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# Joint Enforcement Strike Force

*On the Underground Economy*

## 2020 REPORT

This report was prepared by the Tax Branch of the California Employment Development Department (EDD).

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April 1, 2022

The Honorable Members of the California State Legislature  
California State Senate and Assembly  
State Capitol  
Sacramento, CA 95814

Dear Members of the California State Legislature:

Executive Order W-66-93 established the Joint Enforcement Strike Force (JESF) to combat the underground economy by pooling resources and sharing data among the state agencies charged with enforcing licensing, labor, and payroll tax laws. On January 1, 1995, Section 329 was added to the California Unemployment Insurance Code (CUIC), which placed the provisions of the Executive Order into law. This section contains a provision requiring the strike force to report to the Governor and the Legislature annually regarding its activities. This letter is being sent pursuant to Government Code Section 9795(a) that requires each legislative mandated report to include a summary of its contents not to exceed one-page in length, which is distributed to each member of the Legislature.

The JESF 2020 Report provides the annual summary of activities and outcomes from the JESF in accordance with Section 329 of the CUIC. This report includes the following contents:

- An overview of the JESF including information about strike force partners.
- Background information about the underground economy and the JESF's goals.
- Efforts made by the strike force to publicize its activities and to receive referrals from the public including webpage view statistics.
- Informant contact statistics for the toll-free JESF hotline and other outlets.
- Narrative information about collaboration among the strike force partners and statistical results from collaborative efforts.
- Statistics and narratives about blatant violations and noncompliance with licensing, labor, and payroll tax laws identified, audited, investigated, or prosecuted through civil actions or criminal prosecution.

Printed copies of this report are available to any legislative member upon request. The report can also be viewed online at [www.edd.ca.gov/About\\_EDD/EDD\\_Legislative\\_Reports.htm](http://www.edd.ca.gov/About_EDD/EDD_Legislative_Reports.htm).

Sincerely,

/s/ Nancy Farias  
Director

## **JOINT ENFORCEMENT STRIKE FORCE OVERVIEW AND MEMBERS**

This legislatively mandated report provides the annual summary of activities and outcomes from the Joint Enforcement Strike Force (JESF) on the Underground Economy in accordance with Section 329 of the California Unemployment Insurance Code (CUIC). In October 1993, Executive Order W-66-93 established the JESF to combat the underground economy by pooling resources and sharing data among the state agencies charged with enforcing tax, labor, and licensing laws.

On January 1, 1995, Section 329 was added to the CUIC, which placed the provisions of the Executive Order into law. The EDD is the designated lead agency of the JESF, and the Employment Development Department (EDD) Director or designee serves as its chair. The JESF members include but are not limited to the following:

### **EDD**

**Department of Consumer Affairs (DCA)**

**DCA – Contractors State License Board (CSLB)**

**DCA – Bureau of Automotive Repair (BAR)**

**DCA – Bureau of Security and Investigative Services (BSIS)**

**Department of Industrial Relations (DIR)**

**DIR – Division of Labor Standards Enforcement (DLSE)**

**DIR – Division of Occupational Safety and Health (DOSH) (Cal/OSHA)**

**California Department of Insurance (CDI)**

**Franchise Tax Board (FTB)**

**California Department of Tax and Fee Administration (CDTFA)**

**California Department of Justice**

**California Department of Alcoholic Beverage Control (ABC)**

**U.S. Department of Labor (DOL)**

**Internal Revenue Service (IRS)**

Attachment A contains descriptions of the JESF's participating entities.

## **JOINT ENFORCEMENT STRIKE FORCE AND UNDERGROUND ECONOMY INFORMATION**

### **Joint Enforcement Strike Force**

The JESF's goals are to help restore economic stability, to improve working conditions, and consumer and worker protections in the state. Specifically, the JESF works to:

- Eliminate unfair business competition.
- Protect workers by ensuring that they receive all compensation, benefits, and worker protections they are entitled to by law relating to their employment.
- Protect consumers by ensuring that all businesses are properly licensed and that they adhere to the state's consumer protection regulations.

- Reduce the burden on law-abiding citizens and businesses by ensuring that all businesses and individuals comply with the state's licensing, regulatory, and tax laws.
- Reduce the tax gap by increasing voluntary compliance with the state's tax laws to maximize the state's General and Special Funds.

Additional information, including the JESF's legal authority, links to the JESF Reports for the two most recent years, and links to three JESF outreach publications, can be found on the JESF webpage at:

[https://edd.ca.gov/Payroll\\_Taxes/Joint\\_Enforcement\\_Strike\\_Force.htm](https://edd.ca.gov/Payroll_Taxes/Joint_Enforcement_Strike_Force.htm).

## **The Underground Economy**

Most of the information in this section was obtained from the Executive Summary of the [California Little Hoover Commission's March 2015 report](#). The underground economy robs the state of an estimated \$8.5 to \$10 billion annually in uncollected tax revenue, money that could fund education, law enforcement, long-overdue infrastructure investments, or reduce taxes for the majority of Californians who play by the rules.

The term underground economy means different things to different people. Broadly defined, it includes any activities that individuals and businesses try to hide from government licensing, regulatory, tax, and law enforcement agencies. Entrepreneurs who cut corners by not paying taxes, not providing adequate insurance and skimming off their employees' paychecks are considered to be part of the underground economy.

California's well-being depends on the success of its businesses. To succeed, businesses need to compete on a level playing field. California has many rules and regulations by which its businesses must abide, and when some entrepreneurs do not play by those rules, it creates an unfair competitive advantage.

When business owners cheat by illegally underpaying employees, for example, or not paying taxes – allowing them to undercut prices of law-abiding businesses – it hurts compliant businesses and California workers alike. Businesses that don't comply with labor, licensing, and payroll tax laws force law-abiding businesses to pay higher taxes and expenses due to socialized costs. They don't get the required licenses for their occupations or provide workers' compensation coverage. This business model, when allowed to prevail, nourishes a powerful downward economic spiral. It is a bane to the above-board businesses, particularly the small businesses that are the backbone of the California economy.

Employees working within this illegal business model, particularly those in labor intensive industries – people who clean buildings, wash cars, wait on customers, pack and ship goods in warehouses, harvest the food Californians eat – often suffer the greatest harm. Employers may short their paychecks. Or they may intentionally misclassify them as independent contractors, making them pay the employer's share of payroll taxes. The working conditions may not meet labor standards, which can put

workers in danger. Their wages may be less than what is required by law, and benefits they are entitled to are often denied or delayed because their wages are not properly reported.

