



REPRESENTING  
**ALEX SINK**  
CHIEF FINANCIAL OFFICER  
STATE OF FLORIDA

January 1, 2008

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, 2006 – June 30, 2007.

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

Sincerely,

Handwritten signature of Tanner Holloman in black ink.

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

Sincerely,

Handwritten signature of Vicki Cutcliffe in black ink.

Vicki Cutcliffe, Director  
Division of Insurance Fraud  
(850) 413-4001

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**Joint Report  
to the**

**President  
of the  
Florida Senate  
and the  
Speaker  
of the  
Florida House  
of Representatives**



**Alex Sink**

Chief Financial Officer, State of Florida

FLORIDA DEPARTMENT OF FINANCIAL SERVICES

**THE FLORIDA DEPARTMENT  
OF FINANCIAL SERVICES**

**Division of  
Insurance Fraud  
and the  
Division of  
Workers' Compensation**

**JANUARY 1, 2008**



**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**

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**January 1, 2008**

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, 2006 through June 30, 2007.

**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 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 surpassed last fiscal year's record of 224 workers' compensation fraud arrests.

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. A continuing trend involves complex premium fraud cases and money laundering. In these schemes, offenders form fictitious companies and obtain small workers' compensation insurance policies. The fictitious company then 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, providing the general contractor with the impression they are covered under the fictitious company's insurance policy. The general contractor then pays the subcontractor with a check made out to the fictitious company. The subcontractor then gives the check to the fictitious company owner who cashes the check at a check cashing store, and then returns the cash to the subcontractor so he can pay his employees. The fictitious company owner usually charges from 2% to 3% of the amount of each check, and the check-cashing store usually charges 3 % as their fee. This scheme first appeared in the south and central Florida areas over the last year and continues to be an area of enforcement action by the Bureau. The BWCF is conducting several major criminal investigations and participates in coordinated task forces aimed at similar schemes. This year's major premium fraud/money laundering case resulted in the arrest of five subjects in March 2007. In addition, the indictment was just amended to charge the owners of two large check cashing store operations.

In January of 2007 the Division of Insurance Fraud conducted a three-day statewide arrest sweep that resulted in 61 arrests, with 30 being for various workers compensation fraud-related charges. Media attention was afforded this operation to heighten public awareness. The 30 persons were arrested on a variety of charges including

submitting fraudulent workers' compensation claims, forging workers' compensation documents or exemptions, and failure to secure coverage.

Significant performance categories experienced an increase from last year's totals, with the most dramatic increase in cases opened for investigation, and fraud dollar value/restitution amount awarded. In FY 05/06 there were a total of 486 cases opened, compared to 660 cases in FY 06/07. The fraud dollar value/restitution amount in FY 05/06 was \$8,725,191.00. The FY 06/07 total was \$254,307,593.00. This dramatic increase is, in large part, the result of an extraordinary case worked jointly with the Federal Bureau of Investigation.

All BWCF sworn personnel attended training this fiscal year. This training covered the areas of high liability arrests and apprehensions, and general investigative techniques.

Referrals by Source		Cases Opened
Carriers	933	239
DWC	123	44
Others	1123	377
<b>Total</b>	<b>2179</b>	<b>660</b>

