



THE FLORIDA DEPARTMENT OF FINANCIAL SERVICES

JOINT REPORT TO

THE PRESIDENT OF THE FLORIDA SENATE
AND

THE SPEAKER OF THE 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 01, 2011



REPRESENTING
ALEX SINK
CHIEF FINANCIAL OFFICER
STATE OF FLORIDA

January 1, 2011

The Honorable Mike Haridopolos
President of the Senate
Room 400-Senate Office Building
Tallahassee, Florida 32399-1100

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

Dear President Haridopolos and Speaker Cannon:

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, 2009 – June 30, 2010.

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

Sincerely,

A blue ink signature of Tanner Holloman, written in a cursive style.

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

Sincerely,

A blue ink signature of John Askins, written in a cursive style.

John Askins, Director
Division of Insurance Fraud
(850) 413-4001

FLORIDA DEPARTMENT OF FINANCIAL SERVICES

Tanner Holloman • Director

Division of Workers' Compensation

200 E. Gaines St. • Tallahassee, FL 32399-4220 • Tel. 850-413-1600 • Fax 850-488-2305 • SC 293-1600

Email • Tanner.Holloman@myfloridacfo.com

Affirmative Action • Equal Opportunity Employer

**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, 2011

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, 2009 through June 30, 2010.

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

Florida's Division of Insurance Fraud continues to be a perennial leader in the fight against insurance fraud. During Fiscal Year 2009/2010, investigative efforts by the Division of Insurance Fraud resulted in 1,234 cases presented for prosecution, 1,042 arrests, and 706 convictions, all of which represent double-digit percentage increases from Fiscal Year 2008/2009. During this time period, the Division received and reviewed 12,820 referrals of suspected insurance fraud. Court ordered restitution during the same time period was **\$63,061,289.39**.

As a result of the Division of Insurance Fraud's Strategic Planning Meeting in May of 2009, the Bureau of Workers' Compensation Fraud was restructured and now is a completely "stand-alone" unit within the Division of Insurance Fraud, with a clearly defined chain-of-command, a Bureau Captain, and five (5) dedicated workers' compensation squads, each supervised by a Lieutenant; assigned geographically throughout the state based on need. This restructuring allows for a more focused approach to combating the various types of workers' compensation insurance fraud, as well as make the Bureau more responsive to changing trends, by virtue of all workers' compensation fraud referrals being channeled through one contact point within the Division of Insurance Fraud. This restructuring also created clearer lines of communication between the BWCF and our partners in the industry, as well as increased accountability for BWCF management and members via enhanced oversight. During the 2009/2010 Fiscal Year, The Division of Insurance Fraud recognized increases in Workers' Compensation Fraud related presentations for prosecution (303 up from 256 the previous Fiscal Year), Workers' Compensation Fraud related arrests (280 up from 239 the previous Fiscal Year), and Workers' Compensation Fraud related convictions (199 up from 180 the previous Fiscal Year). The Bureau expects increases in those areas again for Fiscal Year 2010/2011 as we continue to develop strategic plans aimed at increasing efficiency and effectiveness of all Bureau operations.

The BWCF continued its proactive approach to addressing fraudulent practices in the workers' compensation system, and continued to work closely with the Division of Workers' Compensation, Bureau of Compliance, receiving and acting on 150 referrals from them during the Fiscal Year. While this years quiet hurricane season resulted in less instances of unlicensed contracting, Bureau members communicated regularly with the Department of Business and Professional Regulation (DBPR) by sharing information and participating in joint enforcement operations throughout the state.

The prevailing trend in the Workers' Compensation Premium Fraud arena, identified in previous reports and years, continues to be the illegal sale and brokering of certificates of workers' compensation coverage throughout the construction industry. That is, the "renting" of insurance certificates for a fee to uninsured subcontractors who subsequently present themselves as representatives of the named insured on the certificate of insurance for the purposes of securing work. As also discussed in previous reports is the inclusion of non-traditional Money Service Businesses (MSB's), or check cashing stores, to facilitate the "rental" of certificates of insurance. Investigations during the past Fiscal Year revealed that the owners and operators of some of these MSB's are actually setting up shell companies, obtaining a minimal Workers' Compensation insurance policy, and then renting the certificates of insurance right over the counter at the MSB.

Within this scheme, the MSB owners and operators incorporate shell companies in a fictitious owner's name, which provide no bona fide goods or services, and often have nothing more than a mailing address, for the sole purpose of obtaining a workers' compensation insurance policy with the lowest possible premium. The MSB owners and operators, some of whom now control these shell companies, then rent their certificates of insurance to uninsured subcontractors. The subcontractors then misrepresent themselves to general contractors as employees of the fictitious company, and submit the shell company's certificate as proof of coverage. The general contractors unknowingly, and sometimes knowingly, remit payment to the uninsured subcontractors, posing as employees of the shell company, under the shell company's name. The uninsured subcontractor's cash their payroll checks at MSB, and pay a pre-determined percentage to the "owner" of the shell company who, as noted above, is sometimes the MSB owner. The MSB's support the scheme by cashing the company checks for individuals other than the company's owners (a violation of FSS 560 et al, Requirements of MSB's), many times falsifying the documentation supporting the transaction.

The uninsured subcontractors pay between five and thirteen percent in fees for the use of the illegally obtained certificate plus the check cashing services, but this is a significant savings compared to the cost of paying legitimate workers' compensation premiums and related payroll taxes.

As a result of the increased involvement of the MSB's in large scale Workers' Compensation Premium Fraud schemes, the BWCF has continued to work closely with the Florida Office of Financial Regulation, Bureau of Financial Investigations. The agencies entered into a Memorandum of Understanding (MOU) in an effort to better regulate, examine and investigate violations perpetrated by MSB's, and plan to review and renew that MOU when it expires. Further, the agencies conducted cooperative training sessions intended to foster a stronger working relationship between the agencies and develop a better understanding of one another's duties and responsibilities, with BWCF personnel presenting at the Office of Financial Regulation annual training in February. The Bureau continues to have a member assigned full-time to the Broward Sheriff's Office Money Laundering Task Force (BSOMLTF), members of which are focusing strictly on MSB's facilitating the scheme described

above. Since joining the BSOMLTF in August of 2009, the Division has received in excess of \$75,000.00 in asset sharing proceeds from forfeitures resulting from Task Force investigations.

