Fraudsters, Fraudsters Everywhere – Case Studies

Session Number: 605
Fraudsters, Fraudsters Everywhere – Case Studies

YouTube: Mel Torme
http://www.youtube.com/watch?v=4k9umM6M6Ms
Introduction – Topics

• Introduction
• Fraud Framework
  • Definitions
  • Fraud Factors
• Fraud Schemes
• Conclusion
• Questions
Hegestratos – the pioneer of insurance fraud.
Fraud Framework – Fraud Definitions

• Many Definitions
• Universal ***
• Merriam-Webster’s Online Dictionary
• Black’s Law Dictionary
• Riley’s Definition ***
Fraud Framework – Fraud Definitions – Universal

- YouTube: Moses – Ten Commandments – Mel Brooks
  - [http://www.youtube.com/watch?v=4TAtRCJlqnk](http://www.youtube.com/watch?v=4TAtRCJlqnk)
Riley’s Working Definition:

Any illegal disruption of normal economic activity.
  - Securities fraud.
  - Employee theft.
Fraud Framework – Fraud Shapes - Concept

• Fraud Triangle
• Fraud Diamond
• Fraud Pentagon
Fraud Framework – Fraud Shapes – Fraud Triangle

- **Opportunity**: Circumstances that allow an employee to carry out misappropriation of cash or other organizational assets.
- **Rationalization**: A frame of mind or unethical character that allows employees to intentionally misappropriate cash or other organizational assets and justify their dishonest actions.
- **Pressure**: Pressure is the motive or incentive for employees to misappropriate cash or other organizational assets.
Fraud Framework – Fraud Shapes – Fraud Diamond

- Incentive
- Rationalization
- Opportunity
- Capability

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Fraud Framework – Fraud Shapes - Pentagon

Crowe’s Fraud Pentagon™

Source: www.crowehorwath.com
Fraud Framework – Fraud Shapes – Hexagon ???
Fraud Framework – Fraudsters Everywhere

- Insurance fraud comes in all sizes and shapes, all different types of people, and there is an endless way to commit fraud.
- Mothers, Farmers, Agents, Doctors, and Others.
- Don’t be paranoid ……. about the person sitting next to you.
Fraud Schemes –
Types of Fraud Schemes

• Internal vs. External
• Dynamic vs. Static
• Schemes:
  • Personal Injury
  • Property
  • Healthcare
  • Life Insurance
  • Agent / Broker
  • Provider / Underwriter

• Etc., Etc., Etc. (Limited to Human Imagination)
Fraud Schemes – Personal Injury
Fraud Schemes – Personal Injury – Manufactured Slip and Fall
Fraud Schemes – Personal Injury – Manufactured Slip and Fall

• The case of U.S. v. Michelle Taylor
  • Mother, daughter, and friend team
  • Various retail stores
  • Same supporting documents, such as receipts, invoices, and medical reports, to same insurers for different slip and falls from same location
  • 65 fraudulent claims asking for $200k plus
  • Routinely paid $5k plus to settle claim
Fraud Schemes –
Personal Injury –
Manufactured Slip and Fall

• Effect of paying claims quickly
  • Avoid paying litigation fees
  • Cost of business goes up and cost of insurance goes up
  • Passed onto customer

• Prevention of slip and falls:
  • Surveillance cameras
  • Plain clothed security or additional staff
  • Slip resistance floors or matting in key areas
  • Preventative maintenance, training, and documentation procedure
  • Review all documents received
Fraud Schemes –
Personal Injury –
Staged Auto Accident
Fraud Schemes – Personal Injury – Staged Auto Accident

• Typical stage auto accident - swoop and squat, drive down, sideswipe, T-Bone, and the wave

• U.S. v. Lopez, et al. – aka Operation Sledgehammer I-VI
  • Chiropractic clinics controlled by head of ring and recruited chiropractors to act as nominee owners of clinics
  • Clinics, chiropractors, participants, recruiters, and check cashier
  • No-fault insurance / PIP $10,000 limit in Florida
  • Goal – Perro and Perra with numerous passengers
  • Fraud in numerous ways – staged accident, billed for unnecessary treatment, billed for services that were not rendered, and cash checks for under $10k
  • $5,000,000 plus in payments received in less than 6 years
Fraud Schemes –
Personal Injury –
Staged Auto Accident

• Prevention by insureds
  • Take detailed notes
  • Record vehicle and insurance information
  • Take pictures
  • Call police and insurer
Fraud Schemes – Property

- Group would purchase low priced homes in Detroit and place in names of friends or family to conceal true owner
- Insurance procured by owner or renter
- Member of ring would set fire
- Several various claims false claims, such as loss of profits for rent, ale, and non-existent contents
- Payoff - 137 years in prison

