Fighting Fraud with Conviction
State Fund Anti-Fraud Program

July 2016 – June 2017
For more than 100 years, State Fund has been the trusted, reliable provider of workers’ compensation insurance for thousands of businesses.
INTRODUCTION

Millions of Californians rely on the security that State Fund offers employers. However, there are individuals and organizations that take advantage of the workers’ compensation system by committing fraud.

TYPES OF FRAUD

**Applicant:** An injured worker knowingly makes a false statement for the purposes of obtaining workers’ compensation benefits.

**Premium:** An employer is not truthful about the number of employees covered or is not truthful about the type of work the employees do.

**Provider:** This can be fraud committed by both medical and legal providers. Examples include overcharging for services and billing for treatment not provided.

California is a no-fault system. Injured workers are not required to provide proof that an injury was someone else’s fault to receive benefits from an injury that occurs on the job.

Due to the prevalence of fraudulent claims in the 1980s, the Workers’ Compensation Fraud Program was established in 1991 and the California legislature made workers’ compensation fraud a felony. The law also established the Fraud Assessment Commission to fund investigations and prosecutions.
THE CALIFORNIA DEPARTMENT OF INSURANCE (CDI) DEFINES INSURANCE FRAUD AS:

“When someone knowingly lies to obtain a benefit or advantage to which they are not otherwise entitled or when someone knowingly denies a benefit that is due and to which someone is entitled.”
THE IMPACT OF FRAUD

Workers’ compensation fraud is not a victimless crime. It’s a serious issue that hurts everyone by driving up rates, contributing to higher consumer prices and lost jobs, as small businesses often must reduce workforce due to higher premiums. Current estimates by the National Insurance Crime Bureau show workers’ compensation fraud costing the state of California between $1 billion and $3 billion per year.

INSURANCE FRAUD CAN BE PROSECUTED WHEN ALL THREE OF THE ELEMENTS BELOW ARE PRESENT:

1. A suspect had the intent to defraud.

2. A fraudulent act is completed.

3. Intent is demonstrated. Actual loss is not necessary.
State Fund’s anti-fraud team received the NHCCA 2016 Investigation of the Year award for “Operation Backlash.”
HOW STATE FUND FIGHTS FRAUD

Every workers’ compensation insurance carrier is required by law to have a Special Investigations Unit (SIU). State Fund formed one of the first SIUs and now, as the largest carrier, has one of the largest teams, with 56 employees.

State Fund’s anti-fraud team investigates every report received, provides training to internal and external business partners, assists law enforcement with investigation, prosecution, testimony, and restitution efforts, and conducts regular fraud trend meetings.

Because of our anti-fraud team’s hard work, they received the National Health Care Anti-Fraud Association (NHCAA) 2016 Investigation of the Year award. This award cited the team’s contributions to an FBI investigation, “Operation Backlash”, which exposed a widespread workers’ compensation insurance bribery and fraud scheme, and resulted in 13 indictments. Supervising Special Investigator Lane Spencer and Special Investigator Lisa Jones were given an award at the NHCAA Annual Anti-Fraud Conference in Atlanta in November 2016.

State Fund’s anti-fraud team maintains strong working relationships with prosecutors and law enforcement at local, state, and federal levels. The unit reports suspected fraud to the CDI’s Fraud Division and the district attorneys throughout California and works in tandem with them to ensure those committing fraud are prosecuted.

The anti-fraud team is also committed to education and trainings. In 2016, trainings took place at 11 State Fund campuses helping ensure that those on the front line know the signs of fraud.
FIGHTING FRAUD WITH CONVICTION

State Fund, reacting to the large amount of fraud taking place in the insurance industry, took on two complex, multi-provider cases and filed civil claims under the Racketeer and Corrupt Organizations (RICO) act, to get bad actors out of the system for the good of all California businesses. Racketeering is defined as the act of offering a dishonest service (a “racket”) to solve a problem that wouldn’t otherwise exist without the enterprise offering the service.

In 2016, State Fund reached successful resolutions with most of the defendants in two RICO suits filed in 2013 (the few outstanding plaintiffs were successfully resolved in the first quarter of 2017). The purpose of the suits was to expose and prosecute a complex fraud scheme that was being perpetrated by a number of medical vendors in the California workers’ compensation system. Workers’ compensation fraud affects all stakeholders in the system and drives up costs for everyone. State Fund took on this monumental four-year legal battle that spanned both federal and state civil courts because they are committed to fighting fraud.

As a result, State Fund exposed this fraud to the light of day and brings greater awareness to the magnitude of medical fraud within the system so that more can be done to protect injured workers and policyholders. In settling these cases, State Fund achieved some important benefits for injured workers. Many of the doctors involved can no longer treat injured workers and will transfer care of their current patients. They also agreed to waive more than $40 million in liens at the Workers’ Compensation Appeals Board.
MORE ABOUT HOW STATE FUND FIGHTS FRAUD

State Fund’s anti-fraud team is dedicated to fighting fraud to help keep premium rates low for their policyholders and to fulfill their purpose of providing fairly-priced workers’ compensation insurance to California businesses.

State Fund established relationships with district attorneys before there was funding to try workers’ compensation cases, creating a partnership to fight fraud and help protect the financial wellbeing of California businesses. Local district attorneys were invited to training sessions, allowing State Fund anti-fraud team investigators to network and build mutually beneficial, trusted partnerships. Those same district attorneys and law enforcement officers were instrumental in training the early State Fund anti-fraud team on the essential elements of building a case.

Today, State Fund is a member of California’s Fraud Assessment Commission, and was instrumental in the creation of the Workers’ Compensation Insurance Special Investigations Unit Guidelines and Protocols that was published in 2011. The State Fund anti-fraud team continually coordinates anti-fraud programs, training, and educational materials for policyholders to ensure the fight against fraud does not end.
State Fund provides a variety of resources on how to prevent, detect and report fraud. They established the Fraud Hotline (1-888-782-8338) as a way for employers, workers, providers and vendors to report suspected fraudulent activity. The State Fund Special Investigations Unit reviews all tips and reports suspected fraud to the California Department of Insurance and local district attorneys’ offices.