

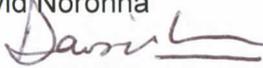
STATE OF CALIFORNIA
Budget Change Proposal - Cover Sheet
 DF-46 (REV 08/15)

Fiscal Year 2016-17	Business Unit 0845	Department California Department of Insurance	Priority No. 1
Budget Request Name 0845-001-BCP-DP-2016-A1		Program 0525 - Consumer Protection 0530 - Fraud Control	Subprogram 0525037 Enhanced Fraud - Investigation Division 053055 Enhanced Fraud - Fraud Division

Budget Request Description
 Enhanced Fraud Investigation and Prevention (Warner Chilcott Settlement)

Budget Request Summary

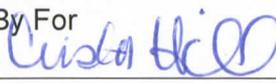
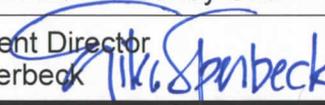
The California Department of Insurance (CDI) successfully litigated an anti-fraud case resulting in a settlement payment which statute indicates upon appropriation shall be used by CDI for enhanced fraud investigation and prevention efforts. Therefore, CDI is requesting a General Fund appropriation of \$6,460,000, for a five-year period, beginning in Fiscal Year (FY) 2016-17 and extending through FY 2020-21 consistent with Insurance Code Section 1871.7 (g)(1)(A)(iv). These funds will support up to 10.0 positions to investigate and prevent Life and Annuity Fraud cases with an emphasis on cases targeting seniors as well as provide planning resources to hire consultants to develop a Stage 2 Alternative Analysis (S2AA) and procurement plan for a fraud data analytics tool.

Requires Legislation <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	Code Section(s) to be Added/Amended/Repealed	
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 David Noronha 	Date 3/14/16

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.

FSR SPR Project No. Date:

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 Keiko Mochizuki & Sandy Chu	Date 3/14/16	Reviewed By For Julia Cross 	Date 3/14/16
Department Director Erika Sperbeck 	Date 3/14/16	Agency Secretary N/A	Date

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	Original signed by Jeff Carosone	Date submitted to the Legislature 4-1-16
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BCP Fiscal Detail Sheet

BCP Title: Enhanced Fraud Investigation and Prevention (Warner Chilcott Settlement)

DP Name: 0845-001-BCP-DP-2016-A1

Budget Request Summary

	FY16					
	CY	BY	BY+1	BY+2	BY+3	BY+4
Positions - Temporary	0.0	8.0	9.0	9.0	10.0	10.0
Total Positions	0.0	8.0	9.0	9.0	10.0	10.0
Salaries and Wages						
Earnings - Permanent	0	381	618	618	698	698
Total Salaries and Wages	\$0	\$381	\$618	\$618	\$698	\$698
Total Staff Benefits	0	154	256	256	318	294
Total Personal Services	\$0	\$535	\$874	\$874	\$1,016	\$992
Operating Expenses and Equipment						
5301 - General Expense	0	54	9	5	8	4
5302 - Printing	0	1	2	2	2	2
5304 - Communications	0	6	10	10	10	10
5320 - Travel: In-State	0	26	32	32	13	13
5320 - Travel: Out-of-State	0	1	2	2	3	3
5322 - Training	0	1	1	1	2	2
5324 - Facilities Operation	0	38	90	87	76	97
5340 - Consulting and Professional Services - External	0	630	180	35	55	55
5344 - Consolidated Data Centers	0	2	3	3	4	4
5346 - Information Technology	0	44	38	38	42	42
5368 - Non-Capital Asset Purchases - Equipment	0	156	0	0	0	0
539X - Other	0	73	27	27	27	27
Total Operating Expenses and Equipment	\$0	\$1,032	\$394	\$242	\$242	\$259
Total Budget Request	\$0	\$1,567	\$1,268	\$1,116	\$1,258	\$1,251
Fund Summary						
Fund Source - State Operations						
0001 - General Fund	0	1,567	1,268	1,116	1,258	1,251
Total State Operations Expenditures	\$0	\$1,567	\$1,268	\$1,116	\$1,258	\$1,251
Total All Funds	\$0	\$1,567	\$1,268	\$1,116	\$1,258	\$1,251

Program Summary

Program Funding

0525037 - Enhanced Fraud Investigation Division	0	1,117	1,268	1,116	1,258	1,251
0530055 - Enhanced Fraud - Fraud Division	0	450	0	0	0	0
Total All Programs	\$0	\$1,567	\$1,268	\$1,116	\$1,258	\$1,251