The underground economy also affects consumers. The State of California Department of Justice website, Office of the Attorney General, [Tax Recovery in the Underground Economy \(TRUE\)](#) page includes the following examples of harm caused when consumers buy counterfeit goods. Purchasing knock-off merchandise supports those who steal designer's ideas and takes jobs from workers that manufacture legitimate products. Counterfeit merchandise is often inferior to the original product. When consumers pay for services "under the table" they may also be supporting human trafficking. Consumers can also be affected when contracting with unlicensed businesses. Licensing provisions are designed to ensure sufficient skill and knowledge to protect consumers.

## **The Tax Gap**

One factor of the underground economy is the gap between the amount of taxes that are reported and the amount that is actually due. The following information about the tax gap was obtained from the IRS website. The gross tax gap is the amount of true tax liability that is not paid voluntarily and timely. The tax gap and associated concepts are a particular way of defining and analyzing compliance and noncompliance and are based on tax year liability. The tax gap provides a rough gauge of the level of overall noncompliance and voluntary compliance.

The IRS periodically estimates the tax gap to gauge historical overall compliance of all types of taxpayers with their federal tax obligations. The estimates take into account federal taxes due as well as refundable and non-refundable tax credits.

In general, the tax gap estimates dating back decades consistently show the United States enjoys a relatively high and stable voluntary tax compliance rate. Sustaining and improving taxpayer compliance is important because small declines in compliance cost the nation billions of dollars in lost revenue and shifts the tax burden away from those who don't pay their taxes onto those who pay their fair share on time every year. Understanding the elements of the tax gap enables policymakers and tax administrators to make better decisions regarding how to allocate resources used to administer the tax code. All initiatives by the IRS to improve tax collection are intended to narrow the tax gap and increase compliance. The estimates also inform policymakers of potential areas that need to be addressed in other ways.

The tax gap is comprised of three main components: non-filing, underreporting, and underpayment:

- The non-filing tax gap is the tax not paid on time by those who do not file the required returns on time.



- The underreporting tax gap is the net understatement of tax on timely filed returns.
- The underpayment tax gap is the amount of tax reported on timely filed returns that is not paid on time.

On September 26, 2019, the [IRS released a new set of tax gap estimates](#) for tax years 2011, 2012, and 2013. The IRS published its full findings in its September 2019 *Publication 1415: [Federal Tax Compliance Research: Tax Gap Estimates for Tax Years 2011-2013](#)*. The results show the nation's tax compliance rate is substantially unchanged from prior years.

### **Recent Legislation and Initiative**

1. Governor Newsom signed [Assembly Bill \(AB\) 2257](#) into law on September 4, 2020. The bill modified the exceptions provided under AB 5 and added additional exceptions. Assembly Bill 5 became effective in 2019 which codifies the ABC test adopted by the California Supreme Court in *Dynamex Operations West, Inc. v. Superior Court of Los Angeles* (2018) 4 Cal.5th 903. Assembly Bill 5 requires the ABC test be applied to determine if workers in California are employees or independent contractors for purposes of the Labor Code, the California Unemployment Insurance Code (CUIC), and the Industrial Welfare Commission (IWC) wage orders.
2. On November 3, 2020, California voters approved [Proposition \(Prop\) 22](#) that became effective December 16, 2020. Under Prop 22 drivers for app-based network companies providing transportation (rideshare) and delivery services are independent contractors and not employees or agents if the network company satisfies [certain conditions](#).

To learn more on AB 5, AB 2257, and Prop 22, visit the EDD [AB 5 – Employment Status](#) webpage or California Labor & Workforce Development Agency's [Employment Status Portal](#).

### **STRATEGIC APPROACH TO COMBATING THE UNDERGROUND ECONOMY**

The JESF partners use a strategic approach to combat the underground economy which includes education and outreach, administrative enforcement, and criminal prosecution.

In 2020, the State of California experienced unprecedented challenges due to the COVID-19 pandemic. In response to the outbreak, the JESF partners adjusted their operations to provide mission critical functions and essential services to the people of California, while complying with stay-at-home directives from the state to protect the

health of employees and customers during the crisis.

## **Education and Outreach**

The JESF partners have a variety of methods for outreach and education accessible to employers, employees, tax professionals, business groups, and the general public to promote voluntary compliance. The education and outreach methods used to distribute information include publications, webinars, in-person seminars, community outreach, social media, and websites.

### Seminars and Presentations

- The EDD conducts various payroll tax seminars, available at no cost including co-presented joint seminars such as the EDD/IRS payroll tax, EDD/DIR labor law and payroll tax seminars, etc. The EDD's outreach efforts also include providing special presentations and participating in information booths at events sponsored by entities such as payroll associations, industry groups, non-profit organizations, and other governmental entities. In 2020, as a result of the COVID-19 pandemic, the EDD converted all in-person seminars to webinars. The EDD conducted 118 outreach events with 5,446 attendees. The EDD continues to look for innovative ways to expand its education and outreach efforts. For example, the EDD utilizes social media such as Facebook and Twitter to reach employers and more of the general public.
  - In an effort to continue to educate California's employers for AB 5, the EDD conducted 11 Employment Status webinars in 2020. Critical information regarding the implementation of AB 2257 was included in webinars conducted after Governor Newsom signed the bill and it became law September 4, 2020.
  - Due to AB 2257, the EDD is in the process of updating the impacted forms and publications, including several industry specific information sheets, to provide guidance on the application of the ABC test.

### Publications and Outreach Materials

- The JESF partners share publications when appropriate. For example, the CSLB provides EDD publications about the requirement to report employees and payroll taxes to the EDD at their contractor testing centers and in mailings to newly licensed contractors.
- The following JESF publications are available on the EDD website and can be ordered, viewed online, downloaded, and/or printed.
  - *Joint Enforcement Strike Force Booklet* ([DE 663](#))
  - *Joint Enforcement Strike Force Informational Sheet* ([DE 664](#))
  - *Joint Enforcement Strike Force Brochure* ([DE 665](#))

## Websites

- The EDD includes information on the underground economy on the following webpage: [www.edd.ca.gov/Payroll\\_Taxes/Underground\\_Economy\\_Operations.htm](http://www.edd.ca.gov/Payroll_Taxes/Underground_Economy_Operations.htm). This webpage provides the viewer with access to prior reports, program and operation information, etc. The EDD website also has a page dedicated to [fraud and penalties](#) and another showing [fraud convictions](#).
- The [JESF webpage](#) provides links to JESF partner websites. Each of the JESF partners includes educational and outreach information on their website. For example, the CSLB provides information on its website warning consumers about the dangers of hiring unlicensed contractors. Publications on this and other topics can be printed or ordered online.

## Other Collaborative Outreach Efforts

- The EDD continues to provide assistance to the Bureau of Barbering and Cosmetology to educate its industry stakeholders. For example, the EDD provided a recorded employment tax presentation that is available on the Bureau's website. In addition, the EDD provided the Bureau with worker classification information for their *Understanding Workers' Rights and Responsibilities* booklet.
- The Small Business Employer Advisory Committee is a group of business professionals representing the small business community throughout California. The committee provides the EDD with recommendations on how to better serve California's small businesses and disseminates outreach information to their respective members. They have partnered with the EDD and provided input into helping combat the underground economy, looking out for consumers, workers, and businesses.

