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# Joint Enforcement Strike Force

*On the Underground Economy*

## 2022 REPORT

This report was prepared by the Employment Development Department's (EDD) Tax Branch.

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June 30, 2023

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 section 9795(a) of the Government Code, which requires each legislative mandated report to include a summary of its contents not to exceed one-page in length, distributed to each member of the Legislature.

The 2022 JESF 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.
- 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.

It is important to note that the pandemic significantly impacted the state's operations in 2020 and 2021, which affected the number of cases completed in those years. The JESF returned to normal operations in 2022.

Printed copies of this report are available to any legislative member upon request. To view the report online, visit [EDD Legislative Reports](https://edd.ca.gov/About_EDD/EDD_Legislative_Reports.htm) (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 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:

### **EDD**

**Department of Consumer Affairs (DCA), including  
Contractors State License Board (CSLB), Bureau of Automotive Repair  
(BAR), and Bureau of Security and Investigative Services (BSIS)**

**Department of Industrial Relations (DIR), including  
Division of Labor Standards Enforcement (DLSE) and 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 (DOJ)**

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

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

**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 support 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 at the [JESF webpage](http://edd.ca.gov/Payroll_Taxes/Joint_Enforcement_Strike_Force.htm) (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](https://lhc.ca.gov/sites/lhc.ca.gov/files/Reports/226/Report226.pdf) (https://lhc.ca.gov/sites/lhc.ca.gov/files/Reports/226/Report226.pdf). 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, 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 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 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. Non-compliant businesses do not 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 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 DOJ website, Office of the Attorney General, [Tax Recovery in the Underground Economy Criminal Enforcement Program \(TRUE\)](https://oag.ca.gov/bi/true) (oag.ca.gov/bi/true) webpage 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 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 consider 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, while shifting the tax burden onto those who pay their fair share. 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.

Per the IRS, 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 October 28, 2022, the IRS released a new set of tax gap estimates on tax years 2014-2016 showing the estimated gross tax gap increased to \$496 billion, a rise of over \$58 billion from the prior estimates for tax years 2011-2013. The IRS published its full findings in its *Publication 1415: [Federal Tax Compliance Research: Tax Gap Estimates for Tax Years 2014-2016](https://www.irs.gov/pub/irs-pdf/p1415.pdf)* ([irs.gov/pub/irs-pdf/p1415.pdf](https://www.irs.gov/pub/irs-pdf/p1415.pdf)).

## Recent Legislation

Governor Newsom signed [Assembly Bill \(AB\) 1561](https://leginfo.ca.gov/faces/billNavClient.xhtml?bill_id=202120220AB1561) ([leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill\\_id=202120220AB1561](https://leginfo.ca.gov/faces/billNavClient.xhtml?bill_id=202120220AB1561)) into law on September 30, 2021. The bill took effect January 1, 2022, which modified the exceptions provided under AB 5 and added additional exceptions. AB 5 became effective January 1, 2020 and codified 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 ABC test be applied to determine if workers in California are employees or independent contractors for purposes of the California Labor Code (LAB), the CUIIC, and the Industrial Welfare Commission (IWC) wage orders.

To learn more about AB 5, visit the EDD [Employment Status, ABC test](https://edd.ca.gov/en/Payroll_Taxes/ab-5) ([edd.ca.gov/en/Payroll\\_Taxes/ab-5](https://edd.ca.gov/en/Payroll_Taxes/ab-5)) webpage or California Labor & Workforce Development Agency's [Employment Status Portal](https://labor.ca.gov/employmentstatus/) ([labor.ca.gov/employmentstatus/](https://labor.ca.gov/employmentstatus/))

## STRATEGIC APPROACH TO COMBATING THE UNDERGROUND ECONOMY

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

### Education and Outreach

JESF partners have a variety of methods for outreach and education accessible to employers, employees, tax professionals, business groups, and the 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

- EDD conducts various payroll tax seminars available at no cost, including co-presented joint seminars with other agencies, including EDD/IRS payroll taxes and EDD/DIR labor law and payroll tax seminars. EDD's outreach efforts also include providing special presentations upon request and participating in information booths at events sponsored by entities such as payroll associations, industry groups, non-profit organizations, and other governmental entities. In 2022, EDD continued to host webinars because of continued COVID-19 pandemic precautions, as well as the overwhelming

success and higher participation rates. Most of the other outreach events EDD participated in were completed virtually. EDD conducted and participated in 104 outreach events with 56,630 attendees. EDD established an on-going partnership with the State Controller's Office (SCO) by participating in SCO's Small Business Webinars throughout the state. These webinars were jointly sponsored with other governmental agencies and local organizations to provide education and assistance to small businesses and the employer community as they recover through these unprecedented times. A variety of government business assistance programs that were shared during these events have greatly benefited small business owners and helped their businesses grow. EDD continues to look for innovative ways to expand its education and outreach efforts. For example, EDD utilizes social media such as Facebook and Twitter to reach employers and the public.

