

## DEPARTMENT OF INDUSTRIAL RELATIONS

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Joint Legislative Budget Committee  
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Attention: Ms. Peggy Collins

## Joint Legislative Budget Committee Members:

Senator Mark Leno (Chair)	Assembly Member Shirley N. Weber (Vice Chair)
Senator Patricia C. Bates	Assembly Member Richard Bloom
Senator Jean Fuller	Assembly Member Rob Bonta
Senator Ricardo Lara	Assembly Member Rocky J. Chávez
Senator Holly J. Mitchell	Assembly Member Reginald B. Jones-Sawyer, Sr.
Senator Bill Monning	Assembly Member Melissa A. Melendez
Senator Jim Nielsen	Assembly Member Jay Obernolte
Senator Lois Wolk	Assembly Member Philip Y. Ting

Subject: Labor Enforcement Task Force Report to the Legislature

Pursuant to the Budget Act of 2012 (Assembly Bill 1464, Chapter 21, Statutes of 2012), the Department of Industrial Relations (DIR) is pleased to report to the Director of Finance and the Joint Legislative Budget Committee on the accomplishments of the Labor Enforcement Task Force (LETF) and its enforcement activities regarding labor, tax, and licensing law violators operating in the underground economy. This report covers activity from 2012, 2013, and 2014, and it is also available online at [www.dir.ca.gov](http://www.dir.ca.gov).

The LETF mission is to combat the underground economy in order to ensure safe working conditions and proper payment of wages for workers; to create an environment where legitimate businesses can thrive; and to support the collection of all California taxes, fees, and penalties due from employers. The LETF uses both data-driven and complaint-driven methods to target non-compliant employers. Investigators and compliance representatives from the Labor Commissioner's Office, Cal/OSHA, EDD, CSLB, and other partners coordinate to identify bad economic players, share information, and conduct joint enforcement. Each agency on its own does not have access to the full range of data and other information that the LETF teams can access through cooperation.

There are clear benefits to this collaborative enforcement approach. During its first three years, LETF joint inspections have found consistently high rates of non-compliance. On average, across all industries, more than 80 percent of LETF inspections have resulted in penalties for non-compliance. In addition, 40 percent

of businesses inspected by LETF have been found to be out of compliance with all inspecting partners. With a commitment to ensuring California's workers receive their fair wages, LETF assessed \$4.2 million in wages due and has since collected more than \$1.3 million to return to workers.

To tackle the multi-faceted nature of the underground economy, LETF works in partnership with other agency enforcement programs to share information and draw upon each program's respective strengths. At the direction of the Governor in 2012, DIR initiated a collaborative relationship with the Employment Development Department's Joint Enforcement Strike Force (JESF). Similarly, in 2013, Assembly Bill 576 established the Revenue Recovery and Collaborative Enforcement (RCCE) Team to fight criminal tax evasion. In his signing message, Governor Brown directed DIR to lead the RRCE to ensure that the three teams (LETF, JESF, and RRCE) work together and avoid overlapping efforts.

To this end, DIR has worked to facilitate a governance framework among participating agencies to clarify roles and responsibilities. Ongoing implementation activities include establishing a cross-referral protocol and appropriate data-sharing solutions to improve enforcement efficacy. While each remains under the guidance of their respective agencies, coordination of enforcement efforts supports enhanced communication, while leveraging administrative costs, areas of authority, and staff resources across participating agencies.

In addition, more recently, DIR has facilitated collaboration among local district attorneys' offices, roofing contractors, and labor groups to form the Roofing Compliance Working Group. This multi-agency coalition combats unsafe and unfair practices in the roofing industry, where the incidence of serious workplace injuries and fatalities is higher compared to other industries.

Increased coordination across agencies and data sharing as permitted by law will enhance overall response time, eliminate activity overlap, refine targeting, and enable performance monitoring for ongoing evaluation. The network of information and authority that California's joint enforcement efforts combine has the capacity to significantly thwart the underground economy. DIR looks forward to increased collaboration and enhanced effectiveness through the LETF and related enforcement efforts. If you have any questions, please do not hesitate to contact me.

Sincerely,

A handwritten signature in cursive script that reads "Christine Baker".

