



Underground Economy Benchmark Report 2011 Report to the Legislature

As required by RCW 18.27.342

**Joint Report of the
Washington State Department of Labor & Industries
Washington State Department of Revenue
and the
Washington State Employment Security Department**

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Introduction and Background

The report is intended to provide the Legislature with information on the effectiveness of state efforts to combat the underground economy by the Department of Labor & Industries (L&I), the Department of Revenue (DOR), and the Employment Security Department (ESD). Particular emphasis is placed on data sharing between the agencies and other areas where the agencies have partnered to uncover and take action on tax misreporting or fraud. Even though the Joint Legislative Task Force on the Underground Economy ended in 2009, the agencies remain committed to working together and sharing information in order to prevent fraud and reduce the impacts of the underground economy. See Appendix B for more information on legislation related to the Joint Legislative Task Force on the Underground Economy.

In 2009, the Legislature adopted Substitute House Bill 1555 relating to the recommendations of the Joint Legislative Task Force on the Underground Economy that, among other things, requires L&I, DOR, and ESD to coordinate and report on the effectiveness of efforts to address the underground economy to the appropriate committees of the legislature by December first of each year. This report is the third of these annual reports to the legislature.

Report Highlights for Fiscal Year 2011 (July 2010 – June 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.
- DOR, ESD and L&I exchanged 30,617 tips and leads through electronic data matches.
- L&I collected \$135.2 million from delinquent employer premiums.
- ESD found 16,530 unreported or misclassified workers through audits.
- L&I suspended 433 contractor registrations for failure to pay workers' compensation premiums.
- Business Licensing Service (BLS) has transferred to the Department of Revenue.
- DOR, ESD, and L&I made alternatives for late payments accessible and provided information on the availability of interest and penalty waivers.
- L&I provided education and training to over 1,100 construction contractors and reached out to more than 26,000 Washington state homeowners.
- 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.

Cross-Agency Collaboration and Data Sharing Efforts

In addition to efforts associated with the Joint Legislative Task Force on the Underground Economy, DOR, L&I, and ESD developed a Cross-Agency Referral Committee as a result of the 2006 Governor's Government Management Accountability and Performance (GMAP) Forum on Economic Vitality. The committee developed an online referral form that allows employees to share tips and leads with other agencies and developed an e-learning tool to educate staff on how to help other agencies. The Committee meets quarterly and shares information on:

- Tax discovery
- Fraud prevention
- New technology and data sharing opportunities
- Audit data on businesses along with audit findings, and
- Unregistered businesses that were involuntarily registered

On-going efforts of the Cross-Agency Referral Committee focus on new cross-match scenarios and how to refine existing queries. We continue to discuss and focus on using technology such as how best to use our data warehouse information and data analysis software to refine and share leads. In addition to the work of the committee and the automated exchange of data, managers and staff from all three agencies continue informal sharing when coordinating individual cases, special projects or other items of interest.

Other joint efforts focusing on the underground economy include improving our training and education of staff. The Department of Revenue, Labor & Industries, and Employment Security Departments have joined together to develop an on-line video focusing on investigator training. Published in March 2011, the video training includes general training pertinent to staff in all three agencies as well as an individual video segment specific to each agency.

The three agencies worked together to create a joint Notice of Completion form to assist Public Agencies when they request retainage release on public works jobs over \$35,000. The retainage release process helps ensure that appropriate taxes are paid on public construction projects.

The three agencies worked together to address the action items contained in Executive Order 10-05, Improving the Way State Government Serves Small Business. The three sections we worked together on were:

- Item 4 – Developed a report to the Governor on current practices, tax and rate structures with the goal of reducing state-imposed costs for small businesses.
- Item 4 – Coordinated media campaigns to enlist help from the public to detect and prevent the underground economy.
- Item 6 – Reported to the Governor on accessibility of alternatives for late payments and publicized the availability of penalty-and-interest waiver programs.

Number of tips and leads shared between agencies:

Cross-agency Referrals						
Referral from...to	FY 2009		FY 2010 ¹		FY 2011	
	Referrals via Interagency Referral Form	Referral via Electronic Data File Transfers	Referrals via Interagency Referral Form	Referral via Electronic Data File Transfers	Referrals via Interagency Referral Form	Referral via Electronic Data File Transfers
DOR to L&I	1	9,396	3	38,087	3	9,446
DOR to ESD	11	2,109	21	33,659	36	9,446
L&I to DOR	49	5,430	29	5,594	10	5,097
L&I to ESD	89	4,899	23	18,192	23	2,848
ESD to L&I	8	3,633	10	2,829	7	2,177
ESD to DOR	26	0	5	2,651	9	1,603
Total	184	25,467	91	101,103	88	30,617

Source: DOR

Note: We currently measure tips received from auditors at other agencies and tips sent to other agencies. State agencies cannot share IRS data for this and similar purposes.

