

# **Improving Integrity and Accountability in the Workers' Compensation System**

*2019 Annual Report to the Legislature*

January 2020

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# Executive Summary

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This annual report summarizes the Department of Labor & Industries' (L&I) efforts to find and eliminate deliberate fraud in the workers' compensation system among workers, employers, and health care providers. It describes L&I's efforts to provide targeted education and assistance to employers and, as directed in state law (RCW 43.22.331), includes actual and estimated cost savings resulting from the agency's investigations into workers' compensation fraud. This report does not address L&I's investigations into employer practices regarding payment of minimum wage, overtime and other pay requirements, or meal and rest breaks.

## Education and outreach

L&I offered a wide array of programs and services in Fiscal Year (FY) 2019 to help businesses reduce reporting mistakes and understand applicable laws and rules, including:

- Contractor training days.
- "Introduction to L&I" workshops.
- Outreach to health care providers to help them understand L&I's billing and documentation requirements.
- Webinars and eLearning modules.
- Early contact calls to employers who have a time loss claim.

Using Lean principles, L&I created standardized processes for opening new industrial insurance accounts. A key focus is outreach to businesses via phone and/or e-mail to ensure that the correct premium rates are being charged, and to educate businesses about quarterly reporting requirements.

## Worker fraud

In FY 2019, L&I completed more than 2,800 worker investigations, including 47 investigations of fraudulently claimed workers' compensation benefits, amounting to savings of over \$1.3 million.

## Employer fraud

L&I received close to 4,200 employer fraud leads in FY 2019. The resulting reviews and audits led to over \$24 million in additionally assessed premiums, penalties, and interest.

To reduce and prevent employer fraud in FY 2019, L&I:

- Audited more than 2,900 employers, over 1,000 of which were unregistered employers.
- Identified over \$24 million\* in workers' compensation premiums owed through employer audits. L&I has improved its audit selection procedures over the last several years, enabling the department to focus on employers most likely to owe premiums. This resulted in finding that 83 percent of audited employers owed debts to L&I in FY 2019.

- Collected \$188.4 million in delinquent employer premiums.\*
- Completed seven criminal employer fraud investigations.
- Reviewed nearly 4,400 public works contracts worth \$5.8 billion to ensure workers' compensation premiums were paid.

\*These dollar amounts include collections due to both fraud and standard collection practices.

### **Provider fraud**

L&I identified nearly \$3.4 million in health care provider overpayments in FY 2019, of which more than \$1.1 million was identified as potential fraud.

### **Collections**

In FY 2019, L&I collected a total of \$203.9 million in delinquent money, of which \$188.4 million came from employer premiums. Other sources of this delinquent money include the Retrospective Rating program, Washington Industrial Safety and Health Act (WISHA) citations, contractor infractions, the Merit-based Incentive Payment System (MIPS) for provider payments, claims overpayments, the Wage Payment Act, and Third Party claims.

### **Return on investment**

Each year, the department is asked to identify the return on investment of these efforts. Return on investment compares operating costs to the money recovered, money collected and expenses avoided during the year. Operating costs include salaries, benefits, and capital outlays.

In FY 2019, L&I employed 257 FTEs in detecting, investigating, and enforcing action against workers' compensation fraud. For every dollar spent on these efforts, L&I returned \$9.94 to employers, workers and medical providers.

### **Cost savings**

L&I's actions to deter and detect fraud help ensure that money is available for injured worker benefits, and help reduce workers' compensation costs for both workers and employers.

FY 2019 cost savings directly associated with L&I investigations totaled almost \$1,921,000. Of this total, about \$1,361,000 came from enforcement actions stemming from L&I investigations; more than \$99,600 resulted from investigators' discovery and correction of overpayments; over \$1,188,100 came from fraud investigations; and almost \$633,200 came from non-fraud investigations.

### **Initiatives and future actions**

In previous reports, L&I identified objectives and initiatives for 2018 and 2019 related to deterring, detecting, and prosecuting workers' compensation fraud. As of the writing of this report, two initiatives are still pending or ongoing, and one has been restructured. The status of each project is shown in the *Initiatives* section of this report on page 21.

In FY 2020, L&I will continue its existing efforts to pursue workers' compensation fraud by:

- Developing and enhancing relationships with key partner groups to improve overall effectiveness of workers' compensation claim investigations.
- Exploring ways to develop data analytics to select high probability case leads for worker fraud investigations.
- Partnering with other programs and agencies on significant "bad actor" businesses who are severely out of compliance across the varied lines of business.
- Collaborating with other federal, state, and private investigation groups to identify provider investigations with common themes.
- Focusing efforts with claims management to provide information that assists in returning workers to work, thereby avoiding long-term work disability.

# Introduction

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The Department of Labor & Industries (L&I) provides information and services to help employers, workers and health care providers understand and comply with the requirements of Washington’s workers’ compensation system, and works to preserve the integrity of the workers’ compensation fund. The goal is to ensure money is available to pay for injured worker benefits and to help reduce premium costs for both workers and employers. The department uses discovery tools, interagency partnerships and public tips to detect and deter fraud in the workers’ compensation system. In the most egregious cases, the department moves to criminal prosecution.

Workers’ compensation fraud comes in three forms: **employers** who fail to pay their workers’ compensation premiums, **employees** who make false injury and disability claims, and health care **providers** who bill dishonestly.

