \$335,000, including the 5 highest claim amounts, and noted:

- a. ID neither attempted to identify who submitted 21 (70.0%) of the fraudulent claims totaling \$177,000 nor attempted to recover payments or assess fraud penalties for 29 (96.7%) of the claims totaling \$325,000.
- b. ID did not refer 27 (90.0%) of the fraudulent claims to USDOL OIG or the Department of Attorney General, totaling \$286,000, which included 11 (40.7%) claims totaling \$202,000 that exceeded the \$10,000 mandatory referral threshold. ID stated its practice was to refer suspected fraudulent claims only after it identified persons of interest and that it referred hundreds of matters to the USDOL OIG and the Department of Attorney General during our audit period. However, neither USDOL OIG nor the Department of Attorney General required the identification of a person of interest. In addition, ID stated the USDOL OIG and Department of Attorney General informally communicated thresholds for referrals of \$250,000 and \$50,000, respectively, because of the high volume of fraudulent claims during the COVID-19 pandemic.

UIA did not refer 90% of the sampled fraudulent claims to USDOL OIG or the Department of Attorney General, totaling \$286,000, including 11 claims totaling \$202,000 that exceeded the mandatory referral threshold.

ID had not established sufficient procedures related to the factors it considers when deciding the extent of its investigation efforts for imposter claims. For example, its procedures did not indicate when regulation agents should issue subpoenas for bank records or internet protocol address information that could be helpful in identifying the imposters. ID staff informed us they did not have sufficient resources to conduct, or thoroughly conduct, investigations of all imposter claims. They believed it was unlikely they would be able to identify imposters or collect many fraudulent payments UIA made during the COVID-19 pandemic for several reasons, including the high volume of claims and manner in which criminals orchestrated the acts of fraud. However, ID's procedures did not require regulation agents to document their rationale on a case-by-case basis within their investigation notes. ID informed us it prioritized its efforts toward minimizing the impact on identity theft victims.

We consider this finding to be a material condition because the three-year window for UIA to address fraudulent payments under the MES Act excludes cases of suspected identity fraud. Therefore, UIA could still attempt to identify imposters, make referrals to law enforcement, and attempt recovery of the fraudulent payments and related penalties. In addition, the federal government announced plans and initiated legislation to allow additional time and resources for addressing COVID-19 pandemic-related UI fraud, including extending the statute of limitations for criminal charges or civil actions from 5 to 10 years and financial incentives for states to recover fraudulent overpayments.

**RECOMMENDATION**

We recommend UIA improve its procedures for identifying imposters who committed identity theft and referring them to law enforcement.

**AGENCY  
PRELIMINARY  
RESPONSE**

UIA and LEO partially agree with the Finding. Given its length, the preliminary response and our auditor's comments are presented on page 22.

### FINDING 3

#### Improvements needed to UIA's claim data analysis procedures.

UIA needs to improve its procedures to fully analyze and review MiDAS data to help identify payments needing further review or take action to recover benefits improperly paid to deceased, incarcerated, and other claimants not normally eligible for UC benefits.

UIPL Nos. 16-20, 23-20, and 28-20 address program integrity and require states to take reasonable and customary precautions to deter and detect fraud, including data mining, data analytics, and various crossmatches. In addition, the UIPLs require states to investigate fraudulent activity, establish and recover fraud overpayments, and pursue criminal and civil prosecution to deter fraud.

ID's Benefit Payment Control (BPC) conducted several USDOL mandated and strongly recommended activities to identify potentially improper payments, including analyses between MiDAS claims data and data from independent sources such as the National Directory of New Hires and the Social Security Administration. MiDAS automatically facilitated further adjudication to establish eligibility and/or create fraud investigations on suspicious claims. In some instances, MiDAS stops or withholds payments pending additional adjudication or investigation. Based on the significant increase in improper and fraudulent claims related to the federal UC programs implemented at the onset of the COVID-19 pandemic in March 2020, UIA entered into agreements with the Michigan Department of Health and Human Services (MDHHS) and Michigan Department of Corrections (MDOC) in September 2020 to analyze MiDAS claims data with death records and incarceration data, respectively.

We obtained data from MDHHS, MDOC, and UIA personnel records. We compared this data with MiDAS claims and other data from January 2020 through October 2022 to identify individuals who were incarcerated, deceased, long-term care facility residents, UIA contractors, Department of Labor and Economic Opportunity (LEO) employees, and claimants outside the typical age ranges who claimed UC benefits.

We identified the following potentially improper payments for:

- a. Incarcerated, deceased, or claimants residing in long-term care facilities:

| Type of Data Analysis             | Number of Claimants | Potential Improper Payments (in millions) |
|-----------------------------------|---------------------|---|
| Incarcerated                      | 4,959               | \$35.6                                    |
| Deceased                          | 3,002               | \$19.8                                    |
| Long-term care facility residents | 1,227               | \$ 6.5                                    |

In October 2020, UIA's ID performed data analyses to identify incarcerated and deceased claimants and produced results similar to ours. ID requested UIA's



Agency Services Division create SQRs to stop payments to the claimants, initiate automatic fact finding, and automate the reviews to occur periodically. Although it appeared the Agency Services Division created SQRs for these requests in November 2020, these SQRs were never completed and were either closed without action in November 2021 after the expiration of the federal programs (PUA and PEUC) or still in process as of March 2023. UIA performed data analyses for incarcerated and deceased claimants later in our audit period but did not take meaningful action to follow up on the majority of the matches because it mistakenly believed the requisite fact finding would soon be automated. UIA paid at least \$1,710,000 to claimants after identifying them in the analyses.

