

*California Labor and Workforce Development Agency*



**Edmund G. Brown Jr.**  
Governor

# **Joint Enforcement Strike Force On the Underground Economy**

## **2015 Report**

**Employment Development Department  
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## **JOINT ENFORCEMENT STRIKE FORCE OVERVIEW, MEMBERS, AND PARTICIPATING ENTITIES**

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 licensing, labor, and payroll tax 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. JESF members are as follows:

The **EDD's 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 is committed to providing service to California employers and Unemployment Insurance (UI), Disability Insurance (DI), and Paid Family Leave benefit claimants; and to increasing voluntary compliance with payroll tax laws through education, simplified reporting processes, and the promotion of fair business competition.

The EDD's **Investigation Division (ID) Criminal Tax Enforcement Program** is a specialized law enforcement unit that investigates criminal violations of the CUIC, the California Penal Code (PC), and the United States Code for federal prosecutions. The ID conducts surveillance, perform undercover operations, interview witnesses, initiate search warrants, and submit completed investigations to prosecutors to convict individuals who commit payroll tax fraud. The EDD determines if the convicted party made restitution, is still on active probation, and obeys all laws with respect to the future filing of returns and payments. The conviction itself and the collection of the tax liabilities play an integral part in deterring the underground economy. The EDD also collaborates on workers' compensation insurance investigations related to state payroll tax violations. The ID, Tax Branch, and UI Branch work together to address fictitious employer schemes created to perpetrate fraud against the EDD. They identify potential fictitious employer schemes based on thorough and ongoing evaluation of the characteristics and elements of such schemes. The identification of these fictitious employer schemes allows the EDD to increase detection and elimination of fraudulent UI and DI benefit claims filed against the EDD.

The **Department of Consumer Affairs (DCA)** protects and serves California consumers and ensures a competent 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 about 300,000 licensed contractors in the state, in 43 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 **CSLB’s 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)** investigates general auto repair complaints and ensures that shops comply with Smog Check statutes. Each year, the BAR handles more than 14,800 complaints related to auto repair and/or Smog Check inspections. The BAR staff investigates complaints and negotiates with the shop on the consumer's behalf to achieve a mutually agreeable resolution. The bulk of complaints are resolved by mediation. Each year, the BAR returns over \$6 million to California consumers in the form of direct refunds, rework, or adjustments.

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’s (DOSH)(Cal/OSHA)** enforcement unit has jurisdiction 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 conduct inspections of California workplaces in response to a report of an industrial accident, 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 Revenue and Taxation Code. 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 Revenue and Taxation Code. 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. The CIB takes over where voluntary compliance and civil enforcement efforts end. Special agents with full peace officer powers investigate alleged criminal violations of the Revenue and Taxation Code, 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 **Board of Equalization (BOE)** administers tax programs in four general areas: sales and use taxes, property taxes, special taxes and fees, and the tax appellate program. The BOE's **Investigations Division** plans, organizes, directs, and oversees all criminal investigative activities for the various programs administered by the BOE. 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 BOE.

The **Department of Justice** 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 Alcohol Beverage Control's (ABC)** agents are peace officers under Section 830.2 of the California 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 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, H-2A).

The **United States Internal Revenue Service's (IRS)** mission is to provide America's taxpayers top quality service by helping them understand and meet their tax responsibilities and enforce the law with integrity and fairness to all. In fiscal year 2015, the IRS collected \$3.3 trillion in taxes (gross tax receipts before tax refunds of \$403 billion) and processed over 243 million tax returns and other forms.

## BACKGROUND AND PROGRAM INFORMATION

### The Underground Economy

*“America has two economies, and one is flourishing at the expense of the other. First, there’s the legitimate economy, in which craftsmen are licensed and employers and employees pay taxes. Then there’s the fast-growing underground economy, where millions of workers are paid off-the-books, their incomes largely untaxed.”*

--“Going Underground”, Barron’s Online, January 3, 2005

The size of the underground economy is difficult to measure but the following data points help to illustrate its magnitude:

- A 2012 study by the economist Edgar Feige at the University of Wisconsin estimated that underground activity in the United States totaled as much as \$2 trillion.
- The tax gap is defined as the amount of tax liability faced by taxpayers that is not paid on time. Tax gap estimates for tax year 2006, released by the IRS in 2012 and adjusted for audit and collection activities, estimate that in 2006 the net national tax gap was approximately \$385 billion.
- In its March 2015 report, California’s Little Hoover Commission indicated, “The underground economy also 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.”

Reports on the underground economy indicate it imposes a significant burden on revenue needed to fund critical state programs and businesses that comply with the law. When businesses operate in the underground economy, they gain an unfair, competitive advantage over businesses that comply with labor, licensing, and payroll tax laws. This causes unfair competition in the marketplace and forces law-abiding businesses to pay higher taxes and expenses.

Workers of non-compliant businesses are also affected. Their working conditions may not meet the legal requirements, which can put them in danger. Their wage earnings may be less than what is required by law, and benefits they are entitled to can be denied or delayed because their wages are not properly reported. Consumers can also be affected when contracting with unlicensed businesses. Licensing provisions are designed to ensure sufficient skill and knowledge to protect consumers.

## **Joint Enforcement Strike Force Goals**

The JESF's goals are to help restore economic stability and to improve working conditions and consumer and worker protection in the state. More 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 payroll tax laws.
- Reduce the tax gap by increasing voluntary compliance with the state's payroll tax laws to maximize the state's General and Special Fund revenues.

