

# Joint Enforcement Strike Force

*On the Underground Economy*

## 2019 REPORT

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

Lisa M. Wheeler, Deputy Director, Tax Branch  
Clara Yen, Chief, Field Audit and Compliance Division  
David Martinez, Chief, Compliance Development Operations

For more information, please call 1-916-227-2730.

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June 30, 2020

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 2019 Report provides the annual summary of activities and outcomes from the JESF in accordance with Section 329(d) 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 web page 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/ Sharon Hilliard  
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(d) 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 Employment Development Department (EDD) is the designated lead agency of the JESF, and the EDD Director or designee serves as its chair. The JESF members include but are not limited to the following:

**Employment Development Department (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)**  
**United States Department of Labor (USDOL)**  
**United States 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 most recent two years' JESF Reports, 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 gleaned 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 billion to \$10 billion in uncollected tax revenue, money that could fund education, law enforcement or 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 California Department of Tax and Fee Administration website, [Tax Recovery and Criminal Enforcement Task Force](#) 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 gleaned from the Internal Revenue Service 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 Internal Revenue Service 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

Governor Newsom signed two new bills in 2019 which help further combat the underground economy.

1. [Assembly Bill \(AB\) 5](#) addresses employment status and 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. AB 5 requires the application of the “ABC test” to determine if workers in California are employees or independent contractors for purposes of the Labor Code, the Unemployment Insurance Code (CUIC), and the Industrial Welfare Commission (IWC) wage orders. AB 5 became effective January 1, 2020.

Under the ABC test, a worker providing labor or services for remuneration is presumed to be an employee rather than an independent contractor unless the hiring entity demonstrates **all three** of the following conditions:

- A. The worker is free from control and direction, both under contract and in fact;
- B. The worker performs work that is outside the usual course of the hiring entity’s business; and
- C. The worker is customarily engaged in an independently established trade, occupation, or business of the same nature as that involved in the work performed.

To learn more on AB5, please visit the California Labor & Workforce Development Agency’s (LWDA) [AB 5 – Employment Status Portal](#).

2. [Assembly Bill 1296](#) established the Tax Recovery in the Underground Economy Criminal Enforcement (TRUE) Program within the Department of Justice to combat the underground economy. It expanded the required membership of the JESF to include the Department of Justice, the California Department of Tax and Fee Administration, and the Franchise Tax Board. Additionally, the bill expanded the duties of the task force to include enforcement activities regarding labor, tax,

insurance, and licensing law violators operating in the underground economy and authorizes the provision of investigative leads to participating agencies.

To learn more, visit [AB 1296, Joint Enforcement Strike Force on the Underground Economy: Labor Enforcement Task Force](#).

## **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.

### **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, online and in-person seminars, community outreach, social media, and websites.

#### Seminars and Presentations

- The EDD conducts various in-person 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 2019, the EDD conducted more than 361 outreach events with over 53,730 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 addition, the EDD is reaching out to Chambers of Commerce throughout the state to obtain assistance in its marketing efforts.
- In an effort to educate California's employers for AB 5, the Tax Branch of the EDD created a comprehensive implementation plan that includes strategies to address external marketing as well as organizational change management and training needs within the EDD. The external outreach efforts include the following:
  - The EDD offers a newly developed *Assembly Bill 5/ABC Test-Employment Status Seminar* throughout the state to the employer community and the general public. This seminar was developed in preparation for the implementation of Assembly Bill 5, which changes worker classification criteria effective January 1, 2020. The EDD conducted seven (7) statewide *AB 5/ABC Test - Employment Status Seminars* in December 2019. For 2020, outreach on AB 5 will continue. Due to the Covid-19 Pandemic social

- distancing requirement, in-person presentations will be converted to webinars as needed.
- The EDD is in the process of updating the impacted forms and publications, including several information sheets, including industry specific information sheets, to provide guidance on the application of the ABC test.
  - The EDD provided email messages to chambers and associations to help educate businesses about the new employment status mandate.
- In addition to its standard seminars, the EDD conducts and participates in industry focused events and partnering activities. Specific to the cannabis industry, the EDD participated and/or attended 79 events with 41,958 attendees statewide, including the CalCPA Education Foundation's Cannabis Business Symposium, the National Cannabis Industry Association's California Business Conference, and the Bureau of Cannabis Control's public licensing events. This was a significant increase from 2018 when the EDD participated in 19 cannabis events with 4,308 attendees.