UIA was not required to and did not analyze MiDAS claims data with MDHHS data of individuals residing in long-term care facilities. Claimants residing in a long-term care facility are likely not able and available for work and, therefore, are likely ineligible for UI benefits. Establishing an agreement with MDHHS to obtain this data and periodically analyzing it would provide UIA another means to prevent and detect UC fraud.

b. UIA contractor or LEO employees:

| Type of Employee | Contractor             | Number of Claimants | Potential Improper Payments |
|------------------|------------------------|---------------------|-----------------------------|
| UIA contractor   | Robert Half            | 1,800               | \$4,825,473                 |
|                  | Accenture              | 32                  | 73,918                      |
|                  | Michigan Works! Agency | 20                  | 269,981                     |
|                  | Provalus               | 13                  | 67,859                      |
| Total            |                        | 1,865               | \$5,237,231                 |
| LEO employee     |                        | 168                 | \$ 238,502                  |
| Total            |                        | 2,033               | \$5,475,733                 |

UIA's ID began reviewing Robert Half contractor employees in mid-2021 and identified nearly 200 individuals claiming UC benefits while simultaneously working at UIA. UIA stated its efforts were ongoing, and it created nonmonetary issues and sent fact finding for these individuals. UIA said it discarded many of the issues without further review because Robert Half initially did not respond to its inquiries or provide weekly payroll records, and the MES Act requires a weekly breakdown of earnings to establish overpayments related to unreported wages.

UIA paid potentially fraudulent benefit payments for 6 LEO employees totaling \$46,000 and at least 282 contractors totaling \$1.5 million.

We shared our employee data analysis results with UIA in February 2023. UIA informed us it investigated the results by reaching out to the contractors to obtain weekly wage records for the individuals and identified potentially fraudulent benefit payments for 6 LEO employees totaling \$46,000 and at least 282 contractors totaling \$1.5 million. Also, it was still reviewing payments for an additional 5 LEO employees and 88 contractors totaling around \$500,000. For the remaining matches, UIA indicated payments of \$2.2 million were appropriate and \$1.2 million were improper for other reasons. We did not assess the comprehensiveness or accuracy of UIA's review because it occurred after our audit period.

c. Claimants above and below the typical working age:

| Age Range of Claimants | Claimants Under 16 or Over 80 |           |               |
|------------------------|-------------------------------|-----------|---------------|
|                        | Claims                        | Claimants | Payments      |
| Under 14               | 161                           | 158       | \$ 2,030,228  |
| 14 to 15               | 5,771                         | 5,755     | 88,893,876    |
| 80 to 84               | 5,550                         | 4,088     | 68,226,719    |
| 85 to 99               | 1,522                         | 1,190     | 17,976,299    |
| 100 and over           | 89                            | 79        | 592,106       |
| Total                  | 13,093                        | 11,270    | \$177,719,227 |

The majority (83.8%) of these payments were for PUA claims. UIA issued guidance to its staff in October and December 2020 related to reasonable suspicions of fraud. It advised in instances in which a claimant is 16 or younger or 80 or older, a nonmonetary issue should be created on the claim, triggering fact finding if the claimants did not have proof of income or employment in Michigan. UIA stated it did not perform any age-related analyses for PUA claims. For other claims involving minors, which would include 13 claimants under 16 years old in the preceding table, UIA stated that although MiDAS is programmed to generate employment-related questions during the claim filing process, it did not follow up with the claimants to ensure they were eligible for assistance.

We reported on the opportunity for UIA to improve its efforts to fully analyze and review MiDAS data to help identify payments needing further review in Finding 6 of our February 2016 performance audit of MiDAS. UIA had not implemented corrective action and the circumstances of the COVID-19 pandemic amplified this internal control deficiency.

Assessing needed enhancements and automations to UIA's data analysis procedures to identify improper benefits and taking necessary enforcement actions will help UIA prepare for its upcoming claim software migration and be better prepared for future spikes in claim volume. In addition, although the three-year window for UIA to address fraudulent payments under the MES

Act began to close for some claims in April 2023 (excluding suspected identity fraud), the federal government announced plans and initiated legislation to allow additional time and resources for addressing COVID-19 pandemic-related UI fraud, including extending the statute of limitations for criminal charges or civil actions from 5 to 10 years and financial incentives for states to recover fraudulent overpayments.

**RECOMMENDATION**

We recommend UIA improve its claim data analysis procedures to identify and recover UI benefits improperly paid to deceased, incarcerated, and other individuals not normally eligible for UC benefits.

**AGENCY  
PRELIMINARY  
RESPONSE**

UIA partially agrees with the Finding. Given its length, the preliminary response and our auditor's comments are presented on page 26.

## FINDING 4

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### Improvements needed to ID's new hire crossmatches.

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ID needs to improve its processes for investigating leads identified in its crossmatches of new hire databases. Improved processes will help UIA timely and appropriately identify and recover overpayments, determine if overpayments resulted from intentional misrepresentation, and assess appropriate fraud penalties, when applicable.

Title 42, section 653a of the *United States Code* requires employers to promptly report the name, address, and social security number of all newly hired, rehired, or recalled employees to the State Directory of New Hires database, which is aggregated into the National Directory of New Hires database.

UIA programmed MiDAS to interface with these databases weekly and generate leads identifying claimants who may have received benefits while employed. MiDAS also creates a "not unemployed" nonmonetary issue for these leads and sends fact-finding forms to the claimants and employers. ID's BPC is primarily responsible for investigating these leads. BPC's investigation activities include reviewing information claimants and employers submit in response to fact-finding requests, following up with nonresponses, making determinations regarding the appropriateness of the payments, and determining whether claimant misrepresentation was intentional or unintentional.

Beginning with the second quarter in 2020, UIA experienced a significant increase in the volume of leads from the new hire crossmatches primarily because of the newly created COVID-19 pandemic UC programs and the resulting significant increase in claim volume. From January 1, 2020 through December 31, 2022, the new hire crossmatches resulted in the creation of 65,304 nonmonetary issues.