Detecting arson ring fraud

- Check receipts for validity
- Check for actual occupancy
- Check for previous claims
Fraud Schemes – Healthcare
Fraud Schemes – Healthcare – Unnecessary Recruited Surgeries
Fraud Schemes – Healthcare – Unnecessary Recruited Surgeries

  - The good doctors, the cappers, the attorney, the accountant, and the administrators
  - Recruited 2,000 healthy people that had employers that offered preferred provider organization that do not require pre-approval for surgery
  - Patients received cash unneeded treatment of sweaty palms or colonoscopies or discounted surgery
  - $154 million scheme
  - Cappers each paid in excess of $100k each two year period
Fraud Schemes – Healthcare – Unnecessary Recruited Surgeries

• The problem
  • Everyone involved, including patient, is in on the fraud despite the risk

• Detecting the health care fraud
  • Procure technology to assist in monitoring discrepancies in billing as a means of preventing fraud
  • Procure technology to spot unusual billing patterns, such as numerous surgeries on the weekend, the same person, or close family members as well as the number of surgeries in a day
Fraud Schemes – Life Insurance
Fraud Schemes – Life Insurance – Stoli Life Insurance Policies

- The actors - Life insurance agents, Insurer, Elderly straw Buyer, Accountants/Professionals, and Third-Party Investor
- The scam - False information on application, False origination of premium payment, and Resale of policies with payment to straw buyer
- $100 M plus total – examples - $20 k to $100 k payment in exchange for $2 M policy where annual premium was $100 k
- Two commissions – procure and resell as well as purchased policies from straw buyer
- Prevention efforts before issuance of policies – independently verify contact info, validate statements regarding property ownership, make formal valuations of real estate holdings, require IRS Form 4506T as part of application process to obtain tax return transcripts, and use data clearinghouses to substantiate the finances
Fraud Schemes – Agent / Broker
Fraud Schemes – Agent / Broker – Fake Insurance

• U.S. v. Ronald Allen
  • President of Universal Pacific Ins. Co., not authorized to sell insurance in the U.S.
  • Insurance agent
  • Sell commercial general liability policies to bars, nightclubs, and restaurants
  • Issue bogus policies in the name of Universal or simply an insurance binder in the name of a legitimate insurer with a quote sheet
  • 8 months sold dozens of policies worth $692,000 in premiums
  • Insurance agent took commission and sent rest to president
Fraud Schemes – Agent / Broker – Fake Insurance

- **Prevention**
  - Check to see if agent or company is licensed or registered to sell insurance in your state
  - Call the commissioner of insurance for your state
  - Contact insurer
  - Ask questions
  - Avoid one time only offers
  - Compare with costs of similar insurance
  - Request receipt
  - Don’t pay agent directly and do not pay in cash
  - Check policy limits and deductible for accuracy
Fraud Schemes – Agent / Broker – Forged Insurance Premium Notes

• U.S. v. Timothy Mathwich
  • Trio, Pres/COO, CEO, and VP, commits Three fraudulent schemes of an insurance agency to support lavish lifestyles and fancy cars

• First scheme
  • Sale of forged insurance premium financing notes to bank

• Second scheme
  • Not return credits to client insureds

• Third scheme
  • Add $15,000 to yearly bill send to client insured

• $10 M plus in insurance fraud
• End result – Jail and Auction of Ill-Gotten Gains
Fraud Schemes – Agent / Broker – False Crop Loss

• U.S. v. Harry Canady
  • Crop insurance program
  • Guarantee – actual production history
  • The players – farmer, warehousemen, brokers, and adjusters
  • False acts – not report all production on claim form, sell crop in another family member’s name or for cash, yield shifting, and adjuster falsify damage to crop
  • Example – declared 7,192 bushels of soybeans, but sold an additional 2,261 bushels in grandchild’s name, earned $99,537 on false insurance claim
  • All in scam benefited – farmer (double payment), broker and warehouseman (purchase cheaper product), and adjuster (cash payment based on hidden crop)
Fraud Schemes – Agent / Broker – False Crop Loss

• Prevention:
  • Crop inspections during the growing season
  • Impose sanctions on farmers who commit fraud
  • Data mining to compare similar crops in the same region
• Slogan – Soften the impact of uncertainty, pain, and financial damages that accompany life’s misfortunes
  • Began with underpriced malpractice coverage and medical malpractice awards increasing
  • Nine month period had $60 M loss
  • Fraudulent accounting techniques to conceal the demise and pump up the surplus—side agreements that limited a reinsurer’s loss, arbitrary reserve write downs and backdating the write downs, limiting amount of reserves an adjuster can set, $10 M prepayment, and reporting liabilities as assets
• End result - Receivership in 2003, Guilty pleas by president and executive vp, and several insureds left unable to pay a judgment and forced to file bankruptcy
Conclusion – Fraudsters, Fraudsters Everywhere

• These examples illustrate that fraud is taking place everywhere whether it be a farmer, family member, doctor, agent, or executive

• Never ending battle to stop new insurance fraud schemes.