## Future Education and Outreach

As mentioned earlier, in response to the COVID-19 pandemic, the EDD converted all in-person seminars to webinars. The EDD is planning to continue its virtual outreach efforts in 2021. The no-cost payroll tax seminars cover a variety of payroll tax topics. Two of the seminars are offered in collaboration with the IRS and the DIR, including the *Federal/State Basic Payroll Tax Seminar* and the *State Labor Law and Payroll Tax Seminar*. These two seminars are designed to integrate the requirements of both agencies, covering their similarities and differences. The other EDD sponsored seminars include *State Basic Payroll Tax Seminar*, *Cannabis Industry and State Payroll Tax Seminar*, and *Employment Status Tax Seminar*.

As the mandatory State of Emergency guidelines for the COVID-19 pandemic are updated, the EDD will evaluate the reintroduction of in-person seminars. The EDD may also consider offering a combination of virtual and in-person seminars in the future.

## **Administrative Enforcement**

The JESF partners use administrative enforcement activities such as site inspections, audits, and involuntary collection of amounts due to address noncompliance. Data and information are shared between JESF partner agencies where permitted, to maximize enforcement results.

In response to the State of Emergency guidelines for COVID-19 issued on March 4, 2020, the JESF temporarily suspended all joint field enforcement activities starting on March 17, 2020 to ensure the safety of its employees and customers. The suspension remained in effect through the end of the year. As the EDD and the JESF partners navigated the changing tides posed by the pandemic, the safety and health of their employees and customers remained a top priority.

Although field activity suspended in 2020, various enforcement efforts continued along with the JESF's commitment to combatting the underground economy. As discussed further below, JESF partners held virtual meetings in 2020 to continue their collaboration and participated in over 200 inspections. Moreover, the EDD Audit Program conducted 2,097 audits and investigations, leading to \$74.5 million in assessments and the discovery of 31,287 misclassified workers. In addition, multiple stings continued such as those by the Contractor's State Licensing Board discussed below.

California, as well as other states, was inundated in 2020 with an unprecedented number of UI benefit claims due to the COVID-19 pandemic. For context, in one three-week period, California received more claims for UI benefits than it had in all of the prior calendar year. With the UI benefit claim workload being a top priority for the EDD, the concerted efforts to address this workload included an all-hands on deck approach and staff redirection, including JESF staff. In addition, the EDD's Audit Program redirected audit staff to focus on processing the influx of obstructed claims<sup>1</sup>. The EDD Tax Branch's Collection Program redirected collection staff to focus on Identity Verification and UI Contact Center workloads. The objective of these efforts was to ensure that California workers received the unemployment benefits to which they were entitled. Meanwhile, some of the JESF partners also redirected their staff to concentrate on critical workloads specific to COVID-19 field enforcement.

### Information Sharing and Collaboration

Businesses that operate in the underground economy continually develop new schemes to avoid detection of their illegal activities. As these new schemes are identified by the JESF members, information regarding the schemes is shared with member agencies, business associations, and labor organizations. Memoranda of Understanding have been developed to facilitate the sharing of information and data between the JESF

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<sup>1</sup> A benefit claim becomes "obstructed" when a worker files a claim for benefits but the hiring entity considers the worker an independent contractor and not an employee and fails to report or under-report the worker's wages to the EDD.

partners and to enhance collaboration and joint enforcement of tax, labor, and licensing laws.

Following are examples of how the JESF partners share information and collaborate:

- To help combat California's underground economy and protect workers' rights, the EDD and DIR have joined efforts through their respective enforcement programs. The EDD leads the JESF. The DIR leads the Labor Enforcement Task Force (LETF). The LETF mission is to combat the underground economy in order to ensure safe working conditions and proper payment of wages to workers; to create an environment in which legitimate businesses can thrive; and to support the collection of all California taxes, fees, and penalties due from employers. The JESF/LETF Collaborative Enforcement Partnership merges best practices and draws upon both programs' respective strengths through training, refinement of targeting methods, etc.
- There is an ongoing need for the JESF staff to be aware of the various types of schemes used in industries prone to underground economy activity. This knowledge transfer facilitates the development of detection and enforcement techniques necessary to deter and stop the illegal activities. Information is shared as follows:
  - On-the-job.
  - Informal ad-hoc joint management meetings.
  - Quarterly meetings with member agencies.
- Joint statewide JESF/LETF training sessions are periodically held based on operational needs.

### Informant Contacts

The JESF receives allegations of non-compliance from the IRS, USDOL, and other JESF partners as well as from the public. Allegations of noncompliance with payroll tax, labor, and licensing laws may be reported by the following methods:

- Telephone to the EDD's Payroll Tax Fraud Hotline at 1-800-528-1783.
- Completing a [Fraud Reporting Form](#)
  - online via the EDD website
  - via e-mail to [ueo@edd.ca.gov](mailto:ueo@edd.ca.gov)
  - via correspondence by fax to 1-916-227-2772
- Completing and mailing an *Underground Economy Operations Lead Referral/Complaint Form*, available in English ([DE 660](#)) and Spanish ([DE 660/S](#)).

The EDD receives allegations of noncompliance by several methods. The following table provides a breakdown of the number of contacts received by each method in 2018, 2019, and 2020:

Method Received	Number of Contacts Received and Processed		
	2018	2019	2020
Telephone Call to Payroll Tax Fraud Hotline	1,764	2,537	6,674
Online Submission (EDD Website or Email)	1,058	2,338	7,852
Correspondence (Fax or Mail)	122	117	65
Total	2,944	4,992	14,591

Of the 14,591 overall contacts in 2020:

- 1,187 were allegations of potential payroll tax violations.
- 2,023 calls and emails were received with reports of potential UI benefit Fraud schemes. These reports were promptly screened and forwarded to the EDD fraud investigators in the UI Branch and the Investigation Division (ID) for further investigation.
- 3,084 contacts inquiring about UI and/or Pandemic Unemployment Assistance claims were provided to the UI Branch for review.
- 8,297 contacts were either requests for general information or inquiries that were intended for other agencies. The misrouted items were forwarded to the appropriate agency contacts for review and action, as appropriate.

### Site Inspections

The EDD works with the JESF partner agencies to conduct joint on-site business inspections. This multiagency compliance approach presents a united effort to taxpayers and their representatives that both the federal and state agencies work together to enforce tax laws.

