

# Monitoring Agency Activities Targeting Underground Economic Activity

Presented to the Joint Task Force on the Underground Economy

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# Background

- Benchmark Advisory Committee identified new activities and initiatives for which data could be collected to monitor progress and results.
- December 2008 report described baseline data available for monitoring implementation and progress of legislatively enacted policies.
- Data reflecting the first full fiscal year of implementation will be available before the 2010 legislative session.

# Policy Areas to be Monitored

Data are or will be available in the future to monitor activities associated with the following policy areas:

- Contractor registration and records
- Penalties
- Enforcement
- Education and outreach
- Data sharing and detection

# Contractor Registration and Records

- Require Department of Revenue Universal Business Identifier (UBI) on contractor registration application; and
- Allow for denials and suspensions of applications of contractors without UBIs, who are not registered, or who submit false registration information, etc.

# Contractor Registration and Records

- Require Department of Revenue Universal Business Identifier (UBI) on contractor registration application.

- ✓ UBI necessary for entry into L&I's Contractor Registration Information System since 2004.

*Exhibit 1*  
**Year-end Contractor Registrations  
With and Without UBIs**

<b>Fiscal Year<sup>1</sup></b>	<b>With UBI</b>	<b>Without UBI</b>
2004	65,701	285
2005	67,731	0
2006	70,370	0
2007	74,601	0
2008*	75,210	0

*\*Second quarter  
Source: L&I*

# Contractor Registration and Records

- Allow for denials and suspensions of applications of contractors without UBIs, who are not registered, or who submit false registration information, etc.
  - ✓ L&I is able to report the number of application denials and registration suspensions in a given year. There were none as of December 2008.
  - ✓ DOR can report tax recoveries associated with denials and suspensions reported to them by L&I.

# Penalties

- Contractors are subject to a fine of up to \$10,000 for falsifying information on an application for registration; and
- Contractors who misrepresent payroll or employee hours, operate without a certificate of L&I coverage, or have multiple contractor registration violations may be prohibited from bidding on public works contracts for one year.

# Penalties

- Contractors are subject to a fine of up to \$10,000 for falsifying information on an application for registration.
  - ✓ L&I is able to provide the number of fines assessed, collection amounts, and accompanying narratives associated with violations resulting in this penalty. No cases were initiated as of December 2008.



# Penalties

- Contractors who misrepresent payroll or employee hours, operate without a certificate of L&I coverage, or have multiple contractor registration violations may be prohibited from bidding on public works contracts for one year.
  - ✓ L&I is able to provide the number of sanctions resulting from construction audits and provide narrative accounts associated with violations. No cases were initiated as of December 2008.
  - ✓ ESD is able to provide the number of referrals to L&I (following appeal) of firms that misrepresent payroll or employee hours.

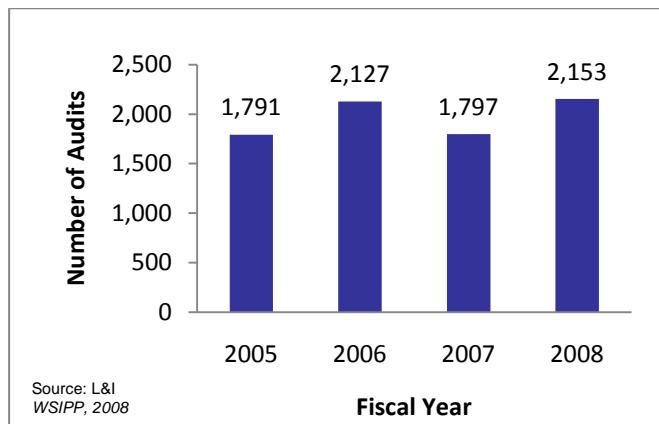
# Enforcement

- Increased L&I auditing and investigative staff.
- Ongoing efforts of the Employment Security Department Underground Economy Unit.
- Attorney general enforcement of contractor compliance cases.

