

Underground
Construction

JOBS For Local
Workers

State Taxes

Human Rights

Legitimate
Businesses



Underground Construction Economy

What is Underground Economy?

Lost tax revenue and insurance-fund premiums, wage theft, worker compensation fraud, accident/injury suppression, immigration threats, crimes of violence and organized crime are examples of Underground Economy. Rico and Racketeering are examples of underground economy.



Government Agencies Affected



Essentially, it's how contractors break the law. This criminal epidemic affects all industries, *but misclassification alone occurs in construction 140% more often than in other industries.* Billions of dollars are lost annually in federal and state revenue. In 2012 Washington State L&I collected \$164 million due to these crimes, with many millions more uncollected.

Violations and Red Flags

Typically a violation or series of violations is detected during a job visit or reported by a worker. Red flags are useful indicators that a documentable violation exists.

Violations:

- Non-Payment
- No Overtime
- Under Minimum Wage
- Illegal Deductions
- Accident/Injury Claim Suppression
- No Insurance Certificate
- State and Fed Tax Fraud
- Misclassification of Worker Hours
- Forced Unemployment Benefit Fraud
- Unregistered Contractor
- Minors working
- Violence or Threats of Violence
- Immigration Threats
- Human Trafficking
- Bribery, Kickbacks

Jobsite Red Flags

- Low bids
- Workers travel
- Shared housing
- Wage?
- Sssh, don't tell!



Proof

"It's not happening unless we can prove it." In an effort to increase effective collaboration with public agencies, we gather evidence to support claims that contractors are willfully cheating government and taxpayers.

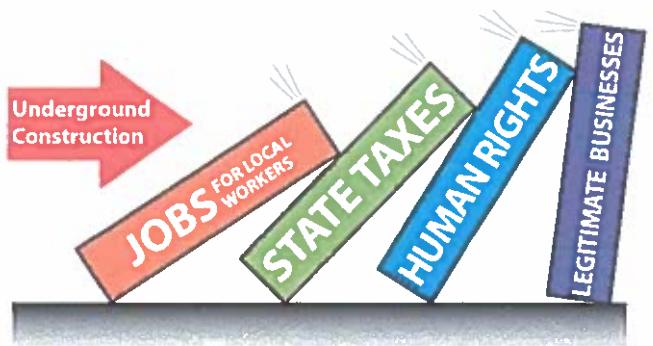
Labor Brokers and Tiered Subcontractors

Labor brokers ("coyotes") act as a middleman for contractors. They may supply labor and engage in illegal behavior such as drug dealing and organized crime. Labor brokers often demand kickbacks from workers. Labor brokers' systems range from informal to highly organized, with many subordinates implementing orders. Contractors often use labor brokers and other subcontractors to intentionally dodge responsibility for state and federal taxes as well as legal wages.



Why Demolish Underground Economy?

The Underground Construction Economy puts an enormous strain on our industry and makes it impossible for legitimate contractors to compete. **We simply must level the playing field.** Prevailing Wage bid wars are a prime example of the inability of honest contractors to compete. This viral attack on fair competition must be stopped before more legitimate businesses are forced to shut their doors.



*Wage Cheating is a crime that utilizes the workforce to lower prices

Online Reports and Articles



"I, Daniel T. Satterberg, Prosecuting Attorney for King County in the name and by the authority of the State of Washington, do accuse DATHAN LAVELL WILLIAMS of the following crimes, which are of the same or similar character, and which are based on the same conduct or a series of acts connected together or constituting parts of a common scheme or plan: Theft In The First Degree (two counts), Employer's False Reporting or Failure to Secure Payment of Compensation (two counts), Offering False Instrument For Filing Or Record, committed as follows;"



To read the full charges filed against Dathan Williams, see this link or scan the QR code:

<https://sites.google.com/site/payrollfraudresources/kc-charges-against-williams-jrw>



"...It is alleged that drywall, painting, siding and various other subcontractors are performing work on jobs that require prevailing wages be paid to workers and they are not complying with this requirement. The subcontractors are paying workers a fraction of the required pay, requiring them to work extremely long hours (17+ hours days), seven days a week, and only paying them between \$50-100 per day in cash... The subcontractors are not paying overtime and other required items, such as workers compensation, etc."



