

Title: Unemployment Insurance Agency Overpayment Recovery
Category: Data, Information and Knowledge Management
State: Michigan

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Completion Dates:

Software selection process completed:	4/1/2011
Requirements/design sessions completed:	4/29/2011
System development completed:	6/11/2011
Integration and user testing completed:	8/12/2011
Software "go live" completed:	9/2/2011

B. Executive Summary

In March 2011 the Michigan office of the Auditor General released a report that concluded that the Michigan's Unemployment Insurance Agency's (UIA) efforts to prevent, detect, and recover Unemployment Insurance (UI) benefit overpayments were not effective. In response to that report that Michigan legislature on March 29, 2011 passed House Bill 4408 that required the UIA to acquire and implement software with a proven record of detecting and collecting benefit overpayments by September 1, 2011.

Solution: Michigan's Department of Technology, Management and Budget (DTMB) and UIA quickly assembled a project team and undertook a highly disciplined effort that identified areas of potential overpayments, improvements in non-monetary determination timeliness, and improvements in the identification of fraud cases. As part of the project team's aggressive plan to select and implement a solution by the September 1, 2011 deadline, Michigan completed the software selection process within thirty days of the AG report and purchased the On-Point Technologies Recover product for \$2.03M as the technology solution. The web-based case management system is designed specifically for unemployment insurance agencies to detect overpayments and recoup money owed to agencies, and improve the integrity of the UI program by allowing the agency to better monitor and pursue their collection cases.

Benefits: The review of existing business processes resulted in process improvements and Benefit Payment Control activities were improved upon in important areas such as overpayment, fraud detection and collection activities. The design and approach was based on other state's best practices. Michigan contacted and visited several other states to identify successful processes, and placed these on an accelerated schedule, modifying less effective steps. This approach and the lessons learned from other states can be replicated in other jurisdictions

Significance: The project was successfully completed and implemented end-to-end, on schedule in five (5) months and the first overpayment collections from the new system were achieved in October, 2011. The implementation of the Recover System allowed Michigan to quickly achieve significant overpayment collection improvement in its first full year of operation, resulting in overpayment recovery of \$36.35M, an improvement of 32% over the average fiscal year collections in Fiscal Years 2009-2011 and a first year return on investment (ROI) of 485%.

The implementation of UIA benefit payment controls and collections is part of a multi-year system integration project to modernize and replace the 25+ year old legacy UIA mainframe system and the various ancillary applications used by UIA to deliver customer service to Michigan businesses and citizens. Michigan has been successful in the first phase of fraud control with the implementation of Recover Case Management. With the successful implementation of the new UIA Tax system in August of 2012, the new UIA Benefits system on schedule to be completed in September of 2013 and the implementation of Enterprise Fraud Detection scheduled for the middle of 2014, Michigan continues to be a leader in developing comprehensive approaches to data and information management.

C. Problem Statement

Unemployment insurance benefits are funded entirely by employers across Michigan through a per employee payroll tax. Currently the fund has been diminished extensively, forcing the UIA to borrow money from the federal government. Michigan currently owes the federal government \$3.1 billion.

Michigan's Unemployment Insurance Agency's (UIA's) primary responsibility is to collect unemployment taxes from employers and pay state and federal unemployment benefits to eligible claimants. Leading up to the March 2011 AG report, for the three-year period ending September 2010, UIA paid benefits totaling \$15.4 billion. UIA reported overpayment recoveries totaling \$89.7 million for calendar years 2007 through 2009.

It was determined that improved controls were needed to help ensure that UI claimant wage and UI benefit payment cross matched consistently to detect overpayments made to claimants. For the calendar years 2008 and 2009, UIA reported that it processed 2.5 million initial unemployment claims and 21.9 million continued unemployment claims. Of all of these claims, the AG report estimated that for the State fiscal years ending in 2008 and 2009, Michigan may not have detected and recovered between \$55.7 and \$61.3 million dollars in UI overpayments and associated penalties. This is significant expense for an agency that was already faced with depleted funding reserves and mounting federal debt to pay UI benefits.