BPC had not investigated 33,272 (50.9%) of the 65,304 issues related to \$519.4 million paid to claimants. These issues were outstanding from 4 to 999 days, averaging 316 days. BPC stated these cases were not assigned to staff because of COVID-19 pandemic caseload backlogs. Although we did not estimate the dollar amounts that may have resulted from BPC not investigating claimants identified in its crossmatches, the importance of such investigations is significant because BPC established overpayments and fraud penalties totaling \$29.7 million for 27.1% of the issues it did investigate.

We reviewed a random sample of 25 of the 65,304 nonmonetary issues. We determined 13 (52.0%) remained open, pending investigation by BPC, as of December 31, 2022 despite UIA receiving responses to fact-finding letters from 5 employers and 6 claimants related to 9 of the issues. BPC had not followed up with the nonresponsive employers and claimants. We noted potential overpayments resulted from claimants not reporting earnings and voluntarily quitting their new employment, based on the information UIA received for 3 of the 9 issues.

For the 12 issues closed or discarded, we noted:

- a. UIA discarded 3 (25.0%) issues without adjudication because UIA programmed MiDAS to automatically discard nonmonetary issues on previously denied claims. Although UIA informed us it started the process of making necessary changes to MiDAS in August 2022, as of March 2023, UIA had not resolved these programming issues.
- b. BPC closed 2 (16.7%) issues after receiving employer responses indicating the claimants voluntarily quit their jobs. BPC established overpayments for weeks these claimants had not reported their wages while employed. However, BPC did not conduct further fact finding to determine if it needed to establish additional overpayments related to the \$22,535 and \$2,690 in benefit payments UIA made after the employment separations.
- c. BPC did not follow up with 6 (50.0%) nonresponsive claimants and 1 (8.3%) employer, including 1 issue in which neither the claimant nor employer responded, or take required action against the nonresponsive claimants.
- d. BPC improperly closed 2 (16.7%) issues with a "not ineligible" determination despite not receiving any response to fact finding from the claimant or employer. Although overpayments were already established for all weeks for these claims for other eligibility issues, BPC did not have evidence required to determine the claimants were "not ineligible." This determination precluded BPC from concluding whether the claimants misrepresented their employment status and if it was intentional.

BPC established overpayments for 5 (41.6%) of the 12 issues and determined each to be unintentional misrepresentation. BPC only requires a secondary or managerial review on nonmonetary adjudication determinations involving intentional misrepresentation.

Timely identification and follow-up of these items are critically important because the MES Act prohibits UIA from issuing (re)determinations on nonmonetary issues after three years from the first payment of the benefit year for fraud and non-fraudulent related issues.

## **RECOMMENDATION**

We recommend ID improve its processes for investigating leads identified in its crossmatches of new hire databases.

## **AGENCY PRELIMINARY RESPONSE**

UIA and LEO partially agree with the Finding. Given its length, the preliminary response and our auditor's comments are presented on page 28.

FRAUD AND INVESTIGATION ACTIVITIES  
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.

**Finding 1: Fraud penalties not accurately assessed.**

The preliminary response UIA provided for this finding included technical comments which were editorial in nature and did not address substantive issues identified in the finding, methodology, conclusions, or recommendation. In accordance with generally accepted government auditing standards, we included a summarized version of UIA's response below.

**AGENCY PRELIMINARY RESPONSE**

*UIA partially agrees.*

*UIA stated with respect to the specific elements of this finding, it has the following responses:*

- a. UIA agrees. UIA has not yet programmed MiDAS to allow for the requisite fraud penalties on CARES Act UC programs including PUA, PEUC, and PUC.*
- b. UIA agrees. UIA has not yet programmed MiDAS to allow for the requisite fraud penalties on CARES Act UC programs including PUA, PEUC, and PUC.*

*UIA stated its aging computer system has presented tremendous challenges to UIA, to Michigan businesses, and to workers who depend on the UI system.*

*In addition, UIA stated for UC benefit programs other than CARES Act claims, when UIA received conflicting information regarding a material fact, MiDAS was programmed to allow for a stop payment indicator to be applied and an applicable nonmonetary issue to be created that established overpayments and fraud penalties, if applicable. It would also send a fact-finding questionnaire to resolve the conflict and potential intentional misrepresentation.*

*UIA stated MiDAS was not programmed to allow it to do the same for issues unique to CARES Act claims and could only adjudicate fraud on CARES Act claims where the issue type was remuneration, whether the worker was employed full time or not unemployed, available, or able to work. These are the cases in the selected sample where fraud determinations are reflected on CARES Act claims. Because MiDAS was not programmed to allow UIA to adjudicate intentional misrepresentation based on, for example, issues related to PUA eligibility on these claims (e.g., claimant submitted false documents and made false statements concerning PUA eligibility), MiDAS lacked the programming to impose fraud penalties on related overpayments, consistent with MCL Section 421.54(b) and UIPL No. 20-21, Change 1.*

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

*UIA stated for the better part of the last year, its Agency Services Division has been working in partnership with the Department of Technology, Management, and Budget (DTMB), as well as developers from its present vendor to make system changes consistent with an Injunctive Order stemming from current litigation and that the necessary system changes to halt collection activities impacted more than 1.8 million claimants.*

*UIA stated despite the significant lift associated with this Order, UIA has submitted an IT Solution Request (June 2022) to address the issues raised by the OAG. UIA further stated the initial research has been done; the SQR is currently going through a legal review and is expected to be implemented upon completion of review within two months' time. UIA also stated that in previous audits of UIA's performance during the pandemic period, UIA has explicitly documented the impact an aging system and vendor dependence has had on its ability to respond efficiently and effectively to necessary system changes.*

*UIA stated in May of 2022, the OAG completed an audit of MiDAS and the Michigan Web Account Manager (MiWAM) system, shedding light on the significant challenges presented by the existing UIA database especially as it relates to necessary system changes. UIA further stated it is hampered by an inability to implement changes quickly and efficiently to systems and processes, and it is for this very reason UIA issued a request for proposal (RFP) to replace the existing database, and this change is necessary to ensure UIA has the best technology solution available when serving Michigan workers and businesses. UIA further stated on November 15, 2022, it announced it chose a new contractor to design and install a modern, innovative, user-focused UI computer system to replace MiDAS that prioritizes ease of access for workers and employers while also streamlining jobless claims processing. Staff across UIA are currently engaged in requirements and design sessions necessary to implement the new system.*

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, removing user access timely, adopting appropriate security benchmarks, improving security awareness training, and implementing more effective change controls. Our conclusions in the May 2022 report did not establish concerns with MiDAS, 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 its new system or similar deficiencies will likely continue to exist.