To read the full Certification for Determination of Probable Cause, which details the process of the undercover police investigation of JRW Drywall, see this link or scan the QR code:

<https://sites.google.com/site/payrollfraudresources/certification-for-determination-jrw>



I, Steven Armbruster, being first duly sworn on oath, do hereby say:

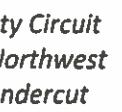
I am currently employed as a Special Agent by the Oregon Department of Justice...During my law enforcement career, I have become familiar with the methods of operations and conduct of persons who engage in financial fraud and theft and the methods by which individuals maintain records of legitimate and illegitimate financial activities as well as the methods by which persons involved in financial criminality attempt to conceal and dispose of the fruits of their conduct..."



To read the full search warrant affidavit which tells the S&S Drywall story of fraud, Rico, and Racketeering from a DOJ's insider perspective, see this link or scan the QR code:

<https://sites.google.com/site/payrollfraudresources/s-s-search-warrant-affidavit>

The owner of a Hillsboro construction company was arraigned Thursday in Washington County Circuit Court on charges of money laundering, racketeering and theft...Jimmy Matta, of the Pacific Northwest Regional Council of Carpenters, said the underground economy consists of contractors who undercut union labor by hiring workers without documentation, paying them low cash wages and not filing taxes.



To read full Oregonian article about the investigation and charges against prosecuted Oregon contractor, S&S Drywall, see this link or scan the QR code:

<https://sites.google.com/site/payrollfraudresources/s-s-oregonian-article>





Making a Clean Sweep *"In January 2011, Oregon Department of Justice...charged Steve Nagy and his company, S&S Drywall Assemblies, on 24 counts of white collar crime..."*

To read the full article by a PNWRCC representative about payroll fraud and the S&S Drywall case in Wall and Ceiling Bureau's magazine Higher Standard, see this link or scan the QR code:
<https://sites.google.com/site/payrollfraudresources/making-a-clean-sweep>



"Jose and Arturo asked their boss for the money they were owed for working the previous two months. Dan Milton reached under his jacked and removed his gun from its holster and placed it on the table in front of them. Do we still have anything to discuss?"

To read the full article by a PNWRCC representative about payroll fraud and the S&S Drywall case in Walls and Ceilings Magazine, see this link or scan the QR code:
<https://sites.google.com/site/payrollfraudresources/threat-of-the-underground-economy-article>



"Sanchez joined a union apprenticeship program in 200...now he spends his workdays attacking the same underground economy that he worked in when he first came to Oregon."

To read the full Oregon Business Magazine article about the fight against construction payroll fraud in Oregon, see this link or scan the QR code:
<https://sites.google.com/site/payrollfraudresources/oregon-business-article>



"Like almost everything in the Texas, the construction industry in the Lone Star State is big. One in every 13 workers here is employed in the state's \$54 billion-per-year construction industry. ... At the end of the week, construction workers sometimes walk away with \$4 or \$5 an hour, sometimes less, sometimes nothing."

To read the full NPR story about payroll fraud in Texas, see this link or scan the QR code:
<https://sites.google.com/site/payrollfraudresources/construction-booming-in-texas>



The Department of Labor and Industries (L&I) is committed to preventing fraud and enforcing compliance. Rooting out abuse of the workers' compensation system helps protect the economic health of Washington State. Preventing fraud protects investments and jobs.

To see the full WA State Department of L&I 2012 Annual Fraud Report describing fraud, wage theft, tax evasion, and more, see this link or scan the QR code:
<https://sites.google.com/site/payrollfraudresources/2012-wa-l-i-fraud-report>



Seattle contractor facing labor charges, false reporting

by [BRANDON MACZ](#), *Bellevue Reporter Staff Writer* Oct 22, 2013

Seattle contractor Dathan Williams is alleged in King County Superior Court to have underbid government and private construction projects by hiring undocumented workers, falsely reporting the wages he was paying and turning over those in his employ who complained about their compensation to immigration officials.

In a lengthy investigation by the Seattle Police Department, Williams is accused of raking in more than \$18,000 for a drywalling contract at the United States Postal Service's Bellevue Carrier Annex, but undercutting workers by more than \$30 per hour for the project.

