



REPRESENTING
ALEX SINK
CHIEF FINANCIAL OFFICER
STATE OF FLORIDA

January 1, 2009

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

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

Dear President Atwater and Speaker Sansom:

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, 2007 – June 30, 2008.

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

**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, 2009

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, 2007 through June 30, 2008.

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

According to the Coalition Against Insurance Fraud (CAIF), Florida's Division of Insurance Fraud leads the nation in the recovery of insurance fraud related losses through court ordered restitution. In Fiscal Year 2007/2008, cases presented for prosecution by The Division of Insurance Fraud resulted in \$94 million in court ordered restitution which is 5.5 times greater than the operating budget allocated for the Division. Additionally, according to the Coalition, Florida ranks in the top four (4) among all states' fraud divisions and bureaus in key measurements of success:

- 2nd in the number of arrests
- 3rd in the number of cases presented for prosecution
- 4th in the number of referrals

Florida's Division of Insurance Fraud continues to be a perennial leader in the fight against insurance fraud. During Fiscal Year 2007/2008, investigative efforts by The Division of Insurance Fraud resulted in 873 cases presented for prosecution, 816 arrests, and 663 convictions. Also during Fiscal Year 2007/2008, The Division of Insurance Fraud received and reviewed 9,916 insurance fraud referrals and opened 1,742 cases for investigation.

Within the Division of Insurance Fraud, the BWCF continues to implement a proactive approach in addressing fraudulent practices in the workers' compensation system. The BWCF works closely with the Division of Workers' Compensation Compliance (DWCC) and the Department of Business and Professional Regulation (DBPR) by sharing information and participating in joint enforcement operations throughout the state.

Over the past year, the BWCF has seen a significant increase in the illegal sale and brokering of certificates of workers' compensation coverage throughout the construction industry.

The most basic scheme involves contractors selling the use of their "legitimately" obtained certificates of insurance to groups of uninsured subcontractors for an average of five to ten percent of the subcontractor's actual payroll; thereafter, the uninsured subcontractors present the illegally purchased certificates of insurance to general contractors as proof of workers' compensation insurance, as is required to obtain construction contracts.

A more sophisticated scheme involves the use of fictitious companies in collusion with check cashing stores and money service businesses (MSB's). Within this scheme, individuals incorporate shell companies, which provide no bona fide goods or services, and often having nothing more than a mailing address, for the sole purpose of obtaining a small workers' compensation insurance policy with the lowest possible premium. The shell companies then sell 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 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's and pay a pre-determined percentage to the owner of the shell company. The MSB's participate in the scheme by agreeing with the shell company's owners to cash the company checks for individuals other than the company's owners (A violation of FSS 560 et al, Requirements of MSB's).

The MSB's benefit by receiving the standard two to three percent check-cashing fee on the value of all checks cashed, as well as the increased amount of business. 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.

Over the past year, in addition to working in close conjunction with the Division of Workers' Compensation, the BWCF has worked closely with the Florida Office of Financial Regulations, 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. Further, the agencies conducted four 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.

A review of the 2006/2007 fiscal year's statistics as compared to the 2007/2008 statistics revealed 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 60 to 55 percent of all referrals. Referrals for working without workers' compensation coverage remains second in the number of referrals, representing 15 percent of all referrals. Also significant is the emergence of the use of fraudulent social security numbers in employment and workers' compensation claims, which is the third largest category of referrals, representing 14 percent of all referrals received.

The overall number of referrals received by the BWCF *decreased* by 9 percent, from 2,170 to 1,984; however, the number of cases presented for prosecution *increased* by 17 percent, from 257 to 300. The number of arrests also *increased* by 29 percent, from 233 to 301.

Cases presented for prosecution by the BWCF resulted in requests for \$25,026,917.48, in restitution, with \$86,230,171.69 in court ordered restitution for cases reaching final disposition during the 2007/2008 fiscal year.

The BWCF is dedicated to providing continuing education to its personnel and has made significant advances in this effort during the 2007/2008 fiscal year. A new investigators academy was developed and implemented which provides new hires with a review of basic law enforcement skills, as well as specialized training in fields critical to the agency's mission. Sworn personnel are being certified as Certified Fraud Examiners (CFE) and supervisors are attending executive management classes at the Southern Police Institute (SPI). Online training is now available and being taken by increasing numbers within the workforce, and additional new training materials are being made available to all personnel, 24/7. During the past fiscal year, sworn personnel have received training in workers' compensation fraud, money service businesses, interviews and interrogations, and high liability topics such as legal issues, firearms, arrest procedures, defensive tactics, the ASP expandable baton, CPR and the use of the automated external defibrillator.

Workers' Compensation Annual Report
Fiscal Year 2007-2008

Referrals and Cases by Source

| Source | Number of Referrals Received | Number of Cases Opened |
|---------------|------------------------------|------------------------|
| Carriers | 1014 | 257 |
| DWCC | 126 | 76 |
| Others | 844 | 296 |
| TOTALS | 1984 | 629 |

Fiscal Year Statistics

| Number of Cases Closed | Number of Cases Presented for Prosecution | Number of Arrests | Referrals to DWCC Compliance |
|------------------------|---|-------------------|------------------------------|
| 612 | 300 | 301 | 60 |

Number of Convictions by Type

| Types of Convictions | Number of Convictions |
|--|-----------------------|
| Claimant Fraud | 45 |
| Working Without Workers' Compensation Insurance Coverage | 56 |
| Premium Fraud | 6 |
| Fictitious Certificate of Insurance | 22 |
| Fictitious Certificate of Exemption | 1 |
| Identity Theft | 34 |
| Violation of Stop Work Order | 12 |
| Leasing Company | 2 |
| Agent Premium Fraud | 1 |
| By Employer | 1 |
| TOTALS | 180 |

