The background of the cover is a photograph of the Zakim Bridge in Boston at sunset. The bridge's tall, white, A-frame pylon is the central focus, with numerous white cables fanning out to support the bridge deck. The sky is a mix of soft pinks, purples, and blues. In the background, several city buildings are visible, including a prominent one with a yellow facade and another with a blue dome. The overall scene is a cityscape at dusk.

Insurance Fraud Bureau of Massachusetts 2011 Annual Report

101 Arch Street
Boston, Massachusetts 02110
www.ifb.org

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Cover photo courtesy of <http://www.thefocusgallery.com/SteveDunwell/>



Executive Summary

In 2011, the Insurance Fraud Bureau of Massachusetts celebrated its 20th anniversary and continues as the only fraud bureau in the country that was organized, and is funded, by the insurance industry, as required by the IFB enabling statute. At the 20 year mark, IFB has 56 full-time employees, largely dominated by experienced investigators. This past year the IFB recorded its highest number of cases referred to prosecution. Prosecutors at offices of the Massachusetts Attorney General, nine different district attorneys, as well as the U.S. Attorney, were referred 205 cases.

To commemorate IFB's 20 years of service to the citizens, businesses and insurers of the Commonwealth, IFB held an quinquennial awards event at the Joseph Moakley U.S. Courthouse in Boston. During this event, key contributors to the fraud fight over the past five years were recognized. Recipients included local, state, and federal law enforcement agencies, and insurance company special investigative units.

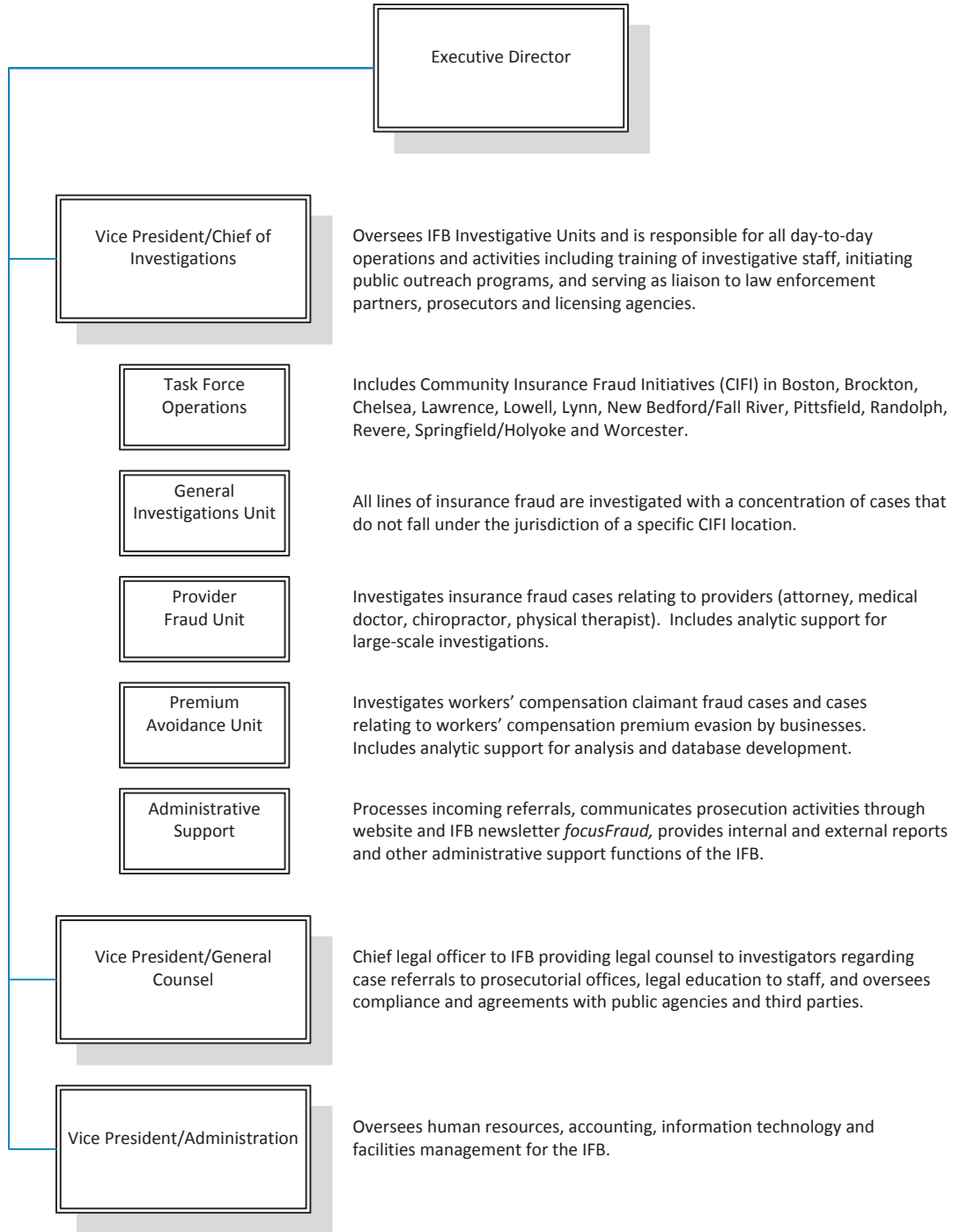
This past fall, IFB was honored to host the 14th annual Insurance Fraud Directors Conference providing an opportunity to demonstrate to the other 42 state fraud bureaus how the investigation and prosecution of insurance fraud are tackled in Massachusetts. IFB personnel were heavily involved in the program presenting several case studies. Additionally, Martha Coakley, Massachusetts Attorney General, and Carmen Ortiz, United States Attorney for the District of Massachusetts, were featured. Both demonstrated the strong partnerships we have built with the prosecuting community in fighting fraud.

I would like to thank the insurers and public officials who serve on the IFB board of governors in guiding this organization. We look forward to continued success in the years to come.

