

# Michigan Unemployment Insurance Agency's Unjust Fraud Claims

## The Facts:

- In October, 2013, Michigan implemented a new automated unemployment insurance system to reduce operating costs and target fraud in unemployment insurance claims called the Michigan Integrated Data Automated System (MiDAS).
  - When MiDAS was implemented, Michigan's Unemployment Insurance Agency laid off [432 employees](#) – or roughly one third of its staff.
  - The layoffs reduced the number of employees working directly with customers from about [260 to 184](#).
- From March 2014 to March 2015, [26,882 claimants were identified by MiDAS as fraudulent](#) – five times the typical number – costing claimants **\$56.9 million** in fines, as well as garnished wages and income taxes.
  - MiDAS retroactively reviewed claims made in the past six years, including individuals that MiDAS did not have up-to-date contact information for.
  - Money collected from penalties goes into a Penalty and Interest (P&I) account. The balance within the P&I account was [\\$3.1 million at the close of FY 2010-11](#) and has grown to \$68.8 million as of September 30, 2014.
  - [Legislation passed in 2015](#) allows the state to use the funds – previously only used to support UIA activities and pay for representation for those who couldn't afford it – for other purposes.
- A [February 2016 Auditor General report](#) found that fraud was affirmed in **only 8 percent of appeals**. Sixty four percent of claims were reversed or dismissed, while 22 percent were remanded to UIA.
  - Despite the fact that states are required by federal law to independently verify computer-identified fraud cases, Michigan's UIA did not do so until August, 2015.
  - October, 2015, DOL sent an [advisory](#) to state unemployment benefit agencies reminding them of the requirements of Federal law pertaining to protecting individual rights in state procedures to prevent or recover unemployment compensation overpayments. The advisory said that in order to be eligible for administrative grants a state must do a number of things, including “independently verify information received from a computer cross-match with a Federal database or other automatic processes or matches before suspending, terminating, reducing, or making a final denial of UC.”
- An [April 2016 Auditor General report](#) found that UIA failed to provide adequate or proper notice to those accused of fraud. Claimants accused of fraud cannot appeal those allegations without receiving notice.
  - The report found that:
    - “UIA did not effectively and efficiently process claimant and employer mail that was returned undeliverable and without a forwarding address.”
    - The UIA could have improved efforts to contact claimants who did not respond to UIA's original requests for information, including for requests that were returned by USPS as undeliverable.

- The UIA did not clearly inform claimants that a failure to respond would lead to a finding of fraud.
  - The UIA did not provide to claimants the facts that lead to the initial finding of fraud, which is required by both federal regulation and state law.
  - The UIA would collect money from claimants despite these issues – even for those claimants that had not received notice.
  - Nearly 235,000 phone calls – or 89% - made to the UIA call center went unanswered during two separate weeks in August and September 2014.
- The U.S. Department of Labor has advised the UIA to re-adjudicate instances of alleged fraud and reimburse citizens who were wrongly penalized in order to come into compliance with federal law.
  - Failing to come into compliance with the law would result in: 1) the state losing more than \$100 million in federal administrative funds, and 2) employers in Michigan effectively facing higher taxes due to a reduction in Michigan’s Federal Unemployment Tax Act (FUTA) tax credit, in compliance with Sec. 303(b) of the [Social Security Act](#).
- A federal class-action [lawsuit](#) was filed in April, 2015. A state class-action [lawsuit](#) was filed in September, 2015.
- Bipartisan [House Bill \(HB\) 4982](#) was introduced in mid-October 2015, and would, going forward, prohibit the UIA from making fraud determinations solely by computer program and improve notice requirements.

### **Background on unemployment insurance in Michigan:**

- In March, 2011, Michigan Governor Rick Snyder shortened the amount of time that the state pays unemployment benefits from [26 weeks to 20 weeks](#) – the fewest number of weeks of any state in the country at the time.
- In Michigan, unemployment insurance fraud carries [a 400% penalty](#) on the amount that a claimant was overpaid plus interest. No other state has a penalty above 150%.