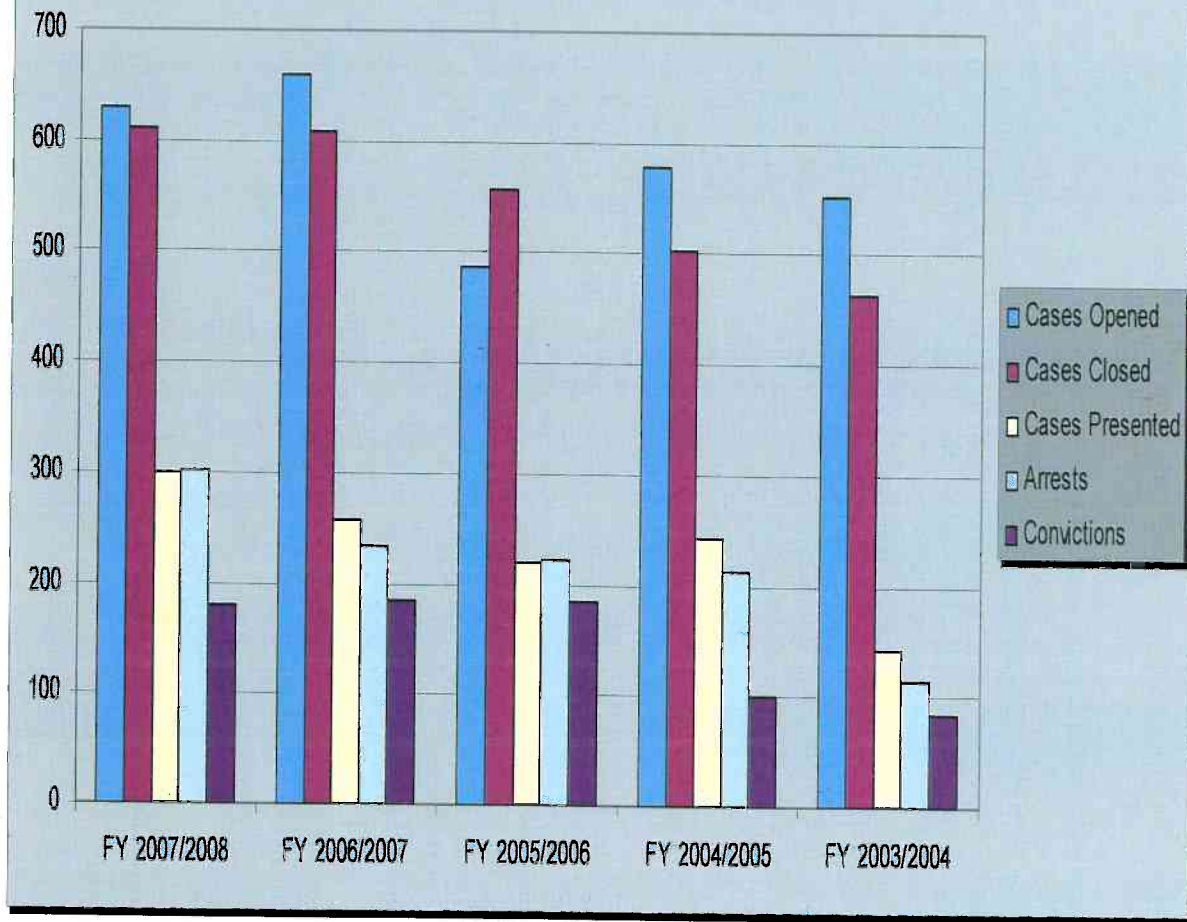
Number of Convictions by Judicial Circuit

| Judicial Circuit | Convictions |
|------------------|-------------|
| 1st | 13 |
| 2nd | 11 |
| 3 rd | 0 |
| 4 th | 16 |
| 5 th | 8 |
| 6 th | 4 |
| 7 th | 2 |
| 8 th | 3 |
| 9 th | 2 |
| 10 th | 1 |
| 11 th | 38 |
| 12 th | 8 |
| 13 th | 9 |
| 14 th | 2 |
| 15 th | 15 |
| 16 th | 0 |
| 17 th | 12 |
| 18 th | 3 |
| 19 th | 28 |
| 20 th | 5 |

Prosecutions Declined

| Judicial Circuit | Number of Prosecutions Declined | Reason for Declined |
|------------------|---------------------------------|--|
| 1st | 2 | 2-Declined to prosecute |
| 2nd | 0 | |
| 3rd | 0 | |
| 4th | 7 | 1-Declined to prosecute 1-Declined to prosecute 1-Civil Settlement 1-Subject Deported 2-Lack of Intent 1-Concurrent Sentence w/other case |
| 5th | 5 | 2-Civil Settlement 3-Declined to prosecute |
| 6th | 0 | |
| 7th | 0 | |
| 8th | 1 | 1-Charges Dismissed |
| 9th | 2 | 2-Declined to prosecute |
| 10th | 2 | 2-Declined to prosecute |
| 11th | 6 | 6-Declined to prosecute |
| 12th | 1 | 1-Declined to prosecute |
| 13th | 4 | 2-Declined to prosecute 1-Prosecution Unlikely 1-Unable to locate witness |
| 14th | 1 | 1-Witness Refused to Cooperate |
| 15th | 1 | 1-Declined to prosecute |
| 16th | 0 | |
| 17th | 4 | 3-Declined to prosecute 1-Lack of Intent |
| 18th | 0 | |
| 19th | 2 | 1-Declined to prosecute 1-Civil Settlement |
| 20th | 7 | 4-Declined to prosecute 2-Civil Settlement 1-Statute of Limitations |

Five Year Statistical Data



BWCF STAFFING (Sworn)

| Office Location | Workers' Compensation Funded Detectives | Vacant during Fiscal Year 2007/2008 |
|-------------------------|---|-------------------------------------|
| Pensacola | 2 | |
| Tallahassee | 2 | 2* |
| Jacksonville | 4 | |
| Tampa | 6 | 2* |
| St. Petersburg | 3 | 1* |
| Orlando | 4 | 2* |
| West Palm Beach Squad 2 | 7 | |
| Ft. Myers | 2 | 1** |
| Broward Squad 3 | 2 | |
| Miami Squad 3 | 5 | |
| TOTALS | 37 | 8 out of 37 vacant |

