

UI Integrity Improvement Investment Funding



Purpose of Integrity Center Pilots

The UI Integrity Center has a mission to be a laboratory of innovation for state integrity strategies. To help fulfill that mission the Center developed the Integrity Improvement Investment Funding (IIIF) program to support integrity efforts being pursued by states.

In the fall of 2015 applications for Integrity Improvement Investment Funds were made available to states who were interested in attempting to implement a tool, pilot promising practices or test innovative strategies designed to prevent improper payments before they occur.

In March 2016, the Center awarded grants totaling \$1.7 million to eight states to pilot innovative and promising strategies related to UI integrity. Integrity strategies funded by the IIIF include:

- Data matches with public or private sources of information
- IP address blocking
- Identity verification
- Work search verification
- Data visualization and analytics
- Behavioral economics in new claimant messaging tools

Pilot Evaluation Strategy

The Center plans to work with each state to comprehensively evaluate the pilots in order to identify effective and ineffective UI integrity strategies. The pilot evaluation results will inform and support the broader efforts the Center is undertaking by promoting effective integrity strategies for states to adopt.

In order to achieve a thorough and comprehensive evaluation, the Center and each state will conduct a mixed-methods evaluation of the pilot project consisting of three components: 1) implementation study, 2) outcomes study, and 3) cost-benefit study. The Center and pilot states recently completed the initial evaluation planning and design phase with the development of evaluation design reports (EDRs). The EDRs provide a roadmap that defines the core research questions, outcomes, and data collection procedures to inform Final Evaluation Reports documenting project lessons learned and outcomes.

Next Steps

Over the remaining ten months of the state pilots, the Center will conduct phone interviews and site visits to document project implementation and outcomes information. The Center and the States will produce a Final Evaluation Report in September 2017 detailing the evaluation findings.

The Integrity Center looks forward to working with each pilot state to provide the resources and support to make each project and its evaluation successful in achieving its goals and objectives to prevent, detect, and deter improper UI payments



UI Integrity Improvement Investment Funding

Pilot Project State - California

CA Project Description

In March 2016, the California Employment Development Department (EDD) received an IIIF grant of \$250,000 from the Center in order to implement the Link Analysis Tool. EDD's pilot project plans to add an integrated link analysis capability to its Pondera Solutions Fraud Detection as a Service (FDaaS) platform to assist in finding links between claimants, fictitious business operations, and clusters of both to improve UI integrity and prevent improper payments from the UI trust fund.

EDD's current UI integrity efforts include the validation of suspect UI claims using the Pondera FDaaS solution to perform cross-checks, data matching, and lead prioritization. FDaaS is an advanced fraud detection and prevention solution developed by Pondera Solutions. The FDaaS solution uses historical program data to train rule-based flags and prediction models to identify claim and claimant anomalies, as well as, patterns, clusters, and trends that may indicate fraud or other collusive activities. EDD indicated positive results related to the FDaaS solution that include automation of UI claim verification, and an enhanced ability to identify suspicious activity such as incarceration, age eligibility, and quarterly wage and withholding conflicts. According to EDD, the FDaaS solution between 2010-2014 identified high potential fraud recoveries of over \$113 million, generating almost 1,000 cases for referral (both administrative and criminal).

EDD intends to use the IIIF grant to expand upon the FDaaS solution by implementing the Pondera FDaaS Link Analysis Tool (LAT). The LAT is intended to expand EDD's ability to find, research, and prosecute large and complex

fraud rings in California. Specifically, the LAT will help EDD staff better visualize and understand complex and sophisticated UI fraud schemes. Users can work dynamically with program and third-party data to detect, visually display and interact with the data, and identify the relationships between individuals or entities potentially engaging in fraudulent activities. The FDaaS LAT provides proactive, visual social relationship link analysis, entity analysis, and discovery. This will assist EDD's UI program and Criminal Investigation Unit (CIU) in finding links between claimants, fictitious business operators, and clusters of both to improve UI integrity. The Pondera FDaaS LAT will provide an advanced analytic tool for EDD investigators to use on large and complex fraud cases that is intended to lead to more successful and efficient work in preventing improper payments.