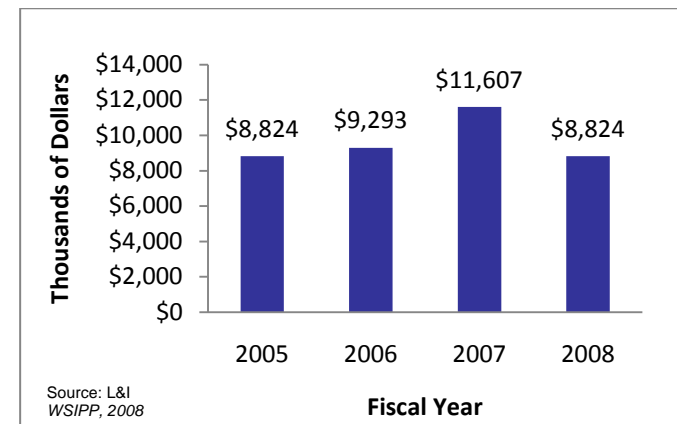
# Enforcement

- Increased L&I auditing and investigative staff.

Number of Labor and Industries Audits:  
Construction Only



Labor and Industries Audits: Construction Only  
Total Dollars Assessed (in Thousands)

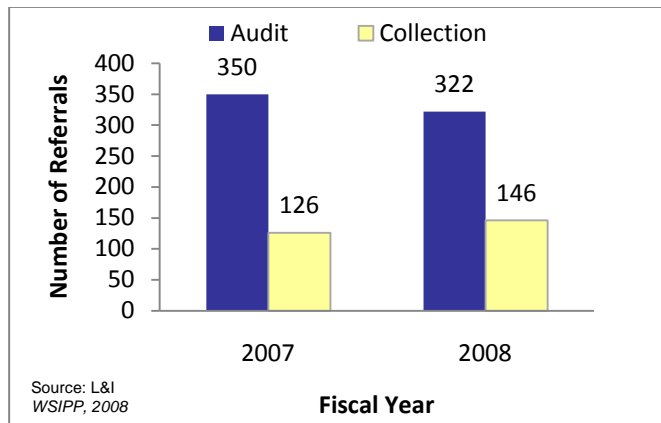


- ✓ L&I increased auditing staff from 67 to 71 in fiscal year 2009. Additional staff were not dedicated to construction industry audits.

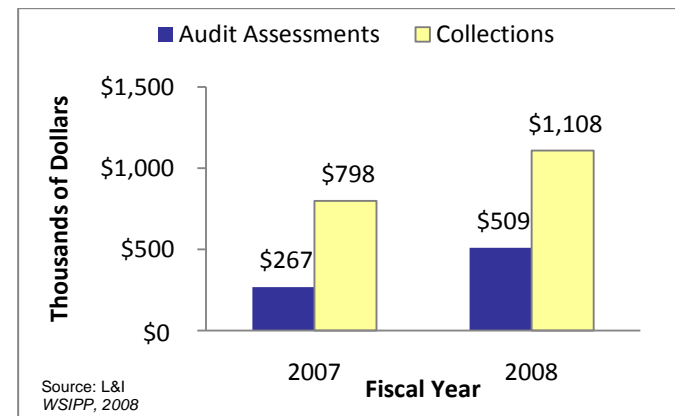
# Enforcement

- Increased L&I auditing and investigative staff.

Number of Labor and Industries FAIR Team  
Audit and Collection Referrals



Labor and Industries FAIR Team  
Audit Assessments and Collections  
(in Thousands)

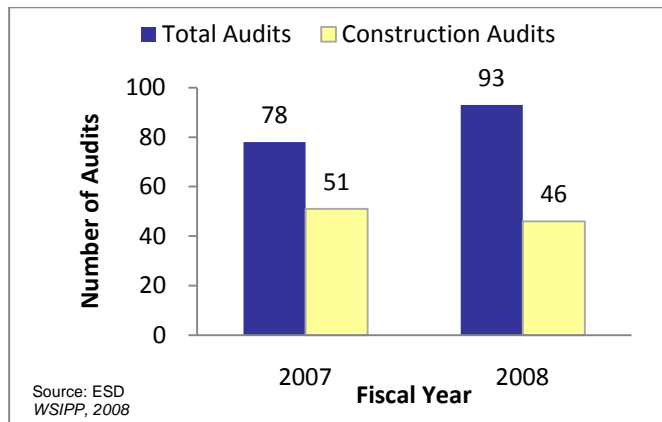


- ✓ L&I increased FAIR Team staff from three to six in fiscal year 2009. The FAIR Team focuses on unlicensed construction contractors and firms not paying workers compensation.

