



ANNUAL REPORT 2023

FRAUD, WASTE, AND ABUSE



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LA CITY CONTROLLER



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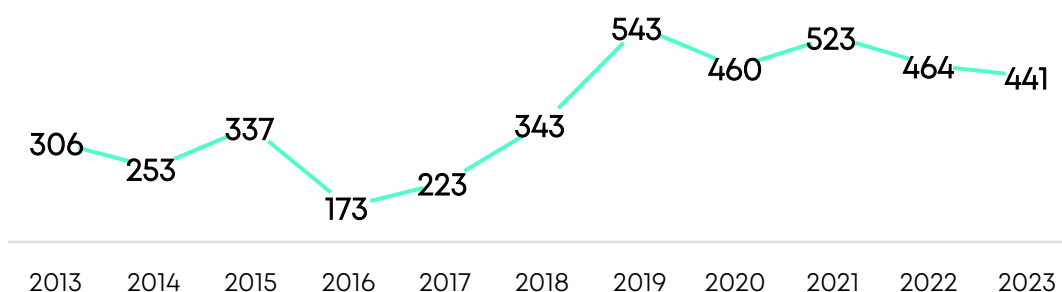
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The Office of the City Controller's Fraud, Waste, and Abuse (FWA) Unit was established to identify and stop losses of City resources and to act as a deterrent to fraud, waste, and abuse in City government. The FWA Unit holds a unique position of public 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.

As shown in the chart below, the FWA Unit received 441 cases in 2023, a decrease of 5% from the 464 cases received in the prior year. But the long-term trends indicate a significant workload increase—the five-year average of cases received is 486, an 83% increase compared to the preceding five-year average of 266 cases.

CASES RECEIVED BY FWA UNIT (2013 - 2023)



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. The 2021 version of the training was re-released in 2023 for employees to meet their required bi-annual training requirement. 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. The completion rates by departments are included in Appendix 1.

In addition to overseeing the rollout of the Citywide fraud awareness training, the FWA Unit revamped its policies and procedures related to issuing subpoenas. City Charter Sec. 217 authorizes the Controller (along with several other Officers of the City) to issue subpoenas and provides “...the power and authority to examine witnesses under oath and compel the attendance of witnesses and the production of evidence before them.” As needed, the FWA Unit is actively using subpoena authority to obtain information for investigations.

2023 CASE OUTCOMES

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

FRAUD	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">• making false statements or submitting false documents;• withholding or misrepresenting material facts;• bribery; or• unauthorized disclosure of confidential procurement documents.
WASTE	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.
ABUSE	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 2023. We found inconsistencies in the discipline imposed for the types of offenses 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

- A department self-reported that a former employee was found to be receiving City employee payroll deposits totaling over \$53,500 despite having resigned from their job six-months prior. A supervisor in charge of processing the employee’s resignation paperwork failed to do so, which enabled the overpayment to occur. The department is in the process of recovering the overpayment. The supervisor was demoted in part for their inaction that led to the overpayment.
- An employee was found to have improperly received a payroll bonus for working the night shift even after they were reassigned to the day shift. The employee entered into a repayment agreement for approximately \$2,400 for the erroneous bonus payments received since the change to the day shift. The department’s managers are working to closely monitor work schedule changes to ensure consistency with the correct shift payments.

- A supervisor noticed an employee was working a large amount of overtime before and after the employee's regular shift. The supervisor also noticed the employee claimed overtime for being at an off-site work location that was known to be closed during the time period the employee claimed they were working. Surveillance was conducted and found that the employee was falsifying overtime records to report work performed during their normal shift as if it were performed during overtime hours. The investigation identified falsified overtime pay of approximately \$1,590. The employee retired in lieu of termination.

Violations or Abuse of City Policy

- A department did not comply with the City's policy and governmental accounting when they authorized the use of departmental funds for the purchase of department branded apparel without having received appropriations for this purpose. Polo shirts and jackets were purchased for new staff using department funds for the last seven fiscal years for a combined total of \$17,500, but the department did not have authorized funding for the purchase of the uniforms. In addition, the department does not require its employees to wear uniforms and there is no language in the bargaining unit for the department requiring any uniforms. The apparel purchases were found to be unauthorized. The findings were communicated to the CAO to address with the department for appropriate corrective action.

