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# Joint Enforcement Strike Force

*On the Underground Economy*

## 2021 REPORT



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

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June 30, 2022

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

Dear Members of the California State Legislature:

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

The JESF 2021 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.
- Informant contact statistics for the toll-free JESF hotline and other outlets.
- Narrative information about collaboration among the strike force partners and statistical results from collaborative efforts.
- Statistics and narratives about blatant violations and noncompliance with licensing, labor, and payroll tax laws identified, audited, investigated, or prosecuted through civil actions or criminal prosecution.

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 anticipates operating at full capacity in 2022.

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

Sincerely,

/s/ Nancy Farias  
Director

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

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

On January 1, 1995, Section 329 was added to the CUIC, which placed the provisions of the Executive Order into law. The 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 on the JESF webpage at:

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

## **The Underground Economy**

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

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

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

When business owners cheat by illegally underpaying employees, for example, or not paying taxes—allowing them to undercut prices of law-abiding businesses—it hurts compliant businesses and California workers alike. Businesses that don’t comply with labor, licensing, and payroll tax laws force law-abiding businesses to pay higher taxes and expenses due to socialized costs. 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 State of California Department of Justice website, Office of the Attorney General, [Tax Recovery in the Underground Economy \(TRUE\)](#) page includes the following examples of harm caused when consumers buy counterfeit goods. Purchasing knock-off merchandise supports those who steal designer's ideas and takes jobs from workers that manufacture legitimate products. Counterfeit merchandise is often inferior to the original product. When consumers pay for services "under the table," they may also be supporting human trafficking. Consumers can also be affected when contracting with unlicensed businesses. Licensing provisions are designed to ensure sufficient skill and knowledge to protect consumers.

## **The Tax Gap**

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

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

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

Per the Internal Revenue Service, the tax gap is comprised of three main components: non-filing, underreporting, and underpayment:

- The non-filing tax gap is the tax not paid on time by those who do not file the required returns on time.
- The underreporting tax gap is the net understatement of tax on timely filed returns.



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

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

## **Recent Legislation**

Governor Newsom signed [Assembly Bill \(AB\) 1561](#) 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 Labor Code (LC), the CUIC, and the Industrial Welfare Commission (IWC) wage orders.

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

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

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

In 2021, the State of California continued to experience challenges due to the COVID-19 pandemic. In response to the pandemic, the JESF partners continued to adjust their operations to provide mission critical functions and essential services to the people of California while complying with directives from the state to protect the health of employees and customers during the crisis.

### **Education and Outreach**

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

## Seminars and Presentations

- The EDD conducts various payroll tax seminars available at no cost, including co-presented joint seminars such as the EDD/IRS payroll tax, EDD/DIR labor law and payroll tax seminars. The EDD's outreach efforts also include providing special presentations and participating in information booths at events sponsored by entities such as payroll associations, industry groups, non-profit organizations, and other governmental entities. In 2021, as a result of continued COVID-19 pandemic precautions, the EDD continued to host webinars. The EDD conducted 86 virtual outreach events with 4,814 attendees. The EDD continues to look for innovative ways to expand its education and outreach efforts. For example, the EDD utilizes social media such as Facebook and Twitter to reach employers and more of the general public.
  - In an effort to continue to educate California's employers regarding AB 5 and related provisions, the EDD conducted 17 Employment Status webinars in 2021. Critical information regarding the implementation of AB 2257 was included in webinars conducted after Governor Newsom signed the bill and it became law September 4, 2020.
  - The EDD is taking various steps to educate external stakeholders who may be impacted by AB 1561. For example, updates are being made to all payroll tax seminars, forms and publications, and other outreach materials that include employment status content.

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

## Websites

- The EDD includes information on the underground economy on the following webpage: [www.edd.ca.gov/Payroll\\_Taxes/Underground\\_Economy\\_Operations.htm](http://www.edd.ca.gov/Payroll_Taxes/Underground_Economy_Operations.htm). This webpage provides the viewer with access to prior reports, program and operation information, etc. The EDD website also has a page dedicated to [fraud and penalties](#).

