

STATE OF CALIFORNIA
 Budget Change Proposal - Cover Sheet
 DF-46 (REV 08/15)

Fiscal Year 2016-17	Business Unit 0840	Department State Controller's Office	Priority No.
Budget Request Name 0840-004-BCP-BR-2016-GB		Program 0500400 - UNCLAIMED PROPERTY 9900100 - ADMINISTRATION	Subprogram

Budget Request Description
 Unclaimed Property Fraudulent Claims Prevention and Detection Program

Budget Request Summary

The State Controller's Office (SCO) requests \$986,000 in 2016-17 through 2018-19 for 9.0 positions and \$1,351,000 in permanent funding for 8.0 positions in 2016-17 and ongoing from the Unclaimed Property Fund for the continued support of the SCO's Unclaimed Property Fraudulent Claims Prevention and Detection Program. Approval of these resources will allow the SCO to continue using fraud detection methods which have prevented \$25.6 million in fraudulent claims in the first 3 years of the program, and will result in a projected net General Fund savings of \$7.9 million annually.

Requires Legislation <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	Code Section(s) to be Added/Amended/Repealed
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Does this BCP contain information technology (IT) components? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <i>If yes, departmental Chief Information Officer must sign.</i>	Department CIO <i>[Signature]</i> Todd Boltjes, Chief Information Officer	Date 12/4/15
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For IT requests, specify the date a Special Project Report (SPR) or Feasibility Study Report (FSR) was approved by the Department of Technology, or previously by the Department of Finance. <input type="checkbox"/> FSR <input type="checkbox"/> SPR	Project No.	Date:
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If proposal affects another department, does other department concur with proposal? Yes No
 Attach comments of affected department, signed and dated by the department director or designee.

Prepared By <i>[Signature]</i> Gary Qualset, Chief Unclaimed Property Division	Date 12-4-15	Reviewed By <i>[Signature]</i> Larry Morris, Chief Admin and Disb. Division	Date 12/4/15
Department Director <i>[Signature]</i> Tom Yowell, Chief Administrative Officer	Date 12-4-15	Agency Secretary <i>[Signature]</i> George Lolas, Chief Operating Officer	Date 12/4/15

Department of Finance Use Only

Additional Review: Capital Outlay ITCU FSCU OSAE CALSTARS Dept. of Technology

BCP Type: Policy Workload Budget per Government Code 13308.05

PPBA <i>[Signature]</i>	Date submitted to the Legislature 11/7/16
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BCP Fiscal Detail Sheet

BCP Title: Unclaimed Property Fraudulent Claims Prevention and Detection Program

DP Name: 0840-004-BCP-DP-2016-GB

Budget Request Summary

	FY16					
	CY	BY	BY+1	BY+2	BY+3	BY+4
Positions - Permanent	0.0	17.0	17.0	17.0	8.0	8.0
Total Positions	0.0	17.0	17.0	17.0	8.0	8.0
Salaries and Wages						
Earnings - Permanent	0	1,142	1,142	1,142	541	541
Total Salaries and Wages	\$0	\$1,142	\$1,142	\$1,142	\$541	\$541
Total Staff Benefits	0	590	590	590	280	280
Total Personal Services	\$0	\$1,732	\$1,732	\$1,732	\$821	\$821
Operating Expenses and Equipment						
5301 - General Expense	0	34	34	34	16	16
5304 - Communications	0	17	17	17	8	8
5322 - Training	0	21	21	21	15	15
5340 - Consulting and Professional Services - External	0	450	450	450	450	450
5346 - Information Technology	0	83	83	83	41	41
Total Operating Expenses and Equipment	\$0	\$605	\$605	\$605	\$530	\$530
Total Budget Request	\$0	\$2,337	\$2,337	\$2,337	\$1,351	\$1,351

Fund Summary

Fund Source - State Operations						
0970 - Unclaimed Property Fund	0	2,337	2,337	2,337	1,351	1,351
Total State Operations Expenditures	\$0	\$2,337	\$2,337	\$2,337	\$1,351	\$1,351
Total All Funds	\$0	\$2,337	\$2,337	\$2,337	\$1,351	\$1,351

Program Summary

Program Funding						
0500400 - Unclaimed Property	0	2,337	2,337	2,337	1,351	1,351
9900100 - Administration	0	493	493	493	130	130
9900200 - Administration - Distributed	0	-493	-493	-493	-130	-130
Total All Programs	\$0	\$2,337	\$2,337	\$2,337	\$1,351	\$1,351

Personal Services Details

Salary Information

Positions	Min	Mid	Max	CY	BY	BY+1	BY+2	BY+3	BY+4
1337 - Sr Info Sys Analyst (Spec) (Eff. 07-01-2016)				0.0	1.0	1.0	1.0	0.0	0.0
1373 - Sys Software Spec II (Tech) (Eff. 07-01-2016)				0.0	1.0	1.0	1.0	1.0	1.0
1470 - Assoc Info Sys Analyst (Spec) (Eff. 07-01-2016)				0.0	1.0	1.0	1.0	0.0	0.0
1583 - Sr Programmer Analyst (Spec) (Eff. 07-01-2016)				0.0	1.0	1.0	1.0	0.0	0.0
4800 - Staff Svcs Mgr I (Eff. 07-01-2016)				0.0	1.0	1.0	1.0	1.0	1.0
4801 - Staff Svcs Mgr II (Supvry) (Eff. 07-01-2016)				0.0	1.0	1.0	1.0	1.0	1.0
5393 - Assoc Govtl Program Analyst (Eff. 07-01-2016)				0.0	11.0	11.0	11.0	5.0	5.0
Total Positions				0.0	17.0	17.0	17.0	8.0	8.0