Christine Baker  
Director

Attachment

DEPARTMENT OF INDUSTRIAL RELATIONS



LETF 2015 Report  
to the California Legislature

## TABLE OF CONTENTS

<b>A. Targeting Methods – Value Added by the LETF .....</b>	<b>1</b>
<b>B. Enforcement Activity .....</b>	<b>2</b>
<b>Joint Inspection Results .....</b>	<b>3</b>
<i>Table 1 – Cal/OSHA Results .....</i>	<i>3</i>
<i>Table 2 – DLSE Results.....</i>	<i>3</i>
<i>Table 3 – EDD Results .....</i>	<i>4</i>
<i>Table 4 – CSLB Results.....</i>	<i>5</i>
<i>Table 5 – BAR Results .....</i>	<i>5</i>
<i>Table 6 – BOE Results .....</i>	<i>5</i>
<b>C. Education and Outreach.....</b>	<b>5</b>
<b>D. Partnerships .....</b>	<b>6</b>
<b>E. Recommended Changes to Statutes .....</b>	<b>6</b>
<b>F. Ongoing Objectives.....</b>	<b>6</b>

## LETF 2015 REPORT

The mission of the Labor Enforcement Task Force (LETF) is to combat the underground economy in order to ensure safe working conditions and proper payment of wages for workers, create an environment where legitimate businesses can thrive, and support the collection of all California taxes, fees, and penalties due from employers. Task force members include the following:

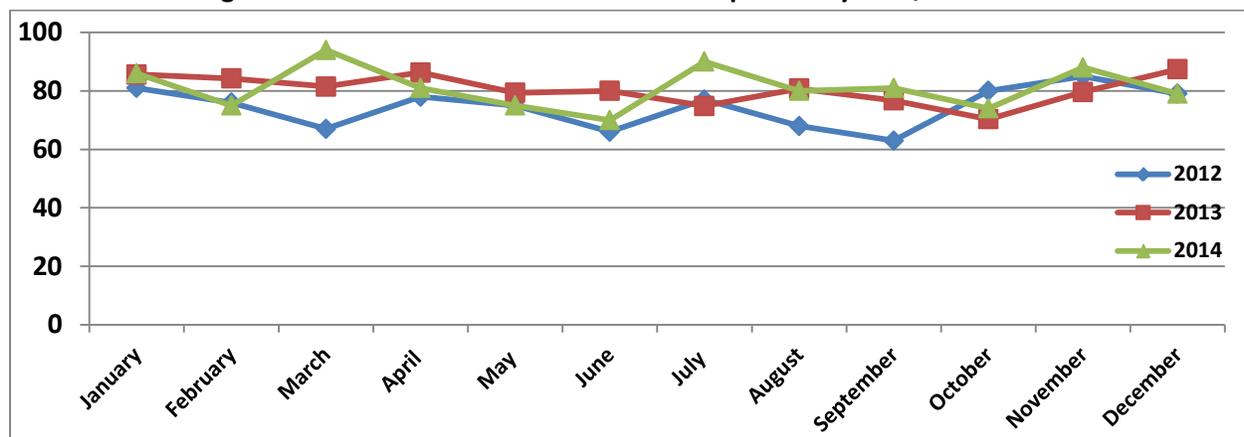
- Labor & Workforce Development Agency (LWDA)
- Department of Industrial Relations (DIR), including Division of Labor Standards Enforcement (DLSE) and Division of Occupational Safety and Health (Cal/OSHA)
- Employment Development Department (EDD)
- Contractors State Licensing Board (CSLB)
- California Department of Insurance (CDI)
- Board of Equalization (BOE)
- Bureau of Automotive Repair (BAR)
- Alcoholic Beverage Control (ABC)
- State Attorney General and district attorneys throughout California

Beginning in January 2012, DIR assumed responsibility for administering the newly formed LETF. Executive and strategic operations teams were established to plan, evaluate, and monitor the program. This report covers activities for calendar years 2012, 2013, and 2014.

### A. Targeting Methods – Value Added by the LETF

LETF is tasked with ensuring efficacy, resource maximization, and the avoidance of overlap in agency enforcement. Targeted inspections are the most effective approach to meet these central objectives. To accurately target noncompliant employers, DIR continually refines its methods, which are both data-driven (proactive) and complaint-driven (responsive). As evidence of the effectiveness of targeting efforts to date, over 40 percent of businesses inspected are found to be out of compliance with *all inspecting agencies*. Furthermore, instances of noncompliance were consistently high across results reported for all three years (see Figure 1), ranging from 63 to 94 percent and demonstrating the efficacy of joint inspections.