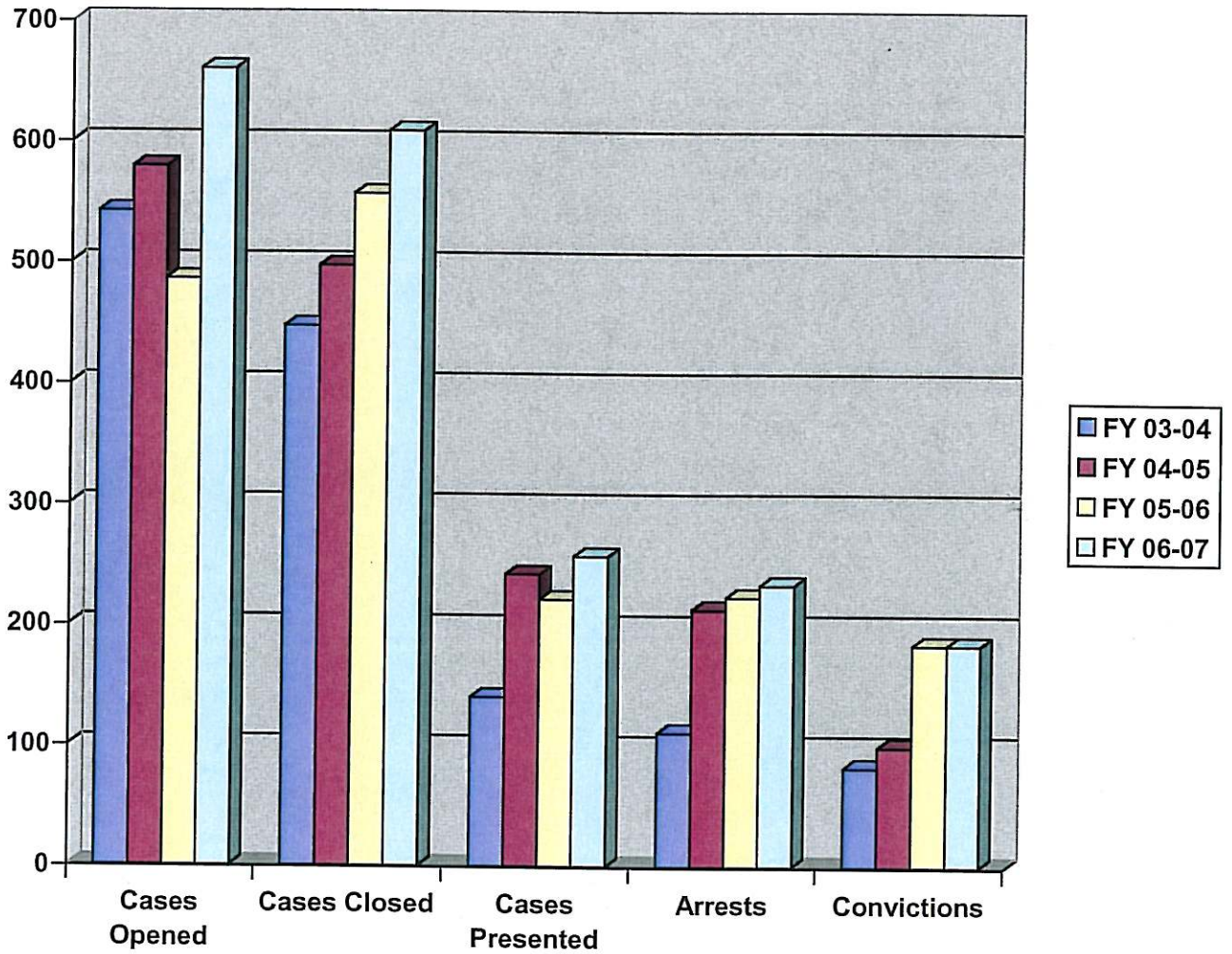
Cases Closed	Cases Presented	Arrests	Referrals to DWC Compliance
609	257	233	63

TYPES of CONVICTIONS	Number of Convictions
Claimant Fraud	58
Working Without Workers' Compensation Insurance	65
Premium Fraud	13
Fraudulent Certificate of Insurance	29
Identity theft	1
Grand Theft	10
Violation of Stop Work Order	8
<b>Total</b>	<b>184</b>

Number of Convictions by Judicial Circuit			
Circuit	Convictions	Circuit	Convictions
1st	14	11th	37
2nd	8	12th	8
3rd	1	13th	2
4th	18	14th	1
5th	10	15th	9
6th	8	16th	0
7th	8	17th	10
8th	2	18th	9
9th	12	19th	15
10th	4	20th	2
Federal	6		

PROSECUTIONS DECLINED		
Judicial Circuit	Number of Prosecutions	Reason For Decline
1st	1	1- Successful prosecution unlikely
2nd	2	2- Successful prosecution unlikely
3rd	0	
4th	6	2-Successful prosecution unlikely 4-Insufficient evidence
5th	5	3- Insufficient evidence 2- Lack of merit
6th	3	2- Successful prosecution unlikely 1- Civil Settlement
7th	1	1-Successful prosecution unlikely
8th	1	1- Successful prosecution unlikely
9th	2	1- Insufficient evidence 1- Successful prosecution unlikely
10th	1	1- Statute of limitations
11th	4	1- Unable to locate witness 3- Insufficient evidence
12th	3	1- Administratively handled 1- No reason 1- Successful prosecution unlikely
13th	2	2- Lack of intent
14th	1	1- No basis for prosecution
15th	3	1- No reason 2- Successful prosecution unlikely
16th	0	
17th	1	1- SA misfiled case
18th	1	1- Witness refused to cooperate
19th	1	1- Witness could not be located
20th	7	1- Statute of limitations 2-Insufficient evidence 1- Suspect deported 1- Administratively handled 2- No reason