Salaries and Wages	CY	BY	BY+1	BY+2	BY+3	BY+4
1337 - Sr Info Sys Analyst (Spec) (Eff. 07-01-2016)	0	81	81	81	0	0
1373 - Sys Software Spec II (Tech) (Eff. 07-01-2016)	0	81	81	81	81	81
1470 - Assoc Info Sys Analyst (Spec) (Eff. 07-01-2016)	0	67	67	67	0	0
1583 - Sr Programmer Analyst (Spec) (Eff. 07-01-2016)	0	81	81	81	0	0
4800 - Staff Svcs Mgr I (Eff. 07-01-2016)	0	71	71	71	71	71
4801 - Staff Svcs Mgr II (Supvry) (Eff. 07-01-2016)	0	78	78	78	78	78
5393 - Assoc Govtl Program Analyst (Eff. 07-01-2016)	0	683	683	683	311	311
Total Salaries and Wages	\$0	\$1,142	\$1,142	\$1,142	\$541	\$541

Staff Benefits	CY	BY	BY+1	BY+2	BY+3	BY+4
5150900 - Staff Benefits - Other	0	590	590	590	280	280
Total Staff Benefits	\$0	\$590	\$590	\$590	\$280	\$280

Total Personal Services

\$0

\$1,732

\$1,732

\$1,732

\$821

\$821

Analysis of Problem

A. Budget Request Summary

The State Controller's Office (SCO) requests \$986,000 in 2016-17 through 2018-19 for 9.0 positions and \$1,351,000 in permanent funding for 8.0 positions in 2016-17 and ongoing from the Unclaimed Property Fund for the continued support of the SCO's Unclaimed Property Fraudulent Claims Prevention and Detection Program. Approval of these resources will allow the SCO to continue using fraud detection methods which have prevented \$25.6 million in fraudulent claims in the first 3 years of the program, and will result in a projected net General Fund savings of \$7.9 million annually.

B. Background/History

California's Unclaimed Property Law (UPL) requires businesses, associations, financial institutions, and insurance companies (referred to as "holders") to annually report and deliver property to the SCO when there has been no activity on an account or contact with the account owner for a period of time specified in the law, generally three years. The California Code of Civil Procedures (CCP) Section 1365 provides the SCO all the powers necessary to safeguard and conserve the interests of all parties, including the State, having any vested or expectant interest in such unclaimed property. CCP 1540(b) requires the Controller to consider a claim within 180 days of receipt of the claim.

The SCO is responsible for safeguarding unclaimed property until it is returned to its rightful owner. The Unclaimed Property Division (UPD) of the SCO reunites owners with their lost or abandoned property when the owner files a paper claim following a search for property on the SCO's website or after calling the UPD Call Center to request a claim form. Claims are also generated from owners receiving a notice from the UPD. In each case, the individual must fill out and return a claim form with documentation of their identity and other validation that he/she is the rightful owner of the property.

Claims may be filed by various individuals; the individual may be the owner of the property reported to the SCO by the holder, the heir of the owner reported by the holder, or an agent filing on behalf of a business reported by the holder. Claims may also be filed on behalf of the property owner, heir or business by an asset finder, more commonly known as an investigator, i.e. a business or individual that looks for unclaimed property owners. These investigators enter into contracts with owners permitting them to charge the owner a fee for finding the property.

The UPD makes every effort to ensure property is returned to its rightful owner. Claimants are required to submit documentation to substantiate their claims. When information reported by holders on properties is incomplete, staff are required to contact the holder to obtain additional information, in many instances, the difficulty is that holders have purged information due to the age of accounts.

Fraudulent claims have increased in recent years. In 2010-11, UPD identified that claims totaling \$2.8 million had been previously paid, and concerns were growing that more fraudulent claims were being paid that the UPD was unable to identify. Due to the rise in fraudulent claims, in 2011-12 additional steps were implemented into the claims review process in an effort to detect and prevent fraud. These additional steps quickly caused the claim inventory levels to rise, jeopardizing the UPD's ability to render decision on claims within the statutory 180-day timeframe. The additional steps, however, were critical to detect and prevent fraud.

Through a 2012-13 BCP the SCO received 17.9 positions for the Fraudulent Claims Prevention and Detection Program on a two-year limited-term basis to address the increase in fraudulent claims received by the UPD. Approval of this BCP allowed the UPD to increase fraud mitigation strategies and continue to develop and refine fraud controls in the claim review process. Below are some of the activities implemented by the UPD:

- The UPD determined the feasibility of implementing an up-front claim verification interface between a third-party commercial database and the SCO's website to identify potentially fraudulent claims initiated online. The program worked with the UPS2000 vendor and the SCO Information Systems Division (ISD) to create the business requirements, develop the system design, and implement the system to go

Analysis of Problem

live with enhancements to the SCO's website in January 2014. Claims that pass all upfront verifications are paid electronically and those failing specific criteria are flagged in the system, so once the paper claim was received by the SCO, it could be directed to the Fraud Unit for review.