The investigation into the 32-year-old JRW Structures owner was initiated by the King County Prosecutor's Office in October 2010 after receiving a complaint from a local union.

A Seattle police officer went undercover to investigate Williams's company after two local drywall unions identified JRW Structures as an offending subcontractor believed to be exploiting workers, according to court documents. The undercover officer also received construction training before being introduced to Williams by a cooperating witness who has done work with the subcontractor.

Court documents state Williams told the undercover officer he was fond of hiring undocumented workers for cheap labor and had contacted Immigration Customs Enforcement in the past when they demanded more money.

Williams employed the undercover officer for various construction jobs between June and November 2011. In that time, he is alleged to have encouraged falsifying unemployment claims, hiring undocumented workers, paying wages below federal contract and union standards and prevailing wage rates requirements. The court alleges he got away with paying such wages by making workers sign documents stating they are on contracts.

It is by these practices that prosecutors allege JRW Structures was able to submit bids lower than other competitors for contracts.

Rather than paying workers \$35.40 per hour for the Bellevue Carrier Annex project as is prevailing wage for the federal contract, court documents state Williams paid his drywall installers 23 cents per square foot and lied about it in his reports to the Postal Service.

Williams is charged with two counts of first-degree theft, two counts of false reporting or failure to secure payment of compensation and one count of offering false instrument for filing or record. His arraignment will be Thursday.

Officer goes undercover to nab suspected deadbeat contractor



10/16/13

by Brett Cihon

SEATTLE — A police officer trained for weeks to go undercover and catch a deadbeat contractor who allegedly failed to pay his employees a living wage and hired illegal employees who he reported to immigration authorities if they complained about their missing pay, Seattle police said. Dathan Lavell Williams is charged in King County Superior Court with first-degree theft, failure to pay employees and offering false filing records.

According to court documents, union representatives came to Seattle police and said some area contractors — including Williams — were undercutting legitimate business by failing to pay the



prevailing wage and forcing their employees to work overtime for little pay, even on government funded job sites. Union reps also alleged some employers threatened their employees; at times with weapons. Seattle police trained an undercover officer to infiltrate Williams' J. Structures & Interior Solutions, LLC, reportedly one of the area's worst offenders. JRW Structures specializes in installation of drywall and metal framing.

With the help of a local union, an undercover police officer trained in drywalling and the construction industry for several months. The officer then applied for a job at JRW Structures, police said, and in April 2011 was hired on by Williams after the police officer met with him at an area Taco Bell.

It wasn't long before Williams allegedly began "bragging" about his shoddy employment record, police said. At the Taco Bell meeting, Williams allegedly told the undercover officer he hired undocumented workers. He even explained how one time two illegal immigrants demanded more money, and Williams responded by calling Immigration Customs Enforcement. The two immigrants were deported. "That's what you get when you try to f*** with me," Williams allegedly told the informant. Soon, the undercover officer was working at a job site. According to the undercover officer, Williams knowingly committed a variety of violations, including:

- Bragging about falsifying unemployment claims
- Intentionally paying employers below government required wages
- Using an illegal business license
- Failing to pay taxes
- Knowingly underbidding jobs by not paying the prevailing wage to his employees, allegedly saying "you could pay them (illegal immigrants) \$2 an hour if you wanted."
- Making workers sign an illegal document acknowledging they wouldn't be paid the prevailing wage

According to court documents, Williams secured many government contracts with low bids, including work on a U.S. Post Office, a town civic center and multiple area schools. Williams has not yet been arrested.

Contractor accused of ripping off workers, threatening deportation



By KOMO Staff Published: Oct 16, 2013

SEATTLE — A Seattle man is accused of putting up actual walls — and then virtual walls — around those who tried to get him to follow the law.

Contractor Dathan Williams is accused of accepting more than \$1 million in government contracts while at the same

time illegally underpaying his workers.

Dana Botka is with Washington State Labor and Industries. Her agency and several others have spent years investigating Williams.

"The subcontractor was paying the workers a far lower wage than the required," Botka said. "It's a big deal. We do this from time to time, but most contractors know the laws, respect the laws and pay the wages owed."

Investigators say Williams ignored those laws while operating his Rainier Avenue drywall business. He worked everywhere, from private projects at the Southcenter Mall to public places, such as a Post Office in Bellevue.

