



FRAUD PREVENTION AND COMPLIANCE:
2011 ANNUAL REPORT TO THE LEGISLATURE

TARGETING FRAUD AND ABUSE

IN WASHINGTON STATE'S WORKERS' COMPENSATION SYSTEM

Every dollar
counts.



REPORT SUMMARY

In Fiscal Year 2011 (July 1, 2010 to June 30, 2011), the Department of Labor & Industries' (L&I) Fraud Prevention and Compliance Program continued to effectively use systematic and innovative approaches to detecting and deterring fraud and abuse by employers, workers, and health care providers.

KEY DEVELOPMENTS

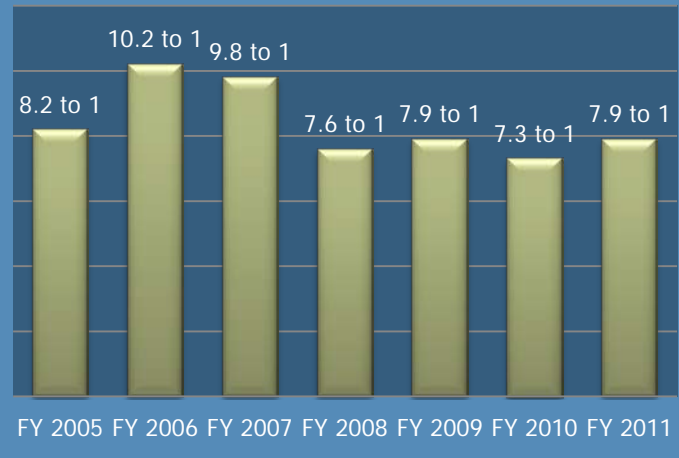
- L&I reorganized Construction Compliance inspectors into regional, compliance-focused teams, eliminating competing responsibilities and focusing efforts on employers who are out of compliance with Industrial Insurance rules and law.
- Established Stop-Work procedure, as authorized by the Legislature, prohibiting unregistered and uninsured contractors from further work until their workers' compensation obligations are met.

IMPORTANT RESULTS

L&I's fraud-fighting and collection activities produced substantial and measurable results:

- Assessed a record \$30 million in unpaid employer premiums plus penalties.
- Completed a record 5,558 investigations:
 - Checked validity for 847 claims.
 - Completed 4,711 activity checks and investigations to identify potential fraud or abuse.
- Identified \$5.7 million in provider overpayments and penalties.
- Collected a record \$135.2 million in employer premiums.
- Recouped \$1.9 million in premiums through the Contract Release Unit.
- Identified unpaid premiums for a record-setting 69 percent of the employers we targeted for audits.

Return-on-Investment



RETURN ON INVESTMENT

In FY 2011, L&I's Fraud Prevention and Compliance Division brought in nearly \$8 for every dollar invested.

Return on investment compares the division's operating costs to the money recovered, collected and avoided during the fiscal year. Operating costs include full-time equivalent (FTE) positions, benefits and capital outlays.

For FY 2011, 248 FTEs supported the division. This includes Fraud Prevention and Compliance staff – Detection and Tracking, Employer Audit, Investigations, Collections, Provider Fraud, Significant Cases, Firm Appeals and program administration – along with the Provider Review Unit and the Vocational Program Audit Unit in the Insurance Services Division.

FIGHTING FRAUD

ACCOUNTABILITY, FAIRNESS AND FINANCIAL INTEGRITY

Cheating the workers' compensation system is not a victimless crime. We all pay more.

Rooting out abuse of the workers' compensation system protects the *economic* health of Washington State; that means protecting investments and jobs.

- Fraud shifts costs from cheaters to honest taxpayers.
- Cheaters gain a competitive advantage over honest players.
- Benefits are guaranteed by the state, regardless of a dishonest employer's failure to pay into the system.
- Individual workers are responsible for about one quarter of the total cost of their insurance, which means dishonest workers cheat their co-workers too.
- Corrupt health care providers drive up costs, which are then passed on to rate-paying employers and workers.

Preventing abuse and protecting jobs is a compelling responsibility, but our goal is even more basic. Fighting fraud is about fairness and accountability.

- Fairness – because honest people have to shoulder the burden when cheaters get away with it.
- Accountability – because it is the people's money – yours and mine – that cheaters use to commit the crime.

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PREVENTION

EDUCATION AND OUTREACH

Our outreach strategy focuses on: mass media, no-fault instructive audits, trade events, and social media. Each element targets a different audience, respectively: homeowners and the general public, new businesses, trade-specific events and stakeholder groups.

We want employers to know *how* to follow the rules, the public to know *who* they should look out for, stakeholders to know *what* we are doing to protect them, and violators to know we *will* find them. We want to reach and educate consumers and businesses before there is a problem while making bad actors aware that it is only a matter of time before they are caught.

MEDIA CAMPAIGN

Acting on a recommendation of the Underground Economy Task Force, L&I created an advertising campaign targeting homeowner involvement in the underground economy (contractors working without required contractor registration, industrial insurance, performance bond, or tax remittance). L&I sought to raise awareness among homeowners' of their role in the underground economy and the associated dangers of hiring unregistered contractors.

The first year of the project involved research and planning. Focus groups indicated homeowners (our target market) wanted information in a non-threatening, checklist style. We crafted our creative materials to fit these recommendations.

RADIO PROMOTION

In April 2011, the start of home remodeling season, the ad campaign kicked off with statewide radio spots, printed materials distributed statewide by business and labor organizations, a Google "ad words" campaign, and a public relations effort to get unlicensed contractor horror stories in the press.

For eight weeks the 60-second radio spot ran on stations in Seattle, Spokane, Wenatchee, the Tri-Cities, and Yakima, targeting adults aged 35-64. Our paid radio spot was combined with more than 100 no-charge radio spots aired around the state.

INTERNET SEARCH

In conjunction with the radio campaign, our Google pay-per-click campaign utilized search words, reaching consumers at the key moment during their search for a contractor. The keyword ad was exposed 1.2 million times and generated 3,006 clicks.

CALL TO ACTION:

The campaign call-to-action was to go to hiringcontractor.Lni.wa.gov for a checklist of recommendations before beginning a home improvement project. During the campaign, views of this web page more than doubled, demonstrating the campaign's success with 9,294 page views.