- The UPD also worked with the UPS2000 vendor and the ISD to develop similar business requirements and system design to implement an up-front claim verification process for paper claims received that did not go through the verification interface described above. Many of these claims were initiated through the UPD's Call Center rather than online. Claims failing designated criteria in this up-front batch verification process would also be directed to the Fraud Unit for review.
- Established a Fraud Unit to handle claims suspected of fraud and performed additional research on claims referred from evaluators to determine if claims are fraudulent; worked closely with the SCO's Legal Office to determine appropriate actions on claims identified as fraudulent; developed and updated claim policies and procedures, and provided training as needed to UPD staff on how to identify fraud; kept current with news, events, training and information on fraud prevention and detection.
- Implemented new policies and procedures designed to detect fraud on claims filed by businesses, heirs of reported owners, asset finders and all claims filed by owners that were not verified through the interface or batch processes described above. These new processes required claim evaluators to verify claimant information for every paper claim received through a third-party commercial database, inspect and/or authenticate claim documents using various tools such as barcode decoders and passport verifiers, identify altered documents, signature variances, and validate notaries to identify potential fraudulent claims.

To continue the SCO's efforts in mitigating fraudulent claims, the Legislature authorized 16.0 positions in 2014-15 for the Fraudulent Claims Prevention and Detection Program for another two-year limited-term. Approval of this BCP has allowed the UPD to:

- Complete the design, development and implementation of the system enhancements for an up-front batch verification process for paper claims received that went live in October 2014. These enhancements have resulted in efficiencies in processing paper "owner claims", by allowing the UPD to more quickly identify potentially fraudulent owner paper claims. Claims failing designated verifications are given directly to the Fraud Unit for upfront review. If the claim is determined to be fraudulent, the Fraud Unit works to ensure all claims in inventory from this individual or from the individual's address are identified, thus reducing the risk of fraudulent claims being paid. When fraud is identified, the Fraud Unit sends a claim form to the "true" owner found through performing a search using a third party commercial database.
- Maintain the established Fraud Unit allowing them to handle "high risk" claims for fraud; conduct additional research on claims referred from evaluators to determine if claims are fraudulent; work closely with the SCO Legal Office to determine appropriate actions on claims identified as fraudulent; develop and update claim policies, update procedures, and provide training as needed to UPD staff on how to identify fraud; keep current with news, events, training and information on fraud prevention and detection.
- Continue the processes established for claim evaluators in verifying claimant information for every paper claim through a third party commercial database; inspecting and/or authenticating claim documents using barcode decoders and passport verifiers, identifying altered documents, signature variances, and validating notaries to identify potential fraudulent claims.

Resource History (Dollars in thousands)

Program Budget	2010-11	2011-12	2012-13	2013-14	2014-15
Authorized Expenditures	N/A	N/A	2,281	2,171	2,095
Actual Expenditures ¹	N/A	N/A	1,583	2,093	2,039
General Fund Savings ²	N/A	N/A	6,894	6,973	5,993
Authorized Positions	N/A	N/A	17.0	17.0	16.0
Filled Positions	N/A	N/A	11.0	14.5	13.0
Vacancies	N/A	N/A	6.0	2.5	3.0

Analysis of Problem

¹2012-13 Actual Expenditures are lower than authorized due to the hiring dates of new staff.

²General Fund Savings represents Fraud Prevented (see Table 1 in Justification) less Actual Expenditures

Workload History (Dollars in thousands)

Workload Measure	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16 ¹
Properties Claimed and Paid	305,824	281,961	293,323	370,684	421,768	427,040
Dollar Value of Properties Paid	\$242,619	\$209,449	\$209,842	\$243,538	\$255,991	\$276,721
Number of Claims Reviewed for Fraud	N/A	N/A	6,727	16,744	16,407	15,630
Dollar Value of Claims Reviewed for Fraud	N/A	N/A	\$20,177	\$17,369	\$22,150	\$23,445
Number of Fraudulent Claims Identified ²	1,017	933	631	443	531	630
Dollar Value of Fraudulent Claims Identified	\$3,334	\$4,175	\$8,880	\$9,100	\$10,025	\$10,930
Percentage of Dollar Value of Fraudulent Claims Identified	1.37%	1.99%	4.23%	3.74%	3.92%	3.95%

¹2015-16 figures are estimates.

²Number of Fraudulent Claims Identified represents claims identified in that fiscal year plus those identified in future fiscal years.

C. State Level Considerations

Currently, the state has over \$7.6 billion of unclaimed property available to be claimed under provisions of the UPD, Part 3, Title 10, Chapter 7 of the Code of Civil Procedure (CCP). The Unclaimed Property Program's mission is to reunite owners with their lost or abandoned property and to safeguard owners' assets while in the state's possession. In January 2014, the SCO launched an eClaim filing system that allowed owners of eligible properties to file a claim electronically, increasing efficiency by eliminating the need for submitting a paper claim and documentation to receive unclaimed property. The eClaim system resulted in an 85 percent increase in the number of properties returned to owners, with an estimated value of \$10.6 million more than the previous year's return of unclaimed property. Due to its success, in December 2014, the SCO raised the eClaim dollar threshold from \$500 to \$999.99, and again to \$4,999.99 in November 2015. The additional resources will ensure that the state is doing all it can to safeguard owners' assets. In today's increasingly electronic world, and with rapidly rising fraud and identity theft crimes, it is critical that the SCO be proactive in protecting California taxpayers' dollars.

D. Justification

The SCO is requesting resources to continue the work of preventing fraudulent unclaimed property claims from being paid. Since the start of the Fraud Program, the UPD has identified over \$28 million in fraudulent claims. The Fraud Unit has reviewed 39,878 claims of which 1,606 were identified as fraudulent and payment was prevented. Suspected fraudulent claims are detected by the Fraud Unit through the following methods:

- Internal referrals from UPD staff;
- External referrals from holders as well as state and federal government agencies;
- System reports queried from claimant and property data; and
- Upfront third-party verification process in which claimant information is validated and/or flagged as a potentially fraudulent claim.