In addition to the millions of dollars in overpayments that were not effectively recouped, UIA did not consistently request assistance from Michigan's Attorney General in order to obtain civil judgments against claimants who were delinquent in paying restitution for overpaid benefits. Further, UIA did not effectively monitor the employment status of those claimants with civil judgments obtained against them. Finally, UIA had not established and implemented procedures to identify and recover UI benefits paid to deceased claimants.

Solution: To improve overpayments and collections, UIA sought a software solution with the ability to gather determinations of overpayment, employment data and wage information into a comprehensive report.

Overpayment Recovery: In September 2011, the Unemployment Insurance Agency (UIA) began utilizing the Recover case management system. The solution assists the agency in collecting all benefit overpayments and provides tools that:

- Maximize collections and overpayment recoveries
- Comply with required state and federal laws
- Protect the UI trust fund
- Improve the integrity of the UI program.

Automation: The Recover software runs daily, pulling data from the Claimant activities. The system produces collection notices/letters for mailing to potent Claimants found to be potential Fraud candidates or those requiring payment (recovery) of funds to UIA. The system generates monthly dashboard reports and charts for distribution to executive and senior management.

Integration: The systems auto-recovery process decreases the need for staff intervention during the collections process by interfacing with the state's UIA Benefits system to determine appropriate collection activities. The system also interfaces the UIA's wage record files with the National Directory of New Hire (NDNH), tracking overpaid claimants who have returned to work or those claimants that have quarterly wages.

The Recover system is specifically configured to Michigan's law and rules and ensures comprehensive documentation imperative for compliance. The system also captures, tracks, and manages the collection of UI benefits as well as the work flow of Agency staff responsible for collecting those debts.

By interfacing with the UIA Benefits system, Recover determines when a restitution account becomes active and collectible, extracts overpayment information – including interest and penalties associated with each overpayment, and examines each overpayment and determines if the overpayment amount is active and subject to collection.

D. Significance

Deficit Reduction: Unemployment insurance benefits are funded entirely by employers across Michigan through a per employee payroll tax. Reducing fraudulent benefits play a key factor in reducing budget deficits both at the state and federal government levels.

Policy Alignment: Michigan is committed to an open approach to government. Transparency in spending and accountability are important initiatives. The implementation of the Recover system directly aligns with the governor's goal of value for money, providing efficient and effective government services to taxpayers through infusion of technology in government processes to gain increased efficiencies, including ROI. In addition it aligns with NASCIO's Budget and Cost Control priority, resulting in IT savings to both state employers and state government itself.

Citizen Confidence: The implementation of Recover begins restoring confidence that the tax money used by UIA to pay benefits to claimants is not going to fraud. Reducing UIA fraud helps to reduce employee payroll tax and makes it more effective for employers to hire people, creating more jobs.

Deterrent Effect: As overpayment recoveries have improved following the implementation of the Recover system, increased “visibility” of its benefits and ability to prevent overpayment and quickly recoup and collect overpayment will have a lasting effect and result in improved efficiencies into the future.

Improved automation of recovery activities has allowed State investigation and support staff to focus its attention on the most critical cases and produce at a higher rate. As a result, operations staff has more time to focus on core UIA business activities.

Transferability: The review of existing business processes resulted in process improvements and Benefit Payment Control activities were improved upon in important areas such as overpayment, fraud detection and collection activities. The design and approach was based on other state’s best practices. Michigan contacted and visited several other states to identify successful processes, and placed these on an accelerated schedule, modifying less effective steps. This approach and the lessons learned from other states can be replicated in other jurisdictions.

Catalyst for an Enterprise Approach: The UIA Recover project has become the foundation for Enterprise Fraud Detection at the State level. In February, 2012, Michigan released a Request for Proposal (RFP) to install, configure and implement a commercial off-the-shelf (COTS) software data analytics product used for the purpose of fraud detection.

In December, 2012, Michigan selected SAS as the vendor and software solution for enterprise fraud detection. Currently the UIA and the Department of Human Services (DHS), Food Assistance Program (FAP) have begun the process of implementing this solution.

The goals of the Enterprise Fraud System are to:

- Reduce the percentage of UI and public assistance benefits paid due to fraud
- Identify and report fraud characteristics by individuals or groups based on information derived from Michigan’s Data Warehouse
- Recognize patterns in data that reveal organized attempts to defraud the unemployment and public assistance systems

The Enterprise Fraud Detection (EFD) Project started in January 2013 and the DHS FAP is scheduled to be the first implementation in September 2013. The implementation of UIA fraud detection is scheduled to start in November 2013.