- The [JESF webpage](#) provides links to JESF partner websites. Each of the JESF partners includes educational and outreach information on their website. For example, the CSLB provides information on its website warning consumers about the dangers of hiring unlicensed contractors. Publications on this and other topics can be printed or ordered online.

### Other Collaborative Outreach Effort

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

### Future Education and Outreach

The EDD is planning to continue its virtual outreach efforts in 2022. 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*.

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

### **Administrative Enforcement**

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

In response to the State of Emergency guidelines for COVID-19 issued on March 4, 2020, the JESF temporarily suspended all joint field enforcement activities starting on March 17, 2020 to ensure the safety of its employees and customers. After the State of Emergency guidelines for COVID-19 were modified, the JESF resumed field enforcement activities on July 6, 2021. As the EDD and the JESF partners navigated the changing tides posed by the pandemic, the safety and health of their employees and customers remained a top priority.

Although joint field enforcement activity was suspended from March 17, 2020 until July 6, 2021, various enforcement efforts continued along with the JESF's commitment to combatting the underground economy. As discussed below, JESF partners continued to hold virtual meetings to continue their collaboration. In 2021, the EDD Audit Program conducted 4,974 audits and investigations, leading to \$192.8 million in assessments and the discovery of 68,027 misclassified workers. In addition, multiple stings continued to be done via collaborations by the Contractor's State License Board, the California Department of Insurance, and local District Attorney Offices, as discussed below.

### Information Sharing and Collaboration

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

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

- To help combat California's underground economy and protect workers' rights, the EDD and DIR have joined efforts through their respective enforcement programs. The EDD leads the JESF. The DIR leads the Labor Enforcement Task Force (LETTF). The LETTF 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/LETTF 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/LETTF training sessions are periodically held based on operational needs.

### Informant Contacts

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

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

The EDD receives allegations of noncompliance by several methods. The following table provides a breakdown of the number of contacts received by each method in 2019, 2020, and 2021:

Method Received	Number of Contacts Received and Processed		
	2019	2020	2021
Telephone Call to Payroll Tax Fraud Hotline	2,537	6,674	6,954
Online Submission (EDD Website or Email)	2,338	7,852	9,962
Correspondence (Fax or Mail)	117	65	180
<b>Total</b>	<b>4,992</b>	<b>14,591</b>	<b>17,096</b>

Of the 17,096 overall contacts in 2021:

- 491 were allegations of potential payroll tax violations.
- 3,531 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 fraud investigators in the UI Branch and the Investigation Division (ID) for further investigation.
- 3,954 contacts inquiring about UI and/or Pandemic Unemployment Assistance claims were provided to the UI Branch for review.
- In 2020 and 2021, due to the pandemic, we received a significantly higher number of contacts. The 9,120 contacts were either requests for general information or inquiries that were intended for other agencies. The misrouted items were forwarded to the appropriate agency contacts for review and action, as appropriate.

### Site Inspections

The EDD works with the JESF partner agencies to conduct 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 2021, the primary industries for site inspections were construction, restaurant, and massage parlor.
- During site inspections, task force members interview owners, managers, and workers to identify employers operating in the underground economy. The primary goal is to identify and bring into compliance individuals and businesses in the underground economy that are in violation of payroll tax, labor, and licensing laws.
- Site inspections are also used as an opportunity for education and outreach. Owners and managers of the businesses inspected are provided materials on how to comply with the laws and regulations affecting their industry as well as how to obtain additional information.
- Joint site inspections of businesses often result in 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.
- The 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 2021 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 2019, 2020, and 2021.

Partner Entity	Calendar Year		
	2019	2020*	2021*
EDD	669	165	307
DLSE	267	71	40
CSLB	388	94	255
Local Police	14	9	0
District Attorney	48	9	36
ABC	14	2	0
CDTFA	0	0	0
BAR	11	0	0
BSIS	3	0	0
CDI	1	0	36
Cal/OSHA	0	0	0
Other	10	7	0

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

Since the EDD is the lead partner in the JESF, the EDD participates in all of the JESF inspections. This is why the previous table indicates the EDD participated in the most inspections each year. The CSLB participated in the second most JESF inspections each year due to the high percentage of noncompliance allegations that are received involving the construction industry. At the beginning of the pandemic, DLSE staff assigned to JESF inspections 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 inspections throughout 2021.