*UIA stated the pandemic introduced a marked increase in the number of remuneration and not unemployed cases open for investigation, cases where intentional misrepresentation is often found when an overpayment is established. These matters pertain to regular State claims for unemployment benefits drawn from the Michigan Trust Fund paid for by taxes imposed on Michigan employers, whereas CARES Act claims were not paid for by taxes imposed on Michigan employers. For example, in calendar years 2018 and 2019, a total of 4,506 and 7,782 cases were opened for investigation, respectively, with determinations issued establishing \$36,756 and \$372,250 in fraud penalties. Contrast that with calendar year 2022 and calendar year-to-date 2023, where a total of 14,899 and 30,938 cases were opened for investigation, respectively, with determinations issued establishing \$3,941,645 and \$12,474,874 in fraud penalties.*

This information includes data outside the scope of this audit and is not relevant to the fraud penalty calculation issues identified in the Finding. As noted in the Finding, our review included a random sample of all 3,249 UIA determinations of intentional misrepresentation from January 1, 2020 through December 31, 2022, which included State UI claims and CARES Act claims.

FRAUD AND INVESTIGATION ACTIVITIES  
Unemployment Insurance Agency  
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Finding 2 Agency Preliminary Response and Auditor's Comments to Agency Preliminary Response

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

**Finding 2: Identification of imposters and referrals to law enforcement.**

The preliminary response UIA and LEO provided for this finding included technical comments which were editorial in nature and did not address substantive issues identified in the finding, methodology, conclusions, or recommendation. In accordance with generally accepted government auditing standards, we included a summarized version of UIA's and LEO's response below.

**AGENCY PRELIMINARY RESPONSE**

*UIA and LEO partially agree and stated ID's efforts to identify who submitted fraudulent claims often ran into dead ends when the perpetrators involved international criminal rings, syndicate organizations and State sponsored groups. UIA and LEO further stated, accordingly, they implemented the practice of immediately providing USDOL OIG all claims information so USDOL OIG may pursue these claims as part of its continued efforts. UIA and LEO stated that included as part of the submission of claims data to the USDOL OIG were claims flagged as potentially fraudulent, and in essence, the USDOL OIG has received all the fraudulent claims and could perform any additional investigative procedures to identify imposters who commit identity theft. UIA and LEO indicated UIA recently sent a formal referral letter to the USDOL OIG reminding them of the mutually shared case tracker with the UIA as well as a list of the referred cases should the USDOL OIG seek additional prosecution opportunities.*

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

As noted in the Finding, UIA had not attempted to identify who submitted 70.0% of the fraudulent claims we tested, and ID's procedures did not require regulation agents to document their rationale on a case-by-case basis within their investigation notes.

For the exceptions noted in part b. of the Finding, UIA did not provide evidence to support it identified for USDOL OIG the potentially fraudulent claims we reviewed during our audit. We will verify in a subsequent follow-up review the corrective action UIA took after our audit period. The recent formal referral letter UIA and LEO referred to in their response was dated December 12, 2023.

With respect to the specific elements of this Finding, UIA and LEO had the following responses:

- a. *UIA and LEO agree and acknowledge that had there not been a sequencing error introduced as a result of programming changes made to the proprietary Fraud Manager program and other fraud mitigation systems during system development for the new pandemic assistance programs, these fraudulent claims would have been flagged at claim filing, prior to initial payment, by Fraud Manager or other fraud prevention tools.*

This Finding relates to UIA's actions to address the known fraudulent payments it made, rather than its fraud prevention efforts. We reported on deficiencies in UIA's internal control which impacted its fraud detection and prevention efforts in Finding 2 of our January 2023 audit report. Many of the claims in our sample were paid over many months, including after UIA identified and corrected the sequencing error and reinstated rules in Fraud Manager.

*On December 29, 2021, Governor Whitmer issued Executive Directive No. 2021-14 on preventing UI fraud. Within the Executive Directive, the order was given that UIA and LEO will consistently use Fraud Manager, or similar technology, and must not suspend its use for any reason without prior approval from the Director of LEO.*



- b. *UIA and LEO agree and acknowledge the 11 claims met the UIPL criteria but did not meet the thresholds communicated by the USDOL OIG. Going forward, UIA and LEO have a protocol in place to refer matters to the USDOL OIG that exceed the \$10,000 threshold. As reported in the most recent written report submitted to the Michigan Legislature regarding claims submitted by impostors, UIA and LEO permitted \$6,537 of benefits to be paid to impostors in 2022. Total benefits paid in 2022 were approximately \$628 million.*

*UIA and LEO stated while UIPL No. 04-17 and then Change 1 require states to refer potential fraud to the USDOL OIG when the suspected fraud exceeds \$10,000 or involves multiple claimants, these thresholds were not modified for unprecedented claim filing levels experienced because of the worldwide pandemic. UIA and LEO further stated by intentionally selecting 5 specific claims for examination in this audit, from a population of repayment claims, the sample is not a true reflection of average intentional misrepresentation cases, because these cases were already identified as being fraudulently made by criminal syndicates and international crime organizations. UIA and LEO also stated many of these matters can be directly attributed to United States Secret Service Global Investigative Operations Center (GIOG), May 14, 2020, GIOG reference No. 20-027-1 which alerted the USDOL and State Workforce Agencies to massive fraud against state unemployment insurance programs, predominately carried out by a Nigerian fraud ring called Scattered Canary. UIA and LEO stated they continue to work to pursue bad actors and those who defrauded Michigan workers and businesses, by prioritizing cases in a manner that optimizes resources.*

USDOL issued UIPL No. 04-17 Change 1, which clarified the \$10,000 threshold, in August 2021, after the significant increase of claims filed and known wide-scale fraud. Prior to this guidance, the threshold was \$5,000.