Daniel Johnston

Executive Director

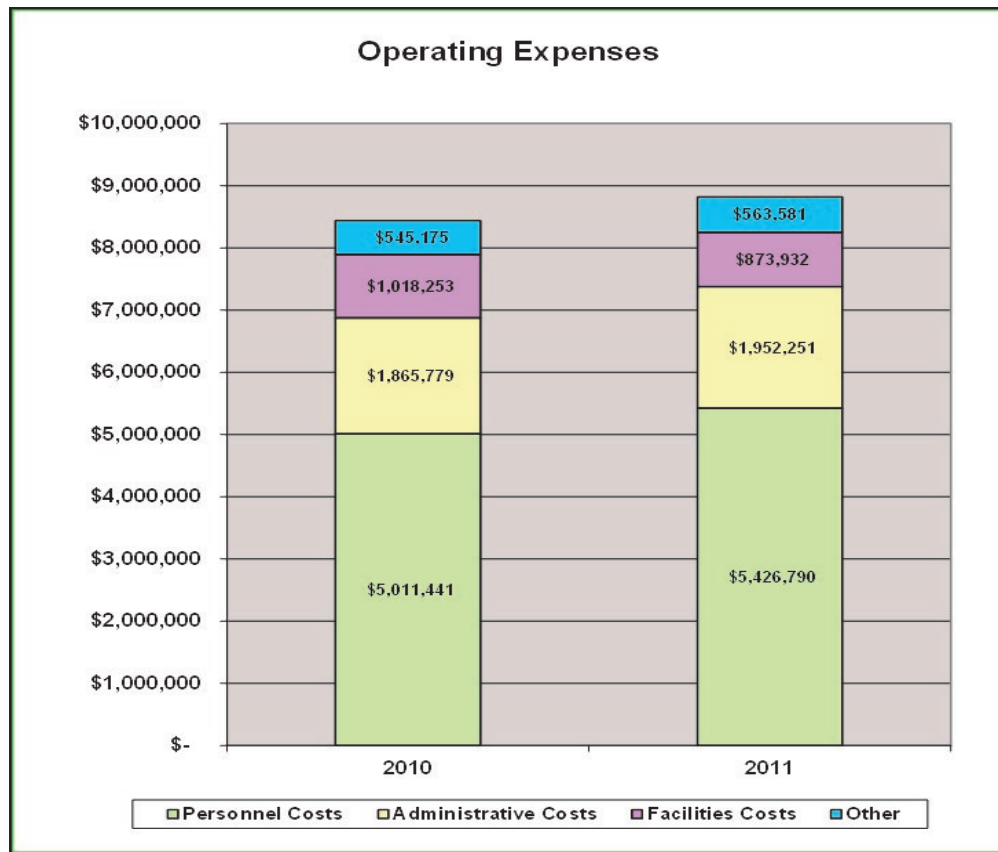
Insurance Fraud Bureau Organizational Units



Financials

	<u>2010</u>	<u>2011</u>
Revenues		
Assessment	\$ 8,151,404	\$ 8,402,414
Other Income	<u>466,835</u>	<u>484,239</u>
Total Revenue	\$ 8,618,239	\$ 8,886,653
Expenses		
Personnel Costs	\$ 5,011,441	\$ 5,426,790
Facilities Costs	1,018,253	873,932
Administrative Costs	1,865,779	1,952,251
Professional Services	70,175	78,581
DA Funding*	<u>475,000</u>	<u>485,000</u>
Total Operating Expenses	\$ 8,440,648	\$ 8,816,554
Net Operating Income	<u>\$ 177,591</u>	<u>\$ 70,099</u>

* As directed by Commissioner of Insurance



Highlights of 2011

Milestones reached in 2011:

- ◇ The IFB observed its 20th anniversary with an awards ceremony held on May 26, 2011. Forty-three individuals from the insurance industry, law enforcement agencies and prosecutorial offices were recognized “for outstanding and invaluable contributions toward the fight against insurance fraud in Massachusetts.” Award recipients represented individuals who have made significant contributions to the IFB’s mission to investigate, prevent and deter insurance fraud.
- ◇ Receipt of IFB’s 50,000th referral in June 2011.
- ◇ Referred 205 cases for prosecution to offices of the attorney general, United States attorney and district attorneys – the highest yearly total referred to date.



187 individuals were charged including:

- ◇ Lowell staffing company owner for allegedly evading \$100,000 in workers’ compensation premiums by underreporting the size and scope of his business operations.
- ◇ Watertown roofing company and its owners on a total of 47 counts for failing to disclose millions of dollars in misclassified subcontractor payroll and failure to pay the prevailing wage.
- ◇ Worcester auto body shop and employee for allegedly submitting multiple auto rental bills which overlapped in rental periods.
- ◇ East Boston man for allegedly working full-time for seven separate employers while collecting workers’ compensation and unemployment benefits.
- ◇ Details on additional cases can be found on the IFB website and in issues of *focusFraud*.

213 individuals reached a final disposition (including 42 convictions and 76 continued without a finding). Final resolutions include:

- ◇ Two former owners of a temporary employment agency convicted of running a \$30 million under-the-table payroll scheme to avoid paying \$9 million in taxes and workers’ compensation premiums. They were sentenced to 84 and 76 months in prison, respectively, and together ordered to pay more than \$9 million in restitution.
- ◇ After a six-week trial, a Lawrence chiropractor, attorney and runner were found guilty in connection with a staged motor vehicle accident scheme. The chiropractor and attorney were each sentenced to serve 2 ½ years; the runner was sentenced to serve nine months.
- ◇ An employee of a Winthrop insurance agency pleaded guilty to defrauding insurance companies and policyholders of more than \$43,000. He was placed on probation and ordered to pay full restitution.
- ◇ The owner of the state’s largest asbestos training school was found guilty of evading payroll taxes and workers’ compensation insurance premiums in 2008; but days before her scheduled sentencing, she fled the country. In 2010 she was arrested in the Dominican Republic and extradited to the United States. In 2011 she was sentenced to serve 87 months in prison and ordered to pay more than \$1.5 million in restitution.
- ◇ A dental office employee pleaded guilty to a scheme she embezzled insurance proceeds from four area dentists by submitting bogus insurance claims and then intercepting and cashing the reimbursement checks. She was sentenced to 46 months in prison and ordered to pay \$378,624.