Referrals focusing on employee / claimant fraud, while slightly lower than the previous year continue to be the largest percentage of referrals to the Bureau. A separate category of referrals involving the fraudulent use of personal identification, either in support of employment or a W/C claim, represents the second highest percentage of referrals to the Bureau. Bureau Detectives have discovered thousands of individuals who have used either stolen personal identification, or simply fictitious identification, to gain employment in the State of Florida. This translates into an increase in workers' compensation claims being supported by fraudulent identification, which makes properly adjusting these claims impossible. The Division has several large enforcement operations planned for the beginning of 2011 to focus specifically on this emerging trend.

A review of the 2008/2009 fiscal year's statistics as compared to the 2009/2010 statistics showed few changes in existing trends and conditions. Employee/claimant fraud continues to account for the highest number of referrals; however, the percentage of those referrals decreased from 55 to 39 percent of all referrals. Referrals for fraudulent use of social security numbers in employment and workers' compensation claims remained the second highest number of referrals, representing 30 percent of all referrals. Referrals for working without workers' compensation coverage remained in third, representing 14 percent of all referrals. Also significant is the increase in the number of referrals for Violation of Stop-Work Order, with a 66% increase from 47 referrals to 78.

The overall number of referrals received by the BWCF *increased* from 1,506 to 1,676, representing an 11 percent increase from Fiscal Year 2008/2009 to Fiscal Year 2009/2010. The number of arrests also increased by 11 percent from 239 to 280 during that same period.

Also during Fiscal Year 2009/2010, cases presented for prosecution by the BWCF resulted in requested restitution in the amount of \$3,818,750.46, and \$1,201,509.13 in court-ordered restitution for cases reaching final disposition during the 2009/2010 fiscal year. Additionally, the number of convictions increased from 180 to 199, representing an 11% increase.

FY 2009/2010				
Workers' Compensation/Sub type:	Complaints	Presented for Prosecution	Arrests	Convictions
BY ATTORNEY	4	0	0	0
BY EMPLOYEE CLAIMANT	658	98	82	79
BY EMPLOYER	60	6	4	2
BY PROVIDER	5	2	1	0
EMPLOYEE PAYROLL DEDUCTION	5	0	0	0
EMPLOYER PREMIUM	85	14	21	8
FICTITIOUS CERTIFICATE OF EXEMPTION	5	2	1	1
FICTITIOUS CERTIFICATE OF INSURANCE	39	19	23	21
ID THEFT OF NUMBER OR NAME	507	80	60	33
LEASING COMPANY	1	0	0	0
VIOLATION OF STOP-WORK ORDER	78	24	27	10
WORKING WITHOUT COVERAGE	229	58	61	45
TOTALS	1676	303	280	199

Workers' Compensation Annual Report
Fiscal Year 2009-2010

Referrals and Cases by Source

Source	Number of Referrals Received	Number of Cases Opened
Carriers	785	697
DWCC	152	150
Others	737	697
TOTALS	1676	1597

Fiscal Year Statistics

Number of Cases Presented for Prosecution	Number of Arrests	Referrals received by DWCC Compliance
303	280	150

Number of Convictions by Type

Type of Convictions	Number of Convictions
Agent	0
Agent Premium	0
By Attorney	0
By Employee Claimant	79
By Employer	2
By Person	0
By Provider	0
Employee Payroll Deduction	0
Employer Premium	8
Fictitious Certificate of Exemption	1
Fictitious Certificate of Insurance	21
ID Theft of Number or Name	33
Leasing Company	0
Violation of Stop-Work Order	10
Working without Coverage	45
TOTAL	199

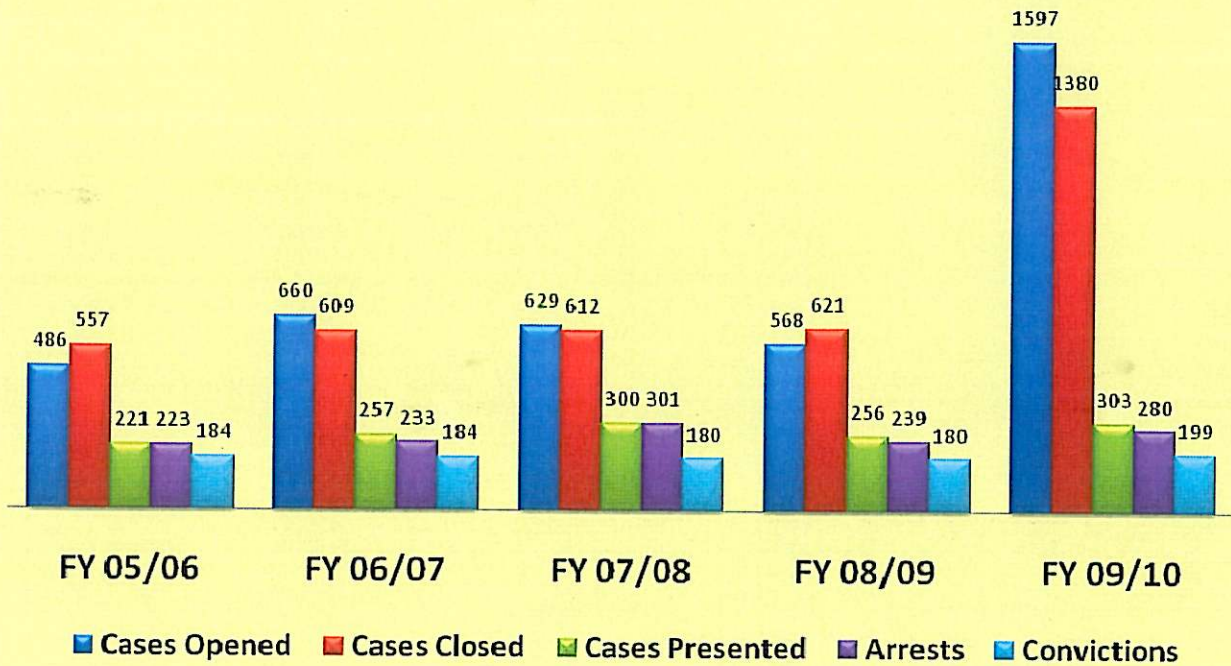
Number of Convictions by Judicial Circuit

Judicial Circuit	Convictions
1 st	22
2 nd	8
3 rd	1
4 th	20
5 th	7
6 th	11
7 th	7
8 th	2
9 th	14
10 th	2
11 th	15
12 th	9
13 th	17
14 th	4
15 th	16
16 th	0
17 th	6
18 th	4
19 th	29
20 th	5

