

# Spotting Fraud In The Premium Audit

**FORTUNATELY, INSURANCE** fraud in workers' compensation is the exception, not the rule. Upticks in fraud can happen for various reasons, often tied to the economic climate.

When qualified workers are in high demand, for instance, employers scramble to hire. They may be tempted to skip the employment screen and even pay workers "under the table."

In another example, during construction booms, when there's ample work to go around, self-employment surges. Many of these enterprises, however, are not equipped to set up a payroll system and withhold taxes, much less purchase the appropriate workers' compensation policy. And if they do purchase a policy, it may be grossly underestimated and written with wrong classifications.

Premium auditors are trained to spot various types of workers' compensation fraud during the audit process. Here are some places we look.

## Certificates Of Insurance

A Certificate of Insurance verifies that a business is covered for workers' compensation. Certificates are required, for instance, when a company hires a subcontractor. In any given week, an auditor may view up to several hundred insurance certificates.

Certificate fraud happens when a policyholder tries to dodge an extra premium charge when no valid certificate exists. The certificate may be doctored in some way or phony from the get-go. Red flags range from a sloppy white-out effort to policy numbers that don't match those issued by the insurance carrier. In either event, auditors have tools at their disposal to verify coverage and identify any fraudulent activity.

## Matters Of Coverage

At A.I.M. Mutual, premium auditors

and claim adjusters are in regular communication. On occasion, there's a question of whether the injured worker was, in fact, an employee of the policyholder. If he or she is a subcontractor or a worker being paid "under the table," the claim may not be compensable.

When performing an audit, the auditor checks the names of all employees who have filed a workers' comp claim in the previous year against a complete staff list for the policy period. If an injured worker does not show on payroll records, the auditor digs deeper. Even if names do match the records, the nature of injuries may not. The policyholder may have classified the employee as Clerical, but the injury is clearly from a manual labor task. Is it a simple misunderstanding? Or a deliberate intention to misclassify in order to pay a lower premium?

While the insured may consider this pushing the envelope, it's actually more serious.


## Premium Evasion

Premium evasion occurs in several forms. In cases of misclassification, an employer may provide a long list of office employees and few, if any, in higher risk occupations. An on-site visit reveals just the opposite. On other audits, a contractor might insist the company engages only in lower-rated construction codes, like carpentry. Meanwhile the auditor has just walked past trucks emblazoned

with "Roofing" on the side and stacked with ladders and roofing brackets. In a similar scenario, there were no trucks, but the auditor did note the logo on the owner's polo shirt: "John Doe Roofing Company." All these scenarios really happened.

Most auditors have a "gut feeling" whether the records provided are legitimate. For example, an employer might report he has no employees and works by himself. But the business tax return tells a different story. Gross monthly sales as well as ATM transactions, cash withdrawals, or transfers between bank accounts are all indicators it may not be a solo operation.

Finally, there's the employer who takes out a workers' compensation policy with very low estimated payroll exposures. They pay a smaller premium and, meantime, pay other workers via check or cash, ignoring all requests for an audit. Cancelled for noncompliance, they re-form the company under a family member's name and restart the process. We have seen situations where toddlers are listed as company owners.

A.I.M. Mutual's auditors are charged with examining all records to be sure each policy reflects the proper exposure for jobs being done. There is no substitute for experience and common sense in this regard. The overwhelming majority of our policyholders are trustworthy and law-abiding. But when fraud is detected, we take action, including referring the case to the Insurance Fraud Bureau, which investigates and brings criminal charges as necessary. 



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