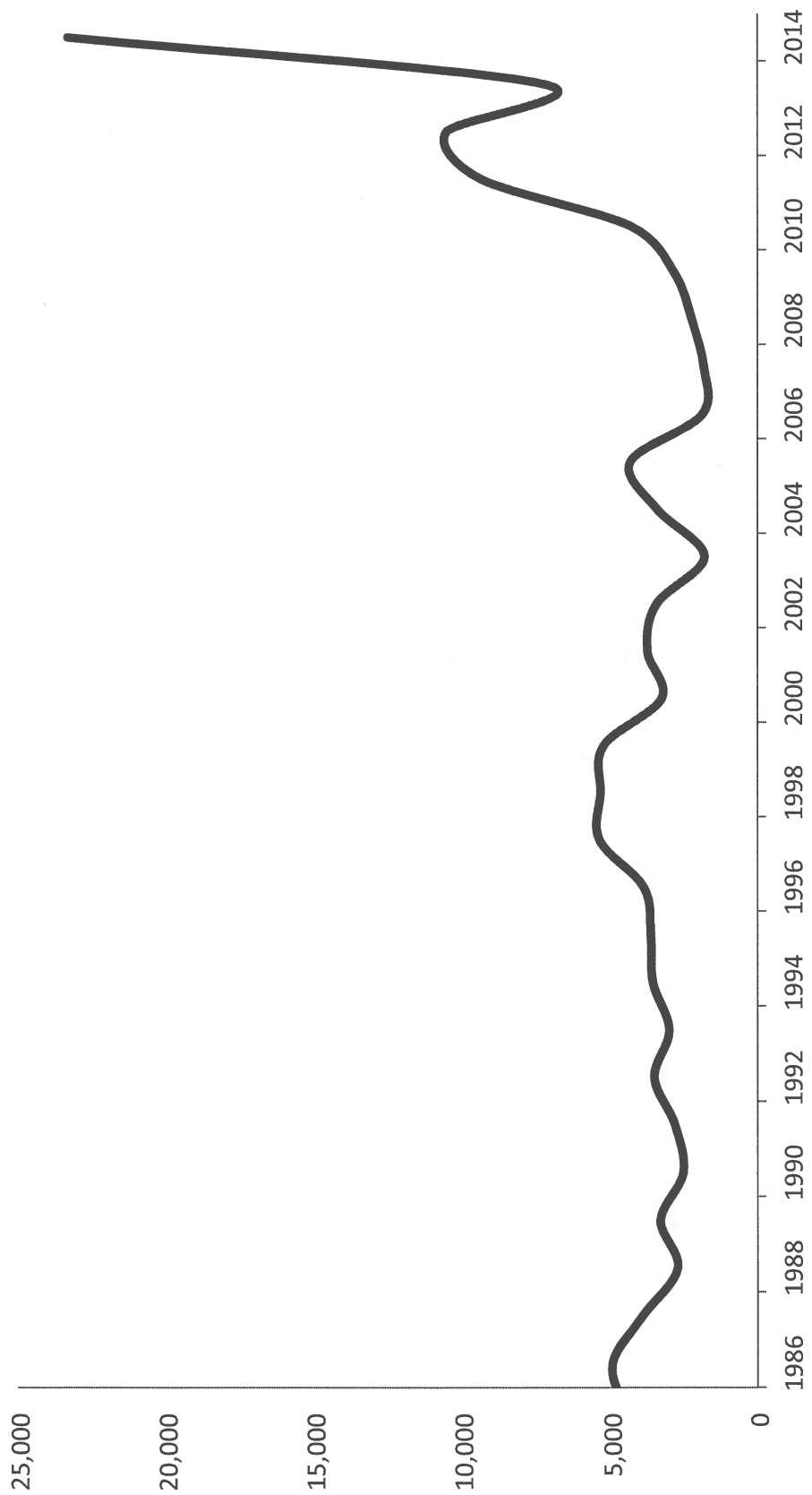


Figure 1: Number of Annual Fraud Cases Established



Source: Authors' analysis of U.S. Department of Labor, ETA 227, accessed 21 March 2015.