FREE MEDIA TIE-INS

At the same time, a public relations effort resulted in consumer-targeted stories on social and traditional media. The Fraud Prevention Program's blog, *Nailed*, featured stories from consumers who failed to ensure that their contractor was registered. These stories were also publicized on L&I's Twitter feed (more about both *Nailed* and Twitter below).

During the campaign, 11 media outlets featured contractor-related consumer stories:

- June 13, Business Examiner, Op-ed piece by Carl Hammersburg, [Coming soon, more L&I compliance inspectors](#)
- June 10, The Columbian, [Unregistered contractor pleads guilty](#)
- May 23, Jesse Jones, KING 5 news, [Bad contractors buy surplus of supplies to return for gift cards](#)
- May 25, Amy Clancy, KIROTV news, [Unlicensed Sauna Seller Aggravates Customers](#)
- May 20, Tri-City Herald, [SCAM: State issues warning for driveway paving in Tri-Cities](#)
- May 16, Jesse Jones, KING5 news, [Embattled Covington contractor in trouble with feds](#)
- May 11, Amy Clancy, KIROTV news, [Unlicensed Contractor Draws Attention Of L&I](#)
- May 4, Jesse Jones, KING5 news, [Contractor out on bail moves business to Montana](#)
- May 10, Nailed blog, [Barn of broken dreams](#)
- April 16, Nailed blog, [Paving scam leaves homeowner all broken up](#)
- April 13, Jesse Jones, KING5 news, [Contractor accused of ripping up driveway without permission](#)

UNDERGROUND ECONOMY

While the Joint Legislative Task Force on the Underground Economy ended in 2009, the Employment Security Department (ESD), the Department of Revenue (DOR), and L&I continue their collaboration to reduce the impacts of the underground economy. The agencies focus on data sharing and other areas where we can partner to combat tax misreporting or fraud.

- DOR, ESD and L&I exchanged 30,617 tips and leads through electronic data matches.
- ESD found 16,530 unreported or misclassified workers through audits.
- L&I suspended 433 contractor registrations for failure to pay workers' compensation premiums.
- DOR, ESD, and L&I collaborated on two marketing campaigns to discourage consumers from using non-compliant businesses. Radio ads ran in November 2010 and March 2011.
- DOR, ESD and L&I uncovered a combined 1,969 unregistered businesses that were assessed nearly \$78 million in unpaid taxes, premiums, penalties and interest, more than double the assessed total from FY 2010.

A PROACTIVE APPROACH FOR EMPLOYERS

ZEROING IN ON HIGH-RISK INDUSTRIES

Workers' compensation is a form of insurance. Like most forms of insurance, participants pay premiums to fund the system, thereby sharing risk. The premium rate employers pay to L&I is based on the type of work their employees perform (risk class) and the cost of job-related injuries their employees report and the number of hours reported (experience factor).

Employers whose workers engage in hazardous work activities, such as logging or construction, pay a higher premium rate compared to employers who engage workers in less hazardous work activities, such as real estate and retail sales.

Our Audit Program teams up with other units across L&I to identify industries with widespread compliance issues (e.g., worker misclassification) or rapidly increasing rates. Together we identify such an industry, then L&I reaches out to employer groups in that sector with an educational campaign (often through industry associations) and directly to businesses already registered with L&I.

We first provide reporting education to the industry, focused on broad and voluntary compliance, alerting employers of the enforcement audits to follow. Employers in the selected industry have the opportunity to amend their reporting for the previous four quarters, earning a one-time waiver of late penalties. On completion of the educational effort, we audit those firms still identified as suspect.

Prior to the industry-focus audits, we develop industry-specific guidelines to educate our auditors about issues commonly found in the industry as a whole. The industry guidelines provide auditors with detailed insight in to the inclusions, exclusions, and special rules that apply to the industry, as well as associated *risk classifications*, the broad work activity categories assigned to businesses for their industrial insurance premium rates. In addition to the industry guidelines, the program also develops an audit plan to assist our auditors in addressing issues identified in our industry research.

One benefit of the industry focus is the awareness generated by our outreach and education prior to, during, and following the audit focus. Most importantly, industries with a high incidence of misreporting are identified, educated, and brought into compliance, in effect, leveling the playing field.

A HELPING HAND FOR NEW EMPLOYERS

New Employer Reviews are risk-free instructional audits offered to newer businesses – those filing for their first two quarters of operation – aimed at teaching the reporting and record-keeping rules specific to their industry. The reviews are educational in nature and do not result in any cost to the firm.

The Audit Program offers these reviews based on their continued demonstration of the benefits shown in the FY 2009 pilot project.

In FY 2009, we began the program, offering reviews to new employers in the following industries:

- Construction
- Trucking
- Janitorial
- Landscaping

This year we reached out to several additional industries:

- Property Management
- Automobile Services
- Restaurants
- Delivery Services
- Real Estate
- Retail and Outside Sales
- Nurseries
- Towing

The benefits provided to the employer by this program are:

- Establish the employer's point of contact with L&I.
- Educate the employer on industry reporting requirements.
- Answer questions many firms have when starting-up.
- Avoid long-term misreporting and future assessments.

EMPLOYER SERVICES

Administratively separate from the Fraud Prevention Program, the Outreach Unit of L&I's Employer Services Program connects with employers through both individual outreach and broad educational campaigns on workers' compensation requirements, premium responsibilities, including independent contractor issues.

Outreach efforts are done outside the formal audit process, seeking voluntary compliance. The initial opportunity to educate potential employers occurs with the State's standard Master Business Application (MBA). This focuses on working with employers to get it right the first time, and ensure reporting in the correct risk class when the account is initially opened. Later, employers that contract for public works projects are targeted by successive outreach efforts.

MASTER BUSINESS APPLICATION - INDEPENDENT CONTRACTOR USE

In September 2010, the state added a new question to the standard master business-license application (MBA), asking applicants if they plan to hire independent contractors. In the past year, 15,853 business owners selected this option. L&I reached out to these businesses with additional education on the proper classification of the independent contractors.

