



White Paper

Fighting Workers' Compensation Fraud Using Identity Resolution

Infoglide Software Corporation
6500 River Place Blvd., Building II, Suite 101, Austin, Texas 78730
512.532.3500 • Fax: 512.532.3505 • www.infoglidesoftware.com

Copyright (c) 2009, Infoglide Software Corporation. All rights reserved.

PN-10009-01

Table of Contents

EXECUTIVE SUMMARY 1

INTRODUCTION: WORKERS' COMPENSATION FRAUD 2

WHAT IS IDENTITY RESOLUTION? 6

HOW DOES IDENTITY RESOLUTION TECHNOLOGY SOLVE WORKERS' COMPENSATION FRAUD? 8

DIFFERENT APPROACHES FOR DIFFERENT STATES 10

COSTS & RETURN ON INVESTMENT 12

SUMMARY 14

CONTACT 16

REFERENCES 17

Executive Summary

The results of a survey¹ conducted for the Bureau of Audits in California highlight the serious problem fraud has become for the various workers' compensation systems administered by states nationwide. Workers' compensation fraud typically falls into one of three categories: employee fraud, medical provider fraud, and employer fraud.

Identity resolution technology can uncover employees, medical providers, and employers engaged in workers' compensation fraud. Identity resolution systems such as Infoglide Software's Identity Resolution Engine™ (IRE) significantly increase the amount of fraud detected, ensure that the most suspicious fraud occurrences make their way to the top of investigators' lists, and improve the ability to prevent fraud during the application process.

By choosing to combat fraud with an identity resolution solution, state agencies send a message to those persons abusing or thinking of abusing the workers' compensation programs. That message is clear: We are committed to locating perpetrators of fraud; we've invested taxpayers' dollars wisely in technology that can do just that; and we will prosecute.

Introduction: Workers' Compensation Fraud

The results of a survey¹ conducted for the Bureau of Audits in California highlight the serious problem fraud has become for the various workers' compensation systems administered by states nationwide. The "Workers' Compensation Medical Payment Accuracy Study" published June 17, 2008 does not break out fraud as a separate category but estimates that more than 20% of total payments were "errors." Over \$1 billion in payment errors were processed in a single year in California alone.

While "the California workers' compensation system may be especially error-prone," studies conducted by other states, e.g. Texas and Florida, demonstrate similar levels of errors. A small portion of the errors were thought to be administrative mistakes, but it is clear that a significant percentage of errors are the result of fraudulent activity.

Workers' Compensation: A System Abused by Many

The Ohio Bureau of Workers' Compensation estimates that they pay as much as \$320 million annually in fraudulent claims³. Here is their definition:

“Fraud is defined as an intentional act or series of acts resulting in payments or benefits to a person or entity that is not entitled to receive those payments or benefits. Fraud is committed when a person

- Knowingly receives benefits which he or she is not entitled to receive by law;
- Makes false or misleading statements for the purpose of receiving money or services;
- Enters into a conspiracy to defraud the Ohio State Insurance Fund or self-insuring employer under the Workers' Compensation Act.”

State agencies have identified three broad categories of workers' compensation fraud: employee fraud, medical provider fraud, and employer fraud.

Employee Fraud

Employee fraud occurs when employees exaggerate the extent and effect of their injuries to collect money from the state while they are idle; the bolder ones even take jobs elsewhere while they are “disabled.”

Examples⁴ of employee fraud include:

- Filing a claim for an injury that did not occur on, or has no relation to the job

- Lying about work status when questioned directly, such as at a deposition or a hearing, while receiving temporary disability benefits
- Misrepresenting the severity of a claimed injury
- Filing a claim in anticipation of unemployment or income loss due to a strike, layoff, end of a project, or end of seasonal work

Medical Provider Fraud

Another type of fraud occurs when medical providers fraudulently certify an employee's disability or charge the system for services that were never rendered.