- EDD conducted 18 Employment Status webinars in 2022 focusing on the ABC test and related provisions.
- EDD conducted a newly developed webinar in partnership with the DIR and DLSE. This webinar is titled ***AB 5 Motor Carrier Worker Classification Webinar***. Attendees received the latest information from EDD and DLSE on Employment Status, the ABC test, and how to distinguish between an employee and independent contractor.

#### 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 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](#)) ([PDF](#))
  - *Joint Enforcement Strike Force Informational Sheet* ([DE 664](#)) ([PDF](#))
  - *Joint Enforcement Strike Force Brochure* ([DE 665](#)) ([PDF](#))

#### Websites

- EDD includes information on the [Underground Economy Operations](#) ([edd.ca.gov/Payroll\\_Taxes/Underground\\_Economy\\_Operations.htm](http://edd.ca.gov/Payroll_Taxes/Underground_Economy_Operations.htm)) webpage. This webpage provides the viewer with access to prior reports, program, and operation information, etc. The EDD website also has a page, which outlines ways to [Help Fight Fraud](#) ([edd.ca.gov/en/about\\_edd/fraud/](http://edd.ca.gov/en/about_edd/fraud/)) and includes general information on fraud and the underground economy.

- The [JESF webpage](http://edd.ca.gov/en/Payroll_Taxes/Joint_Enforcement_Strike_Force) (edd.ca.gov/en/Payroll\_Taxes/Joint\_Enforcement\_Strike\_Force) 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

- The Small Business Employer Advisory Committee is a group of business professionals representing the small business community throughout California. The committee provides EDD with recommendations on how to better serve California's small businesses and disseminates outreach information to their respective members. They have partnered with EDD and provided input into helping combat the underground economy, looking out for consumers, workers, and businesses.

### Future Education and Outreach

Due to continued pandemic precautions as well as the overwhelming success and higher participation rates, all EDD 2023 regularly scheduled payroll tax seminars have been scheduled as webinars, and the first event took place on January 18, 2023. 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. Additional EDD sponsored seminars include *State Basic Payroll Tax Seminar*, *Cannabis Industry and State Payroll Tax Seminar*, and *Employment Status Tax Seminar*.

In addition to regularly scheduled payroll tax seminars, EDD will continue to provide in-person and virtual special presentations upon request.

### **Administrative Enforcement**

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

In 2022, the EDD Audit Program conducted 5,345 audits and investigations, leading to \$554 million in assessments and the discovery of 170,726 misclassified workers.

### 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, EDD and DIR have joined efforts through their respective enforcement programs. 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 EDD's Payroll Tax Fraud Hotline at 1-800-528-1783.
- Completing a [Report Fraud Form](#) (askedd.edd.ca.gov/AskEDD/s/categorydetails?category=Report\_Fraud)
  - online via the EDD website
  - via e-mail to [UEO](mailto:ueo@edd.ca.gov) ([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 \(PDF\)](#)) and [Spanish \(DE 660/S/\) \(PDF\)](#).

EDD receives allegations of noncompliance by several methods. In 2020 and 2021, due to the pandemic, we received a significantly higher number of contacts than usual. In 2022, the number of contacts returned to normal levels. The following table provides a breakdown of the number of contacts received by each method in 2020, 2021, and 2022:

Method Received	Number of Contacts Received and Processed		
	2020*	2021*	2022
Telephone Call to Payroll Tax Fraud Hotline	6,674	6,954	969
Online Submission (EDD Website or Email)	7,852	9,962	2,619
Correspondence (Fax or Mail)	65	180	197
<b>Total</b>	<b>14,591</b>	<b>17,096</b>	<b>3,785</b>

\*There were unusually high call and online contact volumes during 2021 and 2022 due to the pandemic and the need for individuals to contact EDD with questions about unemployment insurance, pandemic unemployment assistance, and to report unemployment insurance fraud. The contact volumes returned to normal levels in 2022.

Of the 3,785 overall contacts in 2022:

- 1,282 were allegations of potential payroll tax violations.
- 604 calls and emails were received with reports of potential Unemployment Insurance (UI) benefit fraud schemes. These reports were promptly screened and forwarded to the EDD UI Branch and the Investigation Division (ID) for further investigation.
- 137 contacts inquiring about UI and/or Pandemic Unemployment Assistance claims were provided to the UI Branch for review and resolution.
- 1,762 contacts were either requests for general information or inquiries that were intended for other agencies. The misrouted items were forwarded to the correct agency contacts for review and action, as appropriate.

### Site Inspections

EDD works with the JESF partner agencies to conduct unannounced 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 concentrates on industries known for high levels of noncompliance with payroll tax, labor, and licensing laws. In 2022, the construction, restaurant, and massage parlor industries were primarily targeted for site inspections.
- During site inspections, task force members interviewed 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 may result in the following: follow-up audits; payroll tax assessments and citations or stop orders for unsafe working conditions; citation for lack of workers' compensation insurance; and discovery of violations of labor laws or failure to be properly licensed.
- EDD holds regular strategic and working meetings with its partners to review the latest underground economy schemes, develop special operations, and discuss impacted industries and available resources. The JESF partners held virtual meetings in 2022 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 2020, 2021, and 2022.

