



FLORIDA
DEPARTMENT OF
FINANCIAL SERVICES

TOM GALLAGHER
CHIEF FINANCIAL OFFICER
STATE OF FLORIDA

January 1, 2007

The Honorable Ken Pruitt
President of the Senate
Room 400 – Senate Office Building
Tallahassee, Florida 32399-1100

The Honorable Marco Rubio
Speaker of the House
The Capitol – Suite 420
Tallahassee, Florida 32399-1300

Dear President Pruitt and Speaker Rubio:

The Division of Insurance Fraud and the Division of Workers' Compensation appreciate the opportunity to provide you with this joint report regarding workers' compensation fraud, pursuant to section 626.989(9), Florida Statutes.

This report is a summary of our efforts and activities in combating workers' compensation fraud for the period of July 1, 2005 – June 30, 2006.

If you have any question or concerns regarding this report, please give either of us a call.

Sincerely,

Tanner Holloman, Director
Division of Workers' Compensation
(850) 413-1600

Sincerely,

Eric Miller, Director
Division of Insurance Fraud
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**Joint Report to
The President of the Florida Senate and
The Speaker of the Florida House of Representatives**

**The Florida Department of Financial Services
Division of Insurance Fraud and
Division of Workers' Compensation**



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**JOINT REPORT TO
THE PRESIDENT OF THE FLORIDA SENATE
AND
THE SPEAKER OF THE FLORIDA HOUSE OF REPRESENTATIVES**

BY

THE FLORIDA DEPARTMENT OF FINANCIAL SERVICES

**DIVISION OF INSURANCE FRAUD/BUREAU OF WORKERS' COMPENSATION FRAUD
AND
DIVISION OF WORKERS' COMPENSATION**

January 1, 2007

The Florida Department of Financial Services, Division of Workers' Compensation (DWC) and Division of Insurance Fraud /Bureau of Workers' Compensation Fraud (BWCF) submit this joint report to the President of the Florida Senate and the Speaker of the Florida House of Representatives, pursuant to §626.989(9), Florida Statutes 2003. The joint report addresses the areas identified in §626.989(9), for the period of July 1, 2005 through June 30, 2006.

I. DIVISION OF INSURANCE FRAUD/BUREAU OF WORKERS' COMPENSATION FRAUD

The Division of Insurance Fraud's Bureau of Workers' Compensation Fraud (BWCF) continues to implement a proactive strategy in addressing the issue of fraudulent practices in the workers' compensation system. The Bureau continues to work closely with the Division of Workers' Compensation, Bureau of Compliance and the Department of Business and Professional Regulation (DBPR) by sharing information and participating in joint enforcement operations throughout the state. The Division of Insurance Fraud's Bureau of Workers' Compensation Fraud, under the leadership of Chief Jeff Korte, remarkably surpassed last fiscal year's record of 213 workers' compensation fraud arrests. In February 2006 alone, the BWCF made 25 workers' compensation fraud arrests – almost one a day. During this reporting period, Chief Korte's accomplishments were recognized with his receipt of a meritorious police service award from the Division of Insurance Fraud.

The "case-type" percentages followed the same trend as the previous reporting year, with approximately 50 percent of the referrals related to claimant fraud. There was an increase in cases involving companies working without the required workers' compensation insurance coverage. Another significant trend, noticeable last year, involves complex premium fraud cases and money laundering. In these schemes, offenders are forming bogus companies and obtaining small workers' compensation insurance policies. The bogus company then literally sells certificates of insurance (proof of coverage) to groups of uninsured subcontractors. The subcontractors then present this proof of insurance to the general contractors they are working for, giving the general contractor the impression they are covered under the bogus company's insurance policy. The general contractor then pays the subcontractor with a check made out to the bogus company. The subcontractor then gives the check to the bogus company owner who takes the check to a check cashing store, cashes the check and returns the cash to the subcontractor so he can pay his employees. The bogus company owner keeps anywhere from 2% to 3% of the amount of each check and the check-cashing store keeps usually 3 percent as their fee. This scheme surfaced in the south and central Florida areas last year, and continues to be of concern. The BWCF is managing several major criminal cases and has coordinated task forces to address similar schemes. Last year's major premium fraud/money laundering case, dubbed "Operation Money Trail," resulted in the arrest of six subjects in February 2006 and the seizure of almost \$1 million from a check-cashing store and two associated Boca Raton residences.