Personal Services Details

Positions	Salary Information			CY	BY	BY+1	BY+2	BY+3	BY+4
	Min	Mid	Max						
5778 - Atty (Eff. 07-01-2019)(LT 06-30-2021)				0.0	0.0	0.0	0.0	1.0	1.0
5795 - Atty III (Eff. 07-01-2017)(LT 06-30-2021)				0.0	0.0	1.0	1.0	1.0	1.0
8549 - Supvng Special Investigator I (Non-Peace Officer) (Eff. 07-01-2016)(LT 06-30-2021)				0.0	1.0	1.0	1.0	1.0	1.0
8612 - Special Investigator (Eff. 07-01-2016)(LT 06-30-2021)				0.0	7.0	7.0	7.0	7.0	7.0
Total Positions				0.0	8.0	9.0	9.0	10.0	10.0
Salaries and Wages				CY	BY	BY+1	BY+2	BY+3	BY+4
5778 - Atty (Eff. 07-01-2019)(LT 06-30-2021)				0	0	0	0	80	80
5795 - Atty III (Eff. 07-01-2017)(LT 06-30-2021)				0	0	110	110	110	110
8549 - Supvng Special Investigator I (Non-Peace Officer) (Eff. 07-01-2016)(LT 06-30-2021)				0	57	76	76	76	76
8612 - Special Investigator (Eff. 07-01-2016)(LT 06-30-2021)				0	324	432	432	432	432
Total Salaries and Wages				\$0	\$381	\$618	\$618	\$698	\$698
Staff Benefits									
5150900 - Staff Benefits - Other				0	154	256	256	318	294
Total Staff Benefits				\$0	\$154	\$256	\$256	\$318	\$294
Total Personal Services				\$0	\$535	\$874	\$874	\$1,016	\$992

Analysis of Problem

A. Budget Request Summary

The California Department of Insurance (CDI) successfully litigated an anti-fraud case resulting in a settlement payment which statute indicates upon appropriation shall be used by CDI for enhanced fraud investigation and prevention efforts. Therefore, CDI is requesting a General Fund appropriation of \$6,460,000, for a five-year period, beginning in Fiscal Year (FY) 2016-17 and extending through FY 2020-21 consistent with Insurance Code Section 1871.7 (g)(1)(A)(iv). These funds will support up to 10.0 positions to investigate and prevent Life and Annuity Fraud cases with an emphasis on cases targeting seniors as well as provide planning resources to hire consultants to develop a Stage 2 Alternative Analysis (S2AA) and procurement plan for a fraud data analytics tool.

B. Background/History

On December 18, 2015, Insurance Commissioner Dave Jones announced that a \$23.2 million settlement had been reached by the CDI and whistle-blowers with pharmaceutical company Warner Chilcott to resolve a lawsuit alleging drug marketing fraud in violation of State law. The settlement resolves allegations contained in a pay-for-play qui tam health insurance lawsuit filed by three former Warner Chilcott employees. The whistle-blower lawsuit was filed in 2012 in a California Superior Court by the Simmer Law Group on behalf of the whistle-blowers and alleged Warner Chilcott executives violated the California Insurance Code False Claims Act, which prohibits anyone from defrauding private insurance companies by using kickbacks or other inducements to procure or steer clients. As required by the State's insurance whistle-blower law, the Warner Chilcott settlement payment was divided between the whistle-blowers and the State of California. The State's share was \$11.8 million which was paid to the General Fund to be used for enhanced fraud investigation and prevention efforts upon appropriation by the Legislature.

The False and Fraudulent Claims Act (FFCA) is commonly referred to as the "whistle-blower law" and is set forth in the Insurance Fraud Prevention Act (IFPA, Chapter 12, Section 1871 et seq.) contained in the California Insurance Code (CIC). Enacted in 1992, the IFPA contains the whistle-blower law which provides that a private person, company, or entity may bring a civil lawsuit in the name of the State against any individuals, entities, or organizations that are alleged to be involved in the submission of false or fraudulent claims submitted to an insurer.

Under the IFPA, the Commissioner is authorized to use his/her own attorneys to handle this civil litigation. If the Commissioner intervenes and is successful in recovering funds either in settlement or at trial, he or she is entitled to costs and attorney fees in litigating the case, and the State of California is entitled to 60-70 percent of the proceeds after payment of costs. The whistle-blower is entitled to 30-40 percent of the proceeds, the amount of which is determined by negotiation between the Commissioner's attorneys and the whistle-blower's attorneys. After the proceeds are paid pursuant to these percentages, CIC Section 1871.7 (g)(1)(A)(iv) mandates the funds be paid to the General Fund and provides for the Legislature to appropriate these funds for enhanced fraud investigation and prevention efforts.

