



# Strategic Plan

*Fiscal Years 2009-2013*



**We support the state's economic well-being by protecting the safety of Washington's workers, providing benefits to injured workers and ensuring fair wages and quality industry services.**

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## Director's Message

Judy Schurke,  
Director,  
Department of Labor & Industries

I am pleased to present the strategic plan for the Department of Labor & Industries (L&I) for the period July 1, 2009, through June 30, 2013. Here we discuss our goals, why they're important, and the challenges and opportunities we will be addressing in the future.

We are a diverse state agency with many responsibilities. We help improve workplace safety – inspecting workplaces and offering education and consultation services to employers. As administrators of the state's workers' compensation system and the Washington State Fund, we provide insurance coverage for employers and medical, wage-replacement and disability benefits for workers who suffer job-related injuries and illnesses. Our work to find and prevent fraud protects honest businesses and workers who pay their fair share of workers' compensation premiums.

We also manage numerous smaller programs that share a common purpose with each other and with the larger workers' compensation and workplace safety and health programs. That purpose is protection. For example, we inspect electrical work, factory-assembled buildings, elevators and boilers. Each has safety requirements that must be met and we make sure they are.

We serve our customers from offices in 20 cities. We also offer substantial and growing Web-based services. In many respects, our Web site serves as an "electronic office" where customers can access information and transact business at hours convenient for them.

Our agency is fortunate to have the strong involvement of representatives from both business and labor in our programs. They provide critical perspective on virtually all of our issues.

Of course, none of this is possible without our employees, who truly are dedicated to customer service. Now and in the future, I know they will do their very best to help our customers stay safe, find answers, solve problems, and follow state laws. While this document sets our strategic direction, it is our employees who will get us there.

## ***Mission Statement***

We support the state's economic well-being by protecting the safety of Washington's workers, providing benefits to injured workers and ensuring fair wages and quality industry services.

## ***Areas of Focus***

- Improve speed, fairness and quality of workers' compensation claims operations.
- Reduce workplace injuries illnesses and fatalities.
- Eliminate fraud and abuse by workers, employers and providers.
- Help solve the workforce shortage in construction through apprenticeship.
- Help vulnerable workers be safe on the job and receive the wages and benefits to which they are entitled.
- Recruit and retain a high-performance workforce.

## ***Our Principles***

- We understand and embrace our mission.
- We are committed to a knowledgeable, service-oriented, high-performing workforce.
- Ours is an organization with integrity.
- We are dedicated to providing high-quality and timely customer service.

## ***Statutory Authority***

Statutory authority references for the Department of Labor & Industries are listed in Appendix A.



# Goal 1

## Make Washington workplaces safer

Most people think a serious injury or death at work will never happen to them or to anyone they know—until it does, with devastating impact. In reality, nearly 100 people die each year in Washington State from injury or illness related to their work, an average of two people every week. In Fiscal Year (FY) 2007, 29,416 workers also sustained injuries so severe they required time off from their job to recover.

Our job is to help make workplaces safer so workers return home in the same condition they left. We do this by helping employers and workers control or eliminate hazards that endanger health, livelihood and life itself.

### What we do

In 2007, L&I visited more than 9,100 work sites and helped eliminate about 12,000 serious hazards, many of them “accidents” waiting to happen. Our responsibilities include:

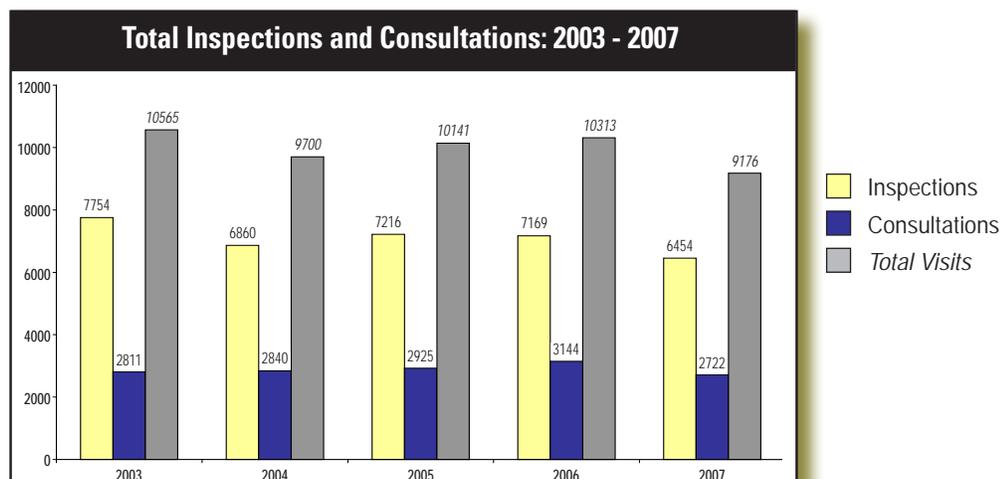
- Inspecting workplaces to ensure that safety rules are being followed. We conduct scheduled workplace inspections, respond to employee complaints about safety issues, and investigate workplace-related hospitalizations and fatalities.
- Encouraging voluntary compliance by providing onsite safety, health, and risk management consultations to help employers identify and fix workplace hazards.
- Providing employers and workers with clear, useful safety standards, information and learning tools.

- Using research and data to promote healthy work environments and to prevent work-related injuries and illnesses.
- Working collaboratively with business associations and labor organizations to help them address hazards and injuries in their specific industries, and partnering with other safety and health advocates, including the University of Washington’s Occupational and Environmental Medicine Program and the Governor’s Industrial Safety and Health Advisory Board.

### Statewide Result #7

Improve the safety of people and property.

### Getting Results



# Goal 1

## *Operating environment and internal capacity*

How can one agency help keep 2.9 million workers safe? As the state agency responsible for both workplace safety and workers' compensation insurance, we can use claims data and original research to inform our workplace safety efforts. This information plays a valuable role in telling us which hazards pose the greatest threat and which industries and employers could benefit most from our services. But we cannot visit every work site. That is why we encourage voluntary compliance through education and training, and partner with business and labor organizations to address safety issues in specific industries.

### Scanning and research

We study trends, identify root causes and emerging hazards to anticipate and address changes in the operating environment that could affect workers' safety. For example:

- **New businesses open and others close.** A new business owner hiring employees for the first time may be unaware of workplace safety and health requirements.
- **The mix of industries within the state changes.** For example, agriculture has long been the top industry in central Washington. New industries, specifically "server farms" for technology companies, and biofuel plants, are literally changing the landscape as well as the industrial base of several central Washington counties.
- **New industrial processes and technologies may create new hazards.** The potential health hazards of using products with diacetyl in flavorings, especially butter-flavored products used in restaurants, are now being investigated. We are currently tracking research from the National Institute for Occupational Safety and Health (NIOSH); we have already brought this issue to the attention of physicians, restaurant owners and workers.
- **Workforce demographics change.** Every year, more wrinkles are showing up at work as the 80 million Americans born between 1946 and 1964 are entering their 60s with many potentially productive years still ahead. Sixty-five-year-old workers now expect to live another 20 years and for many, this is simply too long a period for reduced income and unstructured free time. In addition, costly health care makes retirement prior to Medicare age a risky proposition. Studies

show that senior workers will be our most skilled, productive and valued employees. Some employers predict that seniors' losses in physical and mental capacity make employees prone to costly error and injury as they age; however, studies demonstrate that older workers have lower injury rates on the job, exceptional skills, extensive experience and mature judgment that places them above their younger counterparts.

An increase in non-English speaking workers is yet another demographic factor that we are addressing in our injury-prevention strategies. With varying ethnic, social and educational backgrounds, today's workforce is more diverse than ever. This diversity poses a new challenge for safety managers. Language barriers often can hinder understanding of a simple phrase, such as "hearing protection required." Companies with multiethnic workforces must ensure the safety of every worker – no matter his or her language comprehension. Recent fatal work injury statistics demonstrate the need for better communication among multiethnic workforces. For example, according to U.S. Department of Labor statistics, from 1992-2002 the workplace fatality rate among Hispanics rose every year. Regardless of language, employers must train employees to recognize and avoid unsafe working conditions; understand applicable rules regarding their work environment; and control or eliminate hazards and other exposures to illness or injury.

### Changes in the public agenda

Sometimes, catastrophic events catapult a safety issue into the headlines and onto the legislative agenda. On the national level, mine safety gained renewed attention after deadly mine collapses in 2007. In Washington State, several incidents, including the fatal tower crane collapse in Bellevue in November 2006, led to legislation that sets new requirements for crane certification, operator training and experience, and inspections. L&I is responsible for adopting rules to implement this law and administering the new crane certification program.

### Accountability and efficiency gains

In January 2006, following an assessment of service delivery in regional offices, L&I changed the reporting structure for safety and health staff located in these 20 offices. For the 14 years prior, central office management had responsibility for

# Goal 1

## Objectives and strategies

administration, program and policy development, and statewide oversight of all workplace safety and health programs. Regional administration had responsibility for implementation and regional oversight of these operations. Consultants and inspectors now report to the Division of Occupational Safety and Health instead of six separate regions, supporting clearer lines of communication, more consistent training and application of policy, and greater accountability.

### Staffing concerns

We need to hire and keep qualified individuals in occupational safety and health positions and provide ongoing training to maintain a high-caliber professional staff. We are working internally and with OSHA and professional associations to attract new candidates to replace employees who retire or leave for higher paying jobs elsewhere. A renewed focus on professional development and continuing education may help us retain experienced staff. However, higher salaries in the private sector for comparable work continue to pose a challenge. The state's personnel system must address this disparity before we can make substantial inroads in keeping our best, most experienced staff.

### Objective 1.1

**Reduce workplace hazards, exposures, injuries, illnesses and fatalities.**

All of our workplace safety and health programs and services are designed to reduce hazards, exposures, injuries, illnesses and fatalities; however, the approaches differ depending on the circumstances and nature of the underlying cause of the problem. Direct interventions, specifically enforcement inspections and voluntary consultations, achieve these outcomes by engaging in one-to-one relationships with employers and employees.

### Strategies

**1.1.1: Focus inspection and consultation resources where data indicate the greatest potential for improving safety.** Data include:

- Injury rates in high-hazard industries
- Serious injuries such as amputations and other injuries that require hospitalization

- State Fund workers' compensation claim data that suggest an injury rate higher than the industry average

As of April 1, 2008, a rule change requires employers to notify L&I when one or more of their employees are hospitalized due to a work-related incident. Previously, notification was required in most industries only when two or more employees were hospitalized. This rule will allow us to ensure any unsafe conditions that caused the injuries are corrected.

In addition, our consultation and enforcement activities receive valuable input from our Safety and Health Assessment and Research for Prevention (SHARP) Program. SHARP fosters the best use of current scientific knowledge for injury reduction in Washington workplaces. Through partnerships with specific industries, SHARP also evaluates the effectiveness of interventions by conducting site visits and surveys.

**1.1.2: Increase public and employer understanding of the state's requirements for hiring minors and awareness of safety risks to young workers.** Injuries to teens occur at a rate double that of adults. L&I's safety and health inspectors will identify work sites that employ teen workers and provide that information to industrial relations agents who enforce minor worker rules. The agents will ensure these companies have obtained the minor work permit endorsement to their master business license. This endorsement includes important communication from L&I that explains minor work rules, including hours that teens can work and duties prohibited for safety reasons. Public awareness campaigns, including presentations in high schools, will target safety messages to parents and teen workers.

**1.1.3: Expand safety-focused outreach to Hispanic workers.** The number of Spanish-speaking workers in construction-related jobs is increasing, especially in western Washington counties. Use of the federal H2A Program, which allows agricultural employers to bring foreign workers to the United States to work in the fields on a temporary basis, is also increasing. The majority of workers, at this

# Goal 1

point, are from Mexico and don't speak English.