## INFORMATION REQUIRED BY SECTION 329(d) OF THE CALIFORNIA UNEMPLOYMENT INSURANCE CODE

### Blatant Violations and Non-compliance

The EDD works with the JESF partner agencies to conduct joint on-site business inspections to identify employers who operate in the underground economy. The EDD also conducts desk investigations using various databases and income tax return analysis to detect non-compliance and fraud. When these inspections and investigations reveal non-compliance, the case is referred as an audit lead to the EDD's Tax Audit Program. In addition, the EDD receives audit leads from the IRS through the Questionable Employment Tax Practices (QETP) Program. On QETP audit leads that the IRS provides, the employers concurred with the IRS' findings regarding unreported wages and/or misclassified workers.

### Employment Development Department Cumulative Joint Enforcement Strike Force Results

Following are the EDD's cumulative results from JESF inspections, investigations, and QETP leads, as well as the audit and collection actions stemming from JESF activities:

Calendar Year	2013	2014	2015
Joint Inspections	807	614	583
EDD Audit Referrals	1,028	958	1,145
EDD Payroll Tax Audits Completed	491	686	664
EDD Payroll Tax Assessments on Above Audits	\$17,031,352	\$25,015,050	\$27,596,182
Previously Unreported Employees on Above Audits	6,912	11,354	9,981
Payroll Tax Assessments Collected	\$5,063,677	\$5,597,028	\$6,038,304
EDD Payroll Tax Audits with Fraud Penalty Assessed (included in figures above)	25	22	26
EDD Payroll Tax Assessments on Fraud Audits (included in figures above)	\$2,627,394	\$5,160,767	\$5,245,162
Previously Unreported Employees on Fraud Audits (included in figures above)	541	391	429

## Criminal Tax Enforcement Program Results

For cases warranting criminal investigation, the EDD ID's Criminal Tax Enforcement Program works with law enforcement agencies and the JESF partner agencies throughout California to identify and prosecute those responsible for the criminal activities. Following are the EDD Criminal Tax Enforcement Program results for the calendar years 2014 and 2015:

Calendar Year	2014		2015	
	# of Cases	Amount of Tax Liability	# of Cases	Amount of Tax Liability
Payroll Tax Evasion Cases in Progress	182	\$90,716,914	187	\$99,915,619
EDD Criminal Complaints Filed	15	\$2,318,149	10	\$2,617,289
EDD Criminal Prosecutions Completed	35	\$9,318,288	51	\$56,650,246

## Criminal Restitution Cases Monitored and Payments Received

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. Following are the results of restitution monitoring for the calendar years 2014 and 2015:

Calendar Year	2014	2015
Criminal Restitution Cases Monitored	37	79
Payments Received on Restitution Cases	\$773,621	\$1,022,994

## Contractors' State License Board Legal Actions

Each month, the CSLB conducts stings and sweeps, which resulted in 1,555 legal actions for the calendar year 2015. As a result of the 350 licensee citations and 426 non-licensee citations, the CSLB assessed \$840,821 in civil penalties.

Calendar Year	2014	2015
Accusations	8	3
Administrative Licensee Citations	221	350
Criminal Referrals – Licensee	20	33
Criminal Referrals – Non-Licensee	463	743
Administrative Non-Licensee Citations	205	426
Total Legal Actions	917	1,555

### Contractors' State License Board Stop Orders

In calendar year 2015, there were 490 stop orders served on construction employers, which prohibits the use of employee labor until workers' compensation insurance is obtained.

<b>Calendar Year</b>	<b>2014</b>	<b>2015</b>
Licensee Stop Orders Issued	154	259
Unlicensed Operator Stop Orders Issued	169	231
Total Stop Orders Issued	323	490
Policies Obtained	93	200
Licenses Suspended	38	31

### Contractors' State License Board Stings and Sweeps

The CSLB performed 91 stings and 148 sweeps during the calendar year 2015. The sting operations targeted unlicensed repeat 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 to place bids on home improvement projects. The suspects were found by searching advertisements on Craigslist and local Yellow Pages and leads from the CSLB's Intake Mediation Center. 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 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.

<b>Calendar Year</b>	<b>2014</b>	<b>2015</b>
Stings	72	91
Sweeps	82	148

### United States Department of Labor Garment Industry Investigations

<b>Calendar Year</b>	<b>2014</b>	<b>2015</b>
Completed Investigations	219	182
Back Wages	\$2,117,134	\$1,763,682
Civil Money Penalties	\$53,936	\$275,687
Number of Employees Affected	2,450	1,492

## United States Department of Labor Recycling Center Investigations

<b>Calendar Year</b>	<b>2014</b>	<b>2015</b>
Completed Investigations	3	39
Back Wages	\$38,000 (+\$38,000 liquidated damages)	\$404,861 (+\$313,088 liquidated damages)
Civil Money Penalties	\$3,003	\$0
Number of Employees Affected	13	288

## Division of Labor Standards Enforcement Results

Calendar Year	Number of Inspections		Number of Citations		Total Dollar Amount of Penalties Assessed	
	2014	2015	2014	2015	2014	2015
Automotive	26	19	34	19	\$264,645	\$205,807
Car Wash	2	2	1	5	\$1,500	\$27,300
Construction	134	79	72	35	\$512,623	\$178,080
Garment	1	1	0	2	0	\$6,050
Other	161	101	137	87	\$3,599,053	\$860,695
Restaurant	73	78	80	87	\$873,803	\$1,085,354
Retail	34	24	50	27	\$214,128	\$340,825
<b>Total</b>	<b>431</b>	<b>304</b>	<b>374</b>	<b>262</b>	<b>\$5,465,752</b>	<b>\$2,704,111</b>

