



**North Carolina's Enterprise  
Fraud, Waste and Improper Payment  
Detection Program**

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**North Carolina  
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## **I. Executive Summary**

Measuring fraud, waste and abuse is a difficult task, and there is no single national agency that collects and reports comprehensive fraud statistics. In discussions with various organizations and professionals, as well as a review of the literature including topical industry white papers, it is reported that fraud, waste and improper payments are estimated to be between 7% and 17% of all government spending. Fraud, waste and abuse occurs across all government lines of business from health and human services, tax revenue collection and disbursement, unemployment insurance, workers' compensation, retirement benefits, insurance fraud and much more.

This report outlines the requirements and activities completed to date to support the enterprise fraud, waste and improper payment detection program, called North Carolina Financial Accountability and Compliance Technology System (NC FACTS).

In 2008, the Office of the State Controller began managing North Carolina's Statewide Data Integration Initiative in accordance with the 2008 Strategic Plan for Data Integration and under the purview of the BEACON Steering Committee. The data integration program recognizes that state agencies deliver services through a number of different business programs which are supported by multiple, disparate information systems. As a result, information is spread across many "siloes" systems, using different technology tools and formats. Data integration provides the ability to merge and reconcile this disparate data into common, consistent formats, for analytical and reporting purposes. Standardized data, as well as common tools and technology, support quick, agile, fact-based decision making to support the State's critical business functions.

With guidance from the 2008 Strategic Plan for Data Integration, the first enterprise data integration initiative, the Criminal Justice Law Enforcement Automated Data Services (CJLEADS) program integrated statewide offender information into a single, secure, web-based application to support criminal justice professionals and to improve the safety of North Carolina's citizens. The successful design, development, implementation and deployment of the CJLEADS program demonstrated the value of a data integration initiative.

North Carolina State Government must serve the public and manage taxpayer dollars with integrity, financial responsibility and transparency. The ability to identify, resolve and prevent incidents of fraud, waste and improper payments is critical to the State's fiscal management of public funds. Session Law 2011, HB 200-145, directed OSC to develop an enterprise process to detect fraud, waste, and improper payments across State agencies. This effort will evolve under the guidance of the legislatively created Data Integration Steering Committee and will seek collaboration and partnership with state agencies having an interest in leveraging integrated data to detect incidents of fraudulent, wasteful or erroneous overpayments in their business areas.

## II. Background

Business data is a valuable resource for organizations in government and the private sector. Data enables organizations to analyze historical behavior, predict future trends and make decisions based on business facts rather than intuition and supposition. Over the years, however, data has been gathered and stored in siloed systems that were built to meet the business needs of individual organizations. When data is stored in varying formats and technical platforms, the process of gathering information from different lines of business can be time consuming and difficult.

In Session Law 2007-323, HB 1473, the North Carolina General Assembly recognized this challenge and directed the Office of State Controller (OSC) to develop a strategic plan for the integration of databases and sharing of information among State agencies and programs. Based on the Strategic Plan for Data Integration, OSC has managed the Statewide Data Integration Program since 2008.

In October, 2008, the OSC began development of the first major data integration program initiative, the Criminal Justice Law Enforcement Automated Data Services (CJLEADS) program. The tragic murders at two North Carolina universities highlighted the need to integrate statewide information about a criminal offender to support criminal justice professionals and to improve the safety of North Carolina citizens. The OSC, partnering with SAS, a worldwide leader in data integration and business analytics, evaluated the criminal justice business needs and designed, developed and implemented a CJLEADS pilot in Wake County. Based on the success of the pilot application, CJLEADS was deployed statewide beginning in January, 2011, and is now being used by law enforcement and courts personnel across the State.

Session Law 2011, HB 200-145, directed OSC to continue the development of a comprehensive enterprise-level data integration capability, providing broad access to and analysis of information across State government. With the success of CJLEADS, OSC updated the Strategic Plan for Data Integration based on the experience and lessons learned from the implementation.