¹ File transfer sharing totals in 2010 were an anomaly due to a 2009 interruption of data sharing by DOR: DOR had previously shared audits with ESD until sometime in 2009 when there was a lapse. Once a new sharing agreement was in place in 2010, DOR started sharing audits with ESD again. DOR did a “bulk catch with L&I” in FY 10 as L&I was sending audits to DOR, but we were not sharing audits with L&I.

Individual Agency Enforcement Highlights – Fiscal Year 2010 (July 2009 – June 2010)

Labor & Industries: Highlights

Record audit year – L&I Conducted 5,009 audits in FY2011 with an associated \$21.0 million in assessments from worker misclassification and unregistered businesses. The dollars assessed on audits in FY2011 were the highest on record, with over three times the amount assessed compared to when the Fraud Prevention and Compliance program was created in 2004.

Audits: Registered Businesses	Assessments	Audits: Unregistered Businesses	Assessments	Total Audits	Total Assessments
4,380	\$13.4 million	719	\$7.6 million	5,099	\$21.0 million

L&I Regains Retainage Release Authority on Public Works Jobs Over \$35,000 - L&I's Contract Release unit, launched in October 2009, continued with review and approval of requests for retainage release on public works projects, ensuring that appropriate workers' compensation premiums are paid on all major public works projects. Two field auditors coordinate with contractors to reconcile taxes due and paid on the project, and request amended tax reports when needed. If the employer refuses to pay any additional taxes due, the special collections revenue agent submits the certificate of lien and coordinates with field revenue agents as appropriate if there are no retainage funds left to pay the taxes owing.

In FY2011, L&I received 3,364 release requests from public works projects. During this same period, the two staff completed 3,173 of the requests worth \$3,566,913,208 and referred \$3,184,426 to collections for money owed to L&I, of which \$1,907,459 had been recovered.

New employer review – Realizing that compliance after the fact is costly, and often results in less total effect, in FY 2010 L&I launched a program called *New Employer Review*. We engage with businesses in industries that regularly show errors in reporting premiums in their first year of business. Our staff educates employers on the requirements, but will not issue a finding for past errors. Initial feedback was extremely positive, with 83% of participants agreeing that it helped them to better understand how to report.

In FY 2011, L&I provided educational / advisory audits to 1,036 newly registered employers, focusing on the following industries:

- Construction
- Janitorial
- Landscaping
- Automobile Services
- Trucking & Delivery Services
- Restaurants
- Retail Sales
- Child Care
- Towing
- Real Estate & Property Management

Labor & Industries: Important Results

Collections – Collected \$135.2 million in delinquent employer premiums.

Improved audit selection – 69% of employers that we referred for audit owed premiums, compared to less than 50 percent in FY 2004 when the Fraud Prevention and Compliance program began.

Prosecutions – L&I sent 37 cases to prosecutors for criminal prosecution including six employers, two providers, and 29 workers. Since FY 2006 we have worked with dedicated special prosecutors from the Attorney General's Office to send 147 cases to prosecution. Of those completed, we have a 100% conviction rate.

Suspended contractor registrations – 433 contractor registrations were suspended for failure to pay workers' compensation.

Revoked Certificates of Coverage – Revoked the Certificates of Coverage for 28 employers for not paying premiums, making it a class C felony for them to hire employees.

Labor & Industries: Future Focus

New employer fraud detection system – We have developed a state-of-the-art employer premium abuse detection system aimed specifically at unregistered businesses and the underground economy. It will incorporate 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. Initial deployment was complete in June, 2011, with additional features to be in place by December, 2011.

New contact for businesses with independent contractors – L&I partnered with the Department of Licensing to develop an updated Master Business Application that better identifies new firms that plan to use independent contractors. The new Master Business Application form rolled out in September, 2010. It directs new businesses to resources that L&I developed to determine when someone is a covered worker versus an exempt independent contractor. Additionally, businesses starting up will be required to note if they will have independent contractors, not just employees. Our staff will reach out directly to educate them on laws and rules at that time. This will ensure that more businesses sign up for coverage up front, holding down rates without requiring compliance audits years later.