Partner Entity	Calendar Year		
	2020*	2021*	2022
EDD	165	307	708
DLSE	71	40	167
CSLB	94	255	502
Local Police	9	0	18
District Attorney	9	36	31
ABC	2	0	4
CDTFA	0	0	0
BAR	0	0	3
BSIS	0	0	0
CDI	0	36	17
Cal/OSHA	0	0	1
Other	7	0	11

\*The number of inspections conducted in 2020 and 2021 was significantly reduced due to the COVID-19 Pandemic.

Since EDD is the lead partner in the JESF, EDD participates in all JESF inspections as shown in the table above. The CSLB participates in the second most JESF inspections each year due to the high percentage of noncompliance allegations that are received involving the construction industry.

## Payroll Tax Audits

EDD's Audit Program conducts follow-up audits and investigations on JESF inspections, as well as using leads from other sources to bring businesses into compliance with state payroll tax and employee reporting requirements. Audits of businesses are initiated based on a variety of sources, including but not limited to leads from other governmental agencies, as well as UI and Disability Insurance (DI) claims that become obstructed because the claimants' wages weren't properly reported to EDD. During an EDD audit, the auditor verifies that the employer's acknowledged payroll was properly reported and that Personal Income Tax is being properly withheld and reported from employee wages. The auditor also determines the appropriate classification of any workers the business considers independent contractors. The Audit Program issues assessments for payroll taxes due, including any applicable penalties and interest. This is for employers located both within the state and out-of-state employers with California workers. For the 2022 calendar year, the audit program, which includes JESF cases, conducted 5,345 audits and investigations, resulting in assessments totaling \$554,479,365 and identified 170,726 misclassified workers or unreported employees. In addition to administrative enforcement, EDD auditors educate business owners and their representatives regarding California payroll tax reporting requirements during examinations. They provide information on the proper classification of workers, reporting and deposit requirements, and how to obtain additional information from the Department.

Following are the EDD Audit Program calendar year 2020, 2021, and 2022 cumulative audit and investigation results for cases initiated from all sources:

<b>Calendar Year</b>	<b>2020*</b>	<b>2021</b>	<b>2022**</b>
Total EDD Payroll Tax Audits/Investigations	2,097	4,974	5,345
Total EDD Payroll Tax Assessments	\$74,513,080	\$192,853,253	\$554,479,365
Total Misclassified/Unreported Workers	31,287	68,027	170,726

\*The results in 2020 were significantly lower than 2021 and 2022 due to the suspension of field enforcement activities in early 2020 due to the COVID-19 pandemic.

\*\*In Calendar Year 2022, four very large audits were completed that resulted in assessments of more than \$27 million each, the largest being more than \$242 million. These audits revealed 31,460 previously misclassified employees.

- JESF partners shared information indicating widespread noncompliance with laws and requirements by businesses operating in the cannabis industry. In response, EDD launched an outreach campaign to cannabis employers beginning in 2017. After four years of outreach efforts, EDD began conducting payroll tax audits of cannabis businesses in 2021. The following table details the results of cannabis industry payroll tax audits completed during calendar years 2021 and 2022:

<b>Cannabis Audits</b>	<b>2021</b>	<b>2022</b>
Payroll Tax Audits	121	156
Payroll Tax Assessments	\$4,987,955	\$5,271,029
Misclassified/Unreported Workers	1,357	1,153

- The Questionable Employment Tax Practices (QETP) program was initiated in 2007 as a collaborative effort between EDD and the IRS, to exchange audit leads. In 2020, there were fewer QETP cases completed than in prior years due to the redirection of audit staff to assist with UI workloads because of the pandemic. Production in 2021 increased as redirected staff returned to the program. The following table illustrates the results of the QETP program for the last three years:

<b>Calendar Year</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
EDD Payroll Tax Audits	8	20	18
EDD Payroll Tax Assessments	\$418,948	\$1,867,654	\$2,440,275
Misclassified/Unreported Workers	207	394	204

## **Employment Development Department**

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

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

<b>Calendar Year</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
Joint Inspections	165	307	714
EDD Audit Referrals	225	173	497
EDD Payroll Tax Audits Completed	158	319	442
EDD Payroll Tax Assessments	\$9,032,653	\$32,720,202	\$19,018,759
Misclassified/Unreported Workers	1,707	5,224	4,983

Results fluctuate year to year based on the complexity of cases and number of external lead referrals. In 2020, the number of JESF inspections and referrals were fewer than in prior years due to the suspension of field enforcement activities early in the year. Field inspections resumed in July 2021, and the number of field inspections and referrals increased during the remainder of the calendar year, as more partner agencies became available to participate in the inspections. In 2021, there were five cases that resulted in total assessments of more than \$19.5 million with over 2,500 unreported employees. The JESF operated at normal capacity in 2022.