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The Fraud Unit has identified over \$28 million in fraud between 2012-13 and 2014-15 (see table below).

Table 1

Fraud Prevented v. Paid								
	2012-13		2013-14		2014-15		TOTAL	
Fraud Prevented	\$8,476,565		\$9,065,554		\$8,031,741		\$25,573,860	
Fraud Paid	\$403,446		\$34,916		\$1,993,533		\$2,431,895	
<i>Paid in Same Fiscal Year</i>	\$289,454	71.75%	\$0.00	0.00%	\$852	0.04%	\$290,306	11.94%
<i>Paid in Prior Year</i>	\$113,992	28.25%	\$34,916	100.00%	\$1,992,681	99.96%	\$2,141,589	88.06%
Total Fraud Identified	\$8,880,011		\$9,100,470		\$10,025,274		\$28,005,755	
% Fraud Paid	4.54%		0.38%		19.89%		8.68%	

Over the last three years, the Fraud Unit has made every effort to, not only identify and prevent fraudulent claims from being paid, but look back and identify fraudulent claims in the past that have been paid. The table below details the years in which fraudulent claims were paid and identifies the year these claims were identified as fraud.

Table 2

Fraud Paid/Identified by Year			
Year Fraud Paid	Year Fraud Identified		
	2012-13	2013-14	2014-15
2010-11 and Prior	\$112,941	\$34,758	\$1,941,453
2011-12	\$1,051	\$158	\$47,534
2012-13	\$289,454	\$ -	\$2,518
2013-14	N/A	\$-	\$1,176
2014-15	N/A	N/A	\$852
Total	\$403,446	\$34,916	\$1,993,533

After the first year of implementation, the Fraud Unit staff began taking a more proactive approach to identifying fraud, through system reports and third-party verifications; thereby lowering the dependence on internal staff to identify and refer suspected fraud claims. Table 3 below shows the fraud identified by each detection type since the creation of the Fraud Unit.

Table 3

Comparison % of Fraud Identified by Detection Type ¹						
Detection Type	2012-13		2013-14		2014-15	
	Fraud Identified	%	Fraud Identified	%	Fraud Identified	%
Internal Referrals	\$ 8,711,195	98.1%	\$ 3,972,950	43.7%	\$ 3,523,407	35.1%
External Referrals	N/A	N/A	\$ 149,085	1.6%	\$ 2,231,359	22.3%
System Reports	\$ 98,908	1.1%	\$ 3,742,941	41.1%	\$ 3,968,129	39.6%
Third-Party Verifications	\$ 69,908	0.8%	\$ 1,235,494	13.6%	\$ 302,379	3.0%
TOTAL	\$ 8,880,011		\$ 9,100,470		\$10,025,274	

¹Detailed information and breakdown by referral type by fiscal year can be found in Attachment II.

Although the dollar amount for fraud identified via third-party verifications in 2014-15 is drastically lower than 2013-2014, the number of fraudulent claims and associated properties remain consistent.

Table 3 above combined with the tables located in Attachment 2 of this BCP all demonstrate the shift in fraud reviews from a reactive approach, relying on claims evaluators to inform the Fraud Unit of suspected fraud, to

Analysis of Problem

a more pro-active approach in which the unit relies more on data analysis, use of our computer system, and up-front claim reviews to identify the fraud before claims evaluators spend time reviewing them.

The Fraud Unit has defined "fraud" generally as intentional deception for personal gain, or to deprive another person, and has developed sub-categories of the fraud experienced by the UPD as defined below:

- **Identity Theft/Forgery:** When a claimant uses the Personal Identifying Information, such as a name, social security number, address, or other identifying information, of another without their permission, or when a claimant makes, adapts, or imitates documents with the intent to deceive the UPD.
- **Fool's Fraud:** When a claimant attempts to claim properties for which they know, or reasonably should know, that they are not entitled (no association to reported address, account, and/or holder).
- **Deception:** When a claimant does not provide altered documents, but knowingly provides false statements or false information to establish entitlement, regardless of whether or not they are actually entitled.

Table 4

Comparison of Fraud Identified by Fraud Type¹						
Category	2012-13		2013-14		2014-15	
	Fraud Identified	%	Fraud Identified	%	Fraud Identified	%
Identify Theft/Forgery	\$ 1,141,934	12.9%	\$ 2,718,044	29.9%	\$ 4,383,450	43.7%
Fool's Fraud	\$ 5,798,013	65.3%	\$ 5,639,628	62.0%	\$ 3,813,646	38.1%
Deception	\$ 1,940,064	21.8%	\$ 742,798	8.2%	\$ 1,828,178	18.2%
TOTAL	\$ 8,880,011		\$ 9,100,470		\$ 10,025,274	

¹The details of those changes are depicted in the tables located in Attachment III of this BCP.

It has become clear through analyzing the results of the Fraud Unit so far that criminals are growing their attempts to submit fraudulent claims. While the Fraud Unit has identified and prevented the payment of over 1,600 claims, it is expected that the UPD will continue to receive fraudulent claims in the coming years. The approval of the requested resources would ensure that the SCO can stay ahead of this criminal activity and safeguard the State from losses due to the payment of fraudulent claims.

E. Outcomes and Accountability

Over the past three fiscal years the Fraudulent Claims Prevention and Detection Program has identified an average of \$9.3 million in fraudulent claims per year. With continued resources and the ability to maintain system enhancements, the UPD will be able to prevent more fraud from being paid and possibly impede future fraudulent attempts. The UPD will continue to track results and work toward identifying more system enhancements and other methods to improve the program.