Number of Prosecutions Declined by Judicial Circuit

Judicial Circuit	Number of Prosecutions Declined	Reason for Declined
1 st	7	5- Decline to Prosecute 2- Prosecution Unlikely
2 nd	2	2- Decline to Prosecute
3 rd	0	
4 th	8	1-Prosecution Unlikely 7- Decline to Prosecute
5 th	3	3- Civil Settlement
6 th	3	1- Decline to Prosecute 2- Prosecution Unlikely
7 th	0	
8 th	0	
9 th	5	4- Decline to Prosecute 1- Prosecution Unlikely
10 th	1	1-Prosecution Decline
11 th	3	2- Decline to Prosecute 1- Witness Refused to Cooperate
12 th	1	1- Witness Refused to Cooperate
13 th	4	3- Decline to Prosecute 1- Witness Refused to Cooperate
14 th	1	1- Civil Settlement
15 th	1	1-Decline to Prosecute
16 th	0	
17 th	10	3- Prosecution Unlikely 4- Decline to Prosecute 3- Witness Refused to Cooperate
18 th	2	1- Decline to Prosecute 1- Prosecution Unlikely
19 th	1	1- Prosecution Unlikely
20 th	4	3- Decline to Prosecute 1- Prosecution Unlikely

Five Year Statistical Data



Measurement	FY 05/06	FY 06/07	FY 07/08	FY 08/09	FY 09/10
Cases Opened	486	660	629	568	1597
Cases Closed	557	609	612	621	1380
Cases Presented	221	257	300	256	303
Arrests	223	233	301	239	280
Convictions	184	184	180	180	199

BWCF STAFFING (Sworn)

Office Location	W/C Funded Detectives Fiscal Year 2009/2010	Vacant W/C Funded Detective Positions Fiscal Year 2009/20010	Total Number of W/C Funded Detective Positions Fiscal Year 2009/2010
Pensacola	0	0	0
Central Administration	0	0	0
Tallahassee	0	0	0
Jacksonville	0	0	0
Tampa	5	0	5
St. Petersburg	0	0	0
Orlando	4	0	4
West Palm Beach Squad 2	5	0	5
Ft. Myers	0	0	0
Plantation	5	0	5
Miami Squad 3	3	3	6
TOTALS	22	3	25

Office Location/ Investigator Position Number	AVERAGE TURN-AROUND TIME IN MONTHS							
<i>*Indicates Workers' Compensation funded positions</i>	Case Load	Working Without	Premium Fraud	Claimant Fraud	False Certificate of Insurance	Violation of Stop Work Order	Identity Theft of Number or Name	Attorney
Pensacola:								
01539	17	1.2	3.7	2.4	1.1	1.4	5.3	
01503	4			6.3			6.5	
01543	13	3.0	4.6	3.6		2.1	4.1	
01803	8			5.3			2.3	
00897	6	.9		3.5				
0692	10			7.3	4.2		4.1	
Tallahassee:								
01496	2		.1				.5	
01804	8	2.8		3.9		2.4	1.3	
01805	9	3.7		1.2				
Jacksonville:								
01011	9	2.9	4.0	2.2	7.9	2.2	4.3	3.9
01505	10		5.3	3.2			2.9	
01781	3	.2		5.4				
01173	2			9.3		3.5		
01191	1				4.2			
01794	1	3.5						
Ocala:								
01796	24	7.3		4.6		7.1	4.2	
01009	18	4.2		2.3	.2	4.9	3.0	
Plantation								
01840*	11	4.7	8.2	2.4	4.9	3.8		
01833*	11	2.3		4.4		2.8	4.4	
01609	1				1.2			
01839*	7			3.9		6.0	4.2	
01787	5		5.4	7.9		4.6		
01802*	8	5.4	4.0	12.2	4.1		6.4	
01837*	16		6.6	2.5	5.3	1.4	2.4	
01838	4		4.2			2.4	3.7	
Ft. Myers:								
01260	3		1.4	1.4			3.1	
01842	16	4.7	11.3	2.2	2.6	1.4	7.4	
Miami #3:								
01836	1			4.4				
01780*	19	3.5	2.5	4.8	8.4	.9	5.5	

01617*								
01548*	5			2.9			2.4	
01610*	10	5.9	1.5	5.2			5.9	
01233*	14	3.8		3.6		3.4	3.2	2.2
01831*	12	2.6		5.3		5.2	4.7	

Office Location/ Investigator Position Number	AVERAGE TURN-AROUND TIME IN MONTHS							
<i>*Indicates Workers' Compensation funded positions</i>	Case Load	Working Without	Premium Fraud	Claimant Fraud	False Certificate of Insurance	Violation of Stop Work Order	Identity Theft of Number or Name	Attorney
Orlando #1:								
01777*								
01156*	36	3.2	3.3	5.7	2.9	1.8	2.0	
01547	17	.8	2.0	1.3	.9	1.2	1.1	
01544*	10	3.3	3.5	3.2			6.0	
01798	1			4.3				
01841*	38	2.4	.9	2.7	1.4	2.1	4.6	
St. Petersburg:								
01193	1						7.5	
01199	1		15.0					
01536	2		9.7	3.2				
1791	21	3.6	4.5	6.3	5.2	12.1	8.8	
Tampa:								
01198*	13	3.9		3.7	8.8	5.9	3.1	
01157*	14	9.2	8.9	5.9		7.2	5.3	
01701*	22	3.2	6.4	4.9	7.3	9.4	1.6	
01197*	9	4.0	2.2	3.9		5.2	6.5	
01696*	6	2.4	3.0				3.9	
01853	19	2.3		2.8	1.1	2.3	2.9	
West Palm Beach								
01307*	31	9.9	8.2	4.8		4.4	5.9	
01834	1			1.7				
01786*								
01792*	22	3.2	3.8	6.1			3.4	
01308*	17	8.3		4.7		1.6	2.7	
00138	4	1.9		.2			.5	
01454	3						2.5	
01694	12	9.0	6.1	3.2		3.7	2.0	
01183*	4			5.1			3.8	
01789	1						3.6	
01790	1						.4	

II. DIVISION OF WORKERS' COMPENSATION (Division)

The Division's mission is to actively ensure the self-execution of the workers' compensation system through educating and informing all stakeholders in the system of their rights and responsibilities, compiling and monitoring system data and holding parties accountable for meeting their obligations.

The Division is responsible for ensuring that employers comply with their statutory obligations to obtain appropriate workers' compensation insurance coverage for their employees. Ensuring that employers adhere to workers' compensation coverage requirements results in coverage for employees that were previously without coverage due to non-compliance; ensures that covered employees with work-related injuries receive all statutorily required benefits; levels the playing field for all employers who are bidding jobs; and adds premium dollars to the system that were previously evaded due to non-compliance. The Division accomplishes its mission through enforcement investigations, management of the exemption process and education of employers. The Division conducts investigations to determine employer compliance and assesses penalties against employers who fail to meet their statutory obligations.