In FY 2011, 15,853 business applicants indicated they plan on hiring independent contractors. Businesses that indicated they were not hiring workers on their business license application were given educational materials on independent contractors. Since making contact 290 new accounts have been established, resulting in additional premiums totaling \$1,860,173.

Electronic payments – L&I is working with the State Treasurer's office to enable delinquent debtors to pay us through electronic withdrawal from checking accounts when they are on a payment plan, or through debit or credit card payments. We expect to have the new process in place by June 30, 2012.

Construction Compliance Restructured – At the start of FY 2012, L&I reorganized its construction compliance inspectors – including the members of the FAIR Team – into three dedicated compliance teams in Northwest, Southwest, and Eastern Washington. The teams are based on the FAIR Team model. The dedicated inspectors will no longer have competing responsibilities, focusing solely on combating the underground economy and getting to active construction sites.

The twenty-two construction compliance inspectors and three working supervisors will be enforcing the contractor-registration, plumber-certification, and electrical-certification laws and rules. Further, they will make referrals regarding violations of industrial insurance, prevailing wage, and apprenticeship requirements.

L&I also established a Construction Compliance Detection and Tracking Unit (CC DTU) to perform data mining to better target our compliance efforts in the field. The CC DTU will also process referrals, conduct centralized advertising compliance, and process consumer complaints.

Department of Revenue: Highlights

The Department of Revenue's Compliance and Audit Divisions continued to focus on out-of-state unregistered businesses. Both divisions investigate, assess and register non-compliant businesses.

In FY11 DOR registered 1014 non-compliant businesses and assessed \$68.8 million

- This included 191 IN state businesses being assessed \$1.3 million
- This also included 823 OUT of state businesses being assessed \$67.5 million

In addition to unregistered businesses, fraud referrals are referred and investigated by both divisions and the Compliance division investigates unlicensed vehicles, vessels, and airplanes. We also continue to focus on education and enforcement to reduce non-compliance and ensure a local presence is maintained.

Prosecutions

DOR referred 18 cases to the AAG:

- 9 are still under investigation
- 5 cases are pending charges
- 3 have had charges filed
- 1 has been prosecuted.

Reseller's Permit

Background – SB 6173 of the 2009 legislative session replaced the self-issued resale certificate with an agency-issued "Reseller Permit" for use in documenting wholesale purchases exempt from sales tax. This legislation had an effective date of January 1, 2010. The Department now has the first 12 months of actual data to estimate the revenue increase.

Estimated Revenue Increase – The following estimate does not capture the full impact of the reseller's permit, only those portions that we can track with actual data. We cannot capture information for such things as service firms who have misused the old resale certificate by buying a TV at a big box store because vendors have no obligation to track and report that level of detail. Based on the first 12 months of actual data we can track, we estimate that this legislation will increase state revenues by \$38.9 million for Fiscal Year 2011. The breakdown by major industry is given below:

NAICS	Description	Estimated Increase
2373, 2371	Construction	\$5,447,000
4441	Bldg Materials and Supplies	\$14,241,000
4232, 4422	Home Furnishings	\$8,093,000
4442	Lawn & Garden Equipment	\$4,834,000
	Other	\$6,276,000
Total current estimate for FY 11		\$38,890,000

Methodology – Our methodology was centered on looking at reported taxable income on the wholesale and retailing classifications of the B&O tax. This method was used on the basis of anecdotal information supplied to the Department after the effective date of the legislation. That is, it was reported that some taxpayers had a large shift of reported activity from the wholesale classification to the retail classification. Consequently, we looked at the reporting history by industry and selected those industries where the reporting pattern was statistically different after the effective date of January 1, 2010. This methodology does not capture the full impact of the legislation, but does provide a great deal of information on the reporting impacts for these specific industries.

Unclaimed Property On-Line Withhold-And-Deliver System

In August 2009 the Department of Revenue Unclaimed Property section launched a paperless option to filing a withhold-and-deliver against funds owed in Unclaimed Property. A filed lien is required before a withhold-and-deliver can be used to attach the funds. The funds received through the withhold-and-deliver system are used to pay state debt. Agencies with access to DOR’s unclaimed property database search for delinquent taxpayers and those owing back child support. If a match is found the Revenue Agent attaches an electronic copy of the lien and any other documents required to facilitate payment of the claim.