In June of 2005, the BWCF conducted a three-day statewide arrest sweep which resulted in 28 arrests for various workers' compensation fraud-related charges. Significant media attention was afforded this operation to heighten public awareness. The 28 persons were arrested on a variety of charges including submitting fraudulent workers' compensation claims, forging workers' compensation documents or exemptions, violating orders to stop work until adequate coverage is obtained, and failure to secure coverage.

For the fiscal year covered by this report, the BWCF presented cases with a fraud dollar value/restitution amount of \$8,725,191.00. The total for the entire Division of Insurance Fraud was \$20,591,198.00. The BWCF amount of \$8,725,191.00 equates to a very impressive 42% of that total.

During this reporting period, several of the BWCF crime intelligence analysts attended and graduated from the Florida Department of Law Enforcement's Crime Intelligence Analyst Academy. This training greatly enhanced their skills and capabilities and officially designated these graduates *Certified Crime Intelligence Analysts*. All BWCF sworn personnel attended training at the Pat Thomas Law Enforcement Academy in Tallahassee. This weeklong training covered the areas of high liability arrests and apprehensions, and general investigative techniques. Several BWCF sworn personnel have also attended training on computer data recovery, which will greatly enhance our ability to capture and preserve computer-related evidence to support successful prosecutions.

Referrals by Source		Cases Opened	Cases Closed	Cases Presented	Arrests	Referrals to DWC Compliance
Carriers	508	116				
DWC	127	60				
Others	1347	310				
Total	1982	486	557	221	224	62

TYPES of CONVICTIONS	Number of Convictions
Claimant Fraud	48
Working Without Workers' Compensation Insurance	85
Premium Fraud	7
Fraudulent Certificate of Insurance	32
Uttering a Forged Instrument	6
Grand Theft	6
Total Convictions	184

Number of Convictions by Judicial Circuit			
Circuit	Convictions	Circuit	Convictions
1st	8	11th	52
2nd	8	12th	11
3rd		13th	7
4th	12	14th	2
5th	4	15th	19
6th	9	16th	
7th	3	17th	1
8th	2	18th	1
9th	14	19th	19
10th	2	20th	6
Federal	5		

PROSECUTIONS DECLINED		
Judicial Circuit	Number of Prosecutions	Reason For Decline
1st	2	2-Successful prosecution unlikely
2nd	0	
3rd	0	
4th	2	1- Successful prosecution unlikely 1- Statute of limitations
5th	0	
6th	3	2- Successful prosecution unlikely 1- Civil Settlement
7th	2	2- Successful prosecution unlikely
8th	1	Successful prosecution unlikely
9th	5	3-Successful prosecution unlikely, 1- statute of limitations, 1 Noelle pressed
10th	1	Successful prosecution unlikely
11th	1	Insufficient evidence
12th	4	2-Successful prosecution unlikely, 2- Civil case
13th	3	2- Civil Settlement, 1- Insufficient evidence
14th	0	
15th	0	
16th	1	Successful prosecution unlikely
17th	0	
18th	1	Successful prosecution unlikely
19th	0	
20th	2	1- Civil case, 1- Successful prosecution unlikely

BWCF STAFFING	
Office Location	Workers' Compensation Funded Investigators
Pensacola	1
Tallahassee	0
Jacksonville	3
Tampa	3(1 vacant)
St. Petersburg	3(1 vacant)
Orlando	4
West Palm #1	0
West Palm #2	6
Ft. Myers	2
Broward #1	0
Broward #2	0
Broward #3	2
Miami #1	0
Miami #2	0
Miami #3	4
Totals	28