* Vacancy incurred due to normal attrition
 ** Employee left for higher salary

| Office Location/ Investigator Position Number | AVERAGE TURN-AROUND TIME IN MONTHS | | | | | | | |
|---|------------------------------------|--------------------|------------------|-------------------|---|---------------------------------------|--|----------|
| | 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 | 6 | 2.7 | | | 3.9 | 3.3 | | |
| 01217 | 1 | | | | | 2.8 | | |
| 01800* | 9 | 1.2 | | 2.0 | | 0.8 | | |
| 01803* | 7 | 3.4 | | 5.2 | 32.9 | 1.1 | | |
| Tallahassee: | | | | | | | | |
| 00649 | 1 | | | 18.1 | | | | |
| 01804 | 4 | | | 2.9 | | | | |
| 00689 | 4 | 2.0 | | 16.2 | | | 1.8 | |
| 01805 | 4 | | | 3.4 | | | 7.1 | |
| Jacksonville: | | | | | | | | |
| 01011 | 2 | | | | 8.1 | 0.0 | | |
| 01505* | 5 | | | | 46.6 | | | |
| 01781* | 26 | 0.3 | | 0.9 | 5.2 | | | |
| 01233* | 9 | | | 1.0 | 5.2 | | | |
| 01793* | 12 | 0.2 | 18.7 | 4.4 | 4.2 | 2.3 | | |
| Ocala: | | | | | | | | |
| 01796* | 3 | | | 2.8 | | | | |
| 01009 | 3 | | | 4.4 | | | 3.8 | |
| Plantation #1: | | | | | | | | |
| 01840 | 1 | | | 3.6 | | | | |
| Plantation #3: | | | | | | | | |
| 01833 | 1 | | 43.1 | | | | | |
| 01835 | 1 | | | | | 4.2 | | |
| 01173* | 5 | 3.8 | | | 5.3 | 2.5 | | |
| 01597 | 1 | 5.0 | | | | | | |
| 01609 | 2 | | | | 5.4 | 0.8 | | |
| Ft. Myers: | | | | | | | | |
| 01841 | 1 | | | 12.4 | | | | |
| 01260 | 1 | 1.1 | | | | | | |
| 01842 | 12 | 4.4 | | 5.7 | 8.7 | 2.8 | 8.1 | |
| Miami #3: | | | | | | | | |
| 01171* | | | | | | | | |
| 01780* | 12 | 4.0 | | | 4.0 | 4.3 | | |
| 01779* | 15 | 7.0 | 8.9 | | | | | |
| 01578* | 7 | | | 4.9 | 2.2 | | | |
| 01610* | 3 | 1.4 | | 1.0 | | | | |

| Office Location/ Investigator Position Number | AVERAGE TURN-AROUND TIME IN MONTHS | | | | | | | |
|--|------------------------------------|-----------------|---------------|----------------|--------------------------------|------------------------------|----------------------------------|----------|
| | Case Load | Working Without | Premium Fraud | Claimant Fraud | False Certificate of Insurance | Violation of Stop Work Order | Identity Theft of Number or Name | Attorney |
| *Indicates Workers' Compensation funded positions | | | | | | | | |
| Orlando #1: | | | | | | | | |
| 01232*(vacant) | | | | | | | | |
| 01795* | 8 | | 12.7 | 3.1 | 1.6 | 0.3 | | |
| 01796* | 6 | | | 5.7 | 4.2 | | 7.4 | |
| 01797* | 6 | | | 5.4 | | | 3.9 | |
| 01504* | | | | | | | | |
| 01156* | 7 | 1.1 | | 3.0 | | 0.3 | 3.1 | |
| St. Petersburg: | | | | | | | | |
| 01801* | 6 | 1.2 | | 0.4 | 1.5 | | | |
| 01312* | 11 | 1.0 | | 3.3 | 1.8 | | | |
| 01503* | 11 | 0.6 | | 1.7 | | | | |
| 01832 | 1 | | | 14.3 | | | | |
| Tampa: | | | | | | | | |
| 01802 | 1 | | | | 3.2 | | | |
| 01157* | 9 | 42.1 | 1.2 | 20.2 | | 1.0 | 9.8 | |
| 01800* | 2 | | | 2.1 | | | | |
| 01701* | 7 | | | 0.8 | | | 1.7 | |
| 01193 | 1 | | | | | | 1.8 | |
| West Palm Beach #1: | | | | | | | | |
| 01788 | 2 | 4.9 | | | | | | |
| West Palm Beach #2: | | | | | | | | |
| 01306* | 1 | 0.7 | | | | | | |
| 01307* | 9 | | 14.9 | | | | | |
| 01183* | 7 | 0.4 | | 1.6 | | 0.7 | 0.5 | |
| 01794* | 10 | 10.1 | 5.5 | 8.1 | | | 2.1 | 17.5 |
| 01308* | 4 | 4.6 | | 5.6 | 19.5 | | 3.3 | |
| 01792* | 2 | 5.8 | | 4.9 | | | | |
| 01607 | 10 | 4.9 | 20.6 | 3.3 | | | | |
| 01697* | | | | | | | | |
| 01791 | 9 | 0.7 | | 3.5 | | | 1.5 | |

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 Bureau of Compliance achieves this mission by conducting investigations to ensure that employers comply with their statutory obligations under Chapter 440, F.S., to obtain appropriate workers' compensation insurance coverage for their employees. Attainment of this objective provides coverage for employees that were previously without coverage due to non-compliance, ensures that covered employees with work-related injuries receive their statutory benefits, levels the playing field for all employers, and adds premium dollars to the system that were previously evaded due to non-compliance. The Bureau of Compliance administers civil actions 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 to make the best use of resources and to enhance employer compliance.