Examples⁴ of provider fraud include:

- Billing for exams of patients who were never examined
- Billing for treatment of patients who were never treated
- Duplicate billing in order to receive payment from different insurance carriers for the same medical treatment
- Billing follow-up exams as "first exams" to receive greater payment from the carrier
- Bundling unnecessary medical services with necessary services
- Misrepresenting the true code for the medical treatment provided
- Kickbacks to employers or other providers for referrals

Employer Fraud

The third category of fraud happens when employers avoid or reduce premiums by never registering, by changing their name frequently, or by under-reporting the number of employees in hazardous jobs.

Examples⁴ of employer fraud include:

- Under-reporting the number of employees
- Misclassifying employees as independent contractors
- Misrepresenting the nature of the work performed by the employee
- Misrepresenting past loss experience
- Misrepresenting the company ownership
- Forcing employees to pay premiums that should be paid by the business
- Discouraging employees from seeking medical treatment
- Falsely informing an employee that workers' compensation benefits are only available if he or she has been employed for six months or more
- Getting kickbacks from medical providers for referrals

With all the ways fraud can be perpetrated against workers' compensation organizations, it's easy to see how workers' compensation fraud has become such a costly problem for states and how critical it is to address workers' compensation fraud. Identity resolution technology provides a solution for all three types of workers' compensation fraud.

What is Identity Resolution?

Identity resolution technology looks at who you are, whom you know, and what you are connected to. It analyzes all the information known about an entity in order to determine whether that entity is a good citizen, customer, organization, or company, or whether instead the entity poses a risk or threat that should be identified and flagged for further investigation. Identity resolution technology also finds hidden connections that expose fraud networks related to activities such as organized retail crime, terrorism, and insider stock trading.

Simply stated, identity resolution technology reveals who's who and who knows whom across multiple, unique data sources containing both structured and un-structured data. An all-encompassing view of internal and external interactions with employees, customers, vendors, and organizations helps to distinguish good from bad, assess fraud patterns and risk, and implement and enforce sound policies. Without this information, businesses are much more vulnerable to deception, fraud, and theft.

Table 1 shows two different identities for the same person from two different data sources. Note that almost every attribute is different and would therefore not be identified as the same person by traditional systems, yet to a human being it is quite clear that these two identities are the same person. The similarity search capabilities of identity resolution solutions handle this ambiguity with ease.

Table 1: Identity Comparisons across Data Sources

Attribute	Identity #1	Score	Identity #2
First Name	Michelle	95%	Shelly
Last Name	O'Brian	90%	OBryan
Company Name	HARMAN INTL. IND. INC.	95%	HARMAN INTERNATIONAL INDUSTRIES, INC.
Street Address	3550 Twisted Oak Drive	93%	3505 Twisting Oaks
City	Jacksonville	90%	Jackson
State	Florida	100%	FL
Zip Code	35035	91%	35305
Passport ID	MY255909	87%	MJ225090
License Plate	510 B81	82%	SIO 13B
Eye Color	Hazel	90%	Green
DOB	4/11/56	92%	11-4-1956

Identity resolution presents a unified view of individuals with multiple identities. Just as important, comprehensive identity resolution technology uncovers hidden relationships between individuals, whether they are employees, medical providers, or employers.

How Does Identity Resolution Technology Solve Workers' Compensation Fraud?

Identity resolution technology can identify employees, medical providers, and employers who are engaged in workers' compensation fraud.

Employees

Employees have to file workers' compensation reports, so identity resolution can uncover patterns of abuse (e.g., continual usage of the system) by identifying multiple identities for the same person (as in the example in

Table 1). Time discrepancies between the claimed time of injury and the time of reporting may also indicate fraud. Lack of or refusal to undergo necessary diagnostic procedures to confirm injuries often indicates fraud. Consulting a medical provider who treats an excessive percentage of workers' compensation claimants, especially if prior fraud was reported, is yet another red flag that can be detected by identity resolution technology.

