



RON GALPERIN
CONTROLLER

March 27, 2019

Honorable Eric Garcetti, Mayor
Honorable Michael Feuer, City Attorney
Honorable Members of the Los Angeles City Council

Re: On the Lookout: Review of the Fraud, Waste and Abuse Unit

No municipal government is perfect, but in Los Angeles, we aim to be as transparent and efficient as possible, going above and beyond to protect taxpayers' assets and preserve government integrity. Critical to these efforts is tracking reports of fraud, waste and abuse of City resources, a core function of the Controller's office for 15 years.

Since its creation, the Controller's Fraud, Waste and Abuse (FWA) Unit has sought to identify, stop and, ultimately, prevent the misuse of City resources by employees and others. We have done this through our 24-hour telephone hotline and web-based complaint form, citywide education and training programs, and proactive investigations launched by FWA investigators.

Additionally, over the past two years, my office's FWA Unit has worked aggressively to establish better communication with departments, improved employee training materials and recovered mishandled City resources. The activity of the FWA Unit in 2017-18 is the subject of this report.

New program and training

Fraud, waste and abuse can manifest in many ways, including the theft of City assets, payroll fraud, contract bid rigging, bribes, kickbacks and gross mismanagement. If employees of a City department or appointed office become aware of any fraud, waste or abuse, it is incumbent upon them to report it to the FWA Unit and the City's Ethics Commission within 10 days of discovery.

The FWA Unit launches proactive investigations and also receives complaints by telephone and online. Complaints can be made anonymously by City employees, contractors, residents or others with essential information to share. Since 2008, the FWA Unit has fielded nearly 3,400 complaints, with an average of 300 annually, mostly through the hotline. Each complaint is evaluated thoroughly

by the Unit to determine whether or not an investigation is needed, or if the complaint should be referred to a department for review. The most frequent complaint lodged in both of the last two years was employee time theft, which occurs when an employee is paid for work they have not actually done, or for time they were not actually working during regular hours.

To ensure that complaints get reported in a proper and timely manner, the FWA Unit established a liaison program with City departments in 2017. This program puts an employee in each department in charge of reporting allegations of fraud, waste and abuse, and assisting in investigations that may arise therefrom.

The FWA Unit recently enhanced the materials used to educate and train City employees about the dangers of fraud, waste and abuse, and their reporting duties. In January 2019, my office launched an updated Fraud Awareness Training through the Personnel Department's online training portal. We plan to offer additional customized training and awareness campaigns, thoroughly evaluate departments' fiscal controls to prevent fraud, and scour City transactions to look for red flags and troubling anomalies.

Complementary to the FWA Unit's work are my office's regular audits and reviews of departments' fiscal practices. These audits play a role in deterring and identifying fraud, waste and abuse.

Getting results

In 2017-18, the FWA Unit completed 63 investigations or reviews, with 12 substantiated and two resulting in remedial action. The fruits of these investigations include:

- Aiding a City department in the recovery of \$3.5 million from a vendor the department paid for services and products it never received.
- Discovering overbilling by a City contractor and working to seek reimbursement.
- Detecting false statements on City documents by a City employee and payroll time fraud within a City department.
- Changing City department procedures that previously allowed overpayment of employee bonuses.

As stewards of the public's trust, we have a shared responsibility to address these issues no matter how big or small they may be. My office will continue to proactively address situations that could expose the City to financial and safety risks, and remains dedicated to working with other City leaders to reduce fraud, waste and abuse involving our vital public resources.

Respectfully submitted,



RON GALPERIN
L.A. Controller



On the Lookout:

Review of the Fraud, Waste and Abuse Unit



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LA CONTROLLER

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BACKGROUND

In 2004, the Office of the City Controller began tracking reported allegations of fraud, waste and abuse (FWA) of City resources, which led to a proposal to establish an independent investigative unit. In September 2005, City Council approved the proposal and formally established the FWA Unit within the City Controller's Office to screen, monitor, and investigate allegations of FWA involving City resources. In 2008, an ordinance was added to the Los Angeles Administrative Code (LAAC) setting forth the powers and duties of the FWA Unit.