Resource History – Enforcement Branch - Investigation Division (Dollars in thousands)

Program Budget	2011-12	2012-13	2013-14	2014-15	2015-16 (Projected)
Authorized Expenditures ^{1/}	\$9,211	\$9,713	\$10,722	\$11,724	\$11,773
Actual Expenditures ^{2/}	\$8,957	\$9,473	\$10,678	\$10,498	\$11,773
Authorized Positions ^{3/}	98.0	99.0	99.0	105.0	105.0
Filled Positions ^{3/}	87.0	94.2	90.6	87.7	105.0
Vacancies ^{3/}	11.0	4.8	8.4	16.3	0.0

Analysis of Problem

Resource History – Legal Branch

(Dollars in thousands)

Program Budget	2011-12	2012-13	2013-14	2014-15	2015-16 (Projected)
Authorized Expenditures ^{1/}	\$19,020	\$15,867	\$15,673	\$17,131	\$20,354
Actual Expenditures ^{2/}	\$17,756	\$15,350	\$15,697	\$18,764	\$20,354
Authorized Positions ^{3/}	154.0	129.0	129.5	132.5	151.0
Filled Positions ^{3/}	121.4	124.7	116.1	109.7	151.0
Vacancies ^{3/}	32.6	4.3	13.4	22.8	0.0

1. Based on allotment.

2. Based on FM 13 year-end budget reports.

3. Based on Salaries & Wages (7A).

C. State Level Considerations

This proposal aligns with the goals of the Commissioner to fight insurance fraud in California. One of the Commissioner's highest priorities has been to reduce insurance fraud as the cost of fraud is ultimately passed on to consumers in the form of higher insurance premiums. Insurance Fraud costs every household between \$700 and \$1,000 each year.

The proposal also aligns with the Department's strategic goal to advance effective and efficient business processes. The planning resources for a data analytic tool included in this proposal would eventually enhance operational efficiencies by analyzing data to identify trends, patterns of fraud and networks of fraud that otherwise could go undetected. Moreover, once CDI gets a list of "usual suspects" the Department may even be able to collaborate with other entities that have claims data bases to target specific claims from suspects who may be common to many complaints. This could provide an additional level of targeted enforcement opportunity.

This request is consistent with applicable State law and policies. Law does not need to be added, amended, or repealed in order to implement this request. Because the State received this funding as a result of CDI's enforcement efforts, the funds should be appropriated to CDI for enhanced fraud investigation and prevention efforts consistent with State law. If the State does not appropriate these funds for the purpose stipulated in statute, it may be seen as a waste of targeted resources to be used in the fight against insurance fraud.

D. Justification

The CDI Enforcement Branch is comprised of two divisions: Fraud and Investigation. The Branch investigates criminal and regulatory violations starting with point-of-sale transactions through the claims process. This request is for additional resources to support CDI's Investigation Division and Legal Branch. The partnership among CDI Enforcement, its Legal support, and the local DAs is critical. Below is a recent example of this critical cooperation and the type of success CDI intends to continue with this proposal.

On January 14, 2015, Santa Barbara County District Attorney Joyce E. Dudley announced that Joseph Anthony Mele, of Ventura was sentenced to 10 years in State prison after pleading "no contest" to seven felony counts and two sentencing enhancements on November 12, 2015. This includes multiple counts of financial elder abuse in addition to grand theft, embezzlement, money laundering and filing false tax returns.

Mele was previously employed as an insurance agent by his father, Anthony Mele, at Mele & Associates Senior Insurance Services in Ventura, California, where he became acquainted with the two elderly female victims. Mele was able to gain the trust of the two victims, age 93 and 74, while holding himself out to be a financial planner and then began purchasing, selling, and repurchasing long-term annuities and other types of insurance, without the victims' knowledge. This "churning" of the victims' policies allowed Mele to

Analysis of Problem

generate several hundred thousand dollars in commissions, and the victims to incur over \$400,000 in surrender fees, penalties, and lost premiums.

In early 2013, Mele had the 93-year old victim sign eight blank checks which Mele said he needed so that he "could move quickly on investments." Between February 2013 and September 2014, Mele wrote \$800,000 worth of checks to himself for cash, and deposited them into his personal bank account. The victim's money was then spent, among other things, on dining out, plastic surgery, elaborate vacations, sporting events, wedding photographs, and school tuition. At the time the theft was discovered, the 93-year old victim's life savings had gone from almost \$1.5 million to \$200,000.