## License Suspensions/Holds Requested

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's License (CSLB Hold)**: The Business and Professions Code Section 7145.5 authorizes the CSLB to take disciplinary action against a license holder. Once the CSLB receives the request from the EDD to place a hold, the CSLB will suspend the license. In addition, 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 Business and Professions Code Section 24049 authorizes the EDD to request from the ABC a hold to be placed 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's License (FLC Hold)**: The EDD is authorized by Section 1141 of the CUIIC to notify the Labor Commissioner (of the DLSE) in writing that an

FLC is delinquent in payment of worker contributions either by self-assessment or by a final EDD assessment. California Labor Code (LC) Section 1690.1 authorizes the Labor Commissioner to refuse to issue or renew any license until the licensee has fully paid the amount of the delinquency.

License Suspensions/Holds by Category Requested by the Employment Development Department for the Last Two Calendar Years

Type of Hold	2014	2015
CSLB	365	631
ABC	63	111
FLC	11	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 table below summarizes amounts due to state agencies that were collected or resolved in calendar years 2014 and 2015 to avoid a license suspension or to have a suspended license unsuspended.

Calendar Year	Amounts collected or resolved	
	2014	2015
CSLB	\$149,613	\$130,980
EDD	\$23,943,050	\$22,730,753
DIR-Cal/OSHA	\$265,788	\$815,684
DIR-DLSE	\$1,567,303	\$937,674
FTB	\$3,901,471	\$2,926,488
Totals	\$29,827,225	\$27,541,579

**Informant Contacts**

Allegations of violation of payroll tax, labor, and licensing laws may be reported by telephone to the toll-free JESF hotline 800-528-1783. Informants may also submit information about state payroll tax fraud by completing a [Fraud Reporting Form](#) online via the EDD website, via e-mail to [ueo@edd.ca.gov](mailto:ueo@edd.ca.gov), via fax to 916-227-2772, or by completing and submitting an *Underground Economy Operations Lead Referral/Complaint Form*, available in English ([DE 660](#)) and Spanish ([DE 660/S/](#)). In 2015, the EDD received a total of 4,771 allegations:

- 2,993 allegations via telephone calls to the JESF hotline.
- 1,578 allegations via online submission.
- 200 allegations via correspondence.

**Publicity and Marketing Outreach Strategies**

The JESF publicizes its activities, outreach, and education on the underground economy through the following:

- The website [www.edd.ca.gov/Payroll\\_Taxes/Joint\\_Enforcement\\_Strike\\_Force.htm](http://www.edd.ca.gov/Payroll_Taxes/Joint_Enforcement_Strike_Force.htm) received 1,536 page views in calendar year 2015. It was created to:
  - Provide information on how to report fraud to the JESF.
  - Educate readers about the harm caused by the underground economy.
  - Publicize the work being done by California state government and partner agencies.
  - Deter fraudulent activity by communicating that California state government will actively pursue and punish those who participate in the underground economy.
  - Provide contact information for each of the partner agencies.
  
- Information on the underground economy is included 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). It provides the viewer with data, access to prior reports, program and operation information, etc. In calendar year 2015, the website received 9,419 page views.
  
- A variety of information sheets and publications are available to the public, businesses, and taxpayers. These publications include:
  - *Joint Enforcement Strike Force Brochure* ([DE 665](#))
  - *Information Sheet: Employment Enforcement Task Force* ([DE 631](#))
  - *Information Sheet: Employment Development Department Underground Economy Operations* ([DE 631UEO](#))

The JESF member agency staff conducts outreach presentations to business and labor organizations throughout the state and to representatives of local government agencies.

### **Information Sharing**

Businesses that operate in the underground economy constantly 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. 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 stop the illegal activities. Information is shared as follows:

- On-the-job.
- Informal ad-hoc joint management meetings.
- Semi-annual meetings with member agencies.

During calendar year 2015, the IRS completed audits of 49 *Employer's Quarterly Federal Tax Returns*, (Forms 941) based on QETP leads the EDD provided to the IRS, resulting in assessments totaling \$336,371 in previously unreported federal taxes. The amount assessed represents reclassified payments (from independent contractor to employee), under-reported wages, and or fringe benefits identified during the audits.

The enactment of Senate Bill 560 (Chapter 389, Statutes of 2015) further reinforced data sharing efforts between the DCA-CSLB and EDD by codifying a longstanding data sharing practice whereby the DCA provides the EDD with licensing and other information.

## **Collaboration**

Collaborative efforts among the JESF member agencies continue to grow. The operations of the Employment Enforcement Task Force have forged closer ties and improved coordination of enforcement activities among the EDD, the DIR, and the DCA. Among the DCA's entities, the CSLB, the BAR, and the BSIS have been active participants in the Employment Enforcement Task Force. These joint operations have improved program results for all of the participating agencies. A coordinated effort now exists that involves not only the JESF member agencies, but also other local, federal, and state entities.