- ◇ A New Hampshire man was found guilty of workers' compensation fraud after a three-day trial. He continued to collect benefits while working on job sites as a sub-contractor and fraudulently earned nearly \$14,000 in benefits.
- ◇ A Peabody auto body shop owner pleaded guilty to collecting over \$28,000 in fraudulent insurance claims after falsely submitting invoices for glass repair work that was not performed.
- ◇ A West Springfield man admitted to sufficient facts for misrepresenting the garaging location of his vehicles. He was ordered to pay \$4,492 in restitution and a \$3,000 fine.
- ◇ A Charlton woman was found guilty of larceny after she signed medical forms for her husband alleging he was still disabled and unable to return to work even after his doctor released him from disability. She was ordered to pay \$8,166 in restitution.
- ◇ Details on additional cases can be found on the IFB website and in issues of *focusFraud*.

The IFB seminar on *Insurance Fraud, Money Laundering and Terrorist Financing* on June 23, 2011 was attended by 136 individuals from insurance companies, banking community, public agencies and the private sector.

The IFB hosted the Fraud Directors Conference in October 2011. Thirty-four individuals representing 22 state fraud bureaus were in attendance.

A meeting was held in November 2011 with representatives of the major workers' compensation carriers in Massachusetts to better assist in efforts to fight workers' compensation premium, classification and claimant fraud. Seventeen representatives from eight insurance companies participated. (Similar meetings were held with the automobile carriers in early 2012.)

An IFB investigator was one of the 113 recipients recognized by the Massachusetts U.S. Attorney's Office at the Law Enforcement/Public Service Awards Ceremony held in March 2011 which recognized outstanding federal, state and local law enforcement officials.

Eleven new billboards publicizing the fight against insurance fraud were posted in the Cities of Lawrence and Chelsea.

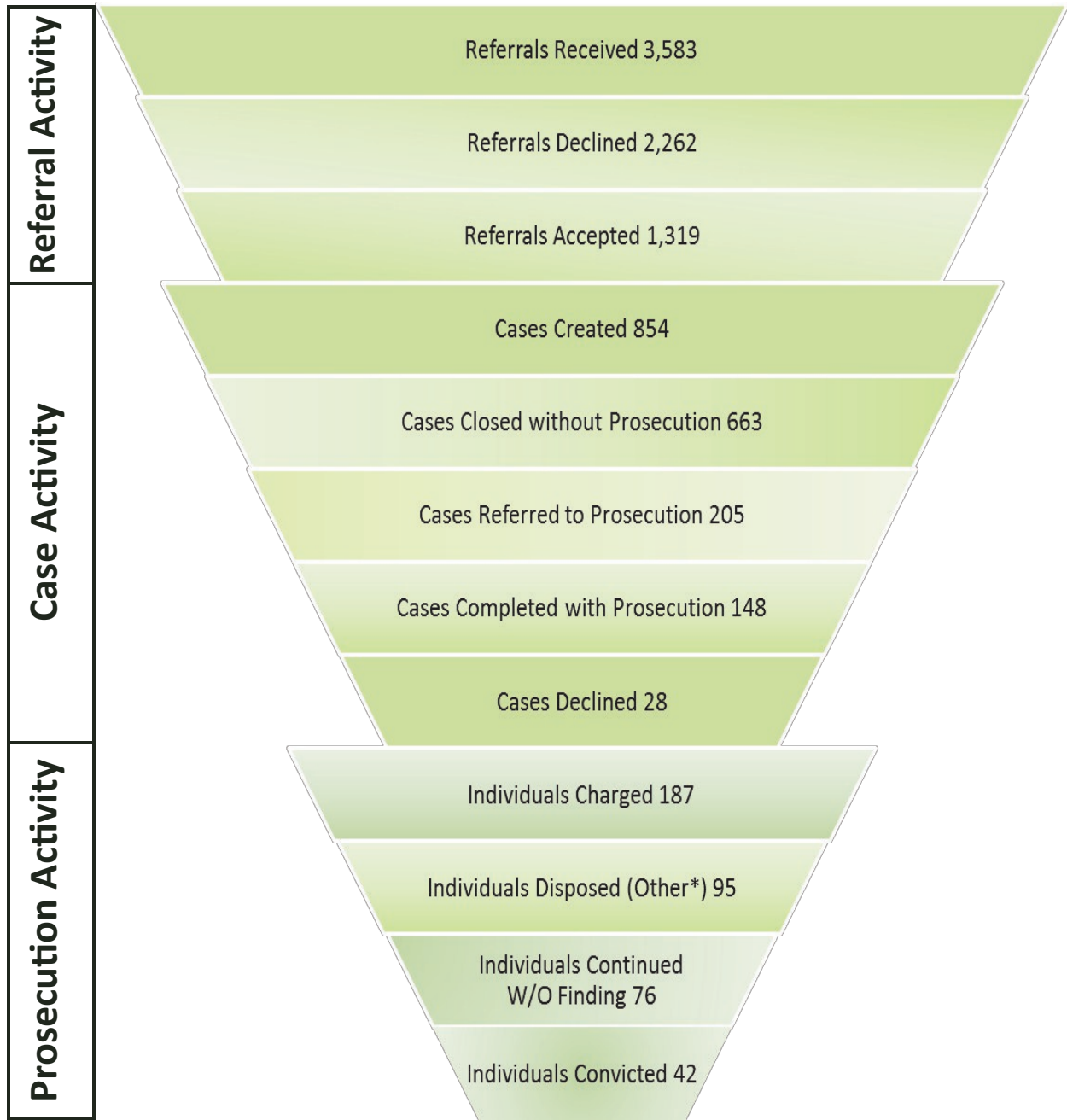
IFB personnel continue to attend seminars and workshops to enhance and develop investigative skills. In 2011, staff attended the National Health Care Anti-Fraud Association Institute for Health Care Fraud Prevention Conference, New England Association of Insurance Fraud Investigators (NEAIFI) Annual Conference, National Association of Certified Fraud Examiners (CFE) Annual Conference, Department of Homeland Security Open Source Practitioners Training, Law Enforcement Summit on Identity Theft, as well as local New England State Police Information Network, Boston Chapter CFE and NEAIFI training workshops, and training provided by local detectives and police chiefs associations.

IFB management participated in and/or presented at the Fraud Directors Conference, the Insurance Fraud Managers Conference, Travelers SIU Awareness Day, Andover Companies, Insurance Auditors Association of New England, Quincy College, Worcester State College and local police new recruit and roll call training.