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
<b>Totals</b>	<b>28</b>

OFFICE LOCATION / INVESTIGATOR Pos. #	AVERAGE TURN-AROUND TIME IN MONTHS								
* Indicates workers' compensation funded position	Case Load	Working Without	Premium Fraud	Claimant Fraud	False Certificate of Insurance	False SSN	Violation of SWO	Leasing	False Exempt / Forged Doc.
<b>Pensacola:</b> 01202 01539 01172* 01197 01217	1 22 11 36 13		42.9 10.1	1.1 9.4 1.1	3.7		0.1		
<b>Tallahassee:</b> 01496 01804 01805	3 22 17	0.3 9.3 2.1		9.1 3.1 4.3	1.7				
<b>Jacksonville:</b> 01505* 01011 00138 01013 01233*	12 22 13 24 20	19.5 0.6	12.8	2.9 0.3 1 4.1	37.4 4.6	1	2	36.2	
<b>Ocala:</b> 01547* 01009	7 24			1 1.3					
<b>Plantation #1:</b>  01699 00638				0.08 15.4					
<b>Miami Squad #3:</b> 01171 01548* 01186* 01549* 01783 01610*	2 15 18 18 12 11	7.0 3.7		3.3 12.7	3.5				
<b>West Palm Beach 1:</b> 01540 01367	22 19					1.75 1.15			

OFFICE LOCATION / INVESTIGATOR Pos. #	AVERAGE TURN-AROUND TIME IN MONTHS (CONTINUED)								
	Case Load	Working Without	Premium Fraud	Claimant Fraud	False Certificate of Insurance	False SSN	Violation of SWO	Leasing	False Exempt / Forged Doc.
<b>* Indicates workers' compensation funded position</b>									
<b>West Palm Beach 2</b>									
01183	4	1.3	14.6						
01306*	13	0.1							
01307*	6	0.1	7.3						
01308*	25			4.1		0.7			
01310 *	26	1.1			2.6				
01699*	29	9.5		34.1		0.8			
01607	25	7.0	16.1	15.7		0.5			
01611 *	26	2.3			1.6	1.1	5.6		
<b>Ft. Myers:</b>									
01260*	51	0.8		1.5		2.2			
01201*	54	5.2		4.9	2.1	6			
01198	14				0.7	0.9			
<b>Plantation #3</b>									
01173*	12								
01609*	9	3.9		12.6			2.2		
01597	14		20.6	6.2					
01604	21			10.7					
<b>Orlando:</b>									
01232*-									
01156*									
01504*	20			8.8	3	1			
01234*	21			3.8	13.3	6.7			
01139		2.4	6.5	3	0.8				
<b>St. Petersburg:</b>									
01312*	5	1.9							
01700*	52	3.3		2.6		2.2			
01503*	13	1.3		1.6					
00682	17	1.6		2.9					
<b>Tampa:</b>									
01157*	15	14.9	1.4		4.0				
01235*	34	1.4		7.5			0.1		
01701*	16			0.8	0.8				
00679	15			8.2					
01802	19				7.5		0.0		0.0



## **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, 2006 through June 30, 2007:

The Division of Workers' Compensation referred 123 employers to the Division of Insurance Fraud for possible criminal investigation.

The Division of Workers' Compensation received 63 referrals from the Division of Insurance Fraud for administrative investigations.

In addition to referral activities with the Division of Insurance Fraud, the Division of Workers' Compensation continues with its 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 continues to work 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**

Through its enforcement and investigative efforts, during the period of July 1, 2006 through June 30, 2007 the Division:

- Issued 2,517 stop work orders;
- Assessed \$75,011,708 in penalties;
- Caused 6,743 new employees to be covered by workers' compensation insurance;
- Caused \$12,374,221 in additional workers' compensation insurance premium to be generated;
- Processed 98,073 construction industry exemption applications and 23,782 non-construction industry exemption applications

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.

The Bureau of Compliance has continued its investigative emphasis in identifying and sanctioning employers that are understating or concealing payroll or misclassifying employees 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. During the period of July 1, 2006 through June 30, 2007 the Division issued 68 Stop-Work Orders for understating or concealing payroll or misclassifying employees and assessed \$11,565,035.35 in penalties.

### **Accessing other Agencies' Data to Assist in Enforcement Activities**

The Division of Workers' Compensation has obtained a listing of all the corporations that have been administratively dissolved by the Department of State, Division of Corporations. The Division of Workers' Compensation compared the list of dissolved corporations with its exemption database and identified over 34,000 employers that were determined to be current exemption holders who are no longer eligible for an exemption because the corporation specified in their exemption application has been dissolved. The Division is currently notifying these exemption holders and providing them the opportunity to re-activate their dissolved corporations. If a corporation is not re-activated within twenty-one days of the Division's notification to the employer, the Division will initiate proceedings to revoke the exemption.