Cheating the workers’ compensation system is not a victimless crime. Fraud drives up costs. Both employers and workers pay insurance premiums into the system – and they all pay the price if costs are unnecessarily high due to fraud.

## Impact to honest employers

Employers that don’t comply with business regulations and laws have lower costs, giving them an unfair advantage over businesses that do comply. By not paying for workers’ compensation or other taxes, licenses and wages required by law, these employers are able to charge less. This raises costs for legitimate businesses because there are fewer businesses to cover the full costs of the system.

## Impact to workers and the public

Higher premium rates resulting from fraud cut into workers’ wages, lower business profits, and increase prices for consumer goods and services. Taxpayers are unduly burdened as workers are misclassified or left without employer-provided workers’ compensation benefits.

## In this report

This report describes how L&I detects and prosecutes fraud committed by workers, employers, and medical providers. It also

**Workers’ compensation** is a form of insurance that provides medical treatment, wage replacement, and other disability benefits when workers are injured or suffer a work-related illness. About 176,000 employers and 2.9 million workers are covered through L&I (the state fund), and share risk by paying premiums to fund the system.

**Insurance premiums** are based on the risk associated with the type of work employees perform. This is done by assigning certain “risk classes” to employers.

In addition to the assigned risk class(es), **premium rates** are adjusted for each individual employer based on the number of injuries and worker hours the employer reports. This is referred to as the employer’s “experience factor.” Hazardous work activities with an increased risk of injury require a higher premium rate through the risk class. Companies that experience more costs for workplace injuries will pay higher rates within the class, and those with lower costs will pay less.

explains how L&I collects past-due debt, averts fraud through education and outreach, and implements innovative programs and tools to combat fraud.

# Worker Fraud Investigations

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## OVERVIEW

In general, any individual collecting workers' compensation benefits to which they're not legally entitled or obtaining benefits through deliberate misrepresentation is committing worker fraud.

Fraud investigations may result in workers having to repay benefits and, in some cases, face criminal convictions. Investigations do more than identify debts owed to L&I; they also help avoid unnecessary expenses. When an investigation determines someone is not entitled to workers' compensation benefits, L&I stops paying benefits to the worker. Investigations often uncover vital information that enables better claim adjudication decisions and helps workers return to work, avoiding workplace disability. L&I estimates that over \$2 million in future workers' compensation costs were avoided through these efforts during fiscal year (FY) 2019.

## DETECTION

L&I's Detection and Tracking Unit (DTU) within the agency's Investigations program identifies and prevents fraud within the injured worker claim system using a variety of resources and tools. Employees review individual claims and assess the potential for fraud by analyzing multi-agency, cross-matched resources and data. They also review tips from the public and share them among internal programs.

In FY 2019, the DTU evaluated more than 8,100 individual workers' compensation claims. These evaluations led to over 420 investigations; of those investigations, 47 found that fraud (willful misrepresentation) occurred. As a result, L&I collected nearly \$1.35 million in overpayments and penalties. The evaluations also found non-fraudulent overpayments amounting to over \$11,700.

Public tips were the source of nearly 730 of the more than 8,100 claim reviews done in FY 2019. These led to almost 100 investigations.

## CRIMINAL AND CIVIL CASES

In FY 2019, investigators referred 10 claimant fraud cases to the Office of the Attorney General (ATG) for consideration of prosecution. Nine of these cases remain in a pending status awaiting charging decisions.

During this reporting period, the ATG filed criminal charges on five cases. Four of these cases were from the prior fiscal year.

For civil cases, if an initial review of a tip received about potential workers' compensation fraud suggests inconsistencies, staff refers the tip to L&I's Investigations program, which gathers evidence and, when appropriate, issues Administrative Fraud Orders (AFOs) to recover money paid in fraudulent benefits. In FY 2019, Fraud Adjudicators issued 47 worker fraud AFOs, which recovered more than \$1.3 million.

L&I investigations include:

- **Activity checks** in which the current level of a worker's activities are reviewed to see if he or she is still unable to work.
- **Validity checks** of the facts surrounding a claim for benefits to ensure the claim is legitimate (for example, determining whether the injury was the result of a work-related accident).
- **Fraud due to intentional misrepresentation** of injuries by a worker in order to continue receiving benefits they would otherwise not be entitled to (for example, a person working under the table while continuing to receive wage-replacement funds).
- Requests to **reopen claims** that were previously closed, to ensure there have been no intervening incidents, such as traffic accidents or other insurance claims for the same type of injury, between the time the claim was closed and the request to reopen it.

Other investigations can result from discoveries of irregularities by claim managers, when they request information such as medical records to manage a claim.

Figure 1 shows the types of worker fraud investigations L&I conducts, and the number conducted in FY 2019. Following more than 8,100 claim evaluations, over 2,800 investigations were conducted. The most common were activity investigations to verify whether an injured worker was still unable to work. These figures include the civil and criminal cases identified above.

**Figure 1: L&I investigations, FY 2019**

Type of Referral	Number of Referrals
Activity	1,580
Other	635
Validity	535
Fraud	78
Claim Reopening	4
<b>Total</b>	<b>2,832</b>

Source: L&I Investigations

# Employer Fraud Investigations

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## OVERVIEW

Employer fraud occurs when an employer knowingly misclassifies employees in lower-cost rate classes, underreports worker hours, or fails to pay required premiums. Employer fraud cases are investigated by both L&I auditors and investigative staff. Employers that commit fraud can incur large assessments and penalties and may be criminally prosecuted.