Session Law 2011, HB 200-145, also directed OSC to develop an enterprise process to detect fraud, waste, and improper payments across State agencies. This effort will work under the guidance of the Data Integration Steering Committee and will seek collaboration and partnership with State agencies having an interest in leveraging integrated data to detect incidents of fraudulent, wasteful or erroneous overpayments in their business areas. The Data Integration Steering Committee is chaired by the State Controller and is comprised of:

1. One member with an information technology background appointed by the Governor.
2. One member with a background in law enforcement appointed by the Governor.
3. One member with a background in government accounting appointed by the President Pro Tempore of the Senate.
4. One member with government operations experience appointed by the President Pro Tempore of the Senate.

5. One member with a background in information technology appointed by the Speaker of the House of Representatives.
6. One member with a background in business management appointed by the Speaker of the House of Representatives.

### **III. Program Requirements**

North Carolina state government has a duty to serve the public and manage taxpayer dollars with integrity, financial responsibility and transparency. The ability to identify, resolve and prevent incidents of fraud, waste and improper payments is imperative to the State's fiscal management of public funds. Studies have found that individuals willing to commit fraud or abuse in one business area will often times be involved or associated with improper activity in another business area. The management of potential areas of abuse requires access to enterprise data, the ability to evaluate and analyze that data using filters, predictive models and statistics that provides improved fraud detection, accurate information for investigation and recovery, and the prevention of future improper payments.

To develop an enterprise program that will detect fraud, waste, and improper payments across state government, OSC will work with state programs and agencies to identify the data and business rules necessary to support related analytics and reporting. Data collected and stored to support one agency's business needs will likely also support other agencies' data information needs as they relate to this enterprise activity.

Session Law 2011, HB 200-145 also directs State agencies to fully support and participate in the development of an automated fraud detection system by providing data and business rules to analyze data, develop models which determine data patterns, and identify anomalies which may indicate unusual and perhaps fraudulent behavior.

In furtherance of the program, OSC shall:

- Develop a long-range plan to implement an automated fraud detection system;
- Determine costs, including vendor costs, for five years beginning July 1, 2011;
- Coordinate with State agencies to determine interest in participating in the project and identify potential applications that can be included in an initial request for proposal;
- Establish priorities for developing and implementing potential applications
- Evaluate savings from each effort;
- Coordinate efforts with the State's data integration vendor to begin the implementation process;
- Establish a pilot to begin the implementation process and identify and resolve issues associated with expansion of the initiative;
- Coordinate with participating agencies to ensure that each has the resources and processes necessary to follow up on incidents of fraud identified by the vendor; and
- Provide recommendations to the Joint Legislative Commission on Governmental Operations, the Joint Legislative Oversight Committee for Information Technology,

and the Fiscal Research Division of the General Assembly on potential future initiatives and the cost and savings of each.

The legislation also requires quarterly reports to the chairs of the Appropriations Committee, the Joint Legislative Oversight Committee for Information Technology and the Fiscal Research Division of the General Assembly. The quarterly reports are to focus on:

- Incidents, types and amounts of fraud identified by agency;
- Amount actually recovered as a result of fraud detection by agency;
- Agency procedural changes resulting from fraud identification and the timeline for implementing each;
- State costs for fraud detection for the previous quarter;
- Payments to vendor for the previous quarter; and
- Anticipated costs and vendor payments for the previous quarter for each of the next two years from the date of the report.

To manage the program, OSC was directed to enter into a two-year enterprise automated fraud detection contract at a maximum cost of \$8 million for a two-year contract period with the State's data integration vendor. The contract must be based on a public-private Partnership with the State's data integration vendor contributing resources in the amount of \$5 million in each of the two contract years (FY11-12 and FY12-13). This partnership -- with the active participation and commitment of executive management from the State and the data integration vendor ensuring that North Carolina's tax-paying citizens are the direct beneficiaries of the contract -- will concentrate efforts on activities that provide the best return for the State's investment. Both parties will coordinate efforts to report benefits realized for each area of fraud, waste or improper payment analysis.

While the program will expend considerable effort on data collection and integration--along with consequential data analytics and reports to identify fraud, waste, and improper payments--providing support to business programs responsible for analyzing and investigating the identified fraud incidents is critical. This effort, in collaboration with the business area, must identify the business processes and resources required to recover fraudulent or improper payments, to prevent future incidents of fraud, waste and improper payments, and to ensure that the analytics used to identify these incidents are continually being improved and refined to more accurately evaluate risk and fraud patterns.