The Interagency Tax Collection Committee is an alliance with the EDD, the FTB, the BOE, the IRS, the Attorney General, the State Controller, and various county recorders. It provides a forum to share common collection practices in order to increase compliance and resolve collection issues. It also allows the agencies to meet and share information about their collection programs, focusing on common, competing, and overlapping functions including bankruptcy, lien, and levy issues. It is intended to foster communications and allow collection staff to meet their counterparts, establish working relationships, and encourage cooperation on common tax collection issues.

The Interagency Tax Collection Committee formed the Liquor License Task Force consisting of representatives from the EDD, the BOE, and the FTB. The task force received and compiled recommendations from each agency on how to collaboratively handle the seizure and sale of liquor licenses. An agreement was finalized in the fall of 2014. It establishes the procedures for the disbursement of funds and the release of transfer holds when liquor licenses issued by the ABC are seized and sold by one of the state tax agencies.

On May 20, 2015, the CDI led a statewide multi-agency outreach effort, visiting more than 75 businesses to educate business owners about their obligations to comply with insurance, licensing, workplace safety, labor laws, and tax codes. The statewide effort focused on curbing California's multi-billion dollar underground economy. Enforcement teams from five state agencies including the CDI, DIR, CSLB, FTB, and the EDD and several district attorney investigators visited a variety of businesses, including restaurants, carwashes, supermarkets, and a number of residential construction sites to determine whether or not they were in compliance with labor and payroll tax laws and to verify that contractors had valid licenses, workers' compensation insurance, and that workplace safety measures were being followed. Safety, licensing and insurance violations were found at approximately one-third of the businesses visited. Some businesses were issued immediate stop work orders and others were issued administrative citations. The CSLB and the DLSE, also known as the Labor Commissioner's Office, issued 19 stop work orders for having workers on the jobsite with no workers' compensation insurance. The DIR's Cal/OSHA issued six orders to

stop work where hazards could have injured employees. The EDD agents made 31 payroll tax audit referrals to the EDD's Audit Program based on information from the businesses visited. Following are some additional statistics from this effort:

<b>Agency</b>	<b>Citations Issued</b>	<b>Fines Issued</b>
CSLB	17	\$8,500
DLSE	21	\$167,659
DOSH (Cal/OSHA)	73	\$116,390

In the latter part of 2013, a collaborative enforcement partnership was formed between the JESF and the Labor Enforcement Task Force, which conducts on-site compliance inspections on targeted industries within designated geographic locations. Both programs have special focus, talent, and strength. The JESF and the Labor Enforcement Task Force remain under the guidance of their respective programs, while taking advantage of opportunities to more effectively streamline operations, leverage resources and mitigate overlap, and increase overall coordination. The result is broader statewide operations, stronger communications, and more knowledgeable cross-trained staff. Collaborative efforts are expected to continue to grow as the operations of the JESF become more successful and as other agencies become more aware that collaborative efforts produce positive results.

During the past several years, Memoranda of Understanding have been developed to facilitate the sharing of information and data between enforcement partner agencies and to enhance collaboration and joint enforcement of labor, tax, and licensing laws.

As the lead agency, the EDD participates in all JESF inspections. The other JESF partners participate in inspections when there is a potential violation of the laws they administer. The table below highlights JESF collaboration efforts. It shows the number of business inspections that partner agencies participated in during calendar years 2014 and 2015.

<b>Agency</b>	<b>Calendar Year</b>	
	<b>2014</b>	<b>2015</b>
EDD	614	583
DLSE	431	304
CSLB	161	183
Local Police	88	95
District Attorney	71	80
ABC	13	23
BOE	8	1
BAR	7	0
BSIS	3	8
Other	159	96

## ATTACHMENT A

### **BLATANT VIOLATOR CASES**

The following examples of 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, and where the EDD found fraud or intent to evade payment of payroll taxes.

#### **Blatant Violator Investigation Cases**

- The EDD and DLSE conducted an investigation of a construction business operating as a sole proprietorship. The business provides painting and decorating services. On the day of the inspection, seven workers were observed performing painting services at a job-site. Interviews with the workers revealed they were all paid cash wages without deductions. In addition, two workers indicated they have been working for the company for 25 years, another worker for 10 years. A citation was issued by the DLSE for failure to provide itemized wage and deduction statements and failure to have workers' compensation insurance. A subsequent EDD audit revealed that the company has been in business since 1991. The company did not register with the EDD until 2011, and then only reported minimal payroll. The payments received from clients were deposited into the business's bank account and cash was withdrawn to pay its regular workers and day laborers. The cash wages were not reported to the EDD. A review of the company's income tax returns revealed that the gross sales reported were significantly lower than the total of the deposits made into the business's bank account. The audit covered the period of 1991 to 2014. 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 Form W-2. The company was assessed \$1,868,470 for unpaid payroll taxes, penalties, and interest.
- In a joint operation, the EDD, DLSE, Riverside County Sheriff's Department, and CDI conducted an inspection of a massage parlor operating as a corporation. There were seven massage therapists on site during the inspection. A review of State data bases indicated that up to 25 massage therapists were providing services at the location. A citation was issued by the DLSE for failure to have workers' compensation insurance. A subsequent EDD audit revealed that the company had been operating and utilizing the services of massage therapists since 2011 but didn't register with the EDD until 2012. The company reported only one to three employees each quarter with minimal wages. The company paid its workers in cash and failed to report the cash payments as wages. The company failed to maintain a record of the cash payments and did not issue the workers W-2's or 1099's. Interviews with the workers revealed the company prefers cash as a method of payment from its clients. A review of bank records indicated the company made very few cash deposits into their bank accounts, thereby concealing the true amount of gross sales. The audit covered the period of 2012 to 2015. A fraud penalty was charged under Section 1128 of the CUIA for intent to evade and failure to reflect all payments made to the workers on Form W-2. The corporation was assessed \$612,071 for unpaid payroll taxes, penalties, and interest.