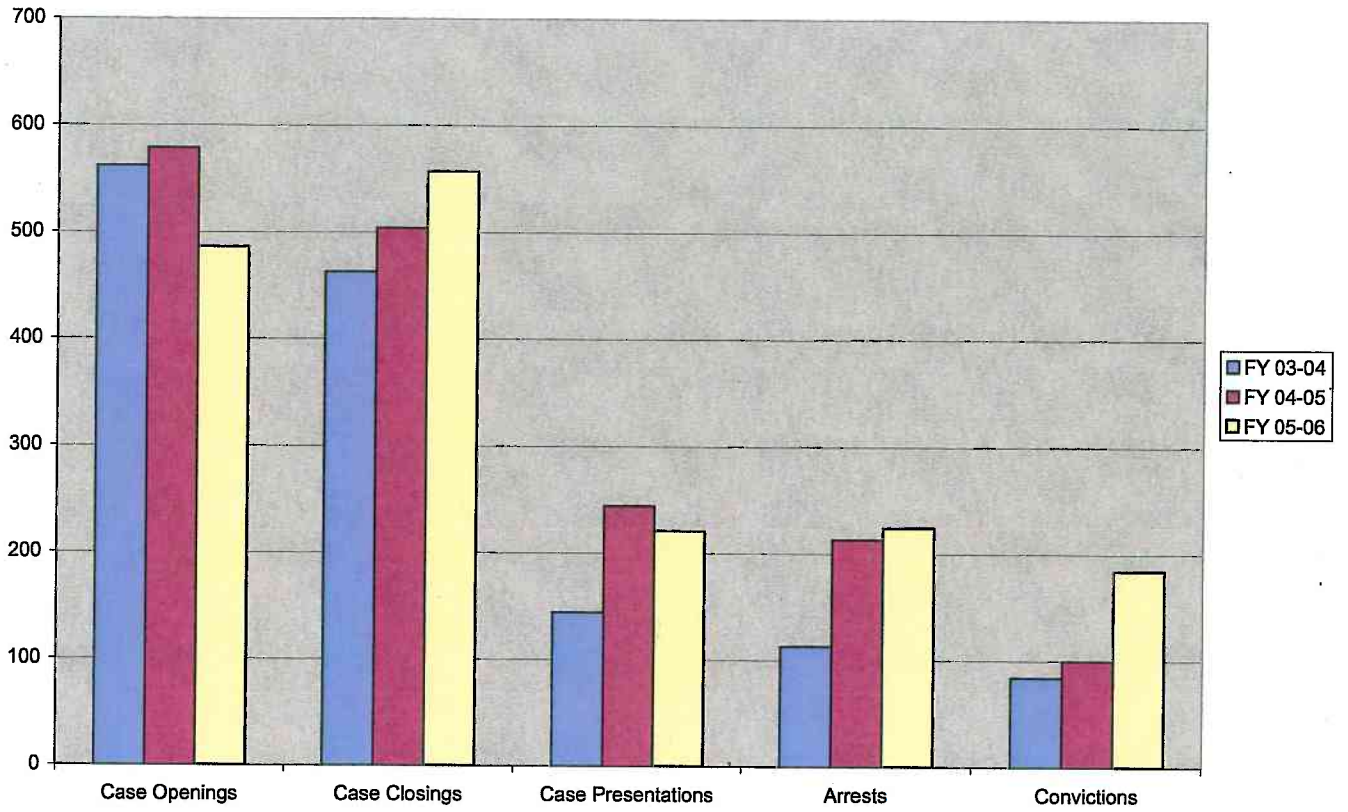
AVERAGE CASELOAD AND TURNAROUND BY CASE TYPE

*Indicates workers' compensation fraud funded detective

Caseload averages may include all types of cases not only workers' compensation fraud cases, for non workers' compensation fraud funded detective.

OFFICE LOCATION/ INVESTIGATOR#	AVERAGE CASELOAD	AVERAGE TURNAROUND TIME IN MONTHS			
		Working Without Coverage	Premium Fraud	Claimant Fraud	False Certificate
Pensacola:					
00897	22				1
01539	12	5			11
01217	15	4			
01172*	30	5	7	18	6
Tallahassee:					
01496	21			10	11
01496	16			8	2
00649	16	6			11
Jacksonville:					
01547*	22	3			
01011	32			2	
01505*	24	5		13	14
01013	8				
01009	33		4	1	
01233*	36	1		8	8
Miami:					
01548*	13			3	
01549*	26	1	4	2	
01193	13	2			
01186*	32	1	4	2	2
01610*	18			3	2
West Palm Beach:					
01307*	15	13	18		
01611*	31	7	11	9	1
01310*	31	11	15	15	6
01183*	19	13	14	12	10
01308*	7	1			2
01607	3		2		
Ft. Myers:					
01260*	25	4	3	4	2
01201*	12	3			
Broward County:					
01173*	25	2	2		
01609*	15	4	4	4	1
Orlando:					
01156*	23	2		3	7
01504*	23	9	7	5	6
01234*	19	5		12	12
01139*	36	2	9	3	2
St. Petersburg:					
01536	14	5		1	1
01312*	7	3		1	6
01503*	10	2		3	
01700*					
Tampa:					
01157*	16	3		2	
01235*	22	3	6		

FY 2003-2006



II. DIVISION OF WORKERS' COMPENSATION (Division)

1. Referrals between the Division of Insurance Fraud (DIF) and other Agencies

The Division of Workers' Compensation and the Division of Insurance Fraud continue to closely cooperate in carrying out our respective statutory duties. The Division of Workers' Compensation enforces administrative compliance with the workers' compensation law, pursuant to s. 440.107, F.S., while the Division of Insurance Fraud enforces the criminal provisions of the workers' compensation law, pursuant to s. 440.105, F.S. Our jointly developed referral program facilitates the efficient referral of cases between the divisions and allows each division to determine if an investigation will be initiated based upon a referral. Referrals are made to each division within 24 hours of a suspected violation of the law, and are considered a priority to be acted upon immediately.