Some examples of employer fraud include:

- Operating a business without the proper license.
- Paying workers in cash with no payroll records.
- Intentionally underreporting workers.
- Treating workers as independent contractors (failing to cover workers with industrial insurance).

In FY 2019, the Investigations program initiated 17 criminal cases related to employer fraud involving allegations of employer misconduct such as failure to secure industrial insurance for employees, continuing to employ workers after their certificate of coverage was revoked, or violations of other criminal statutes pertaining to employers. Referrals of these cases primarily come internally from collections activity, audits, and L&I's Contractor Compliance program. Though these cases are relatively infrequent, they require the most investigator time due to their complexity.

## DETECTION

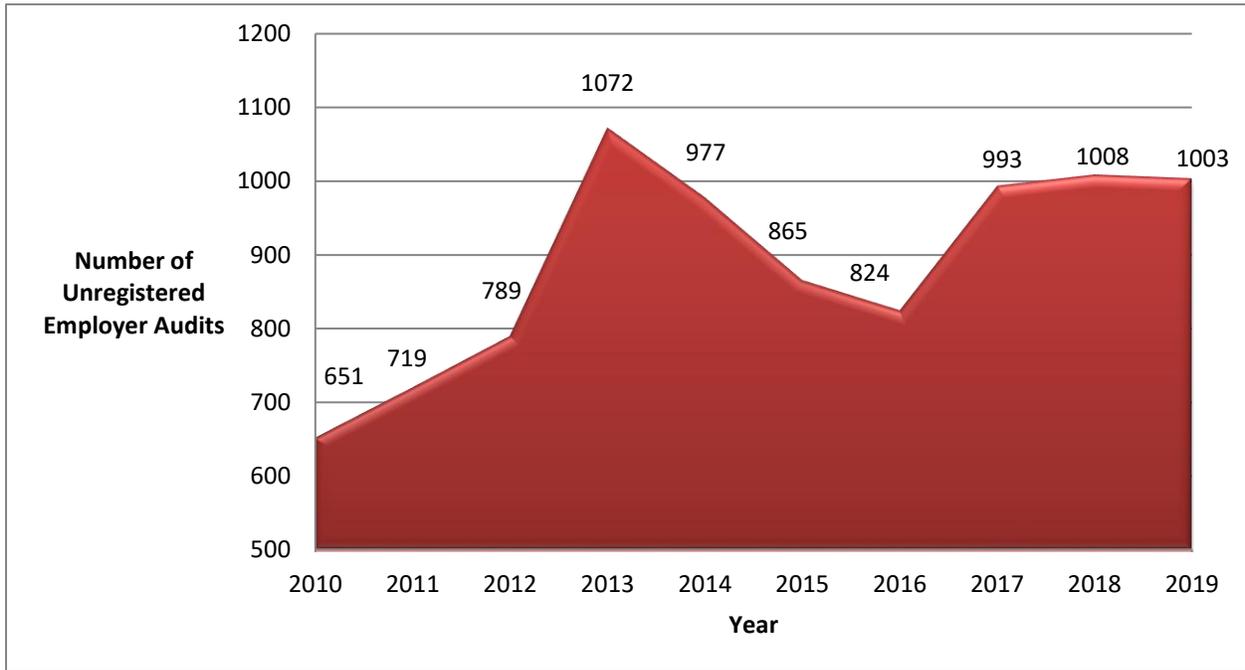
L&I's continually improving detection and targeting capabilities have led to better detection of employers who owe premiums, and fewer instances of compliant employers being audited.

To identify businesses most likely to owe premiums, L&I uses tips from the public, shares data and information with other agencies and interested parties, and makes efficient use of available data to send auditors to the right businesses. Improved detection methods ensure L&I targets and actively pursues the employers most likely to commit fraud – also saving time and trouble for employers who follow the rules. In FY 2019, L&I received nearly 4,000 employer fraud leads. The resulting reviews and audits led to more than \$24 million in assessments.

Of the more than 2,900 employer audits completed in FY 2019, 83 percent found money owed to L&I – resulting in over \$24 million in assessed premiums.

Since 2010, the number of audits of unregistered businesses has increased by more than 64 percent, as shown in Figure 2. The high number of audits in FY 2013 may have been due to restructuring of the Contractor Compliance program. The following decrease is likely due to economic factors.