Figure 1: % of Businesses Found Out of Compliance by Year, 2012–2014



LETF teams include different strategic combinations of inspection staff from the member agencies listed above, depending on the industry. Each agency on its own does not have access to the full range of data and other information that the LETF teams can access collectively:

- DLSE uses wage claims data, Bureau of Field Enforcement (BOFE) data, and contacts with local district attorneys and community-based organizations.
- Cal/OSHA uses contacts with the local Agricultural Commissioner's office, the local US Department of Agriculture's office, and community-based organizations.
- EDD uses complaint data and the Automated Collection Enhancement System (ACES) database that includes multiple databases, including tax and DMV records. Their data on taxpayers are protected by federal privacy laws.
- CSLB uses complaint data, licensing data, and contacts with industry partners.

In addition, DIR receives complaints and tips submitted directly by the public to identify potential targets. The public may report through the LETF hotline, the LETF online referral form, or the LETF email address, as provided online at <http://www.dir.ca.gov/letf/letf.html>.

LETF targeting protocol involves a multi-phased process that all inspectors follow. Teams identify potential targets and conduct research to develop a business profile. Lists of potential targets are sent to EDD for screening to learn if the employer is registered with EDD and to determine how many employees the employer has reported. The Workers' Compensation Insurance Rating Bureau (WCIRB) also screens the target lists to determine if the employer is adequately insured. In addition, LETF screens business names using other agency databases to match on a variety of fields that may indicate areas of noncompliance. The results are added to the business profile and used to prepare inspectors for joint enforcement action.

Prior to the joint inspections, teams conduct physical surveillance to confirm the information obtained in the targeting process and gather additional information. Physical surveillance can include both visual examination from a distant location and on-site visiting of the premises.

## **B. Joint Enforcement Activity – Value Added by the LETF**

Working together with combined authority, LETF teams have access to a fuller range of enforcement tools than does each agency on its own:

- DLSE has the authority under Labor Code section 90 to access all places of employment. Other LETF partners do not have this full authority. DLSE may also issue stop orders requiring employers to cease illegal operations immediately.
- Cal/OSHA has the authority to issue citations for serious, willful, and repeat (SWR) violations. Cal/OSHA may also issue an order prohibiting use where a condition or practice exists that creates an imminent hazard to the safety and health of employees.
- EDD has authority under Unemployment Insurance Code section 1092 to require employers to provide records for inspection anytime during the employing unit's business hours.
- CSLB is able to suspend contractors' licenses until the penalties issued by DLSE and EDD are

paid. Penalties are far more likely to be paid promptly when the license is suspended until payment. In addition, recent legislation increases CSLB’s enforcement authority over *unlicensed* contractors. Senate Bill 315 was chaptered in September 2014 and went into effect on January 1, 2015.

Joint enforcement has two key comparative advantages for the business community. First, because LETF inspection teams comprise members from multiple agencies, one LETF inspection has less impact on business operations than multiple separate inspections by the individual agencies. Second, when several agencies working together do find egregious employer misconduct, the ensuing publicity has a deterrent effect that is much more powerful than if only a single agency were enforcing.

Tables 1–6 show enforcement results by year for all of the member agencies:

**Table 1. Cal/OSHA Results**

	<b>2012</b>	<b>2013</b>	<b>2014*</b>	<b>Total</b>
Businesses Inspected	765	946	784	2,495
% Businesses Out of Compliance	77%	78%	89%	81%
Order Prohibiting Use (OPU)	15	14	12	41
Total Number of Violations	1,916	2,674	2,541	7,131
% of Total Violations That Were Serious	16%	16%	13%	15%
% of Programmed Inspections w/SWR Violations	20%	29%	24%	25%
Initial Assessment Amounts	\$1,265,383	\$1,721,643	\$1,382,821	\$4,369,847

*\*Totals for 2014 do not reflect information for 77 inspections conducted in the 4th quarter of 2014 that are still pending citation issuance.*

**Table 2. DLSE Results**

	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>Total</b>
Business Inspected	999	1,145	714	2,858
% Businesses Out of Compliance	47%	56%	57%	53%
Number of Workers’ Compensation Insurance Violations	337	476	285	1,098
Number of Child Labor Violations	12	8	11	31
Number of Deduction Statement Violations	292	315	212	819