Pursuant to section 626.989(9), Florida Statutes, the following report highlights the Division's activities and achievements during FY 2007-2008.

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

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, 2007 through June 30, 2008:

- The Division of Workers' Compensation referred 126 employers to the Division of Insurance Fraud for possible criminal investigation.
- The Division of Workers' Compensation received 60 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. This was especially evident in the case of a group of entities who were engaged in a complex scheme that involved workers' compensation fraud, RICO and money laundering violations. The Division of Workers' Compensation issued stop-work orders to both entities for understating and concealing payroll and assessed penalties against the employers in the amount of \$132,509. The information provided by the Division of Workers' Compensation assisted in ferreting out the complex issues, resulting in multiple arrests.

The following case summaries taken from actual FY 2007-2008 cases are examples of the types of investigations conducted by the enforcement efforts of the Bureau of Compliance.

Case One

Based on a public complaint, the Bureau commenced an investigation against an employer that was paying his workers through an employee leasing company. The investigation revealed that 4 employees were not reported on the employee leasing payroll, plus the other 11 employees were paid additional cash payments that were not reported to the leasing company. A Stop-Work Order and Business Records Request was issued and served to the employer and a penalty for non-compliance was assessed at \$75,984. The employer came into compliance by adding all employees to the employee leasing payroll and reporting full payroll amounts for 15 employees.

Case Two

The Bureau received a tip regarding a company that was misclassifying the work being performed. During the site visit three men were observed installing roof shingles. The employer's workers' compensation policy listed classification codes for painting only. A Stop-Work Order for misrepresenting or concealing employee duties and a Business Records Request was issued and served to the employer. The employer provided business records that revealed the employer had been primarily performing roofing work over the past 3 years and the only class codes that were listed on the workers' compensation policy were painting. The penalty for non-compliance was assessed in the amount of \$94,622. The employer came into compliance by reporting the proper class codes to the insurance carrier which generated \$38,045 in premiums and by entering into a Periodic Payment Agreement.

Case Three

The Bureau initiated an investigation based upon a public complaint alleging an employer with approximately 130 employees in 19 locations was operating without workers' compensation coverage. During the site visit 15 employees were observed engaged in office clerical work. The owner of the company confirmed that there was no current workers' compensation coverage in place, and their previous workers' compensation policy had cancelled 3 months prior. A Stop-Work Order for failure to secure coverage and a Business Records Request was served to the employer. The business records provided for the period of non-compliance revealed a gross payroll of \$1,163,405 for 100+ full and part-time employees in 19 locations. The total penalty assessed was \$10,732. The employer came into compliance by securing workers' compensation coverage which generated \$19,546 in premiums and by entering into a Periodic Payment Agreement.

Case Four

Based on a public tip, the Bureau conducted an investigation of a commercial construction job site. The investigator observed 8 workers performing carpentry work on the roof. The contractor and subcontractor for the jobsite were identified. The investigation revealed the subcontractor did not have workers' compensation coverage and all 8 workers were undocumented employees who were being paid in cash. The contractor provided a Certificate of Insurance evidencing workers' compensation coverage through the Florida Workers' Compensation Joint Underwriting Association (FWCJUA). Contact with FWCJUA revealed that there was no such coverage in effect for the contractor and the Certificate of Insurance was false.

A Stop-Work Order and Business Records Request was issued and served to the contractor and subcontractor for failure to secure workers' compensation coverage. The subcontractor came into compliance and paid the assessed penalty in full. The contractor came into compliance by obtaining a workers' compensation policy through a licensed insurance carrier and paying the assessed penalty in full.

A referral was made to the Division of Insurance Fraud, Bureau of Workers' Compensation Fraud, resulting in the arrest of the insurance agent for the issuance of a false Certificate of Insurance.

An interesting point in this case is that the agent subsequently reimbursed the contractor approximately \$58,000.00, for payments the contractor made to the insurance agent for payment of workers' compensation coverage.

Case Five

While conducting routine investigations in Palm Beach County, an investigator discovered a roofing company that was working in violation of the Workers' Compensation Law. The investigator observed 3 workers removing tile from a roof. The investigation revealed the employer had not reported the workers to its employee leasing company. The investigator issued and served a Stop-Work Order to the employer for failure to secure payment of workers' compensation coverage.

The employer was assessed a penalty in excess of \$112,000. The employer came into compliance by adding eighteen workers to its employee leasing agreement which generated \$93,695 in premiums and by entering into a Periodic Payment Agreement.

Case Six

While conducting routine investigations, an investigator visited a commercial construction site where a crew of eight workers was observed doing concrete flooring work. The investigation revealed the employer had obtained workers' compensation coverage through an employee leasing company. However, only three employees were being paid through the leasing company. A Stop-Work Order was issued and served to the employer for failure to secure workers' compensation coverage.

A subsequent investigation determined the employer continued to conduct business operations in violation of the Stop-Work Order for 23 days resulting in an assessed penalty of \$1000 per day. A referral for working in violation of the Stop-Work Order was submitted to the Division of Insurance Fraud. The employer's total penalty was assessed in the amount of \$42,106. The employer came into compliance by adding the employees to the leasing contract increasing the annual gross payroll to \$126,660 which generated \$23,320 in premium.

Case Seven

The Bureau commenced an investigation upon an employer based upon a public tip alleging the employer may be working without workers' compensation coverage. A Business Records Request was issued and served to the employer to determine if the employer was working in violation of the workers' compensation law. The business records revealed the employer was working without workers' compensation coverage on the date the investigation commenced, but had subsequently obtained a workers' compensation policy prior to the issuance of a Stop-Work Order.

Further, the business records reflected the employer worked without workers' compensation coverage for approximately one year. In addition, the records reflected payments made to uninsured subcontractors during the period of non-compliance. A penalty was assessed against the employer in the amount of \$114,682. The employer secured workers' compensation coverage for 47 employees which generated \$130,499 in premium.