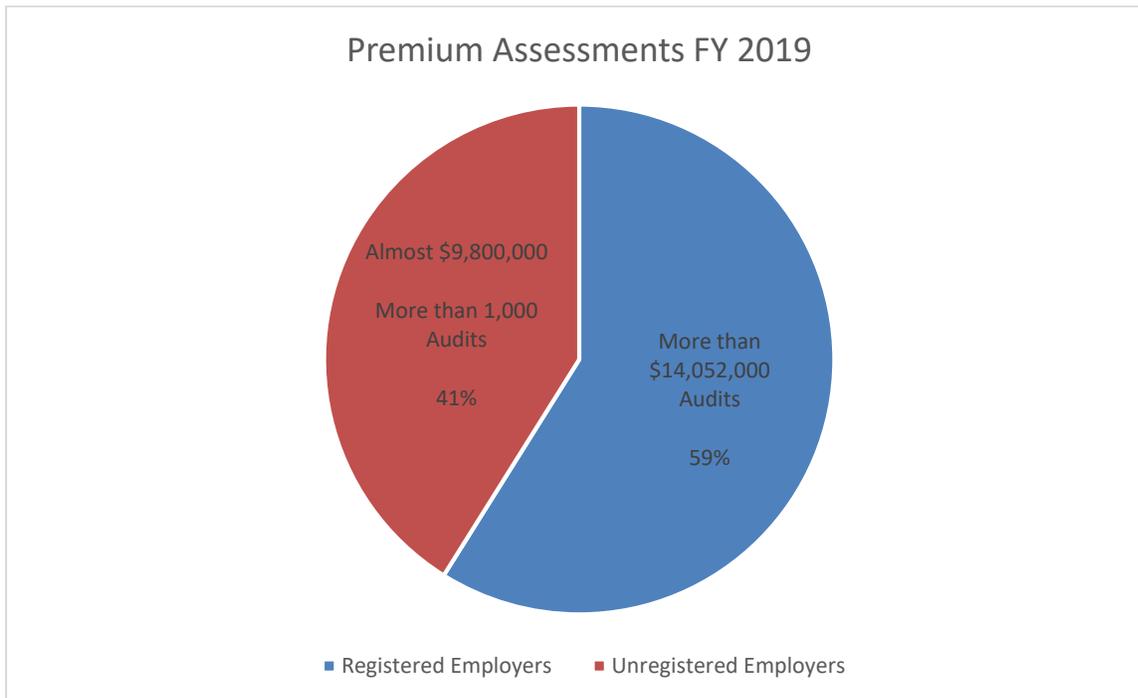
**Figure 2: Unregistered Employer Audits, FY 2010-2019**



Source: L&I Field Audit

As shown in Figure 3, about 41 percent of premium assessments in FY 2019 involved unregistered employers. This is increased from FY2018, indicating increased improvement in focusing audits on those employers most likely to owe premium.

**Figure 3: Premium Assessments, FY 2019**



Source: L&I Field Audit

### Field audits

Audits are an important tool to ensure employers report their worker hours correctly and pay appropriate workers' compensation premiums. L&I's standard audit process includes checking business records, conducting interviews, and verifying the number of workers reported and that all hours are reported in the correct risk class.

Auditors located in offices throughout Washington conduct field audits. After completing an audit, L&I performs a closing conference with the employer, either by phone or in person, in which auditors supply educational materials and explain how to improve record-keeping. This post-audit conference is required on every audit to help employers understand their reporting obligations. It's also a chance to answer employer questions, which helps prevent recurring problems.

### Public works contracts

L&I reviews every public works project worth more than \$35,000 to determine whether appropriate workers' compensation premiums were paid. On these projects, the final five percent of payments is withheld until certain tax payments are verified. This ensures that contractors follow the law and pay

taxes, including any workers' compensation premiums owed to L&I. This process of withholding contract payments is also used to pay any wages owing; however, that information is not included in this workers' compensation-focused report.

If, while reviewing a public works project, L&I discovers a contractor owes workers' compensation premiums for other types of projects, the department may pursue those debts as well.

In FY 2019, L&I reviewed nearly 4,400 public works contracts, valued at nearly \$5.8 billion. L&I found over \$3,917,000 million in debt owed for work on public projects during the year.

L&I works with contractors to resolve unintentional reporting discrepancies. Contractors can voluntarily amend their company's workers' compensation reports and make the required payments. However, as not all cases are resolved voluntarily, a small number require an audit. In FY 2019, more than 32,200 account reviews were completed; 82 of those have been audited as of the writing of this report.

## CRIMINAL AND CIVIL CASES

### **Criminal cases**

A criminal case may be filed against an employer for the most egregious actions. Vital support for these cases comes from two full-time assistant attorneys general who help develop cases related to employer workers' compensation abuse for criminal prosecution.

In FY 2019, L&I forwarded seven referrals of employer fraud to the Attorney General's Office. As of the writing of this report, there were no criminal filings during FY 2019 for employer fraud however, the AGO could still bring charges on these cases as long as they are within statute of limitations.

### **Civil cases**

Civil misrepresentation penalties occur when employers intentionally misclassify or underreport employees for workers' compensation insurance. In FY 2019, L&I assessed 13 misrepresentation penalties, totaling over \$250,000. This was in addition to workers' compensation premiums owed.

# Provider Fraud Investigations

## OVERVIEW

Medical professionals serve the public to make a difference in the health and well-being of their communities. Most health care providers ensure the needs of the patient are met with integrity and honesty; however, some provider fraud does occur.

Provider fraud is any scheme to obtain payment from L&I that was not earned. L&I has one employee dedicated to completing a preliminary review to validate referrals. Examples include billing for more than 24 hours in a day, and “upcoding” (for example, billing a 15-minute appointment as one hour).

Figure 4 shows eight common types of provider fraud, in no particular order. Any of these fraud types may be represented in the cases described below.

**Figure 4: Types of health care provider fraud**

• Billing for services not rendered
• Billing for a non-covered service as a covered service
• Misrepresenting location of service (billing for treatment services while in a separate physical location)
• Misrepresenting provider of service
• Incorrect reporting of diagnosis or procedures (includes unbundling)
• Overutilization of services
• Corruption (kickbacks and bribery)
• False or unnecessary issuance of prescription drugs

Source: L&I Investigations

## DETECTION

L&I receives referrals that help detect provider fraud from both internal and external sources, including injured workers, other medical providers, other agencies, claim managers, and staff responsible for paying medical bills. In FY 2019, L&I reviewed 245 referrals about suspected provider fraud, involving 485 providers.