The OAG included the 5 largest claims to determine how or if UIA addressed the most significant claim amounts. We also selected 25 other sample items randomly from the entire population of repayment claims during the audit period. Random sampling eliminates bias by giving each data point (claim) in the population an equal chance of being selected, reducing the likelihood of certain data points being over or under represented in the sample. Selecting random and judgmental samples is a common auditing procedure and conforms with professional auditing standards.

*UIA and LEO stated as of October 2023, the ID acquired a total of nearly 50 limited-term employees through at least June 2024 to assist its permanent staff in reviewing and closing identity theft cases needing work since the height of the pandemic and in timely reviewing the persistent high volume of new intentional misrepresentation cases associated with newly filed claims. UIA and LEO further stated staff will also verify overpayments on pandemic unemployment assistance claims and seek restitution. UIA and LEO stated the funding for many of these positions was made possible through the award of a \$2.6 million Integrity Grant from the USDOL on September 13, 2023, and that grant will also develop and maintain a dashboard within the agency's system to enhance its reporting capabilities.*

*UIA and LEO stated to-date, they have referred 239 matters to the USDOL OIG which has resulted in 162 individuals being charged or sentenced. Many more matters are pending from referrals made to the USDOL OIG. UIA and LEO stated during the pandemic assistance period and presently, the USDOL OIG is focused on very specific matters given the finite resources available to combat the over \$76 billion of unemployment benefits that were likely*

paid nationally to fraudsters. For referrals from UIA and LEO, they stated their matters must exceed \$250,000 or there are other extemporaneous circumstances such as matters involving internal employees.

We audited against criteria included in UIPL No. 04-17, Change 1, issued in August 2021, which required referrals to USDOL OIG when suspected fraud exceeded \$10,000.

UIA and LEO stated in Section 301 of Public Act 61 of 2022, the Michigan Legislature allocated \$4,070,000 to the Department of Attorney General beginning in fiscal year ending September 30, 2022, "to employ attorneys and support staff to investigate and prosecute unemployment fraud in Michigan" with a tentative September 30, 2026, completion date. This was consistent with Executive Order No. 2021-16 (creating the Unemployment Insurance Fraud Response Team) and Executive Directive No. 2021-14 (prioritizing enforcement of fraud cases). UIA and LEO stated they paid the Department of Attorney General another \$1,097,144.40 or an average of \$274,300 annually to combat fraud during fiscal years 2020, 2021, 2022, and 2023. Between January 1, 2020, and December 31, 2022, UIA and LEO informed us they referred 21 fraud or identity theft cases to the Department of Attorney General for criminal investigation and prosecution and to date, they referred more than 70 fraud or identity theft cases to the Department of Attorney General for criminal investigation and prosecution.

UIA and LEO stated following its hiring of a Legal Advisor and Legal & Compliance Bureau Administrator, UIA and Department of Attorney General's Criminal Investigations and Criminal Trial & Appeals divisions began jointly meeting on a monthly basis in June 2023. UIA and LEO stated as a result of those meetings, those divisions began providing UIA with case status reports. UIA and LEO further stated they are seeking to establish a memorandum of understanding between UIA and the Department of Attorney General to investigate and prosecute criminal UIA fraud since before this audit's review period; and such an agreement will set forth reporting/tracking/metrics, expectations for communications at key stages of each investigation and prosecution, and the need for Department of Attorney General employees with direct system access to confidential and sensitive UIA data to agree to standards for safeguarding that data. UIA and LEO indicated UIA is actively drafting such an agreement to make its expectations of these two divisions of the Department of Attorney General and their expectations of UIA staff clear and ensure UIA and Department of Attorney General are working efficiently and effectively to combat fraud and identity theft.

UIA and LEO stated they initiated the development of a criminal referral standard operating procedure in 2023 that sets forth how and when to refer fraud and identity theft cases to either the Department of Attorney General, a local prosecutor, or the USDOL OIG. UIA and LEO further stated later in 2023, UIA began a new project with the Department of Attorney General's Labor Division to use the assistance of two assistant attorneys general to draft criminal fraud investigation reports and issue subpoenas for investigative records, provide training in collecting evidence and drafting more effective investigation reports, and to commence civil lawsuits to pursue restitution and unemployment fraud penalties from claimants and employers.

*UIA and LEO stated UIA is establishing new partnerships with criminal law enforcement agencies to audit, investigate, and prosecute fraud being perpetrated by fictitious employers or employers that misclassify workers as independent contractors or report inaccurate information concerning their employees.*

*While UIA and LEO stated they agree in part its investigative procedures do not indicate when Regulation Agents should issue subpoenas for bank records or internet protocol address information, as procedures do not establish a threshold or attributes that would require the submission of a subpoena, they consider the extensive training, investigations procedures, and general experience the ID and Regulation Agents have enables them to exercise sound discretion. UIA and LEO further stated they will ensure rationale made by Regulation Agents is documented on a case-by-case basis, and UIA will continue to refine its standard operating procedures to include specific circumstances and procedures for issuing subpoenas for investigative records.*

FRAUD AND INVESTIGATION ACTIVITIES  
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Finding 3 Agency Preliminary Response and Auditor's Comments to Agency Preliminary Response