## **IV. Program Activities**

- **Communications**

Measuring fraud, waste and abuse is a difficult task, and there is no single national agency that collects and reports comprehensive fraud statistics. In discussions with various organizations and professionals, as well as a review of the literature including topical industry white papers, it is reported that fraud, waste and overpayments are estimated to be between 7% and 17% of all government spending. Fraud, waste and

abuse occurs across all government lines of business from health and human services, tax revenue collection and disbursement, unemployment insurance, workers' compensation, retirement benefits, insurance fraud and much more.

OSC has conducted initial meetings with a variety of State agencies and organizations to introduce the program and to determine the level of interest in participating with OSC in developing this fraud, waste and improper payment initiative. In each meeting, OSC learned about the agencies' current efforts in identifying, recovering and preventing fraud, waste and improper payments.

### **North Carolina Office of State Auditor**

The Office of the State Auditor is responsible for providing independent, un-biased and professional assessments of whether public resources are being properly accounted for and for providing insight into how the government can operate more efficiently. OSC met with the State Auditor's office to gain an understanding of the challenges the State faces in controlling improper payments that result from fraud, erroneous payments, or lack of internal control. Meetings with the State Auditor's office provided further insight into industry statistics and the State's current efforts to control government waste. To ensure the success of this effort, the support and participation of the Office of State Auditor will be significant to the NC FACTS program.

### **Office of State Budget and Management – Office of Internal Audit**

The Office of Internal Audit ensures that State agencies which are required to establish programs of internal audit conduct internal audits that comply with the Standards for the Professional Practice of Internal Auditing. As this office works closely with a variety of State agencies, the Internal Audit Director is able to provide a unique perspective into the challenges and opportunities in helping agencies identify potential fraudulent or wasteful activity. An assessment of internal audit resources revealed that agency needs for internal audit support resources exceed available personnel. Currently, many state agencies have limited or no internal audit resources available. Likewise, interaction and support of the Office of Internal Audit will be vital to the success of the NC FACTS program.

### **Department of Health and Human Services**

The Department of Health and Human Services (DHHS) manages a wide range of services which support the health, safety and well-being of all North Carolinians. With a budget of \$14 billion comprised of federal and state funds to support Medicaid, mental health and disabilities as well as social services, the potential for fraudulent, erroneous and wasteful payments is high. Recognizing the potential for fraudulent activity, DHHS has instituted many initiatives, programs and sections to support investigations.

OSC met with the Secretary and executive management team of DHHS. DHHS provided information on their current programs and efforts that are focused on identifying,

investigating and recouping fraud and overpayments. While DHHS has program integrity and other resources deployed to identify fraud, there are opportunities to leverage additional data sources and identify risk, evaluate programs, and provide tools to enhance and supplement DHHS' current efforts.

### **The State Health Plan of North Carolina**

The State Health Plan (SHP) of North Carolina provides health care coverage for teachers, state employees, retirees, current and former lawmakers, state university and community college staff personnel, state hospital staff, and their dependents. In managing the health care products and services for more than 663,000 people, there is potential for fraud and overpayments.

The Interim Executive Administrator and executive management team of the State Health Plan provided information about their current efforts and challenges in identifying fraud and overpayments. The SHP works to identify fraud in areas such as provider billing for improper or unnecessary procedures, falsifying diagnoses, and billing for services not performed. Consumer fraud may include filing claims for services or medications not received or falsely claiming dependent eligibility. Better access to information and tools may aid in identifying these types of improper payments. The SHP has expressed interest in participating in the NC FACTS pilot initiative.

### **Employment Security Commission**

The North Carolina Employment Security Commission (ESC) provides workforce-related services including employment services, unemployment insurance, and labor market information to the State's workers, employers and the public. ESC works to identify fraudulent activity associated with employers' failure to pay appropriate employment taxes as well as improper unemployment insurance claims. Better access to enterprise data may help ESC more effectively identify fraudulent activity associated with employment taxes and unemployment insurance benefits.

### **Department of Revenue**

Meetings are scheduled for the first week of October, 2011, with the North Carolina Department of Revenue to discuss potential participation in this effort and any regulatory or legal barriers that might impair the State's effort at addressing fraud and improper payments associated with tax receipts and payments.