L&I’s one-person detection unit continues to serve as the sole statewide resource dedicated to detecting improper billing and fraud by medical providers. In FY 2019, after reviewing all 485

providers referred for suspected fraud, this employee identified more than \$3.4 million in estimated improper payments and referred 187 providers to provider fraud investigators for further action.

## CRIMINAL AND CIVIL CASES

### **Criminal cases**

In FY 2019, L&I referred one health care provider case to prosecutors for potential criminal charges. No charges were filed.

### **Civil cases**

Civil cases rely on lower evidentiary standards and are more common than criminal cases. In workers' compensation civil cases, L&I focused on private sector rehabilitation services and improper billing.

### **Private Sector Rehabilitation Services**

Private Sector Rehabilitation Services (PSRS) are responsible for ensuring that Washington's injured workers receive high quality vocational rehabilitation services that comply with applicable state laws and regulations, as well as L&I policies. PSRS does this by monitoring and auditing how providers deliver their services, what the services are, and how providers bill for their services.

In FY 2019, PSRS completed 26 complaint-based investigations. Eighty-two percent of complaints investigated were resolved through consultation with the vocational provider. This success is due to a new audit approach still being implemented, which focuses on education first, with escalation strategies if necessary. No penalties or recoupment were assessed in FY 2019, due to this new approach. Last year, PSRS obtained written agreements with some vocational firms, in which they committed to implementing quality assurance measures in their firms. These agreements resulted in fewer complaints in FY 2019.

### **Provider quality and compliance**

L&I's Provider Quality and Compliance (PQC) unit audits medical billing for services paid for by the state workers' compensation fund. The purpose of the audits is to notify providers of any violations identified regarding applicable laws, regulations, and L&I policies that affect the billing and reimbursement for services provided to injured workers. The audits also enforce compliance with L&I's medical aid rules and fee schedules. In FY 2019, the unit completed a total of 57 medical provider reviews and assessed nearly \$398,000 for improper billing.

### **Provider investigations**

In FY 2019, L&I issued three orders and notices of violation for overpayments assessing a total of \$29,000 with penalties and interest amounting to nearly \$10,000. These efforts helped avoid an estimated \$6.9 million in costs due to fraudulent activity.

# Data Sharing

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In addition to L&I staff detection efforts, sharing and cross-matching L&I data with data from other agencies and organizations helps catch inconsistent reporting or duplicated claims that may indicate worker, employer, or provider fraud. Here are some ways L&I is using data sharing in its fraud-fighting efforts:

## **Cross-agency collaboration**

L&I shares information with the Department of Revenue (DOR) and Employment Security Department (ESD). When any of the agencies finds businesses or individuals that may need to be investigated, they send referrals or share and cross check data.

L&I and the Washington State Department of Corrections (DOC) have an interagency data sharing agreement. DOC cross-matches reports of injured workers confined in Washington state prisons. L&I reviewed 175 DOC claims in FY 2019, and investigated 21 of them, which resulted in 12 of the cases being issued more than \$45,000 in overpayments.

## **Coordinated Enforcement Pilot Project**

L&I divisions and regional office across the state collaborate and coordinate with the Attorney General's Office through the Coordinated Enforcement Pilot Project (CEPP) to take significant actions against the worst violators of all laws that L&I enforces. The goal of the pilot project is to take 25 significant civil or criminal actions by 2020 against entities that violate multiple laws administered by L&I.

This project has three components: detection, enforcement, and communication. It focuses on a comprehensive, enterprise-wide approach to help identify bad actors, decrease the number of bad actions, and increase public awareness that L&I targets bad actions. The CEPP aims to leverage and replicate L&I's existing best practices and foster new kinds of partnerships.