Payroll Tax Audits

The EDD’s Audit Program conducts follow-up audits on JESF inspections and performs audits from other lead sources to bring businesses into compliance with state payroll tax and employee reporting requirements. They conduct audits of businesses based on a variety of sources, including but not limited to leads from other governmental agencies and UI and Disability Insurance (DI) claims that become obstructed because the claimants’ wages weren’t properly reported to the EDD. During an EDD audit, the auditor verifies that the employer’s acknowledged payroll was properly reported, that Personal Income Tax is being properly withheld from employee wages and reported, and determines the appropriate classification of any workers the business considers independent contractors. The Audit Program issues assessments for payroll taxes due and any applicable penalties and interest. This is for employers located in the state and out-of-state employers with California workers. In total for the 2021 calendar year, this program, which includes JESF cases, conducted 4,974 audits and investigations, resulting in assessments totaling \$192,853,253 and identified 68,027 misclassified workers or unreported employees. In addition to administrative enforcement, the EDD auditors educate business owners and their representatives regarding the California payroll tax requirements during examinations. They provide information on the proper classification of workers, reporting and depositing requirements, and how to obtain additional information from the Department.

Following are the EDD Audit Program calendar year 2019, 2020, and 2021 cumulative audit and investigation results for cases initiated from all sources:

<b>Calendar Year</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
Total EDD Payroll Tax Audits/Investigations	7,002	2,097	4,974
Total EDD Payroll Tax Assessments	\$208,933,454	\$74,513,080	\$192,853,253
Total Previously Unreported Employees	123,074	31,287	68,027

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

<b>Cannabis Audits</b>	<b>2021</b>
Payroll Tax Audits	121
Payroll Tax Assessments	\$4,987,955
Previously Unreported Employees	1,357

- The Questionable Employment Tax Practices (QETP) Program was initiated in 2007 as a collaborative effort between the EDD and IRS to exchange audit leads. In 2020, there were fewer QETP cases completed due to the redirection of audit staff to assist with UI workloads as a result of the pandemic. The 2021 production gradually 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>2019</b>	<b>2020</b>	<b>2021</b>
EDD Payroll Tax Audits	43	8	20
EDD Payroll Tax Assessments	\$2,288,127	\$418,948	\$1,867,654
Previously Unreported Employees	398	207	394

## **Employment Development Department**

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

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

<b>Calendar Year</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
Joint Inspections	669	165	307
EDD Audit Referrals	614	225	173
EDD Payroll Tax Audits Completed	551	158	319
EDD Payroll Tax Assessments on Above Audits	\$19,396,137	\$9,032,653	\$32,720,202
Previously Unreported Employees on Above Audits	7,258	1,707	5,224

Results fluctuate year to year based on the complexity of cases and number of external lead referrals. In 2019, there were 15 cases that resulted in total assessments of more than \$5.7 million and over 900 unreported employees. In 2020, the number of JESF inspections and referrals were less than in prior years due to the suspension of field enforcement activities early in the year. 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 agency staff 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.

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

Calendar Year	2019	2020	2021
EDD Payroll Tax Audits with Fraud Penalty Assessed (included in figures in previous table)	9	0	6
EDD Payroll Tax Assessments on Fraud Audits (included in figures in previous table)	\$677,763	N/A	\$15,983,053
Previously Unreported Employees on Fraud Audits (included in figures in previous table)	213	N/A	1,890

There were no JESF cases completed, where fraud was established in 2020 as the 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 previously unreported employees.

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

### **Division of Labor Standards Enforcement**

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

Calendar Year	Number of Inspections			Number of Citations		
	2019	2020*	2021*	2019	2020*	2021*
Automotive	22	7	1	18	8	2
Bar/Nightclub	8	0	0	8	0	0
Car Wash	1	0	0	4	0	0
Construction	12	0	1	13	0	9
Massage	10	20	0	9	25	0
Nail Salon	64	6	1	86	10	0
Other	81	11	23	86	15	30
Restaurant	42	17	12	51	19	31
Retail	14	10	2	17	10	7
Transportation	13	0	0	17	0	0
Total	267	71	40	309	87	79