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- The EDD, Cal/OSHA, and DLSE conducted an investigation of a restaurant business operating as a sole proprietorship. In addition to operating four restaurants, the company operated a large food production facility, a grocery store, and a catering service. A citation was issued by the DLSE for failure to provide itemized wage and deduction statements, and failure to keep proper time records. A subsequent EDD audit revealed that the company has been in business since 1997. The company was registered with the EDD and reported minimal wages paid to the restaurant employees. The employees of the food production facility, grocery store, and catering service were not reported. Interviews with the workers indicated they received cash pay without deductions. A review of the income tax returns filed in previous years indicated the company's annual gross sales were over \$2 million. The company did not keep proper accounting records and further evidence was found that indicated the company made deliberate acts and omissions to evade reporting requirements. The audit covered the period of 2009 to 2015. 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 Form W-2. The company was assessed \$608,559 for unpaid payroll taxes, penalties, and interest.
- The EDD, DLSE, Los Angeles County Sheriff's Department, and District Attorney's Office conducted a joint inspection of a medical marijuana dispensary operating as a corporation. All of the workers interviewed stated that they were volunteers and received cash and marijuana in exchange for their volunteer time. A citation was issued by the DLSE for failure to have workers' compensation insurance. A subsequent EDD audit revealed the employer had registered with the EDD to obtain an employer account in 2011. The business filed payroll tax returns for a short time to report its acknowledged employees. However, the business inactivated its employer account in 2012, and continued to employ the same workers without reporting them. The company maintained minimal business records; there were no records of cash wages paid or marijuana provided to the workers. In addition, the company did not file income tax returns. The audit covered the period of 2011 to 2014. 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 Form W-2. The company was assessed \$360,503 for unpaid payroll taxes, penalties, and interest.
- An EDD Agent conducted an investigation of a garment manufacturing business based on a lead provided by the USDOL who had conducted an investigation of the business for failure to pay the correct minimum wage and overtime hours worked. The employer was registered with the EDD as a corporation and was reporting only two employees. The case was referred to the EDD's Santa Fe Springs Area Audit Office and a field audit was conducted. The employer admitted to the auditor having paid some workers in cash. The audit revealed that the employer failed to report 30 employees. The employer was assessed \$153,780 for unpaid payroll taxes, penalties, and interest.
- An EDD Agent conducted an investigation of a general building contractor based on a complaint received from the Cement Masons Local Union 600. A union representative alleged that the employer did not report all of the wages to the EDD

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that had been reported on their certified payroll records. The case was referred to the EDD's Anaheim Area Audit Office. This was the third time this employer was audited by the EDD. Previous audits were conducted in 1999 and 2009. Review of the previous audits revealed the employer was assessed each time for misclassified workers who were statutory employees (unlicensed subcontractors). After the 2009 audit, the employer complied with reporting unlicensed subcontractors as acknowledged employees but reverted to misclassifying laborers in 2013. The 2015 audit revealed that the employer failed to report 20 employees. The employer was assessed \$30,138 for unpaid payroll taxes, penalties, and interest. Based on the employer's history of noncompliance, the case auditor recommended another follow-up audit in the near future.

- An EDD Agent conducted an investigation of a tree service business based on a complaint by a worker who believed his employer had misclassified him. The worker also alleged that the employer had two work crews in two different cities, one he paid with payroll checks and the other in cash. The case was referred to the EDD's Sacramento Area Audit Office and a field audit was conducted. The audit revealed the employer failed to report five employees. The employer was assessed \$145,239 for unpaid payroll taxes, penalties, and interest.
- An EDD Agent conducted an investigation of a corporate employee benefit administrator based on a complaint from a former employee. The informant alleged that the employer was not properly reporting her wages to the EDD and that the employer had a total of six unreported workers. The employer last paid payroll taxes and submitted payroll reports to the EDD in 2009. The company has an active website, which was last updated in 2014. The case was referred to the EDD's San Bernardino Area Audit Office and a field audit was conducted. The audit revealed that the employer failed to report six employees. The employer was assessed \$198,241 for unpaid payroll taxes, penalties, and interest.

### **Joint Criminal Prosecution Cases**

The JESF member agencies refer cases to their respective criminal investigation organizations. The following are cases that the JESF member agencies worked together to prosecute in 2015.

- The ID conducted a joint investigation with the Riverside County District Attorney's Office of a painting and construction contractor in Riverside County who failed to accurately report employees to a workers' compensation insurance carrier and the EDD while performing public works projects.

The defendant pleaded guilty to five felony charges including Section 2118.5 of the CUIIC (willful failure to collect and pay tax), Section 11880(a) of the California Insurance Code (CIC) (false statement to reduce insurance rate), and three counts of Section 118(a) of the PC (perjury). The defendant was ordered to serve 180 hours of house arrest, 10 years formal probation, and was ordered to pay restitution of \$324,020 to the EDD and \$264,987 to the State Compensation Insurance Fund (SCIF).