Number of electronic claims by Fiscal Year:

- FY10 – 3,041 claims \$321,140
- FY11 – 19,305 claims \$1,546,013

Number of claims and dollars recouped by agency for FY11:

- DOR – 777 claims \$149,375
- DSHS – 10,110 claims \$766,359
- ES – 8,279 claims \$615,014
- L&I – 139 claims \$15,265

DOR Public Works Contract Clearance process and results

When a public works project over \$35,000 is completed, the public agency submits a Notice of Completion (NOC) form to DOR. When DOR receives a Notice of Completion, a tax reconciliation form is sent to the contractor. The contractor details how they reported taxes on the project and calculates any additional tax or credit due. Based on thresholds, some are sent to auditors to complete with the assistance of the contractor. When the reconciliation is returned and all state taxes have been paid, a Certificate of Payment is issued. This notifies the public agency that state excise, sales and/or use taxes due on the project have been paid and DOR is releasing their interest in the retainage.

DOR has the goal of a 60 day processing time. A large portion of this time is waiting for the contractor to return reconciliation and payment of any final taxes due on the project. Processing time can also be impacted the need to file a lien against retainage for taxes due or gathering documentation concerning taxability issues.

Requests Received	3,634
Certificates Issued (Completed)	3,582

Net Recovery		5,239,978
Dollars Paid	6,737,808	
Credits Issued	1,497,830	
Overall Average Processing Time		52 days
Contractors avg. time to return completed reconciliation*	29 days	
DOR average processing time	23 days	
* A supplemental return for contractors to show taxes paid on the project.		

Department of Revenue: Future Focus

The underground economy has been highlighted as a Director Priority. Our goal is to help level the playing field for registered businesses that are willfully and properly paying their taxes. We will guide our enforcement efforts to reduce the underground economy and tax avoidance by managing, integrating, and analyzing data. Identify unregistered and underreporting business in various business sectors, to include e retailing, wholesaling, and construction and service sectors. The DOR will continue to work proactively and cooperatively with Labor and Industries and Employment Security to foster data sharing and referrals. This will be an ongoing effort at the DOR and be fully integrated into our daily work. The Department of Revenue will share information with Labor & Industries on contractor accounts that apply for or renew a reseller permit when DOR cannot find a valid contractor's license on the account.

Business License Service (BLS) has been transferred to the Department of Revenue. DOR will be looking at areas for improvement and has created a stakeholder outreach plan to involve partner cities, state agency partners, and other key groups. DOR will also expand the membership of the current UBI Board to serve as a more comprehensive advisory committee. The focus will be to enhance and streamline the BLS program in order to better serve businesses and local governments and promote tax simplification. This priority will involve:

- Completing Phase 2 of the transfer of BLS to DOR which includes completing the move of all the business functions and IT systems. This is expected to take up to a year to complete.
- Identify, prioritize, and implement enhancements to the BLS program that include:
 - Improving and adding online applications related to the program,
 - Increasing local jurisdiction participation with the program by adding more functionality,
 - Developing a plan for rewriting the IBM Mainframe system and execute as resources allow.

Employment Security Department: Highlights

During the past year, the Employment Security Department continued to identify employers who failed to report or underreport employees for Unemployment Insurance. In FY 2011, the department dedicated one full time employee in the central office and one in each of the ten local District Tax Offices to this purpose.

Record audit year: FY 2010 and FY 2011 were consecutive record audit years. The department continued to refine the targeted audit program and Underground Economy efforts, resulting in an increase in the number of audits and the number of misclassified employees identified in FY 2011 over FY 2010. As shown above, the number of businesses with misclassified workers audited went up 58 percent from FY 2010 to FY 2011, and the number of misclassified workers increased by 89 percent,

ESD Audit Results	Audited Businesses		Increase over FY2010	New Workers Found		Increase over FY2010
	2010	2011		2010	2011	
Misclassified Workers Found	721	1,143	58 %		12,339	89 %
Businesses Audited	4006	4,339	8 %		16,530 (Unreported & Misclassified)	42 %

Electronic Reporting: ESD has three options for reporting quarterly reports electronically, each tailored to specific business needs. In FY 2011, the department initiated a campaign to increase the number of electronic filers from 80 percent at the end of FY 2010 to 88 percent by the end of FY 2011. In the second quarter of 2011, the goal had already been met, with 88.29 percent of employers filing electronically.

Improved Audit Selection: ESD continued to review historical audit data to identify industries of interest. The results have increased the number of misclassified employees and unreported taxes in FY 2011 over FY 2010. Continued sharing of audit information with DOR and L&I have also lead to productive audits as well.