Both industries—construction and agriculture—are high-hazard industries where understanding risks, safety rules and training content are critical. A significant worker population that primarily speaks Spanish requires adjustments in our training approach. We also will provide bilingual safety specialists to translate information during safety program assessments and interviews with Spanish-speaking workers. Increasing safety-focused messages on Spanish radio stations and elsewhere in Hispanic communities will also help.

## Objectives 1.1 Measures

- Increase the number of serious hazards identified and corrected in targeted workplaces
- Decline in workers' compensation claims following on-site inspections and consultations
- Increase the number of referrals to industrial relations agents to verify minor work permit endorsements
- Increase the number of safety presentations in Spanish

## Objective 1.2

**Increase statewide consistency and quality, and timely service to employers.**

Knowledgeable, professional staff, efficient processes, and clear information and expectations for employers are the foundation of good performance. We are building our inspection and consultation skills to address industry-specific hazards, equipment and processes, especially in high-hazard industries such as construction, agriculture, logging, transportation and warehousing, and manufacturing. We train our inspectors in advanced accident investigation skills to increase our expertise in investigating complex fatalities and catastrophic events. Our consultants are updating their skills in the areas of process safety management and accident prevention.

## Strategies

- 1.2.1: Ensure consistency in inspection and consultation conclusions through quality-assurance reviews.** We will review inspection and consultation findings to ensure that rules and policies are interpreted and enforced as consistently as possible. We will identify learning opportunities and cases where a policy or rule may need to be revised.
- 1.2.2: Make the enforcement "citation and notice" documents easier for recipients to understand so they can take the actions they need to eliminate hazards.** This legal document, issued after an inspection, identifies violations, any penalties assessed, required corrections, deadlines and the appeal process.
- 1.2.3: Improve timeliness of post-inspection report.** Improved processes, clearer procedures, and data system improvements provide the foundation for completing reports as early as possible following an inspection.
- 1.2.4: Improve the quality of consultation reports.** Written well, consultation reports contains a wealth of information employers can use to improve the safety and health of their workplaces. By ensuring our consultants produce quality, comprehensive consultation reports that consistently cite WISHA standards and policies, we better assist employers in their safety efforts.

## Objective 1.2 Measures

- Increase the number of inspections meeting "standard of quality"
- Increase the timeliness of post-inspection reports
- QA reviews show improvement in citation and notice documents and consultation reports

## Objective 1.3

**Strengthen Washington's workplace safety culture.**

Lasting solutions to unsafe and unhealthy conditions in the workplace will come about because employers, workers, and the general public embrace a "safety culture" and actively pursue changes to address hazards. Our strategies focus on communicating best practices and providing tools and information to Washington businesses and workers, and recognizing safety excellence. The resources devoted to realizing this objective have the potential to multiply our effectiveness – by instilling safety and health values and stimulating independent action.

# Goal 1

## Strategies

### 1.3.1: Promote the availability of consultation services and training materials.

Consultations help employers increase safety awareness and comply with rules, prevent injuries, and manage workers' compensation costs. In the past, we tended to broadly market consultations and training information to all employers. We will augment that approach with these tactics:

- Increase referrals among our consultants (safety, industrial hygiene, risk management and ergonomics)
- Contact specific employers and industry associations to offer consultations

In addition, we are in the process of updating and improving our Web site so that our customers can more easily find and use training materials and other information on the site. This will involve testing usability with employers, workers and the public.

**1.3.2: Recognize employers with excellent safety performance.** Nothing speaks louder than success. Recognition events, articles in business journals, and profiles on our Web site are some of the tactics we will employ to recognize successful companies and promote the benefits of a safety culture.

**1.3.3: Showcase companies that achieve Voluntary Protection Program (VPP) status.** Achieving VPP status is a rigorous process with specific and detailed requirements. Companies that achieve it demonstrate the highest commitment to workplace safety and health. What these companies learned during the process serves as an example for others in their industry.

**1.3.4: Publicize results from Safety and Health Investment Projects (SHIP) grants.** Funded projects will promote safer workplaces by developing innovative injury prevention strategies and creating new training techniques and materials. The purpose of the grant program is to stimulate innovation and share resulting best practices and resources.

## Objective 1.3 Measures

- Increase the number of employers publicly recognized and/or featured on the L&I Web site
- Communicate results of SHIP grants to employers that could improve safety in their industry/workplaces
- Increase the number of VPP Award recipients featured in industry and business publications





## Goal 2

### Administer one of the premier workers' compensation organizations in the nation in quality of service, benefits and costs.

Washington State's workers' compensation program (the State Fund) provides insurance coverage for more than 2.5 million employees working for 168,000+ employers. Washington is one of four exclusive State Funds in the nation. The premiums paid by employers and workers, along with investment earnings, finance the system. L&I also certifies and monitors the performance of approximately 400 self-insured companies that employ about 830,000 workers.

#### Background

The State of Washington has provided workers' compensation insurance since 1911, based on an agreement between business and labor that provided mutual protection. Workers gave up their right to sue their employer for a work-related injury or illness in return for sure and certain medical treatment and, when needed, wage-replacement, pension or survivor benefits. In exchange, employers were protected from the costs of extended claims and tort liability that could result from workplace injuries.

Over the years, the system has evolved. One of the most significant changes occurred in 1917, when a law passed that made workers responsible for

paying a significant portion of the premiums. That share has averaged 22 to 27 percent of premiums. In 1971, self-insurance was first allowed and workers' compensation coverage was extended to virtually all employment, not just the most hazardous work.

Continuous improvement in a system this size demands attention to many complex issues — preventing disability, minimizing financial impacts to injured workers, managing health-care costs, keeping premium rates stable, ensuring employers recognize the system's financial incentives, and modernizing computer systems, to name a few.

#### What we do

##### Assess premiums, provide account services, and set rates

New companies, or companies hiring employees for the first time, establish a workers' compensation account with us and pay quarterly premiums. We use a system of risk classifications and the claims experience of each individual employer to determine and assess these premiums. We also provide information to employers on financial incentives and risk management and safety consultation services available to them. We review rates annually and make adjustments in base rates and individual employers' "experience factor" using standard actuarial analysis and practices.

##### Manage claims

We authorize medical treatment, pay medical bills, partially replace injured workers' wages during recovery and provide return-to-work or vocational services. We also pay disability awards and administer pension and survivor benefits. We are reviewing and evaluating processes and will implement changes to modernize claim filing procedures, eliminate delays, and provide the most appropriate assistance to workers and employers earlier.

# Goal 2

## Encourage quality medical care, manage medical costs and pay health-care providers

We encourage best practices in occupational health to improve return-to-work opportunities and minimize disability for injured workers. We carry out research on evidence-based medicine to help us make appropriate coverage decisions on technology and medical procedures and control the rate of growth in medical-benefit costs. We also conduct audits to ensure that health-care providers meet treatment standards and bill appropriately. In order to attract an adequate base of medical providers, we have and will continue to take steps that streamline and reduce administrative burdens for providers.

## Regulate self-insured companies

Self-insured employers must have the financial resources to cover the cost of on-the-job injuries and post adequate surety. We review the financial strength of these companies to ensure they are able to meet their workers' compensation obligations. In the event of insolvency of a self-insured employer, we take over administration of these injured workers' claims. We audit self-insured employers and ensure that their workers receive benefits to which they are entitled under industrial insurance laws.

## Influence public policy

In addition to the day-to-day operations of an "insurance company," L&I provides stewardship on public policy pertaining to Washington's workers' compensation insurance. For example, managing medical costs associated with claims connects with larger policy issues involving quality medical care and efforts to control health-care costs in general. We may evaluate policy options to determine their long-term feasibility and effectiveness, and their impact on outcomes for workers, employers and providers. We carry out this role with legislative oversight and the involvement of business and labor advisors, including the Workers' Compensation Advisory Committee.

## *Operating environment and internal capacity*

### External factors

We operate in a political environment where diverse and competing groups seek involvement

and influence in the workers' compensation system. We rely on business/labor partnerships and other advisory groups to represent these various perspectives and communicate them to us. The Workers' Compensation Advisory Committee, a statutorily mandated advisory committee with employer and worker membership, provides input into ratemaking and other proposed changes to workers' compensation. We also publicly announce plans to change premium rates or workers' compensation rules and hold hearings to solicit public comments.

We also must be cognizant of national policy debates, economic indicators such as stock market performance, and demographic factors such as the growing population of our state. All may impact our services and costs. Where we can, we proactively plan for developments in these areas. In addition, the Legislature can change our priorities or add new responsibilities, and court decisions can affect the way we do business.

## Internal capabilities

Significant and sustained change management is under way to better serve our customers by modernizing the overall system, simplifying processes and reducing the cost of claims. We are paying close attention to managing our human resources, including development and accountability, as well as succession planning for the numerous supervisors and employees eligible to retire.

This focus on modernizing the workers' compensation system will continue over the five-year period of this strategic plan and beyond. We see a role for new technology to speed claim filing and reduce delays in processing. Identifying the right services—early—can help injured workers avoid long-term disability and help keep employers' costs from rising. We are confident that the strategic direction outlined in the following objectives and strategies will give us needed flexibility and new tools to operate successfully in the technology-driven 21st Century. We will continue to innovate and adapt as we have in three key areas so far:

- **Controlling increases in medical costs.** We have held increases in medical costs below the national average. Our strategy includes close monitoring of prescription-drug use by injured workers, use of generic drugs, and effective treatment utilization. Working closely with the medical community and implementing effective evidence-based coverage decisions are other critical components.

# Goal 2

- **Use of occupational health best practices.** As of June 2008, 26% of all injured workers were being treated by a health-care provider associated with the Centers for Occupational Health and Education (COHE) in Renton and Spokane. The COHE approach—treatment using occupational health best practices and early return-to-work opportunities—led to an average savings of \$1,300 per claim.
- **Web-based services.** Technological improvements have significantly increased access to claim information for workers, employers, providers, and legal representatives. About 40,000 registered customers now use the Claim & Account Center to conduct over 700,000 information requests per month. Express Filing allows employers to file quarterly premium reports online and pay premiums by electronic fund transfer. About 42,000 are currently enrolled.

## Objectives and strategies

### Objective 2.1

#### Provide high-quality claims services.

High-quality service in the administration of workers' compensation claims depends on effective, efficient processes and high-caliber staff. Claim staff needs to be knowledgeable and skilled at objectively applying Washington laws, rules and policies, and possess excellent problem-solving, communication and customer service skills.

Claim managers also need caseloads that allow them to actively manage the claims assigned to them, and technology tools that fully support proactive claim decisions and responsive customer service. Quality-assurance measures for claim decisions and accountability for our service and results are critical. We also must control the medical cost growth rate through effective utilization review practices (ensuring that medical services are appropriate for the claim), which we discuss further in Objective 2.3.

### Strategies

**2.1.1: Replace legacy mainframe systems to allow better business processes.** The workers' compensation system uses mainframe computer systems that are more than two decades old, large and inflexible, which makes a quick response to changing business needs impossible to achieve. These systems are increasingly difficult to maintain and to modify when new features need to be

added. We are evaluating how to replace these legacy systems with service-oriented architecture where shared functions can be built once and used by multiple applications and business areas.

Major process changes in claims intake, service coordination and adjudication are dependent on the planned and orderly replacement of these inflexible systems. (See *information technology discussion in Goal 5 as well.*)

**2.1.2: Re-engineer claim filing process so claims will be filed faster.** It currently takes an average of 25 days from the date of injury before we receive a claim from the health-care provider. The process of filing a claim is still paper based, and the worker and health-care provider both fill out a paper "report of accident." Unless the worker or employer notifies us (if the employer knows about the claim), we don't find out until the health-care provider submits the accident report. This reliance on paper filing creates a long lag at the beginning of the process and, in many claims, causes missed opportunities for appropriately timed services. In order to avoid these costly delays, we need to move to telephonic and/or electronic filing processes in the near future to improve worker outcomes and limit employer costs.