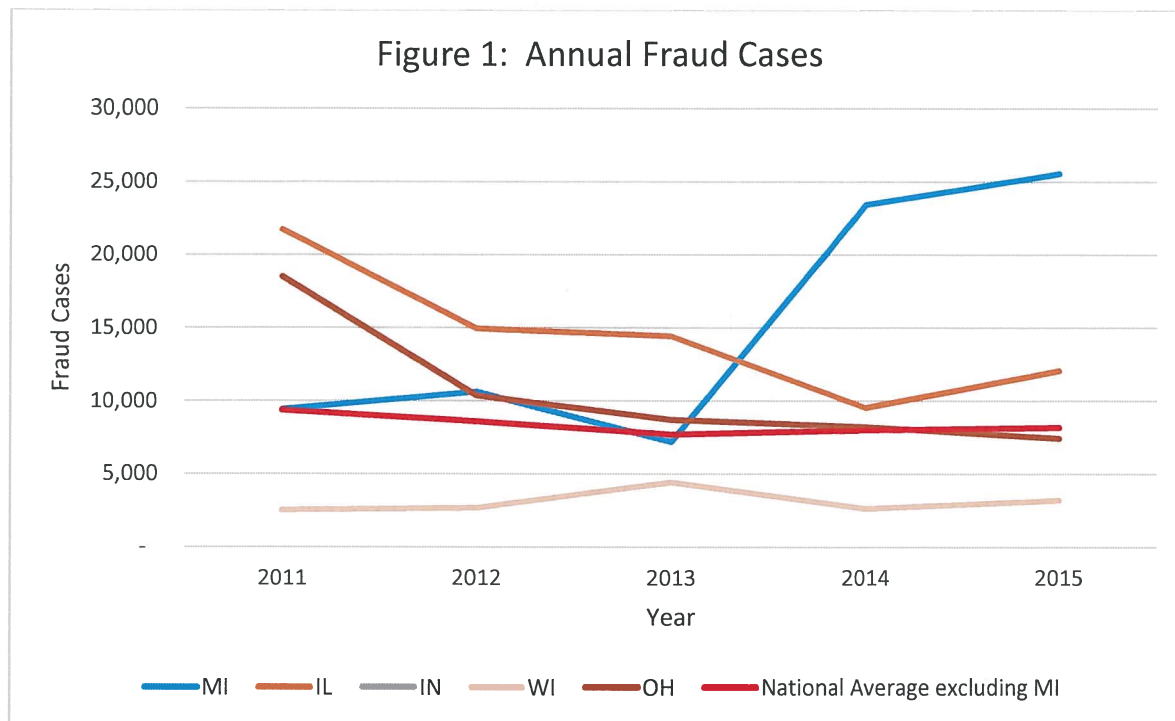
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HOW MUCH MONEY IS THE STATE OF MICHIGAN MAKING OFF OF THE UNPRECEDENTED INCREASE IN UI FRAUD CASES IT IS PURSUING?

The Unemployment Insurance Agency (UIA) implemented the Michigan Integrated Data Automated System (MiDAS) to expedite the unemployment insurance process and better correctly identify fraudulent cases. After MiDAS' inception, however, Michigan has experienced an unprecedented increase in fraudulent unemployment insurance cases, and evidence suggests that many of these acclaimed fraudulent cases are wrongful convictions. We will show the incredible growth in the fraudulent caseload and the cash received from such cases in Michigan as compared to Michigan's surrounding states and the rest of the country.

We obtained data from the Department of Labor ETA 227 Table to conduct this analysis. This table documents "Overpayment Detection and Recovery Activities" for each state and year since the mid-1980s. We focused on the number of fraudulent UI cases and the amount of money that the UIA acquired (recovered receivables) or is planning on acquiring (outstanding balance) from these cases. We also created a sum of the total potential income from UI fraud cases, which added the recovered receivables to the outstanding balance. Please see the endnote for specific variables used to acquire the information for each question, and note that all national averages exclude South Carolina which has missing data for 2015.ⁱ