Waste or Abuse of City Resources

- A Controller's Audit Division employee notified our unit that during their reconciliation they found a department had 112,000 gallons of alternative fuel that was missing or unaccounted for. The concern was that the fuel may have been stolen or that it came about from faulty recordkeeping or equipment. The investigation found the missing fuel was not as a result of theft, it was from faulty equipment reporting higher than actual pump readings of the amount of fuel dispensed and the incorrect unit conversion for alternative fuel was used. As a result of the findings, the department was able to file the department's State alternative fuel use tax returns for a combined \$67,000 refund.

Theft of City Resources

- A hotline tip lead to an investigation of an employee making personal purchases using City funds. The employee was found to have submitted falsified receipts of seemingly legitimate purchases to coverup nearly \$11,000 of personal purchases made using the employee's City-issued purchasing card. Original receipts were provided by the merchants which confirmed the employee submitted receipt that had been altered to change the item description to avoid detection. Purchases included home improvements including \$1,900 of artificial grass for their residence, \$3,000 of vehicle upgrades including a new exhaust and winch, and other personal items including kitchen appliances and cookware. The employee separated from City service before any action was taken, and the City was unable to seek criminal action given unrelated developments. As a result of these findings, a purchasing card audit for the department was launched.

Contractor Fraud

- A department self-reported that a grant subrecipient failed to pay a training provider an estimated \$191,000 for the amount due for training provided. The subrecipient misallocated funds by submitting expenditure reports to the department attempting to claim reimbursements for these training payments that were not actually made. The subrecipient committed to repay the training provider and has made payments of \$125,000 while continuing to reconcile any remaining amount due. The department filed a program violation report with the Department of Labor, issued a notice to correct deficiencies to the subrecipient, and initiated a program monitoring file review of the subrecipient for compliance with laws and regulations.

FWA UNIT PROCESS

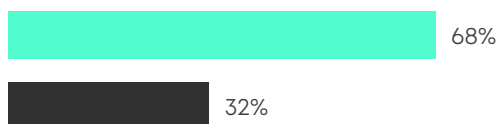
Case Intake

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 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.

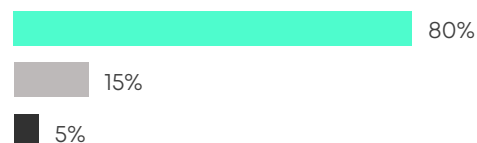
During 2023, the majority of cases received by the FWA Unit were reported anonymously. Ninety-five percent of the cases were received through the Controller's Fraud Hotline, either through the web intake form or the toll-free phone number. A small number of cases were received via email or U.S. mail.

Reporter Anonymity
Year Ended December 31, 2023



■ Anonymous ■ Not Anonymous

Case Submission Method
Year Ended December 31, 2023



■ Web ■ Phone ■ Other

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 2023, we received department initiated FWA reports from Building and Safety, 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.

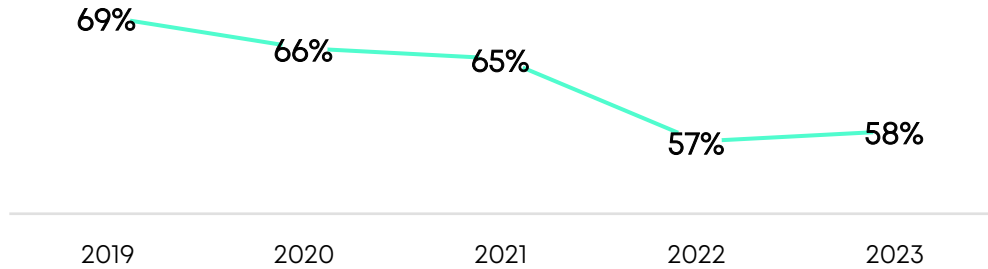
Cases evaluated as outside the FWA Unit's jurisdiction include those that are unrelated to City operations, involve personnel-related matters, and cases for which there are no fraud, waste, or abuse issues alleged. Nevertheless, these cases may be referred to the appropriate outside agency or City department for their consideration. For example, in 2023 several cases cited personal financial fraud and 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 66 cases that require investigation with the unit referring nearly 61% of cases to the City department to conduct the investigation. The referral rate to departments to conduct investigations has continued to decline over the past five years with a slight uptick in the current year.

REFERRAL RATE OF INVESTIGATIVE CASES AND REFERRED TO DEPARTMENTS



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.