Working With Other Agencies

In addition to the referrals for workers' compensation fraud, 46 employers were referred to other agencies where the employers were suspected of violating the laws regulated by those agencies. The majority of those referrals were made to the Department of Business and Professional Regulation. The two primary reasons for those referrals included failure to be licensed to work in the trade in which the employer was working, and that the employer failed to provide workers' compensation insurance to its employees, which is a violation of the condition for licensure. The Division also submits referrals to the Agency for Healthcare Administration, the Department of Agriculture, Department of Revenue, and the Department of Homeland Security (Immigration and Customs Enforcement).

The Division also 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 state Workers' Compensation laws, in addition to violating local ordinances, and placing the citizens of Florida in jeopardy.

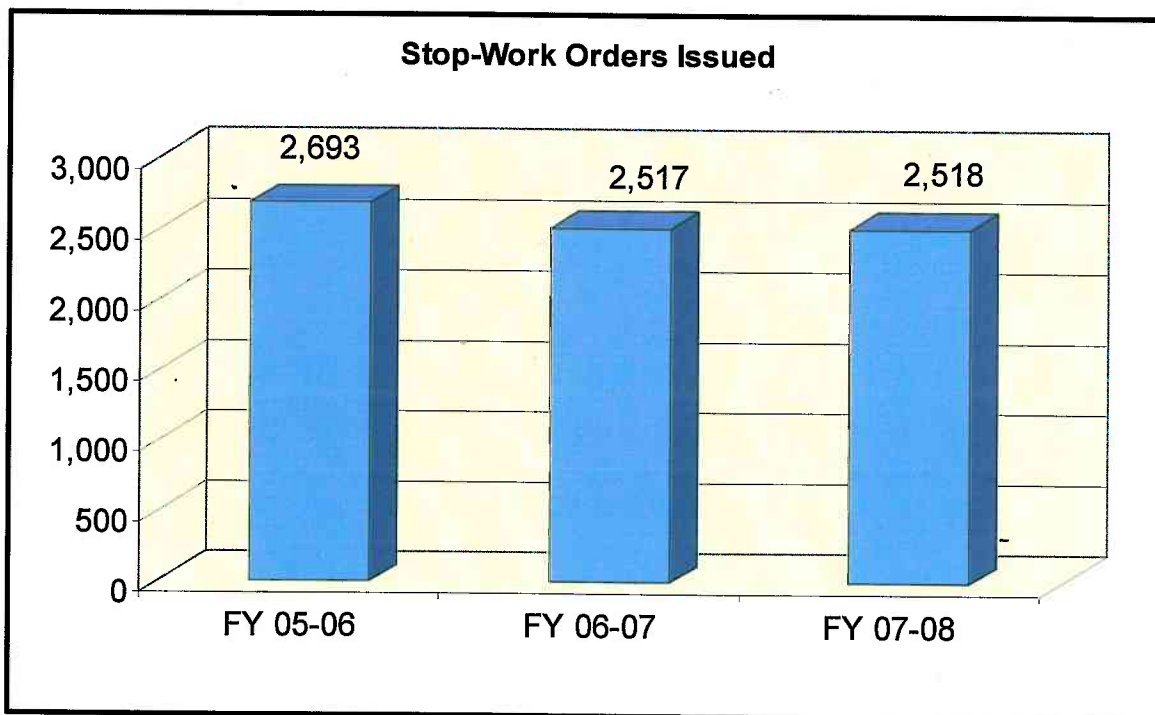
During this fiscal year, joint operations were conducted throughout the state with a number of city and county code enforcement offices, the Department of Business and Professional Regulation, and the Division of Insurance Fraud. These operations have largely been conducted in areas where there is commercial construction taking place; although some of the operations were conducted in areas where new homes were being constructed.

2. Enforcement Activities and Workers' Compensation Exemption Statistics

Stop Work Orders

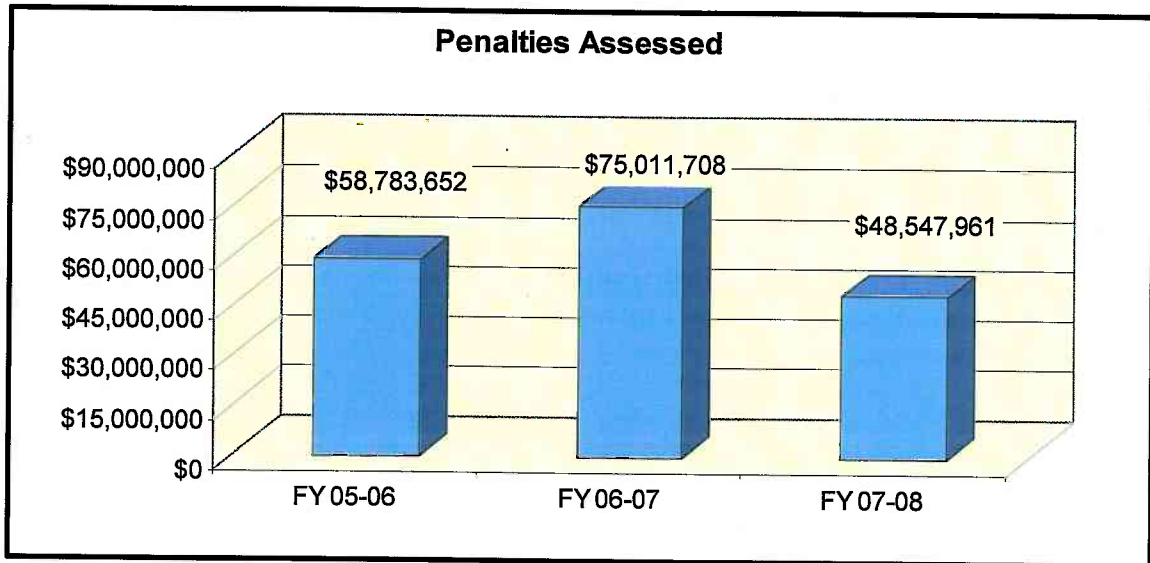
Through its enforcement and investigative efforts, during the period of July 1, 2007 through June 30, 2008 the Division:

- Issued 2,518 Stop-Work Orders. Stop-Work Orders are issued based upon a determination that an employer has failed to comply with the coverage requirements of Chapter 440, F.S. Stop-Work Orders require the employer to cease business operations until the Division issues an Order Releasing the Stop-Work Order.

