Conducting Performance and IT Audits of the Michigan Unemployment Insurance Agency (UIA) and Pandemic Unemployment Assistance (PUA)

OAG
Office of the Auditor General

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Agenda

- Legislative request
- Unemployment in the news
- Audit topics and timeline
- Audit objectives
- Challenges encountered
- Moving forward

Legislative Request

Senate Resolution No.29
June 2020

Joint Letter to OAG
August 2020

Audit plans developed, 1st OAG audit begins
September 2020

Topics of Legislative Concern

- Organizational deficiencies
- Staffing
- Claims processing
- Overpayments
- Fraud mitigation
- Communication between UIA and claimants
- Cybersecurity protections

Internal Fraud

- Contracted employees
  - Alleged they used their insider access to fraudulently release payments.
  - Actions resulted in the fraudulent disbursement of **$3.8 million**.
  - If every claim released by the contractor had been disbursed in full, would have totaled more than **$12 million** in fraudulent disbursements.

- UIA Lead Claims Examiner
  - Alleged they used network credentials to override "fraud stops" on UI claims.
  - Actions resulted in the fraudulent disbursement of **$1.1 million**.
  - Additional claim of **$761,000** was prevented prior to payment.

Unemployment in the News

External Fraud

- "Kim Kardashian" filed as a Michigan resident and received $7,000 in unemployment benefits.

- In the past year, 37 southeast Michigan defendants were charged with submitting more than **$20 million** in fraudulent unemployment claims in multiple states.

- Sequencing error with UIA technology called "Fraud Manager" used to automatically screen claims for potential fraud.
  - From April 5, 2020 to May 19, 2020 this error made it possible for claims to be filed, certified, and paid; prior to Fraud Manager screening.

<u>Administration Errors</u>

- Michigan error means up to 650,000 individuals could be forced to repay unemployment benefits. Letters sent to claimants on **June 28, 2021**.
  - Michigan developed four reasons to qualify for PUA, which were ultimately not approved by the US Department of Labor.

- Michigan unemployment agency waits 6 months to inform aid recipients of error.
  - Leaders within UIA were told as early as **January 6, 2021**, that the US Department of Labor rejected four state-developed unemployment qualifications for PUA.

Audit Topics and Timeline

UIA Personnel Management During the COVID-19 Pandemic - **September 2020**

MiDAS and MiWAM – Selected General and Application Controls – **May 2021**

2021UIA Claims Processing

May 2021

Fraud Detection

Fall 2021

UIA Personnel Management During the COVID-19 Pandemic (186-0310-21)

<u>Objective 1</u>: To assess the sufficiency of selected UIA practices for worker onboarding and offboarding during the COVID-19 pandemic.

<u>Objective 2</u>: To provide information on the administrative funding available to UIA during the COVID-19 pandemic and other relevant data.

Estimated report release date: Late 2021

UIA Claim Processing (186-0319-21)

Objective 1: To assess the effectiveness of UIA's actions toe stablish federally compliant claimant eligibility criteria for the PUA program.

Objective 2: To assess the effectiveness of UIA's efforts to process UI claims in accordance with selected State and federal requirements during the COVID-19 pandemic.

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Audit Objectives

UIA Claim Processing (186-0319-21)

Objective 3: To assess the effectiveness of UIA's communications with UI claimants during the COVID-19 pandemic.

Objective 4: To compile and provide information on UI claims processed by UIA during the COVID-19 pandemic and other relevant data.

Estimated report release date: To be determined

Audit Objectives

Michigan Integrated Data Automated System (MiDAS) and Michigan Web Account Manager (MiWAM) – Selected General and Application Controls (186-0593-21)

Objective 1: To assess the effectiveness of UIA and DTMB's efforts to implement selected security and access controls over MiDAS and MiWAM.

Objective 2: To assess the effectiveness of UIA and DTMB's efforts to implement controls over MiDAS and MiWAM interfaces.

Objective 3: To assess the effectiveness of UIA and DTMB's efforts to implement change controls over the MiDAS and MiWAM application and data.

Estimated report release date: Late 2021

Audit Objectives

Fraud Detection

Objectives to be developed when the audit commences in Fall 2021.

Preliminary review may include:
- Post payment data matches
- Built in system flags
- UIA Fraud Unit
- Systemic issues

Access to Confidential Data

- To conclude on the objectives of each audit, the auditors will access confidential data including:
    - Confidential claim data and cybersecurity configurations.

- Prior to 2019, law stated that State departments and agencies "shall produce for examination all books, records, and documents upon demand…" resulting in some questioning whether OAG had authority to access confidential and <u>electronic</u> records.

OAG Authority to Conduct Audits

- The Michigan Constitution and other statutes provide the auditor general the authority to conduct post financial and performance audits of all branches, departments, offices, boards, authorities, and other institutions.
    - Article IV, Section 53
    - Section 13.101 of the Michigan Compiled Laws – Amended by Public Act 156 of 2019
- **UIA's concern that the OAG will be accessing confidential data led to significant roadblocks.**

Challenges Encountered

- UIA required a Data Sharing Agreement for each UIA audit.
  - Information not provided while DSAs are in-progress.
- Federal tax information within MiDAS and restricting auditor access.
- Lack of system documentation and institutional knowledge of system.
- Limited and unimpeded access to employees and records.

Moving Forward

- Work performed during delays.
- Continue to work on Data Sharing Agreements for remaining audits planned.
- Potential scope limitation.
  - Include within the Scope or Background of public report.

Questions?

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