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

**Finding 3: Improvements needed to UIA's claim data analysis procedures.**

The preliminary response UIA provided for this finding included technical comments which were editorial in nature and did not address substantive issues identified in the finding, methodology, conclusions, or recommendation. In accordance with generally accepted government auditing standards, we included a summarized version of UIA's response below.

| AGENCY PRELIMINARY RESPONSE  | AUDITOR'S COMMENTS TO AGENCY PRELIMINARY RESPONSE   |
|--|---|
| <p><i>UIA partially agrees. UIA stated it has already implemented nearly every recommendation listed in the finding.</i></p> <p><i>UIA stated resolution of the crossmatch issue we identified in Finding 8 of our January 2023 report 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.</i></p> <p><i>UIA indicated the OAG appropriately stated the UIA conducts USDOL mandated activities, and appropriately acknowledged UIA also utilizes the strongly recommended BPC activities.</i></p> | <p>We will review any corrective action UIA has taken since this audit in a subsequent follow-up review. UIA's response does not address how it plans to identify and recover UI benefits improperly paid to deceased, incarcerated, and other individuals not normally eligible for UC benefits. As noted in the Finding, UIA identified some of these potentially improper payments as early as October 2020. In addition, we determined during the audit UIA granted overpayment waivers totaling \$4.7 million and \$3.1 million to claimants it identified in the incarcerated and deceased claimant crossmatches, respectively. UIA also granted overpayment waivers totaling \$3.6 million for claims we identified in our long-term care facility crossmatch.</p> |
| <p><i>UIA also stated the OAG further acknowledged most of the potentially improper payments occurred at the onset of the COVID-19 pandemic during the time in which UIA had relaxed its fraud prevention controls and paid claims prior to any Fraud Manager screening due to a MiDAS sequencing error.</i></p> <p><i>With respect to the specific elements of this finding, UIA provided the following responses:</i></p> <p><i>Regarding incarcerated or deceased individuals, UIA has completed all SQRs and fully-automated the process where new and continued claims are crossmatched against death and incarceration records.</i></p>  | <p>The OAG makes no assertion in this Finding that most of the potentially improper payments occurred at the onset of the pandemic. UIA appears to include statements from its August 2023 response to a previous version of the Finding that is no longer applicable. We shared the revisions to this Finding with UIA in October 2023. When we pointed out to UIA during report processing it had not updated its response to reflect our revisions to the Finding, UIA declined the opportunity to remove this statement.</p>  |
| <p><i>UIA disagrees with the recommendation to enhance SSA crossmatch to create SSA identity verifications. UIA has an effective identity proofing solution and identity verification procedures.</i></p>  | <p>The OAG makes no recommendation UIA enhance the Social Security Administration (SSA) crossmatch in this Finding. UIA appears to include statements from its August 2023 response to a previous version of the Finding that is no longer applicable. We shared the revisions to this Finding with UIA in October 2023. When we pointed out to UIA during report processing it had not updated its response to reflect our revisions to the Finding, UIA declined the opportunity to remove this statement.</p>  |

*UIA disagrees with the recommendation to establish an agreement with MDHHS to share data on long-term care facilities. When claimants are in covered employment and experience a separation from employment due to no fault of their own, their place of residence does not have an impact on their eligibility for benefits.*

*UIA stated the OAG appropriately noted the MES Act requires a weekly breakdown of earnings to establish intentional misrepresentation related to unreported wages. UIA further stated for instances where contractors and employers did not or do not respond to its inquiries or provide weekly payroll records, UIA is not able to establish intentional misrepresentation.*

*UIA stated it is critical to note it took measures well beyond internal policy and procedure in attempts to procure weekly breakdown of earnings from contractors. UIA informed us these measures included getting the UIA Director involved as part of extraneous and continuous efforts to get contractors and employers to respond with needed information. UIA further stated for matters involving UIA employees, there are instances where employees have been separated from employment.*

*UIA stated other wide-ranging reforms recently launched to fight fraud include:*

- Naming a Legal Advisor and head of the Legal and Compliance Bureau to leverage collaborative anti-fraud practices to effectively pursue bad actors.*
- Creating the UIA Modernization Workgroup – consisting of labor, business, and jobless advocates – to advise UIA on significant improvements in how it can better serve Michigan workers and employers, including anti-fraud practices.*
- Extending through June 2024 nearly 50 limited term positions in the Fraud and Investigations Division, with plans to hire at least 30 more.*
- Implementing new ethics and security clearance policies for employees and contractors.*

The OAG does not make this recommendation in the Finding, but rather we simply state such an agreement with MDHHS to obtain this data and periodically analyzing it would provide UIA another means to prevent and detect UC fraud. As noted in the Finding, individuals residing in long-term care facilities generally would not be eligible for UC payments. In addition, this vulnerable population may be susceptible to individuals filing fraudulent UC claims on their behalf. During our audit period, UIA and Deloitte performed a similar review of claims for individuals who resided in nursing homes, which indicates a claimant's place of residence could have an impact on their eligibility for benefits.

FRAUD AND INVESTIGATION ACTIVITIES  
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Finding 4 Agency Preliminary Response and Auditor's Comments to  
Agency Preliminary Response

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

**Finding 4: Improvements needed to ID's new hire crossmatches.**

The preliminary response UIA and LEO provided for this finding included technical comments which were editorial in nature and did not address substantive issues identified in the finding, methodology, conclusions, or recommendation. In accordance with generally accepted government auditing standards, we included a summarized version of UIA's and LEO's response below.