Expected Project Outcomes and Savings

The IIIF grant award will be devoted exclusively to a 12-month agreement between EDD and Pondera Solutions to implement and use the LAT. EDD expects the system enhancements will produce the following outcomes related to detecting UI fraud:

- Acquisition and correlation of data from disparate data sources
- Analysis of large data sets quickly with multiple analytical views including association, temporal, spatial, statistical, and spreadsheet views
- Sophisticated analysis and display of social network activity, Internet Protocol (IP) data, and financial records.
- Better detection of existing Fictitious Employer (FE) schemes.
- Surface behaviors that would prevent payment.

EDD did not provide specific savings estimates the LAT would generate in its statement of work. However, EDD did provide examples of how the LAT will help detect employer schemes saving tens of millions of dollars in fictitious claims from being paid out. EDD cited a recent case in which the agency investigated and assisted in the prosecution resulted in an overpayment of \$14 million. The Center's evaluation of EDD's project will capture the return on investment to estimate the integrity savings associated with the LAT.

Current Project Status

As of November 2016, the LAT has been implemented and went live on July 1, 2016. EDD staff underwent pre-rollout theory training and hands-on training between July 2016 and August 2016. EDD staff used the LAT for its first live scheme in early August and at the time of this report is using the tool to map other UI fraud schemes.

UI Integrity Improvement Investment Funding *Pilot Project State - Georgia*



GA Project Description

In June 2016, GDOL received an IIIF grant of \$250,000 from the Center in order to implement the Georgia Unemployment Alert/Ready/Defend Against Fraud (GUARD) initiative.

The GUARD initiative is a three-pronged effort to reduce fraud for claimants, business, and staff. The initiative will use GDOL's state of the art production capability to create a minimum of two three-minute videos for claimants and business, and also a self-directed, multi-media fraud awareness training for GDOL staff.

GUARD will produce professional and replicable products to reinforce the message of UI fraud prevention to claimants, business, and staff. GDOL is in an exceptional position to maximize the IIIF grant funds through GDOL's Distance Learning Center (DLC), and also by leveraging GDOL's newly updated media production equipment.

- **Claimant Video.** A professional, engaging three-minute training video will be produced to educate claimants on how to avoid UI fraud. The product can be utilized a variety of ways, including the agency website, social media, online claims filing, and in-person viewing at career centers. Claimant video content will focus on how claimants can avoid UI fraud and identity theft. The product will highlight common mistakes made by claimants involving UI benefits. Potential repercussions for claimants who commit UI fraud will also be outlined in the video. Specifically, the video will discuss UI fraud penalties such as benefit repayment with penalty/interest, disallowing future UI eligibility, civil or criminal penalties, and garnishment of income tax returns.

- **Business Video.** A three-minute video will be produced to help businesses learn how to prevent UI fraud and reduce UI tax liability. The video will be accessible through the GDOL's website, social media, career center business centers, and presentations given at business summits, industry seminars, and other employer events. Specific employer topics mentioned by GDOL to be covered in the video include: instructions on proper wage reporting to the State Directory of New Hires (SDNH), prompt responses to GDOL information requests, and guidance on submission of accurate and complete separation information to prevent costly appeals and overpayments. Repercussions will also be outlined regarding companies that fail to meet UI requirements. These repercussions include benefits paid to ineligible claimants, increases in employer UI taxes, and possible fines and penalties.
- **Self-Directed Staff Training.** GDOL currently requires a three-hour in-person staff training on UI integrity for all employees. A self-directed, multi-media training approach will allow staff access to this critical, mandatory training at any time or location.

Expected Project Outcomes and Savings

The core outcome of the GUARD initiative is to increase awareness and educate Georgia UI claimants, businesses, and GDOL staff on complying with UI program policies, eligibility, and reporting rules to prevent UI fraud and improper payments. GDOL stated the following outcome measure goals for the GUARD initiative:

- Score a rating of at least 80 percent positive reviews on claimant, business, and staff who respond to product surveys

- Achieve 12,000 views of products in the first 12 months of operation
- Share products with all states and consult with UI staff from at least 5 states regarding the ability to replicate/customize one or more of the products for their states
- Increase by 10 percent the number of GDOL staff who complete self-directed integrity training within required timeline

The GUARD initiative multi-media staff training will also reduce the burden of staff having to travel for in-person trainings saving time and resources for GDOL. The training is also intended to make GDOL more effective and efficient in detecting fraud.