When 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>2020</b>	<b>2021</b>	<b>2022</b>
EDD Payroll Tax Audits with Fraud Penalty Assessed (included in figures in previous table)	0	6	4
EDD Payroll Tax Assessments on Fraud Audits (included in figures in previous table)	N/A	\$15,983,053	\$726,417
Misclassified/Unreported Workers on Fraud Audits (included in figures in previous table)	N/A	1,890	43

There were no JESF fraud cases completed in 2020 as EDD staff were redirected to assist with UI workloads. The six fraud cases completed in 2021 included one large case which resulted in an assessment of more than \$15 million and discovery of 1,801 misclassified/unreported workers. The number of instances of fraud encountered during audit follow-ups to JESF inspections was lower than normal in 2022.

JESF partner 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 for the DLSE, segregated by industry type for the last three calendar years.

Calendar Year	Number of Inspections			Number of Citations		
	2020*	2021*	2022	2020*	2021*	2022
Agriculture	0	0	2	0	0	5
Automotive	7	1	10	8	2	26
Bar/Nightclub	0	0	0	0	0	0
Car Wash	0	0	0	0	0	0
Construction	0	1	0	0	9	0
Hotel	0	0	1	0	0	0
Massage	20	0	0	25	0	0
Nail Salon	6	1	10	10	0	16
Other	11	23	51	15	30	100
Residential Care	0	0	0	0	0	1
Restaurant	17	12	70	19	31	86
Retail	10	2	22	10	7	33
Warehouse	0	0	1	0	0	0
<b>Total</b>	<b>71</b>	<b>40</b>	<b>167</b>	<b>87</b>	<b>79</b>	<b>267</b>

\* At the beginning of the pandemic, DLSE staff assigned to JESF operated remotely. Toward the latter part of 2020, DLSE field operations resumed with refocused priorities, but the pandemic created circumstances that caused delays in conducting investigations throughout 2021.

Calendar Year	Total Dollar Amount of Penalties Assessed			Total Dollar Amount of Wages Assessed		
	2020	2021	2022	2020	2021	2022
Agriculture	\$0	\$0	\$177,833	\$0	\$0	\$14,250
Automotive	\$174,342	\$8,332	\$194,664	\$0	\$0	\$82,900
Bar/Night-club	\$0	\$0	\$0	\$0	\$0	\$0
Car Wash	\$0	\$0	\$0	\$0	\$0	\$0
Construction	\$0	\$143,200	\$0	\$0	\$1,610,528	\$0
Massage	\$276,544	\$0	\$0	\$0	\$0	\$0
Nail Salon	\$43,300	\$0	\$82,835	\$10,029	\$0	\$0
Other	\$91,462	\$542,699	\$812,166	\$28,050	\$4,000	\$241,810
Residential Care	\$0	\$0	\$22,500	\$0	\$0	\$0
Restaurant	\$110,200	\$230,600	\$824,300	\$53,495	\$2,037,943	\$23,700
Retail	\$31,500	\$10,350	\$98,179	\$0	\$5,200	\$6,700
<b>Total</b>	<b>\$727,348</b>	<b>\$935,181</b>	<b>\$2,212,477</b>	<b>\$91,574</b>	<b>\$3,657,671</b>	<b>\$369,360</b>

## **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.

### **Stings and Sweeps**

The CSLB performed 20 stings and 364 sweeps in 2022:

<b>Calendar Year</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
Stings	16	18	20
Sweeps	63	160	364

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 an effective tool used by the CSLB to ensure contractor compliance with California's licensing and workers' compensation insurance requirements. SWIFT staggers their visits throughout the year with investigators from partner agencies. The teams show 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 by SWIFT is illustrated below.

<b>Calendar Year</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
Licensee Stop Orders Issued	48	97	152
Unlicensed Operator Stop Orders Issued	43	105	184
Total Stop Orders Issued	91	202	336
Policies Obtained	50	65	150
Licenses Suspended	3	3	8

### Legal Actions

The CSLB conducted stings and sweeps, and responded to leads, which resulted in 1,065 legal actions for the calendar year 2022. As a result of the 577 licensee and non-licensee citations in 2022, the CSLB assessed \$669,200 in civil penalties.

<b>Calendar Year</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
Accusations	5	3	6
Administrative Licensee Citations	97	92	197
Administrative Non-Licensee Citations	283	318	380
Criminal Referrals – Licensee	40	51	68
Criminal Referrals – Non-Licensee	253	208	288
Letters of Admonishment	78	85	126
<b>Total Legal Actions</b>	<b>756</b>	<b>757</b>	<b>1,065</b>

### California Department of Insurance

The CDI participated in contractor stings with the CSLB and local District Attorneys (DAs) during 2022. Below are the CDI results from these stings. The statistics from these stings are included in the statewide results reported by the CSLB above.

