

COMBATING THE UNDERGROUND ECONOMY IN CONSTRUCTION



A progress report on the department's efforts to combat the underground economy in Construction.

January 2013

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Introduction

With 18 months of experience in our new structure, we are beginning to evaluate the effects our compliance efforts are having on the underground economy. We hope to share more of what we learn in our next report, but some of the areas we are looking at are: pursuit of repeat violators through the courts, tracking our efforts and results at obtaining restitution for harmed consumers and the quality of the infractions we are issuing. (i.e., are we prevailing at the appeal level, are we able to collect the penalties and are we vacating infractions due to mistakes.)

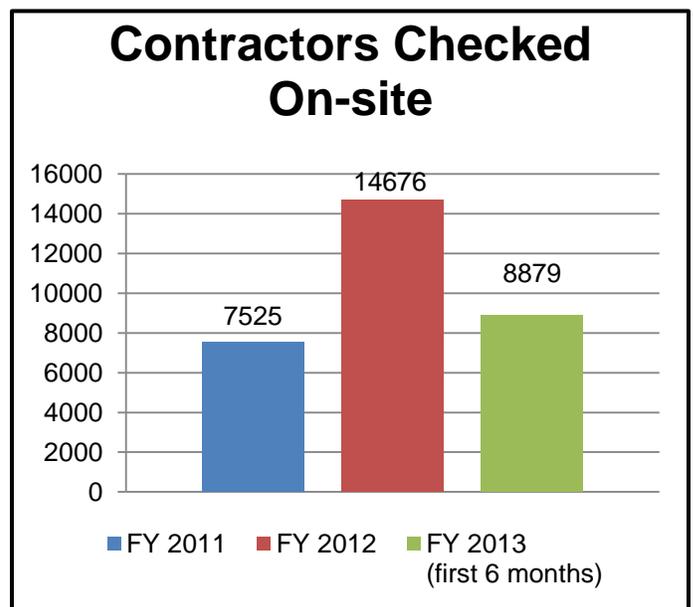
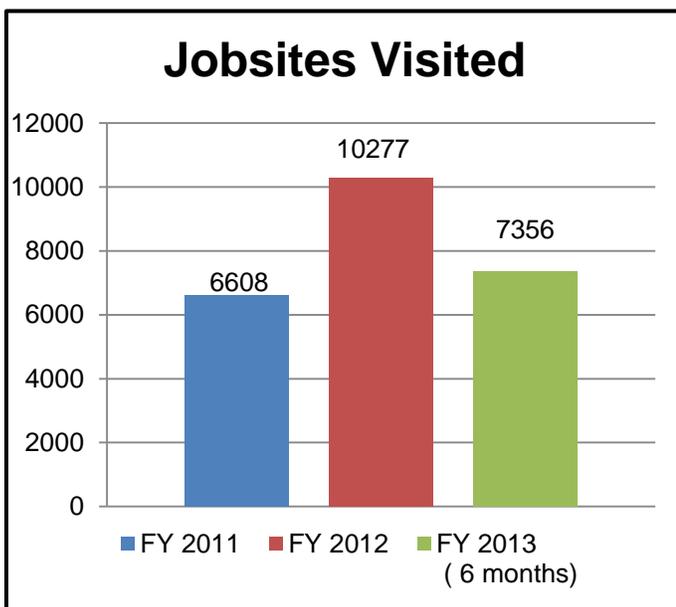
We are also using Lean principles to improve our quality, timeliness, efficiency and consistency as well as streamlining, first by instituting standard work for all of the inspectors in the field and streamlining and standardizing the work of our Infraction desk.

