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Fighting the underground economy: L&I annual fraud report

We recently gave the Legislature our yearly update on what we have done to fight fraud in the workers' compensation system. So what does *that* battle have to do with the underground economy?

The fight against fraud in the construction industry often starts with uncovering fraud in the workers' comp arena. When L&I compliance inspectors catch unregistered contractors in the field, there is a good chance they are not paying for workers' comp insurance on their employees. It gives those contractors an unfair cost advantage over legitimate competitors when it comes to bidding on jobs.

In this issue, we spotlight some of the report sections that relate to the construction industry in Fiscal Year 2014 (July 2013–June 2014).

The report, [Improving Integrity and Accountability in the Workers' Compensation System: 2014 Annual Report to the Legislature](#), is at www.Lni.wa.gov/LegReports.

Construction compliance in the field



Inspectors check more contractors, refer more for audits

L&I's 21 construction compliance inspectors scrutinized more contractors in 2014, even though they visited far fewer job sites.

Our inspectors watch for all sorts of violations, especially whether a contractor has a current contractor's license. In 2014, inspectors began spending more time at construction sites. The extra time allows them to more thoroughly ensure compliance with electrical, plumbing and workers' comp laws.

They also find more contractors owing money to L&I. The shift resulted in more referrals to the Workers' Comp, Prevailing Wage, Safety, Collections and Employment Standards programs.

For instance, inspectors referred 1,448 contractors to the department's audit program, more than a 30 percent increase from the previous year.



Underground economy violations dominate infractions

The underground economy continues to plague the construction industry, as evidenced by the type of tickets issued by construction compliance inspectors.

Of 2,095 violation notices issued by inspectors, 88 percent were underground economy violations. Underground economy violations include: Unregistered contractors, unlicensed electricians, uncertified plumbers and plumbing installers bidding or working in Washington; and performing construction and repair work without permits.



Employers without workers' comp accounts

One tactic to curb the underground economy is finding and auditing businesses that have no workers' comp account with L&I or those who fail to accurately report worker hours and pay related premiums. Since 2008, the number of audits of unregistered businesses has grown by 105 percent, and the amount of premiums assessed on those businesses has more than doubled.

When conducting audits, we find that unregistered employers tend to owe more in premiums than employers who have a workers' comp account. In 2014, field auditors assessed \$10 million in premiums on 977 unregistered employers. Meanwhile, they assessed \$9 million on 2,940 employers who already had workers' comp accounts.

State law requires employers and employees to fund the state workers' comp system, providing medical and partial wage-replacement coverage to workers who are injured on the job. Those who fail to pay their fair share gain an unfair advantage over those who follow the rules.



Discovering unlicensed electrical contractors, electricians

L&I's team dedicated to targeting the underground economy in electrical work issued more than 2,580 citations and warnings in 2014. The five-member Electrical-Compliance, Outreach, Regulation and Education (E-CORE) team primarily investigates tips and referrals about unlicensed electrical contractors and uncertified workers.

About half (1,315) of those citations and warnings were "focused" on the underground economy, including violations for unlicensed electrical contractors, uncertified electricians and lack of required electrical permits. That was about 7 percent more than the previous year.

The E-CORE team members are not the only ones looking for underground economy violators. The department's 110 electrical inspectors, lead inspectors and supervisors are also on the lookout for underground economy violators during electrical inspections. They issued 2,013 "focused" underground economy citations and warnings, just under half of their total 4,376 citations and warnings.



Marketing and website target homeowners

L&I's ProtectMyHome.net is a comprehensive online resource that enlists consumers in the battle against the underground economy. The site provides tools to check out contractors and tips to plan home renovations and repairs. L&I marketing campaigns draw viewers to the site, which debuted in February 2013.

The 2014 campaign focused on cable and broadcast TV commercials featuring Mike Holmes, a contractor who repairs damage done by bad contractors in several nationally-syndicated cable TV shows. During the 21-week campaign, monthly website traffic more than tripled when compared with non-campaign months. All told, the 2014 campaign drew more than 13,000 visits.