

Judge orders Michigan to stop collections relating to alleged unemployment insurance fraud

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A federal judge Wednesday ordered Michigan's Unemployment Insurance Agency (UIA) to stop collecting money from claimants accused of fraud. The order was the result of a lawsuit filed in federal court. The ruling covers the period October 1, 2013 to August 7, 2015.

Tens of thousands of laid off Michigan workers lost millions of dollars of income resulting from a ruthless and vindictive campaign by state officials in UIA over a two-year period. According to a new report, from October 2013 until October 2015 state officials used aggressive collection policies to deny or take back legally mandated benefits paid out to 50,000 unemployed workers.

On top of being forced to return much-needed income, unemployed claimants were accused of civil fraud and assessed penalties as high as 400 percent. Often without notice, their tax refunds were seized or, in cases where recipients had found work after a layoff, their wages garnished.

The two-year dunning nightmare began when a newly installed computer system at UIA named MiDAS flagged, in error, a total of more than fifty thousand individual unemployment claims as fraudulent.

The computer was used to go back as far as 2007, thus capturing funds from claims granted during the worst years of the recession. The number of claims was high at that time, a period when official unemployment in Michigan was in the double digits.

Late last year a belated investigation, conducted by UIA officials themselves, reviewed 22,427 benefit denials that were the basis for fines and benefit recaptures. These encompassed cases in which claims were automatically rejected and prosecuted solely as a result of being flagged by the computer program. The agency found false accusations had been made at a whopping rate of 93

percent.

"I've been trying to get my back benefits and they've had me on hold for two months," Rick, a hi lo driver falsely accused of unemployment fraud, told WSWS reporters outside a state unemployment office in downtown Detroit. "I've been out of work since July, but I had to wait for my severance package to run out to get unemployment.

"I went to phone court and they said 'you did this in 2009' and so on. 'How many hours did you work?' 'Did you do this?' Who can remember all the way back to 2009? They told me I owed them \$2,000 and that's what's been holding me up. But I won the hearing. I'll see what I get when I go in there."

The review of the rejected claims by the UIA late last year partly resulted from several court cases filed by falsely accused claimants. Despite these suits, including one filed in spring 2015 by the Sugar Law Center and the United Auto Workers in US District Court in Detroit, little money has been paid back to wrongly targeted claimants.

Statements by UIA officials in December 2016 indicate the agency has returned only about \$5.4 million to just 2,571 claimants falsely accused of fraud. The agency claimed that they have been unable to contact some others who were to be reimbursed.

At the same time, the Michigan House Fiscal Agency revealed that the UI Contingent Fund, where money collected from UI penalties is deposited, ballooned from \$3.1 million in 2011 to about \$155 million last October. A spokesman from Michigan Governor Rick Snyder's office told the *Detroit Free Press* this week that an additional \$5 million was added to the fund in the last two months of 2016 bringing the balance to \$160 million. This despite claims by UIA officials that the agency has

reformed.

A recent report by the state auditor found that, while mercilessly pursuing unemployed workers, the UIA had done little to collect delinquent UIA taxes from employers who were required to pay into the system.

A separate class action suit filed against the state in September 2015 by Royal Oak attorney Jennifer Lord is still held up in Michigan Claims Court and the Michigan Appeals Court. Those cases relate to workers who received benefits after September 9, 2012. Lawyers in her office are dealing with statute of limitations provisions that could prevent some of those affected from joining the suit. This applies to those who received benefits in the earlier years of the computer-assisted look back who later had their benefits denied during the 2013-2015 rampage by state officials.

How many unemployed workers continue to be victims of the bogus fraud allegations is unclear. A second phase of review is finding the same 93 percent error rate among about 31,000 additional cases denied during the same 2013-2015 period. These were denials not subject to last fall's initial internal UIA review because, though flagged by the computer, they had some further input from agency employees.

The UIA has promised reform, claiming benefit reviews will improve with now-mandated human input, though state agencies are woefully understaffed. Layoffs, pay cuts, and heavy turnover in state offices coupled with punitive pension reform have gutted staff, particularly in social service positions.

A seasonal landscaper from Detroit told WSWS reporters he's been waiting since December to receive unemployment benefits. Every year he is laid off for the winter and depends on unemployment benefits to get by.

"I was laid off in December. I've been working all year. I already have a call back date for Spring.

"The day I got laid off, they [the unemployment office] told me 'we're too busy, come into the unemployment office.' I've done that three times. It's worked every year, except for this one."

"We're broke, we got nothing. I'm pretty much homeless now. If I don't get my unemployment benefits today, I'm going to lose \$1,400 of back pay—and I'll lose everything."

UIA lost a large percentage of its staff during the same time frame that the new computer system was installed, resulting in a collapse of service for clients, called "customers" by the agency. Even as unemployed workers began to realize their current sources of income were

being dunned, the agency admits it was ignoring claimants' requests for assistance. There are estimates that during some months in 2014, UIA was taking only ten percent of claimant calls for help.

Michigan has been hit by one scandal after another in recent years. The ongoing crisis over contaminated water in Flint has led to charges being filed against high-level officials. The bankruptcy in Detroit and the looting of city worker pensions has been followed by an international scandal resulting from mass water shutoffs.

Both Democratic and Republican state administrations have been involved in an assault on benefits vital for the more oppressed layers of the working class. It was under former Democratic Governor Jennifer Granholm that the state started diverting money earmarked for welfare for poor children to replace funds moved out of state education budgets. This became legal under provisions of Democratic US President Bill Clinton's 1996 welfare reform, and similar related practices are now being utilized in states across the US.

Snyder responded this week to the scandal surrounding the UIA error rate by "reassigning" the head of the UIA to another job in the agency. There is every indication that business demands to cut social service costs fed the attack on the unemployed. Even as the scope of the UIA scandal was uncovered, Snyder diverted funds from the Unemployment Contingent Fund, putting \$10 million into the state General Fund to balance budget deficiencies. A similar diversion of monies from the fund was made in 2015.

This would not be the first example of the Snyder administration conspiring with business to cut costs. His "Nerd Fund," an earlier scandal involving dark money from state businesses paid directly to a slush fund used by the administration, has been re-opened and operates under a new name. Under the rubric "Relentless Positive Action," the fund accepts private, in some cases entirely opaque donations, from business and has funded right-wing initiatives such as the privatization reforms in education championed by Trump's pick for education secretary, Betsy DeVos.



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