



RON GALPERIN
LA CONTROLLER

FRAUD, WASTE, AND ABUSE (FWA)

FWA UNIT (NOVEMBER 15, 2018)



FRAUD

- Intentional act or omission
- Designed to deprive City of its resources
- Which the individual or person is not entitled to

Examples of fraud?

- False statements or documents
- Withholding or misrepresenting material facts
- Bribery
- Theft
- Billing and expense reimbursement schemes
- Ghost employees or continued payments after termination



WASTE

- Extravagant or excessive expenditure of City funds above and beyond level reasonably required to meet the needs of the City
- Consumption or use of City resources that is not knowingly authorized

Examples of waste?

- Unexplainable idle and expensive equipment
- Excessive inventory
- Overtime with no operational need
- "Use it or lose it" spending with no operational need



ABUSE

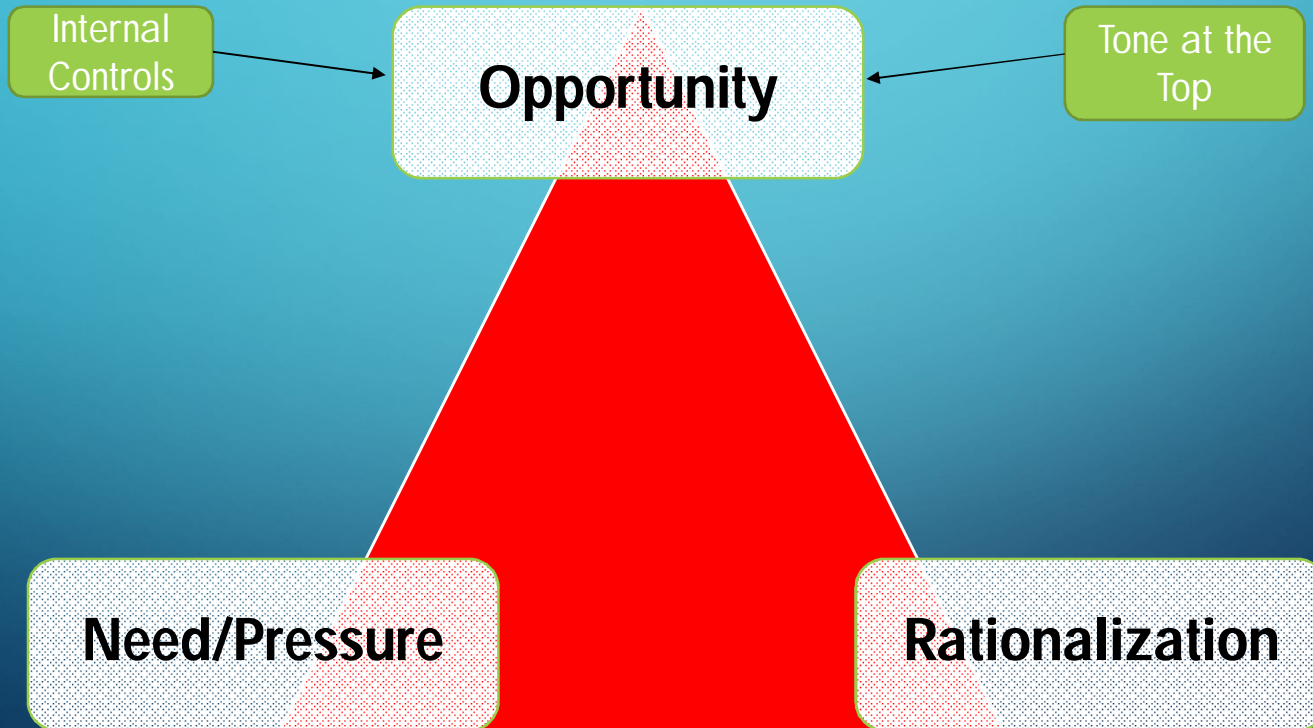
- Improper use of City resources in manner contrary to law or City policy
- Improper use of one's position for private gain or advantage for oneself or another person where not otherwise lawful

Examples of abuse?

- Conflicts of interest
- Taking home City equipment for personal use
- Bid rigging



WHY DOES FRAUD & ABUSE OCCUR?





WHAT ARE RED FLAGS?

- Set of circumstances that are unusual in nature or vary from normal activity.
- NOT an indication of guilt or innocence.
- Depending on the type and number of red flags, could be a warning sign of possible fraud that requires further evaluation.