- In June 2022, the Silicon Valley Regional Office conducted a sting operation in participation with the CSLB. In total, 25 appointments were made resulting in 12 Notices to Appear, one referral to the DA for contracting without a license, one administrative citation from CSLB, and 11 cases needing follow-up to refer to the DA for disposition.
- The CDI worked with the CSLB and Contra Costa County DA's Office to perform a contractor sting in 2022. A total of nine subjects were cited for violations of Section 3700.5 of the LAB for willful failure to obtain workers' compensation coverage. Two subjects were arrested and booked for outstanding warrants as a part of this sting operation.
- CDI worked with the CSLB and the Kern County DA's Office to perform a contractor sting operation. A total of nine subjects were cited for violations of Section 3700.5 of the LAB for willful failure to obtain workers' compensation coverage, Section 7028 of the California Business and Professions Code (B&P) for contracting without a license, and Section 7027.1(a) of the B&P for illegal advertising as a contractor without a license.
- CDI worked with the CSLB and the Fresno County DA's Office in the performance of a contractor sting operation. One subject was cited for violations of Section 3700.5 of the LAB for willful failure to obtain workers' compensation coverage, Section 7028 of the B&P for contracting without a license, and Section 7027.1(a) of the B&P for illegal advertising as a contractor without a license.

## U.S. Department of Labor

The tables below provide data on investigations conducted by the Wage and Hour Division in the garment and recycling industries in California, for federal fiscal years 2020, 2021, and 2022. It includes the amounts of back wages, the number of workers, and the amounts of penalties assessed.

Federal Fiscal Year	State	Industry	Cases	Back Wages	Employees	Civil Money Penalties
2020	California	Garment	110	\$1,540,619	689	\$36,166
2021	California	Garment	45	\$1,072,661	327	\$0
2022	California	Garment	99	\$978,747	348	\$38,708

Federal Fiscal Year	State	Industry	Cases	Back Wages	Employees	Civil Money Penalties
2020	California	Recycling	17	\$139,578	34	\$10,461
2021	California	Recycling	3	\$6,095	1	\$0
2022	California	Recycling	1	\$283	1	\$0

## Collection Efforts

### License Suspensions/Holds Requested

- The B&P Code and CUIIC authorize 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 EDD can request other state agencies to suspend/hold if the licensee is delinquent in paying amounts due to EDD:
  - **Contractor License (CSLB Hold):** Once the CSLB receives the request from 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):** EDD may request the ABC to place a hold on certain types of liquor licenses. A hold establishes a priority for 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):** 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 EDD for the past three calendar years.

Type of Hold	2020	2021	2022
CSLB	135	507	499
ABC	5	30	36
FLC	0	6	8

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 following table summarizes amounts due to state agencies that were collected or resolved in calendar years 2020, 2021, and 2022 to avoid a license suspension or to have a suspended license unsuspended.

Calendar Year	Amounts Collected or Resolved		
	2020	2021	2022
CSLB	\$139,775	\$82,938	\$104,507
EDD	\$10,372,682	\$9,149,749	\$13,280,832
DIR-Cal/OSHA	\$1,031,736	\$267,256	\$243,066
DIR-DLSE	\$2,726,391	\$3,476,291	\$5,217,626
FTB	\$4,211,003	\$5,868,340	\$4,024,936
Totals	\$18,481,587	\$18,844,574	\$22,870,967

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. EDD provided the following three examples to illustrate some of the schemes.

- EDD and the CSLB conducted a site inspection in the city of Campbell of a contractor operating as a corporation since 2008. The corporation is a licensed

general contractor, and holds valid C16 Fire Protection, C20 Warm Air Heating, Ventilating, and Air Conditioning, and C46 Solar contractor licenses. The hiring entity did not have a valid workers' compensation insurance policy at the time of the inspection. Therefore, a stop order was issued by the CSLB. The corporation was not registered with EDD. The inspection was conducted at a newly built single-family home. Interviews were conducted with workers who were performing services as laborers. A worker who was interviewed indicated he had been working for the company for over three years. The worker was paid unreported cash wages. An interview with the corporate officer was conducted. He indicated he provided construction laborers with the tools and materials to do the work. Workers provided services eight hours a day, five days a week, and were paid a flat rate of \$200 per day in cash. No records of cash payments were maintained or provided. A fraud penalty was charged under Section 1128 of the CUIA for intent to evade and failure to reflect all payments made to workers on Forms W-2. The employer was assessed \$328,550 for unpaid payroll taxes, penalties, and interest.