The Bureau of Compliance and Division of Insurance Fraud made the following referrals during the period of July 1, 2005 through June 30, 2006:

- The Division of Workers' Compensation referred 127 employers to the Division of Insurance Fraud for possible criminal investigation.
- The Division of Workers' Compensation received 62 referrals from the Division of Insurance Fraud for administrative investigations.

In addition to internal referral activities between the Division of Insurance Fraud and the Division of Workers' Compensation, the Division has established a referral program with the Department of Business and Professional Regulations (DBPR). If an employer is suspected of failing to secure workers' compensation coverage during a DBPR investigation, the employer is referred to the Division of Workers' Compensation for further investigation. If, during a Division investigation, an employer is suspected of working without a required state license, the Division will refer the employer to DBPR for further investigation.

The Division also works closely with many local building and permitting agencies. These relationships mutually benefit the Division and the local agencies. The local agencies assist the Division in identifying employers who may not have workers' compensation insurance, while the Division refers unlicensed employers and employers who violate local ordinances to the local agencies.

The Division recognizes the importance of cooperating with other state and local enforcement agencies and will continue to facilitate these partnerships. The partnerships help maximize the Division's resources as well as enhance employer compliance with the various state and local statutory requirements.

2. Enforcement Activities and Workers' Compensation Exemptions

Stop Work Orders and Sweep Operations

During the period of July 1, 2005 through June 30, 2006, the Division issued 2,693 stop work orders; assessed \$58,783,652 in penalties; caused \$30,454,250 in additional workers' compensation insurance premium to be generated; and caused 12,366 new employees to be covered by workers' compensation insurance.

In April 2006, the Bureau of Compliance (Bureau) conducted a three-day workers' compensation compliance sweep in the following areas: St. Augustine (St Johns County); Palm Coast (Flagler County) and Ft. Myers (Collier, Lee and Charlotte Counties). General contractors, drywall contractors, and drywall subcontractors were the primary focus of the sweep. During the sweep, the investigators contacted the following number of employers to determine if workers' compensation coverage was in effect:

- The St. Augustine and Palm Coast sweep team contacted 449 employers and issued 53 stop work orders; and The Ft. Myers sweep team contacted 708 employers and issued 34 stop work orders.
- A total of 87 stop work orders were issued during this three-day sweep operation.

In addition to the statewide sweep, each Bureau of Compliance district conducted several intra-district sweeps. The intra-district sweeps utilize all the investigators assigned to the district who then converge upon and investigate construction employers at large residential and commercial job sites within a given district.

The Bureau of Compliance has directed more of its investigative resources in identifying and sanctioning employers that are understating or concealing payroll in order to avoid paying the proper workers' compensation premium. These cases often take more time to investigate due to the nature of the violation and due to the amount and type of evidence that is required to prove that an employer is understating or concealing payroll.

Exemptions

The Bureau of Compliance completed several initiatives that have enhanced the exemption process. Section 440.05(6), Florida Statutes, requires that the Division of Workers' Compensation provide a notice of expiration to a construction industry exemption holder at least 60 days prior to the expiration of the exemption. The Bureau now provides the notice of expiration 75 days prior to the expiration of the exemption, which allows the exemption holder more time to complete the exemption renewal application and submit it to the Division in a timelier manner so no lapse in exemption status occurs.

The Bureau also developed a user-friendly, on-line exemption application. The on-line exemption application can be accessed from the Division's home page at <http://www.fldfs.com/WC/>. The on-line exemption application allows the user to complete the application in an electronic format. Some of the highlights of the on-line exemption application include: links to other state agencies so the user can verify information prior to inputting the information on the application, built-in edits that verify basic information to reduce errors and identify incomplete information that is submitted on the application, easily-accessible instructions to complete the application; and a 30 day storage function which allows the user to save and access an incomplete application and complete it at a later date. When the application is completed, the user still must print it because the application must be signed by the applicant and notarized. In addition, other documentation must be submitted along with the application. As of June 30, 2006, over 3,200 users have accessed the on-line exemption application.