**2.1.3: Eliminate delays in claims processes to speed services to workers and avoid unnecessary costs to employers.** After we receive a claim involving time off work, the first time-loss (wage replacement) payment can take up to 14 days—longer if information is lacking or other problems complicate the claim. We need to revise our "claim intake" and triage process so we can avoid delays after we receive a claim.

We have undertaken a detailed analysis of how initial decisions impact later stages of claim management. We are asking these questions: What can be simplified? Better coordinated? Automated? Eliminated? We are working with consultants who are developing a detailed "roadmap" to migrate our legacy computer applications to a more modern computer system. Opportunities to structure new processes to intake claims and immediately refer them to appropriate resources are part of this planning.

**2.1.4: Assign appropriate early resources (internal and external) on the right claims at the right times.** Early management of new time-loss

# Goal 2

claims is crucial to preventing long-term disability and improving outcomes for injured workers and employers. To do this, we must improve our ability to identify the claims that need supportive services; in other words, match the right services to the right claims at the right time.

Best practices from the Centers for Occupational Health and Education emphasize effective coordination of these services. The right mix of resources and services for an injured worker and his/her employer must be promptly identified and deployed. Assisting the health-care provider with the specific requirements of the workers' compensation promotes timely and effective management of the claim.

This strategy also involves timely vocational referrals for some claims and consulting with employers on return-to-work options that would benefit the injured worker and control claim costs.

**2.1.5: Recruit, develop and retain quality claims staff.** Claim managers undergo an extensive on-the-job training process that equips them to make decisions on both medical and legal aspects of claims. We have intensified our recruitment efforts, and we more clearly communicate to interested individuals the knowledge, skills and abilities these positions require. Because of the competitive market for claims management skills, and the fact that the pay scale for our claim managers remains below most private-sector salaries, we have some regular turnover in claims staff. Workers' compensation insurers across the country are facing a similar challenge—the experience needed to handle workers' compensation claims is in short supply. To retain quality claims staff, we try to provide the best tools and technology to support their work while reinforcing the value of public service.

## Objective 2.1 Measures

- Reduce time to first time-loss payment
- Eliminate delays in claim decisions
- Reduce time to make appropriate vocational referrals
- Reduce the frequency of repeated vocational referrals
- Increase the percentage of claims that receive claim-care coordination

## Objective 2.2

**Provide high-quality insurance services to employers.**

Insurance buys protection, yet how many people read their policy? Do they know what factors influence the amount they pay or how to reduce their insurance costs? The answer too frequently is “No.” Our challenge is to link employers with the services available in the workers' compensation system so they avoid unnecessary insurance costs, and limit claim costs when an injury does occur.

We readily identified a key strategy for larger employers and implemented it in 2004. We first assigned the 100 employers who paid the highest premiums their own claim manager. These employers have a single point of contact on claims. The claim manager understands the nature of the business he or she is working with, and can work more closely with the employer on issues such as injury prevention, modified duty and reducing the worker's lost wages. In 2005, we expanded this approach to cover the 1,000 employers with the highest premiums.

While the new system benefits companies that have more frequent claims, it doesn't help small and medium-sized employers who go years between claims and have little working knowledge of the workers' compensation system. While our objective is to provide high-quality insurance services to all employers, we are now focusing on small and mid-sized companies that typically have infrequent claims.

## Strategies

**2.2.1: Help employers limit the impact of a claim on their future premiums.** All new accounts begin with a claim-free discount, which reduces the amount the employer will pay for coverage. (It is similar to an “accident-free” discount for automobile insurance.) If a time-loss or disability claim occurs, that discount could be lost for a minimum of three years. We need to identify small and medium-sized businesses that may be at risk of losing their discount and explain the steps they can take to maintain it. If they have lost the discount, we must help them understand what they can do to get it back.

Effective claim management also controls costs. Resources we make available to encourage effective claim management include the Small Business Liaison Office, workshops, risk management consultations,

# Goal 2

and online access to claim information. Online tools that give employers loss reports will be available soon.

**2.2.2: Make sure employers know the incentives available to them.** We need to identify employers that could benefit from safety, risk management or ergonomics consultations and make sure they know these services come free with the premiums they pay. We also will provide employers the opportunity to consider a Retrospective Rating program. (Retro allows participating employers to recover a portion of their workers' compensation premiums if they are able to reduce injuries and lower claim costs.)

**2.2.3: Expand access to information and services online.** More than 25 percent of employers file their quarterly reports online and the number has been steadily increasing. We expect the sign-up rate to increase after we launch an improved version of the "File Quarterly Reports Online" application in the fall of 2008. We're also changing the paper report to mirror the look of the online report. We expect 70,000 employers to file electronically by the end of the June 2011.

There also are numerous opportunities to make Web-delivered e-learning (essentially self-paced, guided training modules) available to employers so they can gain needed knowledge and information at times convenient for them. Incorporating voice, video and graphics would reduce our reliance on word-based education and attract customers through expanded choices in learning formats.

## Objective 2.2 Measures

- Increase the number of employers who retain their claim-free discount after their first time-loss claim
- Increase the number of risk management consultations
- Increase the number of employers who file their quarterly reports online

## Objective 2.3

Increase injured workers' access to appropriate, quality medical care and control costs.

We are committed to increasing access to high-quality medical care for workers who are injured

or become ill as a result of their job. Quality health care, in or near the community where an injured worker lives, is essential to recovery and return to meaningful, productive employment. We also must manage the workers' compensation system to attract quality providers, and contain medical costs while ensuring safe, quality care.

## Strategies

**2.3.1: Transfer successful elements of the Centers for Occupational Health and Education (COHE) to other parts of the state.** These successful elements include prompt reporting of work-related injuries and illnesses by health-care providers; treatment using occupational health best practices; and incentives, support and education to expand use of these best practices.

**2.3.2: Reduce administrative complexities for providers and improve bill payment processes.** Some of the best health-care providers have been opting out of the workers' compensation system due, in part, to the administrative burden. At the same time, injured workers in some parts of the state are having difficulty locating providers. Steps we are taking to encourage providers to treat injured workers include:

- Reducing delays in medical authorizations.
- Simplifying correspondence and reducing the volume of mail that providers receive.
- Identifying and eliminating system delays so we can pay bills faster.
- Providing information and training on our billing requirements and the time-saving benefits of our e-business services, specifically electronic billing.

**2.3.3: Provide competitive payment levels while controlling costs.** We will be looking at our provider payment systems and fee schedules to identify additional opportunities for health-care cost control, while ensuring payment levels are competitive with private insurers and sufficient to attract providers.

**2.3.4: Expand evidence-based coverage decisions, supported by new medical and chiropractic advisory committees.** Evidence-based coverage decisions can improve patients' safety and ability to successfully return to work. They also control costs by avoiding inappropriate use of prescription drugs, physical and occupational therapy, and unproven procedures.

# Goal 2

## 2.3.5: Reduce inappropriate medical payments.

We will step up our educational services to prevent inaccurate billing and conduct provider audits to detect overpayments.

We also are evaluating the potential of performance-based incentives designed to increase access, foster use of occupational health best practices and reward quality.

### Objective 2.3 Measures

- Maintain the annual growth of the Medical Aid fund costs at or below 6 percent
- Increase the percentage of workers treated by COHE health-care providers
- Increase the number of medical bills paid in 30 days
- Increase use of the state's preferred drug list

### Objective 2.4

#### Set fair, low and stable rates for State Fund employers and their employees.

We use a classification system to collect loss information for each industry we insure, and we use this information to establish premium rates that employers in each industry will pay. The intent is to produce fair insurance rates that reflect the different mix of hazards in each industry. Employers engaged in more hazardous industries such as logging will tend to pay higher insurance rates than employers engaged in retail store operation. Unique to Washington, employers pay premiums based on hours worked rather than percentage of payroll.

Over the past few years we have increased the transparency of our government rate setting practices. The process must be open and the reasons for our decisions understood since employers who cannot self-insure are required to participate in the state-operated workers' compensation program.

### Strategies

**2.4.1: Maintain fund solvency and premium rate stability.** When the Contingency Reserve (the difference between assets and liabilities) is within policy limits, we will set rates at levels sufficient to pay the insurance costs. When the Contingency Reserve falls below these limits, we will surcharge rates; when above we will issue dividends or have a "rate holiday". The goal is to remain within the policy range developed after discussions

with the Workers' Compensation Advisory Committee and a business and labor finance committee.

**2.4.2: Improve the design of rating systems to increase predictive accuracy and rate stability, and keep up with industry recognized standards. Maintain rating systems that are simple and fair to administer.** Improving predictive accuracy by setting rates close to expected future costs leads to fairness and equity and helps encourage accident prevention. Keeping up with industry recognized standards or improving upon them are keys to using best rating practices. Some of the improvements we are working on include:

- Improving rate stability by continuously reviewing experience factor calculations
- Improving predictive accuracy in the retrospective rating by bringing the Retro tables up to industry standards

**2.4.3: Increase employer and public understanding of how we determine workers' compensation premiums.** We will use our Web site and other communication channels to explain the following key factors that influence premiums. Without this understanding, employers may be unaware of the rating system incentives available to them.

- How L&I calculates premium rates
- The importance of properly assigned business risk classification
- The importance of accurately reporting quarterly payroll information to L&I
- The role of business and labor in lowering their own rates
- Rating incentives that reward prevention of injuries and illnesses

**2.4.4: Identify individual businesses or industry sectors where problems may be affecting rates.** We will analyze historical comparisons of claims statistics to premiums and hours of individual businesses and industry sectors to understand business trends and those that are significantly different from the norm. We can then take steps to determine whether the deviation results from any of the following:

- Misclassification
- Underreporting of work
- Poor safety records
- Underutilization of return-to-work strategies

# Goal 2

## Objective 2.4 Measures

- The Contingency Reserve limits for the Accident and Medical Aid funds combined and the Medical Aid fund are set as percentages of the total liabilities in these insurance funds. Each quarter, we will track how we are staying within the policy limits.
- Changes and additions to the Web site that explain how we determine premiums
- Compare Washington rates and benefits to those of other states

## Objective 2.5

Continue effective oversight of self-insured businesses, and provide technical assistance and timely service.

While self-insured employers manage their day-to-day claims functions, usually through a contracted third-party administrator (TPA), certain claim procedures and decisions are reserved to L&I. Our adjudicators handle all claim disputes, protests, and appeals and issue all pension orders. Multi-state employers in particular find this level of regulation and oversight unusual at best and intrusive at worst. It is incumbent upon us to provide timely and effective service, delivered in a spirit of partnership and respect for both workers and employers.

Self-insured employers fund operational expenses for our Self-Insurance Section and pay a proportionate share of L&I's indirect and overhead costs. Their annual administrative assessment also includes costs for the supplemental pension fund and second-injury fund. Self-insured employers are required to post an annual surety bond to cover the cost of on-the-job injuries. For CY2007, aggregate surety exceeded \$1 billion.

Two recent enhancements in self-insurance processes are worth highlighting: a new system for collecting and analyzing self-insurance data, and the establishment of a new approach to claims education.

- **Self-Insurance Electronic Data Reporting System (SIEDRS).** To date, Washington has had reliable data on injury and illness on just two-thirds of its workforce. Data on the remaining one-third of Washington workers—those working for self-insured employers—have been historically limited and unreliable. On July 1, 2008, self-insured employers begin electronically reporting claims data to L&I. The new data will allow broad analysis and comparison of self-insured employers

to the rest of their community and to State Fund performance. Ultimately, public policy can be based on the needs and attributes of all Washington workers, not just on those whose employers are covered by the State Fund.

- **Continuing education curriculum.** As of October 1, 2007, external self-insured claims administrators have been able to earn continuing education credits as an alternative to re-testing for certification every five years. Employers, third party administrators, and the Washington Self-Insurance Association (WSIA) all helped develop an innovative curriculum that will lead to a better education and more current skills for self-insured claims administrators.