The objective of the Unit is to identify, stop, and deter FWA involving City resources. To help support the integrity of City operations, the Unit receives, analyzes, investigates, and reports on allegations of FWA that impact City resources. Examples can include theft of City assets, payroll fraud, contract bid rigging, bribes, kickbacks, and gross mismanagement.

Except as prohibited by applicable law, LAAC Section 20.60.4 requires City departments and appointed Offices to report to the Controller's FWA Unit matters involving potential FWA within ten days of discovery of information that reasonably indicates that the matter involves FWA of City resources. City departments and appointed Offices are also required to concurrently report the matter to the Ethics Commission. The LAAC provides the following definitions for fraud, waste and abuse:

City's Definitions of FWA	
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 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.

The FWA Unit may receive complaints from any City department, Office, or employee, as well as any member of the public through a telephonic and web-based hotline.¹ Any person submitting a complaint or allegation to the FWA Unit may do so anonymously.²

In 2017, the Controller's FWA Unit established a liaison program, whereby each City department designated a departmental employee who is responsible for reporting to the FWA Unit any allegations of fraud, waste and abuse arising in their department, and to coordinate the completion of complaint investigations referred by the FWA Unit.

Specific information regarding Unit investigations may not be disclosed except as necessary to conduct the investigations, carry out referrals for appropriate action, or as required by law.

Complaint Evaluation Process

The FWA Unit completes an evaluation of every complaint received. The evaluation includes a thorough review of all information submitted by the complainant and can include a review of City or other public databases and other information to thoughtfully evaluate the allegations. After completing the evaluation, the FWA Unit will determine whether the complaint allegations require: 1) no further action; 2) referral to a City Department or other jurisdiction for review and appropriate action, or 3) investigation or review.

A complaint may be closed with no further action if the allegations do not involve City resources, if they lack sufficient information to complete an investigation, or if they appear opinion based. A complaint may also be closed with no further action if the risk reported has been addressed through a City policy change, or if it is the subject of ongoing litigation.

The FWA Unit will refer a complaint about the review and appropriate action if it appears to involve a risk management or customer service concern that does not warrant an investigation or that is not necessarily FWA.³

If the FWA Unit determines an investigation or additional review is required, it will also evaluate whether another City department should complete the investigation or whether it will be retained by the FWA Unit to investigate.⁴ The Unit may also conduct joint investigations with other entities as appropriate.

¹ (866) 428-1514 or http://www.lacontroller.org/fraud_hotline

² The City's Ethics Ordinance protects whistleblowers who report or attempt to report possible violations of law from retaliation. The City's Ethics Ordinance and California State law prohibits retaliation against whistleblowers. The Ethics Ordinance further specifies that no officer or employee of the City shall use, or threaten to use, any official authority or influence to effect any action as a reprisal against a City officer or employee who reports FWA. 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.

³ At times, the FWA Unit receives complaints involving an outside agency. Depending on the allegations involved, these types of complaints can be referred to another outside agency for review and appropriate action.

⁴ Depending on the complaint's allegations, the FWA Unit may also request a City department to provide an official response to the allegations.

KEY FRAUD, WASTE AND ABUSE INVESTIGATION OUTCOMES

The following highlights several key outcomes in 2017 and 2018 for fraud, waste and abuse related reviews and investigations conducted by or in collaboration with the FWA Unit:

- **Fraudulent billing scheme:** A City Department recovered nearly \$3.5 million in funds that had been paid to an Information Technology commodity contract for services and products not received. Several employees resigned after the Department's investigation. Following the Department's investigation, the Controller's FWA Unit completed a Special Review of citywide controls that offers recommendations for preventing and detecting similar frauds from occurring in the future. This Special Review will be issued in the near future. Both the Office of the City Attorney and the Los Angeles County District Attorney are completing their respective investigations into this matter.
- **False statements and City documents:** An investigation found an employee made false statements and generated false information in City documents which resulted in the employee's resignation.
- **Contractor overbilling:** An investigative review found improper cost allocations, timesheet, and payment processing procedures. The review recommended an internal audit be conducted to estimate the overpayments and seek reimbursement from the contractor.
- **Fire code violations:** A hotline tip prompted a Fire Department inspection of a City facility that identified multiple fire code violations. The Fire Department's prompt inspection resulted in a notice to correct to the City Department operating the facility.
- **Overpayments of professional employee bonuses:** A control review prompted by a hotline tip found at least three employees were paid professional employee bonuses due to poor monitoring of continued employee eligibility, and poorly written terms in the memorandum of understanding between the City and the labor unit representing the affected employees. The City Department has since enhanced its monitoring procedures and noted that it would clarify language within the related memorandum of understanding during upcoming labor negotiations.
- **Payroll time fraud:** Several tips were referred to a City Department for investigation which resulted in the resignation of several employees.
- **Unpermitted vendor:** A Department investigation initiated from an anonymous tip discovered a vendor engaging in business activity on City property without the proper permits. The vendor was cited and required to correct the violations.

KEY FISCAL COMPLIANCE REVIEW OUTCOMES

In addition to the City Controller's FWA Unit activity, the Audit Services Division performs a variety of audits and reviews designed to strengthen City departments' fiscal controls. These projects also play a role in preventing, identifying and deterring FWA. The following highlights several key outcomes from audits or fiscal reviews issued by the City Controller's Office in 2017 and 2018:

- **Contractor selection and monitoring:** In January 2017, a review identified opportunities for Economic and Workforce Development Department (EWDD) to enhance its selection and monitoring practices over WorkSource Center (WSC) service providers. The review was initiated after executives associated with a WSC service provider that contracted with the City plead guilty to criminal felony charges including conspiracy, embezzlement, and misappropriation of public funds committed while under contract.
- **Cash handling and overtime approval controls:** In January 2017, a review recommended enhancements to the Department of Recreation and Park's cash handling and overtime approval procedures.
- **Commuter option benefits administration and handling procedures:** In January 2017, a review recommended enhancements to the Personnel Department's internal controls surrounding the collections for commute options and parking, tracking of parking permits, verifications of mileage reimbursement, and pre-authorization of overtime.
- **Use of petty cash and payroll approval procedures:** In February 2017, a review recommended enhancements to the Department on Disability's overtime and sign language processing controls.
- **Petty cash policies and payroll approval procedures:** In August 2017, a review recommended enhancements to the Office of the City Clerk's overtime pay, acting bonus pay, and petty cash controls.
- **Mileage reimbursement policies and procedures:** In September 2017, a review recommended enhancements to the Department of Public Works, Bureau of Contract Administration's internal controls overtime and mileage reimbursements.
- **Reimbursement procedures, payroll processing, and petty cash fund:** In January 2018, a review recommended enhancements to the General Services Department's controls over overtime approval, bonus pay, petty cash and bank account policies of accounts not Controlled by Office of Finance, which included recommending a clear description of allowable expenditures and reimbursements for the building management funds, which are paid through a City contractor.

- **Check and bank account handling procedures:** In April 2018, a review recommended enhancements to the Police Department's (LAPD) oversight and provided more guidance for LAPD's external bank accounts not controlled by the Office of Finance. These included improvements to the bank account policies and controls over fund withdrawal and deposit procedures.
- **Ambiguities in revenue retention contract terms at the LA Zoo:** In April 2018, a review of the governance arrangement between the Zoo and the Greater Los Angeles Zoo Association (GLAZA) identified opportunities to streamline and clarify questionable and ambiguously written contract terms addressing GLAZA's retention of shared membership and concession revenue.
- **Purchasing card and routinely procured items:** In June 2018 and July 2018, two reviews recommended enhancements to the Purchase Card controls at the Department of Recreation and Parks, and the General Services Department, which also recommended greater preventative and detective oversight for out of policy transactions.
- **Procedures for outstanding parking citation bail refund checks:** In August 2018, a review recommended the Department of Transportation adopt a more proactive approach to clearing thousands of outstanding checks.