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- The ID conducted a joint investigation with the CDI, Fraud Division and the DIR of a landscaping service employer in Sacramento County. Between July of 2010 and July of 2013, the employer made false statements on their workers' compensation insurance applications by significantly under-reporting the number of employees and payroll of their business. They also failed to take required deductions from their employees' wages and did not make required contributions to the UI fund.

The employer pleaded no contest to Section 11760(a) of the CIC (false statements to reduce insurance premium) and Section 2117.5 of the CUIC (willful failure to file returns with intent to evade taxes or willfully filing fraudulent returns). His sister pleaded no contest as a co-defendant to Section 2117.5 of the CUIC. The employer was sentenced to 30 days in county jail and five years of probation. He was also ordered to pay \$144,672 in restitution to the insurance companies for unpaid premiums, and \$110,462 to the EDD for unpaid payroll taxes. The employer's sister was sentenced to three years of probation, was ordered to perform 50 hours of community service, and to pay restitution along with her brother.

- The ID conducted a joint investigation with the Inland Empire Premium Fraud Task Force in Riverside County after a complaint was made by a trade organization against a swimming pool service company. The employer misclassified or failed to report pool cleaning service technician employees and construction workers to avoid payroll taxes and workers' compensation insurance premiums. The employer also failed to properly report the required sales tax due to the BOE on an account with a pool contractor supplier. The tax liability due to the EDD is \$225,592.

The employer pleaded guilty to violation of Sections 11760(a) (false statements to reduce insurance premium) and 11880(a) (false statements to reduce insurance premium) of the CIC, Sections 186.11(a)(2) and Section 12022.6(a)(1) of the PC. The employer was sentenced to state prison for a term of 10 years with credit for time served of 105 days. He was ordered to pay restitution to the EDD, SCIF, BOE, and two private insurance companies plus court administration fees.

- The ID conducted a joint investigation with the San Bernardino County District Attorney's Office after several complaints were received by the DIR, Labor Commissioner's Office alleging underpayment of wages by a freight and cargo transportation company to its employees. The investigation revealed the employer underpaid workers and did not have the required insurance coverage. The employer also failed to submit payroll information and proper deductions to the EDD.

The employer pleaded no contest to the felony charge of payroll tax evasion in violation of Section 2117.5 of the CUIC (willful failure to file returns with intent to evade taxes or willfully filing fraudulent returns). The employer was placed on formal probation for a period of three years, ordered to make restitution to the EDD in the amount of \$178,000, and to comply with other terms and conditions of probation.

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- The ID conducted a joint investigation with the Tulare County District Attorney's Office of a tree specialist company for payroll tax evasion and workers' compensation insurance fraud. The company reported only approximately 25 percent of its true payroll to the EDD. The investigation revealed the company intentionally underreported approximately \$14.7 million in payroll to the EDD by altering computer records of wages paid to its employees.

The first of three defendants in the case pleaded guilty to two misdemeanor counts of Section 2117.5 of the CUIIC (willful failure to file returns with intent to evade taxes or willfully filing fraudulent returns) and Section 11760(a) of the CIC (false statements to reduce insurance premium). The defendant willfully filed fraudulent payroll tax returns with the intent to evade taxes and failed to accurately report employee wages to obtain or lower workers' compensation insurance premiums. The defendant was sentenced in Tulare County Superior Court with an order to pay a total of \$403,078 in restitution to the EDD, to serve a summary probation for two years, and to complete 100 hours of community service during probation.

- The ID conducted a joint investigation with the CDI of a building maintenance company in Los Angeles County. The employer failed to report payroll taxes and employee wages to the EDD and SCIF. The FTB previously conducted a joint investigation and served a search warrant. The investigation revealed that the defendant willfully submitted false returns and misreported employees as independent contractors during the period of 2001-2006.

The employer pleaded no contest to a violation of Section 2117.5 of the CUIIC (willful failure to file returns with intent to evade taxes or willfully filing fraudulent returns), was sentenced to eight years in prison, and was ordered to pay restitution in the amount of \$4,398,208 to the EDD.

- The ID conducted a joint investigation with the Orange County District Attorney's Office based on a referral from the DIR after investigating wage theft and issuing a civil wage and penalty assessment. Between October of 2006 and December of 2012, the employer operated a fire protection service in Glendale and accepted several public works projects in Los Angeles and Orange Counties. The employer took a portion of his workers' wages on public works projects from newly immigrated workers who were not familiar with the law. The employer and his staff falsified payroll records in order to conceal the hours worked by workers who were not paid their full wages. The employer failed to report over \$1 million in payroll to the EDD.

The owner pleaded guilty to four felony counts of Section 1778 of the LC (taking and receiving portion of workers' wages) on a public works project, eight felony counts of failure to pay taxes under Section 2118.5 of the CUIIC (willful failure to collect and pay tax), and four felony counts of Section 115(a) of the PC (offering false instruments to be filed in a public office) with a sentencing enhancement for property loss over \$200,000. He was sentenced to four years and eight months in state prison and ordered to pay \$540,000 in total restitution; \$140,000 of it owed to the EDD. The bookkeeper pleaded guilty to one felony count of conspiring to file a false or forged document. She was sentenced to 50 days in jail and three years of formal

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probation. The estimator was charged with four felony counts of conspiracy to commit fraud and remains a fugitive.

