



ANNUAL REPORT 2022

# FRAUD, WASTE, AND ABUSE



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LA CITY CONTROLLER



The Office of the City Controller’s Fraud, Waste, and Abuse (FWA) Unit was established to identify and stop losses of City resources and to act as a deterrent to fraud, waste, and abuse in City government. The FWA Unit holds a unique position of public trust; staff are held to high expectations for the prudent use of public resources and adhering to principles of integrity, objectivity, competence, and confidentiality.

The FWA Unit operates a multi-track fraud hotline, to receive complaints and allegations of wrongdoing that affect City resources. Staff in the FWA Unit may also conduct risk assessments, surveys, and analyze data sets for risks and trends to determine the City’s vulnerability to fraud. The FWA unit also promotes fraud prevention activities by increasing employee awareness through trainings and reviewing and proposing City regulations to strengthen fraud controls.

Although the City has funded additional positions in recent years, the FWA Unit remains understaffed relative to its overall scope of responsibilities. The City has more than 40 City departments, over 50,000 employees, and a budget of almost \$35 billion and yet there are only two funded Special Investigator positions in the FWA Unit of the Controller’s Office. The FWA Unit relies on “in-lieu” authority to fund two additional positions, for a total of four employees to staff the FWA Unit. Further, the FWA Unit ranks lowest when benchmarked against other local government offices based on the number of employees and their most recent fiscal year budget.

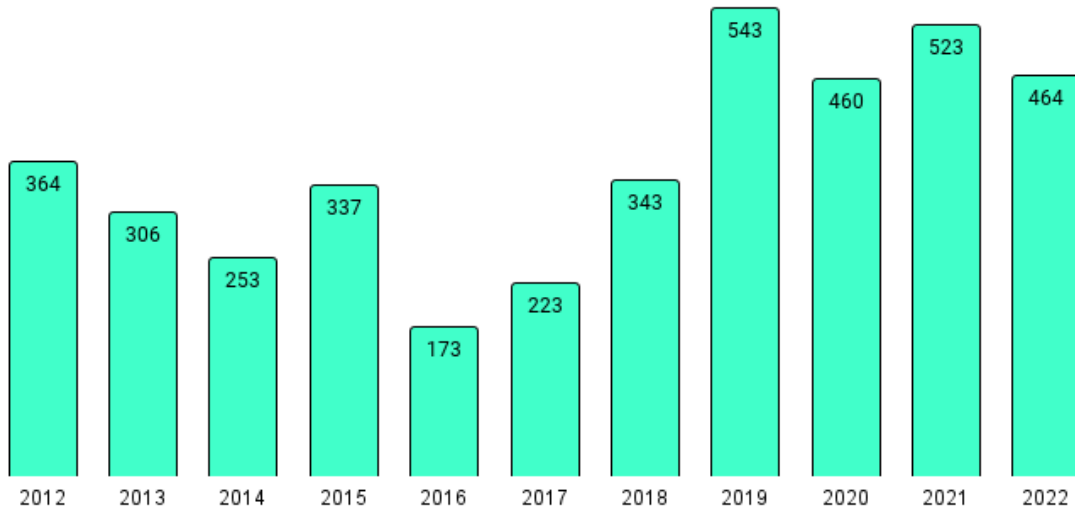
Local Government	Fraud Unit Staff Count	Total Employees Within Jurisdiction (rounded)	Fraud Unit Staff to Employees Ratio (1 staff : x thousand employees)	Total Budget (in \$x billions)	Fraud Unit Staff to Budget Ratio (1 staff : \$x billion dollars)
Office of County Investigations, Los Angeles County	26	100,000	1 : 3,800 ▲	\$44.6	1 : \$1.7 ▲
Controller Whistleblower Program, City and County of San Francisco	7	34,500	1 : 4,900 ■	\$14.0	1 : \$2.0 ■
Controller’s Fraud Unit, City of Los Angeles	4	50,000	1 : 12,000 ▼	\$35.0	1 : \$8.75 ▼

As shown in the chart below, the FWA Unit received 464 cases in 2022, a decrease of 11% from the 523 cases received in the prior year. But the long-term trends indicate a significant workload



increase—the four-year average of cases received is 498, an 85% increase compared to the preceding four-year average of 269 cases.

### Complaints Received by FWA Unit (2012–2022)



The two years with the highest recorded cases (2019 and 2021) coincided with the Citywide release of an updated training module developed by the FWA Unit, which is part of the City’s required bi-annual training curriculum. This training is a key resource for employees to help them remain knowledgeable about fraud risks and understand how to identify potential fraud, waste, and abuse in their work setting.

# 2022 CASE OUTCOMES

The City’s definitions of fraud, waste, and abuse are outlined below.

