



Washington State Department of
Labor & Industries

Partnering to Prevent Fraud and Abuse

2012 Annual Fraud Report to the Legislature



ACCOUNTABILITY, FAIRNESS AND INTEGRITY

The Department of Labor and Industries (L&I) is committed to preventing fraud and enforcing compliance. Rooting out abuse of the workers' compensation system helps protect the economic health of Washington State. Preventing fraud protects investments and jobs.

- Fraud shifts costs from cheaters to honest premium payers.
- Cheaters gain a competitive advantage over honest players.
- Individual workers pay for about one quarter of the total cost of their insurance. Dishonest workers not only cheat the system, but also their coworkers.
- Corrupt health care providers drive up costs. Expenses are passed on to rate-paying employers and workers.

Fighting fraud is about fairness and accountability.

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

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Year at a glance

In 2012, L&I's Fraud Prevention and Compliance program continued to make employers, workers, and providers think twice about committing fraud. We effectively used systematic and innovative approaches to detect and deter fraud and abuse.

IMPORTANT RESULTS

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

- Set a new assessment record. Assessed \$24.6 million in unpaid employer premiums plus penalties.
- Completed 5,043 investigations.
- Identified more than one million dollars in healthcare provider overpayments.
- Set a new premium collections record, \$163.8 million.
- Reviewed 3,775 public works contracts worth \$5.4 billion to ensure workers' compensation premiums paid.
- Improved audit selection, 76% of employers audited owed debts to L&I.

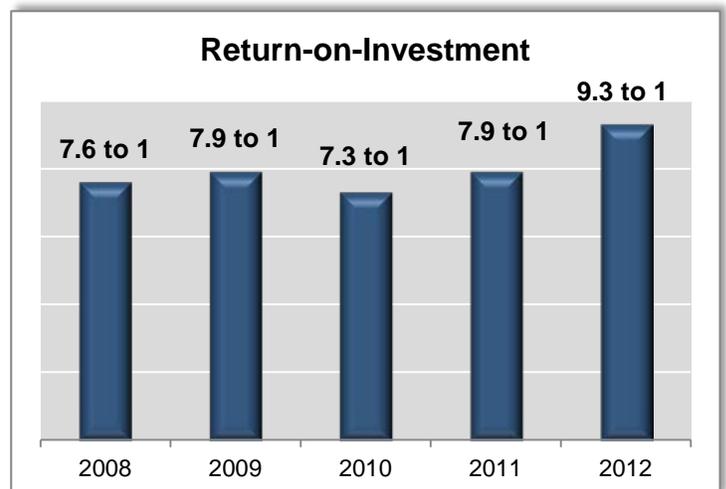
A WISE INVESTMENT

Preventing fraud is a good investment. In 2012, L&I's Fraud Prevention and Compliance Division brought in nearly \$9.30 for every dollar invested.

Return on investment compares the division's operating costs to the money recovered, collected and expenses avoided during the year.

Operating costs include salaries, benefits and capital outlays.

In 2012, 263 full-time equivalent positions supported the division.



Why we do what we do

“You lied to me.”

Once again, an unregistered contractor had scammed another homeowner, in this case, a Bainbridge Island couple who paid the contractor \$5,500 for work on their home that was never done.

“I thought you were bonded.”

In doing so, this contractor not only defrauded this couple, but because she was unregistered, she also defrauded the workers’ compensation system, not reporting workers she hired nor paying workers’ compensation premiums.

“I thought you were insured.”

Some bad actors view the workers’ compensation system as a potential paycheck and seek to abuse it. Others undermine their business competition by avoiding their workers’ compensation obligations.

The Department of Labor & Industries (L&I) manages Washington State’s workers’ compensation system. It is a “no-fault” insurance system providing benefits to people suffering a work-related injury and protecting their employers from tort claims for those injuries. Both employers and workers pay into the system and have a vested interest in keeping it secure.

Intentionally cheating the system is fraud and can occur in a variety of ways. For example:

- The worker receiving benefits when no longer injured
- The employer who classifies his construction crew as office workers
- The physical therapist billing for appointments that never happened
- The window installer paid under the table in cash

When someone willfully misrepresents themselves for profit or an advantage over competitors, they are committing fraud.

Fraud increases workers’ compensation costs for businesses and employees. It puts honest employers at a competitive disadvantage.

L&I actively pursues cheaters

Every tip reporting potential fraud is reviewed. Investigators work to build a case. Auditors determine how much money is owed. Revenue Agents work to collect it. The worst cases end up in court, where those accused of fraud can face criminal charges.

Fraud prevention program staff understand that not all infractions are deliberate. Determining the cause of misreporting or errors is an important part of fighting fraud.

By definition, fraud is a deliberate action, but many compliance issues are simply mistakes. L&I separates the confused from the cheaters and uses education and outreach to reduce reporting errors for those business owners who made an honest mistake.

Most of us want to follow the rules. We want rules that are easy to understand and follow. Reducing the amount of unintentional errors allows us to focus on the cheaters.

Fighting fraud is a big job requiring teamwork between many work groups. The Fraud Prevention and Compliance program leads these efforts. There are 260 people dedicated just to preventing fraud and investigating it when it occurs. Other units at L&I provide support and information to the frontline fraud-fighting units. L&I also works with the state Employment Security Department (ESD) and the state Department of Revenue (DOR) to combat unregistered contractors in the Underground Economy. The Attorney General's Office has two attorneys devoted to prosecuting L&I fraud cases.

We take fraud very seriously.

WHAT IS WORKERS' COMPENSATION?

Workers' compensation is a form of insurance. The 162,000 employers in the program share risk by paying premiums to fund the system. Employers pay L&I a premium based on the risk associated with the type of work their employees perform. This is referred to as the "risk class." The rate is adjusted based on the number of injuries their employees report and the number of work hours reported. This is referred to as the employers "experience factor." Hazardous work activities with a higher risk of injury require a higher premium rate. Companies that experience more injuries will also pay a higher rate.

OF NOTE: FISCAL YEARS

For the purposes of this report all years displayed are fiscal years. Washington State government defines a fiscal year as the period from July 1st through June 30th.

Prevention

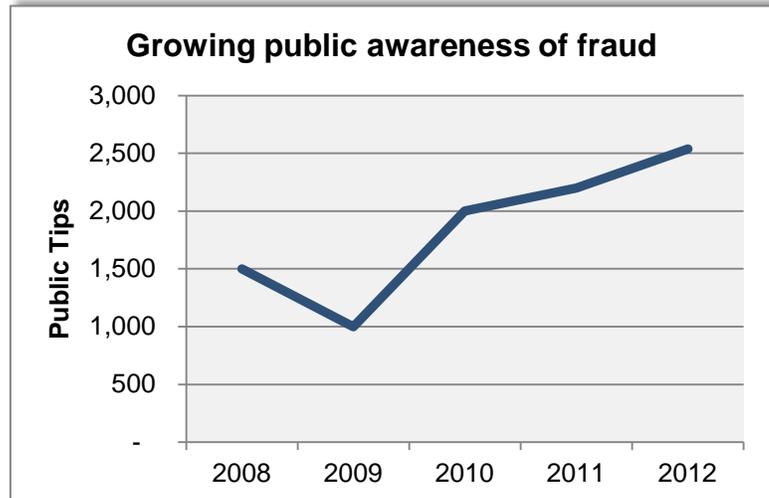
Outreach and education play a vital role in preventing fraud. Our outreach strategy uses a variety of communication methods. Each message is targeted at a specific audience.

- Mass media reaches homeowners and the general public.
- Educational audits help new businesses learn the rules.
- L&I staff appearances and presentations at trade events are directed at stakeholder groups.

Raising awareness about fraud ultimately plays a large role in stopping it.

We want businesses and the public to be successful. Rules should be easy for employers to understand and follow. We educate employers to prevent administrative and financial headaches for them. The public should know what to look out for and how to report fraud. We teach the public how to protect themselves from unregistered contractors and how to keep a watchful eye out for cheaters.

Stakeholders should be aware of what we are doing to protect them. We provide updates on real results and listen to areas of concern from stakeholders. Cheaters need to know we will find them.



