Unemployment Insurance Integrity in Illinois

EXECUTIVE SUMMARY

Every year the State of Illinois is measured on a national scale on the percentage of improper Unemployment Insurance (UI) benefit payments Illinois identifies. States are graded against each other and states with an improper payment rate above 4%, as assessed by the United States Department of Labor (USDOL), are required to implement a corrective action plan to dramatically lower their improper payment percentage. According to USDOL, the State of Illinois' improper payment rate was above 4% in FFY 2012, 2013 & 2014. Additionally, Illinois failed to meet the acceptable level of UI overpayment recovery for 2012, 2013 and 2014 by failing to meet a 55% recovery standard. Unfortunately, many of these improper payments are caused by fraud. Whether through identity theft or hiding wages to continue to receive UI benefits, the issue of improper payments is a significant integrity issue for Unemployment Insurance Agencies nationwide. To not only meet federal compliance standards, but to become a best-in-breed state for eliminating improper payments, Illinois implemented several integrity initiatives targeting fraud.

Despite a 26% cut in the Agency's overhead since 2011, the Illinois Department of Employment Security (IDES) has implemented five automated cross-matches that match active UI claimant data against the State and National Directory of New Hires, Illinois State and County Prisons, the Social Security Administration, the State's online job board application, IllinoisJobLink.com, to determine whether proper Work Search eligibility requirements are being met, and the Illinois Secretary of State, or DMV. Additionally, IDES implemented the Treasury Offset Program (TOP), which allows states to refer fraudulent overpayments to the Internal Revenue Service for recoupment from claimant's annual federal tax returns.

These cross-matches and recoupments efforts have potentially saved the State of Illinois approximately $585 million in three and a half years. This number represents improper payments we have prevented, overpayments we have created and fraudulent overpayments we have recovered during this time. This number can be broken down as follows: Illinois has prevented 112,677 claimants from receiving approximately $393 million in improper payments, identified and created $72 million in overpayments created by the five cross-matches listed above, of which we have successfully recouped 22%, and recovered an additional $120 million in fraudulent overpayments referred to the TOP program.

Finally, in order to absorb the massive amount of work these cross-matches create for staff, IDES automated the creation of the cross-match issue, notification to the claimant of the potential issue, and the automatic denial of benefits if the claimant fails to respond, in Illinois' online UI application, IBIS, eliminating the need for staff to waste time on fraudulent claims.

DESCRIPTION OF THE BUSINESS PROBLEM

The issue of fraud in the world of Unemployment Insurance benefits is well documented. As the instances of fraud increase, the USDOL, along with various state Agencies, have been working to implement creative solutions to increase the integrity of

human service programs. Before implementing our five integrity cross-matches, IDES' UI application, IBIS, was unable to identity much of these fraudulent activities. Upon suspicion that a claim was fraudulent, claim representatives forwarded the information to our Benefit Payment Control team to open an investigation, requiring a manual review of the file and assessment of fraud. This process was incredibly time-consuming and not effective in identifying the high volume of fraud we knew was occurring in the area of Unemployment Insurance.

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DESCRIPTION OF THE SOLUTION
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National Directory of New Hire

Back in 2010, the USDOL began placing a heavy emphasis on combatting UI fraud. To that end they required all states to begin utilizing the National Directory of New Hire (NDNH) for quicker detection of wages paid to unemployment insurance claimants who continue to certify for benefits after returning to work. The NDNH is a national database of wage and employment information collected by each state from employers and transmitted to the federal government. Currently the federal government does not require Employers to provide this wage data and so these files are not 100% complete.

In 2011, IDES launched an initiative to implement the Illinois Unemployment Insurance NDNH cross-match to properly detect claimants' "return-to-work" date to ensure they were not simultaneously receiving wages and UI benefits. IDES designed an automated solution that begins when the NDNH cross-match creates a "hit". Once a hit is detected, an automatic issue is created in IBIS and correspondence is generated to both the claimant and Employer asking for proof of wages for the period in question.

After 17 days, if a response is not received by either party, IBIS automatically posts the "return-to-work" provided by the NDNH database. This information prevents claimants from receiving future UI payments on this claim. Since NDNH's implementation in Illinois, this cross-match has prevented approximately $140 million in improper payments, detected and created an additional $29 million in overpayments and IDES has successfully recovered $17 million, or 57% of these improper payments. This project cost $315,000 to implement, for a 49,869% Return on Investment (ROI) in three and half years.