- EDD and the DLSE conducted a site inspection of a restaurant operating as a Limited Liability Company (LLC). At the time of the inspection, there were four workers providing services as a cook, dishwasher, server, and manager. The business was registered with EDD and the employees interviewed on-site were reported with minimal wages. A second restaurant location was discovered through interviews. A subsequent audit revealed the LLC registered with EDD in 2015 and reported five to 10 employees per quarter. The business reported some employees but did not report other workers who provided services in the same capacity. The LLC under-reported wages for acknowledged employees during the entire audit period. The employer denied paying workers in cash, contradicting statements of cash pay received during the inspection. The audit revealed regular cash withdrawals were made for each payroll period, but no explanation was provided. No records of cash payments were maintained or provided. The auditor determined that the misclassified/unreported workers were paid in cash. The employer had knowledge and awareness of the payroll tax and reporting requirements but chose not to report some workers. Penalty was charged under Section 1127 of the CUIA for intentional disregard. In addition, a fraud penalty was charged under Section 1128 of the CUIA for intent to evade and failure to reflect all payments made to workers on Forms W-2. The LLC was assessed \$170,106 for unpaid payroll taxes, penalties, and interest.
- EDD and CSLB conducted a site inspection of a landscaping and tree trimming contractor operating as a corporation since 2011. In 2013, the JESF conducted an on-site inspection that revealed misclassified workers were not reported and an assessment was issued. In 2022, the company was found operating at an active job site, installing pavers in a back yard remodeling project of a single-family home. The inspection team found two workers on-site performing services. The company was found to have a valid contractor license and workers' compensation insurance policy. Worker interviews were conducted and revealed they were being paid in unreported cash. The corporation reported employees providing services in

landscaping, tree trimming, concrete work, and lawn care service. All the necessary tools to perform the work were provided by the company. The employer had knowledge and awareness of the payroll tax and reporting requirements but chose not to report some workers that were paid in cash. Penalty under Section 1127 of the CUIA was charged for intentional disregard. A fraud penalty was charged under Section 1128 of the CUIA for intent to evade and failure to reflect all payments made to workers on Forms W-2. The employer was assessed \$131,878 for unpaid payroll taxes, penalties, and interest.

The CDI provided the following examples of blatant violator investigation cases:

- Wei Wen Wu and Feng Wen Lam, both of Arcadia, allegedly underreported nearly \$4.5 million in employee payroll. The scheme fraudulently reduced their company's workers' compensation insurance premium resulting in a loss of approximately \$1.7 million in unpaid insurance premiums. A parallel investigation by the DIR uncovered significant wage theft from employees at the couple's chicken processing business in El Monte.

Lam is the owner of Golden Food Inc. (GFI), a chicken processing business employing butchers and meatpackers located in El Monte, which receives chicken carcasses and breaks them down into boxes of chicken parts for sale. Lam's husband, Wu, operated the business.

The CDI launched an investigation after receiving a referral from the State Compensation Insurance Fund (SCIF), which suspected the business of fraud after comparing the payroll reported during annual audits with the payroll reported to EDD. After obtaining search warrants for GFI, CDI was able to obtain the true payroll records from the company's computer and found fake tax reporting forms.

The investigation revealed that between 2015 and 2021, GFI underreported its payroll to its workers' compensation insurance carriers by \$4,489,390, resulting in a loss of \$1,681,138 in unpaid insurance premiums to four insurance companies, including SCIF.

In addition to the CDI investigation, the DIR investigation found employees were forced to clock out for breaks and continue to work, they were not paid overtime for work in excess of 40 weekly hours, and their pay stubs were falsified. Also, it revealed Wu routinely deducted work hours from employees and falsely counted that pay as bonus. An audit by the DIR found that Lam and Wu failed to pay, at a minimum, \$437,542 in labor to their 34 employees based on the minimum legal hourly wage.

Both Wei Wen Wu and Feng Wen Lam were charged with 34 counts of the California Penal Code (PEN) 487 grand theft and one count PEN 182(a)(1) conspiracy. Additionally, Feng Wen Lam was charged with three counts of California Insurance Code (IC) 11760(a) premium fraud (private carrier) and three counts of IC 11880(a) premium fraud (state fund).



The Los Angeles County DA's Healthcare Fraud Division is prosecuting this case. An early disposition proceeding was scheduled for December 2022, the results of which were not available at the time of this report.

- Yan Zheng was the owner of El Monte Garden Inc. dba China Great Buffet, a buffet restaurant operating in the San Gabriel Valley. El Monte Garden is one of six "buffet restaurant" cases referred to the CDI in September of 2020 by the DOJ's TRUE. After discovering payroll underreporting, TRUE referred El Monte Garden and five other buffet restaurant cases to the CDI's Fraud Division. CDI's investigation found that El Monte Garden underreported its payroll to its workers' compensation insurance carriers by \$2,425,898 for the policy years falling between January 5, 2015, and May 5, 2020. On June 23, 2022, Zheng pled guilty to sales tax evasion, income tax evasion, payroll tax evasion, and worker's compensation insurance fraud. Zheng paid \$2,814,643 in restitution and penalties, which included all outstanding tax liabilities and insurance premiums, as well as interest and costs of investigation, to the CDTFA, FTB, EDD, and CDI. Zheng was sentenced to two years in county jail. In total, CDI and the defrauded insurance carriers received \$81,183. The DOJ's Office of the Attorney General is prosecuting the case.
- The following case originated with an IRS referral to the TRUE. Some restaurants in Wyoming were using a sales suppression software called Lego Tech. The software allows restaurants to remove sales records from restaurant point of sale systems. The CDTFA began an investigation, resulting in eight cases being worked by TRUE. Search warrants were conducted, and the CDI was requested to conduct premium fraud investigations on six out of the eight cases.

