But this time State Farm used a different paper review company. It sent Cindy's file from Boise, Idaho, to Bethesda, Maryland, to a company called Medical Claims Review Services or MCRS. So we tracked down the company's founder and former medical director, Dr. Ronald Gots.

John Larson

"Dateline NBC" Correspondent

In 2001, "The Paper Chase," Larson's investigation of the insurance industry, became one of the most honored broadcasts in broadcast journalism history. The piece won the prestigious Alfred I. du Pont-Columbia Silver Baton, the George Foster Peabody, the George Polk, the IRE for Investigative Reporting, the Loeb Award for Business Reporting, the Edward R. Murrow Award and several others.



Photo illustration / MSNBC

This article may be read in its entirety at:
http://www.attorneykennugent.com/new/statefarm.html

Exerpts from "The Paper Chase"

July 25, 2001 — "Dateline NBC" had people talking from coast to coast last month — about car insurance. Maybe you thought your insurance would cover your medical bills if you were hurt in an accident — until our story about "paper reviews." State Farm Insurance company — and others — can use those reviews to deny medical claims — leaving you uncovered when you need help most. We heard from more than 1,000 people, most of whom praised our report….

IN THE NATION'S capitol, reaction to Dateline NBC's investigation of insurance practices was swift and strong. The chairman of the House Commerce Committee promised "full investigative powers" to examine the issue.

"But you can bet there will be hearings." Within a week of our broadcast, Sen. John McCain, who chairs the Senate Commerce Committee, fired off a letter to the nation's insurance commissioners, expressing concern over "possible collusion" among insurance companies and paper review companies….

If you're like a lot of people, you buy insurance trusting it will pay off when you need it. And most of the time, that's exactly what happens. But what happens when it doesn't? What happens behind the scenes when an insurance company decides to challenge your claim? We're going to tell you about part of the insurance business you've probably never heard of — a practice used by nearly every major insurance company in the nation, involving some people who may not have your best interests at heart….

Our questions into what happened to Lecreca Duffey launched a 15-month "Dateline" investigation…

Lecreca Duffey, a home daycare operator, had faithfully paid her premiums for 15 years. But before State Farm paid her bills, it did what a lot of insurance companies do. It said it wanted the advice of another doctor — a second opinion to decide which bills to pay.

So State Farm shipped Lecreca's paperwork from Alaska to a doctor in San Diego.
Lecreca Duffey: "I had no idea who this person was."
John Larson: "Didn't you go see him?"
Lecreca: "No."
Larson: "Didn't he examine you?"
Lecreca: "No."

But nine months after Lecreca's accident, State Farm got back a report, signed by a doctor, that surprisingly called her injuries "minor." The doctor concluded that her difficulties were most likely not caused by the accident, but by a pre-existing bone condition.

Bottom line — State Farm took the doctor's recommendation that only a small fraction of Lecreca's bills were "justified in relation to the accident," and paid only $780 of Lecreca's bills.

John Larson: "When you got that information, what was your reaction?"
Lecreca Duffey: "Stunned."

Lecreca may have been stunned, but medical reviews like the one she got are written all the time. State Farm says it uses them for claims that seem questionable — about one out of every 20 percent. That's at least 35,000 claims a year. And what better way for State Farm to get an honest, independent opinion than from a doctor who doesn't work for State Farm? It's called a "paper review," because the patients are never actually examined, only their medical files and accident reports. And doctors tell us you can learn a lot from paper work, even find fraud. But consider what happened in Lecreca's case.

It seemed to come down to one doctor's opinion versus another's. At least that's what it looked like, until we discovered who was really writing some of the doctor's reports sent to State Farm….

Edwin Newton: "We were not in the process or business of healing. We were in the process of limiting."

Remember Edwin Newton, the journalist who wrote so-called doctors' reports for CMR? He told us the reports were not at all what State Farm was saying they were, fair and objective, but in fact, were secretly biased, written to favor the insurance companies….

Cindy Robinson: "It was like thunk, thunk, thunk, thunk down the road."

John Larson: "You were getting bounced around pretty good."

Cindy: "Right".
Cindy was hurt, eventually, requiring surgery for a herniated disk in her back. Her insurance company was State Farm. Now what you're about to hear may sound familiar. Because just like in Lecreca Duffey's case, State Farm got a paper review that called Cindy's injuries "minor," blaming her medical problems on something else — "work related activities." And State Farm refused to pay most of her medical bills.

Larson: "In the common slang, they're basically saying to you, 'we don't believe you.'"

Cindy: "Right."

Larson: "We think you're lying to us."

Cindy: "Right."