EFD has also been the catalyst to state-wide data sharing and data governance. An executive committee has been established including DTMB, Community Health, Human Services, Treasury, and UIA to establish data sharing and data governance policies and guidelines.

E. Benefits of the Project

The following are summarized benefits of the Recover system process improvements resulting from the implementation of the Recover system:

Customer Benefits:

- **Customer Trust:** The use of automated notices creates a perception to claimants that their case is being tracked by an automated, vigilant system and that their situation is not “going away.”
- **Customer Convenience:** The graduated letters provided by the system place the solution in the claimant’s hands by:
 - Providing a summary of total obligation plus penalties and interest
 - Providing a plan for managing the obligation with monthly payments
- **Employer Convenience:** Once a claimant returns to work, the system automatically shows that the UIA is aware of the employment and the agency has the option of contacting the employer to garnish wages.
- **Financial Clarity and Transparency:** The system generates single notices showing the total amount owed and replaces a confusing and cumbersome multiple notice process.

State Benefits:

- **Mail Cost Avoidance / Savings:** The agency has the ability to stop unproductive mailings to thousands of individuals that have not been responsive – with significant cost savings.
- **Backlog Elimination:** The system can trigger a concerted collection effort on “aging” accounts before the 6-year statute of limitations expires.
- **Payment Automation:** The system automatically computes minimum payments to assist the claimant in developing a workable solution.
- **Report Automation:** UIA has the ability to generate reports to help identify unproductive collection methods.
- **Workflow Streamlining:** The collection workflow is streamlined to identify delinquent accounts within 90 – 120 days and proceed with legal action; automatic tasks are created for delinquent accounts.

Return on Investment:

In addition to the process improvement benefits outlined above, the implementation of the Recover system has allowed Michigan UIA to quickly achieve significant overpayment collection improvement in its first full-year of operation, as shown below.

Summary of Overpayments Recovered – Fiscal Years 2009-2012

	Fiscal Year				Monthly Average
	2012	2011	2010	2009	
October	\$ 2,000,936	\$ 1,160,199	\$ 991,936	\$ 774,801	\$ 1,231,968
November	\$ 2,161,487	\$ 1,225,956	\$ 978,413	\$ 590,062	\$ 1,238,980
December	\$ 2,235,349	\$ 1,196,805	\$ 1,166,603	\$ 710,611	\$ 1,327,342
January	\$ 1,627,592	\$ 848,149	\$ 1,004,964	\$ 680,424	\$ 1,040,282
February	\$ 5,658,994	\$ 3,652,082	\$ 5,548,505	\$ 3,703,861	\$ 4,640,861
March	\$ 7,411,050	\$ 6,434,787	\$ 3,641,479	\$ 2,265,259	\$ 4,938,144
April	\$ 2,645,545	\$ 2,302,574	\$ 2,452,426	\$ 2,378,850	\$ 2,444,849
May	\$ 3,415,039	\$ 2,619,325	\$ 3,536,498	\$ 1,718,725	\$ 2,822,397
June	\$ 3,777,164	\$ 3,600,060	\$ 1,957,514	\$ 968,977	\$ 2,575,929
July	\$ 1,733,077	\$ 1,921,156	\$ 2,816,180	\$ 1,244,707	\$ 1,928,780
August	\$ 2,584,063	\$ 2,491,943	\$ 2,013,782	\$ 998,188	\$ 2,021,994
September	\$ 1,100,224	\$ 2,092,201	\$ 1,200,878	\$ 1,143,055	\$ 1,384,090
Fiscal Year Total	\$ 36,350,520	\$ 29,545,237	\$ 27,309,178	\$ 17,177,520	

Dollar and Percentage Return on Investment

The estimated cost benefit/ROI of the Recover project is based on the total implementation cost of \$2M:

- Year one improvement over prior 3-year average: \$11.7M
- Total implementation cost: \$2M
- Dollar return on investment: \$9.7M
- Percentage return on investment: 485%