	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>Total</b>
Number of Minimum Wage Violations	35	44	24	103
Number of Overtime Violations	33	65	29	127
Number of Garment Violations	32	32	29	93
Number of Contractor's License (1021/1021.5) Violations	28	66	44	138
Number of Garment Registration Violations	15	30	18	63
Number of Car Wash Registration Violations	2	2	11	15
Number of Rest Period Violations	0	5	3	8
Number of Meal Period Violations	0	4	6	10
Number of Split Shift Violations	0	2	7	9
Number of Misclassification Violations	0	1	0	1
Number of Unlicensed Farm Labor Contractor (1683) Violations	0	0	1	1
Total Number of Violations	786	1,050	680	2,516
Assessment Amount	\$7,232,786	\$9,346,759	\$5,784,431	\$22,363,976

**Table 3. EDD Results**

	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>Total</b>
Businesses Inspected	1,127	1,069	823	3,019
% of Audit Referrals	45%	66%	68%	59%
Estimated Unreported Wages	\$102,348,344	\$197,129,983	\$113,554,258	\$413,032,585
Estimated Unreported Employees	2,062	3,953	2,895	8,910
Completed Audits	173	214	504	891
Payroll Tax Liability Change	\$6,756,275	\$6,414,504	\$12,473,729	\$25,644,508

**Table 4. CSLB Results**

	<b>2012*</b>	<b>2013</b>	<b>2014</b>	<b>Total</b>
Businesses Inspected	607	583	410	1,600
% Businesses Out of Compliance	44%	36%	30%	38%
Civil Penalties Assessed	\$369,950	\$438,650	\$412,000	\$1,220,600

*\*Totals for 2012 followed different methodology than totals for 2013 and 2014, which both reflect joint inspection results when CSLB partnered with at least one other LETF enforcement partner.*

**Table 5. BAR Results**

	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>Total</b>
Businesses Inspected	77	77	53	207
% Businesses Out of Compliance	57%	45%	62%	54%

**Table 6. BOE Results**

	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>Total</b>
Businesses Inspected	368	336	112	816
% Businesses Out of Compliance	43%	33%	53%	40%

### **C. Education and Outreach**

LETF is committed to increasing compliance in the underground economy through outreach and education to ensure that employers know their responsibilities and workers know their rights.

LETF initiated a statewide program in collaboration with UC Berkeley to achieve the following:

- Design and produce effective educational materials in coordination with other agencies.
- Translate educational materials into the languages commonly spoken by employers and employees.
- Inform local and regional organizations serving low-wage workers about the availability of enhanced online materials and information.
- Publicize the campaign effort and feature successful enforcement actions via television, radio, movie theater screens, posters, blogs, email news releases, and newspapers, as well as social media such as Facebook and YouTube.

In addition, DIR is improving website navigation and search engine optimization to ensure that its information and materials are easy to find online.

## **D. New Partnerships**

### **The LETF/JESF Collaborative Enforcement Partnership**

To help combat California's underground economy and protect workers' rights, the Department of Industrial Relations (DIR) and the Employment Development Department (EDD) have joined efforts through their respective enforcement programs, namely, the Labor Enforcement Task Force (LETF) and the Joint Enforcement Strike Force (JESF), to coordinate efforts and share effective strategies.

The LETF/JESF Collaborative merges best practices based on an array of experiences and innovation. The joint effort draws upon both program's respective strengths through training, refinement of targeting methods, and strategic planning. While LETF and JESF remain under the guidance of their respective agencies, enforcement coordination has afforded a streamlining of administration to leverage resources and mitigate overlap. The results include broader statewide operations, stronger communications, and knowledgeable, cross-trained staff. DIR hosted a successful three-day joint cross-training for 90 LETF and JESF investigators and supervisors. Planning is underway for a second annual joint training event in 2015.

### **The Roofing Compliance Working Group (RCWG)**

In September 2013, DIR officially launched the Roofing Compliance Working Group (RCWG) as a collaborative effort between LETF partners, local district attorneys' offices, and several roofing contractor and union groups to combat unsafe and unfair practices in the roofing industry. A dedicated hotline and email account were established to expedite reporting of observed violations. As leads are received, appropriate agency partners are identified and deployed to respond with prompt, coordinated enforcement. To date, RCWG has conducted 22 inspections citing over 60 violations in total, with nearly \$100,000 assessed in initial penalties.

## **E. Recommended Changes to Statutes**

Recommended legislation to improve the operation of the LETF is currently in development.

## **F. Objectives for 2015**

Objectives for 2015 include the following:

1. Expand outreach and education, as discussed in section C above.
2. Conduct return visits to noncompliant employers to evaluate compliance.
3. Increase geographic coverage.
4. Use data matching to prioritize incoming leads and tips.
5. Increase engagement with community partners.