In addition, the Division recognizes the importance of cooperating with other state and local enforcement agencies, especially the Division of Insurance Fraud, and has established partnerships with a variety of state and local agencies and industry-related associations and organizations to make the best use of resources and to increase employer compliance.

Pursuant to section 626.989(9), Florida Statutes, the following report highlights the Division's activities and achievements during FY 2009-2010.

1. Referrals

Division of Insurance Fraud

The Division of Workers' Compensation and the Division of Insurance Fraud continue to work closely in carrying out our respective statutory duties. 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 suspected violations of the law and are considered a priority to be acted upon immediately.

The Bureau of Compliance uses the referral process to notify the Division of Insurance Fraud of employers who are possibly committing criminal acts or omissions.

The Bureau of Compliance and Division of Insurance Fraud made the following referrals during the period of July 1, 2009 through June 30, 2010:

- The Division of Workers' Compensation referred 150 employers to the Division of Insurance Fraud for possible criminal investigation.
- The Division of Workers' Compensation received 35 referrals from the Division of Insurance Fraud for civil violations under Chapter 440, F. S.

One of the benefits of the divisions working together has been the development of a format for greater communication. Not only do the divisions communicate with each other upon receipt of a referral, but

the Division of Workers' Compensation has had occasion to strategize and work in conjunction with the Division of Insurance Fraud.

Referrals to Other Agencies

In addition to the referrals for workers' compensation fraud, 80 employers were referred to other agencies where the employers were suspected of violating the laws regulated by those entities. Eighty-five percent of those referrals were made to the Department of Business and Professional Regulation. The two primary reasons for the referrals continue to be unlicensed activity for failure to be licensed to work in the trade in which the employer was working and failure to provide workers' compensation insurance to its employees, which is a violation of the condition for licensure. The Division also referred nine employers to the Department of Homeland Security, Immigration and Customs Enforcement for hiring undocumented workers.

The Division maintains a close relationship with local building and permitting agencies. These relationships are enhanced by the Bureau's timely response to local agencies' calls for assistance in verifying employers who are in violation of the Workers' Compensation laws. During this fiscal year, joint operations were conducted throughout the state with a number of city and county code enforcement offices, the Department of Business and Professional Regulation and the Division of Insurance Fraud.

Non-Compliance Referral Database

The Division's online Non-Compliance Referral Database enables the Division to receive referrals regarding employers who are suspected of failing to adhere to the workers' compensation coverage requirements. The database streamlines the process to initiate investigations earlier and provides real-time feedback to the person who made the referral.

During FY 2009-2010, the Division investigated approximately 2,300 referrals submitted via the Non-Compliance Referral Database. This represents an annual increase of 78%. The investigations initiated by the referrals resulted in the issuance of 278 Stop-Work Orders and \$6.7 million dollars in assessed penalties against non-compliant employers.

The following case summaries taken from actual FY 2009-2010 cases are examples of the types of investigations conducted by the enforcement efforts of the Division of Workers' Compensation.

Case One: The Bureau received a referral alleging that a cabinet manufacturing and installation business in Palm Beach County was operating without workers' compensation insurance. A site visit was conducted and nine workers were observed manufacturing cabinets and performing trim carpentry work. An investigation revealed that the employer's workers' compensation coverage through an employee leasing company had been canceled one month earlier. A Stop-Work Order for failure to secure coverage and a Business Records Request were served on the employer.

The employer's business records revealed the employer had prior periods of non-compliance as far back as 2006. All periods of non-compliance were included in the penalty calculations and a \$16,231 penalty was assessed. The employer came into compliance by purchasing a new workers' compensation policy, which covered 10 employees and generated \$14,000 in premium and by entering into a Periodic Payment Agreement. The Stop-Work Order was conditionally released.

Case Two: While conducting routine compliance investigations in Martin County with representatives from the Martin County Building Department, four workers were observed renovating a single family residence. Information obtained on the job site indicated the employer had secured workers' compensation coverage through an employee leasing company. However, contact with the employee leasing company revealed that three of the four workers had not been reported on the employee leasing payroll. A Stop-Work Order for failure to secure coverage and a Business Records Request were served on the employer.

A review of the employer's business records revealed the business contracted with multiple uninsured subcontractors during the three prior years. The payroll for the uninsured subcontractors and all other periods of non-compliance were included in the penalty calculations and a \$46,950 penalty was assessed. The employer came into compliance by adding the workers to the employee leasing contract, which generated \$12,480 in premium and by entering into a Periodic Payment Agreement. The Stop-Work Order was conditionally released.

Case Three: In response to a referral alleging a roofing crew was working without workers' compensation coverage, an Investigator observed nine workers re-roofing a commercial building in Green Cove Springs. Information obtained on the job site indicated the employer had secured coverage through an employee leasing company. However, prior to the Investigator contacting the employee leasing company, the owner confessed he had misled the investigator and that none of the workers had been reported on the employee leasing payroll. The employer admitted to paying all of the workers directly. A Stop-Work Order for failure to secure coverage and a Business Records Request were served on the employer.

The employer's business records revealed numerous payments made directly to employees during the prior 20 months totaling over \$98,000 in uninsured payroll. A \$22,841 penalty was assessed. The employer came into compliance by adding the workers to the employee leasing contract, which generated \$20,420 in premium and by entering into a Periodic Payment Agreement. The Stop-Work Order was conditionally released. This case was also referred to the Department of Business and Professional Regulation (DBPR) because workers' compensation coverage is a requirement to maintain licensure under the DBPR Construction Industry Licensing Board.

Case Four: During a random site visit of a single family residence under construction in Ocala, two men were observed prepping a house for stucco application. The Investigator contacted the employer to determine compliance with workers' compensation coverage requirements. The employer advised he had coverage through an employee leasing company. Contact with the employee leasing company revealed that one of the workers had not been reported on the employee leasing payroll. In addition, further investigation revealed that only two of the three corporate officers had current exemptions. A Stop-Work Order for failure to secure coverage and a Business Records Request were served on the employer.

A review of the employer's business records identified 14 additional employees that were not covered by workers' compensation insurance. A \$76,453 penalty was assessed. The employer came into compliance by reducing his number of employees, obtaining an exemption for the third corporate officer and by entering into a Periodic Payment Agreement. The Stop-Work Order was conditionally released. This case was also referred to the Division of Insurance Fraud because seven employees listed with the employee leasing company appeared to be using fraudulent social security numbers..