But this time State Farm used a different paper review company. It sent Cindy's file from Boise, Idaho, to Bethesda, Maryland, to a company called Medical Claims Review Services or MCRS. So we tracked down the company's founder and former medical director, Dr. Ronald Gots. Right away, we learned that just like at CMR, doctors didn't write many of the reports it sent to State Farm and other insurance companies. In fact, they often didn't even sign them. Other people in the office did that for them.

Dr. Gots: "It was our report, but someone else did the calligraphy." But Dr. Gots assured us, just like the president of CMR had, that doctors always, always read and checked them all.

Gots: "A doctor looked at every one."

Larson: "You read all the reports?"

Gots: "That's right".

But listen to what happened next when we told him a former MCRS doctor had told us just the opposite.

Larson: "He said it was standard practice at MCRS for reports to go out without a doctor ever looking at them."

Gots: "It was not standard practice."

Larson: "You're actually saying it never happened."

Gots: "It was certainly not standard practice. It may, I can't say that it, excuse me, never happened. But it was certainly not standard practice." We kept asking and Dr. Gots eventually admitted that 10 to 15 percent of MCRS's reports, hundreds, were never looked at by doctors at all.

Gots: "I mean, there are, there is, there were some small percent of cases that probably went out."

Larson: "10-15 percent?"

Gots: "That would be my best guess. And it's a guess at this point, that went out under our medical director's signature, that had been reviewed by the nurse."

Larson: "If that's the case, why didn't the nurses just sign them?"

Gots: "Well, because these represent the view of the corporate medical director. Because the nurses…"

Larson: "Doctor, with all due respect, how do you know it represented your view if you never even looked at it?"

"Dateline" obtained copies of 79 MCRS reports done for State Farm. Although too small a number to draw any definitive conclusions, we were surprised to find every single medical review — 79 out of 79 — favored State Farm, recommended cutting back or denying care to accident victims. Dr. Gots told us that's because State Farm only sent him problematic cases. But we asked State Farm's Jack North.

John Larson: "What does that suggest to you when this independent medical review company sends back 79 cases and all 79 recommend cutting medical reimbursement? Doesn't that seem strange?"…

Jim Mathis: "It is a company-wide program, and it is decisively and deliberately orchestrated." Jim Mathis is a former State Farm superintendent who had one of the bigger jobs at State Farm in Washington state. He told us State Farm management not only knew there was pattern of negative opinions, but wanted it that way.

Mathis: "There's only one motivation for using a paper review. And that's to increase profits by reducing costs."

Take a look at this — a page from a State Farm manual — sent to hundreds of employees. It says if adjusters want to deny a claim, they should hire a paper review company "who will support your position."
As for Cindy Robinson, she began an uphill battle against the resources of the insurance giant. State Farm said they didn't think Cindy's injuries were caused by the accident. It had the MCRS reports, and the opinions of two neurologists who examined her and said her injuries were "not compatible with her accident."

All Cindy had were the opinions of her own doctors and the feeling that all this wasn't fair. So she sued State Farm for bad faith….

So Cindy pursued her lawsuit, two years ago, she finally had her day in court. The jury awarded Cindy nearly $10 million in damages. State Farm asked for a new trial, but the judge said "no" and issued this scathing opinion. He called the paper review company, MCRS, a "completely bogus operation," which prepared "cookie cutter reports."

MCRS went out of business in 1995, one year after Cindy filed her lawsuit. But Dr. Gots insists MCRS was unfairly portrayed at the trial and that its medical reports were good.

Dr. Gots: "In fact, we were above standards in the industry by far."

John Larson: "So you're saying other medical review companies probably looked at even less?"

Gots: "Oh, yeah. They don't even have doctors. They have all nurses or clerical people who do reviews."

…And since our broadcast, we've learned more about what State Farm knew about its paper reviews and how high that knowledge went. Remember, State Farm claims it never knew there was a pattern of negative reviews from paper review companies — in this case, MCRS.

Jack North: "Looking back, if we had been able to look broader at the time we may have seen that trend earlier. And it is not a trend I'm happy about or supportive of." But we found a letter from as far back as 11 years ago sent by MCRS to State Farm's own point person for paper reviews nationwide — William Wallace, who worked right at State Farm headquarters.The MCRS letter brags they were saving State Farm almost $2,000 per claim, making its case that it was profitable for State Farm to do business with MCRS. And why were those numbers being sent to State Farm? The letter says to follow up on a "conversation" MCRS had with Wallace.

What does Wallace, who's now retired, say about that? He told "Dateline" he got stacks of letters like that one, but that he didn't even read them. In fact he even wrote a letter to one paper rev company saying, "it is not State Farm's intent to save money, but to clarify claims." While Wallace said he never looked at the reports — he says he threw them right in the trash — he did write about them in a letter in 1993 to MCRS warning it "not to send reports of this type to any of the field offices" of State Farm because they have "caused difficulty (with) … litigation."