### **Other Meetings**

- OSC also met with the State's data integration vendor, SAS, to learn about the SAS Fraud Framework toolset and to gain a better understanding of their successful experiences in the implementation of the SAS Fraud Framework in other government environments. The SAS tools provide the ability to pull valuable information from a variety of sources and integrate that information in a centralized data repository,

making it available to a variety of business areas for fraud detection. The tools allow the State to “match” data from multiple sources to identify a more complete picture of businesses and individuals and their interactions with State agencies and services. Statistics indicate that individuals and businesses involved in fraudulent activities in one area of State business, such as health services, also are likely to be involved in fraud in other areas such as welfare services. The ability to evaluate data across business areas is critical to identifying individuals engaging in multiple areas of fraud as well as more sophisticated professional fraud rings.

SAS has been involved with fraud detection in several states, focusing on improper child care services claims in Los Angeles county California, worker’s compensation fraud in the state of Washington, revenue collections in Wisconsin, and unemployment insurance in Louisiana.

- OSC met by conference call with Commissioner Paul Rainwater, the State of Louisiana’s Chief Financial Officer, who was charged by Governor Jindal with the responsibility of implementing a similar enterprise-wide effort. Louisiana used the SAS Fraud Framework to evaluate fraud and improper payments in the area of unemployment benefits. Commissioner Rainwater shared Louisiana’s initial success with using the SAS tools in identifying \$12 million in unemployment insurance fraud. Commissioner Rainwater stated that Louisiana has found the SAS tools “easy to use” and that Louisiana’s effort to identify unemployment insurance fraud “pays for itself.” Based on its initial success, Louisiana is expanding its use of SAS tools to address fraud in the Department of Child and Family Services and Department of Hospitals. According to Commissioner Rainwater, the tools provide the ability to identify the “bad actors” with the same characteristics across multiple areas of government services. In Louisiana, one example of this scenario is individuals with a history of medical and drug related fraud are establishing construction companies to elevate houses as protection from future flooding incidents. Knowledge of previous fraudulent activity will allow Louisiana to be better informed before incorporating new companies under potentially fraudulent owners.

Commissioner Rainwater also shared lessons learned from Louisiana’s initial efforts with the implementation of the SAS Fraud Framework. In its first initiative, Louisiana’s opted to implement the SAS tools in a State-hosted environment, using internal resources to support the system and build analytics models. Commissioner Rainwater, however, indicated that this approach was “not as efficient as it could be” and that Louisiana would be “moving aggressively toward privatization” or using vendor services to host and build applications to more efficiently implement future fraud initiatives.

- **Contract Negotiations**

OSC, with support from the Attorney General’s Office, has been negotiating with SAS’s attorneys and program staff for a contract that meets the State’s intended objectives and complies with all statutory requirements contained in the HB 200. Each party has

worked diligently to conclude this aspect of the project, and it is believed that contract negotiations should be concluded within the first week of October, 2011. The legislation requires the contract follow a specific payment schedule, ensures contract payments are associated with realized benefits, identifies the vendor contribution of resources, and provides for intellectual property considerations. OSC, counsel from the Office of the Attorney General, and SAS will continue to expedite the execution of the contract.

HB 200 authorized a two-year contract for an enterprise automated fraud detection program for \$8 million. HB 200 detailed contract payments using the following payment schedule:

- December 2011 - \$1,000,000
- July 2012 - \$3,000,000
- December 2012 - \$3,000,000
- June 2013 - \$1,000,000

A significant requirement of the legislation is the incorporation of intellectual property considerations in the terms of the contract. This requirement is proving most challenging in that the initiative is predicated on the use of an existing set of tools that comprise the SAS Fraud Framework. The North Carolina enterprise fraud detection implementation, as well as future implementations of the SAS Fraud Framework in other government initiatives, will likely result in a new work product associated with the SAS fraud tools. To ensure compliance with the legislative mandate, the State shall receive the benefits of future developments, enhancements, and refinements to the fraud framework by being provided at no future charge for access and use of these enhancements.

The NC FACTS Statement of Work (SOW) outlines the project management, design and development and implementation activities, timelines and deliverables. The SOW has been developed with the consideration of lessons learned from the CJLEADS data integration implementation. Like CJLEADS, the initial activities will focus on a pilot program area to be developed and implemented in approximately seven months from data delivery. This pilot will allow the State to gain familiarity with the SAS Fraud Framework, understand and resolve data sharing issues and prove the value of implementing data integration and analytics to support fraud, waste and improper payment identification.