THE SENTINEL EFFECT

A sentinel keeps a watchful eye out as a guard. We want potential cheaters to know we are watching for them. A greater knowledge of the likelihood of discovery and consequences of being caught deters fraud. This is known as the *sentinel effect*. If you expect you will get caught, then why commit fraud in the first place? We use media exposure on criminal cases as an opportunity to highlight the hazards of cheating the system. Knowing that we are on the lookout also encourages others to report cases where abuse is suspected.

MEDIA CAMPAIGN

SuspectFraud.com

L&I ran a legislatively mandated ad campaign about fraud from January through March 2012 designed to help combat the Underground Economy. The advertising campaign featured a radio ad and banner ads on several websites. It focused on provider and injured worker fraud. The ads encouraged people to report fraud when they spotted it. Advertisements directed people to visit www.SuspectFraud.com a website developed by the DOR. The site is a one stop shop for the various types of fraud faced by L&I, DOR and the ESD. On the site, people can learn about fraud as well as how to report it.

The radio promotion ran from January through March. Ads aired on 11 stations and provided coverage throughout the state. The ad was based on a similar campaign from 2011. We updated the dollar amounts for money recovered by L&I's fraud fighting efforts. Overall the messaging was consistent with prior years. Future ad campaigns will incorporate feedback received from stakeholders.

The campaign also used banner ads on several news websites. The ads were displayed on nine news sites for areas throughout Washington. Effectiveness of banner ads is measured when viewers click on the ads and proceed to the advertised website. This is called a click through rate (CTR). Most sites we advertised on experienced average to above average CTR. We will review the performance metrics for future campaigns and focus on the highest performing sites for advertisement.

Results

The advertising campaign drove a growth in site traffic and referrals. Traffic for SuspectFraud.com increased over 50% to an average of 3,000 visits per month. More than 500 visitors used SuspectFraud.com to jump to L&I's website during this period. The Fraud hotline received over 50% more phone calls than the period prior to the ad campaign.

MEDIA COVERAGE OF FRAUD ISSUES

One way to help prevent fraud is to make sure the public at large knows about our fraud-fighting activities.

L&I works with the media to get this message out. Over the course of the year, media outlets around the state have featured stories related to fraud and L&I's efforts to curb abuse. They highlight our success stories and provide cautionary tales for consumers about the dangers of using unregistered contractors who work within the Underground Economy.

This is a list of several of those stories – some of them generated by our own press releases or contacts with the media and others discovered by reporters.

- [Albion man faces 30 years in prison for industrial insurance fraud](#), KLEW, Jan. 6, 2012
- [Unlicensed contractors cost you money and time](#), Tri-City Herald, Dec. 19, 2011
- [Fraud Flashpoints: A look at Washington Department of L&I's effort to 'beat down' fraud losses](#), Corporate Compliance Insights, Dec. 2, 2011
- [Ex-South Sound doctor guilty of drug, fraud, income tax charges](#), The (Tacoma) News Tribune, Nov. 10, 2011
- [Man's history of customer, employee complaints runs deep](#), KIRO, Oct. 27, 2011
- [Underground economy fight takes national stage: Washington L&I partners with Department of Labor to properly classify employees](#), ptleader.com, Sept. 26, 2011
- [State worker convicted of theft, false reporting](#), The (Tacoma) News Tribune, Sept. 22, 2011
- [Bad contractor locked up for ripping off subcontractors](#), KING5, May 22, 2012
- [Paving scam: "It makes me sick,"](#) KIMATV, May 7, 2012
- [What you need to know before hiring a contractor](#), KING5, March 22, 2012
- [Avoid 'contractor roulette' as home improvement season heats up](#), KOMO, March 6, 2012
- [Liens put on homes after contractor doesn't pay suppliers](#), KING5, March 6, 2012
- [Contractor dispute following house fire keeps La Center family living in trailer](#), KOIN6, Jan. 31, 2012
- [State reminds homeowners to check contractors' credentials in storms' aftermath](#), The Issaquah Press, Jan. 29, 2012
- [Beware of shoddy, illegal contractors for storm cleanup work](#), Q13 FOX News, Jan. 25, 2012

SOCIAL MEDIA – NAILED

Fraud Prevention and Compliance launched our blog “Nailed” in August 2010. The blog allows us to engage new audiences and take part in new avenues of communication. Each entry is also featured on the agency twitter account, exposing the blog to a wider audience.

Washington State Department of Labor & Industries

Safety Claims & Insurance Workplace Rights Trades & Licensing

NAILED

A FRAUD PREVENTION AND COMPLIANCE BLOG

Written by Elizabeth Smith, Fraud Prevention and Compliance manager at L&I.

BLOG PODCASTS REPORT FRAUD SUBSCRIBE FOLLOW

Jul. 20, 2012

Arrest warrant issued for unregistered contractor

A Bainbridge Island painter cited 6 times for working as an unregistered contractor is now a wanted woman.

Buffy Campbell failed to show up in Kitsap County Superior Court on July 19 to face charges of Unregistered Contracting, a gross misdemeanor punishable by up to a year in a jail and a \$5,000 fine. A judge responded by issuing a warrant for her arrest.

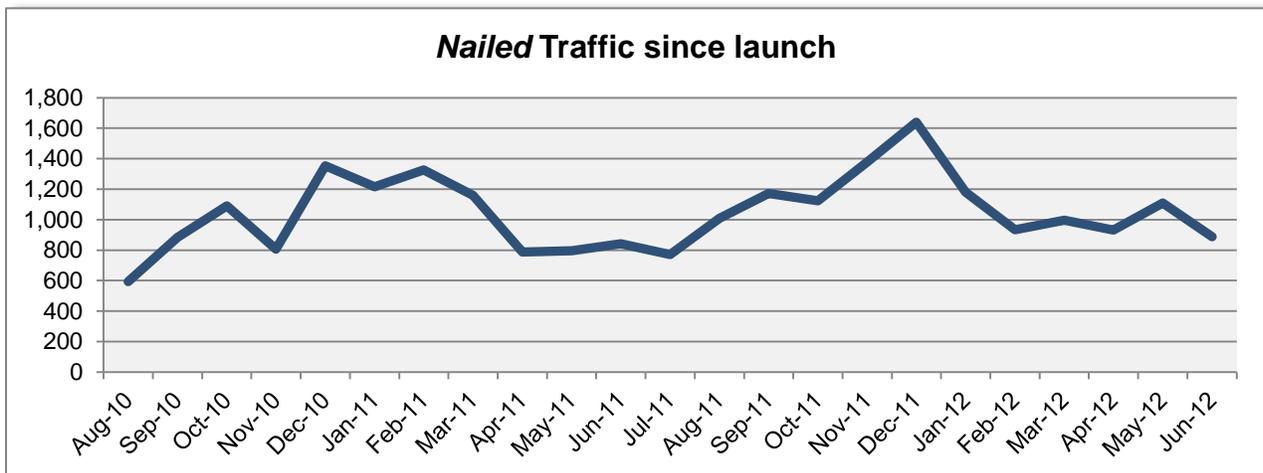
KIRO-TV's Amy Clancy covered the story of this unregistered contractor.

RECENT COMMENTS

In a tough economy, businesses are looking for ways to cut costs. Unfortunately, breaking laws is not a good way to go about it. - Drew

TWITTER TALK

Is the Stay at Work reimbursement program right for you & your workers? Our next workshops are in Kelso 10/8 - <http://t.co/wKZXIG2u> by L&I about 9 hours ago



NEW EMPLOYER REVIEWS

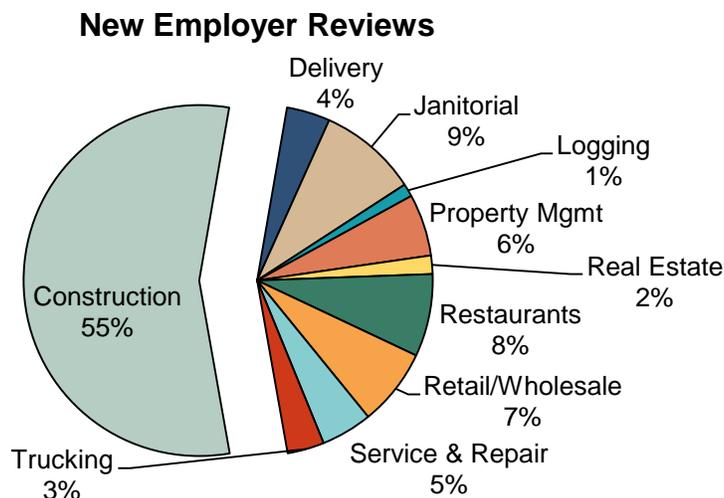
Starting a new business can be a daunting undertaking. You might sign a lease for your business location, develop a marketing plan, obtain a business license or hire staff. It is a lot of work. With all of those different tasks it might be easy to overlook your workers' compensation responsibilities. Unfortunately, that could be a costly mistake later down the road. We want employers to understand the reporting rules and to avoid learning the hard way.