Dudley acknowledged the strong collaboration among CDI, the Santa Barbara Police Department, Franchise Tax Board, and Deputy District Attorney Gary Gemberling in bringing Mele to justice. Due to the efforts of CDI, all of the surrender fees, penalties, and interest from the insurance companies were recovered which would have otherwise been lost. Furthermore, it allowed the victims to feel some sense of financial stability and security.

Enforcement Branch - Investigation Division (ID)

ID has the primary duty in the State of California for investigating different types of suspected insurance fraud committed against consumers and is responsible for investigating complaints against agents, brokers, public adjusters, bail agents and other individuals and entities involved in the business of insurance. A major focus of ID resources is insurance fraud committed against senior citizens. Senior Abuse occurs when an insurance crime has been committed against a person age 65 or older. Senior Abuse cases may involve premium theft, identity theft, misrepresentation, forgery, churning/twisting or the sale of unsuitable life insurance and/or annuity policies.

Life and Annuity Fraud Cases

For years it has been difficult to address the demand of Life and Annuity complaints in a timely manner due to insufficient resources. Statewide, ID continuously receives Life and Annuity complaints that have to be prioritized by the egregiousness of the violation, the advanced age of the victims/witnesses and the availability of resources. Over the years, numerous seniors have passed away during the investigation/prosecution phase, thus never receiving justice. Additionally, there is a four-year statute of limitations to prosecute these cases making it even more critical to investigate these cases as they are received.

To address this issue CDI is requesting \$917,000 in FY 2016-17 and \$882,000 annually in FY 2017-18 through FY 2020-21 to support 7.0 Special Investigator positions and 1.0 Supervising Special Investigator to investigate all unassigned/closed Life and Annuity cases, many of which involve seniors, as well as investigate additional cases anticipated due to enhanced outreach efforts. With an increasing senior population, it is critical that the ID has the appropriate level of resources to investigate, prevent, and prosecute illegal Life and Annuity fraud cases, with an emphasis on those that are committed against seniors.

The table below reflects a five-year history of ID's Life and Annuity Consumer Protection Program (LACPP)/Senior cases, including those open but not yet assigned to an investigator, or cases closed due to insufficient resources:

Analysis of Problem

Enforcement Branch - Investigation Division - Life and Annuity Workload History

Workload Measure	2011-12	2012-13	2013-14	2014-15	2015-16 (Projected)
Opened LACPP/Senior Cases - Assigned	247	274	265	288	251
Opened LACPP/Senior cases - Unassigned	102	81	40	39	49
LACCP/Senior cases closed due to insufficient resources	26	36	15	3	10

Life and Annuity/Senior Unassigned Cases

As noted in the Workload History, ID currently has 49 Life and Annuity/Senior open cases that are unassigned. In addition, 13 cases were closed for insufficient resources during the period of January 1, 2014 to December 31, 2015. These cases are related to alleged Life and Annuity and senior fraud perpetrated by unscrupulous imposters/licensed agents. Based on the average time of 137 hours to complete a case, it would take 8,494 projected hours to work the 49 open unassigned cases and the 13 closed cases due to insufficient resources. When divided by 1,778 hours annually, this equates to approximately 5.0 Special Investigator positions. Over the last four fiscal years, ID has closed an average of 20 cases per year due to insufficient resources. These additional positions will ensure there are sufficient resources to work these cases. Furthermore, 1.0 Supervising Special Investigator position will be needed to supervise the additional case work functions. Additionally, ID expects the number of new cases to increase at an even greater pace due to the outreach efforts resulting in as many as 84 additional cases per year for the additional 5.0 Special Investigators to investigate. (See Life and Annuity Outreach section below.)

The hiring process which includes posting, reviewing applications and interviewing plus an extensive background check can take upwards of six months. Therefore CDI does not anticipate filling these 6.0 positions until October 1, 2016 and thus are only requesting 75 percent of the costs for these positions in year one (FY 2016-17). If these resources are not approved, the Life and Annuity unassigned cases will continue to be unaddressed and seniors will not benefit from the financial stability and security they deserve. Moreover, should the projected case increase not materialize, other priority unassigned cases will be investigated by these new positions.

