Underground Economy Task Force

Employment Security Department
WASHINGTON STATE

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Underground Economy Unit

- Formed July 2006
- Supplemental funding from P&I account
- 4.4 FTEs dedicated to unregistered businesses follow up on tips and leads
  - Investigation
  - Auditing
  - Enforcement

Underground Economy Unit

- Where do we get our tips and leads?
  - DOR auditors
  - L&I auditors
  - L&I cross match
  - Phone/mail
  - District tax offices
  - Referrals from audited firms

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Underground Economy Unit

- Receive tip or lead

- Staff investigate and if the tip is valid:
  - District tax office staff audit under-reporting on existing accounts
  - UE Unit conducts audits of businesses without accounts

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FY 07 Results

All Audits

Tax $581,906
Penalties $103,172
Interest $ 68,642
Total $753,720

78 total audits

Subtotal - Construction

Tax $289,470
Penalties $ 56,715
Interest $ 42,109
Total $388,294

51 construction-industry audits

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FY 07 Results

Employers Audited by Number of Employees

Firms	Employees
76	0-49
1	50-99
1	100+

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FY 07 Results

Audit Returns

73 audits: < $16,000

 3 audits: $16,000 to $27,000

 1 audit: $50,000

 1 audit: $142,000

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FY 07 Results
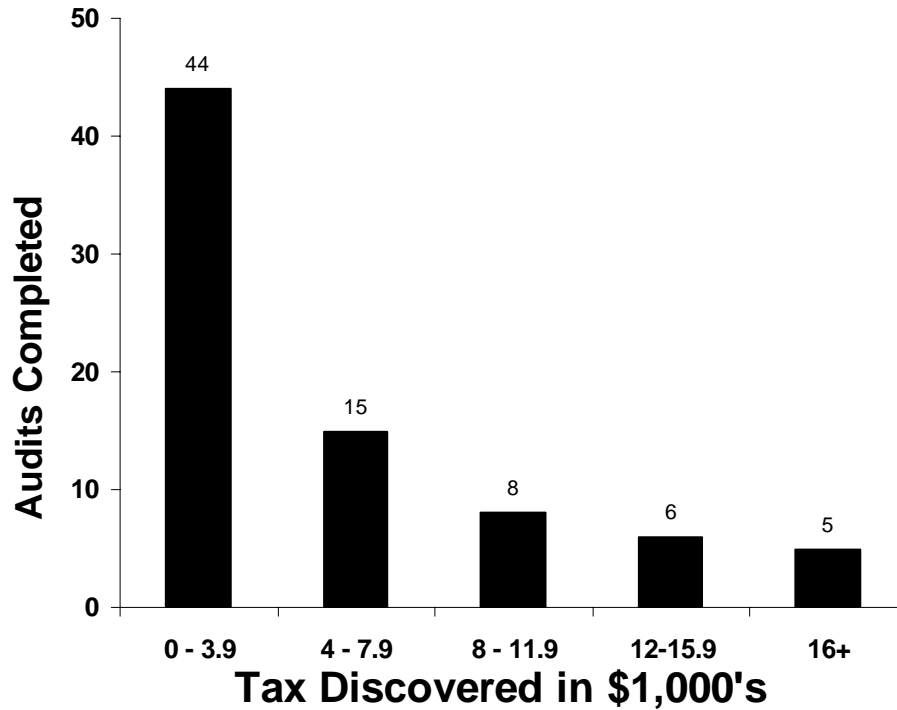
Underground Economy Unit FY 07 Results

Tips and Leads
Investigated and Resolved

Jul-06	103	Jan-07	20
Aug-06	123	Feb-07	10
Sep-06	11	Mar-07	21
Oct-06	15	Apr-07	17
Nov-06	5	May-07	11
Dec-06	14	Jun-07	29

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Partnerships with DOR and L&I

- Governor's Initiative

  Cross-Agency Referral Committee

  Cross-Agency Audit Training Committee

- Questionable Employer Tax Practices Committee, also includes participation from the IRS

- DOR Unregistered Business Project

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DOR Unregistered Business Project

DOR has provided estimates of:
- Unregistered firms
- Gross income by industry
- Number of employees
- Total wages paid

ESD will estimate unpaid UI tax by industry

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First Year Lessons Learned

- Hiring and retaining auditors is a challenge
  - ESD participating in Governor's GMAP initiative to tackle recruiting/retention issues
- Special investigative techniques require a steep learning curve
- ESD returns on construction audits are less than returns for L&I

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Initiatives for FY 2008

Information Services "data mining"

- Review off-the-shelf software

- Write in-house programs

- SQL Server – build relational links between all ESD databases

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