### Publications and Outreach Materials

- The JESF partners share publications when appropriate, e.g. 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](#))
- The EDD includes articles about fraud prevention and efforts to combat the underground economy in its *California Employer* newsletter. The [second quarter of 2019](#) edition, included two articles about fraud and identity theft prevention titled, *Unemployment Insurance Fraud and Identity Theft How to Protect Yourself and Your Employees* and *A Look at Workers' Compensation Fraud and a Call to Report It*. The [fourth quarter of 2019](#) edition, also included an article about fraud prevention titled, *Protecting the Unemployment Insurance Trust Fund*.

### Websites

- The EDD includes information on the underground economy on the following website: [www.edd.ca.gov/Payroll\\_Taxes/Underground\\_Economy\\_Operations.htm](http://www.edd.ca.gov/Payroll_Taxes/Underground_Economy_Operations.htm). This website 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](#). There is much interest in this type of information as evidenced with over 127,000 combined views to the fraud and penalties and fraud conviction pages for 2019.

- 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 and the DIR collaborated with the LWDA in developing an AB 5 notification letter which was mailed to approximately 900,000 registered employers throughout the state in December 2019. Additionally, the EDD collaborated with the LWDA to develop AB 5 Frequently Asked Questions which are available on the LWDA's [Employment Status Portal](#).
- The EDD provided assistance to the Bureau of Barbering and Cosmetology to educate its industry stakeholders by attending town hall meetings. An EDD employment tax video presentation has been posted to the Bureau's website. In addition, the EDD provided the Bureau with worker classification information for the *Understanding Your Workers' Rights and Responsibilities* booklet.
- Unlicensed contractors who prey on unsuspecting consumers frequently show up following disasters. The EDD provides active presence with the CSLB, placing warning signs and educating disaster victims about the risks of hiring unlicensed contractors.
- 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

For 2020, the EDD is planning to sustain a comparable level of seminars and outreach events. The no cost payroll tax seminars cover a variety of payroll tax topics. Two of the seminars are offered in collaboration with the Internal Revenue Service and the Department of Industrial Relations. They are 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 *AB 5/ABC Test-Employment Status*. Some of the outreach events are held virtually due to the Covid-19 Pandemic and the shelter in place directives.

## **Administrative Enforcement**

The JESF partners use administrative enforcement activities such as site inspections, audits, and involuntary collection of amounts due to address noncompliance. They share data and information to maximize enforcement results.

### 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 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 2017, 2018, and 2019:

| Method Received                             | Number of Contacts Received and Processed |              |              |
|---|---|--------------|--------------|
|   | 2017                                      | 2018         | 2019         |
| Telephone Call to Payroll Tax Fraud Hotline | 1,641                                     | 1,764        | 2,537        |
| Online Submission (EDD Website or Email)    | 1,668                                     | 1,058        | 2,338        |
| Correspondence (Fax or Mail)                | 204                                       | 122          | 117          |
| <b>Total</b>                                | <b>3,513</b>                              | <b>2,944</b> | <b>4,992</b> |

Of the 4,992 overall contacts in 2019, there were 1,651 allegations that were screened to determine if there was enough information to conduct a site inspection, schedule an audit, or consider a criminal investigation. The remaining 3,341 contacts were either requests for general information or inquiries that were intended for other agencies and were received by the EDD in error. These misrouted items were forwarded to the original intended recipients 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. The primary industries for site inspections in 2019 were construction, nail salon, restaurant, massage parlor, bar/nightclub, and automotive.
- 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 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 2017, 2018, and 2019.