**AGENCY PRELIMINARY RESPONSE**

*UIA and LEO partially agree and acknowledge the significant increase in the volume of leads from the new hire crossmatches due to the implementation of newly created federally funded pandemic programs and acknowledge nearly half of the matters created during the period of review remained open as of December 31, 2022, averaging 316 days. UIA and LEO further stated additionally, they are required to make reasonable attempts to contact claimants and employers who do not respond to fact finding requests and reasonable attempts have been made on each of the matters identified by the OAG.*

*With respect to the specific elements of this finding, UIA and LEO provided the following responses:*

*a. UIA and LEO agree and acknowledge some programming mistakes were made while creating the federally funded pandemic programs. UIA and LEO stated that they will continue to work to ensure that all programming requirements for the federally funded pandemic programs are resolved.*

*b. UIA and LEO disagree and stated BPC did not improperly close these matters. UIA and LEO stated UIA's policy suspended the adjudication of new hire separations, and that the matters were discarded in accordance with the policy.*

*UIA and LEO stated that had the UIA policy allowed for adjudication of new hire separations and had these two matters found the claimants to be ineligible for benefits, the maximum overpayments on these matters would have been \$8 and \$538.*

*c. UIA and LEO agree in part and stated while BPC had not followed up with nonresponsive claimants and an employer, part of the procedures on these matters is to make reasonable attempts to contact claimants and employers who do not respond to fact finding requests. There is a three-year period to adjudicate these matters. Since December 31, 2022,*

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

The two exceptions we noted in part b. occurred outside the time frame of UIA's policy suspension. In addition, UIA's response representing the maximum overpayment amounts does not address the UC benefits totaling \$22,535 and \$2,690 these claimants received after they voluntarily quit their new employment.

*reasonable attempts have been made on each of these matters.*

- d. UIA and LEO agree in part and stated while a determination was issued of "not ineligible" on the new hire crossmatch issue, these decisions were influenced by both the lack of responses from claimants and employers, and the other issues on these claims that were adjudicated and established an overpayment. UIA and LEO further stated a finding of "ineligible" for the new hire crossmatch issue would not have increased the overpayment amount already established on these claims.*

*UIA and LEO stated they have continued to work expeditiously through these matters and for new hire crossmatches and similar crossmatches, they have a three-year period in which they can issue a determination. UIA and LEO further stated for the average case of 316 days, they still have 779 days as of December 31, 2022, to issue determinations before the statute of limitations period expires. UIA and LEO stated the three-year period for these matters was established prior to the pandemic assistance period, and these timeframes were not modified, and no new timeframes were established for unprecedented claim filing levels experienced because of the worldwide pandemic.*

*UIA and LEO stated to continue to address these matters, they are currently in process of utilizing funding provided by the USDOL to supplement the current team BPC section with 30 additional limited-term hires, and it will do everything in its power to resolve all these matters within the three-year period.*

*UIA and LEO also stated they acknowledge in some instances UIA had not established metrics related to case processing, including monetary issues, as noted in Observation 2 of the OAG's January 2023 performance audit and disagrees with the assertion this finding is applicable to new hire crossmatches. UIA and LEO stated the BPC section and its team of analysts and managers apply metrics to these matters for prioritization and as an example of metrics utilized, matters with high dollar amounts, matters with responses from claimants and employers, and matters that are approaching the statute of limitations period are prioritized and assigned for resolution.*

The OAG makes no assertion in this Finding that Observation 2 from our January 2023 performance audit report is applicable to new hire crossmatches. UIA appears to have included statements from its August 2023 response to a previous version of the Finding that is no longer applicable. We shared the revisions to this Finding with UIA in October 2023. When we pointed out to UIA during report processing it had not updated its response to reflect our revisions to the Finding, UIA declined the opportunity to remove this statement.

## **AGENCY DESCRIPTION**

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UIA's ID promotes and maintains the integrity of the UI program through prevention, detection, investigation, establishment, recovery, and prosecution of UI overpayments made to claimants. As of September 2022, ID consisted of 76 staff, including 38 limited-term staff scheduled to work through September 30, 2023. ID is composed of BPC and two investigation sections. BPC staff are responsible for investigating crossmatch hits and completing repayment claims when identity theft has been confirmed. The investigation sections' tasks include the review of fraud referrals from potential identity theft victims, anonymous tips, and internal UIA referrals and completion of investigations generated from fraud referrals, UIA's Fraud Manager software, and other sources.

According to data on UIA's public website, from March 15, 2020 through December 31, 2022, UIA paid \$40.0 billion in UC claims to 2.5 million individual claimants. UIA confirmed intentional misrepresentation for 2,314 claimants between January 2020 and December 2022 and reported 158 individuals were charged with UI fraud as of July 31, 2023.



## **AUDIT SCOPE, METHODOLOGY, AND OTHER INFORMATION**

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### **AUDIT SCOPE**

To examine UIA's efforts to identify and investigate potential claimant fraud. 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.

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 December 31, 2022.

### **METHODOLOGY**

We conducted a preliminary survey to gain an understanding of UIA's processes and controls related to fraud detection, prevention, and resolution in the UC programs. During our preliminary survey, we:

- Reviewed the MES Act related to UC fraud.
- Reviewed applicable USDOL guidance in various UIPLs.
- Reviewed UIA's guidance to its staff related to investigation of claimant fraud.
- Reviewed UIA Manual sections related to identity verification, intentional misrepresentation, and fraud.
- Interviewed UIA staff and leadership.
- Conducted meetings with UIA staff regarding various business processes.
- Analyzed data including paid claims, cases including nonmonetary issues and intentional misrepresentation, and benefit payments.

### **OBJECTIVE**

To assess the sufficiency of UIA's efforts to identify and investigate potential claimant fraud.

