



# SIU Compliance Solutions, Inc.

## What you need to know about Anti-Fraud Audits

By Jack Scott, Anti-Fraud Consultant

State Insurance Regulators are increasing the amount of Anti-Fraud audits in order to insure carrier accountability relating to Anti-fraud regulations. Several states have been conducting independent audits while others have combined the Anti-fraud audit into their market conduct studies. Other states have announced that they are instituting aggressive Anti-Fraud audits, this includes Florida, which will begin independent audits as early as September 2007. The cost of these audits is assessed to the respective carrier. Fines and penalties are assessed for willful and inadvertent violations. The most common findings are reported as: Integral Anti-Fraud Staff lacked required annual training, Training records incomplete or did not exist, Lack of referrals to the DOI or Prosecutors office and lack of monitoring procedures for TPA's. Each year the probability of a carrier to be selected for an Anti-Fraud audit is increased.

### Selection Process

1. Carriers who write in a business line which is known to be high risk for fraud which can have a negative impact on consumers.
2. Quantity and quality of fraud referrals. *There is no percentage or quota of referrals for any business line. However, If carrier "A" handled 2500 claims and made 35 referrals and carrier "B" handled 2700 claims, in the same business line, and had zero (0) referrals, carrier "B" might be selected for Audit. A carrier with low or non-existent referrals usually implies weak training or low priority for fraud claims.*
3. Market share of the carrier.
4. Volume and nature of complaints received against a carrier.
5. Does carrier have a dedicated SIU staff or has it designated other staff members with Anti-Fraud duties.
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### Types of Audits

1. Desk-top audit-Auditor requests copies of certain records from carriers. *Most common request is for training records and copies of referrals.* Records are reviewed at auditor's office.
2. On-Site Audit- If records presented for desk audit are incomplete or inadequate and on-site audit is undertaken. On-site audits are also undertaken if the carrier has had low scores for annual reports in the past. Carriers' location can also be a determining factor for an on-site audit.

### **Anatomy of the Audit**

The carriers most recently filed “Fraud Plan” will become the primary blueprint of the audit. The auditors will look for the items delineated in the Fraud plan. The list below is the outline generally used by Anti-Fraud auditors.

1. Review a statistical sample of closed insurance *claims* to determine whether the company is discovering and reporting fraudulent activities. This process would include determining whether the “red flags” the company has identified in the approved Fraud Prevention Plan are utilized effectively.
2. Review a statistical sample of insurance *applications* to determine whether the company is discovering and reporting fraudulent applications. This process would include determining whether the “red flags” the company has identified in the approved Fraud Prevention Plan are utilized effectively.
3. Review a statistical sample of cases referred to the SIU to determine whether the *SIU* has taken appropriate action for deciding whether an insurance fraud has occurred. Determine whether all of these cases of potential fraud were forwarded to the Fraud Bureau.
- 4 Determine the success rate of the SIU in recovering company assets and prosecuting suspects.
- 5 Interview claims and underwriting staff to determine their competency to detect insurance fraud.
- 6 Verify the raw data submitted in the Annual Report.( If applicable)
7. Confirm that the SIU is physically separate from the claims and underwriting units.
8. Review the primary documentation in personnel file to ensure the SIU investigators meet the qualifications.
9. Review procedures for Fraud Awareness Training for Integral staff. This would include reviewing classroom attendance log, interviewing claims and underwriting personal and reviewing training course manuals.
- 10 Review Public Awareness Program.
11. Review procedures to ensure that the SIU is periodically conducting random review of closed claims file.
12. Demonstrate how information and correspondence contained in a Fraud Prevention Plan will be held in confidence.

*Carriers may contract or designate a third party administrator to handle their Anti-Fraud Program. However, the ultimate responsibility for compliance stands with the carrier. It is the carrier's responsibility to monitor the TPA and file all reports as required. The carrier, not the TPA will be audited. The carrier should have written guidelines in place with the TPA.*

## **Audit Results**

Upon completion of the audit, a report of the findings is provided to the carrier executive management. This report reflects any findings of non-compliance and weaknesses in the Anti-Fraud program. Recommendations are also made to improve Anti-Fraud activity. Fines and penalties, if warranted, are also assessed at this time.

*About the author. Jack Scott is an Anti-Fraud Consultant with SIU Compliance Solutions Inc. He has in excess of 10 years experience in assisting carriers in developing cost-effective compliant SIU/ Anti-Fraud programs. Several of his clients have been carriers licensed in all lines and all states. Jack is recognized by many in the Insurance Industry as an expert in Anti-Fraud compliance issues.*