There are certain industries that have seasonal hiring peaks – photographers and retail have higher numbers in December, while agriculture hiring picks up in spring months. Looking at these trends, we contact industries when the information is most timely for them.

Top Industries indicating use of independent contractors	Average Monthly indication per industry
Construction	361
Consulting	120
Computer Consulting	106
Retail	86
Real Estate	35
Instructors	21
Medical Offices	48
Restaurants	36
Janitorial	30
Property Management	50
Transportation/Delivery	46

Action	What It Means	Premium Results
Outreach & Education		
New Accounts Diverted from Collection	Provide reporting instruction to new employers that failed to file a quarterly report for their first quarter of operation.	Reported: \$ 852,025
Targeted Industries		
Restaurants	Educated 2,484 businesses on reporting requirements. 89 businesses (4%) opened an account after contact was made.	Reported: \$250,702
Nail Salons	This industry employs <i>booth renters</i> , a class exempt from industrial insurance coverage. L&I provided education to 751 businesses on the proper class usage for booth renters. After contact was made, 184 businesses (25%) changed reporting.	Reported: \$175,058
Independent Contractors		
Checkbox added to MBA (see sidebar)	Businesses that indicated they were <i>not</i> hiring workers on their business license application were given educational materials on independent contractors. Since making contact, 290 new accounts have been established.	Reported: \$1,860,173
Total Premiums Reported		\$3,137,958
Estimated Premium Assessments Removed		(\$3,918,248)
<i>Estimated Premium Assessments apply to employers that fail to report and are removed once the employer has begun reporting properly.</i>		

IMPROVED REPORTING INSTRUCTIONS

New employers now get clearer reporting instructions. L&I integrated several mailings previously delivered separately to make it easier to understand exactly what to do. Through a combination of clearer instructions and encouraging businesses to file online, L&I realized savings of over \$360,000.

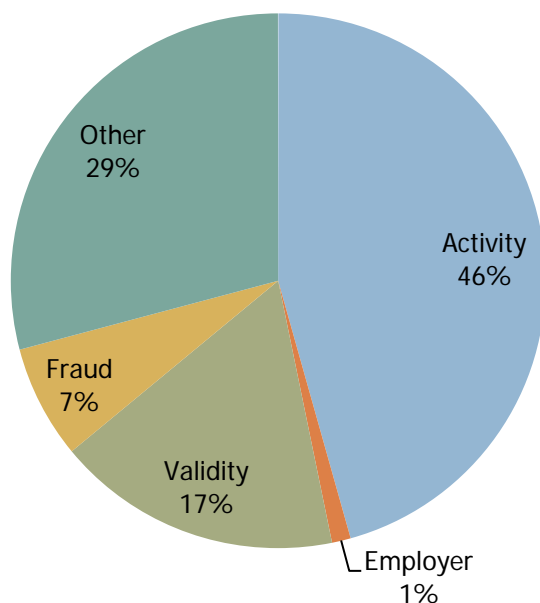
ENFORCEMENT

Several units within L&I work to expose fraud and abuse. The Investigations Program identifies workers, pensioners, and employers who fraudulently obtain coverage and benefits. The program also investigates allegations of employer discrimination against an injured worker.

The Investigations Unit targets the following illegal activities:

- *Worker fraud* occurs when an employee receives benefits by fraudulent means. Worker fraud usually receives more public attention because the convictions L&I obtains attract more media attention. This is the primary focus of the Investigations Unit.
- *Employer fraud* involves employers who knowingly misclassify employees in lower-cost rate classes, under-report worker hours, or fail to pay required premiums. This is the focus of the Field Audit Unit.
- *Provider fraud* results when health-care, vocational and supporting specialists inappropriately charge at inflated rates, or bill for services not provided.
- *Industrial insurance discrimination and claim suppression* occur when an employer either interferes with an injured worker's right to file a claim or retaliates against an injured worker for filing an injury claim. Both activities are targeted by dedicated units within L&I.

Completed Investigation Types



CASE IN POINT

The manager of a Seattle Jack in the Box plotted with a couple of her friends to rob the store while she was on duty. Court documents tell how she propped open a service door so her accomplices could enter the restaurant and demand money. The two “robbers” escaped with \$7,000 from the vault.

To make the scam appear more believable, she went as far as to be punched in the face, telling police the workplace injury happened in the course of the robbery.

She filed an L&I claim, and received time-loss benefits while police continued the robbery investigation. But the police investigation revealed the manager's role in the robbery and she eventually admitted her plot.

Since the manager was actually “engaged in the commission of a felony,” rather than engaging in work activity at the time of her injury, her L&I claim was rejected. The department's investigation resulted in the manager having to repay the department \$6,600.

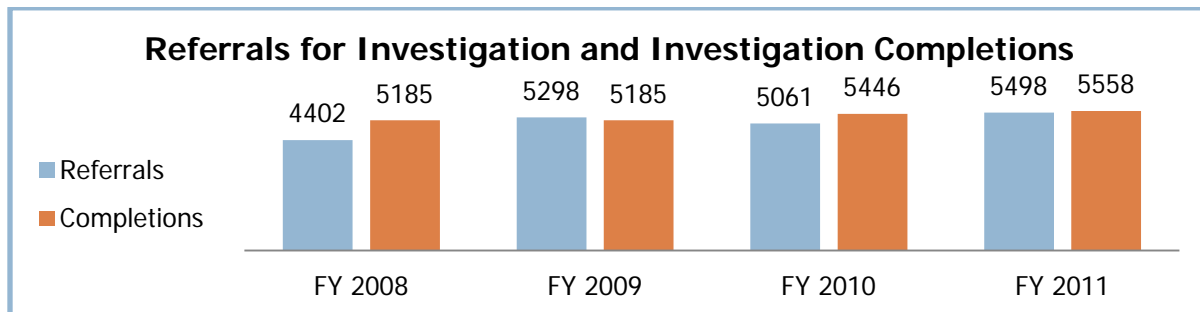
The specific benefits from media exposure of such activities are impossible to measure. However, the public awareness of the potential for discovery and its likely consequences, called the *sentinel effect*, deters others from contemplating fraudulent activity. It also encourages others to report cases where abuse is suspected.