To accomplish this objective, we:

- Reviewed a random sample of 25 intentional misrepresentation cases from a population of 3,246 cases UIA established from January 1, 2020 through December 31, 2022 to verify managers approved the determinations and UIA assessed appropriate fraud penalties.
- Analyzed data from UC claims paid between January 2020 and October 2022 compared with MDHHS and MDOC databases to identify claimants collecting UC benefits while at a long-term care facility, while deceased, or while incarcerated at a State prison. We also reviewed similar data analyses completed by UIA and any efforts to address these potentially improper payments.
- Analyzed data from UC claims paid between January 2020 and October 2022 compared with UIA employee and UIA contractor listings to identify claimants collecting UC benefits while working for UIA. We also reviewed similar data analyses completed by UIA and any efforts to address these potentially improper payments.
- Analyzed data from UC claims paid between January 2020 and October 2022 to identify claimants above or below the typical working age and any UIA efforts to identify or address these potentially improper payments.
- Reviewed a random sample of 25 and a judgmental sample of 5 of the 19,121 repayment claims that UIA created from January 1, 2020 through December 31, 2022, based upon UIA determination of identity theft through a fraud investigation. We reviewed the notes within MiDAS to determine if ID attempted to determine the identity of the imposter, attempted to recover fraudulent payments, and referred the fraudulent payments to law enforcement. Our judgmental sample included the 5 highest claim amounts.
- Reviewed a random sample of 25 of the 65,304 new hire crossmatch nonmonetary issues UIA created from January 1, 2020 through December 31, 2022 to determine how UIA investigated the issues and if UIA followed up with nonresponsive claimants and employers.
- Analyzed UIA claim data from UC claims filed from January 1, 2020 through December 31, 2022 to determine if Fraud Manager flagged claims that met UIA's established business rules. We also analyzed payment issuance date for claims Fraud Manager flagged after payment issuance.

- Reviewed a random sample of 9 of the 144 weekly reports from weeks ended January 4, 2020 through December 31, 2022 and a random sample of 15 of the 679 daily reports from January 1, 2020 through December 31, 2022 which UIA used to enhance fraud detection and prevention.
- Analyzed the population of 299,227 fraud and identity theft referrals submitted to UIA from January 1, 2020 through November 10, 2022 to determine which MiDAS users closed the cases and how timely UIA closed them.
- Reviewed a random sample of 100 of the 299,227 fraud and identity theft referrals submitted to UIA from January 1, 2020 through November 10, 2022, and 20 related fraud investigation cases, to verify the referrals were closed to the appropriate stage by appropriate staff.
- Analyzed the population of 2,073,573 fraud investigation cases open from January 1, 2020 through December 9, 2022 to identify population trends and MiDAS case owners and reviewed a random sample of 60 fraud investigation cases to confirm whether UIA addressed the underlying fraud risks which initiated the creation of the fraud investigation.
- Analyzed the population of 2,239,694 identity verification cases open from January 1, 2020 through December 9, 2022 to identify population trends and reviewed the 56 identity verification cases directly associated with our randomly sampled 60 fraud investigation cases to confirm whether UIA addressed the underlying fraud risks which initiated the creation of the identity verification.
- Reviewed UIA's listing of cases referred to USDOL OIG or Department of Attorney General and compared it with UIA organizational charts and contractor listings to identify and review cases of internal fraud.

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-dollar sample items for efficiency\* purposes, and therefore, we could not project the results to the respective populations.

## 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

\* See glossary at end of report for definition.

government operations. Consequently, we prepare our performance audit reports on an exception basis.

**AGENCY RESPONSES**

Our audit report contains 4 findings and 4 corresponding recommendations. UIA's preliminary response indicated UIA and LEO partially agree with all of the recommendations.

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 and Department of Technology, Management, and Budget (641-0593-15):

| Prior Audit Finding Number | Topic Area  | Current Status              | Current Finding Number |
|----------------------------|---|-----------------------------|------------------------|
| 1                          | UIA had not fully implemented a comprehensive MiDAS security management program.              | Not in scope of this audit. |                        |
| 2                          | DTMB did not fully establish effective security and access controls on MiDAS servers.         | Not in scope of this audit. |                        |
| 3                          | UIA did not implement effective MiDAS access controls.  | Not in scope of this audit. |                        |
| 4                          | UIA and DTMB did not maintain effective security and access controls over the MiDAS database. | Not in scope of this audit. |                        |

*This table continued on next page.*

| Prior Audit Finding Number | Topic Area   | Current Status              | Current Finding Number |
|----------------------------|--|-----------------------------|------------------------|
| 5                          | UIA did not implement automated controls within MiDAS to detect claimants who had not submitted evidence of their work search efforts. | Not in scope of this audit. |                        |
| 6                          | UIA and DTMB did not fully analyze and review MiDAS data to help identify UI benefit payments needing further review.                  | Rewritten*                  | Finding 3              |
| 7                          | UIA had not fully implemented processing controls within MiDAS.  | Not in scope of this audit. |                        |
| 8                          | UIA did not fully review and implement methods to further automate MiDAS claim processing.   | Not in scope of this audit. |                        |

\* See glossary at end of report for definition.

## GLOSSARY OF ABBREVIATIONS AND TERMS

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| <b>auditor's comments to agency preliminary response</b> | 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.   |
| <b>BPC</b>   | Benefit Payment Control.  |
| <b>CARES</b>   | Coronavirus Aid, Relief, and Economic Security.   |
| <b>COVID-19</b>  | The disease caused by a new coronavirus called SARS-CoV-2. It is a potentially severe illness often characterized by fever, coughing, and shortness of breath. The World Health Organization first learned of the new virus in December 2019.   |
| <b>efficiency</b>  | Achieving the most outputs and the most outcomes practical with the minimum amount of resources.  |
| <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, strategic plan, 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>IT</b>  | information technology.   |
| <b>LEO</b>   | Department of Labor and Economic Opportunity.   |

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| <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>MDHHS</b>   | Michigan Department of Health and Human Services.   |
| <b>MDOC</b>  | Michigan Department of Corrections.   |
| <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>OIG</b>   | Office of Inspector General.  |
| <b>Pandemic Unemployment Compensation</b>                | Officially named Federal Pandemic Unemployment Compensation (FPUC), 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>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.  |

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| <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>SQR</b>       | Solution Quality Request.  |
| <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.  |











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