- **Approach**

**Manage Phased Design, Development and Deployment Activities**

There are many approaches to information system project management. Traditionally major IT initiatives define complete scope of work efforts that address all business requirements and strive to complete all areas of data and business functionality. This approach often results in broad design and development activities that require extended timelines before an application can be deployed and provide benefit to the State. Often these projects “bite off more than they can chew.” Furthermore, business requirements

and needs change before the final product is complete, training and deployment become cumbersome and difficult, and the project loses momentum and fails to meet the expectations of the project stakeholders.

With the CJLEADS data integration initiative, OSC followed a unique iterative design approach to quickly achieve success and to maintain momentum with phased development, implementation and deployment. CJLEADS began with a pilot application deployed only in Wake County. To complete the pilot application in a timely manner, the CJLEADS project team focused initial efforts on key sources of data (court records, correction incarceration and probation data, and jail custody information) and deployed Release I of the application with select functionality included. This allowed criminal justice professionals to use the pilot application and provide feedback on data and functionality. Based on that feedback and continued development, CJLEADS has implemented Release II and Release III of the application, with each release adding critical data and functionality.

In addition to phased development and implementation, CJLEADS deployed the application to criminal justice professionals through a phased rollout approach. The Wake County pilot allowed the CJLEADS Business Operations team to define and implement agency on-boarding, user administration, training, and customer support operations. Based on the experience with the Wake County organizations, the team refined and improved processes before deploying the application statewide. CJLEADS deployed the application statewide with a three-phased approach that was consistent and well-managed. The success of this approach enabled OSC to complete the initial kick-off meetings three months ahead of the projected deployment schedule.

As OSC evaluates the broad definition of fraud, waste and improper payments, and considers the varied business areas where these activities take place, it is critical to define a manageable scope that allows the project to quickly achieve success and report benefits realized. OSC will rapidly identify a business focus area for a pilot implementation. Using the pilot to build knowledge of the SAS fraud framework and prove the viability of fraud detection applications, OSC will be able to demonstrate success quickly and develop critical experience for future focus on additional business areas.

### **Identify Participating Agencies**

OSC held preliminary meetings with several State agencies and organizations to determine interest in participating in the NC FACTS data integration initiative. Initial responses have been positive as agencies seek opportunities to access a wider variety of data sources and to enhance, expand and improve current fraud detection tools and capabilities.

OSC will begin follow up meetings with these organizations to identify key sources of data, further define opportunities to provide or enhance fraud and waste detection capabilities, and to understand programs focused on recovery and prevention activities.

As OSC works with partner agencies to identify business needs and data sources, it will seek out subject matter experts as well as direct input from user communities involved in the identification, investigation and recovery of improper payments. The input and participation of personnel experienced in fraud matters will ensure the program is developed to meet the needs of the business community.

### **Identify Pilot Fraud Application**

Within two weeks of executing the contractual agreement, OSC will identify an initial business area of focus on which to develop a pilot fraud detection application. The development of a pilot will allow OSC to learn the fraud framework capabilities, identify critical sources of data and establish initial data governance policies and procedures, and gain experience with fraud detection tool sets, and understand training and support requirements.

As work progresses with the pilot application, OSC will remain focused on identifying additional business areas of focus for subsequent phases of implementation. The goal will be to maintain constant forward momentum, continuous expansion of available data sources and reliable and consistent support of fraud implementations.

### **Establish Hosted Technical Environment**

The State data integration vendor, in a public-private partnership with the State, will contribute resources valued at \$5 million to the project in each of the next two fiscal years. A portion of these resources will provide the implementation, hosting and management of a robust technical infrastructure to support the NC FACTS application(s). The vendor-hosted approach enables the technical environment to be established and ready for development in an expedited timeframe.

In accordance with the Strategic Plan for Data Integration, common technical platforms, toolsets and database technology will enhance the ability to share and utilize data across the enterprise for multiple business needs. Shared infrastructure and technology may also allow the State to achieve economies of scale and efficiencies, reducing the cost across all data integration initiatives.