- The JESF targets industries known for high levels of noncompliance with payroll tax, labor, and licensing laws. In 2020, prior to the temporary suspension of field activities, the primary industries for site inspections were construction, restaurant, and massage parlor.
- During site inspections, task force members interview owners, managers, and workers to identify employers operating in the underground economy. The primary goal is to identify and bring into compliance individuals and businesses in the underground economy that are in violation of payroll tax, labor, and licensing laws.
- Site inspections are also used as an opportunity for education and outreach. Owners and managers of the businesses inspected are provided materials on how to comply with the laws and regulations affecting their industry as well as how to obtain additional information.

- Joint site inspections of businesses often result in: follow-up audits, payroll tax assessments and citations or stop orders for unsafe working conditions, failure to have workers' compensation insurance, violations of labor laws, or failure to be properly licensed.
- The EDD holds regular strategic and working meetings with its partners to review the latest underground economy schemes, develop special operations, discuss impacted industries and available resources, etc. The JESF partners held virtual meetings in 2020 to continue their collaboration. The JESF partner entities are invited to participate in inspections when there is a potential violation of the laws they administer. The following table shows the number of business inspections that partner entities participated in during calendar years 2018, 2019, and 2020.

Partner Entity	Calendar Year		
	2018	2019	2020
EDD	682	669	165
DLSE	177	267	71
CSLB	460	388	94
Local Police	30	14	9
District Attorney	63	48	9
ABC	18	14	2
CDTFA	0	0	0
BAR	4	11	0
BSIS	0	3	0
CDI	3	1	0
Cal/OSHA	2	0	0
Other	12	10	7

Since the EDD is the lead partner in the JESF, the EDD participates in all of the JESF inspections. This is why the table above indicates the EDD participated in the most inspections each year. The CSLB participated in the second most JESF inspections each year due to the high percentage of noncompliance allegations that are received involving the construction industry. The DLSE participated in the third most JESF inspections because when there is an allegation involving non-reporting of wages, there is often a potential labor law violation.

### Special Operations

Based on allegations of widespread noncompliance with laws and requirements in the nail salon industry, in 2016 State Legislators sponsored several Nail Salon Industry Town Hall Meeting outreach events across the state. The EDD, DIR, and Board of Barbering and Cosmetology participated in these events, each providing information on the laws and regulations they administer. In 2017, the EDD and DIR began targeted administrative enforcement on this industry, as shown in the table below. Enforcement efforts continued in 2018 and 2019 because the JESF partners continued to receive

numerous allegations that nail salons in California were out of compliance. No nail salon inspections were conducted during 2020 due to the COVID-19 Pandemic. JESF expects to continue working on this effort when normal field operations are reestablished. The nail salons that were found likely to have compliance issues were inspected during one of several coordinated operations. Each of the operations consisted of two to three teams operating in a geographic area. The teams took the opportunities to educate salon owners and workers regarding California laws by providing educational materials in English, Korean, Spanish, and Vietnamese. The results from these operations are shown in the table that follows:

<b>Year</b>	<b>Nail Salon Inspections</b>	<b>Number Found With Unreported Workers and Wages</b>	<b>Number Referred to EDD Audit Program</b>	<b>Number Found With DIR Labor Law Violations</b>	<b>DIR Stop Orders Issued*</b>	<b>DIR Issued Citations</b>
2017	23	16	16	18	18	\$256,200
2018	42	30	30	38	36	\$495,586
2019	36	32	32	33	33	\$790,211
2020	0	N/A	N/A	N/A	N/A	N/A

\*The DIR Stop Orders were issued by the Labor Commissioner’s Office to employers for failure to have a workers’ compensation insurance policy.

### Payroll Tax Audits

For scenarios in which a site inspection is not possible, the EDD utilizes various databases, income tax return analysis, along with informant information, to conduct in-depth desk investigations of employers suspected of operating in the underground economy. When noncompliance is detected, the case is referred to the EDD’s Audit Program.

The EDD’s Audit Program conducts follow-up audits on JESF inspections and performs other audits to bring businesses into compliance with state payroll tax and employee reporting requirements. They conduct audits of additional businesses, based on a variety of sources including but not limited to leads from other governmental agencies and UI and Disability Insurance (DI) claims that become obstructed because the claimants’ wages weren’t properly reported to the EDD. During an EDD audit, the auditor verifies that the employer’s acknowledged payroll was properly reported, that Personal Income Tax is being properly withheld from employee wages and reported, and determines the appropriate classification of any workers the business considers independent contractors. The Audit Program issues assessments for payroll taxes due and any applicable penalties and interest to employers located in the state and to out-of-state employers with California workers. In total for 2020 calendar year, this program which includes JESF cases, conducted 2,097<sup>2</sup> audits and investigations, resulting in

<sup>2</sup> Due to the COVID-19 pandemic, the Audit Program suspended field appointments and limited its enforcement to desk audits only.



assessments totaling \$74,513,080 and identified 31,287 misclassified workers or unreported employees. The audit production decreased significantly in 2020 due to the redirection of staffing resources to the obstructed claim investigations. In addition to administrative enforcement, the EDD auditors educate business owners and their representatives regarding the California payroll tax requirements during examinations. They provide information on proper classification of workers, reporting and depositing requirements, and how to obtain additional information from the Department.

Following are the EDD Audit Program calendar year 2018, 2019, and 2020 cumulative audit and investigation results for cases initiated from all sources:

<b>Calendar Year</b>	<b>2018</b>	<b>2019</b>	<b>2020*</b>
Total EDD Payroll Tax Audits/Investigations	6,947	7,002	2,097
Total EDD Payroll Tax Assessments	\$203,979,673	\$208,933,454	\$74,513,080
Total Previously Unreported Employees	125,031	123,074	31,287

\*For Calendar Year 2020: the 2,097 EDD payroll tax audits and investigations completed were comprised of 1,928 audits and 169 investigations; of the \$74,513,080 in EDD payroll tax assessments, \$53,971,682 were the result of audits and \$20,541,398 were the result of investigations; of the 31,287 previously unreported employees, 26,820 were the result of audits and 4,467 were the result of investigations.

