



FRAUD, WASTE, AND ABUSE

**Investigative Report:
GSD Unauthorized Prepayments
and Vendor Fraud**





ALLEGATION

The Controller's Fraud, Waste, and Abuse (FWA) Unit received a hotline tip alleging vendor fraud by Makai Solutions (Makai). The source alleged that Makai was paid approximately **\$460,972** by the General Services Department (GSD) Building Maintenance Division for the delivery and installation of two in-ground aerial lifts used for vehicle repairs, but the City never received the lifts despite multiple attempts to contact the company's owner. The FWA Unit initiated an investigation based on information provided in the hotline tip and preliminary review findings to:

- verify whether the lifts were actually delivered/installed;
- identify any gaps in internal controls; and
- determine whether GSD staff bypassed any relevant safeguards intended to prevent payments from being made before goods are delivered.

The following sections provide additional information about relevant City policies and investigative work performed by the FWA Unit.

BACKGROUND

The City Charter requires that goods and services are provided by contractors to City departments *before* payments are issued, but the Charter has a process in place for the City Controller to authorize advance payments for specified categories of goods and services (which are established by ordinance) that typically cannot be acquired without prepayment. Los Angeles Administrative Code (Admin Code) Sec. 5.47 specifies items such as:

“...software licenses; computer hardware and software maintenance; air travel and other transportation costs; hotel reservations; subscriptions for periodicals, magazines and other publications; telephone bills (other than usage charges); fees for alternate dispute

resolution; catering or food services; services performed through grants and General City Purpose agreements awarded by the City; insurance premiums; State Bar dues; and payments to the private entity under contract to manage, operate and maintain the Los Angeles Convention Center.”

The Controller’s Manual (Section J: Advance Payments) states that the Controller may approve advance payments for specified categories of goods and services authorized under Admin Code Sec. 5.47.¹ It states that advance payments should be avoided whenever possible because receipt of goods and services in the quality and quantity expected cannot be guaranteed if payment has already been made. In cases where advance payment is necessary, the following requirements apply:

- *No advance payments should be made unless the contract or agreement contains such a provision, which would clarify the terms of the advance payment and the Department’s recourse for recovery if the vendor fails to provide the goods or services.*
- *When there is no advance payment provision in the contract or agreement, the Department should document the reason for the advance payment, assess the risk of non-recovery, and work with the City Attorney to ensure the City has recourse if the vendor fails to deliver.*
- *Departments must take necessary steps to ensure goods and services paid in advance are received in a timely manner.*

INVESTIGATIVE RESULTS SUMMARY

FWA investigators **substantiated** the allegation that the City paid Makai Solutions in advance for the two lifts in order to expedite delivery due to

¹ These requirements from the Controller Manual were in place at the time of the incident.

COVID-related supply chain delays and Makai Solutions never provided the lifts to the department despite numerous follow-up attempts. Although the incident took place during a difficult period for Citywide operations, safeguards remained in place to protect the City from non-delivery of purchased items. FWA investigators found that GSD staff circumvented several internal controls in order to authorize the prepayment to the vendor.

Verbally authorized prepayment of the lifts without proper justification or compliance with the Admin Code and Controller's Manual

During interviews, FWA investigators obtained statements indicating that a former GSD Superintendent (who is no longer with the City) verbally authorized their team to make the advanced payment to Makai to purchase the two lifts when they were not aware of any policies or procedures in place allowing them to do so. FWA investigators were told that the former Superintendent authorized the prepayment because it was “chaotic at the time” due to COVID and supply chain issues, and that they wanted to get the two lifts installed as soon as possible.

Directed staff to falsify records by marking the lifts as received in the City's Financial Management System (FMS) in order to initiate the payment

FMS relies on the accuracy of the item received indicator in order to submit payment to a vendor for goods received. However, FWA investigators interviewed a Senior Accountant II with GSD who reviewed and approved the transaction in FMS, and they confirmed that the lifts were marked as received in FMS by a former Hiring Hall employee with GSD. According to the Senior Accountant II, they were not aware the lifts were being prepaid for and they would not have approved the transaction had the lifts not been marked as received.

Allowed staff to share a single FMS User ID and login credentials

FWA investigators interviewed the former Hiring Hall employee, who indicated that it is possible that they marked the lifts as received in FMS based on direction from their supervisor. However, the employee also indicated that their FMS login credentials were shared with several other employees, in violation of appropriate Information Technology policies and procedures. This made it almost impossible to ascertain the specific employee associated with the shared FMS user ID who marked the lifts as received and falsified accounting records to cause the prepayment to be issued.

In May of 2024, GSD debarred Makai Solutions from doing business with all City departments, including proprietaries, for three years after Makai Solutions failed to show up to a hearing. In addition, the contractor's failure to provide the City with the prepaid lifts and its failure to respond to a court complaint led to a default judgment (January 2025) for breach of contract. According to the default judgment, secured by the City Attorney's Office, the court ordered the vendor to pay the City compensatory damages of \$460,972, prejudgment interest of \$80,828, and court costs of \$460, for a total of \$542,260.

RECOMMENDATIONS

During the course of this investigation, GSD disseminated a memo reminding staff about advance payment restrictions and processes that must be followed to facilitate purchases in compliance with the City Charter, Admin Code, and Controller's Manual. We recommend that the department:

1. Conduct periodic reviews to ensure that GSD staff and supervisors: (1) comply with Admin Code Section 5.47 and Controller's Manual Section J when issuing advance payment for goods or services and (2) enter accurate information into FMS.
2. Provide training and counseling to purchasing staff about the importance of adhering to the City's IT policies related to username and password sharing.

In addition, during the course of our investigation, the FWA unit learned that GSD reported the allegation to the FWA Unit more than two years after it became aware that the advanced payment was inappropriately made to obtain the two lifts. We reminded GSD officials that the Admin Code (Section 20.60.4) requires City departments to report matters involving potential fraud, waste, or abuse within ten days of discovery of the information that reasonably indicates that the matter involves fraud, waste, or abuse. This requirement is intended to foster accountability, facilitate timely investigations, and prevent additional waste or loss of City resources.

GSD Response

The FWA Unit provided GSD with a draft of this investigative report and considered their feedback as the report was finalized. GSD was also provided with an opportunity to submit a formal response to the investigative report. The department agreed with both recommendations and provided target implementation dates.

Rec. #	Status	GSD Implementation Plan	Date
1	Agree	Processes are already in place to review any request for advance payment for goods at the FMS Accounts Payable process, as well as within Central Purchasing when advance payments are required with competitive bids. Periodic reminders will be sent to GSD division supervisors and employees reminding them of City policy, inclusive of advance payment for commodities, and their duties and responsibilities as Department end users. Training is also available on-demand in Cornerstone and in-person monthly to any employees who are identified as needing to be re-trained.	04/2026

		GSD is in the process of developing an additional approvals class for Citywide use reminding end users of their duties and responsibilities when approving transactions, including but not limited to advance payment request. A supervisor's meeting was held within the operation where the Advance Payment Request violation occurred.	
2	Agree	A notification was sent to all GSD employees reminding them of the City's IT policies related to username and password sharing and the importance of adopting these network security practices. The notice will include links to resources offered by ITA.	03/2026

FRAUD, WASTE, AND ABUSE UNIT

The Office of the Controller was created by the City Charter as an independent office, and is headed by the Controller: the elected auditor, paymaster, and chief accounting officer for the City of Los Angeles. The Office's Fraud, Waste, and Abuse Unit is tasked with conducting investigations to identify, stop, and deter the misuse of City resources by employees, contractors, and others.

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