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April 18, 2022

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Subject: 2020 Report on the Effectiveness of the Unlawfully Uninsured Employer Enforcement Program
per Labor Code 90.3(d)

Pursuant to Labor Code section 90.3(d), attached please find the Department of Industrial Relations' annual
report of the Division of Labor Standards Enforcements (DLSE). This report is also available online at
www.dir.ca.gov.

Please do not hesitate to contact me, at KHagen@dir.ca.gov, or Mark Janatpour,
Deputy Labor Commissioner III, at MJanatpour@dir.ca.gov if you have any questions about this report.

Respectfully submitted,

A handwritten signature in cursive script that reads "Katrina S. Hagen".

Katrina S. Hagen

Director, DIR

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Lilia García-Brower

*California Labor Commissioner
Division of Labor Standards Enforcement*

**2020 Annual Report on the
Unlawfully Uninsured Employer Enforcement
Program in Labor Code Section 90.3(d)**

The Labor Commissioner respectfully submits this report to the Legislature.

Through the Bureau of Field Enforcement (BOFE) Unit, the Labor Commissioner is charged with enforcing laws that require employers to secure workers' compensation insurance coverage for all employees in the State of California.

Background

To ensure adequate law enforcement, Assembly Bill (AB) 749 (Chapter 6, Statutes of 2002) added Labor Code section 90.3(b). Senate Bill (SB) 869 (Chapter 662, Statutes of 2007) amended sections 62.5 and 90.3 of the Labor Code as well as section 1095 of the Unemployment Insurance Code. Labor Code section 90.3(b) states: "In order to ensure that the laws requiring employers to secure the payment of compensation are adequately enforced, the Labor Commissioner shall establish and maintain a program that systematically identifies unlawfully uninsured employers." The section also requires that the industries and employers be identified from data held by the Uninsured Employers' Benefits Trust Fund (UEBTF), the Employment Development Department (EDD), and the Workers' Compensation Insurance Rating Bureau (WCIRB). Finally, Labor Code section 90.3(c) requires that the Labor Commissioner's Office establish procedures for ensuring that (1) employers with payroll but with no record of workers' compensation insurance coverage be contacted and (2) on-site inspections be conducted of employers that cannot show any valid reason for lacking coverage.

Labor Code section 90.3 also requires the Labor Commissioner to report annually to the Legislature concerning the effectiveness of the program.¹

Program Overview

A partnership between the Labor Commissioner, the EDD, and the WCIRB enables quarterly data collection. Through a data-sharing agreement that has been refined over time, the EDD provides the Labor Commissioner with a randomly selected list of 1,250 employers that report five or more employees in the EDD database.² This list includes 500 employers selected randomly

¹ The pandemic impacted the workflow for Unlawfully Uninsured Employer program operations. Records pertaining to letters sent to employers and the relevant responses could not be located. Therefore, we are unable to report on data as required by Labor Code 90.3(d)(4).

² EDD referrals for any given quarter are received two quarters later, allowing employers to file any appropriate addendums or changes in their returns. For instance, in January 2020, the EDD provided referrals covering the third quarter of 2019.

across all industries, as well as 250 new employers. An additional 500 employers are selected randomly from two industries (250 employers each) designated for each quarter based on their high rate of participation in the underground economy. These employers are in, for example, the restaurant, car wash, construction, agriculture, automotive, janitorial, hotel/motel, medical, nail salon, and garment industries. The WCIRB then screens the list of 1,250 employers for a specific quarter for evidence of workers' compensation insurance coverage.

The Labor Commissioner mails SB 869 notification letters to all employers for whom the WCIRB finds no evidence of workers' compensation insurance coverage that would be considered for investigation. If the employer cannot provide verifiable proof of workers' compensation insurance in effect at the time of the postmark on its response letter, BOFE can initiate an investigation. During the inspection, BOFE verifies workers' compensation insurance coverage for the period corresponding to the EDD referral. If no coverage existed for an employer during that quarter or at any time during the year leading up to the inspection, then BOFE issues a citation to the employer. At the time of the inspection, BOFE may issue citations for other violations of laws pertaining to wages and work hours.

Some BOFE inspections reveal that the employer did indeed have coverage at the time of the WCIRB's screening. The Labor Commissioner's Office compiles a list of all such employers and sends it to the WCIRB.³ In response, the WCIRB explains why these employers were not appropriately recognized during the initial screening process (see Table 4). In certain cases, BOFE may be unable to ascertain whether the employer has insurance coverage. The reasons include: (1) inability to locate business; (2) the business is a residence; (3) the address provided by the EDD is not valid; and (4) employers did not appear at the scheduled Order to Appear.

The Labor Commissioner has been working to eliminate inefficiencies associated with multiple data exchanges for this program, such as sending out an investigator to an employer that had proper insurance coverage or is no longer in business. In 2016, we refined certain elements of the data exchange to improve the program's efficiency. For example, historically, inspections of employers with ten or fewer employees found that the employees were primarily corporate officers or principal members of a limited liability company (LLC), and thus coverage was not required. As a result, the Labor Commissioner now pursues further screening and investigation of employers with more than ten employees from the randomized list provided by the EDD.