- The Questionable Employment Tax Practices (QETP) Program was initiated in 2007 as a collaborative effort between the EDD and IRS to exchange audit leads. In 2018, there were three audits alone which accounted for over \$1 million in assessments and 604 unreported employees. The number of EDD QETP cases completed and the total payroll tax assessments in 2019 were comparable to the 2018 figures. However, the number of previously unreported employees discovered in 2019 was significantly less than the 2018 results. In 2019, the largest four audits accounted for over \$1.3 million in assessments and 146 unreported employees. In 2020, there were fewer QETP cases completed due to the redirection of audit staff as a result of the pandemic. The following table illustrates the results of the QETP Program for the last three years:

<b>Calendar Year</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
EDD Payroll Tax Audits	37	43	8
EDD Payroll Tax Assessments	\$2,127,091	\$2,288,127	\$418,948
Previously Unreported Employees	866	398	207

## **Employment Development Department**

### **Cumulative Joint Enforcement Strike Force Results**

Following are the EDD's cumulative results stemming from administrative activities specific to the JESF:

<b>Calendar Year</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
Joint Inspections	682	669	165
EDD Audit Referrals	595	614	225
EDD Payroll Tax Audits Completed	557	551	158
EDD Payroll Tax Assessments on Above Audits	\$31,104,828	\$19,396,137	\$9,032,653
Previously Unreported Employees on Above Audits	9,568	7,258	1,707

Results fluctuate year to year based on the complexity of cases and number of external lead referrals. In 2018, the EDD and CSLB increased the number of construction inspections in order to protect consumers from victimization following natural disasters. In addition, there were four cases in 2018 which accounted for close to \$12 million in tax assessments and over 1,600 unreported employees. In 2019, there were 15 cases that resulted in total assessments of more than \$5.7 million and over 900 unreported employees. In 2020, the number of JESF inspections and referrals were less than in prior years due to the suspension of field enforcement activities early in the year.

When the EDD determines that an employer's failure to report employees and their wages is due to fraud or intent to evade, a fraud penalty is added to the assessment in addition to the taxes due on the unreported wages. The following is information from the above cumulative results in which a fraud penalty was assessed:

<b>Calendar Year</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
EDD Payroll Tax Audits with Fraud Penalty Assessed (included in figures in previous table)	14	9	0
EDD Payroll Tax Assessments on Fraud Audits (included in figures in previous table)	\$1,159,245	\$677,763	N/A
Previously Unreported Employees on Fraud Audits (included in figures in previous table)	158	213	N/A

In 2018, there were more JESF cases where fraud could be established compared to 2019, however the majority resulted in relatively small assessments. Although the majority of the fraud cases in 2019 also resulted in relatively small assessments, the number of unreported employees identified was higher than the prior years but the average wages paid to the unreported employees discovered during the 2019 audits were less than the prior calendar year. There were no JESF cases completed, where fraud was established in 2020 as the EDD staff were redirected to assist with UI workloads.

The JESF partner enforcement results shown in the tables on the pages that follow were compiled and provided by the partner agencies:

**Division of Labor Standards Enforcement**

Following are the JESF inspection results by the DLSE by industry for the last three calendar years.

Calendar Year	Number of Inspections			Number of Citations		
	2018	2019	2020*	2018	2019	2020*
Automotive	4	22	7	6	18	8
Bar/Nightclub	4	8	0	3	8	0
Car Wash	3	1	0	7	4	0
Construction	10	12	0	6	13	0
Massage	20	10	20	27	9	25
Nail Salon	50	64	6	48	86	10
Other	29	81	11	27	86	15
Restaurant	44	42	17	42	51	19
Retail	10	14	10	4	17	10
Transportation	3	13	0	3	17	0
<b>Total</b>	<b>177</b>	<b>267</b>	<b>71</b>	<b>173</b>	<b>309</b>	<b>87</b>

\*Beginning in March 2020, the DLSE JESF staff were redirected from their regular operations to participate in the COVID-19 task force created by the Governor to provide education and enforcement efforts related to employers' COVID-19 requirements.

Calendar Year	Total Dollar Amount of Penalties Assessed			Total Dollar Amount of Wages Assessed		
	2018	2019	2020	2018	2019	2020
Automotive	\$52,874	\$166,797	\$174,342	\$0	\$3,110	\$0
Bar/Night-club	\$30,882	\$54,578	\$0	\$0	\$4,000	\$0
Car Wash	\$212,643	\$26,750	\$0	\$14,150	\$4,300	\$0
Construction	\$34,700	\$39,985	\$0	\$0	\$0	\$0
Massage	\$722,977	\$150,558	\$276,544	\$86,312	\$23,250	\$0
Nail Salon	\$521,236	\$929,357	\$43,300	\$0	\$6,850	\$10,029
Other	\$390,520	\$627,624	\$91,462	\$0	\$44,350	\$28,050
Restaurant	\$1,219,856	\$372,753	\$110,200	\$184,487	\$17,772	\$53,495
Retail	\$31,750	\$123,678	\$31,500	\$0	\$51,527	\$0
Transportation	\$120,000	\$493,750	\$0	\$0	\$0	\$0
Total	\$3,337,438	\$2,985,830	\$727,348	\$284,949	\$155,159	\$91,574

### **Contractors State License Board**

The CSLB has a Statewide Investigative Fraud Team (SWIFT) that is comprised of special investigators who enforce license and workers' compensation insurance requirements at active jobsites, respond to leads, and conduct enforcement sweeps and undercover sting operations targeting unlicensed persons.

In 2020, the SWIFT's enforcement efforts were severely affected by multiple crises. Beginning in March, stay at home orders were implemented due to the COVID-19 health emergency and therefore the SWIFT was directed to cease all field operations (leads, stings and sweeps). The SWIFT investigators focused on conducting telephonic investigations of leads, researching and investigating illegal advertising, and assisting CSLB's Experience Verification Unit with application investigations. Additionally, in response to the COVID-19 pandemic multiple SWIFT investigators were reassigned to California Connected, the state's comprehensive COVID-19 contact tracing program and public awareness campaign..

Outreach activity resumed in September when the SWIFT investigators were deployed to areas affected by the 2020 major wildfires in California and posted CSLB advisory signs and provided on-site education.

### **Stings and Sweeps**

The CSLB performed 16 stings and 63 sweeps in 2020.

Calendar Year	2018	2019	2020
Stings	79	75	16
Sweeps	388	353	63

The sting operations targeted unlicensed offenders and wanted criminals who work in the construction industry. The stings involved the CSLB's Statewide Investigative Fraud

Team inviting the suspected unlicensed contractors and wanted criminals to homes or commercial businesses to place bids on construction projects.

Construction site inspections or sweeps are also an effective way that the CSLB ensures contractor compliance with California’s licensing and workers’ compensation insurance requirements. Investigators with the CSLB’s Statewide Investigative Fraud Teams fan out throughout the year with investigators from partner agencies, showing up unannounced at active construction sites to check for appropriate licenses, permits, workers’ compensation insurance for employees, and adherence to safety rules.

Stop Orders

A Stop Order is a legal demand to cease all employee labor at a job site due to a violation of state laws. When the CSLB issues a Stop Order, the contractor must immediately stop using employee labor until an appropriate workers’ compensation insurance policy has been secured and written proof provided to the CSLB.

The number of stop orders served on construction employers is illustrated below.

<b>Calendar Year</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
Licensee Stop Orders Issued	374	208	48
Unlicensed Operator Stop Orders Issued	301	237	43
Total Stop Orders Issued	675	445	91
Policies Obtained	284	166	50
Licenses Suspended	22	15	3

Legal Actions

The CSLB conducted stings and sweeps, and responded to leads, which resulted in 756 legal actions for the calendar year 2020. As a result of the 380 licensee and non-licensee citations in 2020, the CSLB assessed \$309,800 in civil penalties.

