
Worker's Compensation Fraud

Preexisting Medical Condition

The auditor was working on a worker's compensation (WC) audit at a Department of Defense agency. As part of the review, the auditor reviewed WC claim files and agency personnel files. The auditor noted that an employee's files contained the following information:

- The agency recently initiated disciplinary action against the employee. The employee's most recent WC claim occurred immediately after the disciplinary action was initiated.
- During a Spring business trip to New York, the employee fell in the hotel bathroom and claimed to injure their wrist. Two years earlier, the same employee tripped in the agency's parking lot and claimed to suffer lower back injuries. For both incidents, there were no witnesses to substantiate the employees' claims and the incidents were not promptly reported to agency officials.
- The medical treatment received for one of the injuries appeared to be excessive. Specifically, the employee went to the emergency room four times in one week for treatment for their alleged lower back injuries.
- The employee's files contained a post office box number instead of a street address.

The auditor located a physician's medical evaluation in the WC file that showed the employee was diagnosed with a preexisting medial condition several years earlier. The physician's evaluation stated that the employee often suffered problems maintaining balance because of their ongoing medical problems. Therefore, the auditor believed that the WC claims were related to the preexisting medical condition and the claims filed by the employee may not be valid.

Failure to Notify of Change in Benefit Status

While performing a WC review at a Department of Defense agency, the auditor noted inconsistencies with the employees' statement of the accident and the witnesses' report of the accident in the WC files. Examples of the discrepancies included the following facts:

Employee

"I was taking an inventory of office supplies and slipped on the ladder and fell. The floor had been waxed before I entered the supply room and the floor wax on my shoes made me unsteady on the ladder. The cleaning people did not post signs that the floor was slippery."

Witness

“The employee commented that the floors looked nice because they had just been waxed when we entered the supply room. When they were on the ladder, they abruptly turned around to greet their coworker and fell off of the ladder.”

After the employee fell from the ladder, they were taken to the emergency room by their supervisor. The WC files stated that the employee x-rays indicated that no bones were broken and there was no evidence of internal injuries. However, after the emergency room visit, the employee received physical therapy sessions three times a week for several months.

The auditor noted that the WC file contained a physician’s request for the agency to remove the employee from their WC active file. However, because of an administrative error, the employee remained on the WC role for an additional year and failed to notify the agency of their change in status. As a result, the employee received WC payments that they were not eligible to receive.

Physician Filing Phony Insurance Claims

The auditor was analyzing automated WC data and began to notice the following trends for three files included in the audit sample:

- Two of the three employees had relocated since they were placed on WC.
- All of the employees frequently changed physicians.
- Two of the employees filed WC claims immediately after their temporary work assignments ended.

The auditor requested the personnel and WC files for the three employees. Review of the files disclosed that two of the patients had relocated to Florida and were living approximately twenty miles apart. The auditor noticed that these employees recently changed their primary physician and were now being cared for by the same doctor. The new physician had ordered extensive medical treatments for one of the employees for an injury that was several months old, which seemed excessive to the auditor.

The auditor conducted separate interviews with the employees that reside in Florida. One of the employees stated that they had not received any new medical treatments since the new doctor saw them. However, the doctor told the patient that they might notice charges for additional treatments on their insurance statements. The doctor told the patient that they could split the proceeds from the phony insurance claims as a way to supplement the patient’s income while on WC. After receiving this information, the auditor concluded that the physician was processing claims for unnecessary medical treatments and splitting the payments for the fictitious treatments with the injured employee.

General Comments / Lessons Learned. WC fraud has been identified as an ongoing problem for many Department of Defense agencies. United States Army Civilian Personnel On-Line statistics indicate the Department spends almost two million dollars on WC every day. Eight percent of these daily expenditures are caused by older WC cases where the employee was never brought back to work. There is a greater risk that higher WC costs may be incurred by an organization if it does not have policies and procedures to periodically check/monitor the employees recovery to determine when the employee is able to return to work and/or also monitor long-term WC claims (over five years old). It is important for supervisors to maintain contact with employees that are place on WC, regardless of the length of recuperation. When conducting WC reviews, auditors should consider conducting analysis of automated data and reviews of WC claim files and personnel files to assist with identifying potential fraud schemes. Additionally, auditors should try to verify that the injured employee is not working while receiving WC.

FRAUD INDICATORS

- **The alleged injury occurred immediately following disciplinary action, notice of probation, demotion, being passed over for a promotion, job termination, completion of a temporary work assignment, or end of seasonal work.**
- **Claimant has a history of worker's compensation claims.**
- **The alleged injury relates to a pre-existing injury or health problem.**
- **Claimant uses a post office box for an address.**
- **There are no witnesses to the accident or witnesses' report of the accident conflict with the applicant's version, or with one another. If there are no witnesses, employees can fake or prolong injuries to collect payments.**
- **Medical treatment is inconsistent with injuries originally alleged by the employee.**
- **Claimant undergoes excessive treatment for soft tissue injuries such as the lower back.**
- **The injury was not reported in a timely manner.**
- **Claimant relocated since WC benefits started.**
- **The employee frequently changes physicians, or does so after being released to return to work.**
- **If the claimant is receiving excessive medical treatment from a provider, the claimant may be in collusion with the doctor. The doctor could be processing claims for unnecessary medical treatments, and then splitting the payments for the fictitious treatments with the injured employee.**

OTHER FRAUD INDICATORS

In the previous scenarios, we have described various fraud indicators that auditors may find during WC reviews. Below are some additional fraud indicators that auditors may encounter during these types of audits:

- Claimant's version of the accident has inconsistencies.
- Facts regarding the accident are related differently in various medical reports, statements, and the supervisor's first report of injury.
- Claimant has a marketable occupation (doctor, nurse, computer technician, or other hi-tech job). If claimant has a marketable occupation, the claimants could be working and not reporting income.
- Claimant reported income.
- Claimant uses addresses of friends, family, or has no known permanent address and moves frequently.
- Claimant avoids the use of U.S. mail and hand-delivers documents.
- The independent medical exam does not support the claimant's injury and contradicts other medical reports.
- Review of case files does not contain evidence to support residual effects of work-related injury or medical information that concludes there are no residual effects.
- Repeated use of physicians that provide routine excuse from work memorandums, or automatically authorize the maximum amount of recovery time required by law without requiring medical treatment.