New Employer Reviews are an opportunity for businesses to learn the reporting requirements the easy way. We offer risk-free instructional audits to businesses that have been in operation for six months. This is designed to teach the new business about reporting and record keeping rules. The lessons are specific to their industry. Reviews are offered at no cost to the employer and are educational, meaning there is no possibility of penalties or fines.

We offer reviews to new employers in the following target industries:

- Construction
- Janitorial
- Trucking
- Landscaping
- Property Management
- Automobile Services
- Restaurants
- Delivery Services
- Real Estate
- Retail and Outside Sales
- Nurseries
- Towing

The program establishes a relationship between the new employer and L&I connecting the employer with their point of contact. They also have an opportunity to have L&I answer questions that many firms have when starting up. The employer gains a good education on their industry specific reporting requirements. Ultimately, this avoids long-term misreporting and expensive mistakes.



CONSTRUCTION CONTRACTOR EDUCATION AND OUTREACH

The construction industry is where activity in the Underground Economy activity is most visible. Contractors in the Underground Economy are typically either unregistered or underreporting their workers' compensation responsibilities and avoid paying their fair share of taxes and premiums. Unregistered contractors present a risk to consumers and gain an unfair advantage over competing businesses playing by the rules.

In a later section, this report will describe the enforcement actions L&I takes to crack down on the Underground Economy. L&I also tries to educate contractors in the laws and rules reducing simple reporting errors and allowing L&I to focus on contractors that intentionally subvert the system. L&I makes it easy for contractors to register with step-by-step instructions and explanations of laws and rules online.

We partner with the building industry to provide training events such as: Contractor Training Days, "Employer's Introduction to L&I" workshops and specialized training events. This year we provided eight Contractor Training Days around the state with over 1,200 contractors attending.

Year	Contractor Training Events	Average Contractor Attendance per event	Estimated Contractors Trained
2008	8	165	Over 1,320
2009	10	130	Over 1,300
2010	8	142	Over 1,100
2011	9	125	Over 1,100
2012	8	130	Over 1,200

EMPLOYER SERVICES OUTREACH

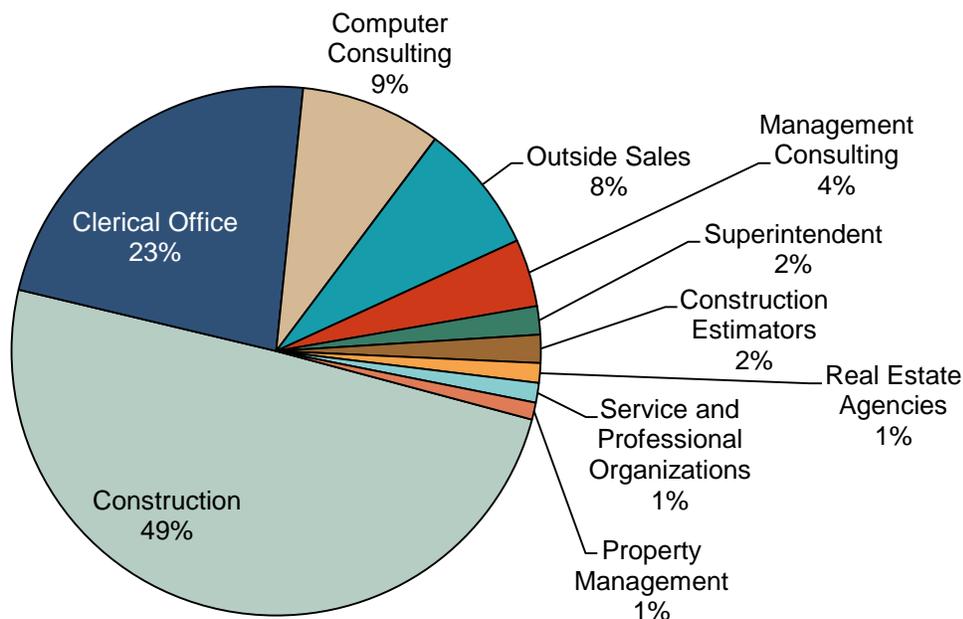
L&I's Employer Services program provides both individual outreach and broad educational campaigns. Employer Services is separate from the Fraud Prevention program, but their outreach work plays a key role in preventing fraud. They educate on workers' compensation requirements, premium responsibilities and independent contractor issues.

The state's Master Business-license Application (MBA) is the first opportunity to educate employers. When an account is opened, Employer Services educates employers on reporting in the correct risk class. This starts employers down the right path. Employers who contract for public works projects receive further outreach efforts.

We take a proactive approach to prevent reporting errors. On the Master Business-license Application (MBA) applicants are asked if they plan to use independent contractors. L&I contacts and provides educational material to every applicant who indicates they are planning to hire independent contractors. This year we contacted 21,416 business owners and of those applicants 1,009 determined they needed to open a workers' compensation account because people they had classified as independent contractors were actually employees.

This year Employer Services focused their efforts on computer consultants. This is an industry that has been prone to independent contractor misreporting. Employer Services made contact with 3,709 computer consultant businesses. This prompted responses from 103 businesses. Employer Services spent time with those businesses and provided additional education on reporting requirements. Over one million more hours were reported to L&I than the prior year and premiums reported increased \$54,096. When conducting Employer Services outreach, L&I waives penalties and fines in order to increase compliance.

New Business Indicating use of Independent Contractors



For-Hire Industries

When laws change workers' compensation requirements, Employer Services takes a proactive approach to customer service by reaching out to employers. In 2011, the legislature passed Engrossed Substitute House Bill 1367 "For Hire Vehicle and Vehicle Operators." The law was a shift in how taxi and limousine employees were treated with respect to workers' compensation. The bill mandated coverage for all drivers and owner operators. Prior to the effective date of January 1, 2012, Employer Services held three educational meetings and five hearings throughout the state. Additionally, quarterly reminder postcards were sent out with reporting instructions. These efforts made a substantial impact on compliance with the new law. Reporting in the industry is seven times greater compared to the prior year for January through June 2012.

Compliance

The Investigations program consists of several units that examine potential fraud and abuse. Each unit focuses on a specific type of fraud whether it is committed by workers, pensioners, employers or providers. The Investigations program gathers evidence of fraud and issues Administrative Fraud Orders (AFO) to recover money paid on fraudulent benefits.

There are three types of fraud that we investigate:

Worker Fraud: An individual who lies in order to obtain benefits is committing worker fraud.

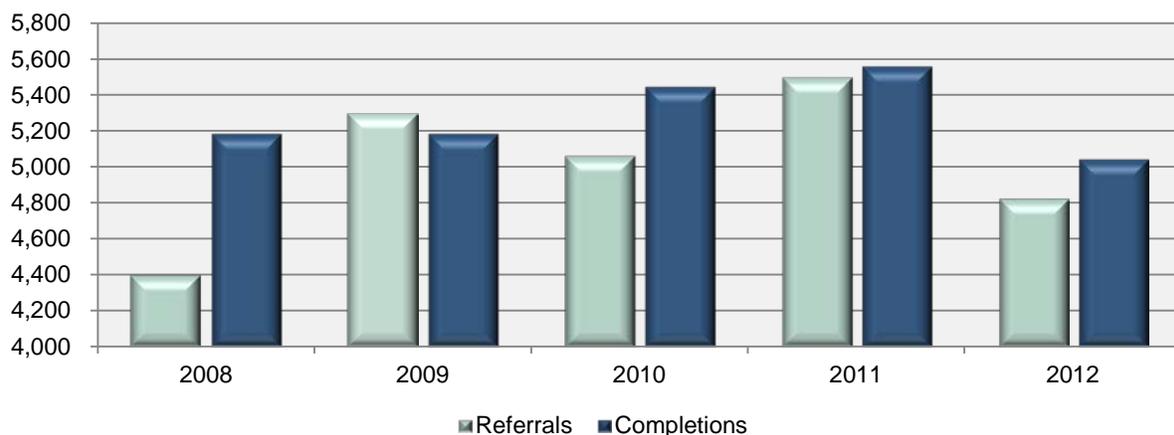
Employer Fraud: An employer commits fraud when they intentionally report employees as a lower risk class or under report worker hours. Participants in the Underground Economy are also committing employer fraud.