A review, audit, and analysis of prior year paid claims was done by the UPD in the most recent fiscal year to enhance processes and procedures and provide updated training to claims evaluators on ways to mitigate future fraud. This process also has allowed the UPD to add identifying criteria from fraudulently paid claims to the "Reserve Table". The "Reserve Table" is a repository of identifying criteria such as name, social security number, physical address, email address and phone number. Identifying criteria is maintained as a reference and is integrated within the UPD database; a claims evaluator receives an alert if any of the information being used by a claimant is in the reserve table and the claim is forwarded to the Fraud Unit for further evaluation.

With any new program, an analysis of what the problems are, and why they are occurring needs to be done to address these problems in the future. This was done in the second phase of this program to help the UPD further develop fraud prevention and detection procedures and techniques.

The 2012-13 BCP projected an annual savings to the General Fund, before administrative costs, of 6% of the claims paid for the fiscal year based on various reports and studies that estimated governments and other organizations lost from 7% to 13% of revenues to fraud. The projected savings were reduced by 30% the first

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year to allow time for hiring, training, and program start-up. The table below illustrates the actual program results from 2012-13 through 2014-15.

Table 5

Fraud Prevention v. Actual						
	2012-13		2013-14		2014-15	
	Projected	Actual	Projected	Actual	Projected	Actual
Claims Paid	\$242,659,827	\$209,841,029	\$240,853,297	\$243,537,684	\$243,875,684	\$255,991,272
Fraud Prevented	\$10,191,713	\$8,476,565	\$14,451,198	\$9,065,554	\$14,632,541	\$8,031,741
% Fraud Prevented	4.20%	4.04%	6.00%	3.72%	6.00%	3.14%
Average Fraud Avoidance	3.61%					

When fraudulent claims are paid, the State is still liable to pay claims to the rightful owner of the property. In these instances owners are required to file a claim with the Victims Compensation and Government Claims Board. The challenge in these instances is that when a property is paid it becomes unsearchable on SCO's website; often times making it impossible for owners to know if they had property to be claimed. Identification and prevention of fraud ensures the SCO is safeguarding the unclaimed property until it can be returned to its rightful owner and does not erode the General Fund due to unclaimed property fraud. The chart below displays the actual General Fund savings over the last three years and projected continued savings if this BCP is approved for the 8.0 permanent and 9.0 LT resources.

Table 6
(Dollars in thousands)

Projected General Fund Savings								
	Actual			Estimated				
	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Claims Paid	\$209,842	\$243,845	\$255,991	\$276,721	\$280,181	\$283,683	\$287,229	\$285,065
Fraud Avoidance (3.61%)¹	\$8,477	\$9,066	\$8,032	\$9,990	\$10,115	\$10,241	\$10,369	\$5,160
Administrative Costs	\$1,583	\$2,093	\$2,039	\$2,082	\$2,337	\$2,337	\$2,337	\$1,351
Net General Fund Savings	\$6,894	\$6,973	\$5,993	\$7,908	\$7,778	\$7,904	\$8,032	\$3,809

¹Fraud Avoidance reduced to 1.81% in 2019-20 and ongoing based on LT resources expiring. LT reduction represents a 50% reduction in program staff.

Analysis of Problem

Below are the projected outcomes if the requested resources are approved for the Fraudulent Claims Prevention and Detection Program. It is important to note, in addition to continuing the existing Fraud Detection efforts, the SCO will explore and analyze alternative technologies to more efficiently deter fraud.

Projected Outcomes¹ (Dollars in thousands)

Workload Measure	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Properties Claimed and Paid ² (1.25% annual increase)	427,040	432,378	437,783	443,255	439,916	445,327
Dollar Value of Properties Paid (Average Paid Property Value for 2013-14 \$648)	\$276,721	\$280,181	\$283,683	\$287,229	\$285,065	\$288,572
Number of Claims Reviewed for Fraud ³ (3.66% Properties Claimed and Paid – based on 3 year average)	15,630	15,825	16,023	16,223	8,050	8,149
Dollar Value of Claims Reviewed for Fraud (\$1.5 per claim – based on 3 year average)	\$23,445	\$23,738	\$24,034	\$24,335	\$12,076	\$12,224
Number of Fraudulent Claims Identified (4.03% of claims reviewed – based on 3 year average)	630	638	646	654	324	328
Dollar Value of Fraudulent Claims Identified ⁴ (3.95% Properties Paid and Claimed – based on 3 year average)	\$10,930	\$11,067	\$11,205	\$11,346	\$5,644	\$5,714

¹Calculated using figures from Workload History table.

²Properties Claimed and Paid reduced by 8880 claims starting in 2019-20 due to expiration of LT resources. 2020-21 and ongoing are estimated to increase by 1.23%, rather than 1.25% based on reduced number of claims processed starting in 2019-20.

³Number of Claims Reviewed for Fraud reduced to 1.83% starting in 2019-20 due to expiration of LT resources.

⁴Dollar Value of Fraudulent Claims Identified reduced to 1.98% starting in 2019-20 due to expiration of LT resources.

F. Analysis of All Feasible Alternatives

Alternative 1: Provide the SCO \$986,000 in 2016-17 through 2018-19 for 9.0 positions and \$1,351,000 in permanent funding for 8.0 positions in 2016-17 and ongoing from the Unclaimed Property Fund for the continued support of the SCO's Unclaimed Property Fraudulent Claims Prevention and Detection Program.