The Automobile Insurers Bureau of Massachusetts (AIB) continues to provide executive, administrative and information technology services to the IFB, including human resource needs, financial management and reporting, oversight of vehicles assigned to field investigators, and office facilities management for the Boston office and field locations.

Referral, Case and Prosecution Summary for 2011

There are three “phases” of the IFB referral process. Referrals are received and evaluated to determine the most viable cases for successful prosecution and the total impact of the case. Many referrals are declined for lack of evidence of criminal insurance fraud or insufficient information provided with the referral. Of the referrals accepted, criminal investigations are conducted to gather sufficient evidence to support a recommendation for prosecution. Cases that cannot meet the burden of proof required will be closed without prosecution. When a case is referred to a prosecutor’s office, it may be accepted for continued investigation and prosecution activity or declined. Ideally, individuals are charged on a variety of insurance fraud-related violations and a final disposition is reached.



*Other dispositions include pre-trial probation, acquitted, dismissed, and nolle prosequi.

Referral Activity

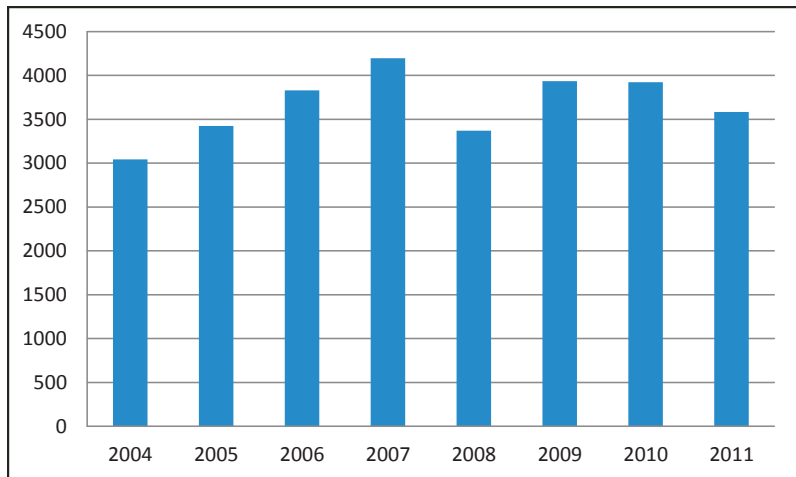
The IFB receives referrals through a number of avenues. Most referrals are through direct submission by the insurance carrier, either through mail or email to referrals@ifb.org. Submissions funneled from the National Insurance Crime Bureau website continue to grow.

The public is also a source of referrals. Each call to the IFB hotline at 1-800-32FRAUD or submission through the IFB website at www.ifb.org is evaluated. Information may be forwarded to an insurance carrier, another agency that is better equipped to handle the allegation or accepted for investigation by an IFB investigator.

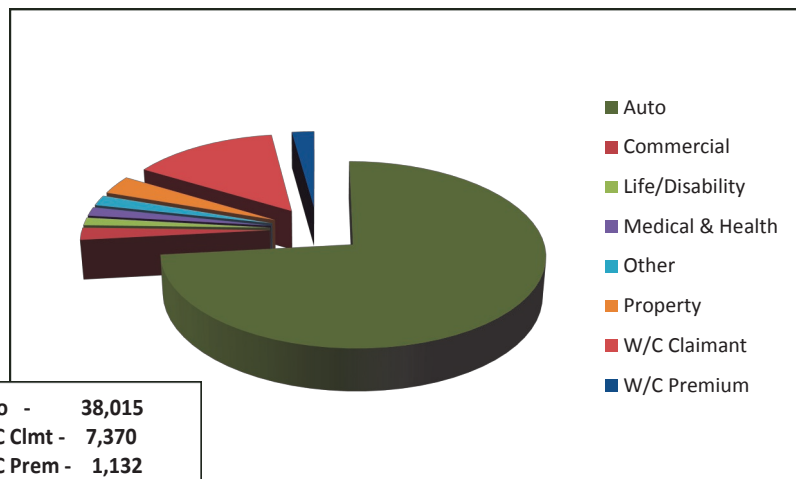
Automobile claims continue to comprise the bulk of referrals received at the IFB. Automobile referrals are approximately 73% of the total number received.

The number of yearly referrals to the IFB from all sources peaked in 2007. The number of referrals received in 2011 dropped for the first time in three years.

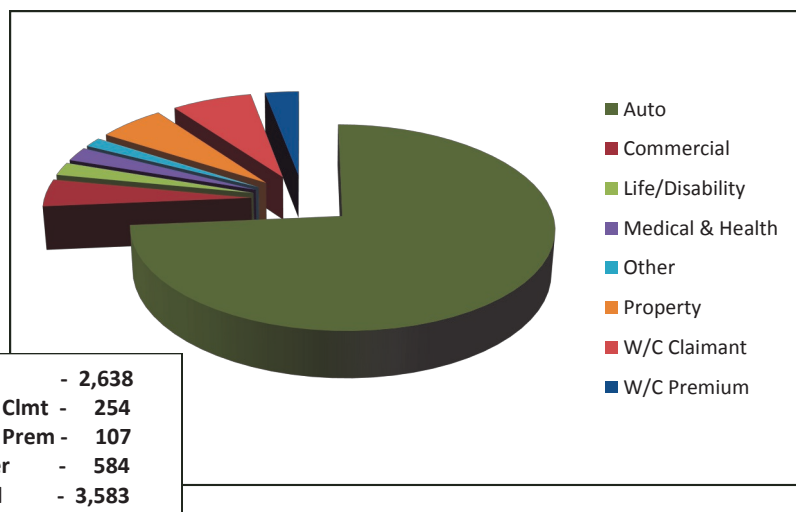
Referrals Received by Year



Referrals Received Inception through 2011



Referrals Received 2011



Case Activity

The inventory of cases awaiting assignment and active case workloads change daily. The loss location and the type of case are two factors that influence the length of time a case remains in a wait or assigned status. Cases in the task forces (CIFIs) move faster through the process which may be facilitated with working relationships with local police and prosecutors. The complexity and scope of investigations for possible prosecution by offices of the attorney general and U.S. attorney follow a different path for the investigator. These investigations are largely handled by the provider, workers' compensation and general investigative units.