| Partner Entity    | Calendar Year |      |      |
|-------------------|---------------|------|------|
|                   | 2017          | 2018 | 2019 |
| EDD               | 569           | 682  | 669  |
| DLSE              | 155           | 177  | 267  |
| CSLB              | 342           | 460  | 388  |
| Local Police      | 44            | 30   | 14   |
| District Attorney | 40            | 63   | 48   |
| ABC               | 8             | 18   | 14   |
| CDTFA             | 1             | 0    | 0    |
| BAR               | 2             | 4    | 11   |
| BSIS              | 1             | 0    | 3    |
| CDI               | 11            | 3    | 1    |
| Cal/OSHA          | 3             | 2    | 0    |
| Other             | 48            | 12   | 10   |

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. In 2019, the JESF partners continued to receive numerous allegations that nail salons in California were out of compliance. 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                   |

\*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 unemployment insurance and disability insurance 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 2019 calendar year, this program which includes JESF cases, conducted 7,002 audits and investigations, resulting in assessments totaling \$208,933,454 and identified 123,074 misclassified workers or unreported employees. 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 2017, 2018, and 2019 cumulative audit and investigation results for cases initiated from all sources:

| <b>Calendar Year</b>                        | <b>2017</b>   | <b>2018</b>   | <b>2019</b>   |
|---|---------------|---------------|---------------|
| Total EDD Payroll Tax Audits/Investigations | 7,937         | 6,947         | 7,002         |
| Total EDD Payroll Tax Assessments*          | \$249,981,712 | \$203,979,673 | \$208,933,454 |
| Total Previously Unreported Employees*      | 461,279       | 125,031       | 123,074       |

\*The 2017 tax assessments and unreported employees are higher than 2018 and 2019 due to two large audits.

- 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. Although the number of EDD QETP cases completed and the total payroll tax assessments in 2019 were comparable to the 2018 figures, the number of previously unreported employees discovered in 2019 was more in line with the 2017 results. It must be noted that there were approximately twice as many audits completed in 2019 compared to 2017 as a result of putting a new process in place to develop these leads. In 2019, the largest four audits accounted for over \$1.3 million in assessments and 146 unreported employees. The following table illustrates the results of the QETP Program for the last three years:

| <b>Calendar Year</b>            | <b>2017</b> | <b>2018</b> | <b>2019</b> |
|---------------------------------|-------------|-------------|-------------|
| EDD Payroll Tax Audits          | 22          | 37          | 43          |
| EDD Payroll Tax Assessments     | \$943,509   | \$2,127,091 | \$2,288,127 |
| Previously Unreported Employees | 202         | 866         | 398         |

## **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>2017</b>  | <b>2018</b>  | <b>2019</b>  |
|---|--------------|--------------|--------------|
| Joint Inspections                               | 569          | 682          | 669          |
| EDD Audit Referrals                             | 510          | 595          | 614          |
| EDD Payroll Tax Audits Completed                | 408          | 557          | 551          |
| EDD Payroll Tax Assessments on Above Audits     | \$18,120,024 | \$31,104,828 | \$19,396,137 |
| Previously Unreported Employees on Above Audits | 6,165        | 9,568        | 7,258        |

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.

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>2017</b> | <b>2018</b> | <b>2019</b> |
|--|-------------|-------------|-------------|
| EDD Payroll Tax Audits with Fraud Penalty Assessed (included in figures in previous table) | 7           | 14          | 9           |
| EDD Payroll Tax Assessments on Fraud Audits (included in figures in previous table)        | \$4,443,031 | \$1,159,245 | \$677,763   |
| Previously Unreported Employees on Fraud Audits (included in figures in previous table)    | 183         | 158         | 213         |

In 2018, there were more cases where fraud could be established compared to 2017 and 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 two calendar years.