\* 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		
	2019	2020	2021	2019	2020	2021
Automotive	\$166,797	\$174,342	\$8,332	\$3,110	\$0	\$0
Bar/Night-club	\$54,578	\$0	\$0	\$4,000	\$0	\$0
Car Wash	\$26,750	\$0	\$0	\$4,300	\$0	\$0
Construction	\$39,985	\$0	\$143,200	\$0	\$0	\$1,610,528
Massage	\$150,558	\$276,544	\$0	\$23,250	\$0	\$0
Nail Salon	\$929,357	\$43,300	\$0	\$6,850	\$10,029	\$0
Other	\$627,624	\$91,462	\$542,699	\$44,350	\$28,050	\$4,000
Restaurant	\$372,753	\$110,200	\$230,600	\$17,772	\$53,495	\$2,037,943
Retail	\$123,678	\$31,500	\$10,350	\$51,527	\$0	\$5,200
Transportation	\$493,750	\$0	\$0	\$0	\$0	\$0
Total	\$2,985,830	\$727,348	\$935,181	\$155,159	\$91,574	\$3,657,671

### **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 18 stings and 160 sweeps in 2021:

Calendar Year	2019	2020	2021
Stings	75	16	18
Sweeps	353	63	160

The sting operations targeted unlicensed offenders and wanted criminals who work in the construction industry. The stings involved the CSLB's Statewide Investigative Fraud Team inviting the suspected unlicensed contractors and wanted criminals to homes or commercial businesses to place bids on construction projects.

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

#### **Stop Orders**

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

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

<b>Calendar Year</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
Licensee Stop Orders Issued	208	48	97
Unlicensed Operator Stop Orders Issued	237	43	105
Total Stop Orders Issued	445	91	202
Policies Obtained	166	50	65
Licenses Suspended	15	3	3

### Legal Actions

The CSLB conducted stings and sweeps, and responded to leads, which resulted in 757 legal actions for the calendar year 2021. As a result of the 410 licensee and non-licensee citations in 2021, the CSLB assessed \$401,900 in civil penalties.

<b>Calendar Year</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
Accusations	9	5	3
Administrative Licensee Citations	220	97	92
Administrative Non-Licensee Citations	206	283	318
Criminal Referrals – Licensee	102	40	51
Criminal Referrals – Non-Licensee	663	253	208
Letters of Admonishment	80	78	85
Total Legal Actions	1,280	756	757

### California Department of Insurance

The CDI participated in contractor stings with the CSLB and local District Attorneys (DAs) in six counties during 2021. Below are the CDI results from these stings. The statistics from these stings are included in the statewide results reported by the CSLB above.

- The CDI worked with the CSLB and Kern County DA's Office. A total of 11 subjects were cited for violations of Section 3700.5 of the California LC 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.
- The CDI worked with the CSLB and Fresno County DA's Office in the city of Clovis. Three subjects were cited for violations of Section 3700.5 of the LC 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.

- The CDI worked with the CSLB and the Tulare County DA’s Office in the city of Visalia. One subject was cited for violation of Section 3700.5 of the LC for willful failure to obtain workers’ compensation coverage and Section 7028 of the B&P for contracting without a license.
- The CDI worked with the CSLB and Santa Cruz County DA’s Office. A total of 12 subjects were cited for violations of Section 7028 of the B&P for contracting without a license. In addition, four of the unlicensed subjects were also cited for violation of Section 7159.5(a)(3) of the B&P for accepting excessive down payment.
- The CDI worked with the CSLB, Amador County DA’s Office, and Calaveras County Sheriff’s Department in the city of Copperopolis on two days. A total of 10 subjects were cited for violations of Section 7028 of the B&P for contracting without a license, Section 7027.1(a) of the B&P for illegal advertising as a contractor without a license, and Section 7159.5(a)(3) of the B&P for accepting excessive down payment.
- The CDI worked with the CSLB, Sacramento County DA’s Office, and Elk Grove Police Department in the city of Elk Grove on two days. A total of 15 subjects were cited for charges including Section 7028 of the B&P for contracting without a license, Section 7027.1(a) of the B&P for illegal advertising as a contractor without a license, and Section 7159.5(a)(3) of the B&P for accepting excessive down payment.