Pros:

- Proactively safeguards taxpayer dollars, increasing the assurances that the rightful owner is paid.
- Ensures that the SCO will be compliant with the 180-day statutory timeframe for considering a claim.
- Results in a net General Fund savings of over \$7.9 million annually (through 2018-19).
- Avoids costs associated with investigation and prosecution of fraud.
- Ensures UPS2000 and UCPI systems are able to meet the needs of the program and the public.

Cons:

- Requires permanent funding and increased resources.

Alternative 2: Discontinue the Fraudulent Claims Prevention and Detection Program beginning in 2016-17.

Pros:

- No additional resources necessary.

Cons:

- Approximately \$7.9 million in fraudulent claims will be paid from the General Fund annually.
- Taxpayer dollars will not be protected, decreasing the assurances that the rightful owner is paid.
- Increased costs associated with investigation and prosecution of fraud will be incurred.
- The SCO will be unable to ensure the UPS2000 and UCPI are able to meet both the needs of the program and the public.

Analysis of Problem

G. Implementation Plan

Time Frame	Outcome
July 1, 2016 and ongoing	<ul style="list-style-type: none">Continue to research and identify methods to detect and continue claims.
May 2018 through September 2018	<ul style="list-style-type: none">Analyze program and determine feasibility for requesting additional permanent resources or extension of LT resources.If supportable, prepare and submit request for additional resources.

H. Supplemental Information

In addition to the standard OE&E complement the SCO is requesting additional \$486,000 in funding for the following:

- Accurant Batch Service and Accurant Online Interface systems
- 13 - Wagers UPS2000 Licenses
- 13 - Adobe Acrobat Professional, Attachmate and Visio Premium Licenses

I. Recommendation

Approve Alternative 1 Provide the SCO \$986,000 in 2016-17 through 2018-19 for 9.0 positions and \$1,351,000 in permanent funding for 8.0 positions in 2016-17 and ongoing from the Unclaimed Property Fund for the continued support of the SCO's Unclaimed Property Fraudulent Claims Prevention and Detection Program.

Workload Description	2016-17 through 2018-19				2019-20 and ongoing			
	New Annual Increased Workload/ Task	Annual Hours per Task	Total Increased Hours	Number of Positions	New Annual Increased Workload/ Task	Annual Hours per Task	Total Increased Hours	Number of Positions
Classification: Staff Services Manager II Major responsibility: Provide policy and procedure development, maintenance, system enhancements, system reports and fraud training. >Provide leadership and guidance to supervisors and staff. Establish and communicate roles, standards, procedures, policies, and guidelines for conduct and performance of tasks to Fraud and Claims Processing Units. >Oversee the development and monitoring of production and staffing plans to ensure claims are for unclaimed property are evaluated for fraud as appropriate. >Recommend operational goals and objectives, evaluate performance against goals and objectives, and redirect resources as necessary to achieve goals. >Ensure program operations are effective and efficient by overseeing development and implementation of processes that result in streamlining and improving operations in the section. >Enforce effective personnel management practices in all aspects of managing and supervising staff. >Develop short and long term planning solutions for issues at Bureau level.	52	7	364	0.2	52	7	364	0.2
	52	7	364	0.2	52	7	364	0.2
	52	4	208	0.1	52	4	208	0.1
	52	4	208	0.1	52	4	208	0.1
	52	6	312	0.2	52	6	312	0.2
	52	6	312	0.2	52	6	312	0.2
Workload assumption: The above workload is based on historical experience and workload.								
TOTALS	312	34	1,768	1.0	312	34	1,768	1.0
Classification: Staff Services Manager I Major responsibility: Oversee the day-to-day operations of the Fraud Unit. >Manage and implement policies and procedures for the Fraud Unit. >Monitor and report to Staff Services Manager II weekly status of workload production in the Fraud Unit. >Oversee the development of fraud tools and resources. >Oversee and report to management the weekly status and workload production of the number of claims reviewed and determined to be fraud. >Report to the Staff Services Manager II claims determined to be fraudulent and/or any claims discovered to be fraudulent that were already paid and act as a liaison between legal office and staff for follow-up. >Staff development and training. >Complete managerial tasks assigned.	52	8	416	0.2	52	8	416	0.2
	52	7	338	0.2	52	7	338	0.2
	52	7	338	0.2	52	7	338	0.2
	52	3	177	0.1	52	3	177	0.1
	52	3	177	0.1	52	3	177	0.1
	52	3	177	0.1	52	3	177	0.1
	52	3	156	0.1	52	3	156	0.1
Workload assumption: The above workload is based on historical experience and workload.								
TOTALS	364	34	1,778	1.0	364	34	1,778	1.0
Classification: Associate Information Systems Analyst Major responsibility: System Administration and Support for UPS 2000 > Program SQL queries and Crystal report to identify high risk claims to review. >Test and report system defect in the batch automation. >Analyze claim data to identify trends in the submission of fraudulent claims. >Program SQL queries to identify all claims submitted by a specific fraud suspect. >Update and maintain system reference table as well as contracts and licensing of products by the Fraud Unit.	52	10	520	0.3	-	-	-	-
	52	10	520	0.3	-	-	-	-
	52	8	416	0.2	-	-	-	-
	52	3	156	0.1	-	-	-	-
	52	3	156	0.1	-	-	-	-
Workload assumption: The above workload is based on historical experience and workload.								
TOTALS	260	34	1,768	1.0	-	-	-	-
Classification: Associate Governmental Program Analyst Major responsibility: Review Claims >Review and evaluate the identified "high risk" claims ensuring no fraudulent activity. >Develop policies and procedures related to fraud, claim processing and provide training to all UPD staff. >Develop and run management information reports, evaluate information and associated claims.	10,938	1	14,219	8.0	5,469	1	7,110	4.0
	52	34	1,768	1.0	26	34	884	0.5
	52	34	1,768	1.0	26	34	884	0.5
Workload assumption: The above workload is based on historical experience and workload.								
TOTALS	11,042	69	17,755	10.0	5,521	69	8,878	5.0
SUBTOTAL - UPD	11,978	172	23,070	13.0	6,187	138	12,424	7.0

