



**ARKANSAS INSURANCE DEPARTMENT**



# INSURANCE FRAUD NEWSLETTER



Mike Pickens

Insurance Commissioner

## Message From The Director

*As promised, you have just received the expanded INSURANCE FRAUD NEWSLETTER which will now cover all areas of insurance fraud in addition to its initial topic of interest, workers' compensation fraud.*

*Although the Division's area of enforcement and the coverage of this newsletter have greatly expanded with the passage of new insurance fraud legislation (Act 217 of 1997), it is our intention to keep the size of this publication to its present length.*

*Insurance antifraud efforts in all parts of the country have expanded greatly over the past several years and we all receive volumes of educational and interesting materials each day on this subject. This material is a key to fighting insurance fraud but sometimes it seems we can spend all day reading it rather than investigating and prosecuting cases.*

*We will attempt to bring to you only those items of education and information that will be most beneficial - whether it be a continuing section such as our Spotlight on Fraud or an expanded article on issues of special interest to the antifraud community. If additional information would be helpful, you should never hesitate to contact the Division for assistance. The fight against insurance fraud will only succeed if it is a joint effort among law enforcement, the insurance industry and the public.*

*Martin J. Nevrla*

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# Insurance Fraud Highlights



## LITTLE ROCK PHYSICIAN CHARGED WITH THEFT FOR FRAUDULENT INSURANCE CLAIM ON "LOST" JEWELRY

In the Fraud Investigation Division's first prosecution, a Little Rock physician has been charged in Pulaski County with 2 counts of theft by deception for falsely claiming the loss of two items of jewelry.

The subject, a family general practitioner, claimed the loss of a Rolex watch valued at \$6,125 and a diamond ring valued at \$3,000 while staying at the Pine Bluff Holiday Inn Convention Center Hotel in November 1996. The subject claimed he placed the items on a table in his room and then did not think again about them until he was on his way home to Little Rock. After contacting the hotel to see if the jewelry had been turned in, he made a claim on the items with Farmers Insurance Company and eventually received a settlement check for \$8,232.

In June 1997, the subject's ex-wife discovered the supposedly lost diamond ring among her husband's possessions while they were still living together and reported the discovery to Farmers. A preliminary investigation by the insurance company resulted in evidence that both the ring and the watch had continued in the subject's possession and control.

Farmers referred the case to the Insurance Fraud Investigation Division which continued the investigation, including execution of a search and seizure warrant for

the Rolex and the filing of theft charges through the Pulaski County Prosecuting Attorney's Office. Each charge could result in a prison term of up to 20 years and a fine of up to \$15,000. Danny Broaddrick, the Fraud Division's Chief Counsel and a Special Deputy Prosecuting Attorney for insurance fraud cases will represent the State. Arraignment has been scheduled for January 7, 1998.

The charges were filed under the criminal code rather than Act 217 of 1997 which expanded the authority of the Insurance Department to investigate and prosecute insurance fraud cases. "The criminal acts preceded the new antifraud law so that is why he is being charged under the criminal code; however, this is a classic and often committed type of insurance fraud that costs everyone increased premiums and which we were created to combat," said Marty Nevrla, Director of the Insurance Fraud Investigation Division.

"In the past, law enforcement did not always have the time and resources to do these cases and they just went away with perhaps the money returned, but with no real message sent to those thinking about committing this offense. Things have changed in Arkansas and we expect to aggressively pursue these cases since it is the public that is eventually bearing the cost of this economic crime," add Nevrla.



## Spotlight on Fraud



A guide to identifying and responding to possible insurance fraud. This edition:

### Workers' Compensation Medical/Legal Provider Fraud

#### Medical

- creative billing, including overbilling and billing for services not rendered
- questionable referrals to other professionals
- prolonged treatment for relatively minor injury
- unnecessary hospitalization

**NEXT EDITION:  
AUTO INSURANCE FRAUD**

#### Legal

- involvement in medical/legal "mills," specializing in phoney injuries or slightly injured workers and generating large bills on unnecessary or never performed services
- "capping", i.e., soliciting workers at unemployment offices to present fraudulent workers' compensation claims, then probably also running them through medical mills
- suborning perjury (encouraging perjury)



# Workers' Comp Fraud Highlights



**Harold Davis**, Little Rock. Claimed temporary total disability while working full time at a food store. Pleaded guilty to theft of property and received 17 days in jail (with the remaining one year sentence suspended), a \$500 fine, court costs and \$364.14 in restitution.

**Jack Bowen**, North Little Rock. Former insurance agent collected insurance premiums and converted the premiums for personal use. Pleaded guilty to theft of property by deception and received 5 years probation, a \$1,000 fine and court costs. Restitution to the victim was satisfied before sentencing.

**Waldon Tinkle**, Redfield. Claimed temporary total disability while working full time as a carpenter. Pleaded guilty to workers' compensation fraud and received 60 days in jail, 60 hours of community service, 5 years probation, a \$500 fine and court costs.

**Billy Taylor**, Cabot. Filed multiple false claims for mileage reimbursement for trips to see medical professionals. Pleaded guilty to workers' compensation fraud and received 2 days in jail, 100 hours of community service, 4 years probation, a \$250 fine and court costs.