Case Five: While conducting random investigations of job sites in Miami, an Investigator discovered a roofing company that had three employees working on a residential roof. An investigation revealed that the roofing company had originally obtained coverage through an employee leasing contract, but that contract had been terminated. The Investigator further determined that the employer had subsequently obtained another employee leasing contract, which had also been terminated for failure to comply with an audit. A Stop-Work Order for failure to secure coverage and a Business Records Request were served on the employer.

The employer's business records revealed prior periods of non-compliance and that the employer had hired multiple uninsured subcontractors. A \$66,844 penalty was assessed. The employer came into compliance by entering into a new employee leasing contract, which generated \$11,138 in premium and by entering into a Periodic Payment Agreement. The Stop-Work Order was conditionally released.

Case Six: In response to a referral alleging a home health agency in St. Petersburg was operating without workers' compensation coverage, a site visit was conducted. The employer advised that approximately 200 independent contractors were employed to provide home healthcare services. A Business Records Request was served on the employer to determine compliance with workers' compensation coverage requirements. A review of the employer's business records revealed that a large number of individuals were independent contractors, but that other individuals met the statutory definition of an employee. The employer obtained coverage through an employee leasing company prior to the issuance of a Stop-Work Order. A subsequent Business Records Request was served on the employer for penalty calculation purposes. The employer was served an Order of Penalty Assessment for \$9,063. The employer came into compliance by obtaining coverage through an employee leasing company for 11 employees, which generated \$6,160 in premium..

Case Seven: A public referral was received that alleged that a tree trimming company in Hernando County employed 20 workers and was operating without workers' compensation coverage. The employer advised that workers' compensation coverage was provided through an employee leasing company. Contact with the employee leasing company revealed that the employer's leasing agreement had been cancelled six weeks prior. A Stop-Work Order for failure to secure coverage and a Business Records Request were served on the employer. The employer's business records identified 12 uninsured employees and a \$2,036 penalty was assessed. The employer came into compliance by entering into a new employee leasing agreement covering 13 employees, which generated \$27,768 in premium and by entering into a Periodic Payment Agreement. The Stop-Work Order was conditionally released.

Case Eight: The Bureau received a referral alleging that a spa in Walton County was operating without workers' compensation coverage. The investigator observed four women working various jobs in the spa. All of the women indicated they were employees. The Investigator contacted the owner who advised that he did not have workers' compensation coverage. A Stop-Work Order for failure to secure coverage and a Business Records Request were served on the employer. Several days after service of the Stop-Work Order, it was determined that the spa was operating in violation of the Stop-Work Order. The owner was advised that an additional \$1,000 penalty would be assessed for violating the Stop-Work Order. In addition, a referral was forwarded to the Division of Insurance Fraud.

A \$12,980 penalty was assessed, which included the additional penalty for working in violation of the Stop-Work Order. The employer came into compliance by purchasing a workers' compensation policy covering 12 employees, which generated \$2,960 in premium and by entering into a Periodic Payment Agreement. The Stop-Work Order was conditionally released.

2. Enforcement Activities and Workers' Compensation Exemption Statistics

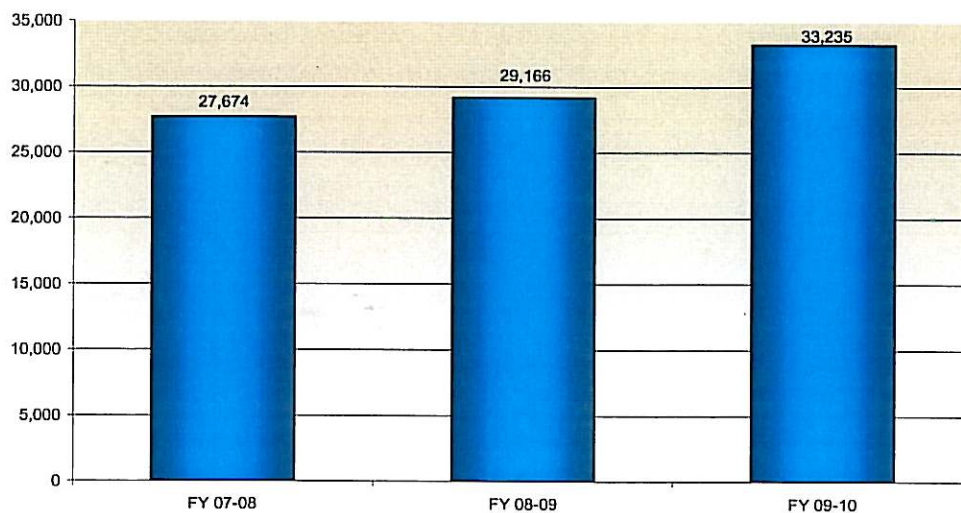
During FY 2009-2010, the Division conducted two, two-day statewide workers' compensation compliance sweeps. Employers operating in the construction industry were the primary focus of the sweeps. The first sweep took place in November, 2009. During the two-day sweep a total of 907 employers were investigated on 178 different jobsites and a total of 55 Stop-Work Orders were issued. The second sweep took place in June, 2010. During that sweep a total of 888 employers were investigated on 435 different jobsites and a total of 70 Stop-Work Orders were issued.

Stop-Work Orders

Through its enforcement and investigative efforts, during the period of July 1, 2009 through June 30, 2010 the Division:

- Conducted 33,235 investigations, which represents an annual increase of 14%. The graphic below shows the total number of investigations conducted during the last three fiscal years. Investigations are physical on-site inspections of an employer's job-site or business location conducted to determine employer compliance with the workers' compensation coverage requirements.