Life and Annuity Outreach

According to census data from the California Department of Aging, there were 5,181,505 seniors (65 and over) and 2,148,977 people ages 60-64 residing in California in 2015. These numbers are projected to increase to 6,250,169 (17-percent increase) and 2,445,413 (12-percent increase) respectively by the year 2020. Many of these seniors will become targets of unscrupulous agents and imposters selling Life and Annuity products.

ID is requesting 2.0 Special Investigator positions to conduct outreach and education to seniors on how CDI can assist fraud victims and to educate them on how to avoid becoming victims. These outreach efforts will target senior groups, other law enforcement agencies, and the general public. ID will place 1.0 Special Investigator in Southern California and 1.0 Special Investigator in Northern California to focus on the targeted population and minimize travel costs.

The ID Special Investigator Outreach positions' main focus will be to handle the senior fraud outreach and education functions described in this proposal. This includes educating seniors in all aspects of Life and Annuity and senior fraud related to insurance and annuity products, consumer protection, purchasing and using insurance and annuity products, claim filing, benefit delivery, and dispute resolution. This includes ensuring that senior consumer fraud protection/prevention information is presented with high visibility, frequency and in a variety of media form that will expand senior consumer access to the high-quality anti-fraud information and resources that ID and the Department has available. Seniors can use this

Analysis of Problem

information to deal effectively with complex and potentially fraudulent Life and Annuity insurance solicitations and with the process of purchasing life insurance.

In years one and two, these positions will focus on researching, developing and implementing an Outreach Program that will consist of:

- Developing materials for presentation to seniors/training for local Law Enforcement (LE)
- Identifying locations to conduct Senior Outreach and Local LE Training
- Creating Life & Annuity advertisements
- Conducting presentations to seniors and training to local LE

CDI expects that the outreach efforts will result in an increase in case referrals. In FY 2012-13 through 2014-15, outreach efforts in the San Diego County District Attorneys Workers' Compensation program resulted in a 75-percent increase in referrals over a three-year period. Given the program models are similar, LACPP could very well see the same level of success due to the planned outreach. However, given the LACPP is a much smaller program than the San Diego County District Attorneys Workers' Compensation program, CDI is conservatively projecting an increase of 25 percent in anticipated case referrals as a result of the outreach efforts. Based on the four-year average of 334 assigned cases, CDI anticipates an additional 84 cases per year. Using an average of 137 hours to complete a case this equates to workload sufficient to support 6.4 Special Investigators. Additionally, the 2.0 Special Investigators for outreach will transition from outreach to assisting in handling some/all of the anticipated caseload growth during years two through five as the caseload growth materializes. Similarly, due to the extensive recruitment process ID anticipates filling these 2.0 positions by October 1, 2016 and is only requesting 75 percent of the costs in year one.

Additionally, ID requests \$200,000 for FY 2016-17 and FY 2017-18 and \$55,000 for FY 2018-19 through FY 2020-21 to support educational material, travel costs and statewide Anti-Fraud advertisements intended to educate the senior population and those assisting them about the risk of Life and Annuity fraud by unscrupulous imposters/licensed agents. These advertisements could include public service announcements on network and cable television stations, billboards in strategic areas frequented by seniors throughout the state, targeted Google advertisements, and advertisements placed in strategic public transportation locations. This new approach will educate the targeted senior community regarding the resources within CDI that can assist if a senior has had a crime committed against them by a licensed agent or someone posing as one. The Special Investigator Outreach positions will establish and coordinate these efforts based on known and existing schemes, good buying practices, will hold and participate in senior and law enforcement educational events and will develop and issue written and website materials directed at fraud targeting seniors. This preventative strategy of publicizing these issues and the assistance available via numerous media sources will publicize the issue. ID also expects this to serve as a deterrent for licensed agents or imposters from committing these types of crimes. If these outreach resources are not approved, seniors will be less knowledgeable on how to protect themselves and be more prone to insurance fraud.

Legal Branch

The Legal Branch is requesting 1.0 Attorney III and 1.0 Attorney I position as a result of additional Life and Annuity fraud cases that will be referred to the Legal Branch for administrative enforcement actions. These cases tend to be complex and voluminous, often requiring complex analysis and hearing experience. The time to handle these cases in the past has ranged from a few weeks to several years. Hearing times for these cases can range from three days to several weeks, depending on the complexity. The anticipated increased referrals from ID will not be ready for referral until the additional Special Investigators brought on board by ID have had time to complete the work on the unassigned and closed case backlog.

Analysis of Problem

ID projects approximately 104 cases per year will be opened as a result of the outreach efforts. Approximately, 20 percent of ID's LACPP senior cases are referred to the Legal Branch. Based on this referral rate, the Legal Branch projects to receive approximately 21 additional cases per year.