**U.S. Department of Labor**

The charts below provide data on investigations conducted by the Wage and Hour Division in the garment and recycling industries in California for federal fiscal years 2019, 2020, and 2021. 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
2019	California	Garment	147	\$2,002,575	1,042	\$107,456
2020	California	Garment	110	\$1,540,619	689	\$36,166
2021	California	Garment	45	\$1,072,661	327	\$0

Federal Fiscal Year	State	Industry	Cases	Back Wages	Employees	Civil Money Penalties
2019	California	Recycling	47	\$363,853	157	\$1,814
2020	California	Recycling	17	\$139,578	34	\$10,461
2021	California	Recycling	3	\$6,095	1	\$0

## Collection Efforts

### License Suspensions/Holds Requested

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

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

<b>Type of Hold</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
CSLB	441	135	507
ABC	43	5	30
FLC	10	0	6

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 2019, 2020, and 2021 to avoid a license suspension or to have a suspended license unsuspended.

Calendar Year	Amounts Collected or Resolved		
	2019	2020	2021
CSLB	\$114,880	\$139,775	\$82,938
EDD	\$15,091,585	\$10,372,682	\$9,149,749
DIR-Cal/OSHA	\$3,270,360	\$1,031,736	\$267,256
DIR-DLSE	\$1,423,337	\$2,726,391	\$3,476,291
FTB	\$6,490,225	\$4,211,003	\$5,868,340
Totals	\$26,390,387	\$18,481,587	\$18,844,574

**Blatant Violator Investigation Cases:**

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

- The EDD and CSLB conducted a site inspection of a contractor operating as a corporation. The inspection was conducted at an active job-site of a home, where the business was installing a roof. The inspection team found three workers on-site performing services as laborers. The employer was registered with the EDD and had a valid contractor license. However, interviews revealed the workers on-site were not being reported as employees. The subsequent EDD audit revealed the business had been operating since 2017. The employer paid the workers in cash, did not maintain proper accounting records, and utilized multiple related entities to defraud the EDD. An elaborate scheme was used in which the business made checks out to fraudulent companies and then made arrangements to have the checks cashed at liquor stores to obtain cash to pay workers. The employer also required workers to incorporate in an attempt to avoid the requirement to issue them Form 1099. These acts demonstrated the employer’s intent to conceal payments made to the workers in order to defraud the EDD. An assessment was issued for unreported wages, penalties and interest. A fraud penalty was charged under Section 1128 of the CUIIC for intent to evade and failure to reflect all payments made to workers on Forms W-2. The employer was issued a jeopardy assessment for \$15,018,774 for unpaid payroll taxes, penalties and interest. The jeopardy assessment allows the EDD to start collection actions against the employer immediately.
- The EDD and DLSE conducted a site inspection of a restaurant serving Indian cuisine, operating as a corporation. At the time of the inspection, there were seven workers providing services as cooks, dishwashers, servers, a general manager, and

a corporate officer. The business was registered with the EDD, but the workers interviewed on-site were not reported to the EDD as employees. A second restaurant location was discovered through worker interviews. A subsequent audit revealed the corporation registered with the EDD in 2014 and reported one to 13 employees per quarter. The business reported some employees but did not report other workers who worked in the same capacity. The corporate officer acknowledged that some workers had been working continuously since 2015 but were unreported. Although the business had two bank accounts, the required business records were not maintained. The employer refused to provide the requested financial records. The employer had knowledge and awareness of the payroll tax and reporting requirements but chose not to report some workers without explanation. 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 corporation was assessed \$382,443 for unpaid payroll taxes, penalties, and interest.

- The EDD and CSLB conducted a site inspection of a landscaping and tree trimming contractor operating as a sole-proprietor. The inspection was conducted at an active job-site of a home. The inspection team found two workers on-site performing services as tree trimmers. The business did not have a valid contractor license, was not registered with EDD, and did not have a valid workers' compensation insurance policy. Worker interviews were conducted and revealed they had been working for the business for years. All the necessary tools to perform the work, including chain saws, wood chippers, and trucks were provided by the business owner. Workers were paid at the rate of \$150 to \$250 per day, every Friday in cash. The subsequent EDD audit revealed the employer had an active city business license for landscaping and tree trimming services since 2014. During the audit, the business owner stated the workers performed services as day laborers, grounds men, and tree trimmers. He also stated he did not keep track of his business income and the majority of his clients were paying him in cash. He indicated the business's income was \$12,000 to \$13,000 per month. He admitted he was paying cash to his workers and that he was not maintaining business records. 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 \$227,585 for unpaid payroll taxes, penalties, and interest.