One of the prime targets in these investigations was a restaurant named Americana Buffet. During the investigation, the CDI reviewed existing evidence from CDTFA/TRUE's investigation as well as documents obtained from other investigators and witnesses. Also, interviews were conducted with Americana Buffet's accountant and one of the owners, Xu Dong. He was identified as the partner who managed the insurance portion of the business and the perpetrator of the alleged fraud.

It was determined that the payroll submitted to Farmers Insurance as part of annual premium audits excluded any cash paid to workers at Americana and was therefore fraudulent. The CDI and EDD scheduled the available cash pay records and performed an audit. The results were sent to Farmers Insurance which reported a loss of \$61,499 for policy years between 2015 and 2020.

On June 24, 2022, Xu Dong pled guilty to grand theft, sales tax evasion, income tax evasion, payroll tax evasion and worker's compensation fraud. Dong paid \$3,940,880 in restitution, which includes unpaid wages to employees, all outstanding tax liabilities and insurance premiums, as well as interest and costs of the investigation. Dong was sentenced to two years, eight months in county jail.

- Karamjit Nijjar, his wife Rajinder Kaur Nijjar, and their daughter Mandip Nijjar, were arraigned in October of 2022 on four felony counts each for their involvement in a workers' compensation insurance fraud scheme after allegedly underreporting over

\$2.5 million in employee payroll to illegally reduce insurance premiums. Karamjit and Rajinder Nijjar own and operate Renteria Trucking. Their daughter, Mandip Nijjar, is an employee.

The investigation, led by the Fresno County DA's Office, began after the CDI received a tip that an employee of a Fresno area trucking business owned by Karamjit Nijjar was denied workers' compensation benefits.

The task force investigation into Renteria Trucking revealed the company reported approximately \$2,475,000 in employee payroll during their routine payroll audits; however, a forensic audit revealed Renteria Trucking had over \$5 million in employee payroll for the same period.

The amount of unreported payroll identified totaled \$2,577,035. The misrepresentations made by the Nijjars resulted in the reduction of workers' compensation insurance premiums paid, a violation of IC 11880(a) for each policy period, which resulted in \$352,913 in premium owed to SCIF.

The Central Valley Workers' Compensation Fraud Task Force is an inter-agency anti-fraud partnership with members from the CDI, Fresno, Tulare, Kings, Kern, Merced, Madera, and San Luis Obispo County District Attorney's Offices, EDD, and FTB.

Karamjit Nijjar, his wife Rajinder Kaur Nijjar, and daughter Mandip Nijjar pled not guilty to the charges and are awaiting a future court date. The Fresno County DA's Office is prosecuting this case.

- In 2015, an anonymous tip was received that Security Code 3 (SC3), a security company located in San Jose, was dissuading its employees from filing workers' compensation insurance claims. CDI and Santa Clara County DA's office jointly opened an investigation. SC3 was found to have underreported payroll causing a loss of about \$3.5 million in premium to Zurich American Insurance Company.

Three of the four defendants charged in this case have been sentenced. Lanette Wiegand was sentenced to four days in county jail and a \$370 fine with one year probation. Jaime Lugo was sentenced to one year of probation with \$150,000 in restitution and a \$370 fine. Troy Carson was sentenced to two and a half years in county jail, \$1.9 million restitution, \$1,090 in fines, and two years of probation. The fourth defendant, Victoria Cruz, has received a sentencing date for early in 2023.

- Edgardo Cabrales Sr. and his son, Edgar Cabrales Jr., both of San Jose, were charged with five felony counts each of insurance fraud after a CDI investigation found they allegedly underreported \$12 million in employee wages and payroll to save on workers' compensation insurance premiums.

The Cabrales own two commercial cleaning companies in San Jose: Pine Building Maintenance (PBM) and Network Facility Management (NFM). An investigation by the CDI began after the SCIF suspected the businesses of fraud. The investigation discovered that since 2016 the Cabrales had only secured insurance coverage for a fraction of their PBM employees, and they had never secured a workers'

compensation insurance policy to insure their NFM employees, even though most of their business was operated through NFM.

The father and son accomplices failed to report approximately \$12 million in wages to the SCIF to save money on insurance, resulting in \$4.2 million in lost premiums. In this case, Cabrales' underreporting significantly lowered the premiums owed. Cabrales Jr. self-surrendered in October of 2022. His father, Cabrales Sr., was arrested in October 2022 as well. The Santa Clara County District Attorney's Office is prosecuting this case.