### **Establish Data Governance**

The ability to effectively identify enterprise fraud, waste and overpayments requires access to a wide variety of data sources. Vital records, for example, help identify when benefits are erroneously paid out to deceased recipients. Access to offender information that indicates a service provider has a history of fraudulent behavior may improve the ability to accurately predict risk when reviewing provider eligibility and claims. Tax information may assist in determining accuracy of dependent eligibility for other government services. The information needed to support enterprise fraud detection will include highly sensitive and protected information. The NC FACTS program must understand the legal, statutory, and regulatory requirements associated with sharing,

storing and analyzing various sources of data. Data governance includes the data sharing agreements, security policy and procedures, application requirements, such as business rules, role-based security and auditing capabilities, necessary to maintain the appropriate control and integrity of the data.

### **Determine Benefits Realized**

The key to demonstrating the success of an automated fraud detection system is the ability to report on benefits realized from the implementation of the program. The State of North Carolina has a number of fraud detection initiatives operating throughout its agencies and organizations. Benefits from an automated enterprise approach to fraud detection may include: enhancing or supplementing existing fraud detection activities to more accurately identify cases representing higher risk or higher priority for recovery; expanding data available to assist in the analysis of fraud and improper payments; refining assessments of risk to optimize investigation, recovery, and prosecution efforts; developing new fraud detection capabilities; and improving business processes to prevent future incidents of fraud and waste.

OSC will work closely with partner agencies to accurately identify and report new and incremental benefits associated with the implementation of the automated, enterprise fraud detection program.

### **Support Enterprise-wide Business Programs to Improve Government Operations**

While data integration and business analytic tools may be able to improve the ability to identify, investigate, and recover fraudulent or improper payments, business programs focused on preventing fraud are essential to reducing waste in state government. Programs including ethics training and program integrity controls will help educate employees on ways to identify, document and report suspect behavior in their business areas. The State must consider ways to motivate employees to report suspect behavior and ensure that there is protection for the employee reporting improper activity. The OSC will investigate programs in other states and the federal government to understand effective options for North Carolina.

## **V. Challenges**

### **Data Sharing**

The data needed for effective enterprise analysis will include highly sensitive and secured information. The ability to protect Personal Identifying Information (PII), adhere to security and compliance requirements for the Health Information Portability and Accountability Act (HIPAA), and meet the constraints associated with other state and federal regulations associated with tax information and employment data, will be critical to sharing information across the enterprise. Policies, procedures, contractual agreements, and memorandums of understanding or agreement will be necessary to define the parameters associated with data sharing.

Stringent application security, including physical security, user authentication, role-based security, data encryption, and more will be key components in the implementation of an enterprise fraud detection system. The success of this initiative will be dependent on partner agencies who strive to find and implement appropriate policies and controls to enable data sharing.

### **Program Resources for Investigation and Recovery Efforts**

As the automated fraud detection system is implemented and expanded throughout State business units, OSC anticipates an increase in the number of incidents and types of fraud identified. Identifying fraud is only one step in the process of improving government operations. The ability to investigate and recover funds that were improperly expended -- and more importantly the ability to prevent future incidents of fraud -- is critical to achieving measureable success in improving government operations.

Agencies and organizations must have the resources necessary, whether on staff or through contractual services, to analyze, investigate, and recover improperly expended funds. Programs must also have the resources necessary to adapt business policy and procedures, and improve information technology systems to identify and prevent improper payments rather than trying to recover funds improperly expended.

### **Measurement of Benefits Realized**

As previously mentioned, there are a number of on-going fraud detection initiatives throughout state government. The challenge will be the ability to clearly identify benefits associated with the implementation of the enterprise fraud detection initiative. To accurately measure and report on benefits realized, OSC will work closely with partner agencies and organizations to identify how enterprise data access supplements existing detection efforts and how new tools and capabilities enable additional fraud detection activities.

As the fraud detection improves the ability of state agencies to enact processes and controls to prevent fraud, quantitative reporting of prevention efforts may be challenging. Estimated benefits will consider historical fraud statistics as well as measured payments that were flagged and stopped prior to payment.

### **Maintenance of Analytical Models**

Enterprise data and robust analytical tools will identify data patterns and anomalies in order to detect fraudulent and improper payments. With advanced analytics, it is likely that the number of identified data anomalies will increase significantly. Because State agencies and organizations have limited resources to review, investigate and recover improper payments, it is critical that the automated fraud detection system provides a feedback mechanism to refine the analytic models. As investigators determine which cases represent actual fraud versus cases that represent erroneous payments, the models

can be adjusted to better identify high risk cases. Feedback will also allow the models to be refined so that suspect criteria are more specific and can reduce the number of “false positive” cases. The feedback can also provide information to stop suspect payments for a review process prior to expending funds.