Incarcerated Inmate

During this time, a news story was reported in downstate Illinois describing an inmate who was found to be receiving Unemployment Insurance benefits while incarcerated. This lead to a heated debate and resolution passed by the Illinois General Assembly requesting that IDES remedy this issue. Initially, IDES reached out to the Illinois Department of Corrections, only to find that their system was not capable of providing inmate data to IDES on an ongoing basis. That led to the research and discovery of a vendor called Appriss. Appriss was able to provide the booking records for inmates incarcerated in the State of Illinois and 90 of the 102 Illinois County jails.

In 2012, after securing Supplemental Grant Funding from USDOL, IDES built and launched the Illinois Unemployment Insurance Incarcerated Inmate cross-match to detect whether a claimant is incarcerated at the time they attempt to file an initial claim or upon their weekly certification. For this cross-match IDES also designed an automated solution that begins when the Inmate cross-match creates a "hit". Once a hit is detected, an automatic issue is created in IBIS and correspondence is generated to the claimant notifying them of an issue with their ability and availability to work during the benefit period they are claiming. This notice requires the claimant to report to an IDES office to resolve the issue. After 17 days, if the claimant fails to appear, IBIS automatically denies the claim and issues a determination to the claimant.

Since the Incarcerated Inmate cross-match was implemented in Illinois, this cross-match has prevented approximately $6.3 million in improper payments, detected and created an additional $1.8 million in overpayments and IDES has successfully recovered $699 thousand, or 40% of these improper payments. This project cost approximately $425,000 to implement, for a 1,546% Return on Investment (ROI) in three years.

Furthermore, in June of 2015, IDES is upgrading to Appriss' Justice Exchange cross-match, which provides nationwide booking records for 40 states, including Illinois. This data will help ensure claimants incarcerated outside of Illinois are not receiving UI benefits from the state. Additionally, this updated cross-match will include information from the Social Security Administration's Death Master File. IDES will use this data to detect whether a claimant is deceased at the time an attempt is made to file an initial claim for benefits, or certify for weekly benefits, using their identity.

Social Security Administration

In addition to the NDNH cross-match, the USDOL requires states to conduct a Social Security Administration (SSA) cross-match to ensure those applying for benefits are eligible. In 2010, when IDES' new UI system, IBIS, went live, the process for verifying Social Security numbers was conducted manually. This process required IBIS to send a file to the SSA of new claimants, a match was conducted overnight and "hits" were submitted back to IDES the following day. That file was reviewed by staff, who manually created an identity issue and generate correspondence to claimants asking them to report to a local office to prove their identity.

As this was a manual process, errors were inevitable. From SFY 2010 through SFY2012, IDES received audit findings on our failure to properly verify Social Security numbers. The finding was based on the fact that the SSA sample pulled by auditors included a claimant who failed the SSA verification, but for whom an issue was not properly created regarding the identity mismatch.

In December of 2012, after securing Supplemental Grant Funding from USDOL, IDES built and launched the automated Illinois Unemployment Insurance Social Security Administration cross-match. This cross-match detects whether a claimant is using a real social security number. This type of cross-match is referred to as a Type 1 SSA cross match as it only looks to see if a social security number submitted actually

exists. For this cross-match, IDES designed an automated solution that mimics both the NDNH and Inmate cross-match, including automatic issue posting, correspondence and automatic determinations. As of SFY2013, IDES has not received an audit finding for Social Security numbers verification as the automated process provides 100% accuracy.

Since the automated Social Security cross-match was implementation in Illinois, this cross-match has prevented approximately $8.9 in improper payments, detected and created an additional $2.5 million in overpayments and IDES has successfully recovered only $128 thousand, or 5% of these improper payments. The reason for the low recovery for this cross-match is this is an identity proofing match. We are proving that these people either do not exist, or are stealing someone's identity and so when we try and contact the claimant to recover payment they are nowhere to be found. This project cost $200,000 to implement, for a 4,414% Return on Investment (ROI) in two and a half years.

Furthermore, in June of 2015 IDES is upgrading the Social Security cross-match to include additional data and automation. In additional to verifying that a claimant's social security number exists, we will verify that the number matches the name and date of birth of the claimant submitting the information. The number and name match is referred to as a Type 3 SSA cross-match and the number, name and date of birth match is referred to as a Type 5 SSA cross-match. These matches will increase the number of SSA identity hits we identify and prevent more improper payments.