<b>Calendar Year</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
Accusations	30	9	5
Administrative Licensee Citations	368	220	97
Administrative Non-Licensee Citations	323	206	283
Criminal Referrals – Licensee	156	102	40
Criminal Referrals – Non-Licensee	851	663	253
Letters of Admonishment	N/A	80	78
Total Legal Actions	1,728	1,280	756

## U.S. Department of Labor

The charts below provide data on investigations conducted by the Wage and Hour Division in the garment and recycling industries in California for federal fiscal years 2018, 2019, and 2020. It includes the amounts of back wages, the number of workers, and the amounts of penalties assessed.

<b>Fiscal Year*</b>	<b>State</b>	<b>Industry</b>	<b>Cases</b>	<b>Back Wages</b>	<b>Employees</b>	<b>Civil Money Penalties</b>
FY 2018	California	Garment	148	\$1,375,978	668	\$1,210
FY 2019	California	Garment	147	\$2,002,575	1,042	\$107,456
FY 2020	California	Garment	110	\$1,540,619	689	\$36,166

<b>Fiscal Year*</b>	<b>State</b>	<b>Industry</b>	<b>Cases</b>	<b>Back Wages</b>	<b>Employees</b>	<b>Civil Money Penalties</b>
FY 2018	California	Recycling	75	\$244,867	157	\$4,673
FY 2019	California	Recycling	47	\$363,853	157	\$1,814
FY 2020	California	Recycling	17	\$139,578	34	\$10,461

\*Prior to last year's JESF Report, the DOL figures in the two tables above were reported by calendar year. At the request of the DOL, beginning with the 2019 report, the results are being reported by federal fiscal year instead.

## Collection Efforts

### License Suspensions/Holds Requested

- The Business and Professions Code and CUIIC authorize the state agencies to suspend/hold a license needed to legally operate certain types of businesses in this state. This is a valuable collection tool for resolving delinquent tax liabilities and for compelling corrective action. There are three types of licenses that the EDD can request other state agencies to suspend/hold if the licensee is delinquent in paying amounts due to the EDD:
  - **Contractor License (CSLB Hold)**: Once the CSLB receives the request from the EDD to place a license hold, the CSLB will search their database for all licenses with the same personnel of record and suspend those licenses as well. The licenses remain suspended until the delinquency that led to the suspension has been resolved or arrangements have been made to pay it.
  - **Liquor License (ABC Hold)**: The EDD may request the ABC to place a hold on certain types of liquor licenses. A hold establishes a priority for the EDD to any monies received from the sale of the liquor license and prevents the transfer of a liquor license from the seller to a buyer until the conditions of the hold have been met.
  - **Farm Labor Contractor License (FLC Hold)**: The EDD is authorized to notify the Labor Commissioner (of the DLSE) in writing that an FLC is delinquent in

payment of worker contributions. Once notified, the Labor Commissioner has the authority to refuse to issue or renew any license until the licensee has fully paid the amount of the delinquency.

The following table illustrates the ending inventory of license holds requested by the EDD for the past three calendar years.

Type of Hold	2018	2019	2020
CSLB	591	441	135
ABC	41	43	5
FLC	19	10	0

Contractors State License Board License Suspensions

A license can be suspended by the CSLB if the licensee is delinquent in paying amounts due to the CSLB or other state agencies. The table below summarizes amounts due to state agencies that were collected or resolved in calendar years 2018, 2019, and 2020 to avoid a license suspension or to have a suspended license unsuspended.

Calendar Year	Amounts Collected or Resolved		
	2018	2019	2020
CSLB	\$138,182	\$114,880	\$139,775
EDD	\$12,912,299	\$15,091,585	\$10,372,682
DIR-Cal/OSHA	\$2,085,120	\$3,270,360	\$1,031,736
DIR-DLSE	\$1,315,519	\$1,423,337	\$2,726,391
FTB	\$7,491,602	\$6,490,225	\$4,211,003
Totals	\$23,942,722	\$26,390,387	\$18,481,587

**Blatant Violator Investigation Cases:**

Blatant violation cases detected by the JESF include the most flagrant cases where schemes were used by businesses to avoid payroll tax, labor, insurance, and licensing laws. The CDI provided the following three examples to illustrate some of the schemes.

- **Employer: Sam Woo, Owners: Thomas Cheung and partner, Los Angeles County**

In February of 2020, a CDTFA investigator contacted the CDI acting as an agent with the law enforcement task force, TRUE. In their efforts to combat illegal business activities that rob California of public funds and its citizens of public services, the TRUE was conducting a sales tax evasion investigation of a chain of restaurants called Sam Woo. The restaurant chain is owned by two partners, Thomas Cheung and another individual. In the course of the investigation, it was discovered that employees were being paid in cash without payroll tax deductions. Investigators suspected that the business was also committing

workers' compensation insurance premium fraud and forwarded this information to the CDI. Based on cash pay records, Cheung was found to be liable for \$4,566,027.37 of the total cash payroll and his partner for \$6,747,713.28. The cash pay was not reported to the EDD on Sam Woo's payroll tax returns for the purpose of reducing their workers' compensation insurance premium liability. Thomas Cheung's share of the total workers' compensation premium due to Sam Woo's insurance carriers was found to be \$397,145 and his partner's share was \$549,606.

On October 8, 2020, Thomas Cheung pled guilty to several counts and was sentenced to 16 months in prison and ordered to pay \$3.2 million in restitution. Cheung paid the restitution in full and is currently serving the prison sentence. His partner is scheduled to be sentenced in August 2021.

- **Employer: Proper Pruning, Owner Christopher Rinauro, Calaveras County**  
In 2016, Proper Pruning was contacted as part of the statewide *Operation Underground*. Further investigation revealed that Proper Pruning underreported payroll and misclassified their workers as independent contractors and not employees. The EDD initiated an audit and found the employer underreported wages for a total of \$468,226.40. The State Compensation Insurance Fund (SCIF) conducted an audit and discovered an estimated loss of \$164,414.06 in the form of unpaid insurance premiums. On January 27, 2020, Christopher Rinauro pled guilty to four misdemeanor counts and was sentenced to three years' probation, 120 hours of community service, and restitution to the SCIF and EDD for \$31,864.08 and \$27,028.65, respectively.
- **Employer: Hernandez Roofing, Hector Hernandez, Monterey County**  
The CDI and the Monterey County District Attorney's office conducted a joint investigation on Hernandez Roofing. Between 2013 and 2016, Hector Hernandez, owner of Hernandez Roofing, obtained a workers' compensation insurance policy for his company through the SCIF. However, he told the SCIF that he did not have any employees in order to pay lower insurance premiums. Utilizing building permits for 96 jobs performed by Hernandez Roofing during the three year period in question, it was determined that Hernandez had three employees. Investigators also confirmed that Hernandez paid these employees in cash without withholding state payroll taxes. It was estimated that Hernandez defrauded the SCIF for a total of \$159,059 in premiums. On August 23, 2019, Hector Hernandez was convicted of three counts and on January 31, 2020 he was sentenced to 129 days in county jail, 5-year probation, and \$159,059 in restitution.

