Insurance Times: Hidden payroll revealed at industry fraud seminar

by Mark Hollmer
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RANDOLPH, Mass. - Assume that you're an insurance auditor, and a client supplies you with a prepared summary of the accounting books rather than the real thing.
"I'm sorry, but all my records are at the accountant's," they could say.
The reality, says Warren Rydstrom - senior investigator with the Massachusetts Insurance Fraud Bureau -- is the client may be committing hidden payroll insurance fraud.
"If that's what they say, they're hiding," he said.
Rydstrom, along with Neal Johnson, of the Liberty Mutual special investigations unit, talked about hidden payroll fraud during the Massachusetts Insurance Fraud Bureau seminar held recently at Lantana in Randolph.

Fraud Seminar

Dozens of underwriters, auditors and claims adjusters attended the event, which featured a number of speakers throughout the day covering issues from moving payroll fraud to how to prepare witnesses for an insurance fraud trial.
This is the eighth year the Insurance Fraud Bureau has held its seminars in Massachusetts. They're offered at least twice a year focusing on auto-based or workers compensation-related fraud.
Laura Krauss, vice president and general counsel for the IFB, said the point of the seminars goes back to the fraud bureau's original mission, the prevention, detection and prosecution of fraud.
"You can't prevent it if you can't detect it," she said. "And you have to be able to prevent it. The system is not set up to pay fraudulent claims. Part of the business plans of companies requires that (they) pay sufficient attention to issues related to fraud.

Help Anyone

"These seminars are attempts to help anyone who touches the system of insurance to do that, whether it's the underwriter agreeing or not to write the risk, or the auditor (who goes) out," she said, "and spots and detects anomalies in the audit."
An auditor from an insurance company is like the person who reads the meter at residential homes, Johnson said -- an important tool to gauge accurate insurance claims and contracts.
"It's a service," Johnson said. "Be friendly" while evaluating payroll records, he added.
And while auditors or adjusters are doing their jobs, Johnson said, they should remember a basic fact.
"Today what the insurance industry has learned is not everybody tells the truth."
Therefore, Johnson said, an auditor must expand his or her reach to look for all necessary documents to complete a job.
Among the clues for possible hidden payroll fraud: claimants aren't on payroll records, a client may supply summaries rather than original records, a description of company operations may not match what an auditor sees, and a client may run multiple corporations and reveal that some aren't in operation anymore.
Steven Combes, an Insurance Fraud Bureau investigator, and Laura Leyland, of the Travelers Insurance Co. special investigative unit, focused their afternoon

seminar on alter ego schemes.

Typically, Leyland said, an alter ego scheme in the insurance world is "a front company or shell company often associated with a successor company" through which payroll and business and other assets are moved.

The practice, Leyland said, lets companies shift assets to avoid bankruptcy proceeding, or to shift payroll into a less risky classification to take advantage of cheaper workers compensation rates.

Alter ego schemes can include changing the company name and ownership, at least on paper and selling or transferring the business to an employee or manager.

Misclassification fraud was the focus of the third afternoon seminar, featuring IFB Investigator Scott Faragi and Russell Griffith, senior forensic consultant with Liberty Mutual.

Misclassification fraud can include payroll misclassification, using the wrong classification code and also experience modification.

Among the ways to fight misclassification fraud: don't accept face value documents, tour the work site or business, document all conversations and look beyond the information provided.