Workload Description	2016-17 through 2018-19				2019-20 and ongoing			
	New Annual Increased Workload/ Task	Annual Hours per Task	Total Increased Hours	Number of Positions	New Annual Increased Workload/ Task	Annual Hours per Task	Total Increased Hours	Number of Positions
Classification: Systems Software Specialist II (ISD)								
Major responsibility: Technical Services Bureau (TSB) - serve as a high level technical specialist who performs the most complex database software design, specifications, implementation, changes, problem identification and resolution, and administration of the Unclaimed Property Division system databases. Act as lead, work independently, or work as part of a team to provide the SCO with optimal use, maximum security, and required availability from its data, information resources, and databases.								
> Analyze impact, estimate work effort, gain approval, and accomplish database change requests.	20	21	420	0.2	20	21	420	0.2
> Submit change requests through source code management system.	20	12	240	0.1	20	12	240	0.1
> Accomplish software maintenance (bug fixes, patches) and server patches for operating system and security risks and monitor database backups and alerts.	12	11	132	0.1	12	11	132	0.1
> Test and fine tune database backup restoration plans and manage database security and logins and interface; perform capacity planning, software and hardware refresh	10	15	150	0.1	10	15	150	0.1
> Resolve production database problems and document results and prepare, submit and facilitate Otech service requests for hardware/software.	4	20	80	0.1	4	20	80	0.1
> Interact with application and web developers for improvements and technology refresh.	15	11	165	0.1	15	11	165	0.1
> Update system documentation/diagrams as changes occur.	3	45	135	0.1	3	45	135	0.1
> Build/rebuild indexes, views, scripts, stored procedures, SSIS packages, triggers, etc. as needed	10	25	250	0.1	10	25	250	0.1
> Participate in disaster recovery drills and make improvement. Attend technical training; Keep aware and current in industry best practices, processes, and tool; Perform architecture services - standards, target solutions, industry best practices, mapping.	4	51	204	0.1	4	51	204	0.1
Workload assumption: The above workload is based on historical experience and workload.								
TOTALS	98	211	1,776	1.0	98	211	1,776	1.0
Classification: Senior Information Systems Analyst - Specialist (ISD)								
Major responsibility: Business Systems Bureau (BSB) - function as a project leader of a multi-disciplined project team and an independent high-level specialist who has responsibility for implementing the most complex, critical system changes to Unclaimed Property Division (UPD) systems.								
> Develop, coordinate, track, monitor and report on SDLC deliverables including requirements and design documents, testing plans, requirements traceability matrixes, implementation plans, post-implementation processes and documentation.	52	5	259	0.2	-	-	-	-
> Coordinate, modify and maintain change request tracking	52	3	156	0.1	-	-	-	-
> Provide weekly reports on assigned projects and tasks.	52	4	208	0.1	-	-	-	-
> Coordinate and track application problems and resolutions.	10	32	320	0.2	-	-	-	-
> Coordinate, track, monitor and report on annual release of public information.	1	148	148	0.1	-	-	-	-
> Coordinate and assist business partner in planning and defining new service requests Provide business expertise in business process changes.	5	33	167	0.1	-	-	-	-
> Plan, direct, and review IT projects to assure compliance w/State and SCO methodology.	8	32	256	0.1	-	-	-	-
> Research, test, and recommend new technology. Maintain knowledge of computer, network, and IT systems and trends	8	31	248	0.1	-	-	-	-
Workload assumption: The above workload is based on historical experience and workload.								
TOTALS	188	288	1,762	1.0	-	-	-	-
Classification: Senior Programmer Analyst - Specialist (ISD)								
Major responsibility: Business Systems Bureau (BSB) - administer, plan, coordinate, design, program and implement the most complex system changes for the Unclaimed Property Division (UPD) web systems.								
> Support and maintain weekly web extract process.	2	125	250	0.1	-	-	-	-
> Support and maintain daily claim import process.	2	65	130	0.1	-	-	-	-
> Support UCP requests for special processing of web data.	3	70	210	0.1	-	-	-	-
> Track and monitor system performance issues and assist DBA in identifying and resolving issues.	2	61	123	0.1	-	-	-	-
> Analyze impact of change requests, coordinates testing and implementation of changes.	3	70	210	0.1	-	-	-	-
> Performs backup and recovery services on application releases.	2	70	140	0.1	-	-	-	-
> Coordinates, responds and resolves application problems affecting production.	2	165	330	0.2	-	-	-	-
> Keep aware and current in industry best practices, processes, and tools and update technical user and system administrator documentation.	1	155	155	0.1	-	-	-	-
> Coordinates and assists with Otech on scheduled UCPI server maintenance.	2	120	240	0.1	-	-	-	-
Workload assumption: The above workload is based on historical experience and workload.								
TOTALS	19	801	1,788	1.0	-	-	-	-
SUBTOTAL - ISD	305	1,401	5,326	3.0	98	211	1,776	1.0
TOTAL REQUESTS	12,283	1,572	28,396	16.0	6,295	349	14,200	8.0