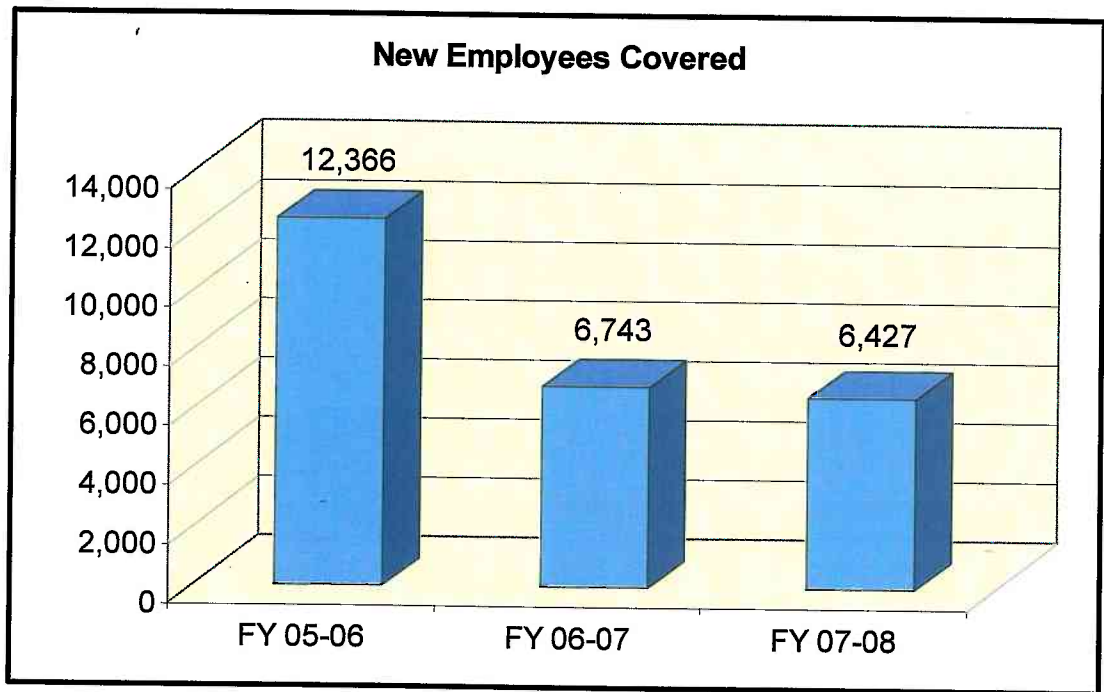


- Assessed \$48,547,961 in penalties. Assessed penalties are equal to 1.5 times what the employer would have paid in workers' compensation insurance premiums for all periods of non-compliance during the preceding three-year period, or \$1,000, whichever is greater. Shorter periods of non-compliance, smaller numbers of employees not covered by workers' compensation insurance, smaller amounts of

gross payroll paid by employers and lower insurance premium rates have all contributed to the decrease in assessed penalties. The Division collected \$9,326,530 during FY 2007-2008 in assessed penalties. Pursuant to s. 440.107(7)(a) and Rule 69L-6.025, F.A.C., an employer may enter into an agreement with the Division to remit periodic payments of the penalty pursuant to a payment agreement schedule. An employer is required to make an initial down payment that equals at least 10% of the total assessed penalty or \$1,000, whichever is greater, and the employer may elect to make 12, 24, 36, 48 or 60 equal monthly payments to pay the remaining penalty. The number of employers that entered into a Periodic Payment Agreement increased by 5.25% during FY 2007-2008. In addition, the Division referred 628 delinquent employer accounts to the Department of Financial Service's contracted collection agency in an effort to increase the amount of assessed penalties collected.



- Caused 6,427 new employees to be covered by workers' compensation insurance. While the Graphic below reflects a decrease in the number of new employees covered, it is important to note that the Bureau's more sophisticated investigative techniques have generated significant results. Specifically, the Bureau identified and sanctioned more employers for understating and concealing payroll in order to avoid paying the proper workers' compensation premium and for misrepresenting or concealing employee duties to avoid proper classification for premium calculations. All of the employers involved in these cases had secured coverage under a workers' compensation policy that was in effect at the time of the investigation, in most circumstances, there were very few, if any, new employees added to the policy.