INVESTIGATIONS

Validity, activity and fraud investigations all contribute to fraud prevention:

- Validity checks help obtain or examine the facts establishing the original claim for benefits – Was there a work-related accident resulting in an injury?
- Activity checks try to establish if an injured worker’s current activities match their reported condition – Is the injured worker still unable to work?
- Fraud investigations look for evidence of deliberate misrepresentation by parties to the claim and can result in an Administrative Fraud Order (AFO), requiring repayment of benefits obtained through deliberate misrepresentation or other fraudulent means.
- Other types of investigations typically involve requests from Claim Managers to obtain information needed for ongoing management of the claim.

In FY 2011, the Investigations Program received 5,498 assignments and conducted 5,558 worker, employer and fraud investigations.



WORKER FRAUD

Our continued success at bringing in more and better referrals from both public and governmental sources puts growing demands on investigations staff to complete increasingly complex cases in a timely fashion. Despite these pressures, the Investigations Program has met the challenge without any increase in staffing since 2008. During this same period, the number of investigation referrals increased by 20 percent.

The program is aggressively pursuing additional efficiencies, in particular, through use of Lean process-improvement methods, to allow the management of a growing number of cases.

BENEFIT RECOVERY

During FY 2011, the Investigations Program issued 305 Administrative Fraud Orders (AFO) to claimants with assessments of \$2.8 million. Higher rates of fraud discovery are driven, in large part, by focusing on “multiple-filers” of workers’ compensation claims (i.e., drug-seekers). Cooperation between our investigators and hospitals and clinics has led to the identification of an increasing number of cases.

Fiscal Year	AFO Issued	Assessment	Cost Avoidance	Time-Loss Days Saved
2010	184	\$3.8 million	\$3.7 million	14,247
2011	305	\$ 2.8 million	\$ 5.7 million	15,624

The cost savings includes medical, pension, permanent partial disability, time-loss, and vocational payments or benefits.

Part of the reason for our diminished fraud assessments, as compared to previous years, is the honing of our ability to catch fraudulent activity earlier. Additional data sources and better database cross-matches have shortened response time, reducing the amount of unwarranted benefit payments.

PROVIDER FRAUD

The Provider Fraud Unit, in addition to investigating criminal fraud, educates service providers on proper billing codes, provides policy and procedural recommendations to other units at L&I to improve controls, and provides audit and investigatory resources for civil cases. Complex and labor-intensive cases make up about half of the unit’s caseload, deferring some cases until the current investigations can be properly completed.

In FY 2011, the program identified over \$5.7 million in overpayments and penalties, with another \$1.25 million slated for recovery in criminal cases.

The Provider Fraud Unit has recently seen an increased caseload. The surge in referrals can be attributed to a new provider-fraud specialist in the Detection and Tracking Unit.

PROVIDER FRAUD RESULTS

Order & Notices Issued	Identified Loss	Penalties	Cost Avoidance
20	\$3 million	\$4.6 million	\$1.3 million

EMPLOYER FRAUD

CASE IN POINT

In July 2010, a worker fell through a skylight then down a flight of stairs while doing a roof demolition for Big Lead Enterprises, LLC. The worker filed an L&I claim; treatment included two surgeries to repair a broken wrist.

L&I routinely reviews the employer account whenever a worker reports an on-the-job injury. Our review immediately revealed that Big Lead Enterprises failed to register with L&I for at least three years prior to the incident.

That alone resulted in an unregistered employer penalty of \$66,479. But Big Lead Enterprises wasn't cooperative with the audit, refusing to turn over business records.

Using witness testimony, the auditor determined the firm employed six workers. In the absence of business records, the law directs L&I to estimate 520 hours worked per worker, per quarter.

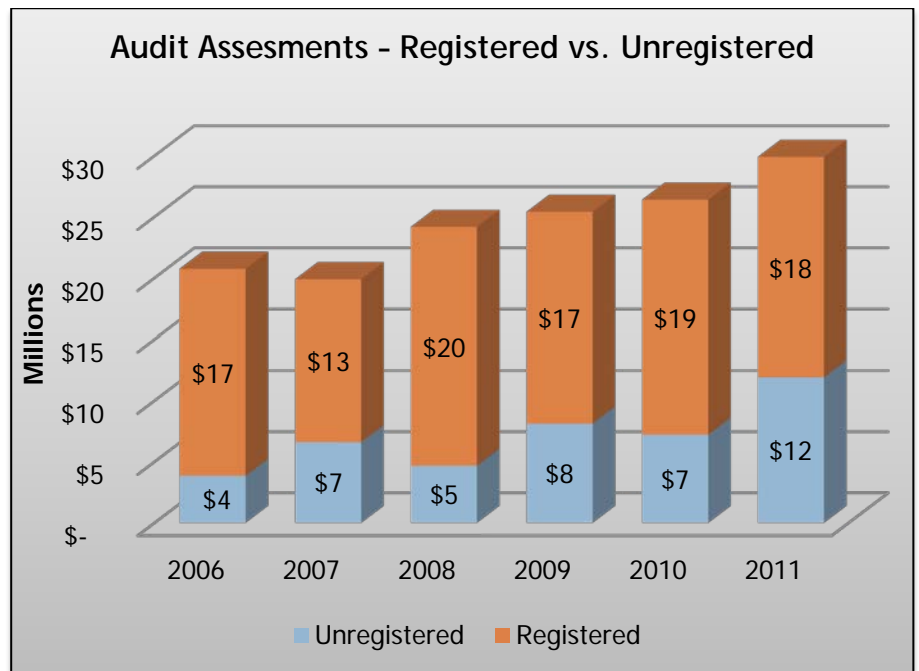
Using this formula, the six workers totaled 3,120 unreported hours per quarter, multiplied by the 11 quarters this firm went unregistered. Ultimately, we assessed a total of 34,320 hours, resulting in an unpaid-premium assessment of \$175,402!

Adding in the insufficient-record penalty for another \$1,500, we are collecting premiums and penalties from Big Lead Enterprises totaling \$243,381.

AUDIT

Auditors check business records and conduct fact-finding interviews to make sure employers are reporting correctly in order to pay the appropriate premiums. The examination involves, but is not limited to, verifying that employers report all covered workers, and that all hours worked are reported in the correct risk class. This review also helps the auditor determine if fraudulent behavior is taking place.