## Strategies

**2.5.1: Eliminate delays in L&I's adjudication of self-insured claims.** Fully using our new imaging system will help us manage claim information needed for timely adjudicative decisions. Other steps include clarifying and simplifying for employers the information and documentation required for key decisions and orders, and offering training to specific employers to address issues affecting our ability to adjudicate claims promptly.

**2.5.2: Conduct regular, efficient and comprehensive audits of program compliance, financials and claims handling.** We are developing a tiered compliance strategy that will acknowledge a history of responsible claims management and fiscal accountability and use that information in setting audit cycles.

**2.5.3: Ensure that L&I invests staff time on the most critical decisions. Require self-insured businesses and third-party administrators to make decisions where they have authority.** We will work with self-insured employers to fully use their existing authority to close certain routine claims. We also will explore other opportunities for self-insured employers to issue determinations without our oversight, such as claim allowance and wage decisions.

## Objective 2.5 Measures

- Increase timeliness of adjudicative decisions
- Audit new self-insurers and "problem accounts" at least once every three years

# Goal 2

## Objective 2.6

Implement and use business intelligence capabilities to effectively manage the workers' compensation system.

Business intelligence capabilities are the technologies, applications and practices that allow an organization to collect, integrate, analyze and use data for effective business decisions and operations. With fewer delays and faster response time, users can act quickly based on the information they obtain. Users can challenge assumptions about problems and delays, drill down to factual information about root cause, and then take action.

Business intelligence also would allow us to more quickly respond to demographic and industry trends by evaluating implications for the workers' compensation system. Another benefit is increasing "environmental scans" to gather external information that may spark new ideas and approaches, or highlight areas where our performance exceeds the industry average.

The capabilities we want to enhance through business intelligence are:

- Increase our capacity to analyze and compare results of Washington's workers' compensation system to other jurisdictions.
- Stay abreast of contemporary studies on workers' compensation in other states and provinces.
- Analyze changing workforce demographics, injuries, diseases and treatments.
- Better predict costs and value of public policy changes.
- Identify opportunities for process and business improvements.

### Strategies

#### 2.6.1: Upgrade L&I's existing data warehouse and enterprise reporting hardware and software.

We cannot achieve the capabilities outlined above with our existing data warehouse. We face other limitations with this existing system:

- Our data warehouse, extract, and load processes were not built to support historical data retention, (the ability to capture and view transactions over time), a requirement for GMAP and OFM reporting as well as Washington State Quality Award (WSQA) measures.

- Vendor support for our current enterprise reporting product ends after September 2008. Another company acquired this product and the vendor's new upgrade path is inconsistent with our future technology direction for business intelligence.
- IBM plans no future enhancements to our existing Red Brick data warehouse.

#### 2.6.2: Identify and prioritize data-dependent functions that would benefit from business intelligence. Three known priorities we will want to address as early as possible are:

- Use enhanced graphing and charting capabilities to easily identify certain industries that require review of their insurance rates relative to the level of risk or claims filed.
- Provide real-time information on an individual account to respond to a business owner's questions regarding his/her workers' compensation rates or claims. An L&I representative will be able to educate the business owner on the financial impacts using "what-if scenario" applications. This type of application displays quick analysis of potential decision paths. For example, an employer must decide whether to keep his/her injured employee on salary before time-loss payments begin. Through the "what-if scenario" function, the employer can understand the impact of his/her decision.
- Early identification of trends in claims. We need to constantly watch the variables of the claim data that indicate an impact on service, costs or outcomes. Increasing our ability to identify and monitor key indicators will help us better prepare for future impact on the workers' compensation system.

### Objective 2.6 Measures

- Use data to identify industries with increasing injury claims
- Use business intelligence to respond to data requests in a more timely manner
- Use data to predict trends and prepare policy makers for future impacts on the workers' compensation



## Goal 3

# Reduce workers' compensation fraud and abuse; shrink the underground economy

Cheating the workers' compensation system is NOT a victimless crime:

- All businesses and workers in an industry pay more if some employers in that industry don't pay at all.
- Business competitiveness is compromised when others in the same industry underreport worker hours or fail to pay premiums.
- Workers who scam the system hurt their co-workers when fraudulent claims affect premium rates. Workers pay about a quarter of premium costs.
- Providers inflate medical costs if they bill for services they don't provide.

### What we do

Preventing and detecting fraud and abuse defends the financial integrity of Washington State's workers' compensation system. Our Fraud staff, Small Business Liaison and Employer Services staff work together and with industry groups to provide education and assistance that help prevent fraud. Our compliance activities focus on:

- **Detection and tracking.** We use a variety of tools including technology, cross-agency data sharing and referral screening techniques to identify non-compliance and potentially fraudulent activities.
- **Employer audits.** We conduct audits to make sure employers report accurately and pay the premium they owe.
- **Investigations.** We conduct a variety of investigations to stop improper workers' compensation payments to workers.
- **Provider fraud and abuse.** We constantly monitor and review the quality of care health-care professionals provide to injured workers, the performance of vocational counselors, and the billing practices of both.
- **Collections.** We collect monies that employers, workers and providers owe the workers' compensation system.
- **Criminal prosecutions.** We seek criminal prosecutions for the most egregious cases of fraud and publicize successful prosecutions for their deterrent effect.

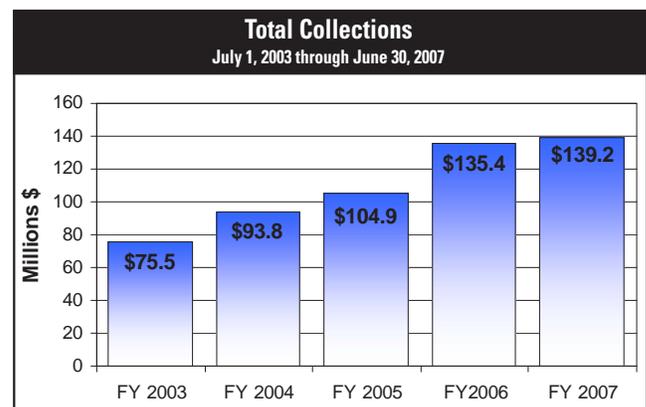
### Statewide Result #5

Improve the economic vitality of business and individuals.

Cross-program collaboration among our Contractor Registration, Electrical and Fraud programs is key to finding unregistered construction and electrical contractors, identifying employers who don't have a workers' compensation account, and combating the underground economy.

### Getting Results

#### Total Collections, Assessments and Recoveries



\*Includes collection of delinquent premiums, penalties and interest from employers, civil assessments for fraud, assessments for criminal fraud, and the recovery of improper payments to providers and injured workers.

# Goal 3

## ***Operating environment and internal capacity***

Our fraud prevention and compliance work will continue to receive a great deal of scrutiny from employers, business and labor organizations and legislators. The medical community will be watchful of our efforts to identify potential fraud by health-care providers.

Government, business and labor agree that the underground economy in the construction industry cannot continue unchecked. A Joint Legislative Task Force began meeting in 2007 to address this issue. In 2008, the Legislature passed 2SSB 6732, legislation to increase oversight of the construction industry and hold unlicensed contractors accountable for failing to comply with state registration requirements. The legislation results in new work for both our Contractor Registration and Fraud Prevention and Compliance programs.

Other significant developments in our operating environment and internal capacity are outlined below.

### **Court decision on subpoenas**

Our ability to obtain information needed for investigative purposes was significantly diminished as a result of a Washington Supreme Court decision in April 2007. The decision in *State v. Miles*, 160 Wn.2d 236; 156 P.3d 864 (2007) placed restrictions on gathering evidence using administrative subpoenas. The need to now obtain search warrants in lieu of subpoenas increases the amount of time required to conduct investigations and directly affects the number of cases we can complete. That means inappropriate workers' compensation benefits may continue to be paid longer.

### **Economic pressures**

Today's substantially higher costs of gasoline, energy and food, fall out from the mortgage crisis, and rising inflation all adversely affect struggling businesses and families with limited means, and may translate into abuse and fraud in the workers' compensation system.

Economic pressures on consumers may challenge our efforts to limit the underground economy. Looking to cut costs on remodeling work, customers may hire the "cheap" contractor without checking registration status. Unrecorded cash transactions may increase as well.

### **Investigation capacity**

Our Investigations Program currently operates with no electronic case management system. LINIIS, the agency's primary and aging mainframe system has proven inadequate for this purpose. The ability to capture case data, review information online, and transfer final reports electronically will increase productivity and investigation outcomes. We are currently reviewing and evaluating options for a case management system that could be adapted for use by several L&I programs. Until case management technology can be incorporated, productivity gains are limited.

### **Retaining auditors**

In July 2001, 57 percent of our auditors had more than 10 years of experience with L&I while 23 percent had less than five years. By comparison, in July 2007, 56 percent had less than 5 years experience and just 24 percent had more than 10 years. With only 60 auditors and over 168,000 employers, we must be sure our auditors spend their time effectively by auditing employers and industries with a history of underreporting and using alternative auditing methods, such as mail-in audits.

This strategy is compromised, however, if we are unable to retain experienced auditors. Auditing skills have been in high demand since Congress passed the Sarbanes-Oxley Act in 2002, following the Enron and WorldCom financial scandals. This legislation is designed to protect investors from corporate accounting fraud.

While we experience problems recruiting auditors in some parts of the state, the greater issue is keeping those we hire. We are hiring college graduates, training them, and then watching them leave for these higher-paying positions in the private sector or other government positions.

# Goal 3

## Objectives and strategies

### Objective 3.1

Improve the accuracy of employer reporting and recover unpaid employer premiums.

#### Strategies

- 3.1.1: Improve our ability to find unregistered employers and to target audits for registered employers.** After completing IT system preparations in 2008, we will begin running automated cross-matches against IRS data to expand detection and targeting capabilities.
- 3.1.2: Increase alternative audit methods as a result of the upgrades to the Field Audit Computer Technology (FACT) computer system.** These upgrades automate tasks for staff that audit employer accounts and support the use of alternative audit methods such as mail-in audits.
- 3.1.3: Help new businesses accurately determine independent contractor status and workers' compensation risk classifications.** When needed staffing is available, we will implement a new system of instruction for new businesses applying for a master business license and provide a toll-free hotline and Web resources to assist businesses when they first establish a workers' compensation account.
- 3.1.4: Educate small businesses in targeted industries before stepping up audits in those industries.** "Education first" will be the standard approach to audits of small businesses in industries that have not traditionally received concentrated attention from workers' compensation auditors. This approach will address general reporting problems and misclassifications, and be followed by compliance efforts 6-9 months later.

#### Objective 3.1 Measures

- Increase the number of audits completed to 6,550 per year
- Increase the dollars identified as a result of audit activity to \$24,994,000
- Educate six targeted industries each biennium
- Increase the percentage of audits resulting in monies owed on targeted audits to 57% in Fiscal Year 2009 and 60% the following year
- Engage with a minimum of 1,000 new businesses per year through direct contact and e-learning to educate on proper classification and independent contractor determination

### Objective 3.2

Increase the dollars collected from employers, workers and providers who haven't paid the money they owe L&I.

#### Strategies

- 3.2.1: Improve collection documents so recipients understand the actions they need to take and what happens if they don't.** A major revamp of 25 collection documents is under way. The process involves "Plain Talk" revisions and usability testing with customers. In Fiscal Year 09, we will measure results, in particular, whether recipients respond faster and collections increase.
- 3.2.2: Increase the dollars collected from claim overpayments.** Complete efforts that were started in Fiscal Year 08 to increase dollars collected on claim overpayment cases, focusing on early telephone contact, short-term payment plans, and use of legal tools when appropriate. These are best practices based on experience from collection efforts with employer accounts.

#### Objective 3.2 Measures

- Increase total collections by 5%

### Objective 3.3

Increase awareness of the underground economy's impact on consumers and honest businesses. Improve our ability to find unregistered contractors.