Average time per case:

- Initial Review of Cases – 20 hours
- Pre Hearing Matters, such as Discovery, Witness Prep, Research, etc. – 160 hours
- Hearing – 40 hours
- Post Hearing Matters – 10 hours

With the average case taking 230 aggregate hours to complete, assuming 1,778 hours annually, the Legal Branch anticipates the need for 1.0 Attorney III and 1.0 Attorney I position to handle the additional workload ($4,830/1,778 = 2.7$ positions). The Legal Branch anticipates that there will be a ramp up of referrals so the Branch anticipates the need for the Attorney III beginning in FY 2017-18 and the Attorney I beginning in FY 2019-20 through FY 2020-21. Thus, the Legal Branch is requesting \$186,000 in FY 2017-18, \$179,000 in FY 2018-19, \$321,000 in FY 2019-20, and \$314,000 in FY 2020-21.

If the resources are not approved, the Legal Branch will be unable to work the additional cases referred to Legal timely and efficiently. This is particularly dire in these cases, which are given priority due to the age of the victims and the likelihood that those victims' memories may fade or they will become unavailable for hearings, or to otherwise assist in the prosecution of these types of cases.

Enforcement Branch – Fraud Division (FD)

The core mission of the FD is to protect the public and prevent economic loss through the detection, investigation, and arrest of insurance fraud offenders. The FD oversees the following five fraud programs: (1) Automobile Insurance Fraud Program, (2) Organized Automobile Fraud Activity Interdiction Program, (3) Disability and Healthcare Fraud Program, (4) Workers' Compensation Insurance Fraud Program, and (5) Property, Life and Casualty Fraud Program. These programs are funded through a combination of annual insurer general assessments and insurance policy assessments. The FD receives approximately 33,000 suspected insurance fraud referrals a year.

Fraud Data Analytics

The Department has resources to investigate only approximately 5 percent (1,650) of these referrals. While investigating a case, investigators have access to materials provided by consumers and insurance companies, data, and reports from CDI's Fraud Investigation Database (FIDB), and manual research of external data sources. At case intake and supervisor review, CDI staff must manually lookup data in internal and external data sources to identify the most likely cases to investigate.

Cases are assigned at intake based on county. Currently, there is no way to immediately determine if networks of fraud (such as prescription drug fraud) that operate across several counties are linked to a single case. For example, if a fraud network operates across 10 counties, cases associated with that network will be referred to different offices. This results in multiple investigations without any way to correlate any patterns that the network leverages.

CDI would benefit greatly from having an analytical tool that will analyze information quickly, sift through massive data sets, and assist in FD's existing efforts to identify fraud trends and patterns and select significant and high-impact, multi-jurisdictional cases. In order to implement an analytical tool for the FD, CDI is requesting \$450,000 in FY 2016-17 for the planning of a Software-as-a-Service (SaaS) solution for enhanced fraud investigation and prevention efforts.

Analysis of Problem

Planning Phase

The planning phase will begin on July 1, 2016. The Fraud Data Analytics IT project proposal planning activities will result in an approved S2AA and a procurement plan. The CDI does not have sufficient internal resources to dedicate to the research and development of these detailed documents, but will provide oversight and support resources throughout the project lifecycle. The CDI will hire consultants to start to develop the California Department of Technology's (CDT) S2AA planning document. Some of the required artifacts include a project schedule, 12 project plans, As-Is and To-Be business process documents, functional and technical requirements, market research results, alternative analyses, architecture information, and the assessment of data conversion or migration needs.

In addition, CDI will perform a Proof of Concept (POC) as part of the market research for the S2AA planning document to identify solutions that are available in the marketplace to satisfy FD's needs. The POC will be a smaller model of the final Fraud Data Analytics tool. An ITD analyst will work with various vendors to collect approximately four years of data from the Department's existing FIDB for the POC. This will allow FD to determine the best analytical solution based on the ability to meet specified requirements. The resources requested in the first year are outlined in Section H. Supplemental Information - Table H-I – FY 2016-17 IT Proposed Planning Resources for S2AA and POC.

The Department will continue to collaborate with the CDT to successfully plan and implement the Fraud Data Analytics tool. It is critical that the FD receive these resources so that it can leverage data analytics, identify trends and patterns of fraud, and establish networks of fraud in order to protect consumers. The Data Analytics tool will provide Fraud with a list of individuals and entities (Clinics, Businesses, etc.) that may be of particular interest to the Division. This could include individuals or entities who are de-duplicated by the fraud detection system and associated with multiple active investigations, individuals or entities who are Persons-of-Interest across multiple cases, individuals or entities with social network links to other suspects on open or closed cases, or a variety of scenarios.