As the State improves its ability to detect and prevent fraud, individuals who commit fraud will find alternative methods of gaining improper access to payments and services. All analytic models must be flexible and easy to modify to ensure the State’s fraud detection ability maintains pace with the creativity of those trying to defraud the state.

## VI. Budget

Session Law 2011, HB 200-145, authorized funding of \$4.5 million in each year of the biennium budget for the development of an automated fraud, waste and improper payment data integration program. These funds will support OSC state project team staffing and expenses (\$500,000) as well as contractual services for the design, development and implementation of data integration and business analytic models for fraud detection (\$4 million). To ensure the public-private partnership of this initiative, the State’s data integration vendor will contribute resources in the amount of \$5 million in each of the next two years. The vendor contribution will provide hosting hardware and technical environment infrastructure, software, support and services for design, development and implementation of data integration and business analytic model development.

As of July 1, 2011	FY 2012	FY 2013
<b><u>Fraud Detection Funding</u></b>		
State Funding	\$4,500,000	\$4,500,000
Vendor Financial Contribution	5,000,000	\$5,000,000
Carryover from Prior Year		\$3,000,000
	<b>\$9,500,000</b>	<b>\$12,500,000</b>
<b><u>Fraud Detection Expenditures</u></b>		
State Project Team Expenditures	\$500,000	\$500,000
Vendor Contracted Services Payment - December, 2011	1,000,000	
Vendor Contracted Services Payment - July, 2012		3,000,000
Vendor Contracted Services Payment - December, 2012		3,000,000
Vendor Contracted Services Payment - June, 2013		1,000,000
Vendor Hosting, Software and Contracted Services Contribution	5,000,000	5,000,000
	<b>\$ 6,500,000</b>	<b>\$ 12,500,000</b>
<b>CJLEADS Total</b>	<b>\$ 6,500,000</b>	<b>\$ 12,500,000</b>
Budget Funds Remaining	<b>\$ 3,000,000</b>	

## **VII. Next steps**

- Complete contract negotiations with the State data integration vendor.
- Establish a technical environment to support data integration, data storage and data analytic capabilities.
- Initiate pilot program
  - Identify pilot business area
  - Identify data and business requirements
  - Establish data sharing agreements
  - Begin development activities for data integration and business rules
  - Develop analytic models and reports
  - Test and refine application
  - Establish business operations including user administration, training, and customer support
  - Train and support business users
  - Identify incidents of fraud, waste, improper payments
  - Provide program recommendations for recovery and prevention of identified incidents
  - Report benefits realized
- Identify additional business areas of interest and plan for program expansion.

## Appendix

### *Appendix A: Session Law 2011, HB 200-145*

**SECTION 6A.20.(c)** As part of the State's continuing effort to develop a comprehensive enterprise-level data integration capability, the Office of the State Controller shall develop an enterprise process to detect fraud, waste, and improper payments across State agencies. State agencies shall fully support and participate in OSC's efforts to develop an automated fraud detection system

In support of the automated fraud detection effort, the OSC shall:

- (1) Develop a detailed long-range plan to implement an automated fraud detection system within State agencies.
- (2) Determine costs, to include vendor costs, for the effort for five years, beginning July 1, 2011.
- (3) Coordinate with State agencies to determine interest in participating in the project and to identify potential applications that can be included in an initial request for proposal.
- (4) Establish priorities for developing and implementing potential applications.
- (5) Evaluate savings resulting from each effort.
- (6) Coordinate efforts with the State's data integration vendor to begin the implementation process.
- (7) Establish a pilot to begin the implementation process and to identify and resolve issues associated with expansion of the initiative.
- (8) Coordinate with participating agencies to ensure that each has the resources and processes necessary to follow up on incidents of fraud identified by the vendor.
- (9) Provide recommendations to the Joint Legislative Commission on Governmental Operations, the Joint Legislative Oversight Committee on Information Technology, and the Fiscal Research Division of the General Assembly on potential future initiatives and the cost and savings associated with each.