- The ID conducted a joint investigation with the Alameda County District Attorney's Office of a property rental company for payroll tax evasion, workers' compensation insurance fraud and submission of false documents filed in a public office. The investigation revealed the employer intentionally failed to file payroll tax returns to the EDD with intent to evade taxes. Based on the terms of a subsidized employment program, Alameda County instructed the employer to register with the EDD for reimbursement to the employer of 80 percent of the wages paid to employees hired under the program. The employer registered with the EDD and hired 16 employees but reported only two for the first quarter of 2010. The employer later submitted reimbursement requests to Alameda County for all 16 employees who worked from the first through third quarter of 2010.

The employer pleaded guilty to felony charges, including Section 2117.5 of the CUIA (willful failure to file returns with intent to evade taxes or willfully filing fraudulent returns), Section 2118.5 of the CUIA (willful failure to collect and pay taxes), Section 11880(a) of the CIC (false statements to reduce insurance premium), and Sections 115(a) (offering false instruments to be filed in a public office), 487(a) (grand theft), and 550(b)(3) of the PC (assisting and conspiring with another to conceal the occurrence of an event that affected a person's right to an insurance benefit). The employer was sentenced in Alameda County Superior Court to eight months in county jail to be served in the electronic monitoring program and five years of formal probation. The employer was ordered to pay restitution in the amount of \$19,767.86 to the EDD, excluding penalties and interest and not to further contract with government agencies.

- The ID conducted a joint investigation in participation with the multi-agency Tax Recovery and Criminal Enforcement Task Force in Northern California. The United States Immigration and Customs Enforcement, Homeland Security Investigation requested assistance from the task force to investigate a massage parlor employer suspected of perpetrating human trafficking where prostitution and corruption was occurring. The investigation revealed the employer intentionally failed to file payroll tax returns with the EDD with the intent to evade taxes. The employer was not registered with the EDD and an audit identified a tax liability of \$33,767 owed to the EDD.

Defendant #1 pleaded no contest to conspiracy to commit pandering and two counts of bribery. He also pleaded no contest to the following charges: three felony counts of Section 2117.5 of the CUIA (willful failure to file returns with intent to evade taxes or willfully filing fraudulent returns), one felony count of Section 182/266(i) of the PC (conspiracy), and two felony counts of Section 67 of the PC (bribery). As a condition of sentence, defendant #1 agreed to serve 10 years consecutively to any federal charges he may face and agreed to pay \$33,861 in restitution to the EDD.

Defendant #2 pleaded no contest to four felony counts of Section 2118.5 of the CUIA (willful failure to collect and pay tax). Defendant #2 was sentenced to 300 days in county jail, five years of probation, and must pay \$33,861 in restitution to the EDD

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jointly with defendant #1 within three years from the date of sentencing. Defendant #3 also pleaded to Section 32 of the PC (accessory to felony), and was ordered to serve 10 months of jail time and five years of probation.

- The ID conducted a joint investigation with the Alameda County District Attorney's Office of a restaurant employer who was suspected of committing workers' compensation insurance premium fraud and payroll tax evasion by reporting only family and friends but not reporting other employees to the EDD.

The employer pleaded no contest in the Alameda County Superior Court to felony violation of Section 2118.5 of the CUIIC (willful failure to collect and pay taxes) and misdemeanor Section 1199(b) of the LC (failure to pay minimum wage). The employer was sentenced to five years felony probation with an order to pay all restitution to the EDD and SCIF. The court ordered restitution of \$33,652 to the EDD which was the difference remaining from restitution previously paid through the court.

- The ID conducted a joint investigation with the San Diego County District Attorney's Office of a roofing industry employer who had filed false payroll tax returns for several years.

The two owner/operators each pleaded guilty to seven counts of Section 11880(a) of the CIC (false statements to reduce insurance premium), one count of Section 2118.5 of the CUIIC (willful failure to collect and pay tax), and one count of Section 487(a) of the PC (grand theft). The restitution order included \$57,448 to be paid to the EDD, \$243,428 to be paid to the SCIF, and \$8,640 to be paid to an injured employee.

- The ID conducted a joint investigation with the Monterey County District Attorney's Office of a contractor. The employer had been operating with employees since September of 2010. The employer failed to file payroll tax returns with the intent to evade taxes, failed to accurately report employee wages to obtain a lower workers' compensation insurance premium, and made fraudulent use of his contractor's license.

The employer was charged with felony violation of Sections 2110.5 (willful failure to withhold employee deductions), 2117.5 (willful failure to file returns with intent to evade taxes or willfully filing fraudulent returns), 2118.5 (willful failure to collect and pay tax), and 2108 of the CUIIC (willful failure to pay tax contributions). The employer was also charged with Section 1188 of the CIC (false or fraudulent statement to the SCIF). The defendant pleaded no contest in Monterey County Superior Court to three felony charges and was sentenced to 40 days in county jail and six years and four months of formal probation. The defendant was ordered to pay full restitution of \$155,250 to the EDD and \$67,406 to the SCIF.

- The ID conducted a joint investigation with the CDI of a trucking company who committed workers' compensation premium fraud by underreporting their

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employees' payroll on their 2008 and 2009 year workers' compensation insurance policy resulting in a workers' compensation insurance premium loss of \$800,485.

The three defendants each pleaded no contest to one felony count of Section 11880(a) of the CIC (false statements to reduce insurance premium) in Merced County. The defendants were ordered to pay restitution of \$115,508 to the EDD and \$1,475,954 to the SCIF.

- The ID conducted a joint investigation with the Orange County Premium Fraud Task Force of a contractor for taking and receiving a portion of a worker's wage on a public works project. The employer threatened to fire employees if they did not return a portion of their wages to him after they were paid. To cover up the theft which occurred during two jobs, the employer and his foreman forged payroll documents purporting their workers were being paid their full wages.