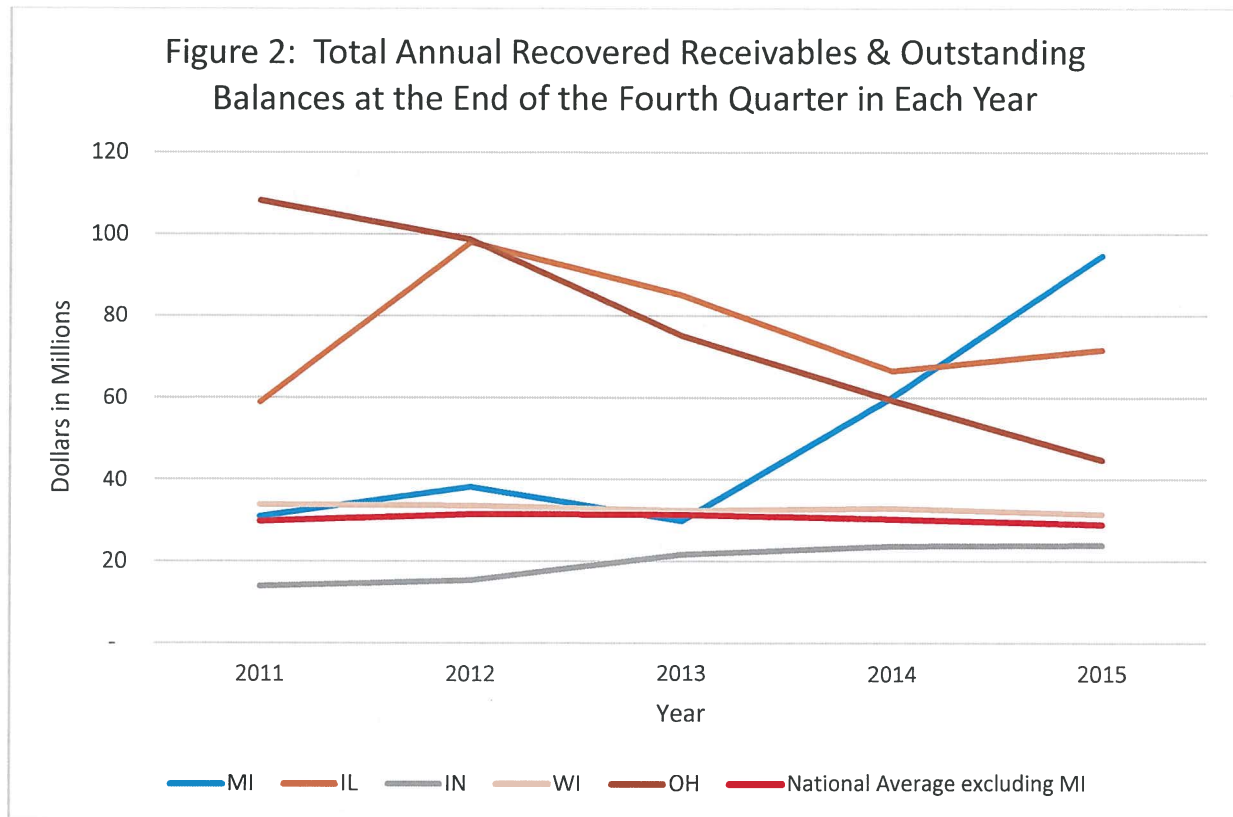
The Michigan UI fraud caseload grew over the past four years while the average state saw small declines during the same time period. The annual fraud caseload in Michigan grew from 10,625 in 2011 to 25,574 in 2015. This increase occurred at a time when Michigan's contiguous states saw only 62% of the cases that they did in 2011 and the United States excluding Michigan had 87% of their 2011 caseload. Figure 1 shows the growth in fraud cases for Michigan (blue), the contiguous states, and the national average (red). We see a dramatic rise in Michigan's caseload from 2013 to 2014 – the year MiDAS was implemented – while most states show continual declines in their caseload.



Michigan has seen incredible increases in its total dollars received. In 2015, Michigan recovered \$26.3 million dollars over the course of the entire year, while in 2011 it had only recovered 3.3 million dollars. This means that in four years Michigan's recovered receivables grew nearly eight times larger. If we look to Michigan's contiguous states or the United States excluding Michigan for comparison, we see that recovered receivables declined by 61% for the former and they grew by 1% for the latter.