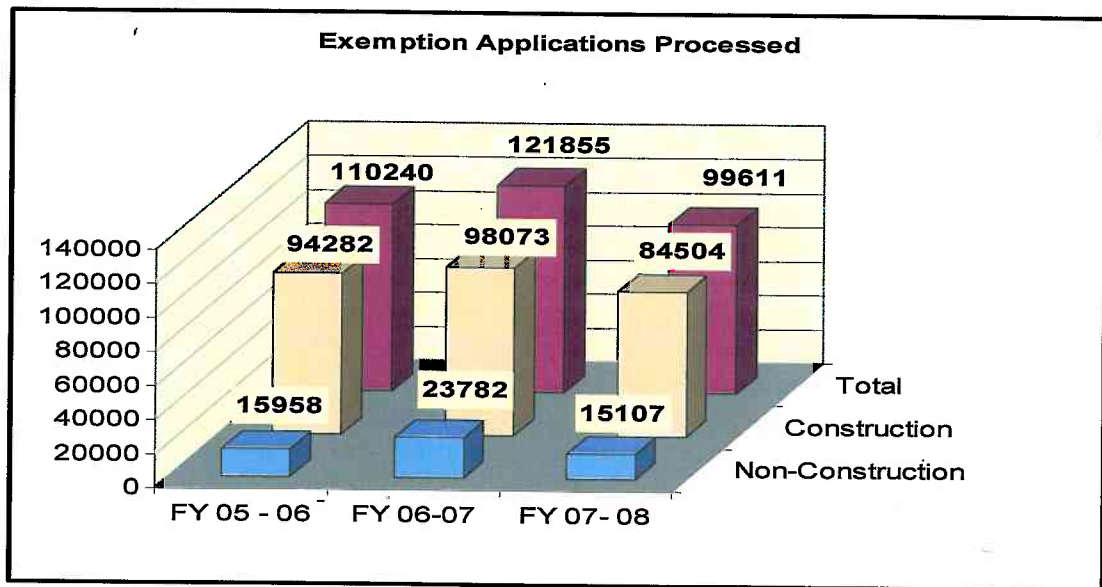


- Caused \$8,014,345 to be added to the premium base that had been previously evaded. During the last five years, workers' compensation rates have decreased on average by 58.3%, as detailed in the following graph. This rate reduction also resulted in a corresponding reduction in workers' compensation insurance premiums.

| Workers' Compensation Rate Decreases | |
|---|-------|
| October 2003 | 14.0% |
| January 2005 | 5.2% |
| January 2006 | 13.5% |
| January 2007 | 15.7% |
| January 2008 | 18.4% |
| Cumulative Decrease 58.3% | |

Exemption Statistics

- Processed 84,504 construction industry exemption applications and 15,107 non-construction industry exemption applications. Section 440.05(5), Florida Statutes, requires the Division to process exemption applications within 30 days of receipt, but the Division has implemented several initiatives that have decreased the number of days to review and subsequently process an exemption application to 5-7 days.



3. New Initiatives

Penalty Calculation Administration Program

The Division developed, and is continuing to implement a Penalty Calculation Administration Program staffed with 14 Compliance Specialists. Compliance Specialists are responsible for reviewing and analyzing employer business records and calculating statutory penalties for non-compliance violations. The Compliance Specialists attended a four-day training course that provided a comprehensive review of the investigative and enforcement processes. The training focused on reviewing and analyzing employer business and payroll records and the process of calculating penalties.

The Penalty Calculation Administration Program streamlines the calculation of an accurate and complete employer payroll and provides internal controls to ensure that no one individual can control the calculation of penalties, the receiving of penalty payments, the manual input of the penalty payment information, and the logging and transmitting of payments.

Employer Education Outreach Campaign

In an effort to expand its emphasis on educating employers, licensed contractors, employees and stakeholders about Florida's workers' compensation coverage requirements, the Division of Workers' Compensation modified and enhanced its Education Outreach Campaign. The Education Outreach Campaign focuses on helping employers understand their statutory obligations under the Workers' Compensation Law. Fifteen investigative staff members, including district supervisors, obtained licensure to teach continuing education courses about coverage and compliance requirements to construction contractors licensed through the Department of Business and Professional Regulation. As of June 2008, 978 licensed contractors had attended continuing education courses taught by the Division. General education workshops will be held quarterly in 11 cities throughout the state. A current schedule of the educational courses can be found on the Division's website at www.myfloridacfo.com/WC/.

The Education Outreach Campaign includes the development of revised employer and employee informational brochures that can be used as a reference on a variety of workers' compensation issues. Exemption Renewal Notices are mailed to current exemption holders at least 60 days prior to the expiration date of their Certificate of Election to be Exempt and now include an information page containing general workers' compensation

information. The information page sent out with Exemption renewal notices educates exemption holders on coverage requirements and provides current information related to the submission and issuance of exemptions. Workers' Compensation information links are being placed on the websites of state agencies, employer trade associations and construction industry-related organizations to develop an effective partnership with regulatory agencies and the business community to further ensure compliance with the Workers' Compensation Law.

Corporate Compliance Concept

The Division is in the initial phase of exploring the benefits of a Corporate Compliance Program within the Division. It is expected that this concept will enhance the Division's overall risk avoidance capabilities. The Division plans to provide more information on this initiative during the next reporting period.

4. Tools to Promote Employer Compliance

Florida Administrative Rules

Two new rules were promulgated during this fiscal year, and three others were revised.

New Rules

- **69L-6.032 Contractor Requirements For Obtaining Evidence That Subcontractors Possess Workers' Compensation Insurance or Otherwise Comply with Chapter 440, F.S.**

Under Chapter 440.10, F.S., contractors are required to obtain evidence of workers' compensation insurance or proof that their subcontractor is in compliance with the law. This rule specifically defines what items are to be obtained from the subcontractors in a variety of circumstances. If the contractor fails to obtain evidence of compliance, the contractor may be subject to enforcement action by the Division of Workers' Compensation.

By promulgating this rule, the Division enables contractors to assure that they obtain documentation of workers' compensation coverage from their subcontractors, and in absence of proof of compliance with the Workers' Compensation laws, the contractor can protect itself from liability by requiring compliance prior to hiring the subcontractor.

- **69L-6.035 Definition of Payroll for Calculating Penalty**

The purpose of this rule is to define what payroll is included when calculating a penalty. The remuneration to employees is based upon evidence received in the Department's investigation and includes a variety of payments to employees, business owners, and subcontractors.

Revised Rules

- **69L-6.009 Forms and Instructions**

The DWC 250, Notice of Election to be Exempt (and instructions) and the DWC 252, Certificate of Election to be Exempt were revised to reflect a statutory change 1) requiring agencies to notify persons of the reason for collection of the social security number; and 2) the deletion of the requirement for the occupational license since it was statutorily defined as a tax rather than a license.

- **69L-6.012 Notice of Election to Be Exempt**

The rule governing the issuance of the Notice of Election to Be Exempt was revised to reflect the change in the law to the occupational license. In addition, the rule was revised to define the circumstances under which the employer is required to notify the Division of address changes and changes in the corporate structure.