Work Search eligibility

Yet another USDOL requirement states that in order to be eligible for Unemployment Insurance benefits, a claimant must be conducting a Work Search. Each State is allowed to define this term for their UI claimants. Illinois defines Work Search for Unemployment Insurance as, "a thorough, active and reasonable search for work", and requires that claimants "keep records of the names and addresses of employers contacted, the dates and method of contact, the result of such contact, the type of work he has been seeking, and other relevant information concerning the work search. (56 Ill. Admin. Code 2856.125)" In order to ensure a proper Work Search was being conducted, IDES staff were required to conduct manual audits of claimants' paper Work Search forms. These forms were available to print out from IDES' website. The volume of documentation to review were significant and as such, IDES was only able to commit to auditing .25% of all claimants' Work Search records annually, or roughly 2,000-3,000 claimants' Work Search records.

Unfortunately, IDES lacked a modernized work search application for claimants to utilize. That changed in November 2011 when IDES launched IllinoisJobLink.com (IJL). IJL is a SaaS hosted application provided by America's Job Link Alliance (AJLA). The original application was designed and built by the State of Kansas and eventually offered to other states through the public-private entity, AJLA-TS. This application offers robust functionality that allowed claimants to conduct professional job searches akin to CareerBuilder and Monster. At the same time, the system has the added benefit of providing IDES staff the administration functionality to track their work assisting job

seekers, employers and provides case management for other IDES programs that assist communities with barriers in returning to work, such as veterans and the disabled.

By finally having an automated tool to track a claimant's Work Search activities, IDES could automate a Work Search cross-match between IJL and Illinois' UI application, IBIS. The first step required IDES to automatically register all claimants in IJL upon submission of a UI applications in IBIS. Whether they file for UI benefits online, over the phone or on paper at a local office, a claimant receives an email or letter providing them an IJL username and password and notifying them of Illinois' Work Search requirements. Moreover, if a claimant files for UI benefits online, upon clicking the claim's "Submit" button, they are forwarded to the IJL online application to sign-in and begin their Work Search.

Now that all of UI claimants were automatically registered in IJL, IDES ws able to pull active claimant data from IBIS and cross-match it against that claimant's Work Search data in IJL. In January of 2013, again after securing Supplemental Grant Funding from USDOL, IDES built and launched the Illinois Unemployment Insurance Work Search cross-match. This cross-match looks for a number of actions to be taken by the claimant to determine whether they are conducting a "thorough, active and reasonable work search." For this cross-match, IDES designed another automated solution that begins when the Work Search cross-match creates a "hit".

Where this cross-match differs from NDNH, Inmate and SSA is that initially this hit is not reported to Illinois' UI system, IBIS, but remains within IJL. IJL then begins generating bi-weekly emails to the claimant notifying them that it does not appear they are conducting a proper Work Search and encouraging them to utilize IJL to conduct their search. Two weeks after the initial email is sent out, IJL checks to see whether the claimant has taken steps to satisfy their Work Search requirement. If they have not taken these steps, the claimant will receive yet another email reminding them of their Work Search requirements to receive UI benefits. This same process is followed two weeks later, but instead of generating an email, if the claimant still has not taken steps to conduct a proper Work Search, IJL sends a file to IBIS.

At this point IBIS follows the same automated solution used for the NDNH, Inmate and SSA cross-match, including automated issue posting, correspondence and an automatic determination. The slight difference comes in the correspondence to the claimant in that we require the claimant to either conduct an automated Work Search in IJL, or report to a local office to provide proof of their Work Search. Before IBIS creates an automatic determination for lack of proper Work Search activities, IBIS queries IJL to see if the claimant has taken steps to satisfy their Work Search requirement. If they have, IBIS automatically removes the Work Search issue from the individuals UI claim and the claimant will being receiving UI payments. Therefore, IDES staff are not required to get involved in either denying or allowing a claimant's UI benefits for Work Search eligibility issues.

Since the automated Work Search cross-match was implemented in Illinois, this cross-match has prevented approximately $19.4 million in improper payments, detected and created an additional $10 million in overpayments and IDES has successfully

recovered only $592 thousand, or 6% of these improper payments. This project cost $315,000 to implement, for a 6,246% Return on Investment (ROI) in two and a half years.