Current Project Status

As of November 2016, GDOL is in the process of completing video scripts and procuring talent for claimant, business, and staff videos. GDOL plans to complete video shoots in November to be released in December 2016. GDOL expects the rollout of the staff training to be completed by March 2017.

UI Integrity Improvement Investment Funding

Pilot Project State - Indiana



IN Project Description

In March 2016, the Indiana Department of Workforce Development (DWD) received an IIF grant of \$61,500 from the Center in order to implement its NextJob pilot. DWD's project is focused on implementing an online job search training and engagement system known as NextJob. The system is intended to provide DWD with a valuable way to engage UI claimants with a new job search system that includes job search requirements that are 100 percent certifiable and trackable in real time.

Work search integrity issues are the leading cause of improper payments in our national unemployment insurance system. At 4.5 percent of claims, they totaled over \$1.5 billion for the year ending June 30, 2014, according to the US Department of Labor. One of the common requirements of claimants is to search for work and verify these work searches as a valid path toward reemployment. What is difficult to assess is the quality level of claimant work searches, especially in an ever-changing technological climate.

Through the pilot funds provided by the Center, and a gift of a license of the software through the project period, by the Job for Job charitable arm of NextJob, DWD plans to test a new type of work search requirement. This new type of work search requirement taps modern technology in a new way, and allows 100 percent verification of claimant compliance. The new system, NextJob, will eliminate the tension between work search requirements and overpayments.

DWD will add an online structured job search workshop system from NextJob. The new system provides 10 online workshops and tools that claimants can access from home or

anywhere internet service is available. Each module focuses on specific job search skills and is broken down into step by step instructions, including 25 videos by real world experts in multiple occupations such as recruiters, hiring managers, and jobseekers. Claimants can be given assignments and access to NextJob before meeting with WorkOne staff. Case managers can also determine claimant specific needs during their assessment interviews and then schedule trackable assignments through the NextJob platform. This can benefit both the claimant and the staff because the claimant will be able to complete some of their RESEA assignments on their IRP digitally.

Over the IIF grant period, DWD plans to test the NextJob tool in select WorkOne offices across the state with varying demographic and socioeconomic characteristics to ensure the pilot is representative of the state RESEA claimant population. RESEA-eligible claimants will comprise the pool of eligible NextJob participants, with WorkOne staff selecting every-other RESEA claimant who attends the mandatory RESEA orientation to receive NextJob services during the assessment interview process. The assignment of every other RESEA claimant to receive NextJob services will create treatment and control groups that will facilitate a comparison in outcomes of interest related to the NextJob platform.

Expected Project Outcomes and Savings

DWD expects initial engagement to be approximately 70 percent, with 30 percent opting out of the job search requirement. DWD also expects that a significant number of claimants who initially drop out will reengage and bring the overall engagement rates up to a total of 93.5 percent, leaving a net 6.5

percent of claimants dropping out due to refusal to perform work search requirements.

DWD anticipates integrity savings from ending claims for those unwilling to comply with the NextJob work search requirements to be \$5,435,959 over 13 months. Additionally, DWD expects that claimants completing the work search assignment will lower their UI claims by about 7 percent by returning to work sooner than those who do not complete the assignment. This will save an estimated \$5,473,592 to the Indiana UI Trust Fund over the project period. The total expected savings from the pilot project are estimated to be \$10,909,551.

Current Project Status

As of November 2016, DWD staff indicate that the project has been implemented and is up and running in selected offices across the state, with 309 treatment group members enrolled and using the NextJob platform and 333 individuals assigned to the control group.

UI Integrity Improvement Investment Funding

Pilot Project State - Florida



FL Project Description

In May 2016, the Florida Department of Economic Opportunity (DEO) received an IIF grant of \$250,000 from the Center in order to implement enhancements to the Fraud Intelligence Rating and Rules Engine (FIRRE) system. DEO's pilot project plans to enhance the Florida Reemployment Assistance (RA) divisions (FIRRE) through the implementation of several crucial improvements that will help prevent and detect identity theft in the Florida RA program.