### Fictitious Employers

The EDD has a Fictitious Employer Task Force. Its goals are to identify potential fictitious employer schemes, increase detection of fraud schemes, and reduce fraudulent UI and DI benefit claims and income tax refunds. As part of the JESF, the



EDD also works with the FTB and other partners to identify and address fictitious employer schemes created to perpetrate fraud.

### **Criminal Prosecutions**

The JESF partners pursue criminal prosecution when individuals knowingly and willfully evade tax, labor, and licensing laws. Criminal conviction comes with the very real possibility of jail time for the perpetrator as well as the requirement to pay restitution.

The EDD’s Tax Branch, ID, and local District Attorneys leverage resources, share best practices, and work together to combat the underground economy. The ID has a specialized law enforcement unit that investigates criminal violations of the CUIA, the California Penal Code, and the United States Code for federal prosecution. They conduct criminal investigations involving employer collusion in the underground economy, employer failure to register and report wages paid to employees, and collaborate on workers’ compensation insurance investigations related to state payroll tax violations. The EDD works with prosecutors and local District Attorneys to convict individuals who commit employment tax fraud. The conviction itself and the collection of the tax liabilities play an integral part in deterring the underground economy.

The cases that JESF member agencies worked together with the ID to prosecute are posted to the EDD’s [prosecuting fraud](#) web page.

### Criminal Tax Enforcement Program Results

The following are the EDD’s Criminal Tax Enforcement Program results for the calendar years 2018, 2019, and 2020:

<b>Calendar Year</b>	<b>2018</b>		<b>2019</b>		<b>2020</b>	
Type of Action	# of Cases	Amount of Tax Liability	# of Cases	Amount of Tax Liability	# of Cases	Amount of Tax Liability
Cases Under Investigation	173	\$104,075,363	157	\$97,393,884	132	\$97,098,810
EDD Criminal Complaints Filed	19	\$2,363,839	28	\$2,166,406	15	\$2,799,970
EDD Criminal Prosecutions Completed	33	\$46,851,681	21	\$6,978,400	13	\$8,550,022

## Criminal Restitution Cases

When the court orders restitution to the EDD as part of the sentencing during criminal prosecutions, the EDD monitors these cases to ensure that the restitution is made. The cases are monitored by Collection Division Central Operations until the convicted party is no longer on probation. If there is a restitution balance remaining at the end of probation, the case is transferred to Collection Division Field Operations for collection action. The following table illustrates data for criminal restitution cases for the calendar years 2018, 2019, and 2020:

<b>Calendar Year</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
Restitution Cases Monitored*	119	120	140
Beginning Restitution Accounts Receivable	\$21,508,906	\$26,043,889	\$26,724,735
Restitution Amounts Ordered	\$6,591,914	\$1,729,062	\$1,185,882
Payments Received During the Year	\$1,278,794	\$828,619	\$1,282,002
Transfers**	\$778,136	\$219,597	\$208,108
Ending Restitution Accounts Receivable	\$26,043,889	\$26,724,735	\$26,420,507

\*Inventory at the end of the calendar year.

\*\*"Transfers" are restitution collection cases transferred to the Collection Division Field Operations for collection action due to non-payment of restitution and expiration of probation. The dollar amount shown in the table above is unpaid restitution liability only.

## **DESCRIPTIONS OF JOINT ENFORCEMENT STRIKE FORCE MEMBERS' PARTICIPATING ENTITIES**

The **EDD – Tax Branch** works with employers to collect California's payroll taxes and data to support the employment security, child support, and personal income tax programs. The Tax Branch ensures the integrity of the employment tax program by collaborating with our customers to provide efficient, responsive, and innovative services. The Tax Branch is responsible for coordinating the EDD's efforts at combating the underground economy and is also responsible for leading and coordinating the activities of the JESF as a whole. The **EDD – Investigation Division (ID) Criminal Tax Enforcement Program** conducts criminal investigations at the county, state, and federal levels and seeks prosecutions of employers who commit payroll tax fraud against the EDD. Tax fraud includes employer failure to register with the EDD as an employing unit, failure to report or underreporting wages paid to employees, and failure to remit tax contributions to the EDD. The program also seeks restitution that includes recovery of benefit overpayments, tax liabilities, penalties, interest, and investigation costs. Court ordered restitution, imprisonment, and probation serve as fraud deterrents.

The **Department of Consumer Affairs (DCA)** protects and serves California consumers and ensures a competitive and fair marketplace. The DCA helps consumers learn how to protect themselves from unscrupulous and unqualified individuals. The DCA protects professionals from unfair competition by identifying unlicensed practitioners.

The **DCA – Contractors State License Board (CSLB)** protects consumers by licensing and regulating California's construction industry. There are approximately 290,000 licensed contractors in the state, in 44 different licensing classifications. In addition to consumer education on contractor and construction law, CSLB activities include: administer prospective licensee examinations; issue licenses; investigate complaints against licensed and unlicensed contractors; issue citations; suspend or revoke licenses; and seek administrative, criminal, and civil sanctions against violators. The Statewide Investigative Fraud Team is set up to monitor and combat illegal activity. They have teams throughout the state that conduct sting operations on a regular basis and sweep construction sites. They also conduct joint operations and sweeps with other state agencies dedicated to combatting the underground activity.

The **DCA – Bureau of Automotive Repair (BAR)** protects consumers through licensing and regulating the automotive repair and Smog Check industry. BAR investigates violations of the Automotive Repair Act and related laws and regulations governing automotive repair and the Smog Check Program. In addition, BAR mediates consumer complaints that arise from automotive repair and Smog Check service transactions, resulting in millions of dollars of rework, refunds, and adjustments for consumers each year.

The **DCA – Bureau of Security and Investigative Services (BSIS)** protects consumers by licensing and regulating the following industries: alarm company operators and alarm company employees, locksmith companies and locksmith company employees, private investigators, private patrol operators and security guards, proprietary private security employers and officers, repossession agencies and repossession agency employees, and training facilities and training instructors. As part of its mission, the BSIS actively investigates complaints against its licensees and works to punish unlicensed business operations. This includes the suspension and revocation of licenses and seeking administrative, criminal, and civil sanctions against violators. Undercover sting and sweep operations are conducted on an ongoing basis throughout California. The BSIS also educates consumers, administers examinations to validate prospective licensees, and issues licenses and permits.