Audit Leads from DOR and L&I

	Audit Leads from Auditors	Audit Leads from File Transfers
Labor & Industries	23	9,446
Department of Revenue	36	2,848

Dollars Assessed due to DOR and L&I Leads FY 2011: \$268,009.04

Dollars Collected due to DOR and L&I Leads FY 2011: \$154,527.31

Agency Results from Auditing Unregistered Businesses

In FY 2011, DOR, ESD and L&I found and audited a total of 1,969 unregistered or previously registered businesses that were involuntarily reregistered. The three agencies assessed a total of \$77,880,415 in taxes, penalties, and interest on these previously unregistered firms. Because of differences in the regulatory authority of the three agencies, they each naturally tend to audit different types of businesses. DOR audits all businesses in the state regardless of whether they have workers. DOR also has a much stronger role in auditing out of state businesses that do business in Washington. Both L&I and ESD are limited to auditing only employers with covered workers. L&I tends to focus on industries with a high injury rate and has specific additional regulatory authority over the construction industry. ESD tends to focus on industries with higher unemployment rates.

Industry sector description was determined by North American Industry Classification System (NAICS) codes as follows:

NAICS Sector Code	NAICS Sector Description
23	CONSTRUCTION
31,32,33	MANUFACTURING
0,11,21,22,48,49,53,55,62,92,99	OTHER
44,45,51,71,72	RETAIL
52,54,56,61,81	SERVICE
42	WHOLESALE

Labor & Industries

FY2011 Audit Assessments on Unregistered Accounts or Previously Registered Accounts that were Involuntarily Reregistered Totals by NAICS Sector Code

Industry Sector Description	Accounts Assessed	Dollars Assessed
Construction	307	\$ 3,473,473
Manufacturing	10	\$ 180,438
Other	133	\$ 1,947,484
Retail	60	\$ 421,285
Service	187	\$ 1,496,552
Wholesale Trade	22	\$ 127,343
TOTAL	719	\$ 7,646,574

*Assessments include tax, penalties, and interest.

Department of Revenue
FY2011 Assessments on Unregistered Accounts
that were Involuntarily Registered
Totals by NAICS Sector Code

Industry Sector Description	Accounts Assessed	Dollars Assessed
CONSTRUCTION	73	\$ 2,872,564
MANUFACTURING	94	\$ 3,717,086
OTHER	105	\$ 1,929,260
RETAIL	177	\$ 14,261,494
SERVICE	208	\$ 12,146,080
WHOLESALE	357	\$ 33,912,622
Grand Total	1014	\$ 68,839,107

*Assessments include tax, penalties, and interest.

Employment Security
FY2011 Assessments on Unregistered Accounts
that were Involuntarily Registered
Totals by NAICS Sector Code

Industry Sector Description	Accounts Assessed	Dollars Assessed
CONSTRUCTION	30	\$137,072.47
MANUFACTURING	1	\$24,193.28
OTHER	38	\$216,883.85
RETAIL	44	\$209,931.12
SERVICE	120	\$802,383.14
WHOLESALE	3	\$4,270.27
Grand Total	236	\$1,394,734.13

Overall, the largest increase in the number of unregistered accounts assessed with additional tax, penalties, and interest was the service sector, which rose from 74 unregistered accounts identified in FY 2010 to 120 in FY 2011. The retail industry also had a significant increase, from 15 accounts assessed in FY 2010 to 44 in FY 2011.

Contractor Registration Enforcement Efforts

The Department of Labor and Industries (L&I) protects consumers through the registration of construction contractors, which provides a minimum level of bonding and insurance coverage for homeowners, companies supplying labor, materials or equipment, from fraudulent or incompetent construction contractors. Since 2004, all contractors must have a valid Unified Business Identifier Number (UBI) in order to register. During Fiscal Year 2011, the department registered or reregistered 52,645 contractors.

Year-end Contractor Registrations

Fiscal Year	With UBI
2004	51,938
2005	54,172
2006	56,181
2007	59,323
2008	60,769
2009	56,685
2010	53,993
2011	52,645

L&I will deny registration or suspend the contractor's registration if they do not comply with the contractor registration laws and rules. During Fiscal Year 2011, contractors were suspended for the following:

- Unsatisfied Judgments : 748
- Cancelled insurance: 22,151
- Cancelled bond: 10,115
- Bond impaired: 93
- Outstanding contractor registration infractions: 19

Contractor Penalties

L&I is committed to improving consumer protection and leveling the playing field for legitimate contractors by informing and educating consumers, providing timely and customer focused services such as Internet registration, and actively enforcing the law. Last year, the program issued 1,232 infractions to unregistered contractors. The Contractor Registration Program also has the authority to penalize individuals up to \$10,000 for submitting false information on the application to become a registered contractor. The program did not issue infractions to contractors for falsifying information on an application.