#### Strategies

- 3.3.1: Warn consumers of the risks and potential consequences of hiring unregistered contractors.** This strategy is designed to limit demand for the underground economy. We will conduct a public education campaign that includes the use of billboards, radio and TV public service announcements and other communication to increase awareness and to generate fraud referrals. "Report suspected fraud" will be a key message we communicate to consumers.

# Goal 3

**3.3.2: Continue Contractor Training Days to help contractors learn how to operate legally and successfully, and the consequences of failing to do so.** Contractor Training Days have a proven track record, attracting 3,936 participants in the 28 sessions held between February 2004 and May 2008. These events continue to be an effective strategy because they rotate through different cities across the state and because other state agencies, local governments, and construction-related associations present at the same event. This “one-stop shopping” approach allows participants to get answers to questions in one place, at one time. “Report suspected fraud” will be a key message we communicate to registered contractors.

**3.3.3: Pilot a program to assist local governments in identifying suspicious building permits that may indicate unregistered contractors performing work.** A homeowner has the right to obtain a building permit to build or modify his/her own home. But an unregistered contractor trying to hide by pretending to be a homeowner is breaking the law. L&I will conduct a pilot with a few interested local governments to determine whether data analysis can uncover suspicious building permits and become an effective tool for finding unregistered contractors.

## Objective 3.3 Measures

- Increase the number of fraud referrals received
- Increase the number of contractor training days held/contractors trained
- Increase the number of suspicious permits reviewed

## Getting Results

### Contractor Registration

### Some of the law changes advancing consumer protection

#### 2008 – 2SSB 6732

- Funds a campaign to warn consumers of the risks and potential consequences of hiring unregistered contractors

#### 2007 – SHB 1843

- Modifies the definition of “contractor” to capture superintendents and owners who build and develop multiple structures
- Notifies L&I when a contractor is served

#### Increases L&I’s enforcement capabilities:

- Failure to respond to a notice of infraction changed from a misdemeanor to gross misdemeanor
- Ability to cite registered contractors that hire unregistered contractors

#### 2001 – SSB 5101

- Increased specialty contractor bonds from \$4,000 to \$6,000 and the general contractor bonding requirements from \$6,000 to \$12,000
- Increased bonding requirements up to \$36,000 for contractors that have judgments placed on their bond or account
- Limited other claimants’ access to the bond (at least 50% of a general contractor’s bond and a third of a specialty contractor’s bond is reserved for the homeowner)
- Increased personal-injury insurance requirements up to \$200,000 from \$100,000
- Increased penalties for false advertising from \$5,000 to \$10,000



## Goal 4

# Protect public safety and property; support the economic well-being of individuals and businesses.

Ask anyone on a street corner what L&I does to protect public safety and property and they might scratch their head. Or they might say “protect workers” or “run workers’ comp.” But in numerous other ways—many behind the scenes—L&I keeps people safe in buildings of all kinds, including their homes.

We also provide services that promote economic vitality or limit economic hardship. For example, we help workers receive the wages they are owed; oversee “earn while you learn” apprenticeship programs; and help victims of violent crime deal with the emotional, physical and financial impact of their ordeal.

### What we do

#### Public Safety

- **Register contractors.** We register construction contractors and license electrical, elevator and telecommunications contractors. By law, these contractors must be registered or licensed before they perform work and they must maintain a minimum level of bonding to protect homeowners. Construction and telecommunications contractors must also maintain a minimum amount of liability insurance coverage to protect consumers.
- **Certify electricians and inspect electrical work.** We set standard of competency for performing electrical work, establish qualifications, administer certification exams, and issue electrical certificates. We inspect electrical wiring and installations in industrial, commercial, institutional and residential construction, and monitor the amusement-ride industry for structural and mechanical safety.
- **Inspect elevators.** We inspect all new and altered elevators and other conveyances (such as escalators) and annually inspect all existing non-residential elevators. We also register all elevator companies and ensure all conveyance mechanics meet minimum training requirements.
- **Inspect factory-assembled structures.** We set standards and conduct inspections of factory-assembled structures, such as mobile/manufactured homes, modular buildings (including modular buildings used as K-12 classrooms), construction trailers, mobil medical units, and recreational vehicles. In these inspections, we check to see if structures comply with state and federal building codes.
- **Test and certify plumbers.** We protect people from economic loss and health hazards caused by unsafe and unsanitary plumbing conditions in residential and commercial structures. We do this by setting experience and training requirements for plumbers, administering testing and issuing certificates, and inspecting plumbing on factory assembled structures at the factory and after installation.
- **Inspect elevators.** We inspect all new and altered elevators and other conveyances (such as escalators) and annually inspect all existing non-residential elevators. We also register all elevator companies and ensure all conveyance mechanics meet minimum training requirements.
- **Inspect boilers.** We oversee safety inspections of more than 100,000 boilers and pressure vessels in the state, including those in schools, stadiums, hospitals and other public venues. We directly inspect uninsured and high-risk boiler/pressure vessels, and oversee and monitor insurance company inspectors who perform the remaining inspections.

#### Statewide Result #7

Improve the safety of people and property.

#### Statewide Result #5

Improve the economic vitality of business and individuals.

# Goal 4

## Fair labor practices

- We help employers comply with the laws that protect workers' wages and working conditions, provide family leave, and protect workers under age 18. Our industrial relations agents investigate complaints involving wage issues, such as non-payment of final wages, off-the-clock hours, illegal deductions or unpaid overtime.
- We administer the prevailing-wage law, which requires that workers be paid prevailing wages when employed on public work projects. We use outreach and enforcements to promote compliance with these requirements.

## Apprenticeship

- The Washington State Apprenticeship and Training Council (WSATC) registers apprenticeship programs. Our role is to serve as the administrative arm of the council. We audit apprenticeship programs for compliance with their written standards. We work with the WSATC to improve retention rates and establish new programs. We promote apprenticeship as a proven training model that prepares a qualified workforce for employers in our state, and serve as an information resource for prospective apprentices.

## Crime victims

- We help victims of crime and their families recover from the emotional, physical and financial hardship of violent crime. We provide financial assistance as a payer of last resort in cases involving bodily injury, mental trauma or death. We also pay the costs of sexual-assault examinations when performed to gather evidence for possible prosecution.

## Operating environment and internal capacity

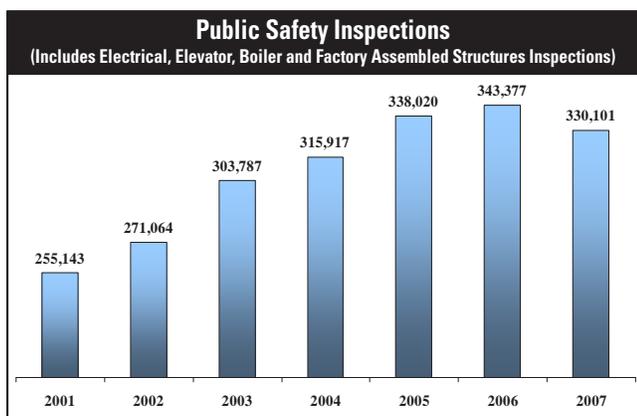
### Public safety

As the bar graph bottom left shows, Washington State has seen a tremendous growth in demand for public safety inspections. Between 2001 and 2006, inspections increased by 88,234. We will be challenged to sustain these inspection levels into the future. We are seeing increasing numbers of elevators in commercial and residential buildings and industrial complexes. (We inspect all elevators when they are installed or altered. We inspect all existing non-residential elevators annually.) The slowing pace of new residential construction simply shifts the demand for electrical inspections to remodels and additions as people choose to stay in their existing homes. Commercial and public-works construction remains robust.

The December 2007 storm and flooding resulted in catastrophic damages to homes and businesses in western Washington counties, particularly Lewis, Mason, Grays Harbor and Thurston counties. Recovery-related construction will spike inspection demand, specifically for factory-built homes and electrical installations.

We are taking steps to focus our resources where they can have the most impact. This means using technology to help us track the hazards found during inspection of installations and who performed the installations. The data will identify the type of violations occurring most often, so we can focus our industry outreach, training and enforcement activities where they can be most effective.

## Getting Results



### Fair labor practices

In 2006, the Washington State Legislature granted L&I authority to issue civil penalties for violations of minimum wage and wage-payment laws, providing greater protection to workers and creating a realistic deterrent for those who might otherwise violate the law. Implementing this law requires changes to rules and policies cover wage-and-hour requirements and impacts work processes as well. An increasing workload means we must streamline the investigation and citation process to help us resolve workers' complaints as quickly as possible. Even with operational efficiencies, additional staffing will be needed to avoid an increase in backlog cases.

# Goal 4

## Apprenticeship

In the past four years, there has been significant growth in the number of registered apprentices. Two factors influencing growth have been apprenticeship utilization requirements on public works projects and “Running Start to the Trades” pre-apprenticeship programs, the latter sponsored by Governor Gregoire to reach more middle and high school students, teachers and parents.

The challenges are to improve retention and completion rates in existing programs and expand apprenticeship opportunities in high-demand industries. Success will depend on cooperation and collaboration among workforce, education and economic development partners and continued leadership from the WSATC. As the administrative arm of the WSATC, we play a role in influencing policy, the caliber of programs and future direction. Ultimate responsibility rests with the council.

## Objectives and strategies

### Objective 4.1

Reduce hazards through education and compliance.

#### Strategies

- 4.1.1: **Reduce hazards in electrical installations by focusing education and compliance on electrical contractors with the greatest number of corrections.** We will continue to employ this strategy to identify contractors that perform the greatest numbers of installations and experience the highest numbers of corrections.
- 4.1.2: **Expand the correction tracking process currently used for electrical installations to boilers, elevators and factory-assembled buildings.** Correction tracking allows us to direct education and inspection resources where they make the most impact. We need to expand this technology across all of the public safety inspection programs.
- 4.1.3: **Sustain or improve quality and timeliness of inspections as the demand for inspections continues to increase.** We will develop criteria and checklists by which to measure inspection performance in certain program areas, including factory-assembled structure inspections. We will be assessing other options for managing demand.

### Objective 4.1 Measures

- **Electrical:** Decrease by 15% the number of corrections written to the targeted group of high-volume electrical contractors
- **Boilers, elevators and factory-assembled buildings:** Increase the number of industries where we direct education and compliance resources based on dangerous and repeat problems in those industries.

### Objective 4.2

Provide employers with clear standards for meeting wage-and-hour requirements and ensure payment of unpaid wages to workers.

#### Strategies

- 4.2.1: **Rewrite wage-and-hour policies into rule using Plain Talk principles.** Employers are more likely to follow rules they can read and understand quickly, reducing wage complaints that occur because employers don't know what they are required to do.
- 4.2.2: **Focus education and compliance activities in targeted industry sectors.** We will look at different mechanisms, including a complaint tracking system, to assist us in directing resources where they are most needed. In addition, we will continue to inform all employers about the key requirements of the 2006 Wage Payment Act through existing channels, (quarterly report mailings, new employer information packets and the annual *Employer News* newsletter).
- 4.2.3: **Reduce the time to resolve wage complaints.** Additional staff will be needed to manage the increasing number of wage complaints. Other mechanisms, including prioritization criteria, may need to be employed.
- 4.2.4: **Increase the number of employers with minor workers who obtain the required minor work endorsement on their master business license.** (See Goal 1, Strategy 1.1.2, Page 1-3.)

### Objective 4.2 Measures

- Number of wage-and-hour policies rewritten
- Increase by 10% the dollars collected for workers filing wage complaints
- Number of targeted education activities conducted
- Number of referred employers who obtain a minor work permit in targeted industries

# Goal 4

## Objective 4.3

Prepare a qualified workforce for occupations that Washington employers need.