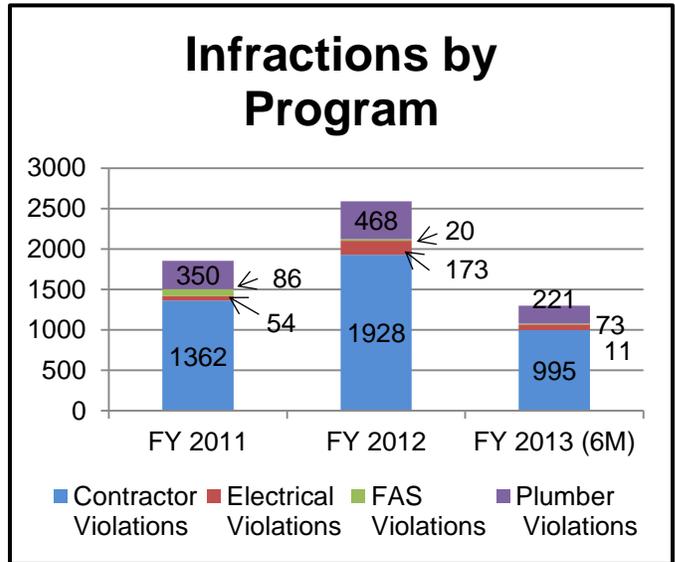
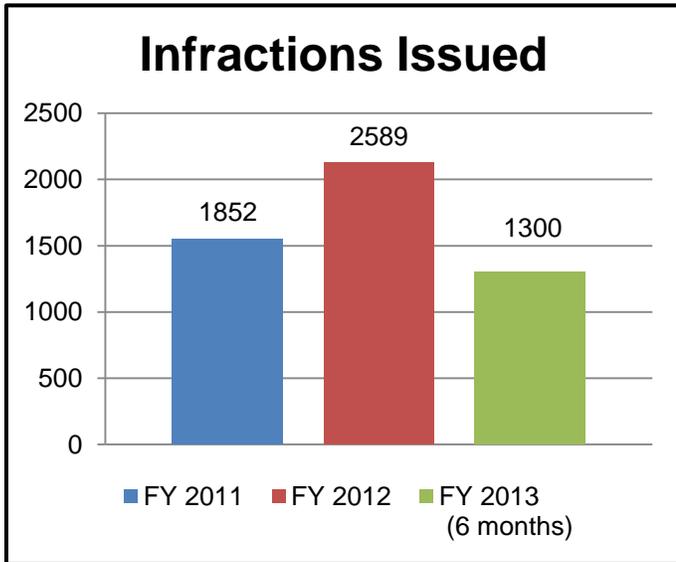
As we begin the second month of the 2013 legislative session we are also working with stakeholders on possible solutions to questions as varied as “first time offenders”, “consumer protections” and “independent contractors.” We will report any changes that affect the construction industry and the plan for implementation of any legislative actions should they occur.

Results

We continue to focus on our “boots on the ground” efforts and getting our inspectors to active jobsites as quickly as possible.

Last year’s jobsite visits increased by 56% and if trends continue as projected, we will increase jobsites visited by inspectors by 43% for Fiscal Year 2013. FY12 saw a 95% increase in the contractors checked on jobsites over FY11 and we are on track for a nearly 21% increase in FY13. We had a 39% increase in infractions issued to unregistered contractors in FY12 and we are on track to match that number in FY13. Take a look at the numbers below, keeping in mind that the numbers in green represent just the first 6 months of FY13.





Industrial Insurance Compliance

The first 6 months of Fiscal Year 2013 (July 1, - December 31, 2012) the compliance teams referrals to industrial insurance audit teams have produced:

- 708 referrals to the Industrial Insurance Audit teams
 - 434 completed audits
 - 361 of the completed audits had a total of \$6,411,513 in premiums due.
 - 273 of these firms were unregistered (Unregistered means the business had no active workers compensation account) for over \$2,541,807 of the total premiums due.

Outcomes

Changed Behavior

Our compliance actions are changing behavior. In the last 6 months 170 unregistered contractors received a reduced penalty amount by complying with the Contractor Registration requirements of getting bonded and insured and registering with L&I.

FY 2012 – 262 unregistered contractors got registered (19% increase over 2011)

FY 2011 – 219 unregistered contractors got registered.

Next steps

Industry Referrals

We are working to encourage and report on the number and outcomes of the referrals we receive. Our first formal project will be working with the Building Industry of Washington and their local associations. We will share more information on those efforts in our next issue.

Outreach and Education Efforts

The department is using multiple strategies to gain voluntary compliance and educate consumers.

Consumer Education Media Campaign and New Interactive Webpage



Cable TV and Radio Ads featuring Mike Holmes from HDTV's popular "Holmes on Homes" began airing in Mid-February around the state