Provider Fraud: A provider commits fraud when they charge for fictional services or at inappropriately inflated rates.

The duties of the Investigations program go beyond fraud. L&I also looks into Industrial Insurance Discrimination (IID) and claim suppression. These 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.

In 2012, the Investigations program received 4,823 referrals and conducted 5,043 investigations.

Investigation Referrals vs. Completions



TYPES OF INVESTIGATION

There are several different types of investigations:

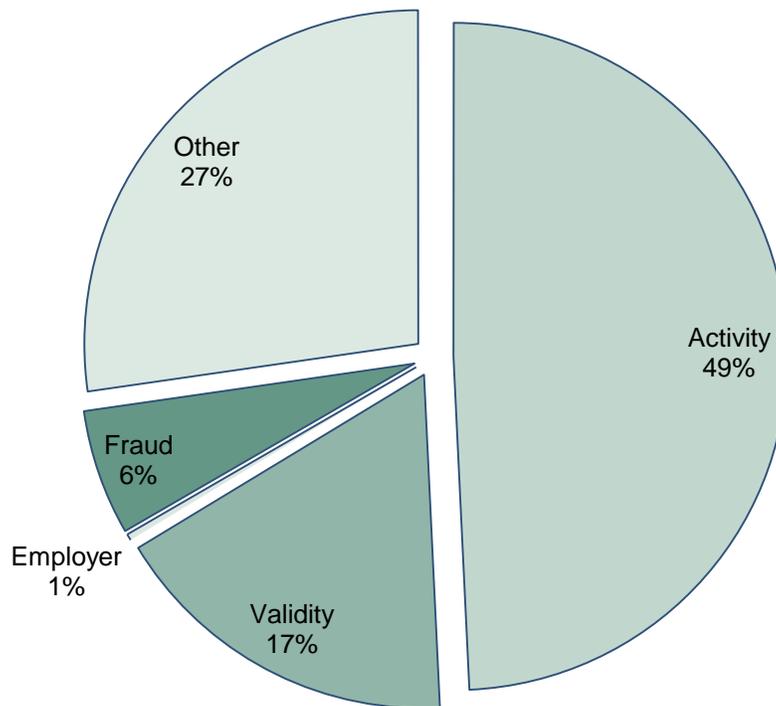
Validity: Was there a work-related injury that resulted in injury? Validity checks examine the facts surrounding a claim for benefits.

Activity: Is the injured worker still unable to work? Activity checks investigate the current level of a worker's activities to see if they are still injured or exceeding their medical condition.

Fraud: Is there evidence of deliberate misrepresentation? Fraud investigations may result in the required repayment of benefits obtained by fraud or criminal conviction.

Other: Other investigations can include requests by Claim Managers who need information for ongoing management of a claim.

Completed Investigation Types



WORKER FRAUD

Worker fraud continues to be an important area for investigations. Greater public awareness leads to an increase in leads and tips. This year, we received over 1,522 public tips related to worker fraud. We are pursuing Lean process management reviews in the Investigations program to improve the process time and outcomes. Lean is a process improvement system that focuses on customer value and removing waste. The Investigations program will use these methods to manage the growing number of fraud cases while maintaining a high standard of work.

Benefit Recovery

The Investigations program issued 174 Administrative Fraud Orders (AFO) in 2012. The assessments totaled \$3 million on the AFOs. Investigations do not just identify debts owed to L&I, they also avoid unnecessary expenses. When investigations determine a claimant is not entitled to benefits we stop paying for them. Never paying for fraudulent benefits is preferable to trying to recover money after the fact. We are improving our ability to catch fraudulent activity earlier.

Worker Fraud Results

AFO Issued	Assessment	Cost Avoidance
174	\$3.0 million	\$3.7 million

CASE IN POINT

Cheating the system came at a high price for one Albion man. After filing a claim for a workplace injury in 2006, he fraudulently claimed nearly \$20,000 in benefits. It turns out he was capable of working despite making 11 claims for wage replacement.

L&I began investigating after we received a tip that the claimant was not as badly hurt as he claimed. Investigators obtained videotape of the man working construction on a rental home he owned. The evidence clearly presented that he was capable of working and did not have the physical limitations he claimed.

He was convicted of first and second degree theft and sentenced to serve 6 months in jail. Additionally, he was ordered to pay \$2,675 in court fees and will pay an additional amount in restitution to L&I.

PROVIDER FRAUD

The Provider Fraud unit audits and investigates health-care and vocational providers suspected of criminal fraud. Examples of providers include: translators, chiropractors, physical therapists, medical equipment retailers and doctors. We constantly monitor and review the services and billing practices of providers. The unit educates providers on proper billing codes. Identifying billing issues early prevents ongoing overpayments and possible fraud. Provider investigations are typically complex and labor-intensive.

Since 2008 the program has identified over \$8.7 million in overpayments and penalties. This year the program identified almost one million dollars of overpayments and penalties.

Provider Fraud Results

Order & Notices Issued	Identified Loss	Penalties	Cost Avoidance
10	\$1.5 million	\$0.3 million	\$0.6 million

The Provider Credentialing and Compliance unit performs quality-of-care reviews and billing audits of healthcare providers. The Vocational Audit unit carries out the same responsibilities for vocational-services providers. These two units are not part of the Fraud program but are in L&I's Insurance Services Division. Still though, they play a role in bottom line fraud efforts. This year, the audits by the two units identified almost half a million dollars in overpayments to providers.

Provider Review Results

Review Type	Completed Reviews	Assessments
Health-care	10	\$ 430,819
Vocational	51	\$ 44,221
Total	61	\$ 475,040

CASE IN POINT

A November 2011 conviction signaled the end of the line for an Aberdeen doctor sometimes known as the "Candy Man". Spanning four years and involving multiple government agencies along with a dash of foreign intrigue, this case is an exceptional battle in a war often fought in smaller skirmishes, one provider invoice at a time.

The "good" doctor operated four Southwest Washington clinics, which churned out prescriptions for highly-addictive pain pills at a shocking rate. The clinics also displayed suspicious billing patterns. This triggered the interest of L&I's Provider Fraud Investigation unit.

In 2009, L&I accompanied U.S. Department of Health & Human Services and the FBI, on a raid of the four clinics. Shortly after the raids, the doctor and his mother – who worked as his office manager – fled to Madagascar.

Federal Authorities were able to extradite both of them because of a report from L&I. Our auditor provided evidence of "Upcoding", a type of fraud that bills for services far more expensive than what a patient receives.

The Candy Man was convicted of 24 counts of health-care fraud, four counts of filing false income-tax returns, and five counts of illegal drug distribution. He was sentenced to 12 years in prison and to pay \$1.3 million in restitution (\$317,711 to L&I).

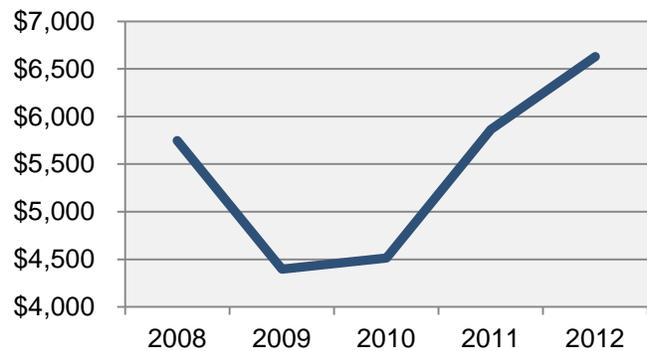
EMPLOYER FRAUD

Audits ensure that employers are reporting their worker hours correctly and paying appropriate premiums. An auditor checks business records and conducts interviews to determine facts. Examinations may include verifying the number of workers reported and that all hours are reported in the correct risk class. Reviewing the records helps an auditor determine if fraud is occurring.