2.1 Investigations Conducted

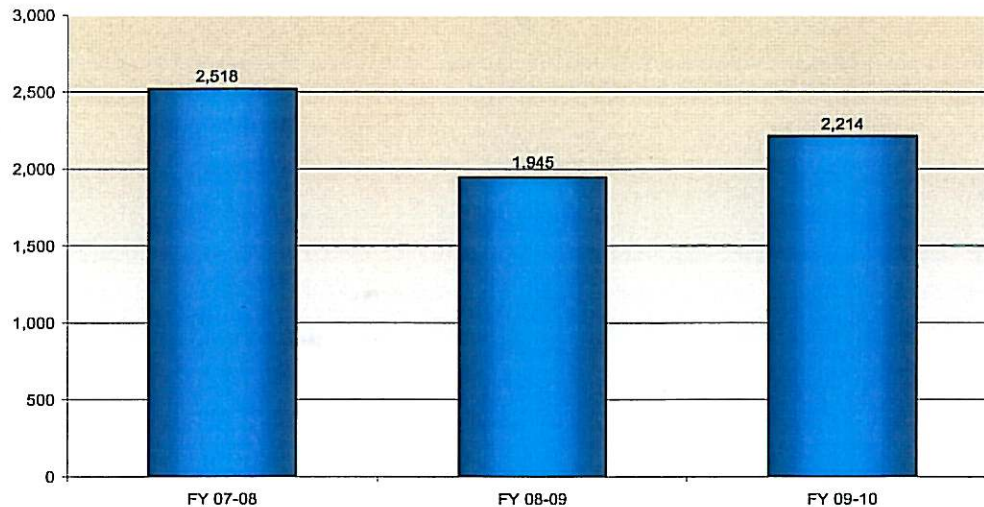


Source: DWC Coverage and Compliance Automated Database as of 6/30/2010

- Issued 2,214 Stop-Work Orders, which represents an annual increase of 14%. Stop-Work Orders are issued for the following violations: failure to obtain workers' compensation insurance, materially understating or concealing payroll, materially misrepresenting or concealing employee duties to avoid paying the proper premium, materially concealing information pertinent to the calculation of an experience modification factor, and failure to

produce business records in a timely manner. Stop-Work Orders require the employer to cease business operations until the Division issues an Order Releasing the Stop-Work Order.

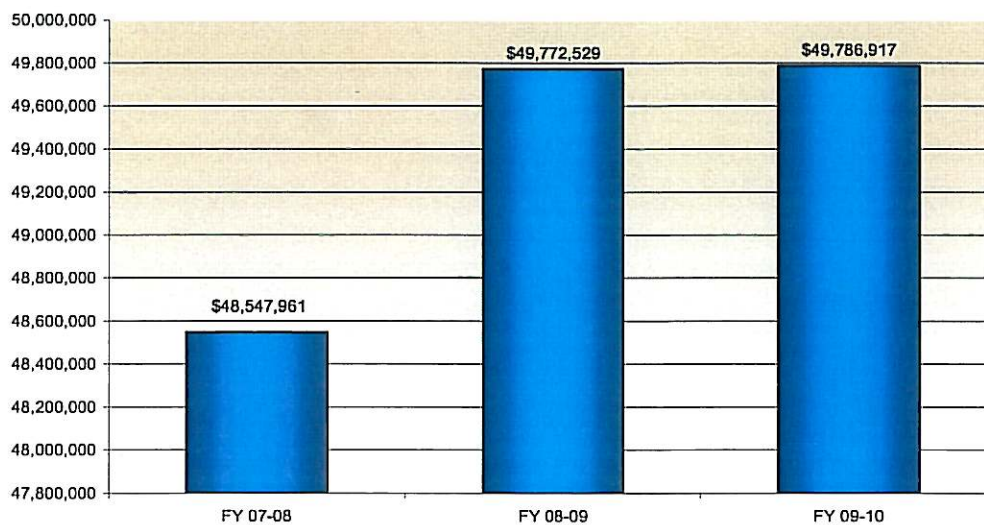
2.2 Stop-Work Orders Issued



Source: DWC Coverage and Compliance Automated Database as of 6/30/2010

- Assessed \$49,786,917 in penalties. An employer who has failed to adhere to the workers' compensation coverage requirements is assessed a penalty based upon the methodology required by the Workers' Compensation Law. Assessed penalties are equal to 1.5 times what the employer would have paid in workers' compensation insurance premiums for all periods of non-compliance during the preceding three-year period, or \$1,000, whichever is greater. Penalty amounts vary and are dependent on the employer's payroll, risk classification, and period of non-compliance.

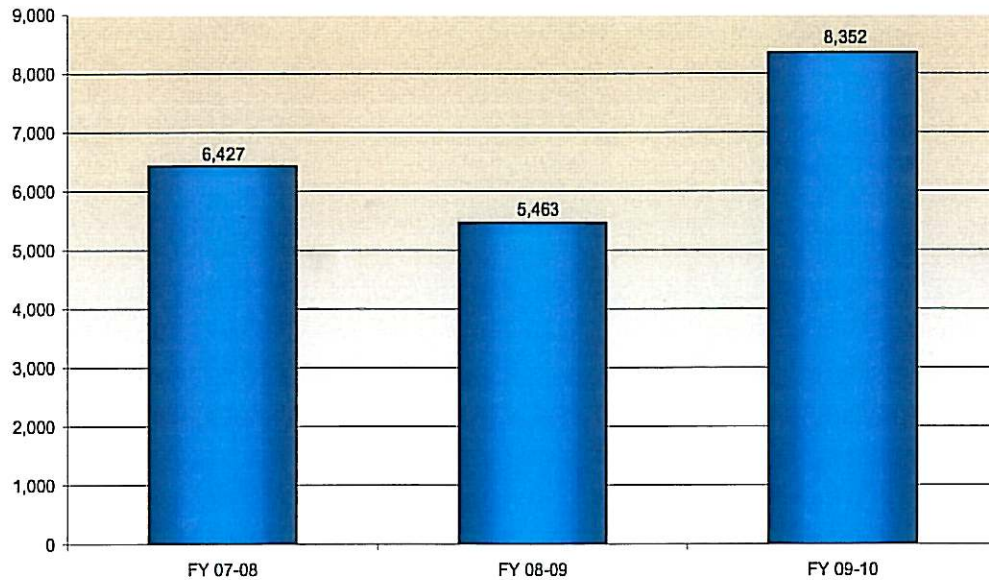
2.3 Penalties Assessed



Source: DWC Coverage and Compliance Automated Database as of 6/30/2010

- Caused 8,352 new employees to be covered under the Workers' Compensation Law. The Graphic below shows the number of additional employees covered as a direct result of the Division's enforcement efforts.

