



Underground Economy and Employee Misclassification Task Force

2021 & 2022 Annual Report



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Introductory Letter

The Honorable Daniel J. McKee

Governor
State of Rhode Island
Providence, RI 02903

The Honorable Marvin L. Abney

Chairman
RI House Committee on Finance
Providence, RI 02903

The Honorable Louis P. DiPalma

Chairman
RI Senate Committee on Finance
Providence, RI 02903

RE: Submittal of the 2021 & 2022 Annual Reports summarizing the recent work of the Underground Economy and Employee Misclassification Task Force.

As the Director of the Department of Labor and Training (DLT) and chairman of the Underground Economy and Employee Misclassification Task Force, I am pleased to present you with the 2021 and 2022 Annual Reports.

Worker misclassification continues to be a problem in our state. A recent study from the University of Massachusetts Amherst Labor Center, which was based on DLT data, found that nearly one in ten employees in Rhode Island were misclassified between 2016 and 2020, costing taxpayers an estimated \$25 million¹. This is unacceptable. Misclassification not only harms the workers who lose out on the wages and benefits they deserve but also hurts honest business owners when their competitors are illegally cutting corners.

The Department of Labor and Training and our interagency partners are committed to preventing, uncovering, and prosecuting worker misclassification and wage theft in our state. In 2021, we investigated several major cases and worked with the Attorney General's office to bring violating employers to justice. That work continued with fidelity in 2022.

Still, the task force continues to navigate the challenges brought about due to the COVID-19 pandemic. Interagency communication and data sharing remain below optimal levels. The Employer Tax Unit shifted to conducting audits remotely in 2020, and in 2021, roughly half of all audits were performed remotely. While remote audits offer an opportunity to safely conduct the audits, obtaining the proper records electronically is often difficult.

¹ [Worker Misclassification and Wage Theft in Rhode Island | Labor Center | UMass Amherst](#)

In addition, regulatory tools remain disproportionate to the severity of the harm that wage theft and misclassification cause to Rhode Island workers and taxpayers.

The task force aims to develop and pursue 1-, 3- and 5-year goals to address these challenges. To track progress toward these goals, we plan to thoroughly review all relevant data sources and renew our commitment to timely and broad sharing of identified data elements.

Furthermore, we urge the Rhode Island General Assembly to consider increased civil and criminal penalties for wage theft and worker misclassification.

Addressing worker misclassification and wage theft remains a paramount goal for our agencies, and the efforts and accomplishments described in this report illustrate our ongoing work. We remain committed to ensuring that workers in our state are treated fairly and that businesses in our state compete on a level playing field.

Sincerely,



Matthew D. Weldon

Director

Rhode Island Department of Labor and Training

About the Task Force

The Underground Economy and Employee Misclassification Task Force was established in 2015 and is described under Rhode Island General Law §42-156.

In establishing this task force, the Rhode Island General Assembly recognized the harms of the underground economy and employee misclassification, which:

- exploit vulnerable workers and deprives them of legal benefits and protections;
- give unlawful businesses an unfair competitive advantage over lawful businesses by illegally driving down violators' taxes, wages, and other overhead costs;
- defraud the government of substantial tax revenues; and
- harm consumers who suffer at the hands of unlicensed businesses that fail to maintain minimum levels of skills and knowledge.

The task force aims to protect workers' health, safety, and benefit rights while restoring competitive equality for law-abiding businesses. This is accomplished by enhancing interagency cooperation and information sharing and conducting joint, targeted investigation and enforcement actions against violators. The task force also fosters voluntary compliance with the law by educating business owners and employees about applicable requirements.

The following state officials serve on the group task force:

- Director of the Department of Labor and Training
- Attorney General for the State of Rhode Island
- Rhode Island Tax Administrator
- Director of the Department of Business Regulation
- Assistant Director of the Workforce Regulation and Safety Division
- Commissioner of the Department of Public Safety
- Chief Judge of The Workers' Compensation Court

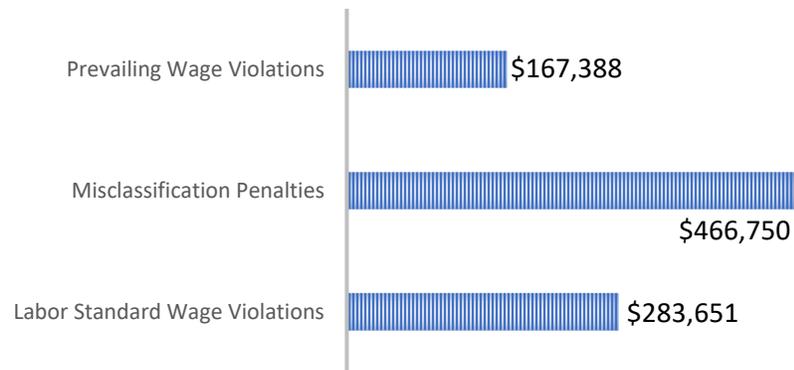
Per statute, the DLT Director serves as the task force's chair.