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 |            |            |
|----------------|-----------------------|------------|------------|---------------------|------------|------------|
|                | 2017                  | 2018       | 2019       | 2017                | 2018       | 2019       |
| Automotive     | 8                     | 4          | 22         | 12                  | 6          | 18         |
| Bar/Nightclub  | *                     | 4          | 8          | *                   | 3          | 8          |
| Car Wash       | 1                     | 3          | 1          | 1                   | 7          | 4          |
| Construction   | 2                     | 10         | 12         | 5                   | 6          | 13         |
| Massage        | *                     | 20         | 10         | *                   | 27         | 9          |
| Nail Salon     | *                     | 50         | 64         | *                   | 48         | 86         |
| Other          | 97                    | 29         | 81         | 129                 | 27         | 86         |
| Restaurant     | 31                    | 44         | 42         | 29                  | 42         | 51         |
| Retail         | 16                    | 10         | 14         | 33                  | 4          | 17         |
| Transportation | *                     | 3          | 13         | *                   | 3          | 17         |
| <b>Total</b>   | <b>155</b>            | <b>177</b> | <b>267</b> | <b>209</b>          | <b>173</b> | <b>309</b> |

\*The results for this industry were included in the "Other" category for the years indicated with an asterisk.

| Calendar Year  | Total Dollar Amount of Penalties Assessed |                    |                    | Total Dollar Amount of Wages Assessed |                  |                  |
|----------------|---|--------------------|--------------------|---------------------------------------|------------------|------------------|
|                | 2017                                      | 2018               | 2019               | 2017                                  | 2018             | 2019             |
| Automotive     | \$113,986                                 | \$52,874           | \$166,797          | \$0                                   | \$0              | \$3,110          |
| Bar/Night-club | *   | \$30,882           | \$54,578           | *                                     | \$0              | \$4,000          |
| Car Wash       | \$10,000                                  | \$212,643          | \$26,750           | \$0                                   | \$14,150         | \$4,300          |
| Construction   | \$41,250                                  | \$34,700           | \$39,985           | \$36,076                              | \$0              | \$0              |
| Massage        | *   | \$722,977          | \$150,558          | *                                     | \$86,312         | \$23,250         |
| Nail Salon     | *   | \$521,236          | \$929,357          | *                                     | \$0              | \$6,850          |
| Other          | \$1,082,514                               | \$390,520          | \$627,624          | \$120,225                             | \$0              | \$44,350         |
| Restaurant     | \$659,191                                 | \$1,219,856        | \$372,753          | \$64,422                              | \$184,487        | \$17,772         |
| Retail         | \$228,155                                 | \$31,750           | \$123,678          | \$167,214                             | \$0              | \$51,527         |
| Transportation | *   | \$120,000          | \$493,750          | *                                     | \$0              | \$0              |
| <b>Total</b>   | <b>\$2,135,096</b>                        | <b>\$3,337,438</b> | <b>\$2,985,830</b> | <b>\$387,937</b>                      | <b>\$284,949</b> | <b>\$155,159</b> |

\*The results for this industry were included in the "Other" category for the years indicated with an asterisk.

## **Contractors State License Board**

### **Stings and Sweeps**

The CSLB performed 75 stings and 353 sweeps in 2019.

| <b>Calendar Year</b> | <b>2017</b> | <b>2018</b> | <b>2019</b> |
|----------------------|-------------|-------------|-------------|
| Stings               | 76          | 79          | 75          |
| Sweeps               | 320         | 388         | 353         |

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>2017</b> | <b>2018</b> | <b>2019</b> |
|--|-------------|-------------|-------------|
| Licensee Stop Orders Issued            | 366         | 374         | 208         |
| Unlicensed Operator Stop Orders Issued | 301         | 301         | 237         |
| Total Stop Orders Issued               | 667         | 675         | 445         |
| Policies Obtained                      | 241         | 284         | 166         |
| Licenses Suspended                     | 26          | 22*         | 15          |

\* A correction has been made to the previously reported 2018 "Licenses Suspended" amount in the table above.