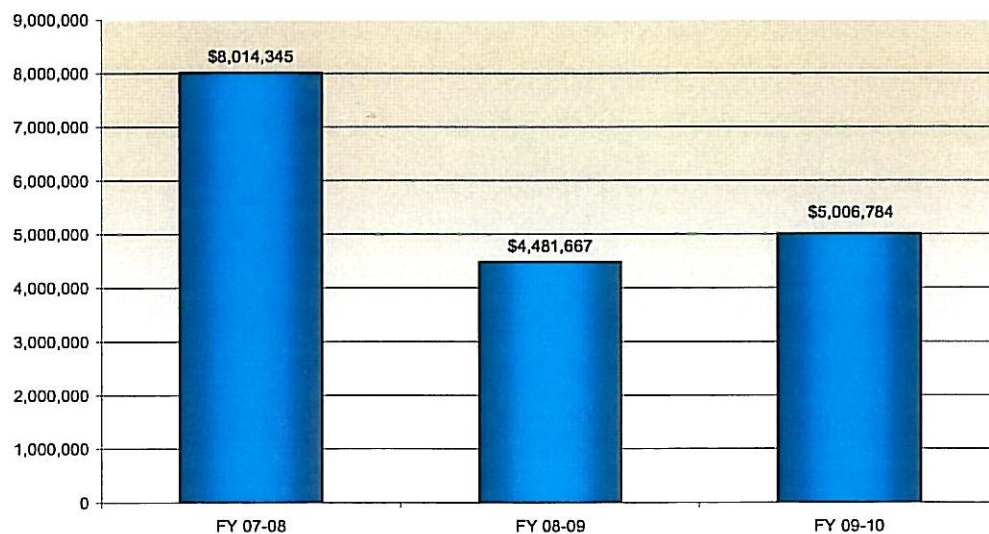
2.4 New Employees Covered



Source: DWC Coverage and Compliance Automated Database as of 6/30/2010

- Caused \$5,006,784 to be added to the workers' compensation premium base that had been previously evaded.

2.5 Insurance Premium Generated

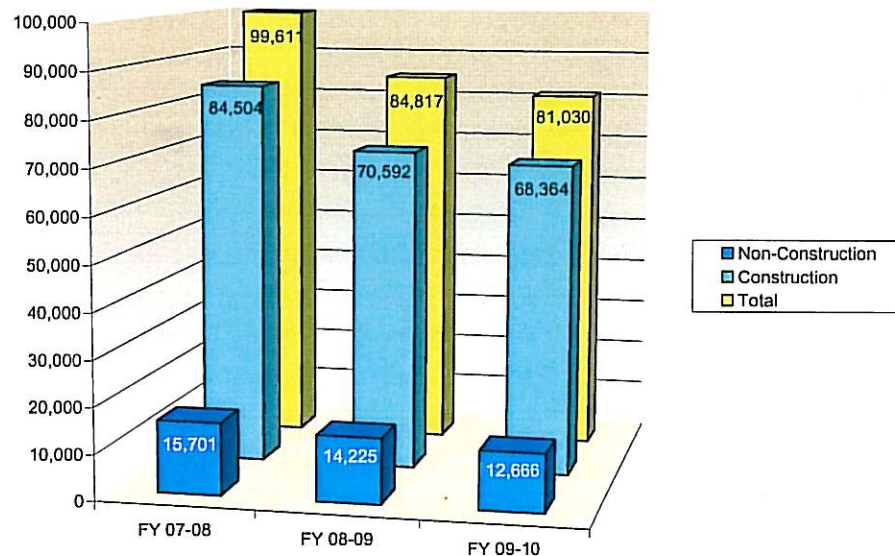


Source: DWC Coverage and Compliance Automated Database as of 6/30/2010

Exemption Statistics

- Processed 68,364 construction industry exemption applications and 12,666 non-construction industry exemption applications. As of June 30, 2010 there were 1,135,685 active exemptions. The Division processes an average of 98% of all exemption applications within 10 business days of receipt.

2.6 Exemption Applications Processed



Source: DWC Coverage and Compliance Automated Database as of 6/30/2010

3. Division Initiatives

Employer Education

During FY 2009-2010, the Division continued its emphasis on educating employers and helping them understand their statutory obligations under the Workers' Compensation Law by partnering with the U.S. Department of Labor, Office of Safety and Health Administration (OSHA) to provide employers with information related to both workers' compensation and workplace safety. The Division is licensed to provide instruction and continuing education credits for training on workers' compensation and workplace safety to employers who are licensed by the Department of Business and Professional Regulation, the Department of Financial Services, Bureau of Fire Prevention and the Florida Water Well Administration.

The Division conducted 85 education workshops throughout the state, providing education to 2,662 business owners, licensed contractors, employers and stakeholders who attended those workshops. Additionally, the Division participates in employer conferences and workshops with construction trade associations, licensing entities and small business groups to educate employers on workers' compensation coverage requirements. This includes conferences sponsored by the following:

Aluminum Association of Central Florida
Association of Safety Engineers
Charlotte County Chamber of Commerce
City of Live Oak Building Officials
City of Tallahassee, Division of Building Inspectors
Coral Springs Electrical Contractors
FL CPA Association
Florida Society of Accountants
Hillsborough County Building Department
Madison Chamber of Commerce
Masonry Association of Florida
Naples Business Association
Orange County Electrical Contractors
Palm Construction School
Pinellas County Contractors Association
Pinellas Network
Roofing Association of South Florida
Seminole Community College
Southern Association of Workers' Compensation Administrators
Southeast Chapter of the FL Masonry Association
Southeast Glass Association
Tampa Area Premium Auditor's Meeting
Turner Construction
Underground Utility Contractors
University of Florida
2010 Business Expo

Enhancements to Public Databases

The Division amended Rule Chapter 69L-56, F.A.C., to require insurers to report payroll and number of employees to the Division. In addition, the Division promulgated Rule 69L-56.205, F.A.C., to specify insurer requirements for reporting proof of coverage to the Division for an employee leasing company and its client companies. Historically, uniform proof of coverage reporting requirements for employee leasing companies and their client companies have been non-existent. This lack of uniformity and standardization has made it difficult to verify coverage information for employee leasing companies and their client companies and hinders enforcement of the workers' compensation law.

In order to provide stakeholders with more tools to verify employer compliance, the Division enhanced the Proof of Coverage Database to allow users to view the number of employees and the governing class code reported for each policy. At a minimum, this information will provide users with additional data to assist in verifying whether the employer has obtained appropriate coverage. In addition, the new insurer reporting requirements will allow coverage information reported for employee leasing companies and their client companies to be displayed accurately in the Proof of Coverage Database and updated as client companies are initiated and terminated.

Additionally, the Division has begun the process of enhancing the Construction Policy Tracking Database. The Construction Policy Tracking Database is designed to send automatic electronic

notification to an employer concerning any changes to its subcontractors' workers' compensation policy. In addition to workers' compensation insurance, certificates of exemption from workers' compensation insurance represent proof of compliance with the Workers' Compensation Law. Therefore, access to exemption information is vital when verifying employer compliance. Currently, the system allows users to track policy information only; however, the enhancements to the database will allow users to track exemption records, including the renewal or revocation of certificates of exemptions. The addition of this new tracking feature will create a more comprehensive database which will provide users with a useful tool to monitor all coverage and exemption changes.