### Strategies

- 4.3.1: Use a secure, Web-based application to maintain data for individual apprentices and track completion rates.** We will fully implement online reporting in the Apprenticeship Registration Tracking System (ARTS), streamline the reporting process, and provide education to training coordinators in local apprenticeship programs.
- 4.3.2: Assist the WSATC with the following:**
- Evaluate retention and completion rates as part of each apprenticeship program's compliance review.
  - Develop a plan for improving retention and completion rates where needed, including best practices in highly successful apprenticeship programs.
  - Train apprenticeship program coordinators on best practices to improve their completion rates.
  - Expand training opportunities in high-demand industries, particularly health care, construction and technology. This means working with industry, the Higher Education Coordinating Board, Office of the Superintendent of Public Instruction (OSPI), community colleges, and other workforce training organizations to develop programs that will sustain high completion rates.

**4.3.3: Evaluate outcomes from pre-apprenticeship grants to schools; determine next steps.**

Seamless transition from pre-apprenticeship programs in K-12 schools to registered apprenticeship programs may open new career opportunities to young people, and address concerns about entry qualifications and retention. In the next biennium, we will determine next steps after evaluating outcomes from 14 two- and three-year grant programs.

### Objective 4.3 Measures

- Increase the number of apprentices
- Maintain or improve quarterly retention rates
- Maintain or improve annual completion rates



## Goal 5

### Achieve high performance through efficiency, innovation and accountability.

In Goals 1 through 4 we describe our strategic direction—what we are doing and planning to do, and why. In Goal 5, we focus on how we implement our strategic direction through our people, technology and financial accountability, and make changes that will better serve our customers.

#### Statewide Result #10

Strengthen government's ability to achieve results efficiently and effectively.

### Objectives and strategies

#### Objective 5.1

Deliver quality, efficient and cost-effective service to our customers.

#### Strategies

**5.1.1: Listen to small business customers and use their feedback to improve services.** Small business is a major economic engine for creating jobs and progress in our state. About 75 percent of Washington's employers have fewer than 10 employees, and 56 percent employ fewer than five people. Because they're small, these employers typically cannot afford safety, legal and tax experts to help them deal with government requirements and processes. Our challenge is to do our job while being sensitive to the daily life of small-business owners.

L&I's Small Business Liaison makes regular contact with small business owners and their representative organizations, then uses their input to help us constantly improve our services to small businesses. The liaison serves as a catalyst for innovative changes to better address small-business needs within our programs.

L&I participates in annual small-business roundtables held around the state that give small businesses access to representatives from a number of agencies at one time, in one place. We also are working to expand our presence in small business development centers statewide.

**5.1.2: Provide our customers with correspondence and documents that are concise and understandable.** As a pioneer and leader in "Plain Talk" in Washington State government, we are committed to providing clear, useful, understandable information to our customers. We implemented a Plain Talk policy to establish this work as an agency priority and trained more than 250 staff. We also established more than 20 teams who are rewriting and redesigning our key customer forms, form letters, and legal notices they are easily understood. Increasingly, we test their effectiveness with real customers before they are used. Since the director signed the policy in June 2007, we have revised approximately 125 of 375 targeted documents.

**5.1.3: Build capacity to provide services in Spanish.** We want to ensure that Spanish-speaking customers can access our services and understand their rights. Two developments discussed earlier in this plan—growing use of the H2A guest worker program and a substantial increase in Spanish-speaking construction workers—drive the need to conduct more business in Spanish. L&I's Hispanic Communications Manager and bilingual Communications Consultant have already established relationships with Hispanic organizations, Spanish-speaking small business owners, and employers with Spanish-speaking workers. They have translated hundreds of documents and developed our Spanish Web site. With their leadership, our programs are now directing resources to better serve this growing population.

# Goal 5

Along with these strategies, we will obtain customer feedback through surveys and usability studies, seek continuous improvement in customer service at front counters and in call centers, make improvements to Web site content, and develop user-friendly online applications.

We also are planning to provide customer and employee education and training using a Learning Content Management System (e-learning). An agency-wide system will enable us to more effectively deliver, track and manage training modules users can access on the Internet. For example, one module might help businesses know what to expect if they're audited. Internally, we could deliver courses for claims management training online. In the next biennium and beyond, e-learning will become an important tool for ensuring consistent, professional and effective education and training.

## Objective 5.1 Measures

- 5.1.1: See measures for Goal 3, Objective 3.3
- 5.1.2: See measures for Goal 3, Objective 3.2
- 5.1.3: See measures for Goal 1, Objective 1.1

## Objective 5.2

**Recruit, develop and retain a high-performance workforce.**

We draw employees from many different professions, particularly in the insurance and safety and health fields. Jobs such as claim managers, nurses, industrial hygienists, and occupational safety officers are critical to achieving our objectives. We also employ specialists in the industrial trades – boiler and elevator inspectors, electricians and plumbers. We need qualified information technology specialists, medical and administrative staff as well.

Such diversity in occupational skills translates to unique recruitment and retention challenges. Our primary work requires employees suited to enforcement. They also need to be effective with difficult customers, sensitive to personal tragedy and flexible enough to deal with the effects of uncontrollable circumstances. Steep learning curves as well as highly competitive employment markets in the private sector make finding, engaging and keeping these employees difficult in a civil-service-rigid system. An inflexible wage structure compounds the challenge by limiting our ability to adapt compensation to geography-based costs of living and competitive pressures.

Following civil-service reform, we established an active recruitment program and, as a result, have posted the lowest time-to-hire among cabinet agencies. We have produced an effective risk-mitigation training program for supervisors and managers, and we are actively developing our leaders of tomorrow. We have combined our evaluation, development and performance planning documents into a single form to focus attention on the connections between daily work tasks and agency mandates.

## Strategies

- 5.2.1: When hiring and developing employees, ensure they have the knowledge, skills and abilities to be successful in their work.** Provide employees with clear expectations, plainly tied to program and agency objectives. With employees, establish individual development plans to meet current and future program skill and ability needs. Provide frequent feedback on performance.
- 5.2.2: Promote a work environment that encourages employees to excel.** We require a diverse workforce that reflects the communities we serve. We focus accountability tools such as evaluations and development plans on priorities, and align performance with changing demands. We manage using appropriate metrics and focus on results.
- 5.2.3: Ensure leadership continuity and retain organizational knowledge.** We record and preserve critical organizational knowledge, skills and abilities as employees and managers retire or move on. We will continue expanding our leadership development program to provide the skills, knowledge and historical perspective needed for the future. We will use standardized employee survey results to identify and prioritize our workforce management activities.

## Objective 5.2 Measures

- Complete 100% of employee evaluations with individual development plans, on time
- Increase percentage of job skill requirements reviewed in the last 18 months
- Increase percentage of supervisors and managers who participate in the Leadership Development Program
- Increase percentage of L&I programs with workforce plans in place

# Goal 5

## Objective 5.3

Develop and align information technology to support our strategic direction and enable effective management decisions.

Information technology (IT) is critical to meeting our agency's operational and strategic goals. Our strategies that rely on sound investments in technology and the ability to secure the funds needed for those investments. L&I partners with the Department of Information Services (DIS) to implement and support most of our systems and we will continue to use DIS services whenever practical and cost-effective. All of our information technology strategies are consistent with statewide enterprise architecture standards as approved by the Information Services Board (ISB).

In recent years, L&I has adjusted to operating in an increasingly dynamic and market-driven environment. Our customers and partners expect business capabilities to be delivered faster, with greater functionality and ease of use. To meet these demands a more responsive approach to computer system design is required. We must align and synchronize our business and technology strategies and employ a more flexible and adaptable IT architecture. To this end, we have developed strategies that will improve the efficiency, quality and reliability of our information systems, and result in a more agile organization.

### Strategies

**5.3.1: Enable business agility by moving to an information technology architecture that is more flexible and responsive.** For decades L&I has built automated business systems upon a huge complex of interwoven mainframe applications. These systems are mature and stable but impossible to modify quickly in response to changing business priorities. Even modest changes to business processes can result in a costly and protracted development project. This legacy of inflexible technology is inhibiting business agility, does not fully meet emerging customer expectations, and does not adequately support our strategic direction.

To resolve this problem, we have developed a multi-biennial plan to migrate to a modern IT architecture that directly aligns business processes to IT components called "shared services". As we change and improve business processes, the services that support them can change as well. Shared services allow us to implement new business processes and applications faster by reusing services already in production.

**5.3.2: Improve the security and reliability of business applications and IT infrastructure.** We rely heavily on information technology to deliver critical services to the public. Any significant or prolonged failure of these vital IT systems could result in severe consequences for Washington State citizens and residents, and their safety and livelihood.

- Natural disasters such as earthquake or fire can destroy or severely degrade IT systems, infrastructure and facilities.
- Operational outages such as hardware malfunctions, utility failures or unexpected usage peaks can disrupt our ability to conduct business on a daily basis.
- Viruses, hackers and cyber-attacks can put sensitive data at risk or take systems off-line for extended periods.
- Defective application software can decrease the efficiency and effectiveness of our personnel and processes.

To mitigate these risks, L&I will invest in IT infrastructure, tools and processes that will enable critical business activities to continue during times of disaster or degraded performance. We will improve tools and procedures to protect data and systems from unauthorized access or use. We will replace unserviceable equipment and improve network circuits to boost performance and availability. We will deploy new monitoring and assurance tools to ensure our next-generation applications meet expectations for quality, performance, and availability.

**5.3.3: Improve the quality and availability of information for making critical business decisions.** We have long recognized that we are "data rich and information poor". The same data exists in many different systems making it difficult to determine the "one real version of the truth". Critical business decisions demand that data be accurate, timely, and of high quality. A near real-time data warehouse and improved business intelligence tools will greatly enhance all three. File-based records, such as documents, spreadsheets, and images, are stored in many locations and systems. Version control is cumbersome and discovery and archive is very inefficient. A comprehensive solution to Enterprise Records and Content Management will greatly improve the efficiency of our document-centric business processes.

# Goal 5

## Objective 5.3 Measures

- Increase shared service reuse by 10% each year.
- Increase availability of mission critical business applications to 99.99% of scheduled service hours.
- Establish an alternate IT facility for disaster recovery.
- Reduce the time required to locate records for public disclosure requests.
- Increase the amount of historical data available to agency decision-makers.

*Note: All measures are dependent on funding and are targeted for end of FY2013.*

## Objective 5.4

Ensure accountability for the resources entrusted to us.

### Strategies

- 5.4.1: Produce accurate, timely financial reports for workers' compensation funds and make them readily available to interested parties.** We will fully implement online reporting in the Apprenticeship Registration Tracking System (ARTS), streamline the reporting process, and provide education to training coordinators in local apprenticeship programs.
- 5.4.2: Ensure financial accountability for all agency funds by performing internal audits in areas of strategic risk, improving procedures for handling checks and cash receipts, and reducing cash receipts received by L&I's mailroom staff.** Internal auditing at L&I strengthens the performance accountability of agency operations. This includes how we safeguard assets, such as checks and cash receipts. Other areas of emphasis include assessing compliance with laws and other requirements; maintaining data and system confidentiality, integrity, and availability; and using public resources efficiently.
- 5.4.3: Implement electronic fund transfer of payments.** In fiscal Year 07, we sent 158,161 checks to health-care providers. We plan to link with OFM's Electronic Fund Transfer (EFT) System, to set up EFT of these payments and reduce the number of paper checks we issue. Following implementation, we will assess opportunities to expand the use of EFT to other types of payments.

**5.4.4: Fully implement OFM's Enterprise Risk Management System and achieve Maturity Level 7, the highest rating.** Risk management means having in place an agency-wide, systematic process for evaluating and addressing the impacts of risks. An "enterprise" approach means evaluating and prioritizing risks at a senior leadership level, not the individual program level. We have achieved Maturity Level 6 on the OFM scale. To achieve Maturity Level 7, we need to establish a steering committee that will meet quarterly to review losses, identify new risks, and develop plans to keep enterprise risk management active and moving forward. Involvement in L&I's strategic planning and budgeting processes would be expected.