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

- Signature Painting and Construction, Inc. (SPC) was owned by Chief Executive Officer, Brian Mitchell, and minority owner, Erik Oller. A-1 World Class Painting was a company owned by Yama Sekander. Valhalla Consulting was a consulting company owned by Oller. Beginning in 2016, Mitchell and Oller used A-1 World Class Painting and Valhalla Consulting as shell companies to pay employees at SPC in an effort to underreport payroll, misclassify employees, and avoid paying assessed risks based on their experience modification rate. These actions resulted in an estimated loss of over \$5 million to both the State Compensation Insurance Fund (SCIF) and private insurance carriers. As a result, Mitchell and Oller were

charged on August 27, 2021 by the Alameda County DA's Office with Section 11760(a) of the California Insurance Code (IC) for private carrier premium fraud, Section 11880(a) of the IC for SCIF premium fraud, Section 186.11(a)(1) of the Penal Code (PC) for a pattern of felony conduct resulting in over \$100,000 loss, Section 186.11(a)(2) of the PC for a pattern of felony conduct resulting in over \$500,000 loss, and Section 182(a)(1) of the PC for conspiracy. Additionally, Sekander was charged with Section 11760(a) of the IC for private carrier premium fraud.

- Carmen and Antonio Soruco owned Soruco Structures, a construction company. After a workers' compensation claim was filed with SCIF in 2015 for an injured worker, it was alleged Soruco Structures was misclassifying employees and underreporting payroll. Based on further investigation and auditing, it was determined that Soruco Structures underreported \$1,994,225 in payroll to SCIF. Soruco Structures also failed to report \$3,424,052 in payroll to the EDD. This underreporting resulted in an estimated premium loss of \$585,666 to SCIF and estimated underreported taxes of \$342,405 to the EDD. Carmen and Antonio Soruco were charged by the Marin County DA's Office on August 21, 2020 on various charges including premium fraud, failing to file quarterly taxes, no workers' compensation insurance, and acting as a contractor on a suspended license. On November 8, 2021 Carmen Soruco pled guilty to two felony counts of Section 11880(a) of the IC for SCIF premium fraud and one count of Section 2117.5 of the CUIIC for failure to file returns. Antonio Soruco pled guilty to one misdemeanor count of Section 7028(a) of the B&P for acting in the capacity of a contractor without a license and two misdemeanor counts of Section 3700.5 of the LC for willful failure to obtain workers' compensation coverage. Carmen Soruco was sentenced to two years of probation, 120 days in jail, and ordered to pay over \$925,000 in restitution to SCIF and EDD. Antonio Soruco was sentenced to one year of probation, 120 days in jail, and was also ordered to pay over \$925,000 in restitution to SCIF and EDD
- Carolyn Plaza, co-owner and Chief Financial Officer for Absolute Urethane, was charged on April 7, 2021 by the Fresno County DA's Office with seven felonies including Section 11880(a) of the IC for SCIF premium fraud for underreporting over \$1,600,000 in payroll to SCIF. The premium loss is over \$600,000. CDI detectives, in collaboration with SCIF, uncovered four years of underreported payroll. Plaza was charged with Section 487 of the PC for grand theft, Section 186.11(a)(1) of the PC for a pattern of felony conduct resulting in over \$100,000 loss, four counts of Section 11880(a) of the IC for SCIF premium fraud, and one count of Section 550(b)(1) of the PC for a false or misleading statement on an insurance claim.
- On February 26, 2021, the Sacramento DA's Office charged Stephen Charles, owner of Don's Tree Service, and Jon Pace, the operations manager, with insurance fraud charges under Section 11880(a) of the IC for SCIF premium fraud. Don's Tree Service had workers' compensation insurance through SCIF from 2015-2019 and failed to report over \$840,000 of payroll to SCIF, resulting in a loss of over \$279,000



in insurance premiums. In addition, they failed to provide workers' compensation coverage, claiming they were exempt after 2019. This resulted in an additional charge of Section 3700.5 of the LC for willful failure to obtain workers' compensation coverage.