Medical Providers

Similarity searches of claims reporting databases can identify employees of particular companies and particular providers (e.g., same doctors, chiropractors, physical therapists, other providers) who show a pattern of repeatedly substantiating disabilities. Sometimes providers scam the system without the claimant's knowledge by over-billing for services never rendered. Comparing the claimant's description of the injury to the provider's description can help identify such suspicious claims. Private medical insurance claims should also be compared to workers'

compensation insurance providers' records to identify duplicate transactions.

Employers

Finding companies who are not registered for workers' compensation involves comparing databases where the existence of businesses is known to lists of businesses registered with state workers' compensation programs. The results can highlight companies who haven't registered, companies who have changed their name often, and companies involved in hidden contractor/subcontractor relationships.

Not Registered

The IRS, other state agencies (e.g., Secretary of State corporation registration, professional licensing, construction permits), and third-party data providers (e.g., Dun & Bradstreet) are good sources of company names.

Name Changes

Some businesses avoid paying workers' compensation by changing their names regularly. Clustering across multiple state databases using multiple attributes to identify successorship is a way to track these fraudulent businesses.

Contractor/Subcontractor Relationship

If a contractor uses individuals as subcontractors, the contractor is responsible for covering his own workers' compensation, and the subcontractors are supposed to carry their own. Identity resolution technology can search multiple data sources to find those who don't have valid workers' compensation (e.g., a licensed HVAC subcontractor).

Different Approaches for Different States

According to Carl Hammersburg of the Washington State Department of Labor and Industries, state workers' compensation systems are generally one of three types²:

1. Exclusive: State fund systems where workers' compensation must be purchased either through the state or through state-authorized self-insurance arrangements with large companies that provide their own workers' compensation insurance for their workers.
2. Competitive: Systems where the state fund program competes in the open market with private workers' compensation insurers (in most competitive systems the state also acts as the insurer of last resort for companies unable to get insurance from a private carriers).
3. No State Fund: States that rely entirely on private insurance carriers to provide workers' compensation coverage.

Table 2 lists states by the type of workers' compensation system they have.

Table 2: Workers' Compensation Funds by State

Type of Fund	Jurisdictions
Exclusive State Fund	North Dakota, Ohio, Puerto Rico, Virgin Islands, Washington, West Virginia*, Wyoming
Competitive System	Arizona, California, Colorado, Hawaii, Idaho, Kentucky, Louisiana, Maine, Maryland, Minnesota, Missouri, Montana, New Mexico, New York, Oklahoma, Oregon, Pennsylvania, Rhode Island, Texas, Utah
No State Fund	Alabama, Alaska, Arkansas, Connecticut, Delaware, District of Columbia, Florida, Georgia, Illinois, Indiana, Iowa, Kansas, Massachusetts, Michigan, Mississippi, Nebraska, Nevada, New Hampshire, New Jersey, North Carolina, South Carolina, South Dakota, Tennessee, Vermont, Virginia, Wisconsin

**Current as of July 1, 2008*

While the type of workers' compensation system may vary from state to state, the ultimate responsibility for conserving tax dollars and ensuring fairness for all stakeholders rests with state government. Whether the state runs its own fraud prevention department or mandates anti-fraud efforts for industry, combating fraud is a necessary and worthwhile effort for every state.

Costs & Return on Investment

Combating fraud provides many benefits, not all of which are monetary. Fairness is a key issue, since fraud hurts everyone, including taxpayers, honest employees, employers, and medical providers alike. Money lost to fraudulent activities is money not available to pay legitimate claimants. Honest businesses may struggle to compete with businesses that don't pay their fair share. And everyone's medical costs go up as a result of fraudulent and inappropriate billing practices.

Costs

The California study¹ does not provide precise cost figures attributable solely to fraud; however, it does indicate that the state is losing millions of dollars to fraudulent medical provider claims annually. When employer and claimant fraud are added, the total cost can easily be calculated to hundreds of millions of dollars.