**5.4.5: Ensure a safe and healthy work environment for all L&I employees.** A safe working environment means making sure our employees know their safety is more important than anything else they do at work. This strategy utilizes a detailed safe plan built on continuous analysis/assessment, program specific planning, supervisory enforcement, and support from senior management. As the state's lead executive agency for workplace safety, we must set the example and be a role model for other government agencies. In addition, our Wellness Program provides resources and information to help staff be more health conscious.

## Objective 5.4 Measures

- Achieve Maturity Level 7 on Enterprise Risk Management System
- Decrease in specific incident types, include automobile accidents
- Increase percentage of employees participating in L&I's Wellness Program
- Increase number of health-care providers paid by EFT by 2012



# Appendix A

## Statutory Authority— Department of Labor & Industries

### Rulemaking Process

Chapter 19.85 RCW  
Chapter 34.05 RCW

Regulatory Fairness Act  
Administrative Procedure Act

### Public Meetings Process

Chapter 42.30 RCW  
Chapter 42.17 RCW

Open Public Meetings Act  
Disclosure — campaign finances — lobbying

### Department of Labor and Industries Administration and Authority

Chapter 43.17 RCW  
RCW 43.17.010  
Chapter 43.22 RCW

Administrative Departments and Agencies – General Provisions  
Department of Labor and Industries’ enabling statute  
Department of Labor and Industries’ enabling statute

### Insurance Services

Title 51 RCW  
RCW 68.50.103  
RCW 36.65.060  
RCW 41.05.011 & 41.05.031  
RCW 43.33A.110  
RCW 48.05.200  
RCW 70.14.040  
RCW 70.14.050

Industrial Insurance  
Autopsies in Industrial Deaths  
Public employee retirement or disability benefits not affected  
Agencies to establish health care information systems  
Rules and Regulations – Investment policies and procedures  
Commissioner as attorney for service of process - Exception  
Review of prospective rate setting methods  
Drug purchasing costs controls – Establishment of evidence- based prescription drug program

### Division of Occupational Safety and Health

Chapter 43.05 RCW  
RCW 43.05.090  
  
Chapter 49.17 RCW  
Chapter 49.19 RCW  
Chapter 49.22 RCW  
Chapter 49.24 RCW  
Chapter 49.26 RCW  
Chapter 70.74 RCW

Technical Assistance Programs  
Department of Labor and Industries – Consultative visit, report – compliance inspection, citation  
Washington Industrial Safety and Health Act  
Safety - Health Care Settings  
Safety - Crime Prevention  
Health and Safety – Underground Workers  
Health and Safety – Asbestos  
Washington State Explosives Act

# Appendix A continued

|                    |  |
|--------------------|--|
| Chapter 70.77 RCW  | Fireworks Act                                      |
| Chapter 70.162 RCW | Indoor Air Quality in Public Buildings             |
| Chapter 72.23 RCW  | Public and Private Facilities for the Mentally Ill |
| Chapter 88.04 RCW  | Charter Boat Safety Act                            |

## Specialty Compliance Services

|                          |   |
|--------------------------|---|
| Chapter 18.27 RCW        | Registration of Contractors   |
| Chapter 18.106 RCW       | Plumbers  |
| Chapter 19.28 RCW        | Electricians and Electrical Installations   |
| Chapter 19.29 RCW        | Electrical Construction   |
| Chapter 19.30 RCW        | Farm Labor Contractors  |
| Chapter 39.12 RCW        | Prevailing Wages on Public Works  |
| RCW 43.22.335- 43.22.495 | Mobile homes, commercial coaches, recreational vehicles, park trailers, factory build housing and other factory assembled structures. |
| Chapter 43.22A RCW       | Mobile and manufactured home installation   |
| Chapter 49.04 RCW        | Apprenticeship  |
| Chapter 49.08 RCW        | Arbitration of Disputes   |
| Chapter 49.12 RCW        | Industrial Welfare  |
| Chapter 49.28 RCW        | Hours of Labor  |
| Chapter 49.30 RCW        | Agricultural Labor  |
| Chapter 49.38 RCW        | Theatrical Enterprises  |
| Chapter 49.40 RCW        | Seasonal Labor  |
| RCW 49.44.090            | Unfair practices in employment because of age of employee or applicant  |
| Chapter 49.46 RCW        | Minimum Wage Act  |
| Chapter 49.48 RCW        | Wages – Payment – Collection  |
| Chapter 49.52 RCW        | Wages – Deductions – Contributions – Rebates  |
| RCW 49.56.040            | Labor claims paramount to claims by state agencies  |
| Chapter 49.66 RCW        | Health Care Activities (Labor Disputes)   |
| Chapter 49.70 RCW        | Worker and Community Right to Know Act  |
| Chapter 49.78 RCW        | Family Leave  |
| RCW 60.04.250            | Informational materials on construction lien laws – Master documents  |
| Chapter 67.42 RCW        | Amusement Rides   |
| Chapter 70.79 RCW        | Boilers and Unfired Pressure Vessels  |
| Chapter 70.87 RCW        | Elevators, Lifting Devices, and Moving Walks  |

## Crime Victims

|                               |  |
|-------------------------------|--|
| Chapter 7.68 RCW              | Victims of Crimes – Compensation, Assistance                               |
| RCW 72.09.095<br>compensation | Transfer of funds to department of labor and industries for crime victims' |



## Appendix B

# Performance Assessment

During the past biennium, the Department of Labor & Industries (L&I) built a comprehensive system for measuring and managing performance, including regular monitoring, discussion, and problem solving. Management teams in each region and each program hold internal Government Management Accountability and Performance (GMAP) meetings to review progress, recognize success, and identify barriers and opportunities.

Over the past year, we also worked with Brian Willett from the Office of Financial Management (OFM) to complete the OFM Performance Measures Assessment and improve our measures. We eliminated some measures and used the OFM feedback to sharpen and refocus others.

**This assessment covers the FY07-09 measures. Current performance results for each of our agency activities are posted on the OFM Web site.**

### **Goal 1: Make Washington workplaces safer**

L&I's Division of Occupational Safety and Health (DOSH) conducted 19,728 safety and health inspections and consultations in FY2007. Through these interventions, we identified more than 78,000 workplace hazards and worked with employers to fix them.

The timeliness of hazard correction was more than 96% (reported in federal FY 2007). This represents an improvement. DOSH performance is reviewed quarterly in a joint federal-state review with the federal Occupational Safety and Health Administration.

Our ability to retain safety professionals and industrial hygienists has been adversely affected by market competition—the availability of higher paying positions, especially in the private sector. Turnover and vacancies hindered our ability to meet annual performance targets for inspections and hazard identification.

Research conducted by the Safety and Health Assessment and Research for Prevention (SHARP) Program has solidly demonstrated the benefits of compliance inspections. Workplaces that have had a compliance inspection are safer than those that do not by 17%.

### **Goal 2: Administer one of the premier worker's compensation organizations in the nation in quality of service, benefits, and cost.**

Insurance Services is the division within L&I that is responsible for managing the workers' compensation system in Washington State. The division succeeded in meeting targets in most of the performance areas, in part through technological improvements and the use of internal GMAP sessions.

Technological improvements have increased timeliness of receipt of injured workers' claims, claims allowance, initial payments of wage replacement benefits, delivery of early return-to-work services, and setting up new pension benefits. We've also met targets for auditing self-insured businesses, and timeliness and accuracy for establishing new employer accounts.

In addition, we have held medical costs below the national average through efforts that include increasing use of the state's preferred drug list and effective evidence-based coverage decisions, such as avoiding inappropriate use of physical and occupational therapy and unproven procedures.

The Centers for Occupational Health and Education (COHE) are the result of a partnership between L&I and community health-care organizations to expand occupational health-care expertise and improve injured worker outcomes. As of June 2008, 26% of all injured workers are being treated by a health-care provider associated with the centers in Renton and Spokane. Effective treatment and early return-to-work opportunities led to a savings of \$1,300 per worker claim.

# Appendix B continued

## **Goal 3: Reduce the workers' compensation fraud and abuse; shrink the underground economy.**

### **Fraud and abuse**

In our FY2007, we achieved a 9.9 to 1 return on investment for our Fraud Prevention and Compliance Program. We use internal data and we cross matched data with other taxing agencies to focus limited resources on the most troublesome industries. The result is significant improvement in premium dollars identified as well as increased the percentage of debit audits. Health-care provider billing audits have been successful as well. Overpayment assessments based on audits for the first three quarters of FY 2008 were \$1.42 million.

Significant turnover in audit staff occurred during FY 2008 as experienced auditors left for better-paying jobs in the private sector and other government agencies. In addition, staff resources were redirected when we tested the Field Audit Computer Technology (FACT) system and conducted training. As a result, we did not meet audit performance targets. The partial rate holiday that occurred in first half of FY08 led to an expected decline in monies owed and also affected collections targets.

We have far exceeded both activity and cost avoidance and recovery targets for worker and employer investigations. Timeliness, effective caseload management, and customer satisfaction are areas for improvement.

### **Underground economy**

The Electrical Compliance, Outreach, Regulation and Education (ECORE) team and Fraud Audit Investigation Revenue (FAIR) team use electrical inspectors and construction compliance inspectors to locate unregistered contractors who do not pay workers' compensation insurance. Each team has exceeded expected targets, identifying more than 2,000 non-compliant employers. The FAIR team identified over \$1.2 million owed and we have collected \$390,223 through March 2008.

## **Goal 4: Protect public safety and property; support the economic well-being of individuals and businesses.**

### **Public safety**

*Public Safety programs include Boiler, Electrical, Elevator, Factory-Assembled Structures and Plumber Certification programs.*

Our public safety programs conduct more than 330,000 inspections each year. The residential and commercial construction boom has impacted workload in all programs which, in turn, has affected timeliness in elevator and electrical inspections. Process improvement and technology solutions have been made in several areas to improve the effectiveness and efficiency of the inspection process.

In the **Electrical Program**, data is being used to target the 5% of electrical contractors who receive the most corrections per inspection or the 5% who receive the most corrections statewide. We notified these electrical contractors, gave them the data and offered assistance. The Electrical Program conducted three training sessions with contractors who brought their entire staff to the training—a total of 80 participants. One of the contractors has become a model electrical contractor and another has improved dramatically. The Electrical Program has improved timeliness of inspections, reduced serious electrical installation hazards, and reduced the number of electrical contractors operating without a license or workers' compensation coverage.

In 2007, the **Elevator Program** inspected 15,000 elevators. The program went from 96% of annual inspections completed in FY06 to 92% in FY07. The reasons for the decline were vacancies or staff on extended medical leave. Violations corrected within 90 days went from 41% in FY06 to 47% in FY07. The program is improving technology to be able to identify the contractors who make the most installation mistakes and do the most installations.

# Appendix B continued

In the **Factory-Assembled Structures Program**, the turn-around time in plan review was 16 days in FY06 and 19 days in FY07. It is currently 10 days in June 2008 with the addition of another FTE and a slight decline in the construction industry.

The **Boiler Program** is 98% effective in conducting timely boiler and pressure vessel inspections. Consistency and accuracy in the inspection process is being improved by their quality-assurance program.

## Economic well-being

**Apprenticeship:** The boom in residential and commercial construction has had a positive impact on the number of apprentices while the number of apprenticeship programs has remained relatively stable. The importance of apprenticeship's role in meeting the demand for skilled construction workers has been highlighted in several ways. For example, Governor Gregoire's support for a new aerospace manufacturing apprenticeship program, legislation requiring the use of apprentices on all public works projects, and grants to increase pre-apprenticeship opportunities. The apprenticeship program continues to focus on compliance and apprentice retention and completion.

**Employment Standards and Prevailing Wage programs:** Targets for complaint resolution and dollars recovered have not been met. Factors include significant process changes resulting from the 2006 Wage Payment Act, loss of key staff in the Prevailing Wage Program, and technological challenges presented by an archaic data collection system. Both programs are using process improvement methodologies and targeted compliance to use limited resources more effectively.