FRAUD, WASTE AND ABUSE TRAINING

In 2018, the FWA Unit enhanced the City's Fraud Awareness Training. The training was deployed through the Personnel Department's On-Line Training Portal to all City departments and Offices in January 2019. The Los Angeles Administrative Code requires all full-time City employees to participate in this training when they first join the workforce and every two years after that.

The training familiarizes employees with the basic elements of fraud, waste and abuse, and available methods for making reports to the City Controller's hotline. More than 12,000 City employees have completed the training thus far during FY2018-19. This number is expected to double as the deadline for taking the training approaches.



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Our Commitment

City of Los Angeles is an organization with strong values of responsibility and integrity. Our Code of Conduct contains general guidelines for conducting business with the highest standards of ethics.

City of Los Angeles is committed to an environment where open, honest communications are the expectation, not the exception. We want you to feel comfortable in approaching your supervisor or management in instances where you believe violations of policies or standards have occurred.

In situations where you prefer to place an anonymous report in confidence, you are encouraged to use this hotline, hosted by a third party hotline provider, EthicsPoint. You are encouraged to submit reports relating to violations stated in our Code of Conduct, as well as asking for guidance related to policies and procedure and providing positive suggestions and stories.

The information you provide will be sent to us by EthicsPoint on a totally confidential and anonymous basis if you should choose. You have our guarantee that your comments will be heard.

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Do not use this site to report events presenting an immediate threat to life or property. Reports submitted through this service may not receive an immediate response. If you require emergency assistance, please contact your local authorities.

Follow-up on a Report

FAQs

To Make a Report

- Online**

Select the city in which the violation took place.

Los Angeles

Select the location where the violation took place.

- Select -
- OR**
- Direct Dial**

From an outside line dial direct for your location:

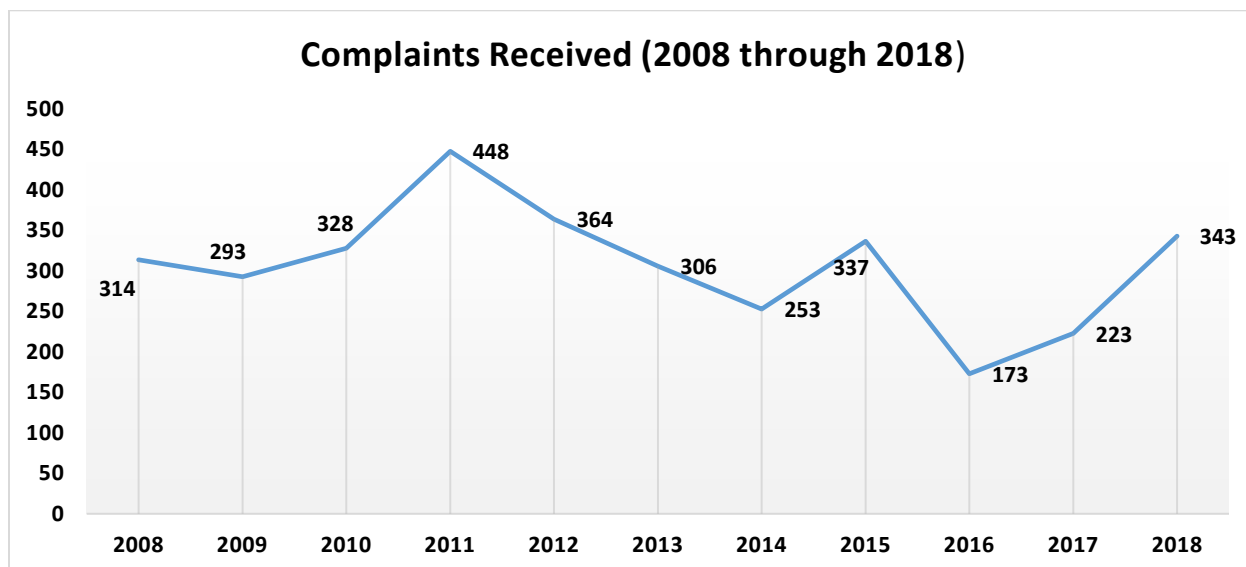
United States 1-866-428-1514

After you complete your report you will be assigned a unique code called a "report key." Write down your report key and password and keep them in a safe place. After 5-6 business days, use your report key and password to check your report for feedback or questions.