After the review of employers' business records, the auditor also provides the business with enhanced record-keeping and reporting instructions. The auditor supplies the business owners with educational materials and discusses the material with them, answering any questions they might have.



Audits: Registered Businesses	Assessments	Audits: Unregistered Businesses*	Assessments	Total Audits	Total Assessments
4,380	\$17.9 million	719	\$11.9 million	5,099	\$29.9 million

POST-AUDIT EDUCATION

In addition to providing educational material to an employer during an audit, we also developed a self-service web page for the public. This web page contains publications on record-keeping requirements, reporting instructions, exemptions and exceptions to coverage, and optional coverage. Our post-audit letter, which contains specific instructions for the business, also informs them of the information available at any time at www.Lni.wa.gov/Main/Fraud/AuditDocs.asp.

FIGHTING EMPLOYER FRAUD

Employers who disregard their duty to properly report workers and pay premiums face severe civil and criminal repercussions. These include civil misrepresentation penalties (up to 10 times the amount of premiums owed); attaching previous-firm debt to the current firm (successorship); holding the owners personally responsible for corporate debt; and criminal misdemeanor and felony charges for:

- Engaging in business without Certificate of Coverage (RCW 51.48.103)
- Employer's False reporting or Failure to secure payment of Compensation (RCW 51.48.020)
- Employer Engaging in Business after the Employer's Certificate of Coverage has been Revoked (RCW 51.48.103)
- Employer working as an Unregistered Contractor and Theft (from employees or the state – RCW 9A.56.030)

APPEALS PROCESS

Firm Appeals manages protests and appeals work of the Fraud Prevention and Compliance Division. Employers who disagree with premium assessments may request that L&I reconsider the assessment, as well as the underlying issues leading to the assessment.

The Firm Appeals Program reviews the actions taken, ensuring that L&I fairly and correctly applied the law. Employers may also appeal to the Board of Industrial Insurance Appeals (the Board), an independent administrative-law agency.

SIGNIFICANT EMPLOYER CASES

This program handles the most persistent of offenders among employers. In FY 2011:

- Two employers were prosecuted, resulting in nine Class-C felonies for false reporting and ordered to pay restitution in the amount of \$1.1 million.
- Another employer completed full payment of \$356,082 court-ordered restitution for unpaid wages and premiums.
- Four firms were referred to the Attorney General's Office for criminal prosecution and seven are under criminal investigation. A total of 14 firms were referred for civil and/or criminal high-level actions.
- Twenty-one investigations were conducted involving employers.
- We collected \$632,602 from employers assigned to the Significant Employer Case Program.

CONTRACT RELEASE

Prior to 2009, Washington State law required the final five percent of payments on large public works be withheld pending verification that certain taxes had been paid. In 2009 the legislature amended the law, adding L&I debt to the list of tax payments subject to this test. As a result, we began reviewing all public works construction jobs over \$35,000 to ensure workers' compensation premiums were paid. This year, we completed a review on 3,174 contracts for projects with a total contract value of \$3.6 billion.

We identified \$4.2 million in debt for our Collections Program to recover, of which \$0.6 million was directly related to misreporting on a reviewed contract (the contract release law allows L&I to pursue certain other debts owed, beyond the specific contract being reviewed). A total of \$1.9 million was recovered during the year based on L&I review of these of contracts.

We try to work collaboratively with contractors when there appears to be a reporting discrepancy by asking them to voluntarily amend their reporting, but in a small number of cases a full audit is required. This year, we audited 135 firms (4.2 percent of all reviews) to determine if proper workers' compensation premiums were paid on public works projects.

Requests Received	Requests Completed	Contract Debt Sent to Collection	Total Debt Sent to Collection	Total Collected
3,361	3,174	\$0.6 million	\$4.3 million	\$1.9 million

On average, it took 78 days to complete a review, although the average inventory age is 46 days. The difference between the average age of completions and the average inventory age indicates that many requests are processed quickly. Delays often result from a contractor's failure to file necessary affidavits to certify proper wages were paid on the job. One subcontractor's failure to file their affidavit can delay release of the retainage funds for everyone else on a large project.

CONTRACTOR COMPLIANCE

FAIR TEAM

L&I created the Fraud/Audit/Infraction/Revenue (FAIR) Team in March 2006, tasked with identifying fraudulent employers and stopping illegal contractors. During FY 2009, this field-based compliance team expanded to six inspectors, operating throughout the state and working closely with various L&I programs, state agencies, and many other constituent groups.

FAIR Team Results	FY 2009	FY 2010	FY 2011
Infractions issued to unregistered contractors	200	246	241
Contractors referred to the Collections Program	195	300	310
Contractors referred to the Audit Program	436	696	546

The FAIR Team conducted job-site inspections, including on nights and weekends, to put pressure on the underground economy by identifying unregistered contractors, unlicensed electricians, and employers who were under-reporting workers' compensation premiums or owed significant debt to L&I.

At the start FY 2011, L&I's Specialty Compliance Division reorganized its construction-compliance inspectors (including the members of the FAIR Team) into three dedicated compliance teams in Northwest, Southwest, and Eastern Washington. These teams are based on the FAIR Team model. The inspectors are solely focused on combating the underground economy and getting to active construction sites. The 22 construction compliance inspectors and three supervisors enforce the contractor registration, plumber certification, and electrical certification rules. They make referrals for investigation of potential violations of workers' compensation, prevailing wage, and apprenticeship requirements.

L&I also established a Construction Compliance Detection and Tracking Unit (CC DTU) to perform data mining to support compliance efforts in the field. The CC DTU will also process referrals, conduct centralized advertising compliance (e.g., checking on Craigslist ads), and review consumer complaints for potential enforcement actions.

ELECTRICAL COMPLIANCE

The Electrical Compliance Program identifies non-compliant electrical contractors and electricians, as well as entities that do not obtain electrical permits and inspections. Compliance activity is focused on three specific areas:

- No electrical contractor license
- No electrician certificate
- No electrical permit

One hundred electrical inspectors perform on-site checks and five staff make up the Electrical-Compliance, Outreach, Regulation, and Education (E-CORE) team. The E-CORE team focuses on tips – for example, legitimate contractors who report unlicensed electrical contractors, uncertified electricians, and those who fail to get electrical permits.