- Ken Kaeser and Noelle Kaeser, doing business as Pavers Made Possible, were charged with allegations of underreporting payroll, failing to file quarterly tax returns with the EDD, and discouraging an injured worker from claiming benefits during a claim. Search warrants were served on the company's bank accounts and an audit reconciliation was completed. It was determined that Pavers Made Possible owed approximately \$267,114 in premiums to the SCIF. On April 21, 2021, the Sacramento DA's Office filed the following charges on Ken Kaeser: felony under Section 11880(a) of the IC for SCIF premium fraud; Section 1871.4(a)(4) of the IC for discouraging an injured worker from filing a claim; felony under Section 1871.4(a)(1) of the IC for false or fraudulent material statement; and felony under Section 2118.5 of the CUIIC for failure to remit Personal Income Tax. Noelle Kaeser was charged with a felony under Section 11880(a) of the IC for SCIF premium fraud.
- In December of 2017, SCIF issued Zachary Navo of Visalia, a workers' compensation policy for his business, Element Security Solution, Inc. After failing to comply with auditing requests, CDI and SCIF discovered over \$2,000,000 of underreported payroll for policy years 2018-2020, resulting in over \$180,000 of premium loss to SCIF. The Tulare County DA's Office filed felony charges of Section 11880(a) of the IC for SCIF premium fraud and Section 487 of the PC for grand theft on August 17, 2021. Zachary Navo self-surrendered on September 9, 2021.
- In July of 2017, a CDTFA investigator notified CDI of suspected fraudulent activity at the Sanamluang Café (Los Angeles) and Bangluck Market (North Hollywood), owned and operated by Viriya Chinotaikul. Tax evasion and worker's compensation premium fraud were suspected as allegations had been received that Chinotaikul was paying employees in cash and underreporting payroll to his workers' compensation policy provider. The subsequent investigation confirmed that Chinotaikul had been paying employees in cash without payroll tax deductions as well as underreporting payroll to the EDD and his insurance carrier, in order to avoid paying his required workers' compensation policy premium. The total unreported payroll amounted to \$327,093. Viriya Chinotaikul was convicted on March 2, 2021, on one count each of the following: Sections 7152(a)/7153.5 of the California Revenue and Taxation Code (R&T) for sales tax evasion; Section 487 of the PC for grand theft; Section 2118.5 of the CUIIC for failure to remit Personal Income Tax, and Section 11760(a) of the IC for private carrier premium fraud. Sentencing has been scheduled for a future date.
- Hung Truong, a machinist for Kal Machining, Inc. in Morgan Hill, filed a workers' compensation claim with his employer for an alleged injury due to a slip and fall at work. Closed-circuit television video footage revealed that his statements to doctors were not truthful. Mr. Truong also filed a UI claim with the EDD approximately two

weeks after his alleged injury. Mr. Truong stated on his UI application that he was no longer employed because he was fired/terminated and it was related to COVID-19. Since Mr. Truong was not fired or terminated, he was not entitled to the UI benefits. The Santa Clara County DA's Office filed charges on Truong consisting of one count each of Section 1871.4(a)(1) of the IC for a false or fraudulent material statement, Section 550(b)(1) of the PC for a false or misleading statement on an insurance claim, and Section 2101 of the CUIC for a willful false statement to obtain benefit on March 31, 2021.