In 2020, the Labor Commissioner received 5,000 randomly selected referrals from the EDD, reflecting employer information from records covering the third quarter of 2019 through the second quarter of 2020. Of the 5,000 received, we filtered employers with more than ten employees, for the third quarter of 2019 through second quarter of 2020, and forwarded 2,611 employers to the WCIRB for additional screening. The Labor Commissioner issued citations for 56 violations and assessed \$1,999,080 and collected \$448,757 in penalties for lack of insurance as well as other violations.

Summary of Unlawfully Uninsured Program Results

The results of the program's efforts for 2020 are as follows.

³ Employers were included in this list if they either provided proof of coverage when the Labor Commissioner's Office sent them a letter or were found to have had coverage at the time of inspection.

Table 1. Program Summary for 2020

Activity⁴	Number Reported
Total number of employers identified from EDD records	5,000
Total number of employers screened for matching WCIRB records of insurance coverage or self-insurance	2,611
Screened employers found to have questionable or no evidence of insurance coverage or self-insurance	613
Screened employers notified by the Labor Commissioner to provide verification of insurance coverage ⁵	201

Table 2. Results of Activities Performed in 2020 under the Unlawfully Uninsured Employer Program⁶

Number of inspections completed ⁷	17
Number of violations per Labor Code section 3722 ⁸	14
Number of violations assessed for other wage and hour penalties	42
Amount of workers' compensation penalties assessed	\$1,325,788
Amount of other wage and hour penalties assessed	\$673,292
Total penalties assessed	\$1,999,080
Amount of workers' compensation penalties collected	\$382,095
Amount of other wage and hour penalties collected	\$66,662
Total penalties collected	\$448,757
Amount of workers' compensation citations administratively dismissed ⁹	\$93,612

³ Includes activity in the third quarter of 2019 through the second quarter of 2020.

⁵ Additional screening by the Labor Commissioner against the WCIRB database and the Self Insurance Program was done before employers were notified to provide verification of coverage.

⁶ Table 2 data reflect BOFE enforcement activity in calendar year 2020 on leads developed under Labor Code section 90.3 regardless of the year or quarter in which the leads were assigned.

⁷ The number of inspections completed includes inspections of employers cited for lacking workers' compensation insurance, employers cited for other noncompliance issues, and employers not cited at all during the calendar year.

⁸ Each citation issued per Labor Code sections 3722(a) or (b) represents one employer that lacks coverage during the calendar year.

⁹ A citation may be administratively dismissed if the employer had no proof of workers' compensation insurance at the time of the inspection/citation but subsequently submitted proof of insurance that was valid for the date of inspection.

Table 3. Reasons the Labor Commissioner Did Not Cite Employers for Lack of Workers' Compensation Insurance Following Investigation¹⁰

Rationale	Number of Cases
Company was no longer in business/unable to locate business	28
Labor Commissioner verified workers' compensation insurance coverage	83
Business located outside California	3
Employers not required to have any coverage	
No employees	0
Corporate officers only	0
Self-insured	4
Total number of employers not cited for lack of workers' compensation insurance following investigation	118

Table 4 shows the reasons that employers were misidentified as having no workers' compensation coverage when initially screened by the WCIRB during the relevant periods.

Table 4. WCIRB Assessments of All Employers Misidentified as Uninsured¹¹

WCIRB Response	Number of Cases
Employers with verified coverage	
Coverage was found under another name and/or address provided by the DLSE in the follow-up lists.	22
The WCIRB received the policy after the initial screening list was given to the Labor Commissioner's Office.	8
WCIRB has not received coverage. (DLSE confirmed the existence of a policy but it has not been submitted to the WCIRB per the WCIRB records.)	33
Employers whose coverage the WCIRB still could not verify	
The WCIRB still has no records verifying coverage for employer, even though the Labor Commissioner's Office found coverage ¹¹	14
Total number of employers in follow-up list to the WCIRB	77

Summary

We are committed to refining the Unlawfully Uninsured Employer Enforcement Program to improve the results of its investigations. These referrals are included in the Labor Commissioner's concentrated enforcement efforts to enhance efficiency and effectiveness for the benefit of both employees and employers.

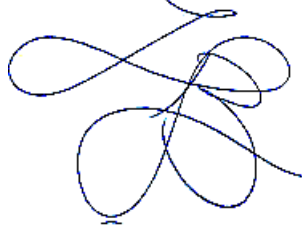
¹⁰ Table 3 covers activity in the third quarter of 2019, through the second quarter of 2020.

¹¹ Table 4 covers activity from the second quarter of 2019 through the second quarter of 2020.

¹¹ DLSE was able to find coverage in some cases but did not provide enough information to the WCIRB to verify the coverage results.

At the beginning of the COVID-19 pandemic, the Bureau of Field Enforcement (BOFE) and Public Works went into remote operation. Toward the latter part of 2020, these units resumed field operations, and were one of the few state agencies at the time to be able to conduct field investigations, but pandemic conditions contributed to delays in conducting investigations throughout the year.

Respectfully Submitted,

A handwritten signature in blue ink, consisting of several loops and a long horizontal stroke extending to the left.

Lilia García-Brower
Labor Commissioner