L&I has been tracking companies who violate registration laws, misrepresenting payroll or employee hours, business without L&I certificate of coverage, or second violation of contractor registration and can prohibit them from bidding on public works contracts for one year due to specific violations.

During Fiscal Year 2011, the program issued 635 strikes and debarred 60 companies from bidding on public works contracts. A company is debarred from participating in public works projects for one to two years after receiving two strikes for the same reason or a combination of one contractor registration and one industrial insurance violation. Several contractors were debarred for violations of contractor registration laws and failure to obtain a certificate of coverage for Industrial Insurance as well as for failure to abide by prevailing wage requirements.

Reasons for issuing a Prevailing Wage Strike or Debarment

Reason	Number of Strikes	Number of Debarments
Contractor Registration Violation	364	19
Industrial Insurance Violation	254	8
Contractor Registration <u>and</u> Industrial Insurance Violation	N/A	224
Prevailing Wage Violation: Failure to file wage report / false filing	11	6
Prevailing Wage Violation: Failure to pay prevailing wage	6	3
Total	635	60

FAIR TEAM Enforcement

L&I's FAIR (Fraud/Audit/Infraction/Revenue) Team started in March 2006 with three members. On January 1, 2009, the Team expanded to six members located throughout the state. This field-based compliance team conducts job-site inspections, including on nights and weekends, in an attempt to put pressure on the underground economy by identifying unlicensed contractors and electricians as well as on any employers who are underreporting industrial insurance premiums or who have significant unpaid debt owed to the Department. They work closely with other sections of L&I, other state agencies, and with many other constituent groups.

FAIR Team Results:

	FY 11	FY 10	FY 09
Infractions issued to unregistered contractors	241	246	200
Contractors referred to the collections program	310	300	195
Contractors referred to the audit program	546	696	436

Education and Outreach Efforts

Labor & Industries worked with Employment Security and the Department of Revenue to launch two marketing campaigns in November 2010 and March 2011 to discourage consumers from using non-compliant businesses, including independent contractors.

SuspectFraud.com is the website promoted during the ad campaigns. News releases and radio and web advertising used the “Check with the State Before it’s Too Late” and “Your Pain is Their Gain” ad slogans

One indication that the ad campaigns are working is the increase in fraud referrals to the Department of Revenue. DOR received 2258 referrals for FY11, which is an increase of over 140% from FY10. The DOR is also working to increase the number of referrals received via the Internet. In FY11 Internet referrals represented 62% of all referrals received.

Suspectfraud.com

The website was jointly developed in 2009 to gather and refer fraud referrals to ESD, DOR, and LNI. We have recently updated the site to provide more information for the consumer and guide them to the correct agency when reporting fraud. We’ve also added a section for consumer to be able to Report Other Types of Fraud. This section includes links to DSHS, Department of Health, Attorney General’s office and others. This is a snapshot of the new website version just being released.

State of Washington
SuspectFraud?
Check with the state before it's too late

[Home](#) [Report Other Types of Fraud](#) [About Suspect Fraud](#)

Labor and Industries
[Contractor Fraud](#)
[What is Contractor Fraud?](#)
[Report Unregistered Contractors](#)
[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](#)

Department of Revenue
[Tax and License Fraud](#)
[What is Tax and License Fraud?](#)
[Report Tax and License Fraud](#)
[Find out if a business is licensed](#)
[Check the Delinquent Taxpayer List](#)

Employment Security Department
[Unemployment Fraud](#)
[Report Unemployment Fraud](#)
[Report Unemployment Benefit Fraud](#)

Most businesses are honest and trustworthy, but some cut corners by not registering or dodging taxes that law-abiding businesses pay. The departments of Labor and Industries, Employment Security and Revenue have teamed up to provide resources to help you determine if a business is registered and in good standing with the state.

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Construction Contractor Education and Outreach

The ad campaign kicked off in April 11, 2011, at the start of home remodeling season, with circulating statewide radio spots, creative materials being handed out by our statewide partners, a Google ad words pay per click 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 Seattle, Spokane, Wenatchee, TriCities, and Yakima radio stations that targeted adults aged 35-64. Our paid radio spot was combined with more than 100% no charge radio spots, for a total of 6,818,400 impressions around the state.

In conjunction with the radio campaign, a Google pay per click campaign utilized search words at the key moment a consumer is researching for a contractor. The keyword ad was exposed 1,209,059 times and generated 3,006 clicks.