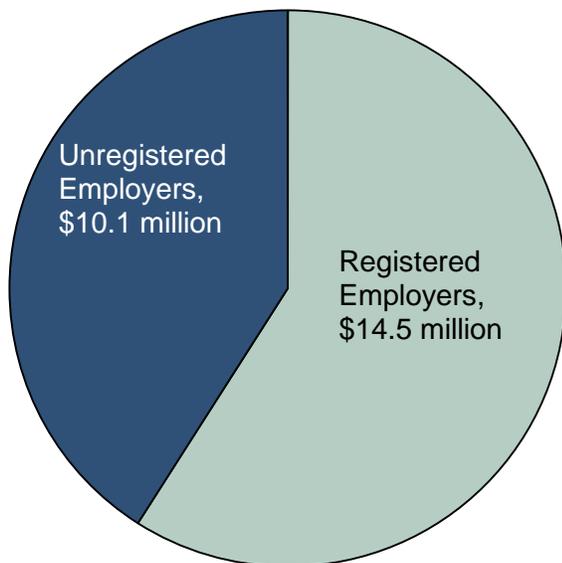
The auditor provides a post-audit education. Typically this involves a phone conversation but sometimes is an in-person meeting. This post-audit conference is required on every audit. It provides employers with an opportunity to better understand the reporting process. Auditors supply educational materials and explain how to keep better records. It is also a chance to answer any questions the employer may have.

Audits are targeted at employers who are most likely to have premiums due. A focused approach means less impact on employers who follow rules and makes better use of L&I resources. This year premium assessments grew by \$3.6 million from the prior year, despite the fact that 738 fewer audits were conducted thanks to improved identification of employers. Audits assessed a total of \$24.6 million in premiums owed. Three out of four employers we target for audits owe L&I premiums. Our goal is to audit the right employers.

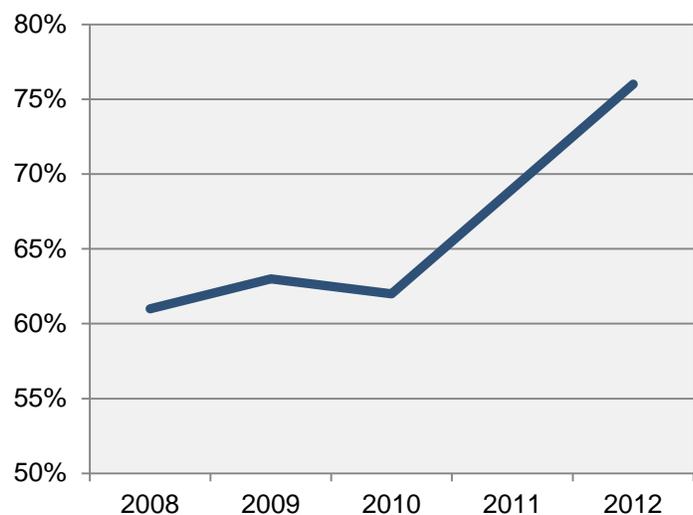
Average Assessment per Audit



Premium Assessments

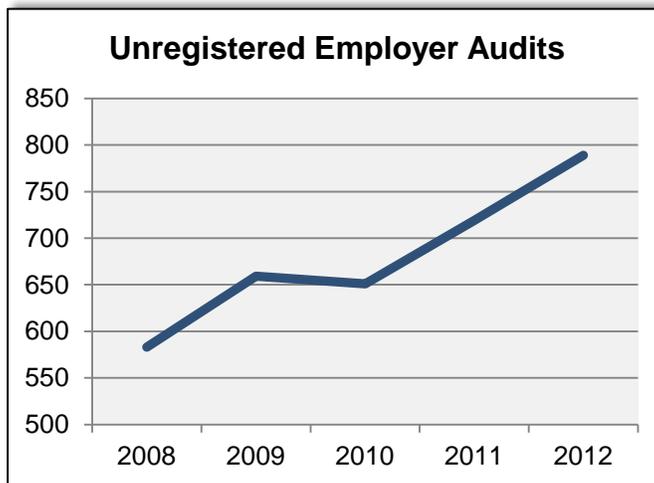


Audits Resulting in Assessments



Unregistered Employers

Over the last four years we have expanded our efforts to curb the Underground Economy. Audits have targeted unregistered businesses. These are employers who hire employees but fail to open a workers' compensation account. Since 2008, the number of audits on unregistered businesses has grown by 35%. The premium amounts assessed have more than doubled. This year we audited 789 unregistered employers who were assessed over \$10 million in premiums.



Audit Premium Results

Registered Employers		Unregistered Employers		Total	
Audits	Assessments	Audits	Assessments	Audits	Assessments
3,572	\$14,552,559	789	\$10,099,021	4,361	\$24,651,580

CASE IN POINT

Do it once and it is a mistake. Do it three times and it might be fraud.

In 2000 and again in 2006, L&I audited Eric's Painting and Remodeling. The company was underreporting worker hours and received an assessment. After each audit, L&I provided follow up education.

In 2011, L&I received a referral from an investigator. Eric's Painting and Remodeling popped up on our radar once again. An auditor reviewed the employer records and conducted interviews. The audit found that the employer wasn't properly tracking or reporting worker hours.

Records that the employer had previously provided were created from the owner's memory and not verifiable. Prior information had been incorrectly reported in order to reduce workers' compensation premiums. This resulted in a misrepresentation penalty of \$52,891 for the employer.

When worker hours are not properly documented, L&I has to provide an estimate. Hours were estimated for all covered workers using either average hourly wage or 520 hours a quarter. Hours were reclassified to reflect the risk classification that each worker was exposed to while working at the firm. A recordkeeping and reporting penalty was assessed for \$3,250.

In the most recent audit, Eric's Painting and Remodeling had failed to report worker hours correctly. The auditor found an additional \$26,445 of premiums due. Once the penalties and premiums were added up, we are collecting \$83,087 from the firm.

APPEALS PROCESS

Sometimes employers disagree with L&I's premium assessments. Employers have 30 days to appeal a decision by L&I. The Firm Appeals program manages the appeals process. The program reviews the actions taken and ensures that L&I fairly and correctly applied the law.

The program will first work directly with the employer to try and resolve the case. Employers may also appeal to the Board of Industrial Insurance Appeals, an independent administrative-law agency. The Firm Appeals program has two goals. First is to provide employers with an efficient and convenient forum to resolve disputes. The second is to promote high quality and consistent decisions based on Washington laws.

Facing the Music (Fighting Employer Fraud)

There are consequences when employers ignore their workers' compensation responsibilities. Failing to properly report workers and pay premiums can lead to civil or criminal actions. Civil misrepresentation penalties can be up to 10 times the premiums owed. Simply closing or selling a business does not allow an employer to escape their debts. Establishing a connection between a prior business and the new firm to pursue debts is known as "successorship". We also can pursue "personal liability" if we can prove a business had the money to pay their workers compensation premiums but chose not to. In that case, we can pierce the corporate veil and collect on the limited liability company or corporation's debt from the responsible individuals. Both of these options require L&I to prove its case, but both are valuable at preventing cheaters from repeating fraud under new business names.

Several other laws allow us to pursue criminal misdemeanor and felony charges:

- 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)

SIGNIFICANT EMPLOYER CASES

Significant Employer Cases (SEC) is responsible for the most severe employer fraud cases. The program coordinates resources across all fraud-prevention programs and with the Office of the Attorney General. Offenders face punishments ranging from steep monetary penalties to substantial criminal charges. Cases referred to SEC must meet criteria to qualify and require the highest standard of work for their pursuit in court.