The **Department of Industrial Relations (DIR) - Division of Labor Standards Enforcement's (DLSE), Bureau of Field Enforcement** is responsible for the investigation and enforcement of statutes covering workers' compensation insurance coverage, child labor, cash pay, unlicensed contractors, Industrial Welfare Commission orders, and group claims involving minimum wage and overtime claims. The Bureau of Field Enforcement also handles criminal investigations involving these group claims.

The **DIR – Division of Occupational Safety and Health (DOSH) (Cal/OSHA) Enforcement Branch**, has the power, jurisdiction, and supervision over every employment situation and place of employment in California, which is necessary to adequately enforce and administer all occupational safety and health standards and regulations. They investigate and inspect California workplaces in response to a report of an industrial accident, injury, or illness, a complaint about an occupational safety and health hazard, or as part of an inspection program targeting industries, which have a high rate of occupational hazards, fatalities, injuries, or illnesses.

The **California Department of Insurance (CDI)** ensures that consumers are protected; the insurance marketplace is fostered to be vibrant and stable; the regulatory process is maintained as open and equitable; and the law is enforced fairly and impartially. The **Fraud Division** is charged with investigating insurance fraud, which includes the crimes of intentional misrepresentation of payroll and employee staffing in order to obtain lower rates for workers' compensation insurance. Studies suggest that the aggressive anti-fraud campaign by the CDI, the district attorneys, the insurance industry, and California employers continue to play a substantial role in reducing crime and help lower workers' compensation insurance premiums for employers statewide.

The **Franchise Tax Board's (FTB)** primary function is to administer the California Revenue and Taxation Code (R&TC). Elected officials determine the tax policy for raising revenue. Under the direction of the FTB's Chief Law Enforcement Officer, the **Criminal Investigation Bureau (CIB)** enforces the criminal provisions of the R&TC. The CIB's principal mission is to identify, investigate, prosecute, and deter tax evasion and fraud, and encourage compliance with California income tax laws while maintaining the public's trust through publicity. Special agents with full peace officer powers

## ATTACHMENT A (Continued)

investigate alleged criminal violations of the R&TC, principally income tax fraud and evasion, and assist in prosecuting non-compliant individuals. The special agents' efforts are supported by forensic auditors, collectors, analysts, and support staff; basically a micro-organization all in one bureau. The CIB also relies on a strong collaborative enterprise to accomplish their mission.

The **California Department of Tax and Fee Administration (CDTFA)** administers sales and use tax, special tax, and fee programs. These tax and fee programs were administered by the Board of Equalization (BOE) prior to July 1, 2017. The CDTFA's **Investigations Division** plans, organizes, directs, and oversees all criminal investigative activities for the various programs administered by the CDTFA. Its goals are to identify tax evasion and new fraud schemes, and actively investigate and assist in the prosecution of individuals who are violating the laws administered by the CDTFA.

The **Department of Justice's** Attorney General works to protect California's workers, legitimate businesses, and taxpayers through the **Underground Economy Unit**. The Underground Economy Unit brings civil and criminal actions against persons engaged in the underground economy. It has used California laws to obtain restitution of unpaid wages, civil penalties, and injunctions to bring businesses into compliance with applicable labor, tax, and licensing laws. These enforcement efforts deter underground economy violations, recapture lost revenues, and protect workers and legitimate businesses from illegal and predatory enterprises. The Underground Economy Unit has prosecuted cases involving: wage, tax, and insurance issues including the theft of wages, unpaid overtime, denial of breaks, payroll tax evasion, and misclassification of employees as independent contractors; patterns of safety violations leading to fatal workplace injuries; workers' compensation insurance premium fraud; and the illegal avoidance of workers' compensation coverage for employees.

The **California Department of Alcoholic Beverage Control's (ABC)** agents are peace officers under Section 830.2 of the California Penal Code (PC) and are empowered to investigate and make arrests for violations of the Business and Professions Code that occur on or about licensed premises. Agents are further empowered to enforce any penal provisions of the law in the state. Licensees who violate state laws or local ordinances are subject to disciplinary action and may have their licenses suspended or revoked. These licensees are entitled to a hearing before an Administrative Law Judge and an appellate process to the State Supreme Court.

The **U.S. Department of Labor's (DOL)** mission is to foster, promote, and develop the welfare of the wage earners, job seekers, and retirees of the United States; improve working conditions; advance opportunities for profitable employment; and assure work-related benefits and rights. The **Fair Labor Standards Act** prescribes standards for wages and overtime pay, which affect most private and public employment. The act is administered by the **Wage and Hour Division**. It requires employers to pay covered employees, who are not otherwise exempt, at least the federal minimum wage and overtime pay of one and one-half times the regular rate of pay. For non-agricultural operations, it restricts the hours that children under age 16 can work and forbids the

## ATTACHMENT A (Continued)

employment of children under age 18 in certain jobs deemed too dangerous. For agricultural operations, it prohibits the employment of children under age 16 during school hours and in certain jobs deemed too dangerous. The Wage and Hour Division also enforces the labor standards provisions of the **Immigration and Nationality Act** that apply to aliens authorized to work in the United States under certain non-immigrant visa programs (H-1B, H-1B1, H-1C, H2A).

The **Internal Revenue Service's (IRS)** mission is to provide America's taxpayers quality service by helping them understand and meet their tax responsibilities and enforce the law with integrity and fairness. In fiscal year 2019, the IRS collected more than \$3.5 trillion in taxes (gross tax receipts before tax refunds of more than \$452 billion) and processed over 253 million tax returns and other forms. The IRS provides the EDD with leads that are used for various JESF activities, including investigating employers with unreported wages and/or misclassified workers.

## ATTACHMENT B

### ACRONYMS

ABC	California Department of Alcoholic Beverage Control
BAR	(DCA) Bureau of Automotive Repair
BOE	Board of Equalization
BSIS	(DCA) Bureau of Security and Investigative Services
Cal/OSHA	(DIR) Division of Occupational Safety and Health
CDI	California Department of Insurance
CDTFA	California Department of Tax and Fee Administration
CIB	Criminal Investigation Bureau
CSLB	(DCA) Contractors State License Board
CUIC	California Unemployment Insurance Code
DCA	Department of Consumer Affairs
DIR	Department of Industrial Relations
DLSE	(DIR) Division of Labor Standards Enforcement
DOL	U.S. Department of Labor
DOSH	(DIR) Division of Occupational Safety and Health
EDD	Employment Development Department
FLC	Farm Labor Contractor
FTB	Franchise Tax Board
ID	(EDD), Investigation Division
IRS	Internal Revenue Service
JESF	Joint Enforcement Strike Force
LETF	Labor Enforcement Task Force
PC	(California) Penal Code
QETP	Questionable Employment Tax Practices



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STATE OF CALIFORNIA**

**Natalie Palugyai  
Secretary  
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