At the same time, a public relations effort resulted in consumer targeted stories on social and traditional media. The Nailed blog featured stories from consumers that failed to ensure if their contractor was registered, which were also publicized on Twitter. KING 5's Jesse Jones did a story about a paving job gone bad, and KOMO did a great piece on an unregistered contractor with multiple victims. During the campaign time frame, 11 media outlets picked up 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](#)

During the past year L&I has reached more than 26,000 Washington state homeowners and 1,100 contractors to ensure that:

- Consumers are aware of their rights; and
- Contractors know their responsibilities under the law.

In the last six years, the program has spoken directly to over 175,000 consumers! There has been a 600 percent increase of consumers checking their contractor’s registration status with the department before hiring a contractor.

We have reached these numbers by:

- Increasing the number of public and consumer awareness campaigns.
- Attending and participating in 26 home shows and more than a dozen other consumer events.
- Collaborating with other consumer protection agencies and organizations.
- Working with the media to warn consumers about the dangers of using unregistered contractors.
- Buying advertisements on Washington radio stations to encourage consumers to use registered contractors and inform them of the “contractor lookup” feature on the L&I website.

L&I developed and distributed a registered contractor marketing card to over 40,000 contractors. The card explains how to verify registration, gives a place for the contractor’s name and registration number, and contact information for the BBB and the AG’s office. Several users have told us the cards made a huge difference in combating lost jobs to unregistered contractors.

L&I continues its partnership with the building industry by presenting Contractor Training events around the state. These are in conjunction with Employment Security and the Department of Revenue; along with Associated General Contractors (AGC), Building Industry Association of Washington (BIAW), Northwest Independent Contractors Association (NICA) and other volunteer speakers.

Ninety-nine percent of attendees rate the contractor training program as “average” or “above average”. L&I offers more than 25 different classes to contractors to assist them in running their business safer, more profitably and with the consumer in mind.

Year	# of Contractor Training Events	Average Contractor Attendance per event	Total # of Contractors Trained
2004	3	84	258
2005	7, plus 2 mini trainings	134	Over 950
2006	7	158	Over 1,000
2007	8	157	Over 1,100
2008	8	165	Over 1,320
2009	10	130	Over 1,300
2010	8	142	Over 1,100
2011	9	125	Over 1,100

Education on Industrial Insurance Reporting

Labor & Industries made contact with approximately 12,000 contractors bidding on prevailing wage jobs encouraging them to contact L&I to verify appropriate use of construction classifications.

Labor & Industries identified nail salons and the restaurant industry for audit focus. A pre-audit education letter was sent to 3,235 employers in that industry advising them of the records they need to keep for employees. Employers are now reporting correctly and paying the right amount of premiums.

Education was provided to 16,000 new employers on independent contractor issues. This was accomplished through:

- Presentations at Contractor Workshops throughout the state.
- Mailing to new employers who opened accounts in industries with a high usage of independent contractors.
- Contacts with employers who indicated they were using independent contractors.

L&I began mailing educational materials to construction business owners that filed an application for a business license but did not open a workers' compensation account.

Nailed – L&I’s Fraud Prevention & Compliance’s Blog

The screenshot shows the Mozilla Firefox browser window displaying the homepage of the 'Nailed' blog. The browser's address bar shows the URL 'http://nailed.lni.wa.gov/'. The page header includes the Washington State Department of Labor & Industries logo and navigation links for Safety, Claims & Insurance, Workplace Rights, and Trades & Licensing. The main content area features the 'NAILED' logo, a bio for Carl Hammersburg, and navigation buttons for 'BLOG', 'PODCASTS', and 'REPORT FRAUD'. A featured podcast entry from September 24, 2010, is highlighted, featuring a photo of Carl and Doric. To the right, there is a 'RECENT COMMENTS' section with a comment from Debbie Mead and a 'TWITTER TALK' section with a Twitter logo. The browser's status bar at the bottom shows 'Done'.

L&I continued its use of social media as an avenue for raising community awareness through publication of an internet blog, [Nailed](http://nailed.lni.wa.gov) (<http://nailed.lni.wa.gov>). In FY2011, Nailed recorded 20,820 page views (or “clicks”) by 6,416 unique visitors.

Appendix:

Significant Legislation

Related to the Joint Legislative Task Force on the Underground Economy

2010

[SHB 2789](#) – Authorizing issuance of subpoenas for purposes of agency investigations of underground economic activity

- Effective date 6/10/2010.
- The bill provides authority for L&I, DOR and ESD to seek administrative subpoenas for the investigation of underground economy activity. The bill provides what must be articulated to the court in order to have the subpoena approved by the court.