- Three employers were convicted, resulting in eight Class-C felonies for false reporting, two 1st degree theft, and two gross misdemeanors (1 for false reporting, 1 for engaging in business without certificate of coverage). One employer was court-ordered to pay past due restitution of \$50,000. Total restitution was ordered in the amount of \$105,053.
- Six firms were referred to the Attorney General's Office for criminal prosecution and an additional 4 are under criminal investigation. A total of 10 firms were referred to SEC for civil and/or criminal high-level actions.
- We collected \$1,047,003 from employers assigned to the Significant Employer Case Program.

CONTRACT RELEASE

Every public works job over \$35,000 is reviewed for workers' compensation payments. On these public works projects, the final 5% of payments are held until certain tax payments are verified. This insures that contractors follow the law and pay their taxes. L&I debt is one of the taxes reviewed. In 2012, we reviewed 3,775 contracts, a 19% increase from the prior year. The total value of the contracts reviewed was \$5.4 billion.

We identified half a million dollars in debt owed for work on projects. Reviews are not restricted to just the workers' compensation owed on the public works project. If we discover the contractor owes workers' compensation premiums for other work, contract release law allows us to pursue other debts owed to L&I. We discovered an additional \$1.5 million owed by contractors working on public works jobs. A total debt of \$2 million was identified. Our Collections unit recovered \$800,000 from review of contracts.

We work with contractors to resolve reporting discrepancies. If there is a problem, contractors can voluntarily amend their reporting. Not all cases can be resolved voluntarily. A small number of instances require an audit. This year we audited 133 firms and 85% of those audits revealed debt owed to L&I. This demonstrates that we are identifying and auditing the right firms.

Contract Release Results

Requests Completed	Contract Debts Identified	Total Debts Identified	Total Collected
3,775	\$0.5 million	\$2 million	\$0.8 million

CONTRACTOR COMPLIANCE IN CONSTRUCTION

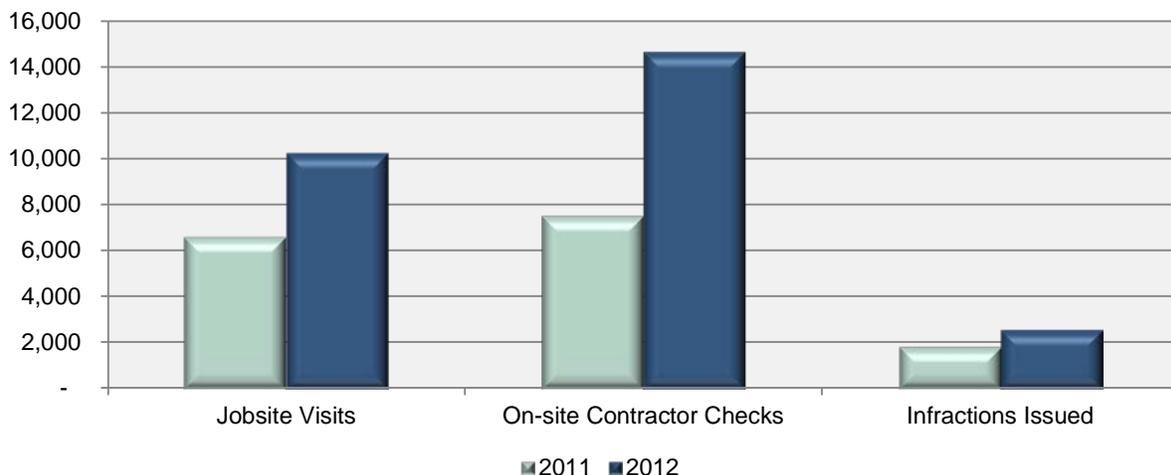
Boots on the Ground

Increasing the presence of construction compliance inspectors in the field has a direct impact on the Underground Economy. In 2006, L&I created the Fraud/Audit/Infraction/Revenue (FAIR) Team to identify fraudulent employers and stop illegal contractors. The six-member FAIR Team worked in the field as the literal “boots on the ground.” They conducted job-site inspections, including on nights and weekends, to put pressure on the Underground Economy. In 2011, L&I met with business and labor representatives about improving compliance. Stakeholders were concerned that inspectors did not have a large enough presence in the field. Based on stakeholder input, we reorganized our construction inspector workforce. There are now 22 inspectors and 3 supervisors in three regional compliance teams that are based on the FAIR Team model.

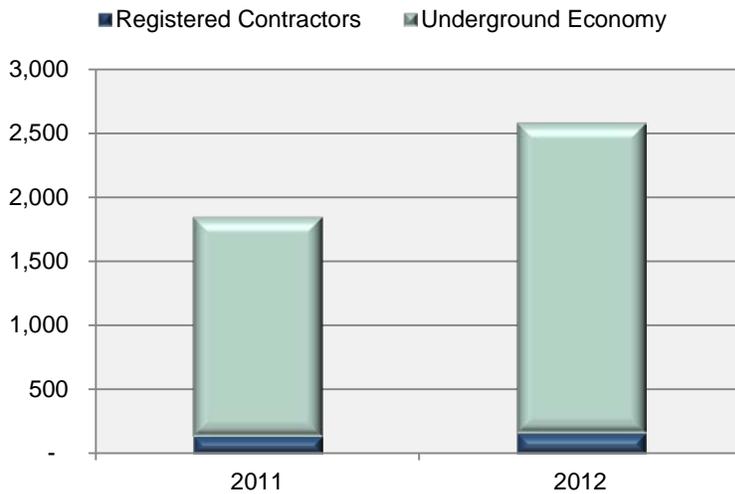
Compliance inspectors watch for all types of violations when on job sites. They enforce plumber and electrical certification rules and check contractor registration. In the field inspectors are able to spot employers who owe significant debt to L&I. They confirm worker counts for comparison and make audit referrals. Inspectors also make referrals for potential violations of workers’ compensation, prevailing wage and Department of Revenue rules.

In 2012, there were more jobsite visits and a greater number of contractors checked compared to the previous year. In turn, this year there were a greater number of infractions issued. We believe these efforts impact behavior in the Underground Economy. Pursuant to RCW 18.27.340, unregistered contractors who are cited can receive a reduced penalty if they voluntarily become registered with a bond and insurance within 10 days. The number of unregistered contractors who took that option grew by 19% to 262. Word is out. Our compliance inspectors are in the field and on the hunt for unregistered contractors.

Increasing Construction Compliance presence in the field



Construction Compliance Infractions Issued



Contractor Compliance Detection Unit

A Construction Compliance Detection and Tracking Unit (CC DTU) was also formed. The CC DTU processes consumer complaints and other referrals for potential enforcement actions and conducts centralized advertising compliance (e.g., checking Craigslist ads for unregistered contractors). They also mine data to identify compliance problems that may not be found in the field. The unit work efforts focus on the Underground Economy.

CC DTU Results*

Infractions Issued	Audit Referrals
568	151

*CC DTU Infractions are included in the Construction Compliance totals.

WHAT'S THE HARM IN BEING UNREGISTERED?

Contractor registration protects consumers and legitimate businesses. It sets a minimum level for bonding and insurance coverage. Unregistered contractors are part of the Underground Economy and avoid paying their fair share of taxes and workers' compensation premiums.

For consumers, contractor registration can be the first line of defense against scams. If a contractor does not have a bond, and something goes wrong, consumers have nowhere to turn to recover their money. L&I makes it easy to verify if a contractor is registered online. The search also shows if there are any lawsuits against a contractor's bond and if they have been cited for any violations of construction laws governed by L&I. A quick search online can help protect a consumer from shoddy work and liens against their property if a contractor fails to pay for supplies or work.

For the business community, contractor registration levels the playing field. Unregistered contractors who skip the expense of protecting the consumer can underbid their competition. A contractor also must be registered and in good standing with workers' compensation premiums in order to be hired for a public works contract.

ELECTRICAL COMPLIANCE

The Electrical Compliance Program identifies non-compliant electrical contractors and electricians. The program also finds entities that do not obtain electrical permits and inspections. One hundred electrical inspectors perform on-site checks. Compliance activity focuses on three areas:

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

The program also has a team that specifically targets the Underground Economy. The Electrical-Compliance, Outreach, Regulation and Education (E-CORE) team pursues tips and leads. The unit receives tips from legitimate contractors competing with the unlicensed electrical contractors as well as homeowners unhappy with the work of an unlicensed electrician. The team makes fraud referrals for other units to take action on. This year the E-CORE team more than doubled the number of focused citations they issued for non-compliance with electrical requirements.