2021 Task Force Highlights

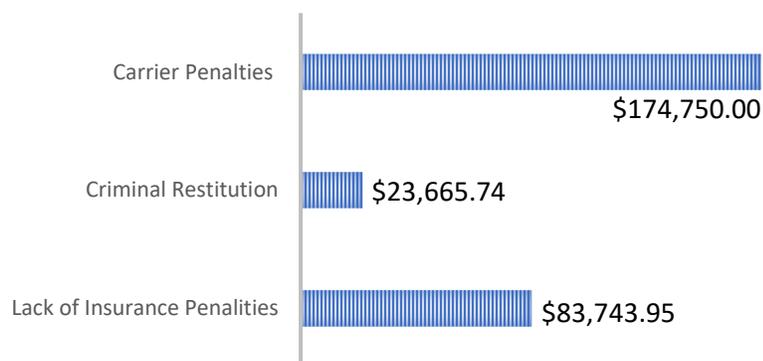
- The Employer Tax Unit conducted 505 audits in 2021, uncovering a total of 361 misclassified individuals and nearly \$5.4 million in underreported wages (\$5,419,072.40). As a result of these audits, \$212,062.86 was assessed in tax, interest, and penalties.
- Through investigations, the Labor Standards Unit uncovered \$283,651 in wage violations in 2021 and assessed \$466,750 in misclassification penalties. This unit also found \$167,388 in prevailing wage violations.
- In 2021, the Workers' Compensation Unit ordered \$83,743.95 in lack of insurance penalties and \$23,665.54 in criminal restitution. In addition, the unit collected \$174,750.00 in carrier penalties.
- In November 2020, M. Mutz Construction, Inc. entered into a settlement agreement with DLT, where they agreed that they did not pay the prevailing wage to thirteen employees on a public works construction project identified as RISE Prep Mayoral Academy. The total wages and interest owed were \$105,797, and the civil penalty was \$105,797. In addition, M. Mutz Construction, Inc. misclassified thirteen employees working on the project.
- In November 2021, Benitez Y Rojas Drywall, Empire BR Drywall, LLC, and New Generation Drywall, LLC entered into settlement agreements with DLT, where they agreed that they did not pay the prevailing wage to employees on a public works construction project identified as RISE Prep Mayoral Academy. Benitez Y Rojas Drywall agreed that they owed six employees \$28,000 in wages and agreed to a civil penalty of \$28,000. Empire BR Drywall, LLC agreed that they owed fourteen employees \$53,191 in wages and agreed to a civil penalty of \$53,191. New Generation Drywall, LLC agreed that they owed four employees \$1,500 in wages and agreed to a civil penalty of \$1,500. In addition, Empire BR Drywall, LLC entered into a settlement agreement that they misclassified fourteen employees working on the project.
- In March 2021, Franklin Analytical Services, Inc. entered into a settlement agreement with DLT, where they agreed that they did not pay the prevailing wage to six employees on a public works construction project located at the new Barrington Middle School. The total amount of wages owed was \$17,270, and the civil penalty was \$17,270. The scheme involved workers being required to work "off the books" and not receiving any wages for the work. The Rhode Island Attorney General's Office charged the two owners of Franklin Analytical Services, Inc. with several misdemeanor criminal charges as a result of their conduct regarding paying their employees on the Barrington Middle School project.