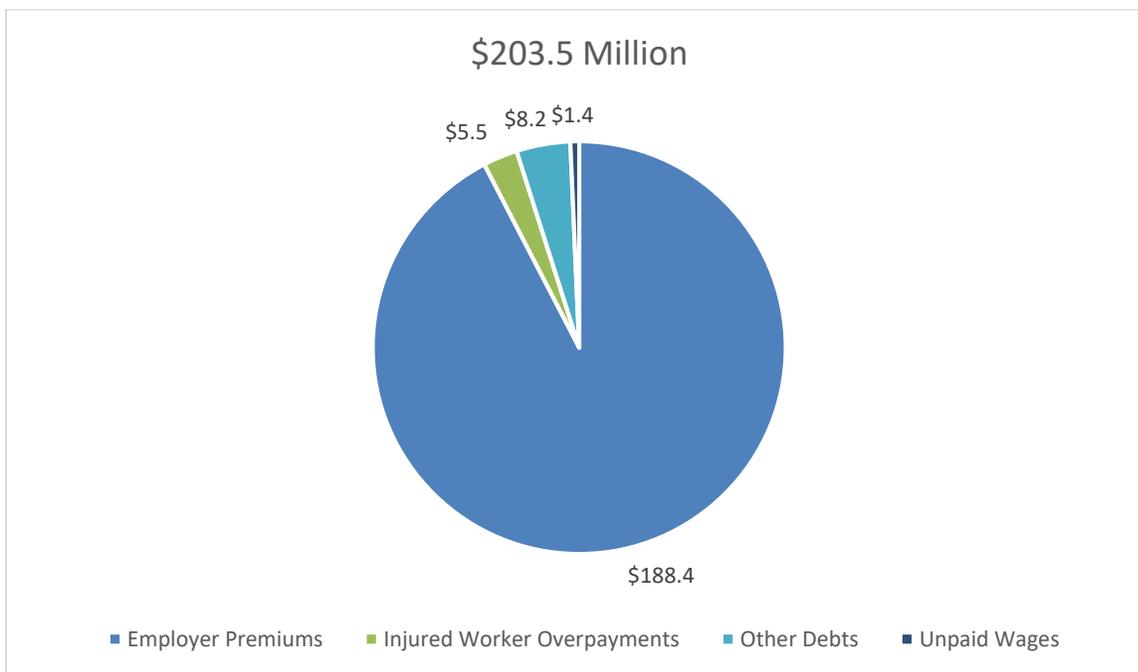
# Collections

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L&I’s Collections program gets involved when employers, workers, or providers are delinquent in paying money owed to L&I. The program tracks down debtors and collects what’s owed – whether workers’ compensation premiums, overpayments to providers or injured workers, or penalties. The program is also responsible for collecting other types of debt on behalf of other L&I programs; however, this report only addresses workers’ compensation-related collections.

Figure 5 shows the sources of the money collected. Employer premiums account for the vast majority of collections, more than \$188.4 million of the total \$203.5 million collected in FY 2019.

**Figure 5: Distribution of delinquent money collected, FY 2019**

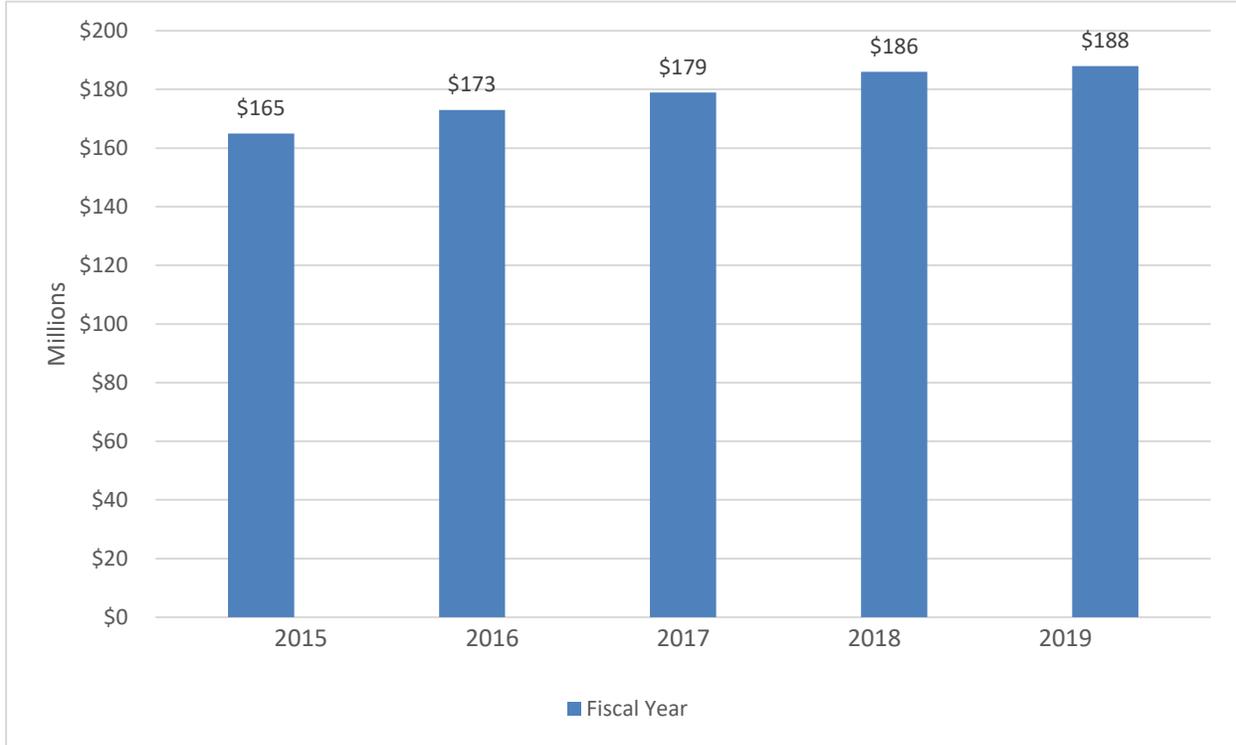


Source: L&I Collections

\*“Other debts” includes unpaid penalties, safety and health citations, Right-to-Know billings and Retrospective Rating Program billings.

Figure 6 shows collections for delinquent workers' compensation premiums over the past five fiscal years. Collections may fluctuate based on a combination of factors, including the economy.

**Figure 6: Delinquent premiums collected, FY 2014-2019**



Source: L&I Collections

# Education and Outreach

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L&I wants to help employers be proactive in their approach to workers' compensation and avoid making mistakes that are costly for them and the workers' compensation system – and that can potentially lead to fraud. Helping businesses reduce reporting mistakes and understand the laws and rules they must follow makes it easier for them to do business with L&I, and allows L&I to focus investigation and enforcement activities on businesses that intentionally undermine the system. The department offers a wide array of programs and services with this goal in mind.