Partnerships

Preventing fraud and enforcing compliance is a big job. Several work groups work in partnership to support frontline efforts. Collaboration between the teams allows us to work smarter and fully utilize our resources.

FRAUD AND ABUSE DETECTION

We have a variety of fraud finding tools in our utility belt. We scour databases using our discovery software. We exchange data with other agencies. We act on tips from the public and other programs.

The eyes and ears of Washington State citizens play a vital role in finding fraud. This year we received 2,616 leads from the public. These tips led to \$3.2 million in premium assessments. Since 2008, public tips have resulted in assessments of almost \$10 million. Remember, it is your money. If you think you see fraud, report it.

Targeting Employer Fraud and Misreporting

We are getting better and better at whom we identify for audits. The Fraud Prevention and Compliance program began in 2004. At that time less than half of employers audited owed premiums to L&I. Over the years we continue to perfect our detection skills and tools so we are auditing the businesses most likely committing fraud. This year 76% of employers audited owed premiums. Perfecting our detection allows us to better use resources and reduces impact on employers who follow the rules.

Cross-Agency Collaboration

L&I is not the only agency combating fraud. We partner with the Department of Revenue and Employment Security Department by sharing information across the agencies. This year the three agencies exchanged 33,245 tips and leads through electronic data matches. The agencies work together to improve training and education. Staff understand what signs to look for and information to provide to another agency when making a referral. Removing information silos and working together makes us all more effective in our Underground Economy efforts.

2012 Cross-agency Referrals			
From	To	Via Interagency Referral Form	Via Electronic Data File Transfers
DOR	L&I	20	12,861
	ESD	30	9,646
L&I	DOR	18	5,594
	ESD	4	1,791
ESD	L&I	33	1,390
	DOR	12	1,963
TOTAL		117	33,245

Targeting Claimant Fraud and Abuse

This year the Claimant Fraud Detection unit significantly increased their production. The number of cases referred for fraud investigations grew to 119 compared to 17 the prior year. The unit looks for fraud by analyzing data and tips from the public. We have a dedicated phone line for fraud tips and an internet referral form. In 2012, staff reviewed 22,305 claims. These reviews resulted in 564 claimant investigations. Some cases show potential of deliberate misrepresentation or criminal fraud and were referred to the Investigations unit.

Targeting Provider Fraud

In October 2010, we ran a pilot program to find potential provider billing fraud and abuse. The program used software to detect medical billing anomalies. The pilot ran for a nine month period (October 2010 through June 2011). During that period the unit received 240 medical provider referrals and identified almost one million dollars in inappropriate payments. Based on the success of the pilot, the Legislature provided funding to make the changes permanent.

We now have dedicated staff that looks for odd billing patterns and reviews leads provided by the public. Some examples include billing for more hours than are in a day and “Upcoding” (billing a 15 minute appointment as an hour long). Public tips come from a variety of sources. We receive tips from the internet, other providers and even injured workers who are receiving treatment from providers. Everybody has an interest in controlling costs and preventing fraud.

This year the Provider Fraud Detection unit identified over one million dollars in estimated overpayments to be recouped. The unit received and reviewed 233 tips on providers. Of those tips 12, were identified as potential fraud and referred to the Investigations program. The majority of the tips were referred to internal units at L&I for further review or claim actions.

Data sharing efforts

In 2011, the Legislature directed L&I to participate in a national information exchange with other insurers. The purpose of sharing information was to avoid duplication of claims and benefits. This would allow L&I to identify potentially fraudulent claims. Participation in the nationwide ISO ClaimSearch database was delayed for one year due to lack of funding. Subscription to ISO is based on a percentage of the premium paid to L&I. Based on that, the annual subscription fee is \$250,000 per year.

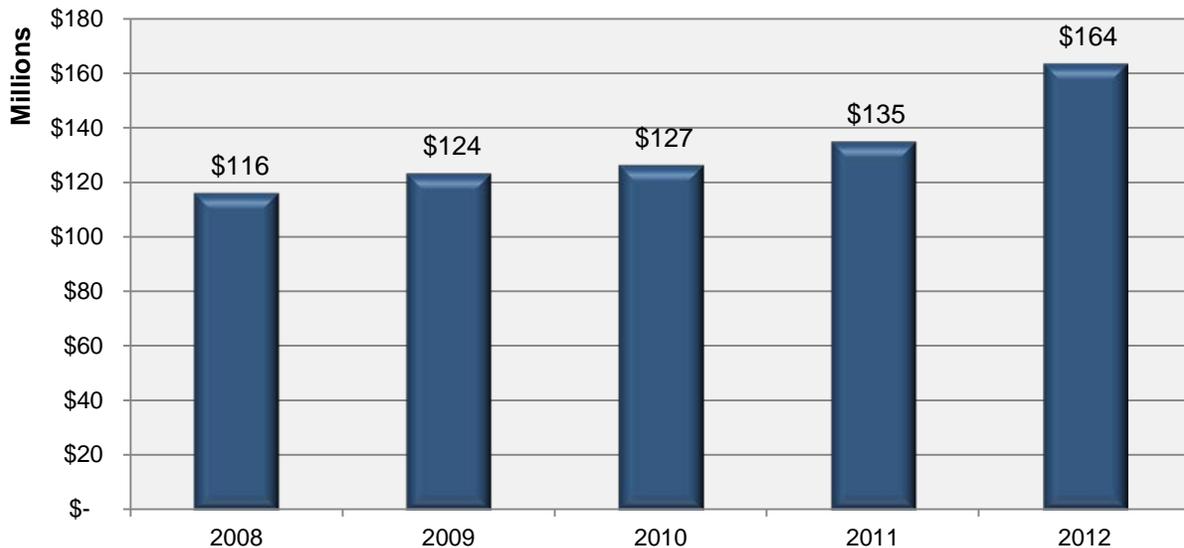
The Legislature provided the funding needed in 2012. Since July 2012, L&I has finalized a contract with ISO for accessing and using the database. The Detection and Tracking unit is working with ISO to develop a method for sharing and receiving large data runs. This will allow analysis for red flags that would indicate potential fraud and/or abuse. The first exchange of data is planned to occur by the end of 2012.

COLLECTIONS

Dollars Collected

When employers are delinquent in paying their workers' compensation premiums they become the responsibility of the Collections program. The program tracks down and collects debts owed to L&I. These debts include not just premiums, but also overpayments to providers and injured workers. We also collect and distribute unpaid wages owed to workers.