CLASSIFICATION / TASK		Workload		
		Months	Hours per Month	Hours per Year
Associate Governmental Program Analyst (three-year LT)	1.0			
General Administrative Support		12	30	360
Conduct and/or review analytical studies and surveys; formulate procedures, policies, and program alternatives; make recommendations on a broad spectrum of administrative and program-related problems; and review and analyze proposed legislation.				
Human Resources Services Support		12	30	360
Prepares formal memoranda or reports on personnel matters; reviews proposed personnel actions for conformity with regulations, classification or pay standards or good personnel practice. Prepares written examinations, and coordinates recruitment programs.				
Business Services Support		12	30	360
Supports day-to-day operations by acquiring and maintaining departmental facilities, manages and directs in-house and external				
Accounting Support		12	30	360
Provides all accounting services pertaining to the SCO budget as to estimates of expenditures, reimbursements and revenues; payment of travel expenses claims and invoices, year-end accrual, billing of reimbursements to the agencies; advise management of forecasted expenditures relative to budgeted authority.				
IT Support		12	15	180
Provides analysis, development, installation, implementation, procurement, or support of information technology systems, multifunction automated office systems, microcomputer systems, and teleprocessing networks and/or systems.				
Program Correspondence and Customer Service		12	15	180
Responds to inquiries concerning policies and procedures and provide technical advice and assistance to staff, management, control agencies, and others.				
Total Estimated Hours				1,800

In 2012-13, the Fraud Unit relied heavily on internal referrals for workload while the unit was being implemented, and staff trained. These referrals helped establish identifiable trends in fraudulent claims received in order to formulate proactive approaches to identifying fraud. These proactive approaches, such as the development of system reports and upfront third-party verifications allowed the Fraud Unit to identify fraud upfront, before claims were assigned to evaluators thereby reducing the number of referrals from evaluator's overtime. Table 3-A below depicts the change across fiscal years for Internal Referrals from UPD staff.

Table 3-A

Internal Referrals				
	Claims	Properties	Values	Value/Claim
2012-13	555	3,322	\$8,711,195	\$15,695
2013-14	122	1,012	\$3,972,950	\$32,565
2014-15	96	1,860	\$3,523,407	\$36,702

Table 3-B below shows the substantial increase in claims and properties identified as fraud due to External Referrals from holders and outside agencies. This increase is a result of the Fraud Unit's efforts to educate holders of fraud prevention tips and increased communication with state and federal agencies.

Table 3-B

External Referrals				
	Claims	Properties	Values	Value/Claim
2012-13	N/A	N/A	N/A	N/A
2013-14	14	38	\$149,085	\$10,649
2014-15	154	327	\$2,231,359	\$14,489

Table 3-C below demonstrates the Fraud Unit's increased efforts to identify fraudulent claims through raw data analysis. In 2012-2013, few trends had yet to be identified, and as such the system reports and fraud identified were few. In 2013-2014, the Fraud Unit found significantly more claims and properties, but the value per claim was lower than 2014-15, at which point the unit was able to refine the reports to pinpoint fraud with greater accuracy.

Table 3-C

System Reports				
	Claims	Properties	Values	Value/Claim
2012-13	65	120	\$98,908	\$1,521
2013-14	179	698	\$3,742,941	\$20,910
2014-15	110	584	\$3,968,129	\$36,074

The table below demonstrates how the claim and property values of fraudulent claims received can impact the fraud identified.

Table 3-D

Third Party Verifications				
	Claims	Properties	Values	Value/Claim
2012-13	11	28	\$ 69,908	\$ 628
2013-14	128	344	\$ 1,235,494	\$ 9,652
2014-15	171	441	\$ 302,379	\$ 1,768

As shown below in Table 4-A, the dollar amount of identity theft and forgery identified by the Fraud Unit has increased while the number of claims and associated properties has decreased. This difference can be attributed in part to the implementation of UPD's paperless claims process, which validates low-dollar claims via a third-party verification process, and makes it more difficult for suspects to submit claims for lower value properties.

Table 4-A

Identity Theft/Forgery				
	Claims	Properties	Values	Value/Claim
2012-13	117	285	\$ 1,141,934	\$ 9,760
2013-14	70	275	\$ 2,718,044	\$ 38,829
2014-15	193	335	\$ 4,383,450	\$ 22,712

Table 4-B, below, depicts the trend in identified Fool's Fraud. While the number of claims and the value of those claims are down in the current year the number of properties being claimed has risen. This table demonstrates how the fraud identified is directly related to the value of the properties available to, and claimed, by suspects.

Table 4-B

Fool's Fraud				
	Claims	Properties	Values	Value/Claim
2012-13	392	1,075	\$ 5,798,013	\$ 14,790
2013-14	340	1,669	\$ 5,639,628	\$ 16,587
2014-15	236	2,179	\$ 3,813,646	\$ 16,160

Table 4-C, below, shows the Fraud Unit's identification of claims as Deception, a sub-category of fraud, has been relatively unpredictable. This is due to the way the Fraud Unit differentiates Deception from Identity Theft and Forgery, in that a claim will not be classified as Identity Theft or Forgery unless the claimant has provided altered documentation. As demonstrated in the table, claimants' willingness or ability to provide altered documentation has not been consistent.

Table 4-C

Deception				
	Claims	Properties	Values	Value/Claim
2012-13	122	2,155	\$ 1,940,064	\$ 15,902
2013-14	33	148	\$ 742,798	\$ 22,509
2014-15	102	698	\$ 1,828,178	\$ 17,923