In FY 2011:

- The inspection staff issued 79 percent – 3,756 – of their total citations and warnings for the three targeted activities and associated non-compliance.
- The E-CORE staff issued 90 percent – 2,357 – of their total citations and warnings for the three targeted activities and associated non-compliance.

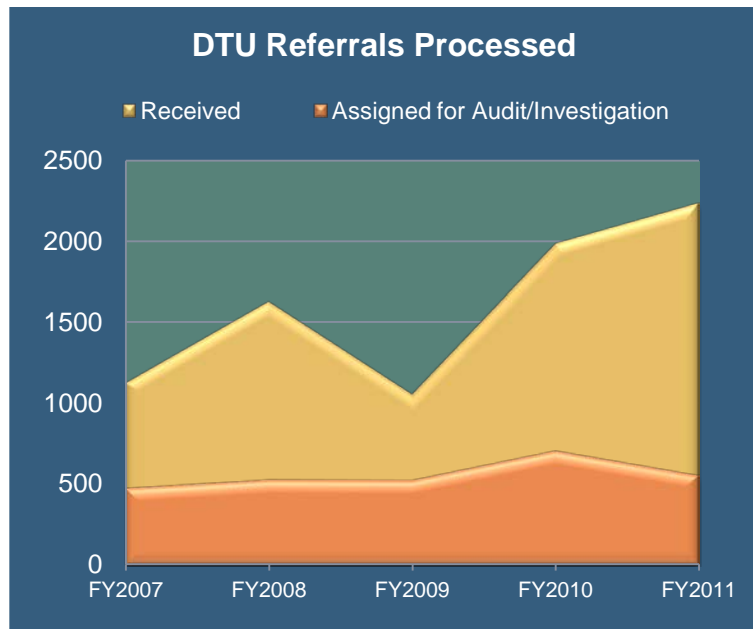
Also in FY 2011, the E-CORE team made 102 referrals for non-compliance with workers' compensation requirements which resulted in total audit assessments of \$1.77 million.

COLLABORATION

FRAUD AND ABUSE DETECTION

We use a variety of tools to identify non-compliance and potentially fraudulent activities. Three of the biggest resources are fraud discovery software, exchanging data with other agencies, and tips from the public and other programs.

This year alone, we received 2,232 tips from the public, resulting in \$1.9 million in assessments. Since 2008, public tips and leads have resulted in assessments of almost \$6.8 million.

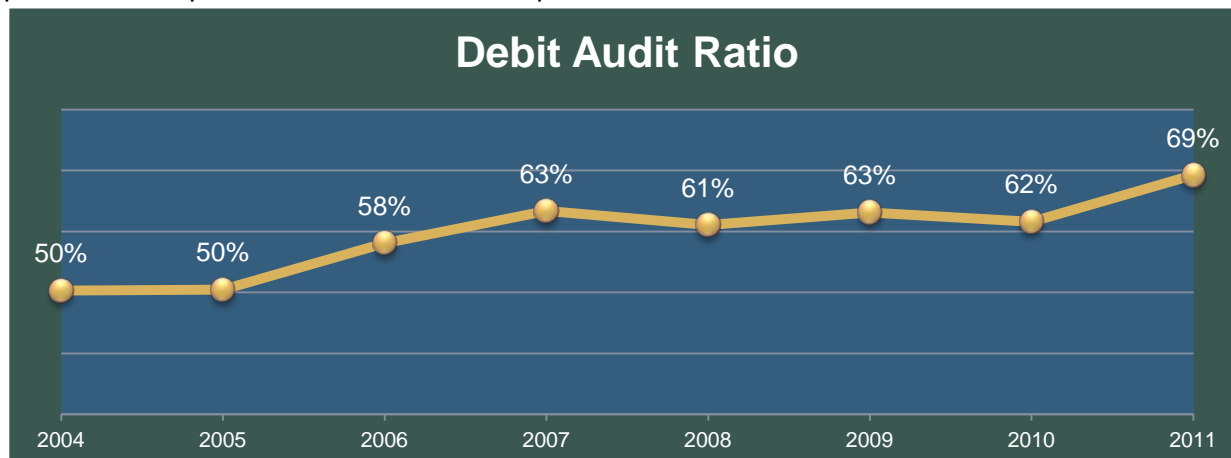


TARGETING EMPLOYER FRAUD AND MISREPORTING

New employer fraud detection system – We are developing a state-of-the-art employer premium abuse detection system aimed at unregistered businesses and the underground economy. The system incorporates IRS data and advanced analytics to identify employers who are not paying into the system or who appear to be reporting significantly fewer worker hours compared to similar businesses.

The new system builds upon our existing data exchanges with other programs and agencies to make the cross matches more effective and easier to use. In addition, it makes information from multiple agencies including L&I, Department of Revenue and Employment Security visible in one location for audit selection staff. Initial deployment was complete in June 2011.

Improved audit selection – In FY2011, 69 percent of employers referred for audit owed premiums. In FY 2004, when the Fraud Prevention and Compliance Division began, less than 50 percent owed premiums. This is also a 7 percent increase over FY 2010.



CROSS-AGENCY COLLABORATION AND DATA SHARING EFFORTS

The Department of Revenue, Employment Security and L&I exchanged 30,617 tips and leads through electronic data matches during the year. To make these tips and leads more effective, the agencies worked together to improve our training and education of staff so they would better understand the information available and what to look for that would be helpful when making a referral to another agency. We jointly developed an online video for investigator training published in March 2011.

TARGETING CLAIMANT FRAUD AND ABUSE

Claim reviews based on data matching and referrals – Claimant fraud detection staff reviewed 10,076 claims based on information from data runs and tips from our dedicated fraud reporting line and internet referral form. These reviews resulted in 421 claimant investigations including 17 cases of potential criminal fraud.