### Legal Actions

Each month, the CSLB conducts stings and sweeps, and responds to leads which resulted in 1,200 legal actions for the calendar year 2019. As a result of the 426 licensee and non-licensee citations in 2019, the CSLB assessed \$563,950 in civil penalties.

| <b>Calendar Year</b>                  | <b>2017</b>  | <b>2018</b>  | <b>2019</b>  |
|---------------------------------------|--------------|--------------|--------------|
| Accusations                           | 12           | 30           | 9            |
| Administrative Licensee Citations     | 432          | 368          | 220          |
| Administrative Non-Licensee Citations | 329          | 323          | 206          |
| Criminal Referrals – Licensee         | 170          | 156          | 102          |
| Criminal Referrals – Non-Licensee     | 905          | 851          | 663          |
| <b>Total Legal Actions</b>            | <b>1,848</b> | <b>1,728</b> | <b>1,200</b> |

### Letters of Admonishment

On July 1, 2018, the CSLB introduced a new corrective action for contracting violations: the Letter of Admonishment (LOA). The LOA was approved in concept by the Board at its December 2016 meeting, and its implementation was authorized by Senate Bill 486, sponsored by Senator Bill Monning in 2017. In terms of severity, the LOA is intended to fill the gap between an advisory notice (the lowest form of written corrective action) and a citation. The LOA is the first major addition to the CSLB's corrective options since the licensee citation in 1979.

The intent of the LOA is to enhance public protection by addressing less egregious violations with written documentation, expanded public disclosure, and an optional requirement for prompt corrective action. In accordance with the enabling legislation, an LOA can only be used in the case of a single, non-egregious violation by a licensed contractor. The LOA can include a requirement for specific corrective action by the respondent; and a citation can be issued if the specified corrective action is not completed. The impact of a citation is issuance of a civil penalty and public disclosure for five years. An LOA is publicly disclosed for one year after issuance (unlike advisory notices, which are not publicized). Recipients can contest an LOA, but the process is handled informally with an "office conference" conducted by the CSLB. There is no formal appeal process beyond the office conference.

Between January 1, 2019 and December 31, 2019, the CSLB's Statewide Investigative Fraud Team issued a total of 80 LOAs. Of those, 27 included a Corrective Action Plan (CAP). Additionally, six licensees requested an office conference, four of which were affirmed and two were withdrawn.

## United States 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 2017, 2018, and 2019. 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 2017             | California   | Garment         | 165          | \$2,225,441       | 1,811            | \$76,797                     |
| FY 2018             | California   | Garment         | 148          | \$1,375,978       | 668              | \$1,210                      |
| FY 2019             | California   | Garment         | 147          | \$2,002,575       | 1,042            | \$107,456                    |

| <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 2017             | California   | Recycling       | 171          | \$413,232         | 211              | \$20,192                     |
| FY 2018             | California   | Recycling       | 75           | \$244,867         | 157              | \$4,673                      |
| FY 2019             | California   | Recycling       | 47           | \$363,853         | 157              | \$1,814                      |

\*In prior JESF Reports, the United States Department of Labor (USDOL) figures in the two tables above were reported by calendar year. At the request of the USDOL, for 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 Employment Development Department for the past three calendar years.

| Type of Hold | 2017 | 2018 | 2019 |
|--------------|------|------|------|
| CSLB         | 578  | 591  | 441  |
| ABC          | 40   | 41   | 43   |
| FLC          | 16   | 19   | 10   |

### 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 2017, 2018, and 2019 to avoid a license suspension or to have a suspended license unsuspended.

| Calendar Year | Amounts Collected or Resolved |              |              |
|---------------|-------------------------------|--------------|--------------|
|               | 2017                          | 2018         | 2019         |
| CSLB          | \$123,507                     | \$138,182    | \$114,880    |
| EDD           | \$14,000,400                  | \$12,912,299 | \$15,091,585 |
| DIR-Cal/OSHA  | \$445,698                     | \$2,085,120  | \$3,270,360  |
| DIR-DLSE      | \$1,639,923*                  | \$1,315,519  | \$1,423,337  |
| FTB           | \$7,141,353                   | \$7,491,602  | \$6,490,225  |
| Totals        | \$23,350,881*                 | \$23,942,722 | \$26,390,387 |

\* Corrections have been made to the previously reported 2017 DIR-DLSE and "Totals" amounts in the above table.

