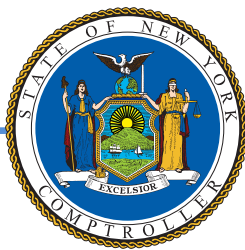

Enterprise Fraud, Waste and Abuse Prevention and Detection Act

Annual Report to the Legislature



OFFICE OF THE NEW YORK STATE COMPTROLLER
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Introduction

Chapter 566 of the Laws of 2015, the “Enterprise Fraud, Waste and Abuse Prevention and Detection Act” (Act), codified as State Finance Law § 8-c, was enacted in December 2015 and took effect on April 19, 2016. The Act sets forth provisions for a Statewide electronic system to help detect and prevent waste, fraud, and abuse and the improper payment of public moneys. It affirms the State Comptroller’s role in protecting the public’s money, and promotes cooperation by all State agencies and State public authorities in this effort.

The Enterprise Fraud, Waste and Abuse Prevention and Detection Act also requires the State Comptroller to report to the Legislature every year by September 1st on the progress, status and results of the electronic fraud prevention and detection system resulting from this new law. This is the first such report.

The Enterprise Fraud, Waste and Abuse Prevention and Detection Act

The Act authorizes the State Comptroller to establish, implement and update an electronic data analytical enterprise fraud prevention and detection system. State agencies, State public authorities and other State entities are directed to fully support and cooperate with the Comptroller, and the Comptroller is authorized to identify and obtain access to data for use in the new system, in accordance with applicable State and federal law.

The Act specifies that the Office of the State Comptroller (OSC) may:

- Develop a long-range plan for preventing or detecting improper payments of public moneys and for preventing and detecting fraud, waste and abuse in government operations.
- Acquire technology to enhance automated detection and alerting; monitor program transactions and activity; detect fraud and improper payments prospectively and retrospectively; detect non-transactional fraud, such as program eligibility and identity theft; and evaluate potential savings resulting from such efforts.

Data analytics involves collecting, organizing and analyzing large sets of data. It can be used for many purposes. At OSC, enhancing the use of data analytics holds the potential for building on the agency’s record of identifying, detecting and preventing fraud, waste and abuse in State government spending.

Improved technology and techniques now make it possible to rapidly process large amounts of data and apply automated matching rules and statistical analysis to these data streams. While data analysis has long been used as part of the Comptroller's audit and payment review efforts, the development of new tools and processes can better assist auditors and examiners in their efforts to protect taxpayer resources. Drawing on the advancing field of data analytics to analyze large amounts of varied information, this initiative will leverage the speed and power of technology to facilitate the review of payments. Creating an electronic enterprise-based data system may help prevent more improper payments before they are made, and reduce reliance on a "pay and chase" approach.

Currently, OSC employs a variety of technical methods to receive and access data via existing agreements with agencies. OSC will continue relying on these methods for data acquisition and storage, and will continue to ensure that any data that is not to be shared per State or federal law is appropriately safeguarded and encrypted to maintain confidentiality in a secure environment. For various statutory, regulatory or technical reasons, certain data may be better accessed directly from existing sources. In those cases, OSC will propose solutions that include secure access to the data in agency source files with links to the enterprise data analytics system.

While OSC's approach envisions wide-ranging consideration of the kinds of information that may be useful to this effort, the Act recognizes the importance of protecting private information and maintaining secure access through the use of protocols in accordance with applicable State and federal law. OSC is developing these protocols to ensure that necessary controls are in place to maintain appropriate access to and handling of data throughout the period the system is in use. These protocols will be shared with all data providers.

Successful Prior Results

Examiners from OSC have used data to identify high risk areas such as large payments or payments to entities previously found to be suspect. Examples of areas that currently benefit from the use of data analytics include Personal Income Tax refunds,¹ Unemployment Insurance,² and Workers' Compensation

1 Personal Income Tax Refund Reports:

<http://osc.state.ny.us/audits/allaudits/bseaudits/bse20160511.pdf>

<http://osc.state.ny.us/audits/allaudits/bseaudits/bse20150414.pdf>

<http://osc.state.ny.us/audits/allaudits/bseaudits/bse20140416.pdf>

2 Unemployment Insurance Payments Reports:

<http://osc.state.ny.us/audits/allaudits/bseaudits/bse20151007.pdf>

<http://osc.state.ny.us/audits/allaudits/bseaudits/bse20140609.pdf>

<http://osc.state.ny.us/audits/allaudits/bseaudits/2012bse3a001.pdf>

Fund payments,³ with a three-year estimated financial impact of \$144 million. In addition, a review of State Insurance Fund outstanding accounts receivables identified up to a range of \$1.0 million to \$3.8 million available in payments from State agencies to vendors to offset outstanding policy premiums since 2012.⁴

The State Comptroller intends to build on these successful efforts using the new system, including the use of Business Intelligence, Statistical Process Control and Predictive Analytics, as well as the use of unstructured data. This approach will aid the Comptroller's auditors and examiners in their continued fight against fraud, waste and abuse.

Next Steps

Since the Act became law, OSC has been working to create the foundation upon which to build the electronic enterprise data analytic system. This includes coordinating existing resources, and determining program, staff and technology needs to maximize the value of this initiative.

Initial efforts have been focused on identifying data available from various sources, including data already maintained by the State Comptroller in the Statewide Financial System. For example, work has begun to structure certain data and provide access to related information about payments that can help examiners identify unusual spending trends that may signal an improper use of State funds.

Industry tools are being identified which, when coupled with existing Information Technology (IT) investments, can enhance OSC's ability to process, classify and evaluate data. For example, performance-enhancing hardware and software holds the potential to accelerate processing times and speed analysis. Similarly, increased storage capacity and retrieval speed will be evaluated for potential benefits. OSC is engaged in a systematic review of options, balancing business needs and potential return on investment, which may support resource requests in the future as contemplated under the new law.

Drawing on the advancing field of data analytics to analyze large amounts of varied information, this initiative will leverage the speed and power of technology to facilitate the review of payments.

3 Workers Compensation Fund Payments Reports:

<http://osc.state.ny.us/audits/allaudits/bseaudits/bse20160509.pdf>

<http://osc.state.ny.us/audits/allaudits/bseaudits/bse20150330.pdf>

<http://osc.state.ny.us/audits/allaudits/bseaudits/bse20140513.pdf>

4 State Insurance Fund Outstanding Accounts Receivables Report:

<http://osc.state.ny.us/audits/allaudits/bseaudits/bse20160819.pdf>

In addition, enhancing support for OSC's highly skilled workforce can be one of the best investments in improving fraud prevention and detection. OSC will continue to develop its data analytics training and, where possible, draw on such training to facilitate the payment review processes, utilizing tools that can refine risk assessment, data filtering, the management of payment flows, and the use of automation.

Going forward, OSC will continue to work cooperatively with other stakeholders to identify where business processes and systems can be modified to improve the detection of fraud, waste and abuse and address improper payments before they are made. The elements of this plan may include: data-sharing agreements to gain real-time access to certain data sets or systems; creation of various models and processes to strengthen data analysis; and establishment of new controls that can be implemented via payment system modifications.

Conclusion

The Office of the State Comptroller will continue its efforts to integrate data analytics into its payment review process. Once the electronic data system is fully developed, OSC will be able to build on its capacity to detect and deter fraud, waste and abuse.

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