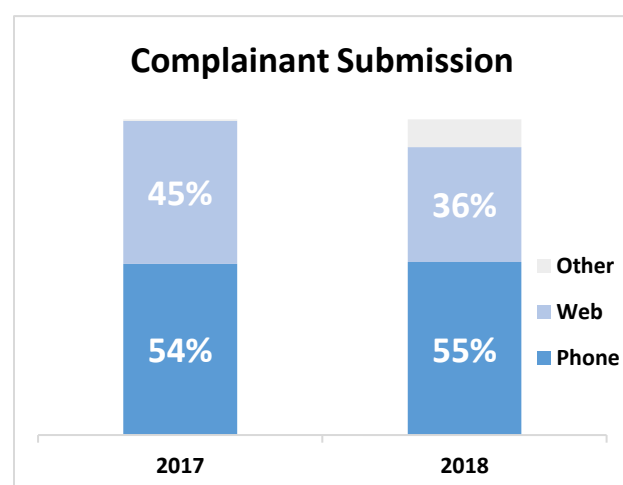
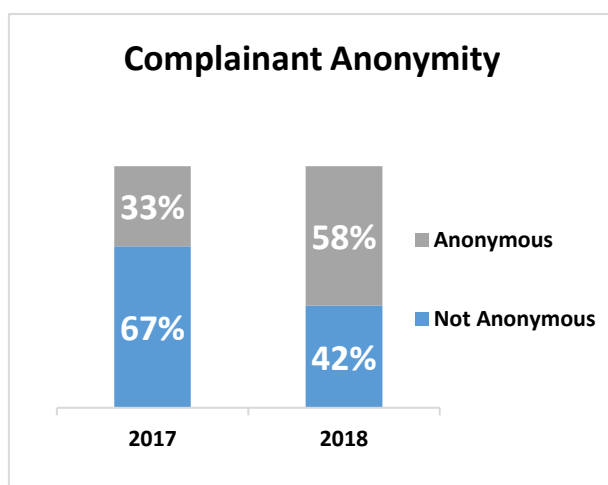
Screen shot of the City Controller's fraud, waste and abuse hotline greeting page at the point at which a reporter would begin to make a report through the web.
Link to the page can be accessed at http://www.lacontroller.org/fraud_hotline

FWA UNIT ACTIVITY

Since 2008, the FWA Unit has received 3,382 complaints, with an average of 307 received annually.



For 2017 and 2018, most complaints received came from phone calls or web intake, made directly to the City Controller's 24-hour hotline.⁵ A small number of additional complaints were received via email, U.S. mail, or in-person.



⁵ The City Controller Fraud Waste and Abuse hotline offers translation services for more than 200 languages.

The FWA Unit's evaluation of the 566 complaints received in 2017 and 2018 determined that approximately half (281) did not merit any further action. FWA referred 152 (27%) complaints to other City departments or agencies for review and appropriate action, while 132 (23%) complaints were determined to require an investigation or additional review. Of the 132 complaints identified for investigation or additional review, 63 (48%) were closed as of January 31, 2019.

2017 and 2018 Complaints Received – FWA Evaluation Category						
Evaluation Category	2017	%	2018	%	Total	%
Ongoing Evaluation	0	0%	1	0%	1	0%
No Further Action	149	67%	132	38%	281	50%
Referred For Appropriate Action ⁶	30	13%	122	36%	152	27%
Investigation or Review	44	20%	88	26%	132	23%
Total	223	100%	343	100%	566	100%

2017 and 2018 Complaints Requiring Investigation or Review – Status Per FWA Unit Database						
Status as of 1/31/19	2017	%	2018	%	Total	%
Open Investigation or Review	21	48%	48	55%	69	52%
Closed Investigation or Review	23	52%	40	45%	63	48%
Total	44	100%	88	100%	132	100%

⁶ Includes referrals to the Ethics Commission that may result in investigation. Ethics Commission investigations are conducted in a confidential manner as prescribed by the City Charter. Ethics Commission investigations become public only when the Commission investigation results in finding of probable cause.