[SHB 3145](#) – Improving administration of wage complaints

- Effective date 6/10/2010.
- Establishes a civil penalty for repeat willful violators of the wage payment laws.
- Modifies the wage payment provisions with respect to tolling the statute of limitations, successor business liability, minimum penalty amounts, and the bonding authority of L&I.

2009

[SHB 1555](#) – Addressing the recommendations of the joint legislative task force on the underground economy in the construction industry

- Effective July 26, 2009 (Governor has not signed).
- Establishes industrial insurance premiums as a priority on public works retainage, secondary to that held by employees or DOR under RCW 82. It includes L&I in the request for release process, so we will be aware of projects and amounts that may be due.
- Requires contractors licensed under RCW 18.27 to maintain a list of subcontractors used and copies of their construction registration. The information will be used by the construction compliance program and auditing/compliance efforts for workers' compensation.
- Establishes a requirement for employer education on workers' compensation reporting requirements, in particular, independent contractor issues.
- Extends the joint legislative task force on the underground economy through this year, and expands it to industries other than construction.
- Requires L&I to report yearly on efforts resulting from task force bills or recommendations, jointly with DOR and ESD.

SSB 5613 – Authorizing the Department of Labor & Industries to issue stop work orders for violations of certain workers' compensation provisions

- Effective July 26, 2009.
- Authorizes L&I to issue stop work orders to contractors that do not have any industrial insurance coverage.
- Requires business operations to cease, either at a jobsite if posted there, or statewide if served on an employer.
- There are provisions for reconsideration and appeal. During these dispute processes, the stop work order remains in effect unless the employer posts a cash deposit or bond of \$5,000, or \$1,000 per employee identified.
- Violating a stop work order is subject to a penalty of \$1,000 per day not in compliance. It remains in effect on successor entities with one or more of the same principles/officers if in the same or equivalent trade.

SHB 1055 – Requiring workers to have licenses, certificates, or permits in their possession when performing work in certain construction trades

- Effective July 26, 2009.
- Requires licensed and certified electricians, elevator mechanics, and plumbers to have their appropriate certifications or licenses and photo identification card in their possession while working.
- Gives the department the authority to adopt a rule to require electricians, plumbers, and conveyance workers to wear and visibly display their licenses, certificates, permits, and endorsements while working, and to include photo identification on these documents.

SSB 5904 – Defining independent contractor for purposes of prevailing wage

- Effective July 26, 2009.
- Defines when a worker is an independent contractor for prevailing wage purposes consistent with the definition in both the workers' compensation and unemployment insurance laws.

2008

HB 2955 – Ensuring access to criminal justice information – multi agency

- Effective June 12, 2008.
- Provides the authority for L&I, DSHS, ESD, DOL, Criminal Justice Training Commission, and the Office of the Attorney General (AGO) to access criminal history information when conducting investigations of potential fraud and abuse.

ESHB 3122 – Relating to consolidating, aligning, and clarifying exception tests for determination of independent contractor status under unemployment compensation and workers’ compensation laws

- Effective June 12, 2008.
- Creates test for determining whether a construction worker is a covered worker or uncovered independent contractor for purposes of unemployment and industrial insurance laws.
- Makes the test easier to follow and brings it into close alignment with the test for other industries.
- Closes a loophole that previously allowed firms without a current business registration with DOR to meet exemption tests.

2SSB 6732 – Implementing the recommendations of the joint legislative task force on the underground economy in the construction industry

- Effective June 12, 2008.
- Implements recommendations of the Joint Legislative Task Force on the Underground Economy in the Construction Industry and extends the term of the Task Force through December 2008.
- Certain penalties are increased or established which include a civil penalty for persons who falsify information on a contractor registration application and a prohibition on contractors bidding on public works projects if they violate contractor registration laws, misrepresent payroll of employee hours to L&I, or engage in business without a workers’ compensation account.
- Eight FTEs and \$1,706,000 for FY 2009 to provide additional enforcement staff, dedicated Assistant Attorney Generals, outreach, etc.

2007

SB 5926 - Creating a joint legislative task force to review the underground economy in the construction industry

- Effective May 2, 2007.
- Creates a joint legislative task force to study the impact of the underground economy in the construction industry.
- L&I have a nonvoting member on the task force and cooperate with the task force and the institute for public policy and provide information and data to them.