The following table depicts, by IFB unit and task force, the number of cases in the pipeline to be assigned to an investigator and cases that are actively being worked as of year end 2011. Cases that have been referred to prosecution continue to be part of the active caseload for an IFB investigator. Work with the prosecutor, location of witnesses and witness interviews, delivery of subpoenas and additional avenues of investigation are pursued throughout the prosecution phase of a case.

Case Status by Unit/Task Force as of December 31, 2011

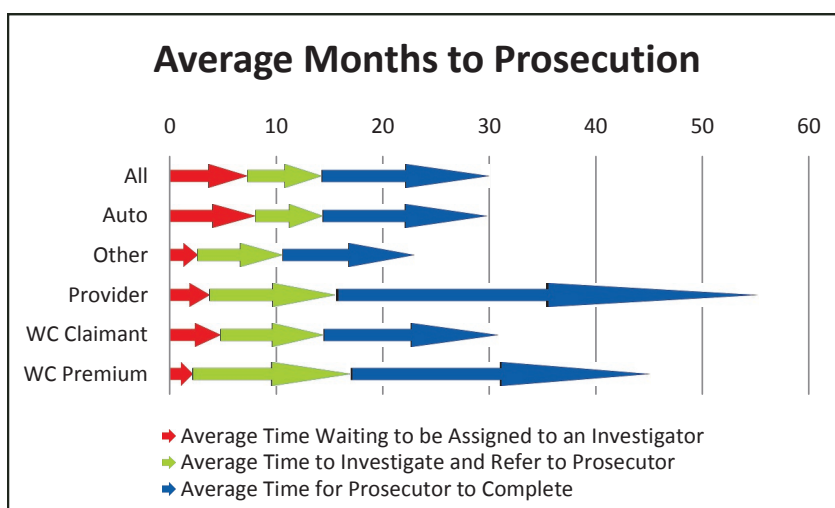
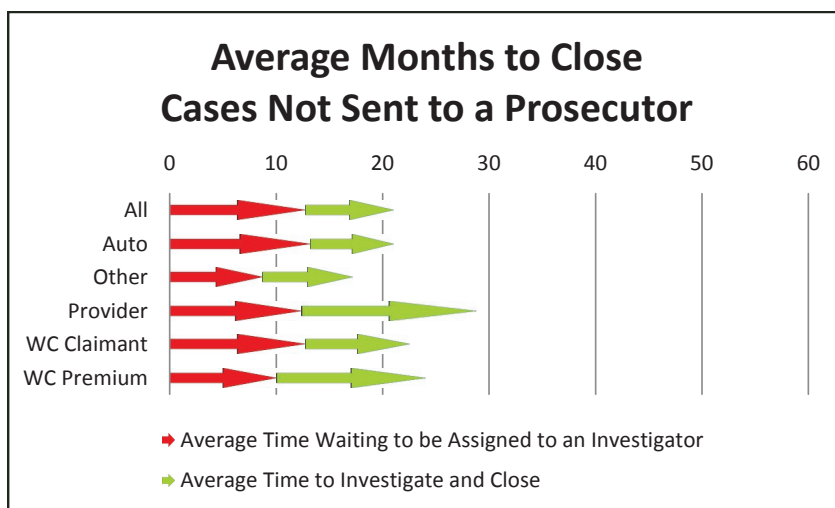
Unit/Task Force	Cases in Wait	Cases Assigned	Cases at a Prosecutor's Office	Active Cases
General Unit	392	78	34	112
Provider Fraud Unit	42	26	14	40
W/C Claimant Unit	104	14	6	20
W/C Premium Evasion Unit	68	42	17	59
Boston CIFI	205	83	59	142
Brockton CIFI	37	10	32	42
Chelsea CIFI	10	2	8	10
Lawrence CIFI	50	27	51	78
Lowell CIFI	33	17	12	29
Lynn CIFI	51	12	19	31
New Bedford/Fall River CIFI	115	27	32	59
Randolph CIFI	44	4	39	43
Revere CIFI	13	4	7	11
Springfield/Holyoke CIFI	177	24	35	59
Worcester CIFI	57	22	9	31
Total	1,398	392	374	766

Case Timelines

The timeline to complete a criminal investigation and prosecution is largely determined by the type of case. Auto cases with staged accidents, hit-while-parked incidents, phony theft reports and exaggerated or enhanced damage claims take, on average, approximately 30 months from the creation of the case to investigation and the completion of a successful prosecution. The investigation and prosecution timeline for workers' compensation claimant cases are, on average, just over 30 months.

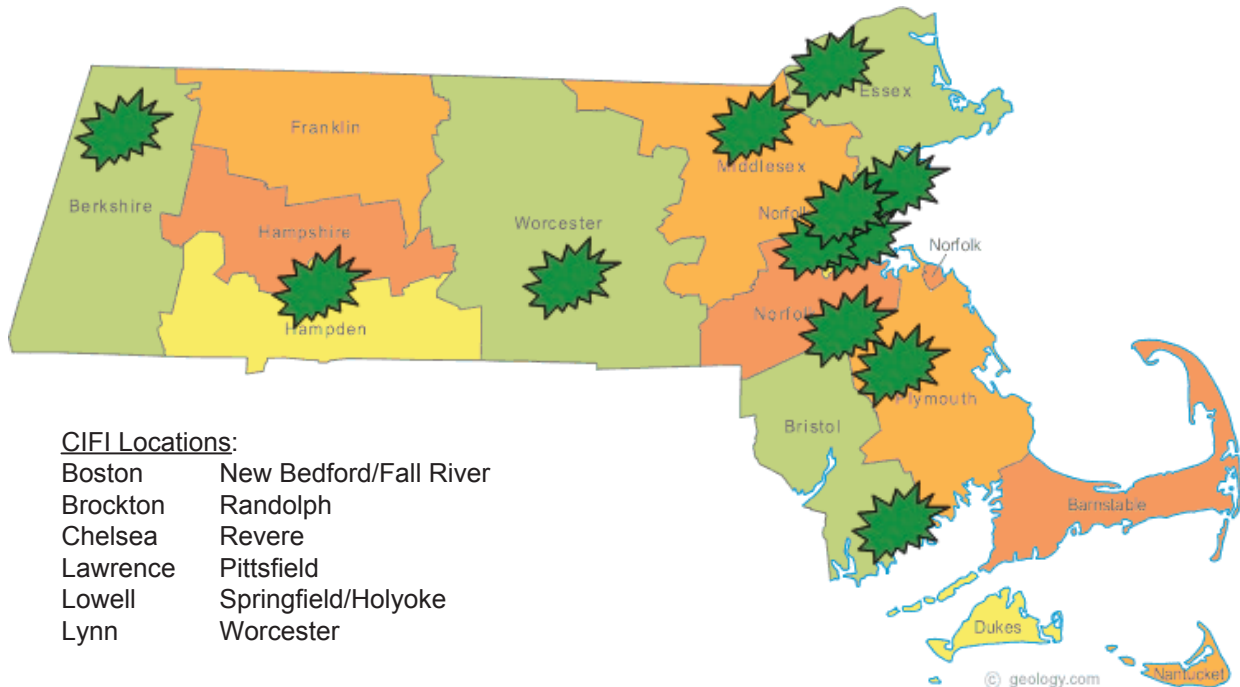
A provider case, with large numbers of claimants and medical files to review and investigate, is a lengthy process in both the investigation and prosecution phases. A workers' compensation premium case covering multiple policy years, corresponding audit reports and other factors, may also result in a lengthy investigative and prosecution time period.