Return on Investment

In their 2006 and 2007 Annual Fraud Reports to the Legislature, Washington State's Department of Labor and Industries (L&I) described their Return on Investment (ROI) through vigorous anti-fraud efforts. In 2006 L&I employer audits identified assessments totaling nearly \$21 million, investigations of claimants prevented the loss of over \$15 million, and medical provider reviews resulted in the collection of nearly \$500,000 in improper billings. These figures represent a return of \$10.20 for every \$1 spent in anti-fraud efforts.

Washington State attributes these savings to an increase in fraud fighting capability, faster collections, funding for technology advances, and better communications and referrals across the

various programs in the department. Additional investment in 2007 brought an increase in cost savings over 2006.

Besides the monetary savings, 20 fraud cases were referred for prosecution in 2006 and an additional 13 were referred in 2007. These prosecutions are expected to have a deterrent effect on those who would scam the system.

How to Invest in Anti-Fraud Efforts

Washington State's investments in applying human capital, technology, and legislation against fraud provide significant benefits to their workers' compensation system. When states evaluate what kinds of investments to make, the answer depends on the type of workers' compensation insurance they have in place. States with exclusive or competitive workers' compensation insurance systems can invest directly by maintaining their own compliance or anti-fraud programs within their workers' compensation departments. States with no investigation or enforcement arm need to pass anti-fraud legislation that mandates oversight to verify that private insurance carriers comply with anti-fraud insurance laws.

In either case, an identity resolution solution can significantly increase investigator productivity by prioritizing the potential fraud cases they detect. Identity resolution technologies can provide significant return on investment by uncovering fraud, preventing loss, and aiding in the prosecution of fraudsters, which serves as a deterrent to others. In short, there is ample and convincing evidence that anti-fraud investments (increased staff, more effective technology, and better laws on the books) pay for themselves many times over.

Summary

State agencies and commercial companies responsible for administering workers' compensation programs are faced with increasing numbers of fraudulent claims. Detecting and preventing fraud by employee claimants, medical providers, and employers is beyond the capability of traditional software systems that are easily fooled by something as simple as name spelling variations and address transpositions.

Identity resolution systems like Infoglide Software's Identity Resolution Engine (IRE)⁵ significantly increase the amount of fraud detected, ensure that the most suspicious fraud occurrences make their way to the top of investigators' lists, and improve the ability to prevent fraud during the application process. In evaluating identity resolution solutions, ask the following questions:

- Can it easily connect to multiple data sources with different schemas?
- Can it find and resolve multiple identities across multiple data sources?
- Can it find hidden relationships that are significant fraud indicators?
- Can it make decisions based on the identities and relationships it finds?
- Can it be easily integrated into existing business processes?
- Can it constantly monitor fraud patterns based on business rules as new data/information is entered into the system or existing data/information is changed (e.g., address of a company changed, new customer information entered, etc.)?

The answers to all these questions must be “yes” for a successful implementation of an effective fraud detection and prevention system for workers' compensation programs.

Contact

For more information on how identity resolution can be used to fight workers' compensation fraud, see:

- Infoglide Software's website at:
<http://www.infoglide.com>
- Identity Resolution Daily blog at:
<http://www.identityresolutiondaily.com>
- Or contact us at iresales@infoglide.com

References

1. "California Department of Insurance Workers' compensation Medical Payment Accuracy Study", Navigant Consulting, June 17, 2008.
2. "Benefits of Adding Workers' Compensation Data to the Public Assistance Reporting Information System (PARIS)", U. S. Department of Health and Human Services web site, by Carl Hammersburg, Fraud Detection Manager, Washington State Dept. of Labor and Statistics, March 2008.
3. "Fraud and Workers' Compensation," Ohio Bureau of Workers' Compensation
<http://www.ohiobwc.com/basics/guidedtour/generalinfo/generalinfo7.asp> August 2008.
4. "Types of Fraud Investigated by the Office of the Inspector General," New York State Workers' Compensation Board,
<http://www.wcb.state.ny.us/content/main/fraud/WhatIsFraud.jsp> August 2008.
5. Identity Resolution Daily Blog
<http://www.identityresolutiondaily.com/>