Preventing, detecting, and combating RA fraud is a top priority for DEO as identity theft schemes have increased in frequency and complexity in recent years. The perpetrators of identity theft in Florida are constantly adapting their techniques to evade existing fraud detection solutions. In order to meet this ever-changing challenge, DEO instituted the FIRRE system to quickly identify and prevent evolving identity theft schemes to thwart individuals seeking to commit RA fraud. FIRRE was initially implemented in 2013 as a manual process, and was significantly enhanced in 2015 using technologies similar to those used by Google, Facebook, and Netflix to facilitate the processing and analysis of large volumes of data.

DEO requested an IIF grant from the Center to enhance the existing FIRRE system to meet the ever-changing challenge of identity theft to prevent and deter the payment of fraudulent benefits. The funding is needed to improve and supplement a variety of innovative and robust business rules currently in place that analyze all initial and continued claims for RA benefits to identify patterns and trends that indicate potential identity theft.

The primary goal of the FIRRE enhancement project is to implement improvements to the existing FIRRE system to ensure its continued effectiveness in preventing and detecting identity theft before benefits are paid. The improvements to the FIRRE system specified by DEO include:

- Enhanced data integration;
- Improved business rules used to analyze all initial and continued claims;
- Addition of automated notices to claimants to verify identities
- Capacity upgrades needed in the existing system;
- Detection of new techniques used to thwart or circumvent existing fraud solutions.

Expected Project Outcomes and Savings

The FIRRE enhancements will provide the DEO team with the capability to utilize additional information from a variety of systems and sources to detect and prevent identity theft. DEO identified the following outcomes for the FIRRE system enhancements:

- Five percent increase in the effectiveness of the FIRRE system in detecting identity theft and fraud
- More efficient use of staff time in investigating identity theft and fraud
- Better process integration with Business Operating Areas including Benefit Payment Control
- Streamlined/enhanced existing business rules and processing engine for detecting fraud patterns
- Enhanced data integration/sharing with Florida's CONNECT application
- Improved security enhancements for the FIRRE application and the addition of new security measures

In 2015, the existing FIRRE system prevented in excess of \$295 million in fraudulent benefits. DEO projects that the enhancements to the FIRRE system will result in an increase of at least five percent in the effectiveness of the FIRRE program in identifying identity theft and fraud. Based on the data from 2015, this would equate to the potential prevention annually of over \$14 million in fraudulent benefit payments. Additionally, DEO projects cost avoidance in staff time due to the unnecessary processing that exists when fraudulent claims are not identified upfront will save an estimated \$135,000 annually.

Current Project Status

As of November 2016, DEO is still in the early development phase of the project, currently working on necessary security enhancements and an enhanced FIRRE rules processing engine. DEO expects the rollout of the new FIRRE system to be completed by the end of April 2017.

UI Integrity Improvement Investment Funding

Pilot Project State
New Mexico



NM Project Description

The New Mexico Department of Workforce Solutions (NMDWS) received an IIF grant of \$250,000 from the Center in order to implement the Employer Misclassification Predictive Analytics (EMPA) project.

NMDWS intends to build on the recent successful rollout of the Improper Payment Prevention Initiative (IPPI) in New Mexico by expanding on existing data analytics to encompass analytics on employers.

The EMPA will include an Integrity Data Mart to store consolidated claimant, employer data and extracts from other state agencies including New Mexico's Human Services Division, Tax and Revenue Department, Worker Compensation Administration and the Internal Revenue Service. This pool of information will be used to support risk calculation scores, and will be housed in a secured environment that demands more restricted and required data security standards. It is expected that the algorithm developed, and the enterprise system can be re-used by other states at various levels depending on the source of data they choose to use and the overall benefit of the return expected. NMDWS will be building upon the documented successes already achieved in reducing claimant overpayments using advanced analytics and behavioral nudges. These techniques have produced high impact reductions in overpayments with no additional workload on state staff.

Enhanced analytics and behavioral messaging with high-risk employers have the potential to dramatically reduce worker misclassification and improper payments in the state. With the IIF grant and through this project, NMDWS will

be able to better understand and address the drivers of misclassification, overpayments, and fraud schemes related to employers. Moreover, the Integrity Data Mart will be leveraged to prioritize tasks for state staff on identified high-risk employers in an effort to effectively target employer audits.