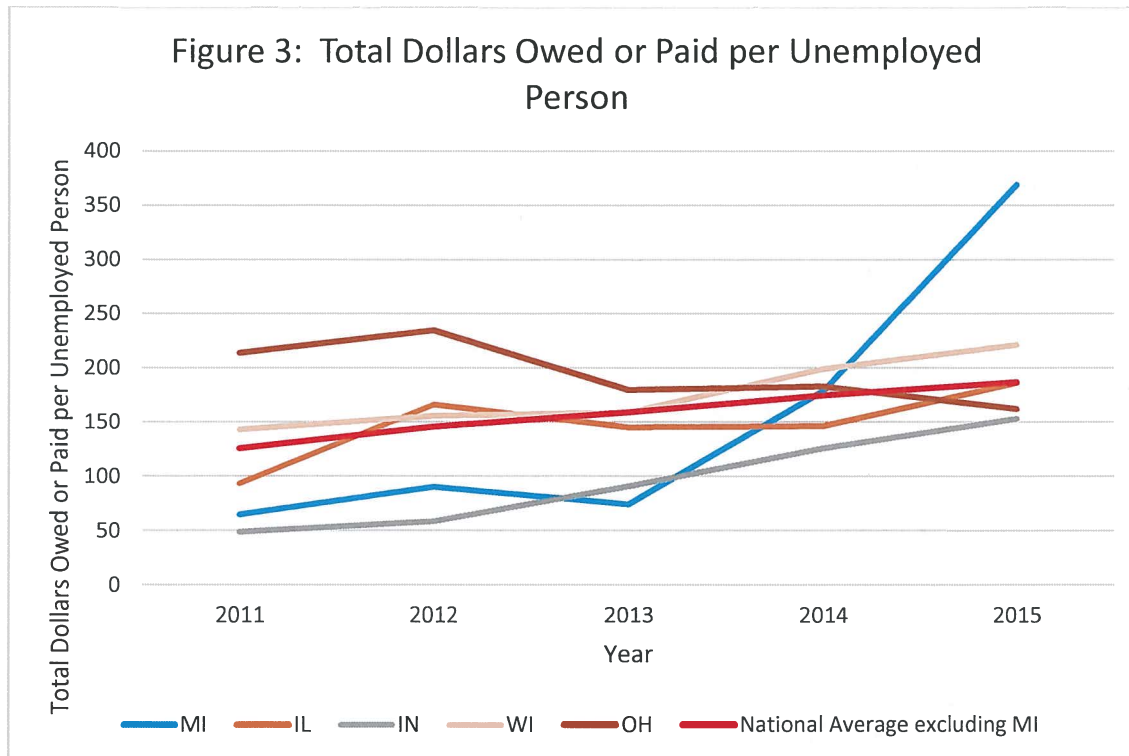
We then looked to see the relative growth of Michigan's outstanding balances over the same time period. We found that these had grown from \$27.7 million at the end of the fourth quarter in 2011 to \$68.8 million at the end of the fourth quarter in 2015, while our bordering states and the national average *showed little to no growth in outstanding balances*. When we combine the total outstanding balances and recovered receivables to have a sum total of the amount of money acquired from fraudulent claims, we see that Michigan's total dues have grown by over three times the amount of 2011 while our bordering states had 80% of their 2011 caseload in 2015.

Figure 2 shows the growth in outstanding balances and recovered receivables for Michigan (blue), the contiguous states, and the national average (red). We again see that Michigan had similar amounts of dollars recovered or forthcoming as the national average until the implementation of MiDAS where after Michigan grew to have a much higher amount of recovered receivables or outstanding balances than either its surrounding states or the national average.



Perhaps, though, this unprecedented rise in fraud cases and accompanying financial gains are due to employment shifts in Michigan as opposed to the MiDAS system. We looked to see if the number of unemployed people had decreased slower in Michigan than in other states. We in fact found that Michigan has fewer unemployed people as compared to the average bordering state. We then created a rate of the total money received or due per unemployed person by dividing our summed total of the recoverable receivables and the outstanding balanced by the number of people who are unemployed. Figure 3 shows these results for Michigan (blue), the contiguous states, and the national average (red).

This chart again highlights the incredible rise in fraud cases relative to the contiguous states and the national average.



We can also see how Michigan ranks in these measures compared to all other states. We looked at 49 states and the District of Columbia to compare the number of annual fraud cases and total outstanding and received dollars per unemployed person and found that Michigan was ranked seventh in 2015 for annual fraud cases per unemployed person and fourth for the total amount of money outstanding or received per unemployed person. **When we look to see how Michigan ranks in the percent growth of the total amount of fraudulent cases and amount of money received from these cases during the same time period, the only state that ranks similarly in both categories is Georgia which also implemented a similar system as MiDAS.**

Is the MiDAS system correctly identifying more fraudulent claims than the other states? We have seen that the implementation of MiDAS system has led to a divergence from our bordering states in the total number of UI fraud cases and their accompanying incomes. However, if this is due to MiDAS correctly identifying more fraud in the UI system, this would not be troubling. [Darren Cunningham of Fox West Michigan](#) has done extensive research on the rollout of MiDAS and its repercussions. Late last fall, he reported that the UIA reviewed over seven thousand fraud cases and found that only [8 percent of them were correctly classified as fraud](#).

These fraudulent cases are much more likely to be against the employee than the employer as the Department of Labor [Unemployment Insurance Performance Management](#) suggested that Michigan employers faced only 7% of the total dollar amount of fraud.

While employees are seemingly reporting increased wrongful convictions, the state's budget is doing unprecedentedly well. A contingent fund devoted to payouts for unemployment insurance

fraud returns has increased from \$3 to \$70 million in just three years according to the Michigan House Fiscal Agency.

ⁱ For total fraud cases, we added the number of UI Cases (C1) and the number of UCFE cases (C2). For the outstanding balance, we added C71 & C72 of the final quarter for a total of the UI & UCFE, and for the total recovered dollars we added C206 & C207 throughout the entire year.