**Marjorie Taylor**, Cabot. Filed multiple false claims for mileage reimbursement for trips to see medical professionals. Pleaded guilty to theft of property by deception and received 2 days in jail (credited to her fine), a \$100 fine and court costs.

**David Poole**, Flippin. Claimed temporary total disability while working full time as a wrecker operator. Pleaded guilty to workers' compensation fraud and perjury and was ordered to pay \$1,000 in court costs and \$1,900 in restitution.

**Alvyn Haley**, Plummerville. Made a material false statement by not disclosing a prior injury. Pleaded guilty to attempted theft by deception and received 90 days suspended imposition of sentence, a \$500 fine and court costs.

**COURT OF APPEALS  
AFFIRMS WORKERS'  
COMPENSATION  
FRAUD CONVICTION**

In the first appeal of a conviction under the workers' compensation fraud statute, the Arkansas Court of Appeals affirmed the jury conviction and 4 year, 8 month sentences of Lorenzo Peete and his wife Cynthia for engaging in a classic malingering case.

**Hector Perez Hernandez**, Fort Smith. Made material false statements in pursuit of workers' compensation disability benefits. Pleaded "no contest" to workers' compensation fraud and received 5 years suspended imposition sentence, a \$500 fine, court costs and \$2,305.96 in restitution.

**Glen Combs**, Irving, AL. Claimed temporary total disability while working full time as a laborer and truck driver. Pleaded guilty to workers' compensation fraud and received 4 years probation, a \$1,000 fine, \$175 in court costs, a \$250 contribution to the Public Defender's Fund and \$5,849 in restitution.

**Debra Combs**, Irving, AL. Made material false statements in support of her husband's claim. Pleaded guilty to workers' compensation fraud and received 4 years probation, a \$1,000 fine, \$175 in court costs, a \$250 contribution to the Public Defender's Fund and \$5,849 in restitution.

**C. B. Tarvid**, Reynolds, MO. Sawmill operator failed to secure workers' compensation insurance as mandated by statute. Criminal charges were disposed of by nolle prosequi motion of the Stone County Prosecuting Attorney upon payment of \$150 in court costs, \$3,175.30 in restitution and a \$445 contribution to the Stone County General Fund.

**Pam Barr Ellis**, Pocahontas. Made a material false statement by not disclosing a prior injury. Pleaded guilty to attempted theft of property and received a 1 year suspended imposition of sentence, a \$500 fine, court costs, and \$2,138.00 in restitution.

**Donnie Davis**, Brinkley. Made material false statements in pursuit of workers' compensation disability benefits. Pleaded guilty to workers' compensation fraud and was sentenced to 5 years probation conditioned upon payment of a \$300 fine and court costs, and completion of 25 hours community service.

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## Fraud Referral Update

- **The new division has received 340 fraud referrals (excluding 59 workers' compensation referrals) since it officially started operating in August, 1997. At the present pace, the Division will receive the same number of referrals in one year that its workers' compensation predecessor received in four.**
- **Workers' compensation referrals held steady at about 200 per year (down from 400 in 1994).**
- **Form REF is the official insurance fraud referral form (Regulation 67) and may be obtained from the Division or various web sites containing insurance fraud information.**

# ANTIFRAUD INITIATIVE REQUIREMENTS

On August 1, 1997, Arkansas Insurance Department Rule 66 became effective. This rule was drafted to help insurers in complying with the antifraud initiative requirements set forth in Arkansas' new insurance antifraud act, Act 217 of 1997 (Section 23-66-510 of the Arkansas Insurance Code).

## What are the "antifraud initiative" requirements?

Insurers are required to have "antifraud initiatives" or measures in place which will detect, prosecute, and prevent fraudulent insurance acts as defined in Section 23-66-501(d).

## What options does an insurer have to comply?

Insurers may satisfy the compliance requirement of Section 23-66-510 by one of three ways which are described in Sections 6 (1), (2) and (3) of Rule 66. These options are separate and independent from one another and insurers are only required to comply under one of the three options.

1. If an insurer chooses option (1), it should send a letter to the Fraud Investigation Division explaining that it is in compliance by employing fraud investigators which meet the requirements of Sections 7(A) or 7(B) of Rule 66, whichever is applicable.
2. If an insurer chooses option (2), it should submit an antifraud plan to the Fraud Investigation Division. The required elements of an antifraud plan are set out in Sections 8(A) and 8(B) of Rule 66. Each element must be addressed in the plan.

3. If an insurer chooses option (3), it should submit an alternative antifraud initiative to the Fraud Investigation Division.

Note: Insurers should indicate all companies for which the compliance information is being submitted, as well as the NAIC number for each company.

## What should an insurer expect to receive after submitting compliance correspondence?

Insurers will receive written verification from the Arkansas Insurance Department indicating that correspondence received meets the compliance requirement. In the alternative, an insurer may be requested to provide additional information to meet the compliance requirement.

## What is the deadline for compliance with the "antifraud initiative" requirements?

February 1, 1998

## How can an insurer receive copies of Act 217 of 1997 and Rule 66 or further information on compliance?

Arkansas Insurance Department Bulletin 11-97 contains Rule 66 and its adoption information and was mailed out to the industry in the fall of 1997. If an insurer needs a copy of Rule 66 or Act 217 of 1997, it may contact the Fraud Investigation Division at the telephone numbers and address indicated on the front page of this newsletter.