Finally, it bears noting that upon implementing this cross-match, IDES was only cross-matching 1,000 of approximately 125,000 active UI claimants every two weeks. This was so IDES could determine the additional workload created by claimants appealing their denials of benefits. Eventually, in 2013 IDES increased the cross-match to 4,000 active claimants every two weeks and there are plant to bump that number up again in the near future. Eventually the Agency's goal is to cross-match 100% of all active claimants every two weeks.

Secretary of State (Illinois DMV)

Illinois' final UI cross-match has been the most successful. In January of 2013, at the same time Illinois launched the Work Search cross-match and again after securing Supplemental Grant Funding from USDOL, IDES built and launched the Illinois Unemployment Insurance Secretary of State (SOS) cross-match. This cross-match looks at several pieces of data included on an Illinois Driver's License or State ID. These data points include: First Name, Last Name, and Date of Birth as they appear on a claimant's ID, the Driver's License or State ID number and the claimant's weight as it appears on their ID. This final piece of data has proven to be a very strong identity proofing tool. If an individual has stolen another person's identity from a bank or hospital file, or purchased it on the black market, they will most likely have all of the information available on a claimant's Driver's License or State ID except for their weight as it appear on that ID. In most cases, the claimant must be looking at their ID to provide this information.

For this cross-match, IDES designed an automated solution that mimics the NDNH, Inmate, and SSA cross-match, including automated issue posting, correspondence and automatic determinations.

Since the automated SOS cross-match implementation in Illinois, this cross-match has prevented approximately $218 million in improper payments, detected and created an additional $28.5 million in overpayments and IDES has successfully recovered only $174 thousand, or .06% of these improper payments. The reason for the low recovery for this cross-match is this is another identity proofing match. We are proving that these people are stealing someone else's identity and so when we try and contact the claimant to recover payments, they are nowhere to be found. This project cost $200,000 to implement, for a 109,086% Return on Investment (ROI) in two and a half years.

Treasury Offset Program (TOP)

The final tool in Illinois' integrity arsenal is the Treasury Offset Program. As opposed to a cross-match, this program allows Illinois to refer overpayments that have been identified as fraudulent to the IRS. Generally, IDES refers these overpayments twice a year, once right before tax season begins in January and again mid-year, in

advance of the September 15th late-filing deadline. This process begins with the generation of a letter notifying the claimant that the fraudulent overpayment for which Illinois has been trying to collect from them, sometimes for years, will be referred to the IRS for recoupment from their annual income tax return. At this point claimants are encouraged to contact IDES to set-up a payment plan and avoid their debt being referred. If the claimant does not voluntarily comply by entering into a payment plan, their overpayment is referred to the IRS and they are notified that the referral occurred.

Since the TOP program was implemented in Illinois, IDES has successfully recovered $120 million. This project cost $620,000 to implement, for a 19,254% Return on Investment (ROI) in two and a half years.

SIGNIFICANCE TO THE IMPROVEMENTS OF THE OPERATION OF GOVERNMENT

The impact of Unemployment Insurance fraud is considerable to both the Employers of the State of Illinois and the deserving claimants of Unemployment Insurance. When improper payments are undetected, this increases the amount of benefit payments made from the Federal Unemployment Insurance Trust Fund. Higher benefits payments equal an increase in an Employer's Unemployment Insurance tax rates. Additionally, undetected improper payments create additional work for staff as they spend time processing fraudulent claims, which diverts their focus away from assisting real claimants with real issues.

BENEFITS OF THE PROJECT

Financial

As stated in the Executive summary, these five cross-matches and recoupment efforts have potentially saved the State of Illinois approximately $585 million in three and a half years. This number represents improper payments that have been prevented, overpayments created and fraudulent overpayments recovered during this time. This number includes the prevention of $393 million in improper payments, the creations of $72 million in overpayments, of which we have successfully recouped 22%, and the recovery of an additional $120 million in fraudulent overpayments referred to the TOP program. In total, these initiatives cost Illinois $2.075 million to implement, for a 28,203% Return on Investment (ROI) in three and a half years.

Non-financial

In addition to increasing the integrity of the Unemployment Insurance program, shoring up the Federal Unemployment Insurance Trust Fund to help control Employer's UI tax rates, and providing increased customer support to real UI claimants, the five cross-matches and TOP program offer an opportunity to other human service Agencies. The issue of fraud is not unique to Unemployment Insurance but a challenge for Medicaid, Food Stamps, Welfare and many other public benefit programs. These efforts could realistically be duplicated at other human service Agencies throughout the state of Illinois and across the country.