Prosecutors say Williams would pay workers a fraction of what they were owed, and then report them to immigration if they complained.

"The problem in a case like this is there are laws that protect workers' wages, both prevailing wage and minimum wage," Botka said.

Investigators eventually busted Williams by placing an undercover Seattle police officer on a couple of Eastside job sites. They reportedly caught him in the act, admitting some of his wrongdoing on tape.

Williams is now free on bail, but he's due back in court later this month.

FIGHTING PAYROLL FRAUD

WHAT IS PAYROLL FRAUD?

Unscrupulous employers evade workers' comp, unemployment insurance, and basic payroll taxes by knowingly misclassifying workers as "independent contractors," paying in cash off the books, or running other scams. They cost taxpayers billions, hurt honest businesses, and exploit workers. Here's what you need to know.

IS IT CRIME, OR CONFUSION?

Illegal Profits & Bid-Rigging

These criminals know their workers meet all legal definitions as "employees." They just want illegal profits and illegally low costs that help them steal business from honest competitors.

Fraud as a Business Plan

The issue is not definitions. These people know they are cheating—they're just used to getting away with it.

No Paper Trail = More Crime

Scammers either file no payrolls at all, file falsely, or pledge to send tax forms but don't. With no records, it's easy to hide fraud and other crimes.

Rampant in Construction and Beyond

These scams are construction's "dirty secret." Even big contractors knowingly use law-breaking subs to cut bids and win work. Delivery and many other sectors suffer, too.

A Coast-to-Coast Epidemic

Payroll fraud occurs in all 50 states and Canada, on projects of every kind.

WHO SHOULD CARE?

- **Taxpayers & Communities**
- **Workers & Families**
- **Small Businesses**
- **Governments & Agencies**
- **Insurers**
- **Hospitals**
- **Law Enforcement & Prosecutors**
- **Developers & Construction Users**

WHAT IF WE DO NOTHING?

Doing nothing isn't neutral—it helps the criminals.

WHAT ARE THE REAL COSTS?

Billions in Lost Revenue

Every year, every level of government loses vast sums to payroll fraud—in state and federal taxes, Social Security and Medicare contributions, uncovered workers' comp and unemployment payouts, and more.

Taxpayers Take the Biggest Hit

Tax cheats force honest citizens to choose between higher taxes or cutting key programs like schools and public safety.

Corrupt Firms Control Construction

Fraud gives bidders up to 30 percent lower costs, so they undercut and ultimately steal markets from tax-paying, law-abiding contractors.

Honest Businesses Lose Business

Fraud forces workers' comp, UI, and health care costs higher, so all honest employers pay more—and become even less competitive.

Higher Insurance Costs

Hospitals must treat all job-based injuries, so workers' comp and medical insurers have to raise rates on honest firms to make up for uncovered workers.

Crime and Racketeering

These schemes involve carefully planned major crimes like tax evasion, mail and insurance fraud, grand theft, money laundering, conspiracy, and racketeering/RICO activity.

The Underground Economy

In many markets, construction is now an all-cash business—cash that feeds other crimes.

WHAT CAN WE DO? CAN THE EFFORT BE SELF-FUNDING?

Multi-Agency Enforcement Pays For Itself—and More

Cracking down reaps big returns—in revenue, fairness for honest employers, less pressure on health care, and respect for the law.

Improve and Enforce the Law

Use task forces... stop-work orders... per-day/per-worker fines. Give agencies support to catch cheaters and recover revenue.

Back Leaders Who Fight Fraud

Support officials and candidates who help honest businesses and who take action against those who flout the law.

Prosecute with Asset Forfeiture

Along with fines, civil forfeiture helps to settle cases and creates highly visible enforcement that literally pays for itself.

Join the Nonpartisan Crackdown

The U.S. Govt. Accountability Office, IRS, Treasury Inspector General, Dept. of Labor and many state agencies call payroll fraud a serious problem—and are taking action. The crackdown gives honest employers nothing to fear and much to be gained.

Stand up for honest employers and their employees.

Take a stand against payroll fraud.

For the latest news and resources on legislation, policy, research, task forces, and enforcement, visit

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