The goal of the EMPA project is to strengthen UI program integrity by addressing issues rooted in employer behavior. Specific EMPA objectives identified by NMDWS include:

- Gain insights into the drivers of worker misclassification and improper payments associated with employers.
- Enhance communication with employers during key moments to reduce improper payments and/or misclassification of workers using nudges and behavioral analytics.
- Design a data mart to support ongoing analysis and reporting on integrity initiatives, such as IPPI, misclassification of workers, and fraud detection.
- Utilize risk calculation scores for prioritization of audits and workflow related to worker misclassification and improper payments.

Expected Project Outcomes and Savings

NMDWS anticipates that the primary EMPA outcomes will include: 1) expanded predictive and behavioral analytics focused on employers to enhance program integrity, and 2) establishment of a data mart that meets security requirements and integrity analytic needs. The project will also provide valuable research into the drivers of worker misclassification and improper payments associated with employers. This research will inform and provide NMDWS the ability to calculate a risk assessment scores for focused audits and prioritize employer collection efforts for a cost-benefit of higher SUTA contributions.

This project will also allow NMDWS to enhance workflow prioritization and improve on performance standards for the Effective Audit Measures. Finally, the resulting information and technical design will be shared with other interested states for potential reuse across the country. NMDWS expects the EMPA to reduce worker misclassification associated with employers by a minimum of 20 percent. NMDWS anticipates significant improvements in these metrics and will institute measurement and reporting procedures to assess the savings.

Current Project Status

As of November 2016, Deloitte has developed a project management plan that outlines key tasks and deadlines through the end of the project. The project team went live with the EMPA Engine on October 14, 2016 and is on track for deployment of the treatment streams on November 30th. The project is intended to be completed by June 30, 2017.

UI Integrity Improvement Investment Funding

Pilot Project State North Carolina



NC Project Description

The North Carolina Department of Commerce Division of Employment Security (DES) received an IIF grant of \$140,000 from the Center in order to implement the DES Fraud Training and Data Analytics Project (FTDAP).

The primary goals of the NC DES FTDAP is to train staff and implement new data analytics tools to prevent and detect improper payments and fraud. NC DES FTDAP objectives are to reduce internal fraud, reduce external claimant and employer fraud, and enhance cross-matching efforts. Additionally, DES intends to design its integrity strategies to facilitate replication and future use by other State Workforce Agencies.

DES Internal Audit staff will undergo training with the Association of Certified Fraud Examiners (ACFE) and the Institute of Internal Auditors (IIA). The goal of ACFE and IIA training is to produce Certified Fraud Examiners, Certified Internal Auditors, and trained professionals who uncover fraud up to fifty percent faster than their counterparts within other agencies. Training and implementation of Tableau, the leading data visualization and analytics tool to be procured using grant funds, will allow continuous auditing and monitoring for improper payments and internal fraud.

In order to reduce the risks of internal fraud, at least seven auditors and investigators will attend ACFE training to become Certified Fraud Examiners. Internal Audit staff will also be trained on internal fraud by the IIA and all seven will be trained on using the Tableau data analytics tool procured by DES. The

combined IIA, ACFE, and Tableau training will provide DES auditors with the applied knowledge to develop at least eight strategies in the high-risk areas related to internal fraud and improper payments. The Tableau tool, coupled with the techniques learned in the ACFE and IIA training, will allow the DES Internal Auditors to provide continuous auditing and analytics within their internal audits and fraud examinations.

The FTDAP will also implement cross-match strategies to uncover new fraud within these two groups:

Claimant Fraud – DES plans to introduce at least one new claimant cross-matching effort by June 2017. DES plans to cross-match UI claimants' application for benefits against the National Directory of New Hires (NDNH) prior to first payment to prevent improper payments to claimants and increase the identification of identity theft. DES also plans to explore more ways to utilize the SSA cross match with the Social Security Administration's Verification data to prevent identity theft.

Employer Fraud – DES plans to introduce at least one new employer cross-matching effort by June 2017. DES plans to cross-match registering agents for corporations, LLCs, S Corps, and sole-proprietors against claimant weekly certification information to detect potential improper payments to employers who have set up fictitious employees to collect unemployment benefits. Matches on addresses and other unusual elements will be utilized to indicate the potential for fraud.