<b>FRAUD</b>	Any intentional act or omission designed to deprive the City of its resources to which the individual or person is not entitled, including but not limited to: <ul style="list-style-type: none"> <li>• making false statements or submitting false documents;</li> <li>• withholding or misrepresenting material facts;</li> <li>• bribery; or</li> <li>• unauthorized disclosure of confidential procurement documents.</li> </ul>
<b>WASTE</b>	The extravagant or excessive expenditure of City funds above and beyond the level that is reasonably required to meet the needs of the City or the consumption or use of City resources that is not knowingly authorized.
<b>ABUSE</b>	The improper use of City resources in a manner contrary to law or City policy or the improper use of one’s position for private gain or advantage for themselves or any other person where not otherwise lawful.

*Source: Los Angeles Administrative Code, Division 20; Chapter 4; Article 2; Section 20.60.4.*

The following subsections highlight key findings arising from investigations that were conducted by, or in collaboration with, the FWA Unit during 2022. We found inconsistencies in the discipline imposed for the type of offense committed, which has a broader impact on accountability and fraud deterrence. To deter the likelihood of future misconduct, it is critical that City departments administer disciplinary actions that are serious, fair, and in accordance with established policies.

## Payroll Fraud

- The FWA Unit reviewed several allegations of employees not working the hours reported on their timecard. Cases were commonly referred to the appropriate City department for investigation. We noted inconsistencies with employee disciplinary actions that resulted from the discovery of payroll time abuse, with one case resulting in the resignation of the employee and another department finding no disciplinary action was necessary. The Department of Personnel’s Guide to Disciplinary Standards specifies that the first offense of using City time without authorization should result at least in a written notice. The policy further specifies that falsifying city records, such as time reports, should result in discharge for the first offense.



- A manager was investigated for allegations involving payroll fraud, directing staff to falsify time entries, misuse of a City vehicle, and unreported outside employment. The department conducted the investigation. Based upon the findings, the department recommended the employee be fired, but the employee ultimately retired.

## **Violations or Abuse of City Policy**

- A department self-reported a potentially fraudulent \$1.5 million purchase order for computer equipment that did not match the original accounting system's purchase order. The equipment arrived at the department's receiving location but was refused after the discrepancy in the total order price and computer model numbers was identified, as required by departmental policy. The department investigated and found that an employee had improperly changed the purchase order with the vendor due to the original equipment model no longer being available and failed to follow proper procedures to request approval of the revised purchase order. The department's controls functioned properly to identify the discrepancy. Employee disciplinary action is pending.
- A hotline tip alleged that two employees were violating the City's vehicle use policy and committing time fraud by having an employee use a City vehicle to transport a manager from the train station and later dropping them off prior to the end of their actual work shift. Surveillance was conducted which confirmed the allegations. Disciplinary action is pending.
- A manager at a City department was allegedly allowing employees to inappropriately receive a pensionable \$250 per pay period certification bonus for expired POST certifications. The investigation confirmed that the staff received bonuses for expired POST certifications due to a 2019 POST certification rule update that now requires requalification every three years, which the manager was not aware of when the bonuses were reapproved. The department is in the process of informing the affected employees that they will not receive a bonus until they re-certify their certificates and they will be required to repay bonuses received during the period their POST certificates expired. To date, the department has identified at least three employees that inappropriately received a combined \$56,000 in bonus payments for expired POST certifications which will be required to be repaid.

## **Misuse of City Position**

- Department management was notified by a merchant, and in turn notified our office, that a City employee was misusing their position for personal gain. The employee was attempting to influence a commercial customer of the City to provide discounted services to the employee in exchange for the employee continuing to assist with the merchant's City customer account. The investigation found messages between the employee and the merchant and interviews were conducted which further confirmed the allegation. As a result, the employee was fired by the department.

## **Conflict of Interest**

- An employee was investigated and found to be working on unreported outside employment. The employee received disciplinary action and was reminded of City policies that require management approval for all outside employment.

## **Waste or Abuse of City Resources**

- A hotline tip alleged that Recreation and Parks has not submitted invoices to the Los Angeles Airport Peace Officers Association (LAAPOA) to request reimbursement for the periods Q1 FY2020 to Q3 FY2022 for Union Release Time under MOU 65. The investigation confirmed that the department had not submitted timely invoices to LAAPOA for reimbursement. The department coordinated with the City Administrative Officer to confirm the outstanding amount of \$11,300 and to seek assistance with submitting invoices.

## **Theft of City Resources**

- A department notified our office of an employee being placed on leave pending an investigation into theft of cash. A supervisor had noticed that an employee's point of sale (POS) transactions indicated an excessive number of payments in cash being refunded by the employee. The refunds were processed shortly after the cash payments were recorded in the POS. The investigation found the total loss from the employee's unexplained and unaccounted for cash refunds to be approximately \$1,300. The employee was terminated based on the investigation findings.