### Fictitious Employers

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, EDD also works with 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 possibility of jail time for the perpetrator as well as the requirement to pay restitution.

EDD's Tax Branch, ID, and local DAs leverage resources, share best practices, and work together to combat the underground economy. The ID has a specialized law enforcement unit which investigates criminal violations of the CUIC, the PEN, 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. EDD works with prosecutors and local DAs 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.

## Criminal Tax Enforcement Results

The following are the EDD ID's Criminal Tax Enforcement results for the calendar years 2020, 2021, and 2022:

Calendar Year	2020		2021		2022	
	# of Cases	Amount of Tax Liability	# of Cases	Amount of Tax Liability	# of Cases	Amount of Tax Liability
Cases Under Investigation	132	\$97,098,810	143	\$98,125,881	120	\$80,811,745
EDD Criminal Complaints Filed	15	\$2,799,970	13	\$377,989	5	\$853,631
EDD Criminal Prosecutions Completed	13	\$8,550,022	3	\$434,107	10	\$5,004,539

Calendar years 2021 and 2022 had a reduction in criminal complaints filed and completed prosecutions, which can be attributed to factors relating to the COVID-19 pandemic. In May 2022, County Superior Courts in California began to return to normal activity and were able to close pending cases. Field activities also resumed with partner law enforcement agencies, including execution of search warrants, allowing EDD investigators to obtain the documentation required to continue with the prosecution of their cases, including requesting audits from EDD's Tax Branch.

## Criminal Restitution Cases

When the court orders restitution to EDD as part of the sentencing during criminal prosecutions, EDD monitors these cases to ensure that the restitution is made. The cases are monitored by the Collection Division's Support Program 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's Field Operations Program for collection action. The following table illustrates data for criminal restitution cases for the calendar years 2020, 2021, and 2022:

<b>Calendar Year</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
Restitution Cases Monitored*	140	175***	88****
Beginning Restitution Accounts Receivable	\$26,724,735	\$26,420,507	\$27,023,699
Restitution Amounts Ordered	\$1,185,882	\$1,964,347	\$1,518,671
Payments Received During the Year	\$1,282,002	\$1,245,834	\$2,928,395
Transfers**	\$208,108	\$115,321	\$14,476,139
Ending Restitution Accounts Receivable	\$26,420,507	\$27,023,699	\$11,137,836

\*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 large increase in cases stems mainly from a change in the way the cases are monitored.

Previously, with a manual monitoring system, if there was more than one account number involved in a criminal complaint, the accounts were combined and counted as one case. With the implementation of Restitution Cases in EDD's Accounting & Compliance Enterprise System (ACES), there is now a restitution case set up for each account number and they are counted separately.

\*\*\*\*The large decrease in cases is a result of an in-depth review of all cases being monitored. Cases were found that should have been transferred from Collection Division's Support Program to the Collection Division Field Operations for collection action due to non-payment and/or expiration of probation.

### **Recommendations for Statutory Changes**

No additional legislation is required at this time.

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

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 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** conducts criminal investigations at the county, state, and federal levels and seeks prosecutions of employers who commit payroll tax fraud against EDD. Tax fraud includes an employer's failure to register with EDD as an employing unit, failure to report or underreporting wages paid to employees, and failure to remit tax contributions to EDD. The ID 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 underground activity.

The **DCA – Bureau of Automotive Repair (BAR)** protects consumers through licensing and regulating the automotive repair and Smog Check industry. The BAR investigates violations of the Automotive Repair Act and related laws and regulations governing automotive repair and the Smog Check Program. In addition, the 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. The DOSH investigates and inspects 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 to obtain lower rates for workers' compensation insurance. Studies suggest that the aggressive anti-fraud campaign by 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 (DOJ)** 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 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. During federal fiscal year 2020, the IRS collected nearly \$3.5 trillion in federal taxes, processed more than 240 million tax returns and other forms, and issued more than \$736 billion in tax refunds (including \$268.3 billion in Economic Impact Payments, which were classified as refunds). The IRS provides EDD with leads that are used for various JESF activities, including investigating employers with unreported wages and/or misclassified workers. The IRS has not released data for 2021.

## ATTACHMENT B

### ACRONYMS

ABC	California Department of Alcoholic Beverage Control
B&P	(California) Business and Professions Code
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	(FTB) 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
DOJ	(California) Department of Justice
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
IC	(California) Insurance Code
ID	(EDD), Investigation Division
IRS	Internal Revenue Service
JESF	Joint Enforcement Strike Force
LAB	(California) Labor Code
LETF	Labor Enforcement Task Force
PEN	(California) Penal Code
QETP	Questionable Employment Tax Practices
R&TC	(California) Revenue and Taxation Code
SCIF	State Compensation Insurance Fund



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LABOR & WORKFORCE DEVELOPMENT AGENCY**

**Nancy Farias  
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