## **New employer reviews**

Historically, L&I offered new employer reviews in the form of instructional audits, but only a small percentage of businesses took advantage of the opportunity. Currently, education and outreach is done by contacting employers via phone and/or e-mail at the time they open a new industrial insurance account. This gives L&I an opportunity to bring new accounts on board and ensure that employers sufficiently understand requirements to maintain compliance. For established accounts that are out of compliance, L&I notifies them and provides opportunities for self-correction. If that is unsuccessful, they are referred to audit.

## **Contractor training**

L&I invests considerable effort in helping all businesses, including construction contractors, understand their legal obligations. Eight Contractor Training Day events, attended by over 1,150 people, were held around the state in FY 2019. At these events, which are highly rated by participants, the department and select guest speakers provide training on a variety of subjects, including properly reporting and paying workers' compensation insurance, keeping a safe workplace, marketing their business, writing an effective contract, and more. L&I makes it easy for contractors to register, with online step-by-step instructions and explanations of laws and rules.

## **Workers' compensation coverage determination**

The Workers' Compensation Coverage Determination unit was created in response to a request from the employer community for a way to get L&I guidance about coverage required in specific situations without fear of an assessment. This unit allows an employer or business to get assistance from L&I by submitting a written request for guidance on workers' compensation issues or whether a worker would be considered an independent contractor or covered worker in certain circumstances.

The unit makes it easier to do business with L&I by combining the education of individual employers, which both benefits the employers and provides consistency in the education employers receive. In addition, it helps bring businesses into compliance before any reporting errors are found during an audit.

## Provider outreach

L&I offers workshops and other assistance to help providers understand the department’s billing and documentation requirements and the Medical Provider Network for injured workers. Step-by-step instructions and examples are provided, such as when to send a corrected claim or when to adjust a bill. Outreach staff provide hands-on demonstrations of how to use L&I resources and, most important, allow providers to ask questions about their specific billing needs. In addition, L&I provides an online outlet for provider questions at [ProviderFeedback@LNI.WA.GOV](mailto:ProviderFeedback@LNI.WA.GOV).

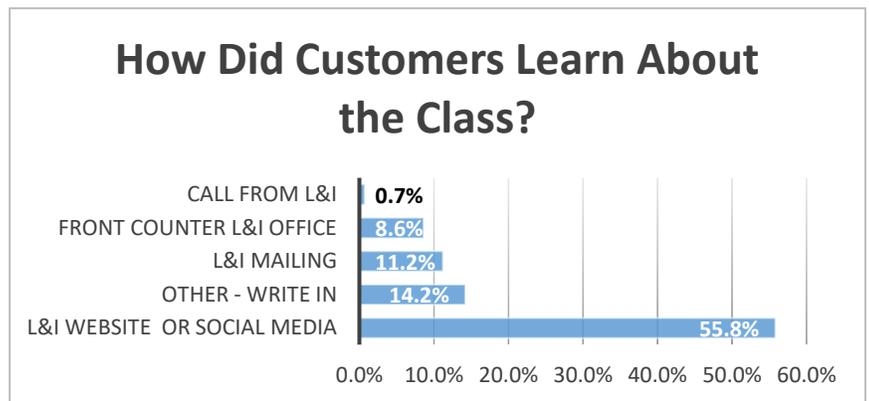
## Employers’ Introduction to L&I workshop

L&I offers employers and/or their representatives an “Employer’s Introduction to L&I” workshop at most of L&I’s regional offices across the state and via webinar. In FY 2019, the department offered 27 in-person workshops in English, seven in Spanish and four webinar versions. A total of 579 employers attended these workshops.

Out of the total 579 workshop attendees, 281 responded to provide valuable evaluation data:

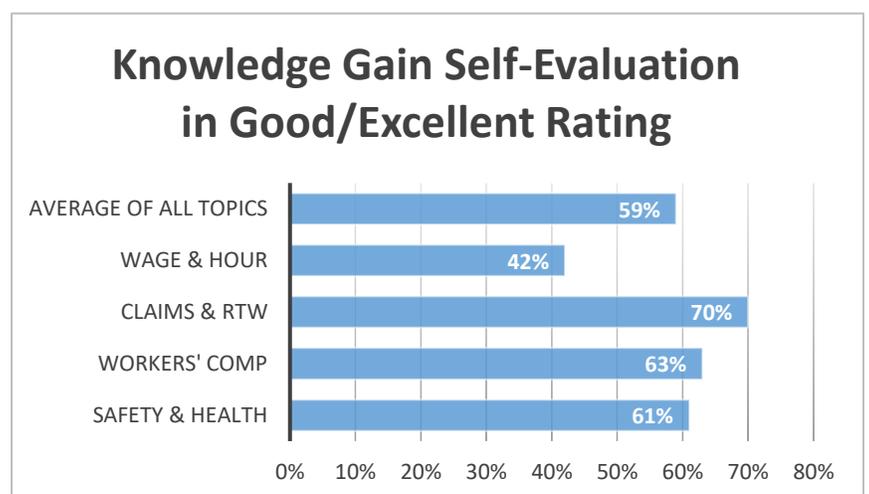
### Marketing efforts:

- L&I’s website is the top way in which attendees learned about this workshop. L&I anticipates even better marketing effectiveness through an L&I website update designed to improve search optimization. This website redesign project was funded in the 2018 budget and the new site was launched in November 2019.