**Minor work permit endorsements:** Internal GMAP sessions have identified changes to improve employers' compliance with minor work requirements. Our Employment Standards Program is combining efforts with DOSH to locate hazardous industries where minors may be employed without the proper endorsement on their Master Business License.

The **Contractor Registration Program** has exceeded targets for the timeliness of the contractor registration process. In FY07, \$1,678,825 in bond dollars was awarded to consumers but we did not meet our target. Improved compliance effort and legislation increasing the penalty for operating without registration has been effective. In 2007, registered contractors increased from 56,000 to more than 59,000.

The **Crime Victims Compensation Program** has met and exceeded targets for timeliness of claim allowance and bill payment during the past biennium. The program has improved quality-assurance efforts and introduced a number of simplified administrative processes for applicants and providers. Stable funding remains an ongoing challenge that affects the reimbursement rate for providers. We are concerned that victims may not receive the medical services they need, compromising the program's intent.

## Goal 5: Achieve high performance through efficiency, innovation and accountability.

### Improve services to small businesses

Requests from customers have significantly increased the number of small-business consultations and public presentations. We exceeded these targets and increased staffing to meet customer demand. The Small Business Roundtables initiated by L&I in 2006 and 2007 have now been adopted statewide for multiples agencies who work with Washington business owners. Small businesses see state government as one entity and delivery services to them based on that view continues to be an important focus in the upcoming biennium. Additionally, customer feedback has been used internally to help our programs understand the unique needs of small business.

### Communication with customers

Three principal strategies have been used to increase the effectiveness of our communications with our customers:

- Improving Web site usability through stringent testing and customer feedback, and implementing graphic standards for printed publications and promotional materials.

# Appendix B continued

- Improving the effectiveness of written communications by using “Plain Talk” principles. All divisions now have trained staff to rewrite customer documents. Measurable outcomes such as dollars received, accuracy of information received, and timeliness of responses are measures we are using to evaluate how well the rewritten documents work. Approximately 125 of the 375 documents targeted for revision in the five-year period have been revised.
- Increasing the amount of information available in Spanish, both in printed materials to workers and employers, and translating 250 Web pages into Spanish.

## Information Technology

The role of information technology (IT) is to support and enable the agency’s vision and business goals. Our IT strategies focus on increasing value to the business and improving our ability to meet business needs.

- **Reduce the amount of time and effort required to build, change and maintain our business applications.** Many applications are now sharing IT services such as security, correspondence, data exchange, and reporting. This has helped reduce some of the effort required to develop and maintain new business applications. Comprehensive planning is under way to migrate the agency to a modern IT architecture based on a model of shared IT services.
- **Minimize the disruptive impacts of deploying and supporting new technologies.** We were able to retire or contain several products that were either obsolete or duplicated by other products. This reduces the complexity of the environment and minimizes disruptions to the end-user.
- **Improve the quality, security and reliability of business applications and IT infrastructure.** Several upgrades were made to our application monitoring systems and incident response procedures. Overall, application availability targets were exceeded by a wide margin.
- **Improve our ability to share information and IT resources between agency business units.** Thanks to improvements in remote and mobile access technologies, employees working in the field now have better access to information systems. An upgraded integration infrastructure has improved our ability to share information between legacy systems and newer Web-based applications.

## Human Resources Management

Fully understanding each job we supervise and continually re-evaluating the knowledge, skills and abilities necessary to perform that job successfully is the hallmark of a high-performing workforce. Managers must use this knowledge to communicate clear performance expectations. We have had measurable success in several areas during the last biennium:

- Timely completion of 98% of employee evaluations.
- Improvements in recruiting and interviewing processes have resulted in L&I having the shortest hiring time of all state agencies.
- Established a comprehensive Leadership Development program and trained more than 450 supervisors and managers to ensure continuity of program leadership.
- The new Capstone Leadership program provides intensive training to agency staff demonstrating potential to advance to leadership positions within L&I. The first 14 graduates completed their training in May 2008.

| State Fund   |                  |                  |
|--|------------------|------------------|
| Financial Summary                                    |                  |                  |
| Accident, Medical Aid and Pension Reserve Funds      |                  |                  |
| Summary of Financial Condition                       | June 30, 2007    | June 30, 2006    |
| <b>Assets</b>  |                  |                  |
| Fiscal Year Ending                                   |                  |                  |
|  | \$11,113,223,000 | \$10,190,710,000 |
| Cash and Investments                                 | 383,037,000      | 420,310,000      |
| Premiums Receivable, Net                             | 13,686,000       | 10,910,000       |
| Land, Buildings and Equipment, Net                   | 62,263,000       | 29,810,000       |
| Other Assets   | \$11,572,208,000 | \$10,651,740,000 |
| <b>Total Assets</b>                                  | \$11,572,208,000 | \$10,651,740,000 |
| <b>Liabilities and Contingency Reserve</b>           |                  |                  |
| Benefits*  | \$8,794,375,000  | \$8,328,000,000  |
| Claims Administration                                | 414,332,000      | 399,000,000      |
| Retrospective Rating Adjustments                     | 159,748,000      | 156,000,000      |
| Other Liabilities                                    | 110,041,000      | 57,000,000       |
| <b>Total Liabilities</b>                             | \$9,478,496,000  | \$8,940,000,000  |
| <b>Total Liabilities*</b>                            | \$9,478,496,000  | \$8,940,000,000  |
| Contingency Reserve*                                 | 2,093,712,000    | 1,709,740,000    |
| <b>Total Liabilities and Contingency Reserve</b>     | \$11,572,208,000 | \$10,651,740,000 |
| <b>Summary of Operations and Contingency Reserve</b> |                  |                  |
| <b>Revenues</b>                                      |                  |                  |
| Net Premiums Earned*                                 | \$1,294,870,000  | \$1,330,000,000  |
| Net Investment Income Earned                         | 529,987,000      | 460,000,000      |
| Investment Gains                                     | 219,078,000      | 1,000,000,000    |
| Self-Insured Pension Reimbursements*                 | 66,091,000       | 1,000,000,000    |
| Other Income   | 58,455,000       | 1,000,000,000    |
| <b>Total Revenues Earned</b>                         | \$2,178,481,000  | \$2,830,000,000  |
| <b>Expenses</b>                                      |                  |                  |
| Net Benefits Incurred*                               | 1,770,168,000    | 1,770,168,000    |
| Net Benefits Incurred*                               | 136,456,000      | 136,456,000      |
| Claims Administration Expenses Incurred*             | 136,223,000      | 136,223,000      |
| Other Administrative Expenses Incurred               | 2,041,857,000    | 1,000,000,000    |
| <b>Total Expenses Incurred*</b>                      | \$2,084,664,000  | \$2,042,869,000  |
| <b>Net Income*</b>                                   | \$93,817,000     | \$771,131,000    |
| Equities & TIPS Unrealized Gains                     | 272,396,000      | 1,000,000,000    |
| Equities & TIPS Unrealized Gains                     | (16,618,000)     | 1,000,000,000    |
| Change in Non-Admitted Assets*                       | \$394,492,000    | 1,000,000,000    |
| <b>Change in Contingency Reserve*</b>                | \$394,492,000    | 1,000,000,000    |
| <b>Cash Flow Summary</b>                             |                  |                  |
| Operational Revenues Collected*                      | \$1,448,968,000  | \$1,448,968,000  |
| Operational Revenues Collected*                      | (1,304,775,000)  | (1,304,775,000)  |

# Appendix C

## Financial-health Assessment

### Workers compensation funds

#### Contingency reserve policy ranges

After exceeding policy ranges in the late 1990s, we issued \$400 million of dividends to employers from the Accident Fund and kept rates to employers and employees below break-even levels in the Medical Aid Fund. Once inside the policy range, we ended the dividends and increased the reduced Medical Aid Fund rates to get back to break-even rate levels. These large increases prompted us to rethink the contingency reserve policy using dynamic financial analysis done by our actuaries and the consultant to the State Investment Board, Conning and Company.

Legislation passed in the 2005 session – EHB 1917 – requires the Workers’ Compensation Advisory Committee to review the Fiscal Year 2006 financial audit report and then make suggestions to us regarding the contingency reserve policy range. With this information we can recommend possible actions to bring the contingency reserve back into the policy range.

We are currently considering the use of a new set of policy ranges for the contingency reserve separately for the Accident and Pension Funds combined and the Medical Aid Fund by itself. In the event that we exceed the established policy ranges, premium rate actions may be pursued to bring the contingency reserve back into the middle of the range.

#### Supplemental Pension Fund

The premiums for the Supplemental Pension Fund are only required to pay for current spending. The policy is to keep the quarter ending asset amount at approximately four months of the benefit payments to maintain sufficient liquidity to pay current benefits. The premium assessments are shared with self insured employers and at a fixed rate per hour worked for all risk classifications.

#### Revenues collection

During Fiscal Year 2007, we collected \$1,527 million of Accident and Medical Aid premiums from employers in the State Fund and \$270 million of Supplemental Pension Fund premiums from both State Fund and self-insured employers.

For Fiscal Year 2008, we expect to collect \$1,230 million of Accident and Medical Aid premiums and \$320 million of Supplemental Pension Fund premiums. The premiums decreased over the year because State Fund firms enjoyed a \$310 million Medical Aid Fund rate holiday for work performed during the period from July 1, 2007, to December 31, 2007. In addition the department expects to give firms not enrolled in the retrospective rating program during this six month period dividends of \$37 million in July 2008.

# Appendix C continued

## Calculating experience factors

Beginning in 2007 and finishing in 2008, the department adopted an improved method to calculate firms' experience factors bringing us more in line with what other states are doing. This change accomplished three important things:

- **Simplicity:** The calculations are easier to understand.
- **Accuracy:** The experience rating results in premiums that are closer to the expected future costs of firms.
- **Stability:** Changes to experience factors for firms experiencing their first compensable claim will result in a smaller change.

## Our investment portfolio

The investment portfolio of the State Fund was valued at \$11.1 billion at the close of Fiscal Year 2007. The net investment revenue including realized gains was about 28 percent of the total revenues earned. Investment grade bonds, Treasury Inflation Protected Securities and equity index funds constituted approximately 74, 5 and 19 percent of the portfolio respectively. The remainder of the portfolio is in cash and short-term investments. The total portfolio is managed to support rate stability, assure that assets are available to fund future benefit payments and maximize current income while preserving capital.

## Building trades service fees

We also provide a variety of fee-driven services in the building trades industry. The principle revenues generated from these services are:

- Electrical permit, licensing and inspection fees
- Electricians certification and examination fees
- Plumbers Certification and examination fees
- Contractor registration fees
- Elevator permit and inspection fees
- Boiler inspection and certification fees
- Prevailing wage intents and affidavits
- Mobile/Manufactured Homes Installation Training

The Mobile/Manufactured Homes program is new to Labor & Industries effective July 1, 2007.

## Fees deposited into dedicated funds

Electrical, plumber, mobile/manufactured homes installation training, and boiler fees are deposited into dedicated funds.

We expect revenues to exceed expenditures for the Boiler, Plumber and Prevailing Wage programs as a result of approved fee increases effective July 1, 2007. We will use the fund balance for these dedicated funds to provide appropriation authority for future workload growth and to pay for IT systems upgrades and improvements.

In addition, in the 2006 Legislative Session legislation passed giving the Prevailing Wage program 100 percent of the revenue collected, effective July 1, 2007. Prior to this law change the general fund state received 30 percent of the revenue collected.

We project expenditures to exceed revenues for the Factory Assembled Structures, Plumbers, Electrical and Asbestos programs. We will request fee increases following the I-960 requirements during the 2009 Session.

## Fees deposited into the State General Fund

Revenues will exceed expenditures for contractor registration and elevator permits and inspections. The revenue collected above our administrative costs to run the two programs stays in the General Fund for other statewide expenditures.

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