The graphs below show timelines for the four major types of cases investigated by the IFB. Average time to investigate and close a case and to refer a case to prosecution are depicted.

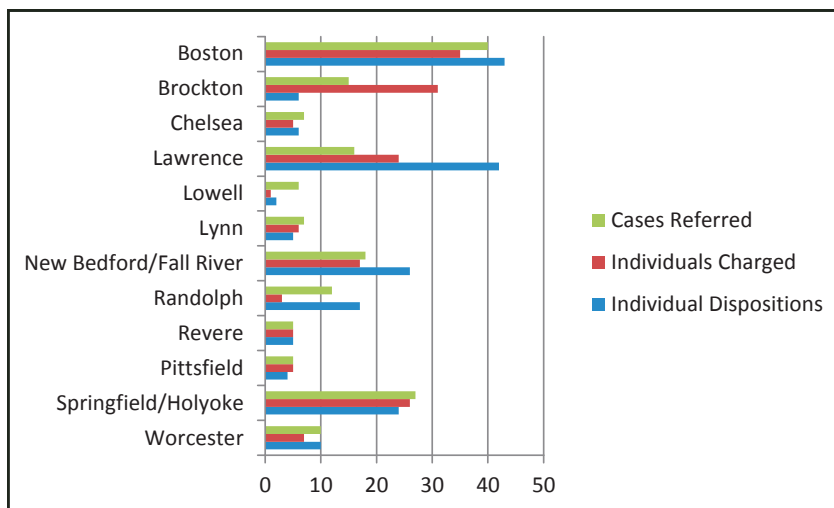


Community Insurance Fraud Initiatives

Community Insurance Fraud Initiatives (CIFI) continue to have a favorable impact on local communities. CIFIs are located in fourteen communities spread across the state. While the emphasis remains on automobile investigations within the CIFI town, a few of the CIFIs work with other police departments under the prosecutors' jurisdiction.



2011 Case and Prosecution Activity by CIFI



The Boston CIFI handles automobile insurance fraud cases in locations surrounding the city such as Mattapan, Hyde Park, Jamaica Plain, Roxbury, Dorchester and Roslindale. The Lawrence CIFI, the first task force established, continues to see a large number of disposition results from earlier prosecution complaint and indictment activity. The Springfield CIFI investigates alleged fraud in the western part of the state and oversees the Pittsfield task force. Some CIFIs have expanded their jurisdictions to include surrounding towns.

Prosecution Activity

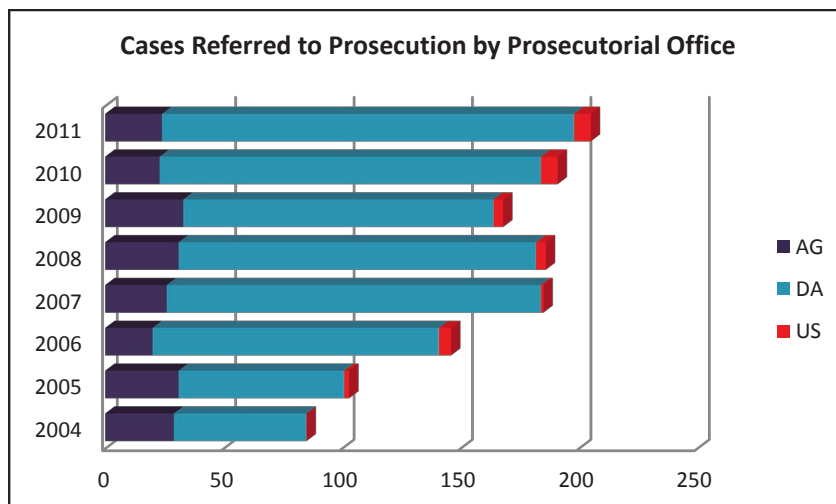
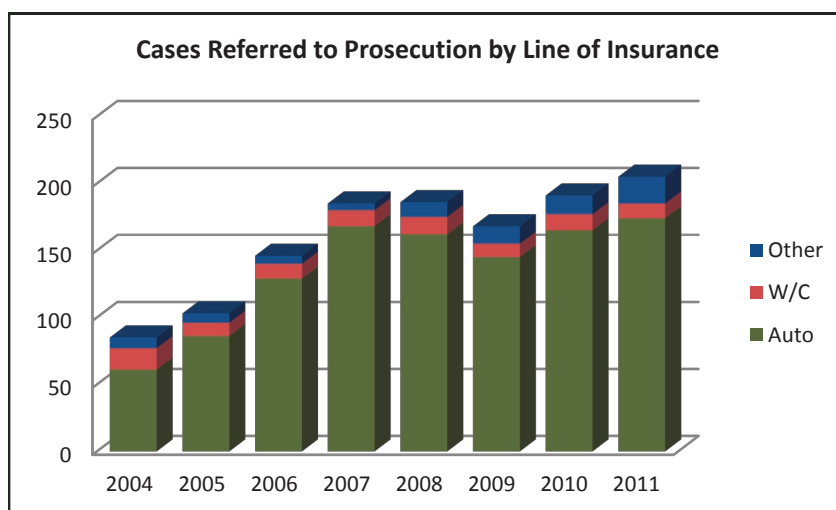
The prosecution phase of an IFB case investigation begins with the determination that sufficient evidence has been gathered to make the recommendation to a prosecutorial office. The type of resulting prosecution activity, such as complaints issued and indictments returned, depends on the type and complexity of the case and the prosecutorial jurisdiction. The end result, dispositions achieved, may be resolved quickly, but in many instances, take months or years to achieve.