### Workshop effectiveness:

- Attendees provide a self-evaluation of their knowledge gain from the workshop. Below is the percent who rated their knowledge gain in the good/excellent categories on the four main topics shown:
  - 70 percent gained in knowledge about Claims Management and Return to Work Partnerships
  - 63 percent gained in knowledge about Workers’ Compensation

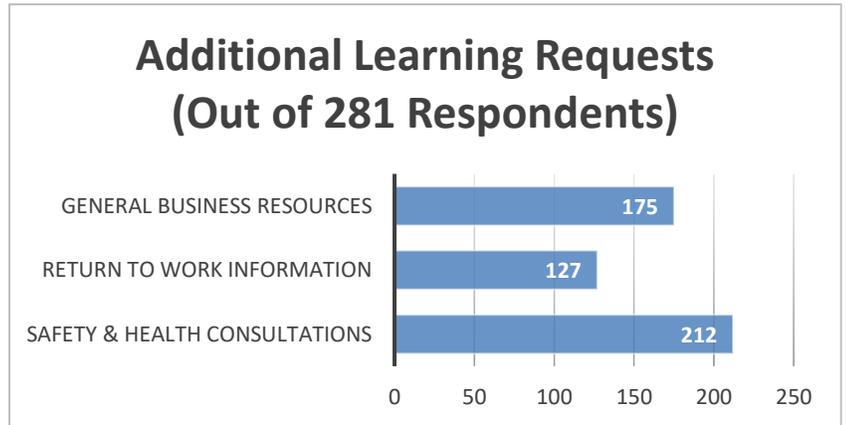


- 51 percent gained in knowledge about safety and health requirements
- 42 percent gained in knowledge about wage and hour requirements

An average of 59 percent claimed knowledge gain on all four topics.

**Future learning interest and use of free resources:**

- Many attendees request a follow-up contact following the workshop for additional resources and services.
  - 175 requests for general business resources offered
  - 127 requests for additional Return to Work information or visits to learn more
  - 212 safety and health consultation requests



## FUTURE INITIATIVES

L&I will continue to aggressively pursue fraud and abuse in the workers' compensation system. In FY 2020, the department will continue several strategies from FY 2019 and add more collaboration on suspected violations. Goals for 2020 include:

- Transform data collection gathering tools to be incorporated into the Workers' Compensation replacement system. This will enable more efficient identification of fraudulent activity.
- Continue to define and develop coordinated enforcement efforts across the department and with other state agencies.
- Continue to expand the use of escalation strategies to other business areas. This will ensure that the agency response is appropriate to the employer's action, and that there is a consistent application of consequences.
- Continue to implement and support the Special Investigations Unit. This unit focuses on repeat bad actors.
- Collaborate with employers, retrospective rating groups, advocates, trade associations, and others on how to identify, deter and report suspected violations by claimants, businesses and providers.
- Create and implement new company-wide investigations targeted to wage and hour violations, which includes development, implementation, creating standard work, and collaborating with partners.

# Conclusion

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Educating employers, medical providers, and workers about their rights and responsibilities in the workers' compensation system is a top priority at L&I. Fighting fraud when education is not enough is also a priority. The department continues to focus on a range of initiatives – including increased innovation, regulatory actions and collective resources – to bolster the fight against fraud while producing measurable results. L&I remains engaged with stakeholders to develop new methods for combating the underground economy in the construction industry.

In FY 2019, L&I employed about 257 FTEs to detect, investigate, and take enforcement action on workers' compensation errors and fraud. For every dollar spent on these efforts, L&I returned \$9.94; in other words, it costs about ten cents to detect and collect a dollar of debt.

## ANYONE CAN REPORT FRAUD; HERE'S HOW

Anyone can help stop workers' compensation fraud by reporting situations that may be fraudulent, and by telling others how to report:

- Fraud Hotline: 888-811-5974
- Report a Contractor: [www.reportacontractor.Lni.wa.gov](http://www.reportacontractor.Lni.wa.gov)
- Fraud Website: [www.Fraud.Lni.wa.gov](http://www.Fraud.Lni.wa.gov)

Employers can help L&I detect workers' compensation fraud by workers. Report newly hired workers at [www.dshs.wa.gov/newhire](http://www.dshs.wa.gov/newhire). The information will be shared with L&I to ensure employed workers aren't claiming benefits they're not entitled to receive.

# Glossary of Terms

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- **Assessment** – A dollar amount identified as owed and payable to L&I, including premiums, overpaid 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.
- **Cost avoidance** – The amount of benefits that would have been paid to a claimant found to have committed fraud. Costs recouped from inappropriate medical billing are not usually included in this term.
- **Employer** – Any person or business engaged in work in Washington covered by the state’s Industrial Insurance Act and employing or contracting with one or more workers.
- **Fiscal Year** – Washington state government defines a fiscal year as the period from July 1 through June 30. For purposes of this report, all years displayed are fiscal years.
- **Fraud** – A willful misrepresentation of facts for profit or to gain unfair advantage.
- **Lead/Tip** – Potential fraud reported to Labor & Industries for investigation.
- **Premium** – Amount to be paid by employers and employees for workers’ compensation coverage.
- **Provider** – Any person or legal entity providing any kind of services for treating an industrially injured worker.
- **Referral** – A verified lead that is forwarded for an investigation, audit or other action.
- **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** – An individual hired to work for compensation who, through employment, is covered under workers’ compensation laws.
- **Workers’ compensation/industrial insurance** – A form of no-fault insurance providing medical benefits and wage replacement to workers injured on the job.