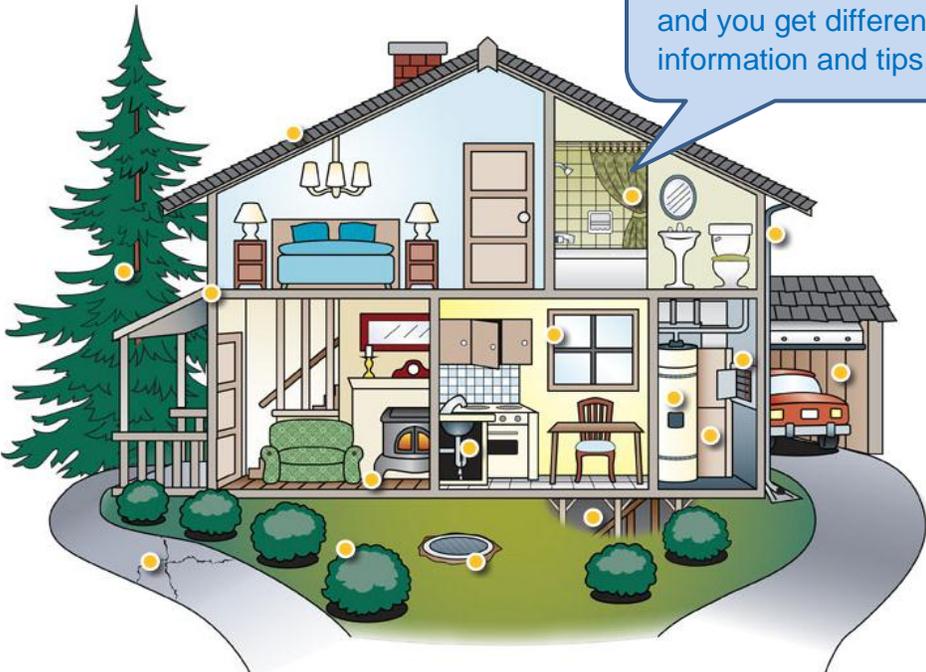
Protect My Home

Find your project  and learn what you can do to get it

Hire Smart. L&I can help.

1. Verify their contractor registration.
2. Check three references.
3. Don't pay in full until the job gets done.

-  Hire Smart Step-by-Step
-  Contractor Scams!
-  Problem with a Contractor?
-  Manufactured Homes
-  Report Fraud



Click on different points on the house and you get different information and tips.

The site will also feature:

- A newly expanded "Hire Smart" consumer worksheet
- New information for homeowners about workers compensation and their responsibilities
- Newly designed Contractor, Tradesperson or Business look up tool for your smartphone or tablet device.

Consumer Events

The department continues to dedicate staff and resources to educating consumers about the benefits of hiring legitimate contractors and the risks associated with hiring unregistered and uninsured contractors. The outreach team recently surpassed the 200,000 consumer contacts milestone. We are educating consumers through home shows, Scam Jams (in conjunction with the BBB), Fraud Fighter and other consumer events across the state.

News Media

Recent Coverage of Contractor Issues in the News

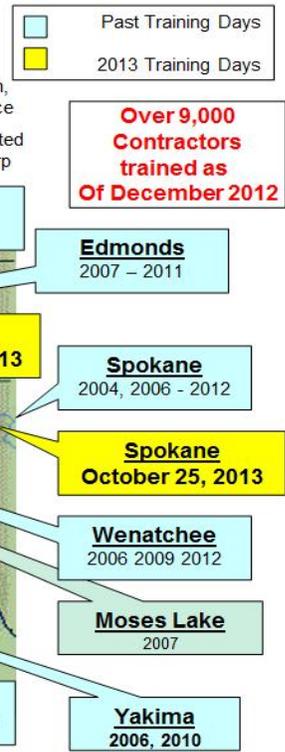
- "Tacoma Drywall Contractor Charged," KOMO-TV, 11/30/12
- "Bad Contractor Locked up for Ripping off Subcontractors," King 5 News, 5/22/12 (Mulinski)
- "Arrest Warrant Issued for a Contractor KIRO 7 warned you about," KIRO 7 News, 7/19/2012

Contractor Education

Over 9,000 contractors have attended Contractor Training Days around the state, with many more contractors attending other specialized workshops on safety, prevailing wage, dealing with an injured worker and more. Contractors that want to understand and voluntarily comply with laws and rules are a top priority and we continue to develop new ways to be sure they are informed.

Contractor Training Days

Participating Agencies: Labor & Industries, Employment Security, Department of Revenue, Human Rights Commission, Insurance Commissioners Office, Office of the Attorney General, Small Business Administration, Internal Revenue Service
Private Sector Partners: Building Industry Association of WA (BIAW), Associated General Contractors (AGC), Associated Builders and Contractors of WA (ABC), Multiple Law Firms, Northwest Independent Contractors Association, Senior Corp of Retired Executives (SCORE) Better Business Bureau



Comments from attendees:
 "Excellent Service, Excellent use of our day, definitely going to help grow our business" Tacoma Training attendee, (August 2011)
 "Very Informative. The program set up here is the best tool. So much great information in one place at no cost. A++++" Tumwater training attendee (February 2012)
 "New contractor overview should be a required class. It was great and very informative. All instructors were informative and very interesting!" March 29, 2006, Wenatchee, WA

Nailed Blog

The Nailed Blog produced by the Fraud Prevention and Compliance Program features stories about L&I's successes in reducing, preventing, prosecuting and stopping fraud.