- 69L-6.027 Penalty Calculation Worksheet

Revises the penalty language and penalty calculation process used on the Penalty Calculation Worksheet (Form DFS-1595) to harmonize the penalty language to conform to language used in related forms and provide a more equitable means of calculating penalties related to underreporting violations.

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 Chapter 440.10, F.S.

- 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

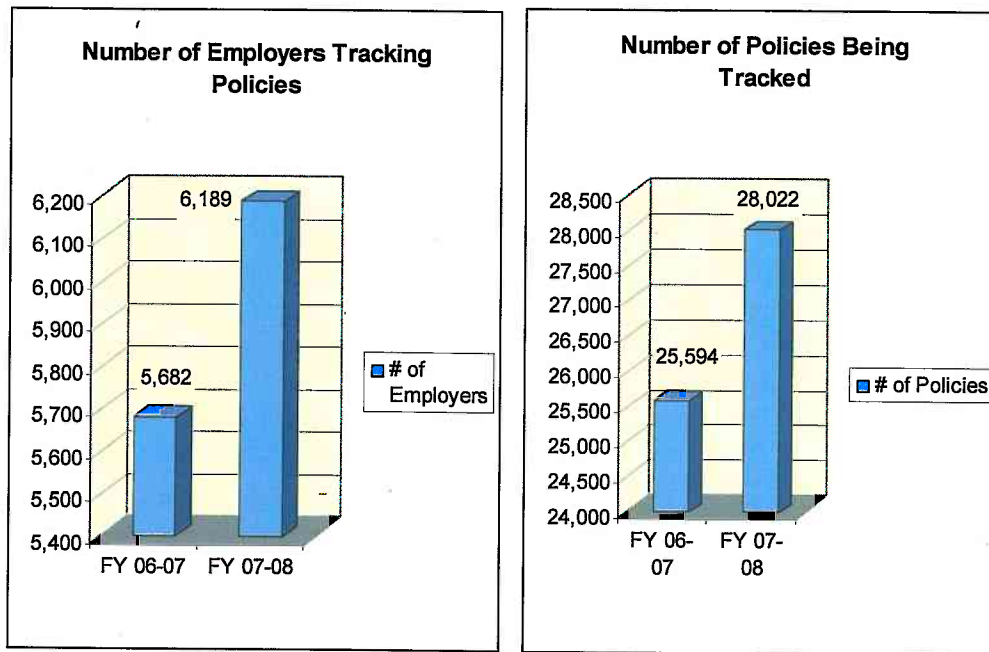
The Online Penalty Payment Service is available for employers to whom a Stop-Work Order or Order of Penalty Assessment has been issued. This free service allows employers to pay their penalty payment in full or submit monthly periodic payments as required in their Periodic Payment Agreement. The Penalty 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.

- 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, 2008, a total of 6,189 Construction Policy Tracking Database registrants are tracking 28,022 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.

Employer Education

The Division of Workers' Compensation participates in employer conferences and workshops with construction trade associations and industry groups to provide information regarding workers' compensation coverage requirements. This has included participation in conferences sponsored by the following:

- Bonita Springs Area Chamber of Commerce
- Christian Chamber of Commerce
- Certified Licensing Officials Association of Florida (CLOAF)
- Department of Business and Professional Regulation, Division of Hotels & Restaurants
- Entrepreneur's Law School
- Florida Department of Revenue
- Florida Refrigeration & A/C Contractors Association (FRACCA)
- Florida Society of Accountants
- Greater Naples Chamber of Commerce
- Hodges University
- Internal Revenue Service
- Keys Contractors Association
- Lee County Association of Independent Insurance Agents
- Lehigh Acres Chamber of Commerce
- Nova University
- Palm Construction School
- Port Charlotte Chamber of Commerce
- Punta Gorda Chamber of Commerce
- Small Business Administration

4. Training

The Bureau recognizes training our staff as an integral component in identifying and sanctioning employers that are not in compliance.

DFS Investigator Training Academy

As part of a Department-wide initiative, the Division of Workers' Compensation, in conjunction with the Division of Fraud and the State Fire Marshall's Office, developed the Department of Financial Services Investigator Training Academy.

The Training Academy provides comprehensive training to attendees on a variety of subjects, including report writing, interviews and interrogations, cultural and human diversity, and depositions and testimony.

Statewide Training Meeting

The primary focus of the statewide training meeting held in April 2008, was to provide each Investigator with the system knowledge enabling them to be more effective in their efforts to locate non-compliant employers and to bring them into compliance. This included reviewing updated processes, training in comparative data analysis, and discussion relating to new rules pursuant to F.A.C. 69L-6.

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.

Monthly / Quarterly Supervisor Meetings

These meetings serve as planning sessions where procedures are reviewed, data is analyzed, and solutions are found to challenges in the enforcement process. These sessions are attended by the Investigation Managers, District Supervisors, Bureau Chief and may include the Director, Assistant Director or a representative from our Legal staff.

5. DWC Office Locations and Staff

From an organizational perspective, the state is divided 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 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 | 1 |
| District 1A | Pensacola – District Office | 4 |
| | Panama City | 2 |
| | Ft. Walton Beach | 3 |
| | Tallahassee | 4 |
| District 2 | West Palm Beach – District Office | 7 |
| | Plantation | 5 |
| District 3 | Tampa – District Office | 4 |
| | Sarasota | 4 |
| | New Port Richey | 1 |
| District 4 | Orlando – District Office | 7 |
| | Daytona Beach | 1 |
| | Cocoa | 1 |
| | Tavares | 1 |
| District 5 | Miami – District Office | 9 |
| District 6 | Ft. Myers – District Office | 9 |

6. Average Caseload

For the period of July 1, 2007 through June 30, 2008, a total of 27,674 Bureau of Compliance cases were closed. The average caseload for each compliance investigator was 32.94 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 enforcement provisions to increase employer compliance. The States of Oregon, Washington, Ohio, and Louisiana have contacted the Division of Workers' Compensation regarding questions about our investigative and enforcement processes and to learn more about Florida's workers' compensation laws.