The employer pleaded guilty to Section 1778 of the LC (conspiracy to take or receive worker wages on public works), Section 115(a) of the PC (offering false instruments to be filed in a public office), Section 2108 of the CUIIC (willful failure to pay tax contributions), and Section 11880(a) of the CIC (false statements to reduce insurance premium). The employer was sentenced to 365 days in county jail and five years of supervised probation. The tax liability is \$218,687. The second defendant was sentenced to serve seven years and four months in state prison.

- The ID conducted a joint investigation with the Orange County District Attorney's Office of a moving service company for tax evasion. The EDD conducted a payroll tax audit of the records covering the period of 2006 through 2010.

The employer pleaded guilty to multiple charges including Sections 2117.5 (willful failure to file returns with intent to evade taxes or willfully filing fraudulent returns) and 2118.5 (willful failure to collect and pay tax) of the CUIIC. Defendant #1 was sentenced to serve two years in state prison and was ordered to pay restitution of \$726,552 to the EDD. A co-defendant pleaded guilty to multiple violations of Section 19706 of the Revenue and Taxation Code (willful failure of corporate officer to file a return and supply information with the intent to evade tax). She was sentenced to three years of supervised probation and was ordered to pay restitution to the FTB in the amount of \$464,560. The tax liability owed to the EDD was \$1,791,723 which included penalties and interest.

- The ID conducted a joint investigation with the Fresno County District Attorney's Office of a janitorial company for tax evasion. The Fresno County District Attorney's office filed a felony complaint including violations of Section 11760(a) of the CIC (false statements to reduce insurance premium), Section 2117.5 of the CUIIC (willful failure to file returns or filing of fraudulent returns), Section 2118.5 of the CUIIC (willful failure to collect and pay over personal income tax), and Section 487(a) of the PC (grand theft).

The defendant pleaded guilty and was convicted of a violation of Section 11760(a) of the CIC, Sections 2117.5 and 2118.5 of the CUIIC, and Section 487(a) of the PC.

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The defendant was ordered to pay restitution in the amount of \$246,357 to the EDD and \$535,864 to the SCIF. An EDD payroll tax audit that was conducted identified \$5,533,721 in unreported employee wages from January 1, 2007 to March 31, 2011.

- The ID conducted a joint investigation with the Napa County District Attorney's Office of a general contractor. The employer was not registered and was not reporting payroll to the EDD.

The employer pleaded no contest to one felony count of Section 2117.5 of the CUIIC (willful failure to file returns or filing of fraudulent returns), one felony count of Section 11880(a) of the CIC (false statement to reduce insurance rate), and one felony count of Section 487 of the PC (grand theft). The defendant was sentenced in Napa County Superior Court to 120 days in county jail, three years of formal probation, and ordered to pay court fines. The total EDD tax liability including penalty and interest was \$345,704.

- The ID conducted a joint investigation with the Riverside County District Attorney's Office of a grading contractor who failed to accurately report their employees' wages by misclassifying them as independent contractors. The payroll tax audit revealed \$848,023 in unreported wages and a liability of \$185,636 in payroll taxes, penalties, and interest owed.

The two employer co-defendants pleaded guilty to charges. Defendant number one was convicted of two misdemeanor charges of Section 11760(A) of the CIC (false statements to reduce insurance premium), and Section 2117.5 of the CUIIC (filing fraudulent returns). Defendant number two was convicted of one misdemeanor charge of Section 2117.5 of the CUIIC. Both defendants received orders of summary probation for a period of 36 months and were ordered to pay restitution.

- The ID conducted a joint investigation with the Contra Costa District Attorney's Office who received a lead from the USDOL. The USDOL conducted an audit of a senior care home and determined the defendant paid employees of six care homes less than minimum wage. A preliminary review of evidence revealed the defendant had not reported all of her employees to the EDD.

The defendant pleaded guilty in Contra Costa County to one felony charge of violating Section 2117.5 of the CUIIC (filing of fraudulent returns), one felony count of Section 487(a) of the PC (grand theft), and one misdemeanor violation of Section 3700.5 of the LC (failure to secure payment of compensation as required). The defendant was sentenced to 60 days in county jail and three years of formal probation. She was ordered to pay \$453,410 in restitution for wage violations to the DIR. The court released \$71,830 in seized cash to the DIR for disbursement to the victims/workers. The tax liability owed to the EDD was \$518,865.

- The ID conducted a joint investigation with the Santa Clara County District Attorney's Office of a painting contractor who was paying cash wages and not reporting the

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wages to the EDD. The employer had 12-13 employees but reported less to the EDD.

The two defendants pleaded no contest to one felony count of Section 2108 of the CUIC (willful failure to pay contributions), one felony count of Section 11760(a) of the CIC (workers' compensation premium fraud), and one felony count of Section 1871.4(a)(3) of the CIC (conspiring to dissuade a workers' compensation insurance claim). Sentences included 180 days in county jail and three years of formal probation. The total tax liability owed to the EDD was \$466,158.

## 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
CIB	Criminal Investigation Bureau
CIC	California Insurance Code
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	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
LC	California Labor Code
PC	California Penal Code
QETP	Questionable Employment Tax Practices
SCIF	State Compensation Insurance Fund
UI	Unemployment Insurance
USDOL	United States Department of Labor



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