During 2018, the FWA Unit referred 122 complaints about investigation or additional review, while an additional ten complaints were retained by the FWA Unit for its investigation or review.⁷ Of the ten complaints that the FWA Unit retained for investigation or review, eight (80%) have since been completed.

Over half of the 132 complaints that required an investigation, review, or a formal response involved just five departments; namely, the Department of Water and Power, Public Works – Bureau of Sanitation, Los Angeles World Airports (LAWA), Building and Safety Department, and Housing and Community Investment Department, with time abuse allegations leading the types of issues reported through the hotline in 2017 and 2018.

2017 and 2018 Investigation or Additional Review By Issue Type						
Issue Type	2017	%	2018	%	Total	%
Theft of Time	14	31.8%	23	26%	37	28.0%
Fraud	9	20.5%	8	9%	17	12.9%
Accounting/Audit Irregularities	2	4.5%	9	10%	11	8.3%
Misuse of Authority or Position	2	4.5%	8	9%	10	7.6%
Workers Compensation Fraud	4	9.1%	5	6%	9	6.8%
Waste of Resources	1	2.3%	7	8%	8	6.1%
Conflicts of Interest	0	0.0%	7	8%	7	5.3%
Contractor Selection Process	2	4.5%	5	6%	7	5.3%
Kickbacks	2	4.5%	3	3%	5	3.8%
Efficiency of City Resources	2	4.5%	2	2%	4	3.0%
Other Human Resource Concerns	3	6.8%	1	1%	4	3.0%
Falsification of Company Records	1	2.3%	2	2%	3	2.3%
Safety Issues and Sanitation	1	2.3%	2	2%	3	2.3%
Theft of Goods/Services	1	2.3%	2	2%	3	2.3%
Contractor Fraud	0	0.0%	1	1%	1	0.8%
Employee Relations	0	0.0%	1	1%	1	0.8%
Policy Issues	0	0.0%	1	1%	1	0.8%
Theft of Cash	0	0.0%	1	1%	1	0.8%
Total	44	100%	88	100%	132	100%

⁷ Of the 122 complaints, 43 (35%) had been received by the FWA Unit in 2017.

Of the 63 investigations or reviews completed, 12 (19%) substantiated the complaint's allegation(s); while 48 (76%) were found to be unsubstantiated or lacking in evidence to conclude on the issue, thus considered not resolved. Two investigations resulted in some other form of remedial action, such as providing additional training to mitigate the risk of potential fraud.

Outcome of Closed Investigations and Reviews in 2018 ⁸			
Outcome	Department Investigations Completed	FWA Unit Investigations Completed	Total
Remedial Action Taken	2	0	2
Substantiated	9	3	12
Unsubstantiated or Lacking in Evidence to Substantiate	44	5	48
Total	55	8	63

⁸ No 2017 complaints requiring investigation had been closed in 2017.

Schedule of Cases for Investigation or Review				
Primary Department	Total Open Cases	Total Closed Cases	Total Cases	% of Investigations Closed
Water and Power	25	10	35	29%
Public Works - Bureau of Sanitation	7	10	17	59%
Airport	10	4	14	29%
Building and Safety	3	7	10	70%
Housing and Community Investment	4	3	7	43%
Fire	4	2	6	33%
Police	5	1	6	17%
Recreation and Parks	3	3	6	50%
Personnel	2	3	5	60%
Transportation	0	4	4	100%
Harbor	3	0	3	0%
City Clerk	0	3	3	100%
Public Works - Contract Administration	0	3	3	100%
Public Works - Bureau of Street Services	1	1	2	50%
Economic Workforce Community Development	0	2	2	100%
City Attorney	0	1	1	100%
Emergency Management Department	0	1	1	100%
Controller	0	1	1	100%
Disability	1	0	1	0%
Zoo	1	0	1	0%
General Services	0	1	1	100%
Information Technology Agency	0	1	1	100%
Library	0	1	1	100%
Mayor	0	1	1	100%
Grand Total	69	63	132	48%