# FWA UNIT PROCESS

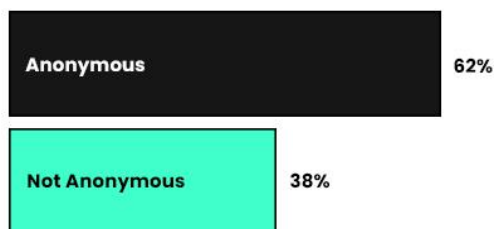
## Case Intake

The FWA Unit can receive cases from any City department, Office, or employee, as well as any member of the public. Cases are primarily received through the Controller’s Fraud Hotline through a web intake form that can be accessed at [controller.lacity.gov/fwa](http://controller.lacity.gov/fwa) or via the hotline phone number (866) 428-1514.

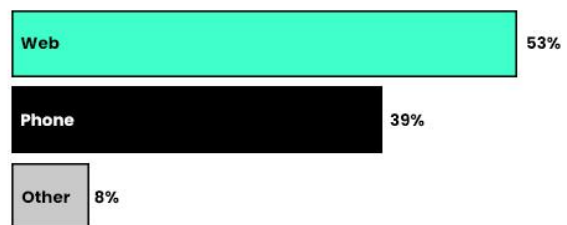
Any person submitting a complaint or allegation to the FWA Unit may do so anonymously. The City’s Ethics Ordinance protects whistleblowers who report or attempt to report possible violations of law from retaliation. Any person who believes that he or she has been subjected to whistleblower retaliation may file a confidential complaint with the City Ethics Commission, which shall investigate and take appropriate action. Information regarding the FWA Unit’s cases may not be disclosed, except as necessary to conduct investigations, facilitate referrals for appropriate action, or if required by law.

During 2022, the majority of cases received by the FWA Unit were reported anonymously. Ninety-four percent of the cases were received through the Controller’s Fraud Hotline, either through the web intake form or the toll-free phone number. A small number of cases were received via email or U.S. mail.

**Reporter Anonymity**  
Year Ended December 31, 2022



**Case Submission Method**  
Year Ended December 31, 2022



Except when prohibited by law, Los Angeles Administrative Code Section 20.60.4 requires City departments and appointed Offices to report to the Controller’s Office FWA Unit any matter involving potential fraud, waste, or abuse within ten days of discovery of information that reasonably indicates that the matter involves City resources. During 2022, we received department initiated FWA reports from Building and Safety, EWDD, Fire, Recreation and Parks, and Water and Power.



## Case Evaluation

The FWA Unit evaluates every case received. This includes a thorough review of all information submitted by the reporting party and can include FWA staff reviewing City data or other public databases and other information to thoughtfully evaluate the issues. Based on this evaluation, the FWA Unit will then determine whether the allegations:

- are outside the FWA Unit's jurisdiction and/or have no FWA impact;
- are non-FWA investigative matters that should be referred to another City department or jurisdiction for appropriate action; or
- are FWA investigative matters that require an investigation or further review to be conducted by the FWA Unit or a City department. The FWA Unit may also conduct joint investigations with other entities as appropriate.

Cases evaluated as outside the FWA Unit's jurisdiction include those that are unrelated to City operations, involve personnel-related matters, and cases for which there are no fraud, waste, or abuse issues alleged. Nevertheless, these cases may be referred to the appropriate outside agency or City department for their consideration. For example, in 2022 several cases cited personal financial fraud, city services requests, phone scammers posing as utility employees. These were referred to the applicable City department, Los Angeles Department of Water & Power (LADWP), or law enforcement, as appropriate. If the complaint is based solely on the reporter's opinion, or the reported risk has been addressed through a City policy change, the case will be closed with no further action. If the matter is the subject of pending or current litigation, the case will be referred to the Office of the City Attorney.

Cases evaluated as requiring a referral to another City department or other jurisdiction for appropriate action are non-FWA investigative matters. These are issues best suited for the department to act on, but do not warrant an investigation focused on the impact to City resources. Examples include minor employee misconduct and attendance issues.

Cases evaluated as FWA investigative matters are those that have sufficient information, as garnered through the FWA Unit's research into the allegation or documentation provided by the reporting party, which provide a reasonable basis that fraud, waste, or abuse occurred or is still occurring. The case may be assigned to a City department for investigation or be investigated by FWA Unit staff, especially when the case requires forensic review of financial records, is more complex, or may be widespread due to lax internal controls.