2023 CASE METRICS

Case Status

The following chart summarizes caseload count for the calendar year. A total of 441 cases were received by the FWA Unit between January 1, 2023 and December 31, 2023.

Caseload Status Count During Calendar Year Ended December 31, 2023			
Beginning Caseload	Cases Received	Cases Closed	Ending Caseload
48	441	421	68

During 2023, the FWA Unit closed a total of 421 cases. A total of 18 FWA Unit investigations were completed—four were substantiated and 14 were unsubstantiated. The cases referred to City departments for investigation resulted in closure of 26 cases—9 were substantiated and 17 were unsubstantiated or otherwise resolved with no further action necessary requiring a report back. We received 132 non-investigative cases referred to another City department for appropriate action. We received 245 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, 2023						
Case Status	FWA Unit Investigations	Referred to Dept. for Investigation	Total Closed Investigative Matters	Non-Investigative Matters Requiring Dept. Action	Outside Jurisdiction Non-FWA Matters	Total Closed
Closed	18	26	44	132	245	421
Substantiated	4	9	13	-	-	13
Unsubstantiated/Other	14	17	31	-	-	31

Case Analysis by Issue Type

Payroll fraud was the leading type of issue reported among the cases closed during the year, accounting for 15 of the 44 cases that required an investigation.

Investigated Cases by Issue Type for the Cases Closed During Calendar Year Ended December 31, 2023					
Issue Type	Total	%	Issue Type	Total	%
Payroll Fraud	15	34%	Violation or Abuse of City Policy	4	9%
Waste or Abuse of City Resources	7	16%	Falsified Records	2	5%
Theft of City Resources	5	11%	Misuse of City Position	2	5%
Contractor Fraud	4	9%	Conflict of Interest	1	2%
Contractor Selection Concerns	4	9%			
Total				44	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, 2023

Primary Department	Total Open Cases as of January 1, 2023	Opened Cases Requiring Investigation or Further Review	Closed Cases Investigated	Total Open Cases as of December 31, 2023
Airports	3	5	5	3
Building and Safety	2	4	5	1
City Attorney	-	1	-	1
City Clerk	-	1	-	1
City Council	-	1	-	1
Cultural Affairs	1	-	-	1
EWDD	1	-	1	-
Emergency Management	-	1	1	-
Finance	-	1	1	-
Fire	3	7	3	7
General Services	1	3	2	2
Harbor	2	-	2	-
Housing Department	1	-	-	1
Personnel	1	-	1	-
Police	2	5	2	5
Public Works - Board of Public Works	-	2	-	2
Public Works – Engineering	1	1	1	1

Public Works – Sanitation	2	6	5	3
Public Works - Street Services	1	3	2	2
Recreation and Parks	3	7	1	9
Transportation	2	3	3	2
Water and Power	22	13	9	26
Total	48	64	44	68

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	13
Police	2
Total	15

The Department of Water and Power had 13 cases open longer than one year at the close of 2023. 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 has not been appointed.

Fraud Awareness Training 2023 Completion Rate by Department

Department	Completion Percentage
Aging	83%
Airports	76%
Animal Services	32%
Building and Safety	86%
Cannabis Regulation	96%
City Administrative Officer	92%
City Attorney	92%
City Clerk	77%
City Employees Retirement System	95%
City Ethics Commission	81%
City Planning	82%
Civil and Human Rights Commission	74%
Community Investment for Families Department	45%
Controller	91%
Council	44%
Cultural Affairs	61%
Disability	58%
Economic and Workforce Development Department	95%
El Pueblo De Los Angeles Historical Monument Authority	60%
Emergency Management	70%
Employee Relations Board	0%
Fire-Civilian	74%
Fire-Sworn	94%
General Services	49%
Harbor	89%
Los Angeles Housing Department	77%
Information Technology Agency	91%
Library	99%
Los Angeles City Tourism Department	100%
Mayor	79%
Neighborhood Empowerment	85%
Office of Finance	96%
Pension	93%
Personnel	79%
Police-Civilian	83%
Police-Sworn	86%
Public Accountability	100%
Public Works - Board of Public Works	80%
Public Works - Contract Administration	85%
Public Works - Engineering	96%
Public Works - Sanitation	51%
Public Works - Street Lighting	83%
Public Works - Street Services	85%
Recreation and Parks	48%
Transportation	9%

Water and Power	98%
Youth Development Department	39%
Zoo	80%
Total	81%