The Bureau has used fax, imaging, and scanning technologies to develop a more efficient process to receive, review, and issue exemptions. Combining these technologies has resulted in a decrease in the number of days it takes to review and subsequently issue an exemption and has enabled the Bureau management team to monitor the entire exemption process electronically and in a more real-time environment.

Periodic Payment Agreements

Effective June 1, 2004, the Legislature authorized the Division of Workers' Compensation to enter into periodic payment plans with employer to pay their penalties. Under Rule 69L-6.025, F.A.C, employers can select to pay their penalties in 12, 24, 36, 48, or 60 month installments. From July 1, 2004 through June 30, 2006, the Bureau has entered into 1,546 periodic payment plans, collected \$10,951,314 from the periodic payment plans, with another \$29,121,386 due in future years.

3. Internal Training

Between July 1, 2005 and June 30, 2006, the Bureau of Compliance held numerous workers' compensation specialized training sessions. Some of the sessions included distance learning conferences for those who were not able to attend in person. The primary focus of the training sessions was to give each investigator greater technical skills to enhance their enforcement efforts. The training sessions are summarized below:

Exemption Training – All exemption staff members attended a day and a half training course in Tallahassee. This course provided overall training on the exemption process, the requirements to obtain an exemption; and communication and customer service skills. The training enhanced the knowledge and technical skills of the staff members as it pertained to the exemption process.

Monthly Supervisor Meetings – These meetings serve as strategic planning sessions for the Bureau of Compliance in which Bureau management reviews and updates operating procedures, compare and analyze data, and identify areas of improvement within the enforcement process. These sessions are attended by the Investigation Managers, District Supervisors, and the Bureau Chief. Additionally, the Director and Assistant Director may participate in these meetings.

New Investigator Training Program – This 10-week training program was developed and implemented for new investigators. As new investigators are hired, the District Supervisors provide individualized training on policies and procedures, processes, forms, databases, customer service and the investigative process. The investigator and the District Supervisor sign an acknowledgement form after each module of the training program has been completed. The investigator is then assigned to accompany experienced investigators in the field prior to being assigned to perform enforcement action independently.

Bi-Annual Statewide Meeting – In the spring and fall of each year, the Division conducts statewide training sessions in Orlando or Tampa for its compliance investigators and examiners. The primary focus of these training sessions is to update staff on new procedures, policies, rule development, and projects the Bureau of Compliance is undertaking.

Future Training

CLEAR Training – The Council on Licensure, Enforcement and Regulation (CLEAR) provides a 24-hour Certified Investigator Training Course for regulatory investigators. The Investigator must obtain a passing score to receive the national certification. During the three-day session, the investigator is trained on professional conduct, inter-agency relations, administrative law, the investigative process, principles of evidence, interviewing techniques, report writing, and the administrative and criminal process. During the first quarter of 2007, the Bureau of Compliance plans to have basic and specialized training sessions. Investigators that have taken the basic training sessions will be enrolled in the specialized training session, while new investigators will enroll in the basic investigator training session.

Intensive Investigator Training - This is a three-day course is designed to provide the investigators with a comprehensive review of the investigative and enforcement process. The training will focus on penalty calculations, reviewing business and payroll records; recognizing and determining cases involving understating and concealing payroll; and several other specific areas within the investigative process. This training is scheduled during the first quarter of 2007 and will be provided to all investigators and District Supervisors.

5. DWC Office Locations and Staff

From an organizational perspective, the state is separated into a northern and a southern region. The northern region consists of the following offices: Pensacola, Tallahassee, Jacksonville, Panama City, Fort Walton Beach, Ocala, St. Augustine, Orlando, Daytona Beach, Cocoa, and Tavares. The southern region consists of the following offices: Miami, Ft. Myers, West Palm Beach, Plantation, Tampa, Sarasota, and New Port Richey. The enforcement staff now consists of 71 Investigators, 7 District Supervisors, and 2 Investigation Managers strategically located in 18 cities throughout the state.

Office Locations	Number of Investigators
Jacksonville	6
Ocala	1
Pensacola	4
Panama City	2
Ft. Walton Beach	3
Tallahassee	3
West Palm Beach	7
Plantation	5
Tampa	4
Sarasota	4
New Port Richey	1
Orlando	7
Daytona Beach	2
Cocoa	1
Miami	9
Ft. Myers	9
Tavares	1
St. Augustine	2
Total	71

6. Average Caseload

For the period of July 1, 2005 through June 30, 2006, the Bureau of Compliance contacted 29,751 employers in order to verify compliance with the workers' compensation coverage requirements. The average caseload for each compliance investigator was 34.92 per month.