The Division of Workers' Compensation obtained access to the LexisNexis Database through Accurant Datalink. The LexisNexis Database is a large data repository that contains a vast amount of public records with the capability of generating a complete comprehensive report. The Database functions as an investigative tool to assist in locating employers, corporate officers, principles or other individuals for purposes of serving enforcement documents and identifying links between business entities. In addition, it provides identity verification as it relates to SSN's and license tag numbers. Access to this data has proven to be an additional enforcement tool for the compliance investigators.

### **3. Databases**

#### **Online Penalty Payment Service**

The Division has implemented an Online Penalty Payment Service for employers that have been issued a Stop-Work Order or Order of Penalty Assessment. This free service allows employers to pay their penalty payment in full or submit monthly periodic payments that are required in their Periodic Payment Agreement. The Penalty Payment Service is convenient, simple to set up and easy to use. The Online Penalty Payment Service can be accessed from the Division's home page at <http://www.myfloridacfo.com/WC>. In addition, the Division created an 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 that have been issued a Stop-Work Order or Order of Penalty Assessment. In addition, employers can view and download the Instructional Manual from the Division's homepage.

#### **Compliance Stop-Work Order Database**

The Compliance Stop Work Order Database 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 was released and the type of non-compliance violation. The database can be accessed through the Division's website at <http://www.myfloridacfo.com/WC/>.



## **Construction Policy Tracking Database**

The Construction Policy Tracking Database provides information to contractors and other interested parties regarding the workers' compensation coverage status of the sub-contractors they use. The system is designed to send automatic electronic notification to the contractor concerning any changes to the sub-contractors' coverage status. This database is also a useful tool for local permitting and licensing officials and insurers. The database can be accessed through the Division's website at <http://www.myfloridacfo.com/WC/>. As of June 30, 2007, a total of 5,682 Construction Policy Tracking Database registrants are tracking 25,594 workers' compensation policies.

## **4. Internal Training**

The Bureau recognizes training as an integral component in identifying and sanctioning employers that are not in compliance. During the period of July 1, 2006 and June 30, 2007, the Bureau held numerous workers' compensation training sessions. The primary focus of the training sessions was to give each Investigator 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:

**Comprehensive Investigator Training Program** – During the first quarter of 2007, the investigators and the District Supervisors attended a three-day training course that provided a comprehensive review of the investigative and enforcement process. The training focused 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.

**CLEAR Training** – The Council on Licensure, Enforcement and Regulation (CLEAR) provides a 24 hour Certified Investigator Training Course for regulatory investigators. During the three-day session, the investigator is trained on professional conduct, interagency relations, administrative law, the investigative process, principles of evidence, interviewing techniques, report writing, and the administrative and criminal process. The investigator must obtain a passing score to receive the national certification. During the second quarter of 2007, investigators and District Supervisors attended the basic and specialized training sessions.

**NAIC Study Course** – The National Association of Insurance Commissioners (NAIC) offers a six-week on-line Basic Insurance Course that serves as an orientation to the fundamentals of insurance for regulators and insurance industry personnel. The primary objective of the course is to provide regulators and insurance industry professionals with a working knowledge of insurance. During the six-week course, the investigator is educated on the functions performed by insurers, identifying characteristics that are typical of insurance contracts and the purpose of regulation and key regulatory practices. The study course was offered to investigators and District Supervisors.

**District Training** – Each of the seven District Offices have provided various training sessions for their investigators. The District Supervisors consistently conduct regular training sessions with the investigators to review changes in processes or procedures.

**Monthly Supervisor Meetings** – These meetings serve as strategic planning sessions for the Bureau of Compliance in which we review and update 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, Bureau Chief and may include the Director and Assistant Director.

**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.

### 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 70 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	4
West Palm Beach	7
Plantation	5
Tampa	3
Sarasota	4
New Port Richey	2
Orlando	7
Daytona Beach	1
Cocoa	1
Miami	9
Ft. Myers	9
Tavares	1
St. Augustine	1
<b>Total</b>	<b>70</b>

### 6. Average Caseload

For the period of July 1, 2006 through June 30, 2007, a total of 24,826 Bureau of Compliance cases were closed. The average caseload for each compliance investigator was 29.55 per month.

### 7. National Recognition of Florida's Employer Compliance Laws and Program

As part of the 2003 workers' compensation reforms, the Legislature enacted numerous compliance and enforcement provisions in order to combat employers who violated the workers' compensation coverage requirements. Several states have subsequently enacted similar compliance laws and have contacted the Division to gain a better understanding of our investigative and enforcement process. Most recently, the Division's Bureau of Compliance hosted regulators from Connecticut and New York. The investigative staff in West Palm Beach provided an extensive training program to these regulators focusing on the compliance statutes, administrative rules, and the Bureau's investigative process. In addition, the regulators joined the Bureau's investigators as they conducted field operations, such as interviewing employers, verifying coverage, and issuing stop-work orders.