Fictitious Employers

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

**Criminal Prosecutions**

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

The EDD's Tax Branch, ID, and local DAs leverage resources, share best practices, and work together to combat the underground economy. The ID has a specialized law enforcement unit that investigates criminal violations of the CUIC, the California Penal Code (PC), and the United States Code for federal prosecution. They conduct criminal investigations involving employer collusion in the underground economy, employer failure to register and report wages paid to employees, and collaborate on workers' compensation insurance investigations related to state payroll tax violations. The EDD works with prosecutors and local 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 Program Results

The following are the EDD's Criminal Tax Enforcement Program results for the calendar years 2019, 2020, and 2021:

Calendar Year	2019		2020		2021	
	# of Cases	Amount of Tax Liability	# of Cases	Amount of Tax Liability	# of Cases	Amount of Tax Liability
Cases Under Investigation	157	\$97,393,884	132	\$97,098,810	143	\$98,125,881

EDD Criminal Complaints Filed	28	\$2,166,406	15	\$2,799,970	13	\$377,989
EDD Criminal Prosecutions Completed	21	\$6,978,400	13	\$8,550,022	3	\$434,107

The reduction in criminal complaints and completed prosecutions can be attributed to factors relating to the COVID-19 pandemic. At the start of 2021, County Superior Courts in California began reopening and many proceedings were continued as the courts slowly began dealing with the calendar of pending cases to be heard. In addition, the reduction of field activities with partner law enforcement agencies, including execution of search warrants, severely limited the ability of EDD Investigators to obtain the documentation required for prosecution of these cases. The increase in the total number of active cases under investigation in 2021 shows the EDD ID investigators continued to conduct investigative activities to combat the underground economy, but the restrictions resulting from the pandemic prevented the actual filing of criminal complaints, which resulted in the low number of prosecutions for the year.

### Criminal Restitution Cases

When the court orders restitution to the EDD as part of the sentencing during criminal prosecutions, the EDD monitors these cases to ensure that the restitution is made. The cases are monitored by Collection Division Central Operations until the convicted party is no longer on probation. If there is a restitution balance remaining at the end of probation, the case is transferred to Collection Division Field Operations for collection action. The following table illustrates data for criminal restitution cases for the calendar years 2019, 2020, and 2021:

Calendar Year	2019	2020	2021
Restitution Cases Monitored*	120	140	175***
Beginning Restitution Accounts Receivable	\$26,043,889	\$26,724,735	\$26,420,507
Restitution Amounts Ordered	\$1,729,062	\$1,185,882	\$1,964,347
Payments Received During the Year	\$828,619	\$1,282,002	\$1,245,834
Transfers**	\$219,597	\$208,108	\$115,321
Ending Restitution Accounts Receivable	\$26,724,735	\$26,420,507	\$27,023,699

\*Inventory at the end of the calendar year.

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

\*\*\*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 the EDD's Accounting & Compliance Enterprise System (ACES), there is now a restitution case set up for each account number and they are counted separately.

## **Recommendations for Statutory Changes**

No additional legislation is required at this time.

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

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

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

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

The **DCA – Bureau of Automotive Repair (BAR)** protects consumers through licensing and regulating the automotive repair and Smog Check industry. 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 in order to obtain lower rates for workers' compensation insurance. Studies suggest that the aggressive anti-fraud campaign by the CDI, the district attorneys, the insurance industry, and California employers continue to play a substantial role in reducing crime and help lower workers' compensation insurance premiums for employers statewide.

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

## ATTACHMENT A (Continued)

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

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

The **Department of Justice's (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).

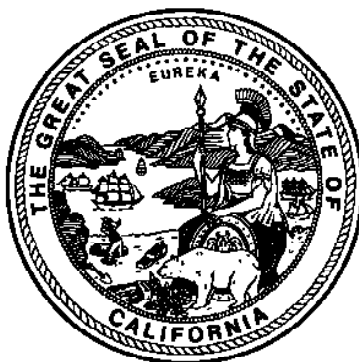
The **Internal Revenue Service's (IRS)** mission is to provide America's taxpayers quality service by helping them understand and meet their tax responsibilities and enforce the law with integrity and fairness. During federal fiscal year 2020, the IRS collected nearly \$3.5 trillion in federal taxes, 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 the 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
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
LC	(California) Labor Code
LETf	Labor Enforcement Task Force
PC	(California) Penal Code
QETP	Questionable Employment Tax Practices
R&TC	(California) Revenue and Taxation Code
SCIF	State Compensation Insurance Fund



**Gavin Newsom  
Governor  
STATE OF CALIFORNIA**

**Stewart Knox  
Secretary  
LABOR & WORKFORCE DEVELOPMENT AGENCY**

**Nancy Farias  
Director  
EMPLOYMENT DEVELOPMENT DEPARTMENT**