Over the past three years, the average annual workload for the unit is 55 cases that require investigation with the unit referring nearly 63% of cases to the City department to conduct the investigation. In many cases, it is not appropriate for a department to investigate a complaint because of a lack of independence and objectivity relative to complaints regarding department personnel. Nevertheless, the FWA Unit relies on referrals to departments to help manage the workload by referring cases instead of having a case delayed awaiting FWA Unit availability. The average caseload per FWA Unit investigator is five investigative cases at any given time while continuing to keep pace with assessment and evaluation of incoming hotline cases.

# 2022 CASE METRICS

## Case Status

The following chart summarizes caseload count for the calendar year. A total of 464 cases were received by the FWA Unit between January 1, 2022 and December 31, 2022.

Caseload Status Count During Calendar Year Ended December 31, 2022			
Beginning Caseload	Cases Received	Cases Closed	Ending Caseload
53	464	469	48

During 2022, the FWA Unit closed a total of 469 cases. A total of 16 FWA Unit investigations were completed—two were substantiated and 14 were unsubstantiated. The cases referred to City departments for investigation resulted in closed 33 cases—11 were substantiated and 22 were unsubstantiated or otherwise resolved with no further action necessary. We received 122 non-investigative cases referred to another City department for appropriate action. We received 298 cases that were determined to be outside the FWA Unit’s jurisdiction. The case closure by category is summarized below.

Cases Closed During Calendar Year Ending December 31, 2022						
Case Status	FWA Unit Investigations	Referred to Dept. for Investigation	Total Closed Investigative Matters	Non-Investigative Matters Requiring Dept. Action	Outside Jurisdiction on Non-FWA Matters	Total Closed
Closed	16	33	49	122	298	469
Substantiated	2	11	13	-	-	13
Unsubstantiated/Other	14	22	36	-	-	36

## Case Analysis by Issue Type

Violations or abuse of City policy were the leading types of issues reported among the cases closed during the year, accounting for 12 of the 49 cases that required an investigation.

Investigated Cases By Issue Type for the Cases Closed During Calendar Year Ended December 31, 2022					
Issue Type	Total	%	Issue Type	Total	%
Violations or Abuse of City Policy	12	25%	Contractor Selection Concerns	3	6%
Misuse of City Position	11	23%	Theft of City Resources	2	4%
Payroll Fraud	9	18%	Falsified Records	1	2%
Conflict of Interest	5	10%	Contractor Fraud	1	2%
Waste or Abuse of City Resources	5	10%			
			Total	49	100%

## Case Analysis by Department

The table below provides an overview of case metrics by department for cases requiring investigation or further review.

Schedule of Case Metrics by Department During Calendar Year Ended December 31, 2022				
Primary Department	Total Open Cases as of January 1, 2022	Opened Cases Requiring Investigation or Further Review	Closed Cases Investigated	Total Open Cases as of December 31, 2022
Airports	5	3	5	3
Animal Services	1	-	1	-
Building and Safety	-	6	4	2
Chief Legislative Analyst	1	-	1	-
Cultural Affairs	1	1	1	1
EWDD	-	2	1	1
Fire	1	3	1	3
Fire and Police Pensions	-	1	1	-
General Services	-	1	-	1
Harbor	-	2	-	2
Housing Department	1	1	1	1
Neighborhood Empowerment	1	-	1	-
Outside Jurisdiction	1	-	1	-
Personnel	1	-	-	1
Police	4	1	3	2



Public Works - Contract Administration	-	1	1	-
Public Works - Engineering	1	-	-	1
Public Works - Sanitation	3	2	3	2
Public Works - Street Lighting	1	-	1	-
Public Works - Street Services	3	1	3	1
Recreation and Parks	4	6	7	3
Transportation	3	5	6	2
Water and Power	21	8	7	22
<b>Total</b>	<b>53</b>	<b>44</b>	<b>49</b>	<b>48</b>

## Departmental Case Referrals Open Longer than One Year

The FWA Unit commonly refers cases to departments to conduct investigations and report back to our office on the findings. Many factors affect how long an investigation takes to complete, but cases determined to be suitable for the department to investigate are generally expected to be completed within 60-days. The timely completion of investigations helps to ensure the work is current and relevant, to prevent additional losses, and to initiate corrective action. If a department does not meet the deadline, the FWA Unit will request a case status update to understand the reason for the delay and if any assistance is needed in order to complete the investigation. A schedule of outstanding cases open longer than one year by referral date to request the department conduct the investigation is shown below.

Schedule of Cases Referred to Departments to Investigate, Open Longer than One Year	
Department	Cases
Water and Power	14
Personnel	1
Recreation and Parks	1
<b>Total</b>	<b>16</b>

The Department of Water and Power had 14 cases open longer than one year at the close of 2022. The department had been in the process of recruiting and appointing an Inspector General that would, among other duties, oversee the case referrals received from the Office of the Controller. The position was briefly filled in 2022 and the next LADWP Inspector General will likely be appointed in 2023.