Expected Project Outcomes and Savings

The projected outcomes of the FTDAP are a reduction of UI improper payments and fraud (internal, claimant, and employer), and the implementation of two new cross-matching efforts. Between 2013-2016, DES detected more than \$50 million in improper payments through its existing investigatory processes, fraud recovery tools, and cross-matches. DES expects the savings will increase with the implementation of the FTDAP strategies, techniques, automation, and analytical tools. Moreover, DES projects that the IIA and ACFE training will allow its staff to uncover fraud up to fifty percent faster than agency staff without such training.

Current Project Status

As of November 2016, DES reports it is in the process of procuring the necessary project tools and undertaking professional training programs to support better investigatory practices.

UI Integrity Improvement Investment Funding

Pilot Project State – Texas



TX Project Description

In July 2016, the Texas Workforce Commission (TWC) received a \$250,000 IIF grant from the Center in order to implement the enhancements to the Identity Theft FraudX (ITFX) algorithm and tool.

TWC purchased the fraud detection and prevention tool, ITFX, from On Point. The ITFX utilizes data analytics of claimant and initial claim filing data to identify trends associated with fraudulent activity. The ITFX tool detects identity theft cases during the initial claim stage and helps TWC investigators target likely identity theft fraud cases before payout. Consequently, TWC has prevented millions of dollars in losses to its UI Trust Fund. Since October 2015, TWC has used ITFX to detect and lock 662 identity theft claims. The claims had a maximum benefit amount (MBA) of \$5.79 million. TWC paid only \$18,363 (.0003% of the MBA), preventing \$5.77 million in UI ID theft fraud.

The motivation for the IIF pilot project to enhance the ITFX tool comes from a recent TWC study that shows the potential to prevent even more fraudulent payments through additional data analytics. TWC began using ITFX on October 24, 2015. Subsequent TWC analysis showed UI identity thieves modified their fraudulent tactics to avoid detection from filing their continued claims primarily on the internet to some filing via telephone mixed with internet use.

TWC's initial analysis indicates additional fraudulent activity could be prevented and stopped by applying the ITFX algorithm to continued claim submissions. The IIF grant awarded to TWC will be used for it to contract with On Point to enhance the ITFX algorithm.

The enhancements include adding data associated with any post-initial claim contact by the filer; providing TWC the capability to adjust the algorithm's attribute weighting as an attribute becomes more or less important based upon changes in criminal behavior discovered through regression analytics and investigator experience; and adding a cross-match to identify unknown suspicious claims by comparing IP address and phone number contacts from known fraudulent UI benefit claims to other claims in the AWARE database. These enhancements are intended to lead to the development of a system whose detection abilities evolve as criminal behavior changes.

The primary goals of the ITFX enhancement project are to increase the detection of identity theft cases as early in the claim process as possible to minimize loss to the Texas UI Trust Fund, avoid employer mischarging, and prevent Texas wage earners from becoming victims of identity theft. In order to achieve this goal, TWC has identified the following objectives for the ITFX enhancement project:

1. Identify approximately 50 to 100 previously undetected identity theft cases a year;
2. Add new attributes that reveal suspicious patterns and therefore facilitate more efficient and effective investigative processes;
3. Provide stronger evidence to support both denials for administrative and for prima facie cases of criminal prosecution;
4. Automate the use of the ITFX tool to reduce the need for direct support from technical resources.
5. Reduce the need for an agent to go to the UI system by leveraging new data elements added to the tool.

Expected Project Outcomes and Savings

TWC stated two primary outcomes expected as a result of enhancements to the ITFX algorithm. The first primary outcome will be identifying previously undetected identity theft cases. TWC estimates that the ITFX enhancements will identify approximately 50 to 100 new identity theft cases that would have been previously undetected under the original ITFX configuration. This represents an estimated \$286,450 to \$572,925 in potential fraudulent UI benefit payments prevented. The second primary outcome identified by TWC will be additional attributes/variables included in the ITFX algorithm with the continued claims data. The additional attributes will make the ITFX tool more accurate and also provide TWC investigators better insights into the drivers of identity theft.

Current Project Status

As of November 2016, TWC reports it has worked with On Point to define the list of attributes to be included in the ITFX algorithm. Additionally, On Point is currently in the process of system development and testing for the enhanced tool, with the goal to move to production by March 2017.