Cases Referred to Prosecution

The IFB referred 205 cases to prosecutors in 2011. With the establishment of the CIFI program in 2003, the number of cases referred to the offices of district attorneys continue to rise. In 2011, 174 IFB cases were referred to offices of the district attorneys. These cases are predominantly automobile, single-subject, single-incident cases.

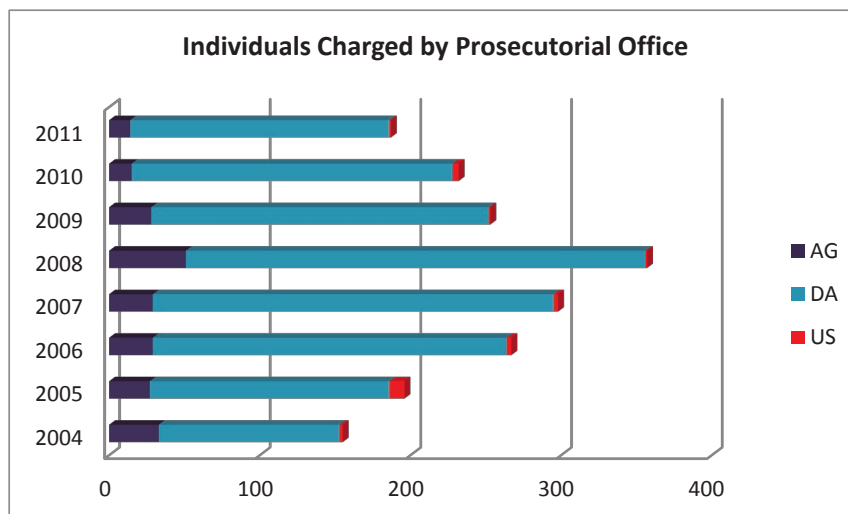
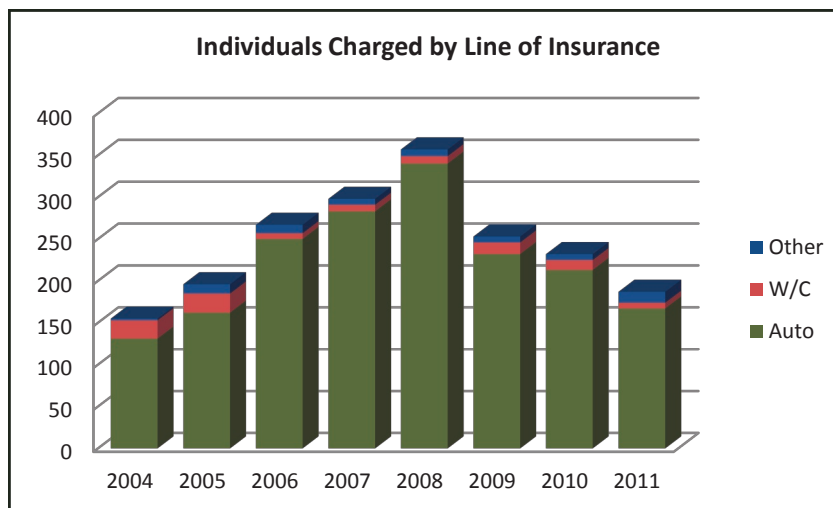
Of the total cases referred, 174 were classified as automobile, 11 workers' compensation and 20 other (such as provider, property, commercial and disability).

Seven cases were referred to the U.S. attorney's office and 24 to the attorney general's office.



Individuals Charged

In 2011, 187 individuals were charged with insurance fraud-related violations; nine indictments were returned and 178 complaints issued. At the CIFI level, complaints are taken out by local police assisting the task force or by the IFB investigator once probable cause is established by the clerk's office. Individuals charged in 2011 came from multiple types of insurance fraud investigations—the majority were from auto investigations but provider, commercial, life, marine and property fraud cases were also investigated and individuals charged.