Today, cases are assigned by county to one of several offices. This tool will allow CDI to determine groups or networks operating across multiple counties, resulting in a single focused investigation, identification of patterns which will bring about better investigation results. This functionality will allow investigators to identify matches in data for known patterns of interest, detect anomalies, and discover new patterns. This visual representation of all linked data will allow an investigator to easily navigate through related datasets to identify and tag relevant data. This will result in more consumer cases being investigated with better probability of a successful result.

Implementation of this software tool will result in more loss recovery and more cases investigated, and will also improve officer safety through the detection of additional known associates. This will be accomplished with software functionality to discover external, internal, and social networks that will yield a list of additional known associates, which will provide investigators with a much better profile of the individual and their connections. This is critical in instances where officers serve search warrants, etc. because it will provide background that will help investigators determine what they may expect, resulting in more officer safety.

CDI submitted a Stage 1 Business Analysis to the CDT on January 19, 2016 for support and approval since the project is outside of CDI's delegation authority and requires a budget action. Once CDI receives an approved S2AA, the Department will submit future requests for resources to complete the project through the budget process.

Analysis of Problem

E. Outcomes and Accountability

Enforcement Branch – Investigation Division

- Education will allow seniors to be more knowledgeable about Life and Annuity insurance so they can be better protected.
- Training additional Law Enforcement Agencies about the victimization of consumers, especially seniors in the Life and Annuity insurance arena and on cases to refer, thus partnering with CDI.
- The number of ID investigations will increase which will result in an increase in the following:
 - Number of referrals to Legal Branch/DAs
 - Number of arrests
 - Number of administrative and criminal prosecutions

Improvements or program changes can be measured by the existing Enforcement Branch reporting requirements. The Investigation Division Case Management System (IDCM) tracks all investigative and outreach activity. Enforcement Branch internal controls are already in place to ensure earmarked funding is used for its required investigative purpose. Monthly expenditure and time allocation reports are monitored on an ongoing basis by Enforcement Branch management to ensure resources are used for their statutory purpose.

Legal Branch

Legal will be able to administratively prosecute the new cases generated by the ID with the additional resources. CDI has a time/activity reporting system to track staff time, and will therefore monitor the amount of time spent on the associated activities to ensure resources are used appropriately.

Enforcement Branch – Fraud Division

An approved S2AA for fraud data analytics software tool will move CDI toward the following:

- Fraud Data Analytics increases the capacity to investigate likely fraud cases by weeding out potential or non-fraud cases.
- Implementation of data analytics potentially identifies networks of Fraud, increasing investigation yield (one network versus several individual cases).
- Implementation of this solution will enable the FD to identify patterns of fraud from historical data, which when applied to recent data, enhances fraud detection and identifies fraud that otherwise may not have been detected. The net result is a highly efficient simplified process model.
- The project will leverage data analytics to improve the Division's loss recovery through the use of suspected fraudulent claim prioritization algorithms. It is anticipated that there will be an increase of 5 percent in loss recovery for the Division.
- The leveraged data analytics will provide investigators with a list of individuals and entities who may be of particular interest to the Division. These individuals and entities may be de-duplicated by the fraud detection system, associated with multiple active investigations, or have social network links to other suspects on open or closed cases. It is anticipated that 100 percent of suspect profiles will be validated and confirmed by the system.
- A fraud data analytics software tool will improve officer safety through the detection of additional known associates, via social lookups and links to other cases. This capability will provide a 10 percent decrease in the amount of time required to identify potential known associates.
- Investigators will have a robust link to analysis functionality to identify matches in data for known patterns of interest, detect anomalies, and discover new patterns. This visual representation of all linked data will allow an investigator to easily navigate through related datasets to identify and tag relevant data. This capability will provide a 10 percent increase in network identification.

Analysis of Problem

The FD will measure and compare the loss recovery totals for the three fiscal years post-implementation to the three fiscal years prior to implementation to validate that program goals were met. Individuals and entities of particular interest will be measured by running a system report at the end of the first full calendar year on the number of validated suspect profiles. System reports will record the amount of time taken to identify known associates during one full calendar year to compare to the current baseline.

The system will document the findings of relevant data associated with networks of fraud. Then, a report will be generated on the data during one full calendar year post-implementation to compare to the current baseline of identified networks.