2021 Violations and Penalties Assessed

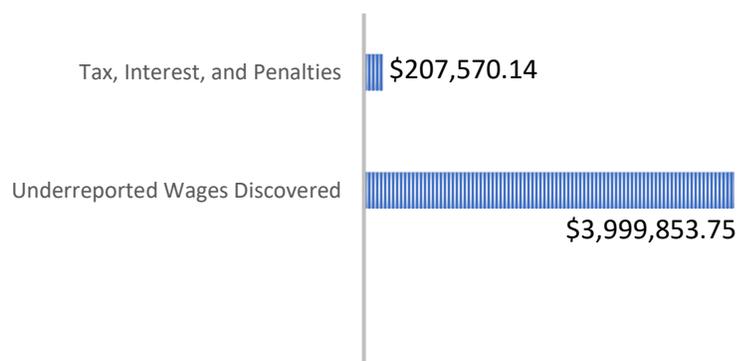
LABOR STANDARDS



WORKER'S COMPENSATION



EMPLOYER TAX

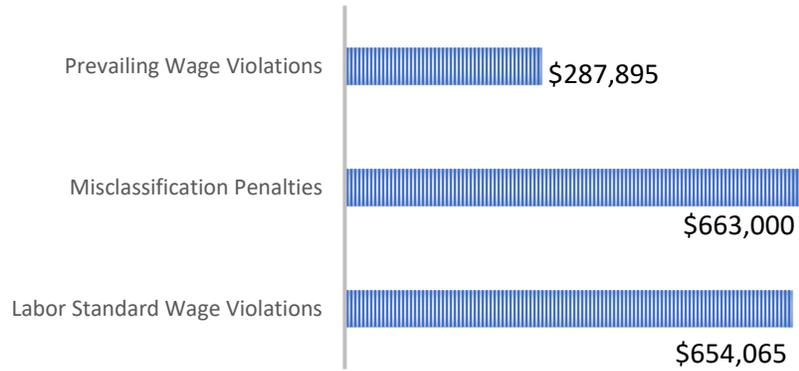


2022 Task Force Highlights

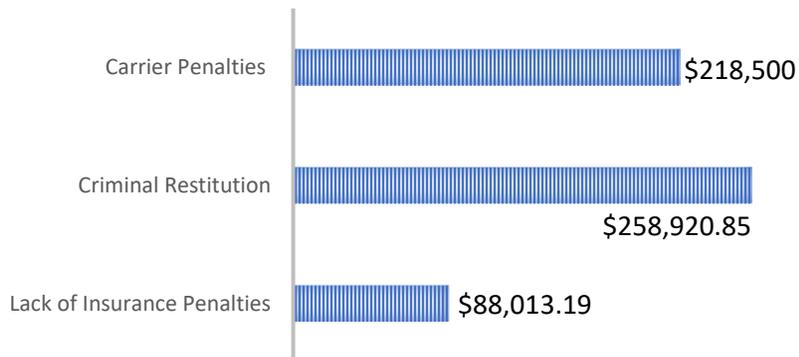
- The Employer Tax Unit conducted 598 audits in 2022, uncovering a total of 949 misclassified individuals and nearly \$10.3 million in underreported wages (\$10,321,542.26). As a result of these audits, \$339,172.97 was assessed in tax, interest, and penalties.
- Through investigations, the Labor Standards Unit uncovered \$654,065 in wage violations in 2022 and assessed \$663,000 in misclassification penalties. This unit also found \$287,895 in prevailing wage violations.
- In 2022, the Workers' Compensation Unit ordered \$88,013.19 in lack of insurance penalties and \$258,920.85 in criminal restitution. In addition, the unit collected \$218,500 in carrier penalties.
- In 2022, Evolution Group Inc, entered into a settlement agreement with DLT, where they agreed that they did not pay the prevailing wage to twenty- five employees at a construction project in Rhode Island. The total amount of wages owed was over \$43,000 with a matching penalty of \$43,000. In addition, they agreed that they misclassified all twenty - five employees with an additional \$37,500 in penalties.
- In 2022, Precision Concrete Floors Inc., entered into a settlement agreement with DLT where they agreed they misclassified eleven employees on a construction project in Rhode Island. There were \$16,500 in total penalties assessed.
- In 2022, Castaneda Dry Wall and Associates LLC, entered into a settlement agreement with DLT, where they agreed that they misclassified twenty- seven employees on a construction project in Rhode Island. There was \$40,500 in penalties assessed.
- In 2022, JCH Construction Corp, entered into a settlement agreement with DLT, where they agreed that they misclassified fourteen employees on a construction project in Rhode Island. There was \$21,000 in penalties assessed.

2022 Violations and Penalties Assessed

LABOR STANDARDS



WORKER'S COMPENSATION



EMPLOYER TAX