Premium Collections

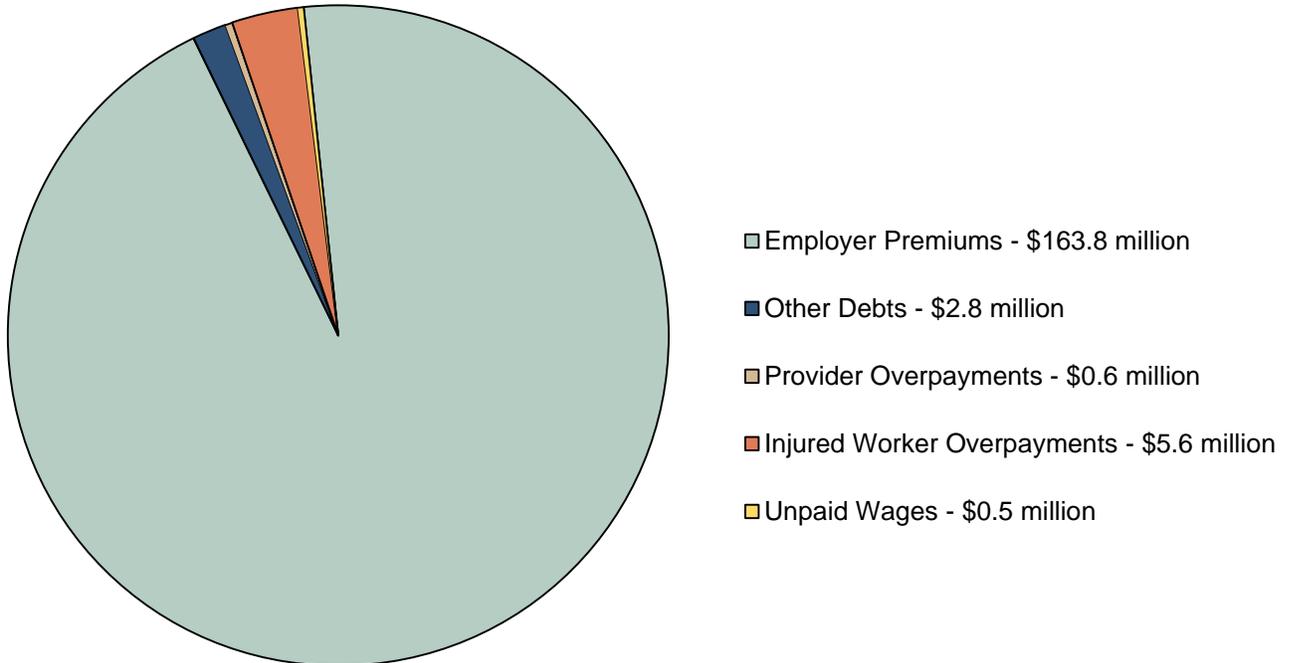


Employer Assistance Program

Our goal is to assist all employers in being compliant with L&I rules and requirements. In response to the economic recession we began the Employer Assistance Program (EAP) for employers with a clean record that struggled to pay their premium. The program has been extended indefinitely due to the length and depth of the recession. Employers who have not been delinquent for the last four years may qualify for a “90 days same as cash” plan. Accrued penalties and interest are waived once the firm has successfully paid their premiums as agreed in the EAP. Firms may take advantage of extended payment plans if they need longer periods to pay in full. This does not include an automatic waiver of penalties and interest. It does help employers to be in “good standing” and avoid further collections action while they are making their payments as agreed.

Employers are still struggling through a difficult economy. Our revenue agents are working with employers to resolve their debts to L&I. There were 7,409 employers in payment agreements as of June 30, 2012. This was 469 more employers than compared to the same time the prior year. During 2012, 19,031 employers came into collections that had never been delinquent or not been delinquent in the past four years.

Collections Outcomes



Premiums: Revenue Agents take action to collect unpaid premiums from employers.

Other Debts: Revenue Agents take action to collect unpaid contract infractions, safety & health citations, Right to Know billings and Retrospective Rating Program billings.

Provider Overpayments: Revenue Agents take action to recover monies paid through inappropriate billings that were identified by provider reviews.

Injured Worker Overpayments: Revenue Agents take collection action to recover monies from injured workers who were overpaid and no longer entitled to benefits.

Unpaid Wages: Under the 2006 Wage Payment Act, L&I recovers employees' unpaid wages for distribution to the workers. The amount shown only reflects the amount collected by the Collections Program after the Citation and Notice of Assessment issued by Employment Standards becomes final and binding.

Where we've been and where we're going

COMPLETED INITIATIVES

In the 2011 Annual Fraud Report to the Legislature, we identified several specific objectives for 2012.

Objective	Status
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.	Ongoing
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.	Ongoing
Begin accepting debit and credit card payments for workers' compensation debts.	In Development
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.	Complete
Develop an integrated case-management system for detecting contractor fraud, generating leads for compliance inspectors in the field.	Ongoing
Continue to improve on data-drive audit selections, identifying which employers need a full-audit or other communications	Ongoing
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.	Launched
Develop a standard audit procedure, using Lean principles, with a resulting improvement in the percentage of audits completed in under 90 days.	Ongoing
Establish provider fraud and abuse detection program, partnering with Health Services Analysis and the Provider Fraud unit on software tools to improve referrals.	Complete

UPCOMING INITIATIVES

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

Looking ahead to 2013, the agency will employ the following strategies:

- Implement Lean process improvement measures in Field Audit, including Standard Work for all auditors, to increase both timeliness and consistency statewide.
- Develop and implement a new triage system for referral actions, to ensure that issues are handled at the appropriate level. Identify when a referral needs an audit, when it needs account manager attention and when it requires other actions.
- Develop automated letters for employers that appear to be misreporting, but are not at a level that requires an audit or Employer Services intervention.
- Improve the speed and responsiveness of our criminal investigations processes, using Lean principles, with a resulting improvement in the percentage of cases referred for criminal prosecution.
- Develop a process improvement system for Firm Appeals, to provide a standardized workflow and scorecard of work.
- Launch educational effort to increase consumer awareness of the Underground Economy. Implement Lean process improvements in Investigations to increase the speed and quality of our investigations related to worker's compensation claims.

Not all of us speak “fraud” language every day. Here are some terms that should help you understand this report.

GLOSSARY OF TERMS

Assessment- a dollar amount identified as owed and payable to L&I, including premiums, overpayment of benefits, penalties and interest

Audit- an official review of accounts and legally required business records

Benefit- the medical coverage and/or wage replacement received by an injured worker

Claimant- an individual whose eligibility for benefits as an injured worker is in question

Contractor- anyone offering to perform construction-related work including: construction, alteration, or repair of real property; development or improvement of residential property for sale (e.g. “flipping”); installation of cabinets; tree removal; and paving

Cost Avoidance- a dollar amount of benefits that would have been paid to a claimant found to have committed fraud

Employer- any person or business engaged in work in state of Washington covered by the Industrial Insurance Act and employing or contracting with one or more workers

Fraud- a willful misrepresentation of facts for profit or to gain unfair advantage

Injured Worker- an individual injured in the course of employment, but excluding uncovered owners/partners

Infraction- an initial finding that a violation of the contractor registration law (RCW 18.27), plumbing law (RCW 18.103) or Factory Assembled Structures law (RCW43.22) has occurred, infractions carry a fine ranging from \$250 to \$10,000, depending on the specific violation

Lead/tip- potential fraud reported by the public to Labor & Industries for investigation

Premium- amount to be paid by employers for workers’ compensation coverage on their workers

Provider- health-care, vocational and supporting medical service specialists

Referral- a verified lead that is forwarded for action such as investigation or audit

Underground Economy- businesses or individuals who fail to either record, report or register a significant part of their business activities with the proper authorities as required by law

Worker- a person hired to do work for compensation

Workers’ Compensation/Industrial Insurance- a form of no-fault insurance providing medical benefits and wage replacement to workers injured on the job

HOW TO REPORT FRAUD

Help stop workers' compensation fraud. Report situations that may be fraudulent and tell others how to report.

- Fraud Reporting Hotline: 1-888-811-5974
- Fraud Reporting Website: www.Fraud.Lni.wa.gov

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

Washington State Department of Labor & Industries

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Fraud Prevention and Compliance

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What L&I is doing to combat fraud

Report Fraud Here

Employer Fraud

- What is Employer Fraud?
- Report Employer Premium Fraud.
- Report Workers' Compensation Discrimination.

Injured Worker Fraud

- What is Injured Worker Fraud?
- Report Injured Worker Fraud.

Provider Fraud

- What is Provider Fraud?
- Report Provider Billing Fraud.
- File Complaints About Provider.

Contractor Fraud

- What is Contractor Fraud?
- Report Unregistered Contractors.

Current News and Features

- Nailed: A fraud prevention and compliance blog

Look for these signs of fraud

- Employers not paying L&I premiums owed.
- Overcharging L&I for medical services.
- Working while collecting time-loss from L&I.
- Filing a false L&I claim or falsifying a condition.
- Not registering as a contractor.

Other agencies' fraud resources

- Department of Revenue.
- Employment Security Department.
- Report Newly Hired Workers. Aids in the detection of workers' compensation and unemployment insurance fraud.

STOP
Workers' Compensation
FRAUD
It's your money.
1-888-811-5974
Contact Us
Suggestions?

Find a Law (RCW) or Rule (WAC) | For Business | For Workers | For Medical Providers

Contact Information

For more information about this report, please contact:

- Elizabeth Smith, Manager, Fraud Prevention and Compliance
360-902-5933
Elizabeth.Smith@Lni.wa.gov
- Hector Castro, L&I Communication Services
360-902-6043
Hector.Castro@Lni.wa.gov