A recent story about a husband and wife drywall team who both had been caught receiving workers compensation benefits while continuing to run their construction business consumers harmed by traveling paving scams, claimants and employers that have been convicted of cheating the system and more.

Social Media

L&I's Twitter account has over 1,300 followers, nearly double the followers we reported 6 months ago. L&I tweets regularly about unregistered contractors, training and consumer events. We also post underground economy successes, training and workshop opportunities and other customer centered activities on our Facebook page.

Background

In late 2010 L&I invited business and labor representatives to a round table discussion on the underground economy looking for suggestions and input on ways to improve our compliance efforts. As a result of those discussions and an evaluation of our efforts, on July 1, 2011, L&I reorganized its construction inspectors into regional compliance-focused teams, eliminating competing responsibilities and focusing on employers who are out of compliance with contractor, industrial insurance, electrical and plumbing laws. This structure was based on the successful pilot FAIR (Fraud, Audit, Investigations and Revenue) Team that proved focused compliance teams could have a greater impact on tracking down unregistered activity. A Construction Compliance Detection and Tracking unit was also formed to perform data mining, support compliance efforts in the field, triage complaints and referrals and conduct centralized advertising compliance (e.g. checking on Craigslist and other advertising done by unregistered contractors). This small team of three handles hundreds of calls and emails from consumers, contractors and business people, getting field inspectors to active jobsites and handling consumer complaints, issuing infractions and preparing cases for court when necessary.

COMPLIANCE TEAMS DO WEEKEND SWEEPS TO CATCH UNDERGROUND CONTRACTORS

TUMWATER — In the fourth surprise sweep in Washington state since August, construction compliance inspectors with the [Department of Labor & Industries](#) (L&I) visited 63 work sites in Chelan and Douglas counties, citing 11 contractors for either lacking a state registration, or not being registered for the work they were actually doing. The infraction carries a \$1,000 fine for a first-time offense.

“An unregistered contractor typically has no liability insurance, no bond, and pays no taxes or workers’ comp,” said Dean Simpson, manager of L&I’s construction compliance program. “That means they’re leaving consumers unprotected and are unfairly competing with reputable contractors who do great work and meet the requirements.”

“We continue to receive numerous calls from consumers who thought they were getting ‘a great deal,’ only to discover that they have little or no recourse when they’re ultimately left in a lurch by these bad actors,” said Mark Straub, executive officer for The North Central Home Builders Association. He said the association, “fully supports such efforts by L&I in rooting out unregistered contractors in North Central Washington.”

Simpson said his program has stepped up staffing and focus in the past year and a half, with the welcome support of builder groups. In the last fiscal year alone, L&I inspected more than 10,000 jobsites — 56 percent more visits and 39 percent more violations uncovered than in the previous year.

“We want to show people we’re out there, even on the weekends,” Simpson said. “We want unregistered contractors to know we will find them and for honest contractors to know we’re not ignoring this problem.”

The north central Washington sweep was the latest to target the underground economy. Similar efforts took place in Walla Walla Aug. 3 – 4, in Spokane Aug. 24 – 25 and in Tacoma Sept. 22 – 23. In those three sweeps, L&I visited a total of **194** work sites, cited **30** contractors for registration violations, found other problems with plumber certifications and underage workers, and referred several contractors to L&I’s audit program for follow-up.

L&I has carried out surprise inspections at 257 work sites since the agency began sweeps in August, and issued 41 citations for registration problems. The agency also found a number of other violations relating to uncertified plumbers, underage workers, and unpermitted work on manufactured homes.

Working as a contractor without registration, even advertising to do so, can result in a \$1,000 penalty for a first offense. Penalties climb with each resulting citation. Inspectors typically issue seven such infractions in an average month.

L&I’s contractor compliance program has 21 inspectors in the field and 3 in our detection and tracking team. Working both from tips, referrals and random site visits, the inspectors make sure contractors are properly registered, whether the person is a painter, tree trimmer, carpenter, concrete worker, fence installer or a handyman.

Report unregistered contractors at www.contractors.lni.wa.gov or call 1-888-811-5974