Collection Activities

Another initiative implemented during FY 2009-2010 has assisted the Division in focusing efforts on increasing the Division's penalty collection rate. In accordance with s. 440.107(11), F.S., the Division began filing liens against employers to collect unpaid penalties associated with a Stop-Work Order or Order of Penalty Assessment. During this fiscal year, the Division filed liens against 831 employers. Further, in FY 2010-2011, the Division will begin accepting credit cards for payment of assessed penalties. The availability of this additional payment option will provide employers with increased payment flexibility. The Division anticipates the implementation of these two initiatives will lead to higher overall collection rates.

Underreporting Work Group

To direct more of its investigative resources to identifying and sanctioning employers that are understating and concealing payroll in order to avoid paying the proper workers' compensation premium, the Division established an Underreporting Work Group comprised of Compliance Investigators and District Supervisors. The primary purpose of the Work Group is to develop tools and techniques to identify common methods that employers use to understate and conceal payroll and to establish an investigative guideline for these types of cases. Some of the areas that will be focused on include investigation techniques, how to question the employer to determine premium exposure, where and what to look for in an employer's business records to determine if the employer has attempted to hide payroll, and analysis of information. These cases often take more time to investigate due to the nature of the violation and the amount and type of evidence that is required to prove that an employer is understating or concealing payroll.

4. Investigator Training

The Division recognizes training as an integral component in identifying and sanctioning employers that are not in compliance. During the period of July 1, 2009 and June 30, 2010, the Division conducted numerous workers' compensation training sessions. The primary focus of the training sessions was to give each staff member greater technical skills to enhance their enforcement efforts by reviewing and updating office procedures, comparing and analyzing data and identifying areas of improvement within the enforcement process. The training sessions are summarized below:

40 on 440 Training Workshops – This is a 40-minute WebEx training series developed to educate Compliance Investigators, Penalty Calculators and Exemption staff members on the workers' compensation law, administrative rules, and new and existing procedures and policies. The Division held six training workshops during FY 2009-2010. Currently, there are thirteen training workshops scheduled for FY 2010-2011.

Penalty Pursuits Training Workshops – This is a WebEx training series designed primarily for the Division's Penalty Calculators. This training focuses on laws, procedures and policies related to calculating penalties for non-compliant violations. Penalty Calculators are required to attend these training workshops. The Division has held five training workshops and there are currently six scheduled for FY 2010-2011.

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 signs an acknowledgement form after each portion 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.

District Training - Each of the seven District Offices have provided various training sessions for their investigators based upon the needs of the districts. The District Supervisors consistently conduct regular training sessions with the investigators to review changes in processes and procedures, in addition to reviewing cases containing issues of interest. In addition, the periodic Management Reviews of District cases have provided opportunities for the Districts to perfect their skills in the application of enforcement processes.

5. Division of Workers' Compensation Website

The Division of Workers' Compensation Website is located at: www.myfloridacfo.com/wc/ and it contains links to several databases that are helpful to employers. The following is a list and description of databases within the Division's website.

- **Proof of Coverage Database**

The Proof of Coverage Database is available to the public and is particularly helpful to employers in both the construction and non-construction industries. An employer can determine if a subcontractor, or other entity, has a Workers' Compensation insurance policy, enabling them to access their own liability for providing coverage for unprotected workers, as required by section 440.10, F.S. This database is accessed more than 32,000 times per month.

- **Compliance Stop-Work Order Database**

The Compliance Stop-Work Order Database, which is accessed through the Division's website, lists employers that have been issued Stop-Work Orders for failing to comply with the coverage requirements of Chapter 440, F.S. The database contains each employer's name, the date the Stop-Work Order was issued, the date the Stop-Work Order was released and the type of non-compliance violation.

- **Online Penalty Payment Service**

The Online Penalty Payment Service is available for employers to whom a Stop-Work Order or Order of Penalty Assessment has been issued. This free service allows employers to pay their penalty

payment in full or submit monthly periodic payments as required in their Periodic Payment Agreement. The Penalty Payment Service is convenient, simple to set up and easy to use.

The Division also made available an online Employer Instructional Manual, which contains general information about the Online Penalty Payment Service and step-by-step instructions on setting up an online payment account. The Instructional Manual is provided to employers to whom a Stop-Work Order or Order of Penalty Assessment has been issued. In addition, employers can view and download the Instructional Manual from the Division's homepage. As of June 30, 2010, there are 4,325 employers that have entered into a Periodic Payment Agreement with the Division. Approximately 30% of penalty payments received by the Division are submitted via the Online Penalty Payment Service.

- Construction Policy Tracking Database

The Construction Policy Tracking Database continues to be helpful to contractors and other interested parties regarding the workers' compensation coverage status of the subcontractors they use. The system is designed to send automatic electronic notification to an employer concerning any changes to the subcontractors' coverage status.

This database is also a useful tool for local permitting and licensing officials and insurers. As of June 30, 2010, a total of 7,068 Construction Policy Tracking Database registrants are tracking 32,486 workers' compensation policies.

- DWC e-alerts

As newsworthy events or important announcements are available, subscribers are sent email alerts. Events such as the promulgation of rules, announcements regarding employer seminars, and changes to the laws are examples of how the e-alert system is used. This is very helpful to employers who need to remain current with the changes in regulations governing their businesses.

6. DWC Office Locations and Staff

From an organizational perspective, the state is divided into an eastern and a western region. The eastern region consists of the following offices: Jacksonville, Ocala, St. Augustine, Orlando, Daytona Beach, Cocoa, Tavares, West Palm Beach, Plantation and Miami. The western region consists of the following offices: Pensacola, Tallahassee, Panama City, Ft. Walton Beach, Tampa, Sarasota, New Port Richey and Fort Myers. The enforcement staff consists of 70 Investigators, 7 District Supervisors, and 2 Investigation Managers strategically located in 18 cities throughout the state.

	Office Locations	Number of Investigators
District 1	Jacksonville – District Office	6
	Ocala	1
	St. Augustine	2
District 1A	Pensacola – District Office	4
	Panama City	2
	Ft. Walton Beach	2
	Tallahassee	3
District 2	West Palm Beach – District Office	6
	Plantation	5
District 3	Tampa – District Office	4
	Sarasota	4
	New Port Richey	2
District 4	Orlando – District Office	6
	Daytona Beach	2
	Cocoa	1
	Tavares	1
District 5	Miami – District Office	10
District 6	Ft. Myers – District Office	9

7. Average Caseload

For the period of July 1, 2009 through June 30, 2010, a total of 33,235 Bureau of Compliance cases were closed. The average caseload for each compliance investigator was 39.5 per month.