• Now, about that person next to you…
Discussion / Questions
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Knowledge and Experience
- More than 25 years of experience assisting judges, boards of directors, management and other clients.
- As a consulting and/or expert witness, performed more than 60 cases regarding financial, valuation and fraud issues.
- Assisted the courts as a Rule 114 “qualified neutral” in the roles of mediator, arbitrator and Financial Early Neutral Evaluator (FENE) for more than 19 years. Was one of the first non-attorney qualified neutrals in the State of Minnesota.
- Valued portfolio of intangible assets at $35 million after an unsolicited offer of $8 million was submitted. Negotiated price was $33 million.
- Participated (by invitation only – the top 50 valuation professionals) in a global business valuation summit.
- Led investigations resulting to the de-listing of a NYSE company, correcting balances at a Bahamian Bank and finding $6 million of "channeled funds" by CFO.
- Performed forensic accounting for North America's largest single provider of funeral, cremation and cemetery services, a publicly-held company.
- National instructor of litigation support and financial principles for member accreditation through the American Institute of Certified Public Accountants (AICPA), National Association of Certified Valuators and Analysts (NACVA) and American Society of Appraisers (ASA).

Areas of Expertise
- Business Valuation
- Forensic Accounting
- Economic Damages
- Insurance Claims
- Bankruptcy Investigations
Thomas J. Evenson
Shareholder

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Tom Evenson is a shareholder with Lind, Jensen, Sullivan & Peterson, P.A. He
practices throughout the Midwest and focuses his practice on civil litigation, primarily
involving fraud, wrongful death, school liability, transportation, and products liability.
He prides himself on resolving disputes to his client’s advantage quickly and
efficiently. He does this from the moment he is retained as he positions the case
towards summary judgment or voluntarily dismissal by the plaintiff. Due to his
attention to detail, responsiveness, and his in-depth knowledge, his clients feel like
their matter is just as important to him as it is to them. This has resulted in Tom being
recognized by his peers as a Rising Star in the Minnesota legal community for several
consecutive years and his appointment to various boards.

Honors & Awards

Rising Star, Minnesota Law & Politics (2010 - 2014)

Professional Associations & Memberships
Hamline University School of Law Alumni Association Board
Minnesota Automobile Assigned Claims Bureau - Public Member
Hennepin County Bar Association Voting Representative to the MSBA Assembly
Former Minnesota Governing Committee Public Member for the Minnesota
Automobile Insurance Plan
Minnesota State Bar Association
Iowa State Bar Association
North Dakota State Bar Association
Wisconsin State Bar Association
Hennepin County Bar Association
American Bar Association
North Dakota International Association of Arson Investigators
Minnesota Defense Lawyers Association

Published Works / Presentations
Remodeling Duties: An Insurer’s Duty to Advise the Insured to Request an
Allocation of Damages, Minnesota Defense Fall 2012, Volume 33, Issue 3,
Minnesota Defense Lawyers Association

PRESENTATIONS
MDLA 44th Annual Mid-Winter Conference, February 6, 2009, Practice Tips for
Dealing with Expert Witnesses

Volunteer Activities
2013/2014 Minnesota Twins Season Ticket Holder Advisory Council
Please Complete the Session Evaluation Form on the Conference App and Include Your Conference Registration ID# to be Included in a Drawing for a Free Conference Registration for the 2014 Annual Conference!

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YouTube: - Nice Work If You Can Get It
http://www.youtube.com/watch?v=uFpMgC_khss&feature=related
Outline (Memo Only)

- Schemes:
  - Personal Injury
    - Manufactured Slip and Fall (US v. Michelle Taylor)
    - Staged Auto Accident (US v. Lopez, et al.)
  - Property
    - Arson Ring (US v. Darwich, et al.)
  - Healthcare
    - Unnecessary Recruited Surgeries (State v. Chen)
  - Life Insurance
  - Agent / Broker
    - Fake Insurance (US v. Ronald Allen)
    - Sale of Forged Insurance Premium Financing Notes (US v. Timothy Mathwich)
    - False Crop Loss (US v. Harry Canady)
  - Provider
    - Malpractice Insurance (Reciprocal of America)
• Bullet Template
Title

Photo Only Template