**SECTION 6A.20.(d)** Beginning October 1, 2011, the OSC shall provide quarterly reports to the chairs of the Appropriations Committee of the House of Representatives and the Appropriations/Base Budget Committee of the Senate, the Joint Legislative Oversight Committee on Information Technology, and the Fiscal Research Division of the General Assembly. These reports shall include the following:

- (1) Incidents, types, and amounts of fraud identified, by agency.
- (2) The amount actually recovered as a result of fraud identification, by agency.
- (3) Agency procedural changes resulting from fraud identification and the time line for implementing each.
- (4) State costs for fraud detection for the previous quarter.
- (5) Payments to the vendor for the previous quarter.
- (6) Anticipated costs and vendor payments for each of the next two years from the date of the report.

**SECTION 6A.20.(e)** The Office of the State Controller is authorized to enter into an enterprise automated fraud detection contract for eight million dollars (\$8,000,000) for a two-year contract period. Under the terms of the contract, payments are limited to the following payment schedule:

- (1) December 2011—\$1,000,000.

- (2) July 2012—\$3,000,000.
- (3) December 2012—\$3,000,000.
- (4) June 2013—\$1,000,000.

Further, payments shall be contingent upon achieving the anticipated schedule of benefits realization.

To maximize cost reductions and savings, the Office of the State Controller shall enter into the agreement no later than September 1, 2011. To ensure this is a Public-Private Partnership, the Office of the State Controller shall ensure that the chosen vendor shall contribute resources valued at least five million dollars (\$5,000,000) during each of fiscal year 2011-2012 and fiscal year 2012-2013 for the project's success.

**SECTION 6A.20(f)** The Office of State Controller shall ensure that the State receives an appropriate share of intellectual property ownership or residuals, or both, accruing as a result of subsequent contracts between the vendor and third parties that utilize the innovations developed as a result of this contract.

**SECTION 6A.20(g)** Of the funds appropriated from the General Fund to the Office of the State Controller, the sum of one million five hundred thousand dollars (\$1,500,000) for the 2011-2012 fiscal year and the sum of seven million five hundred thousand dollars (\$7,500,000) for the 2012-2013 fiscal year shall be used to support the enterprise process to detect fraud, waste, and improper payments across State agencies in each year of the biennium. Of these funds, five hundred thousand dollars (\$500,000) each year shall be used by the Office of the State Controller to support the initiative. The remainder may be used to fund payments to the vendor.

### ***Session Law 2011-391, HB 22. (Technical Corrections Bill)***

**SECTION 12.(c)** Section 6A.20(c) of Session Law 2011-145 reads as rewritten:

**"SECTION 6A.20.(c)** As part of the State's continuing effort to develop a comprehensive enterprise-level data integration capability, the Office of the State Controller shall develop an enterprise process to detect fraud, waste, and improper payments across State agencies. State agencies shall fully support and participate in OSC's efforts to develop an automated fraud detection system and shall upon request provide in a timely and responsive manner accurate, complete, and timely data, business rules and policies, and support for project requirements. The agency head shall verify, in writing, the accuracy, completeness, and timeliness of the data. If any support or data is not provided as needed for the automated fraud detection effort, the OSC shall report that failure to the General Assembly for further review and action.

In support of the automated fraud detection effort, the OSC shall:

- (1) Develop a detailed long-range plan to implement an automated fraud detection system within State agencies.
- (2) Determine costs, to include vendor costs, for the effort for five years, beginning July 1, 2011.
- (3) Coordinate with State agencies to determine interest in participating in the project and to identify potential applications that can be included in an initial request for proposal.
- (4) Establish priorities for developing and implementing potential applications.
- (5) Evaluate savings resulting from each effort.

- (6) Coordinate efforts with the State's data integration vendor to begin the implementation process.
- (7) Establish a pilot to begin the implementation process and to identify and resolve issues associated with expansion of the initiative.
- (8) Coordinate with participating agencies to ensure that each has the resources and processes necessary to follow up on incidents of fraud identified by the vendor.
- (9) Provide recommendations to the Joint Legislative Commission on Governmental Operations, the Joint Legislative Oversight Committee on Information Technology, and the Fiscal Research Division of the General Assembly on potential future initiatives and the cost and savings associated with each."