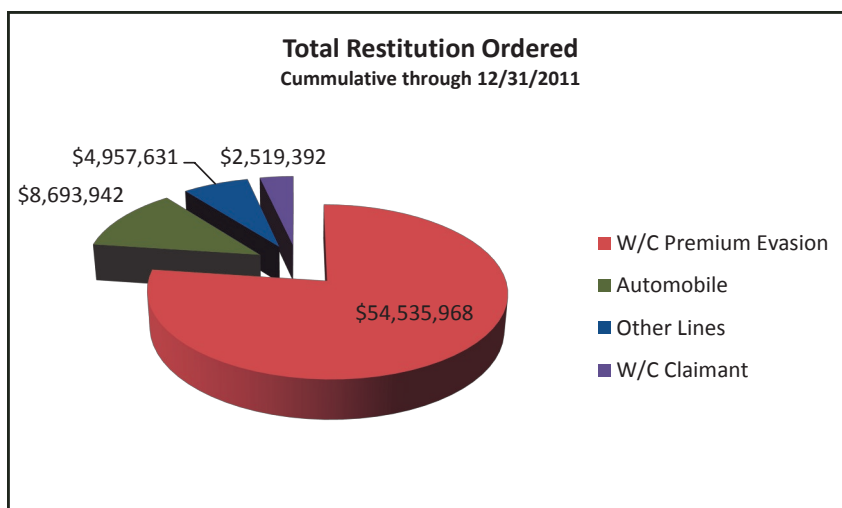
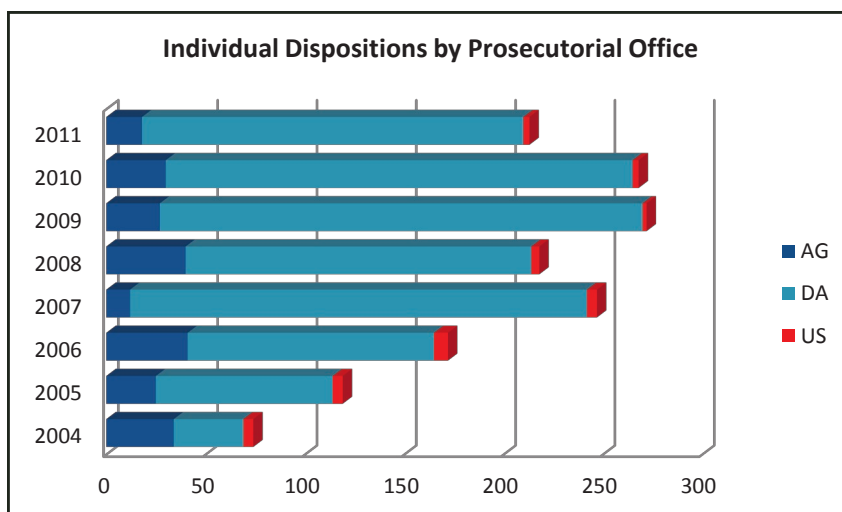
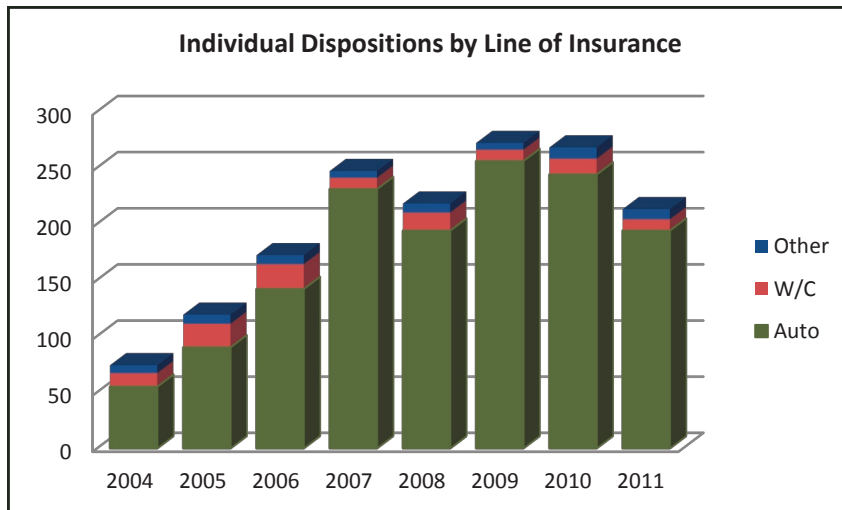


Individual Dispositions

In many instances, final dispositions for a case can take months or years to reach. The court process can be lengthy for state and federal cases because of the overall size and complexity of these large cases.

In 2011, 42 individuals were convicted with another 76 individuals continued without a finding. Other types of dispositions include pre-trial probation, acquittal, dismissed, and nolle prosequi.

Individuals may be sentenced to jail time, suspended sentences, probation, restitution, and community service time. Restitution ordered in 2011 was approximately \$11 million, mostly the result of two large workers' compensation cases.



2011 Annual Fraud Directors Conference



The IFB hosted the 14th annual Fraud Directors Conference in October 2011 in Chatham, Massachusetts. Thirty-four individuals from fraud bureaus across the country attended.



IFB Executive Director Daniel Johnston welcomes the attendees.



Massachusetts Attorney General Martha Coakley was a featured speaker.



Carmen Ortiz, United States Attorney for the District of Massachusetts addresses the audience.



20th Anniversary Awards Breakfast

The IFB celebrated 20 years of fraud-fighting success on May 26, 2011 at an awards ceremony held at the Joseph Moakley U.S. Courthouse in Boston. Forty-three recipients were recognized for significant contributions in the fight against insurance fraud. Honorees were from the insurance industry, law enforcement agencies and prosecutorial offices. At right, Executive Director Daniel Johnson welcomes the attendees.



WCVB Channel 5 midday news anchor and consumer reporter Susan Wornick was the event's master-of-ceremonies.



Massachusetts Attorney General Martha Coakley and U.S. Attorney Carmen Ortiz look on as prosecutors from both of their offices were recognized for their dedication to the fraud fight.



Officers and Board of Governors

OFFICERS

Daniel J. Johnston, Executive Director
Anthony M. DiPaolo, Vice President, Investigations
Laura A. Kessler, Vice President, General Counsel
Thomas J. Simon, Vice President, Administration

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Representing the AIB Governing Committee

Arbella Mutual Group
MAPFRE USA Group
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Public Members

Commissioner of Department of Industrial Accidents
Commissioner of Insurance
Registrar of Motor Vehicles
Secretary of Labor
Secretary of Public Safety

** Denotes chairman

Committees

<u>COMMITTEE</u>	<u>MISSION</u>	<u>MEMBERS</u>
Budget	Review and approve prospective budget plans and staff additions	MAPFRE USA Group** A.I.M. Mutual Insurance Company Commissioner of Insurance Liberty Mutual Insurance Group Safety Group
Communications Subcommittee	Examine and discuss communications between IFB and insurers	Safety Group** A.I.M. Mutual Insurance Company Arbella Insurance Group Hanover Insurance Group Liberty Mutual Insurance Company MAPFRE USA Group Metropolitan Group The Travelers Insurance Company
Long Range Planning	Guide long-term direction of IFB activities; designate line of business priorities, geographical orientation and IFB legislative initiatives	Metropolitan Group** AFL/CIO Arbella Insurance Group Commissioner of Department of Industrial Accidents The Travelers Insurance Company
Personnel	Approve personnel related plans and programs, including salary structures, job grades and ranges and benefit packages	Hanover Insurance Group** Choice Insurance Group Liberty Mutual Insurance Company Registrar of Motor Vehicles Secretary of Labor
Tip Reward	Review and approve reward payments to informants for tips which lead to the prosecution of insurance fraud perpetrators, as part of the approved IFB Tip Reward Program	Liberty Mutual Insurance Company ** Arbella Insurance Group MAPFRE USA Group Safety Group Secretary of Labor

** Denotes chairman