TARGETING PROVIDER FRAUD AND IMPROPER BILLING

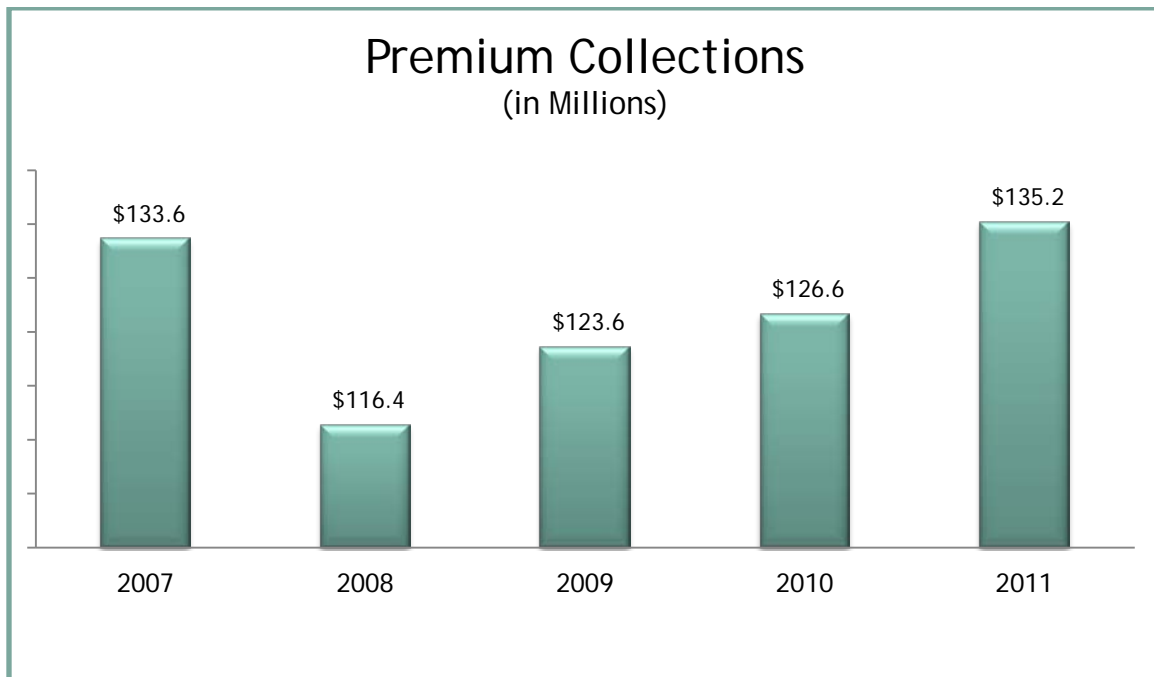
Provider fraud detection pilot – Starting in October 2010, we tested software designed to find medical billing anomalies and potential provider billing fraud and abuse. During nine months through June 2011, we identified over \$900,000 in estimated overpayments to be recouped.

The software looks for anomalies, such as billing for more hours than are in a day, as well as billing outliers within specific provider types, such as a physical therapist who bills for far more services than others. In addition to identifying issues at L&I during the pilot, we made referrals to the Department of Health, the Office of the Insurance Commissioner, and self-insured employers. Based on the success of pilot, the Legislature included funding in EHB 2123 dedicated to making these changes permanent effective July 1, 2011.

COLLECTIONS

DOLLARS COLLECTED IN FISCAL YEAR 2011

Revenue agents continue to work with employers who are trying to pay their debts but are struggling in a difficult economy. We had 6,940 employers in payment agreements for delinquent premiums as of June 30, 2011. This was an increase of almost 700 employers over June 30, 2010. During the 12-month period ending June 30, 2011, 16,265 employers came into collections that had never been delinquent or had not been delinquent in the past four years.



EMPLOYER ASSISTANCE PROGRAM

In light of the length and depth of the economic recession and its impact on small business, we have extended our Employer Assistance Program indefinitely. This program offers multiple benefits for qualified small businesses, including extended payment plans for firms that need longer periods to pay in full. Employers with no penalties for the last four years may qualify for a “90 days same as cash” payment plan with no late penalties or interest.

Revenue agents referred 433 contractors to the Contractor Registration program for possible suspension during this fiscal year due to nonpayment of premiums.

COLLECTIONS OUTCOMES

Action	What It Means	Collected
Employers		
Premiums collected	Revenue Agents take action to collect unpaid premiums from employers.	\$135.2 million
Other debts collected (infractions, citations, etc.)	Revenue Agents take action to collect unpaid contractor infractions, safety & health citations, Right to Know billings and Retrospective Rating Program billings.	\$6.5 million
Health-care and Vocational Providers		
Overpayments collected (fraud and other overpayments)	Revenue Agents take action to recover monies paid through inappropriate billings that were identified by provider reviews.	\$826,407
Injured Workers		
Overpayments collected (benefit overpayments, including fraud)	Revenue Agents take collection action to recover monies from injured workers who were overpaid and no longer entitled to benefits.	\$5.4 million
Employees		
Unpaid or underpaid wages	Under the 2006 Wage Payment Act, L&I recovered employees' unpaid wages for distribution to the workers. The amount shown reflects only dollars recovered by the Collections Program.	\$303,285
Total		\$148,201,529

COMPLETED INITIATIVES

In the *2010 Annual Fraud Report to the Legislature*, we identified several specific objectives for Fiscal Year 2011.

Objective	Status	
Implement the Investigator Training Academy in partnership with Pierce College.	Complete	<input checked="" type="checkbox"/>
Upgrade the predictive dialer telephone system with advanced call handling.	Complete	<input checked="" type="checkbox"/>
Collaborate with Employment Security and the Department of Revenue to develop a unified form for retainage release on public works jobs.	Complete	<input checked="" type="checkbox"/>
Issue Stop-Work Orders to contractors that are non-compliant with industrial insurance coverage. Map out and train staff to implement new processes supporting this function.	Complete	<input checked="" type="checkbox"/>
Enhance the provider fraud detection program using fraud detection software.	Complete	<input checked="" type="checkbox"/>
Work with Employment Security and the Department of Revenue to develop a marketing campaign to discourage consumers from using non-compliant businesses including unregistered contractors.	Launched	<input checked="" type="checkbox"/>
Work in collaboration with the AGO to strengthen our ability to pursue employers that close one business and open another to avoid tax debt.	Ongoing	<input checked="" type="checkbox"/>
Begin accepting debit and credit card payments for workers' compensation debts.	Ongoing	<input checked="" type="checkbox"/>
Collaborate with Construction Compliance staff to improve processes and tools that leverage information from field inspectors for finding employers in the underground economy who are not providing workers' compensation coverage for their workers.	Ongoing	<input checked="" type="checkbox"/>
Develop a comprehensive computer system for detecting employer misreporting and fraud, including the use of Internal Revenue Service data to identify unregistered employers.	Ongoing	<input checked="" type="checkbox"/>

UPCOMING INITIATIVES

The Department of Labor & Industries will continue to aggressively pursue fraud and abuse in the workers' compensation system.