### 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 following are four examples to illustrate the schemes:

- The EDD and CSLB conducted a site inspection of a licensed contractor operating as a corporation. The inspection was conducted at an active job-site of a small single family home. The inspection team found three workers on-site performing services as framers. The employer was registered with the EDD, had a valid Class B contractor license, and a valid workers' compensation insurance policy. The interviews on-site revealed some of the contractor's workers had been working for the employer for four years, yet only one of the workers had been reported to the EDD. The subsequent EDD audit revealed the employer had an active Class B contractor license since 1995. The employer does general construction remodeling.

During the audit entrance interview, the employer stated he used the services of workers who performing services as day laborers, cleaning up construction sites, and assisting when needed. He indicated that he paid these workers in cash because they did not work for him on a full-time basis. Although he had acknowledged employees providing the same type of services, he indicated he did not know he had to report the part-time workers and issue them a Form W-2. The employer did not maintain proper records of payments to the workers. A fraud penalty was charged under Section 1128 of the CUIA for intent to evade and failure to reflect all payments made to all the workers on Forms W-2. The corporation was assessed \$172,282 for unpaid payroll taxes, penalties, and interest.

- The EDD and DLSE conducted a site inspection of a restaurant operating as a corporation. The restaurant had 20 tables in addition to nine seats at a bar. During the inspection, nine workers were observed, providing services as cooks, dishwashers, and servers. One of the corporate officers was also actively working at the business. The subsequent EDD audit revealed the corporation registered with the EDD in January of 2016 and reported 10 employees. Shortly after the inspection the employer's reported wages doubled as did the number of workers they reported. The audit also revealed a corporate officer was paying personal expenses, including mortgage and car payments from corporate funds and not reporting the amounts as wages. The audit covered three years. A fraud penalty was charged under Section 1128 of the CUIA for intent to evade and failure to reflect all payments made to all the workers on Forms W-2. The company was assessed \$145,754 for unpaid payroll taxes, penalties, and interest.
- The EDD and DLSE conducted a site inspection of a restaurant operating as a sole proprietorship. Workers provided services as cooks and waiters. The business did not have a valid workers' compensation insurance policy at the time of the inspection but was registered with the EDD. The subsequent EDD audit revealed the business registered with the EDD in July of 2000 and reported only a small number of employees. The business initially had two locations but closed one of the locations in 2013. The business owner inactivated his account in March 2013, indicating out of business. The business continued to operate the other location, employing workers and paying unreported cash wages for seven years. The employer did not keep required business records and failed to provide requested financial records. A fraud penalty was charged under Section 1128 of the CUIA for intent to evade and failure to reflect all payments made to all the workers on Forms W-2. The employer was assessed \$78,647 for unpaid payroll taxes, penalties, and interest.
- The EDD and CSLB conducted a site inspection of a licensed contractor operating as a sole proprietor. The team observed four workers on-site providing services as laborers. The business had a valid Class B contractor license but did not have a valid workers' compensation insurance policy and was not registered with the EDD. The contractor was informed of his reporting requirements at the time of the inspection. Two months later, during site inspections in a nearby area, the team encountered the same contractor and found two additional workers performing

services for him as laborers. The subsequent EDD audit revealed the business started operating in 2016. The contractor indicated he first hired workers in 2017. The business paid the workers in cash or by check for their services but did not keep adequate records. The contractor also used a scheme whereby he paid a primary worker wages for the worker and two additional workers. The contractor provided the primary worker instructions on the amounts to pay the other workers. This constituted a deliberate act to evade proper reporting. The audit also revealed that after the site inspection, the EDD investigator registered the business with the EDD but the employer began reporting to the EDD only a fraction of what was paid to the workers. Based on the employer's deliberate acts and omissions to evade reporting requirements, a fraud penalty was charged under Section 1128 of the CUIA for intent to evade and failure to reflect all payments made to all the workers on Forms W-2. The employer was assessed \$36,430 for unpaid payroll taxes, penalties, and interest.