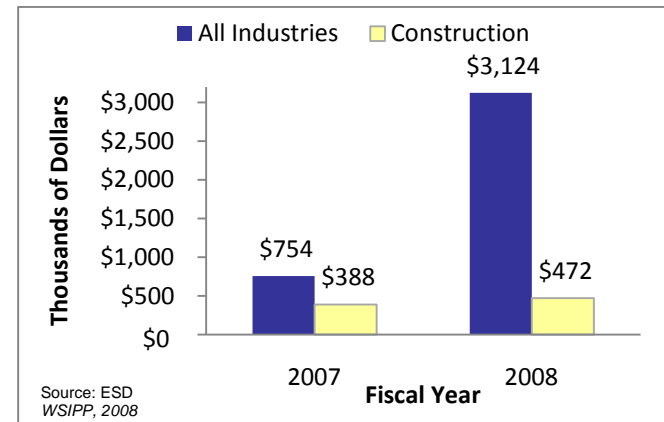
# Enforcement

- Ongoing efforts of the Employment Security Department Underground Economy Unit.

Number of Employment Security Department Underground Economy Unit Audits



Employment Security Department Underground Economy Unit: Tax Discoveries Plus Penalties and Interest (in Thousands)



- ✓ The ESD Underground Economy Unit locates businesses (not just construction) that are not registered with the department. The unit was staffed with four FTE in fiscal year 2008.

# Enforcement

- Attorney general enforcement of contractor compliance cases.
  - ✓ A prosecutor was assigned in the fall of 2008. L&I is able to report the number of cases initiated for prosecution and prosecution outcomes, and provide narrative accounts of cases brought to prosecution. By December 2008, no cases had been initiated.

# Education and Outreach

- Expanded L&I social marketing campaign.
- ✓ Updated educational materials and continues to stage contractor classes and other events such as home shows across the state. L&I media campaign began spring 2009.

**Labor and Industries Contractor Classes and Home Shows: Events, Attendance, and Contacts Made**

Calendar Year	Classes	Class Attendance	Home Shows	Event Contacts
2005	9	988	46*	18,273
2006	7	1,036	37	18,557
2007	8	1,103	35	20,746
2008**	6	989	30	21,731

*\*This figure includes special series of fraud events.*

*\*\*Partial year data.*

Source: L&I

# Data Sharing and Detection

- Ensure that agencies continue to share data for the purpose of investigating unregistered businesses and other compliance issues.

- ✓ Agencies continue to routinely share information and data.

**Cross-agency Referrals  
During Fiscal Year 2008**

<b>Referral From...To</b>	<b>Number of Referrals</b>
DOR to L&I	508
DOR to ESD	1,069
L&I to DOR	5,320
L&I to ESD	2,009
ESD to L&I*	49
ESD to DOR*	85
Total	9,040

*\*These data queries were under development during fiscal year 2008.  
Source: DOR*



# Other Monitoring Tools

- ✓ **Unregistered contractors.** L&I compiles data on construction audits, identifying the number of uncovered workers and hours worked, and dollars assessed. The agency also has the capacity to report the total number of unregistered contractors identified by investigative and audit staff.
- ✓ **Employee misclassification.** Based on targeted and other audits, ESD is able to report the percentage of audited construction firms misclassifying workers and the number of workers misclassified by these audited firms. Data reflecting audits conducted in calendar year 2009 could be available in 2010.
- ✓ **Non-compliance.** Department of Revenue bi-annual non-compliance study describes revenue losses due to non-compliance. A 2010 report will include data from audits conducted in 2008 and earlier years.