Looking ahead to FY 2012, the agency will employ the following strategies:

- Complete development of advanced fraud-analysis software for detecting employer misclassification and fraud including the use of Internal Revenue Service data to identify unregistered and misreporting employers.
- Continue to collaborate with Construction Compliance staff to improve processes and tools that leverage information from field inspectors for finding employers in the underground economy.
- Begin accepting debit and credit card payments for workers' compensation debts.
- Work with the Employment Security Department and the Department of Revenue on a marketing campaign to discourage consumers from using non-compliant businesses including unregistered contractors.
- Develop an integrated case-management system for detecting contractor fraud, generating leads for compliance inspectors in the field.
- Continue to improve on data-driven audit selections, identifying which employers need a full-audit or other action or communications.
- Participate in the nationwide ISO ClaimSearch database to identify claimants who may be claiming benefits from other systems as mandated by Engrossed House Bill 2123 passed by the 2011 Legislature (Also see improve claim investigations outcomes below).
- Develop a standard audit procedure, using Lean principles, with a resulting improvement in the percentage of audits completed in under 90 days.
- Establish provider fraud and abuse detection program, partnering with Health Services Analysis and the Provider Fraud Unit on software tools to improve referrals.

SOCIAL MEDIA - NAILED

The Fraud Prevention Division engaged new audiences and sought new avenues of communication through blogging and Twitter feeds. These interactive communication channels let the division share more effectively with a self-selecting audience of stakeholders and media outlets.

Washington State Department of Labor & Industries

Safety Claims & Insurance Workplace Rights Trades & Licensing

NAILED

A FRAUD PREVENTION AND COMPLIANCE BLOG

Written by Carl Hammersburg, Fraud Prevention and Compliance manager at L&I.

BLOG PODCASTS REPORT FRAUD

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Feb. 25, 2011 Podcast

An AxMan facing criminal charges, new legislation to fight the underground economy, and why Carl is now known as the "Chuck Norris of Fraud," all in this *snowmadgeden* edition of the podcast.

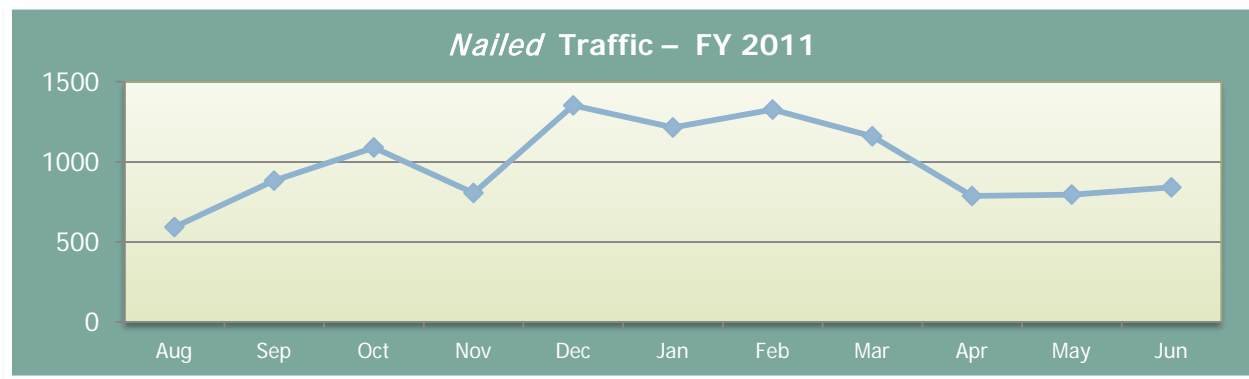
Download the audio podcast.

RECENT COMMENTS

Wow. It is amazing what people think they will get away with. The internet is making it easier to catch these things. Facebook can provide more than just friends to a fraud investigator. Good job L&I!
- laceylively

TWITTER TALK

L&I announces no increase for workers' compensation rates in 2012:
<http://t.co/ITo0H6HD>
by L&I about 4 hours ago



HOW TO REPORT FRAUD

Help stop workers' comp fraud by reporting situations that may be fraudulent and by letting others know how to report. .

- Fraud reporting hotline: 1-888-811-5974
- Fraud reporting Web site: Fraud.Lni.wa.gov

Employers can help detect workers' comp and unemployment insurance fraud by reporting newly hired workers at www.dshs.wa.gov/newhire/.

The screenshot shows the Washington State Department of Labor & Industries website. The header includes the department logo, navigation links (Home, Inicio en Español, Contact), a search bar, and a menu with categories: Safety, Claims & Insurance, Workplace Rights, and Trades & Licensing. The main content area is titled 'Fraud Prevention and Compliance' and features a navigation bar with links: About, Employer Verification, Resources, Training, News, Updates & Reports, and Contact Us. The 'About' link is active. The main content is divided into several sections: 'What L&I is doing to combat fraud', 'Report Fraud Here' (with sub-sections for Employer Fraud, Injured Worker Fraud, Provider Fraud, and Contractor Fraud), 'Current News and Features', 'Look for these signs of fraud', and 'Other agencies' fraud resources'. A central graphic features a red 'STOP' sign with the text 'Workers' Compensation FRAUD' and 'It's your money.' Below the sign, it lists the phone number 1-888-811-5974 and a 'Contact Us Suggestions?' link. The footer contains navigation links: 'Find a Law (RCW) or Rule (WAC)', 'For Business', 'For Workers', and 'For Medical Providers'.

CONTACT INFORMATION

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