F. Analysis of All Feasible Alternatives

Alternative 1 – Approve as requested.

Pros:

- Resources will be made available to enhance fraud investigation and prevention efforts and protect consumers from unscrupulous imposters/licensed agents.
- Settlement funds paid to the GF would be used for their statutory purpose.

Cons:

- GF resources will be impacted; however, as a result of a whistle-blower settlement these monies were deposited in the GF for this purpose and are available for appropriation.
- Growth in State Government.

Alternative 2 – Use Insurance Fund to support CDI's request for resources for enhanced investigation and prevention efforts.

Pros:

- GF resources will not be impacted.

Cons:

- Settlement funds paid to the GF would not be used for their statutory purpose.
- This is not a viable option because the Insurance Fund balances cannot support a request of this magnitude at this time.

Alternative 3 – Approve requested resources for ID and Legal Branch, but do not approve the Fraud Data Analytics planning resources.

Pros:

- Less expenditures than Alternative 1.
- Partially enhances fraud investigation and prevention efforts and protects consumers from unscrupulous imposters/licensed agents.

Cons:

- Settlement funds paid to the GF would not be fully utilized for their statutory purpose.

Analysis of Problem

Alternative 4 – Deny request.

Pros:

- GF resources will not be impacted.
- No growth in State Government.

Cons:

- Settlement funds paid to the GF would not be used for their statutory purpose.
- A significant amount of Life and Annuity fraud would go uninvestigated and no resources would be available to investigate and prosecute unscrupulous imposters/licensed agents.
- CDI will not be able to increase loss recovery, validate and confirm suspect profiles, decrease the amount of time required to identify potential known associates, and increase fraud network identification.

G. Implementation Plan

Enforcement Branch – Investigation Division

ID will start the hiring process in April 2016 to ensure the positions are filled effective October 1, 2016. Due to the recruitment process for Special Investigators and the extensive background check it takes approximately six months to fill a position. The hiring will be contingent upon approval of the positions being included in the FY 2016-17 Budget Act.

Legal Branch

Legal will start the hiring process in April 2017 to ensure the first position is filled effective July 1, 2017. The hiring will be contingent upon approval of the position being included in the FY 2017-18 Budget Act. The hiring process for the second position will start in April 2019 to ensure it is filled effective July 1, 2019. The hiring will be contingent upon approval of the position being included in the FY 2019-20 Budget Act.

Analysis of Problem

Enforcement Branch – Fraud Division

FY 2016-17 – IT Project Planning Activities and Schedule

Task Name	Start Date	End Date
Release Request for Offers and Award Contracts	7/1/2016	7/18/2016
Develop, Review, and Approve Project Management Plans (12)	7/4/2016	8/15/2016
Plan/Conduct Project Meetings	7/4/2016	11/30/2016
Perform Project Oversight	7/4/2016	11/30/2016
Requirements Track	7/4/2016	8/15/2016
Data Architecture	7/4/2016	8/15/2016
Technical Architecture	7/4/2016	7/15/2016
Requirements Specification	7/4/2016	8/15/2016
Develop and Complete S2AA	7/4/2016	8/15/2016
Develop and Complete a Procurement Plan or Stage 3 Solution Development Document	7/4/2016	8/15/2016
Develop, Review, and Approve Project Charter	7/18/2016	8/10/2016
Submit S2AA to CDT for Review and Approval	8/30/2016	8/30/2016
Develop, Release and Implement POC Request for Quotation	9/1/2016	11/30/2016

H. Supplemental Information

Table H-1
FY 2016-17 IT Proposed Planning Resources for S2AA and POC Cost Breakdown

Item	Rate	Hours	FY 2016-17 Total
Consulting & Professional Services - External			
Business Analyst	\$160.00	600	\$96,000
Project Manager	\$125.00	1,000	\$125,000
Enterprise Architect	\$160.00	200	\$32,000
Security Consultant	\$136.00	125	\$17,000
POC Vendor Cost (3 vendors @ \$60,000)			\$180,000
Total		1,800	\$450,000

I. Recommendation

Alternative 1 – This is the only alternative that will provide the resources intended and necessary for CDI to enhance its fraud investigation and prevention efforts, particularly against seniors. Without these resources California consumers will continue to be harmed by fraudulent activity that is not investigated or prosecuted.

Denial of this proposal will not provide the resources necessary to enhance its fraud investigation and prevention efforts, particularly against seniors and, ultimately, weaken the Commissioner's fight against insurance fraud in California.