### Fictitious Employers

The EDD created a Fictitious Employer Task Force. Its goals are to identify potential fictitious employer schemes, increase detection of fraud schemes, and reduce fraudulent Unemployment Insurance and Disability Insurance 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, Investigation Division (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 (PC), 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 2017, 2018, and 2019:

| Calendar Year                       | 2017       |                         | 2018       |                         | 2019       |                         |
|-------------------------------------|------------|-------------------------|------------|-------------------------|------------|-------------------------|
|                                     | # of Cases | Amount of Tax Liability | # of Cases | Amount of Tax Liability | # of Cases | Amount of Tax Liability |
| Cases Under Investigation           | 144        | \$97,305,930            | 173        | \$104,075,363           | 157        | \$97,393,884            |
| EDD Criminal Complaints Filed       | 10         | \$1,867,242             | 19         | \$2,363,839             | 28         | \$2,166,406             |
| EDD Criminal Prosecutions Completed | 22         | \$4,683,279             | 33         | \$46,851,681            | 21         | \$6,978,400             |

The increase in criminal complaint filings and completed criminal prosecutions in 2018 is a direct result of more complex tax evasion schemes identified and the number of responsible parties associated with the schemes.

#### 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 2017, 2018, and 2019:

| Calendar Year                             | 2017          | 2018          | 2019         |
|---|---------------|---------------|--------------|
| Restitution Cases Monitored**             | 82*           | 119*          | 120          |
| Beginning Restitution Accounts Receivable | \$19,767,532* | \$21,508,906* | \$26,043,889 |
| Restitution Amounts Ordered               | \$3,821,632*  | \$6,591,914*  | \$1,729,062  |
| Payments Received During the Year         | \$2,046,166*  | \$1,278,794*  | \$828,619    |
| Transfers***                              | \$34,093      | \$778,136     | \$219,597    |
| Ending Restitution Accounts Receivable    | \$21,508,906* | \$26,043,889* | \$26,724,735 |

\* Figures corrected from what was previously reported.

\*\*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, reposessor agencies and reposessor 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 **United States Department of Labor's (USDOL)** 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

## ATTACHMENT A (Continued)

work and forbids the 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 **United States 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 2016, the IRS collected \$3.3 trillion in taxes (gross tax receipts before tax refunds of \$426 billion) and processed over 244 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      | Bureau of Automotive Repair   |
| BOE      | Board of Equalization   |
| BSIS     | Bureau of Security and Investigative Services                                   |
| Cal/OSHA | Division of Occupational Safety and Health                                      |
| CDI      | California Department of Insurance  |
| CDTFA    | California Department of Tax and Fee Administration                             |
| CIB      | Criminal Investigation Bureau   |
| CSLB     | Contractors State License Board   |
| CUIC     | California Unemployment Insurance Code  |
| DCA      | Department of Consumer Affairs  |
| DIR      | Department of Industrial Relations  |
| DLSE     | Division of Labor Standards Enforcement   |
| DOSH     | (Department of Industrial Relations) Division of Occupational Safety and Health |
| EDD      | Employment Development Department   |
| FLC      | Farm Labor Contractor   |
| FTB      | Franchise Tax Board   |
| ID       | (Employment Development Department), 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   |
| USDOL    | United States Department of Labor   |



**Gavin Newsom  
Governor  
STATE OF CALIFORNIA**

**Julie A. Su  
Secretary  
LABOR AND WORKFORCE DEVELOPMENT AGENCY**

**Sharon Hilliard  
Director  
EMPLOYMENT DEVELOPMENT DEPARTMENT**