OCCUPATIONAL FRAUD STATISTICS (ACFE) REPORTED FRAUDSTER BEHAVIORAL RED FLAGS

- Living beyond means (41%)
- Financial difficulties (29%)
- Unusually close relationship with vendors/contractors (20%)
- Control issues, unwilling to share duties (15%)
- Family problems (14%)
- "Wheeler-dealer" attitude (13%)
- Defensive, Irritable, Suspicious (12%)
- Addiction problems (10%)
- Complaints of inadequate pay (9%)
- Excessive pressure from within organization (7%)
- Social Isolation (7%)
- Past legal problems (6%)
- Refusal to take vacations (6%)
- Past employment-related problems (6%)



OTHER GENERAL RED FLAGS

- Reluctance to provide requested information to auditors
- Rumors of unethical conduct
- Financial decisions made by one person with little or no accountability
- No bank reconciliations
- Missing accounting records
- Service contracts result in no end product
- Financial transactions that do not make sense – either common or business
- Inappropriate gift giving to those involved in the procurement approval process
- Questionable hiring of family and friends of those involved in the procurement approval process or management



RED FLAGS - CASH RECEIPTS & BILLING FUNCTIONS

- Customer complaints of inaccurate nonpayment notices
- Excessive number of voids, discounts, & returns
- Discrepancies between bank deposits and postings
- **Substantial write-offs without support**
- Missing receipts and monies



RED FLAGS - DISBURSEMENT & PURCHASING FUNCTIONS

- Altered or incomplete supporting documentation for disbursements
- Excessive expenses when compared to the budget
- Frequently changed addresses or bank accounts of vendors
- Lack of physical security over assets or inventory
- Abnormal inventory shrinkage
- Purchases that bypass the normal procedures
- High volume of unexplainable purchases from a new or existing vendor
- Vendors that do not have information (Taxpayer Identification Number) filed with the IRS (<https://irs.gov/tax-professionals/taxpayer-identification-number-tin-matching/>)



RED FLAGS - CONTRACTING

- New bidder has never submitted a bid to the City before and is unknown within the industry
- Primary bidder adamant that he/she was the lowest bidder and should be awarded the contract (knowledge of other bids)
- All contractors submitting consistently high bids
- A lack of accountability and performance metrics used to monitor use of contractors
- Bypassing the City's contracting process
- Unauthorized use of subcontractors
- Contractors told not to submit a bid



RED FLAGS - PAYROLL

- Employees with no or few payroll deductions
- Excessive overtime expenses
- Excessive payroll expenses when compared to the budget
- Overtime charged when it appears that overtime would not be an operational need



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IMPORTANCE OF FWA AWARENESS

- Decentralization
- Lack of Resources
- If it does not make sense, be inquisitive, do not assume it is “business as usual”
- Availability of internal control questionnaires
- Most frauds and abuse identified via tips
- Controller’s Office is interested in knowing about internal control or policy weaknesses that may result in FWA



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HOW TO REPORT FWA?

- 24 hours – 7 days a week
- Independently operated hotline
- By Telephone: 1-866-428-1514
- By web: http://www.lacontroller.org/fraud_hotline
- By mail: 200 N. Main Street, Room 460
Los Angeles, CA 90012
- By contacting FWA staff

Fraud, Waste, and Abuse Hotline



Report Fraud, Waste and Abuse of City Resources

CALL: 1-866-428-1514

(toll free 24 hrs - 7 days/week)

Or [click here](#) to file a web-based report

The City of Los Angeles, Office of the Controller, operates a confidential hotline for City employees, contractors, citizens and other interested parties to report fraud, waste and abuse affecting City resources. The City has contracted with an independent company (NAVEX Global) whose trained intake specialists will receive all calls and web-based reports. You may remain anonymous.

What to Report

- Theft of City resources (e.g., cash, equipment, supplies or materials)
- Record falsification
- Payroll fraud or time abuse
- Kickbacks or bribes
- Intentional misuse of City equipment or property
- Contractor fraud
- Gross mismanagement of resources, including careless expenditures
- Gross disregard of policy and procedural controls

Complaint Evaluation



NAVEX GLOBAL™
The Ethics and Compliance Experts

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.

ATTENTION! This webpage is hosted on EthicsPoint's secure servers and is not part of the City of Los Angeles website or intranet.

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.

EthicsPoint is NOT a 911 or Emergency Service:

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.



COMPLAINT INTAKE – QUESTIONS ASKED

- Remain anonymous?
- Relation to the City?
- Type of FWA reported?
- What happened?
- Where it happened?
- Who was involved?
- When did it happen and how long?
- What was the result of what happened?
- How did you learn about what happened?



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SAVE THE PASSCODE!



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WHAT'S NEXT?

- Complaints taken via web-based submission or by a live operator
- Controller FWA unit staff notified of complaint receipt
- Complaint evaluation begins



INFO, EVIDENCE, AND SUPPORT

- Is the source reliable and cooperative?
- Are the details specific or vague?
- Are the allegations based on opinion?
- Are the details verifiable?
- Are the details actionable?
- Are supporting documents provided?



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MEASURE OF SUFFICIENCY OF INFORMATION RECEIVED

Elements of a “finding” = details & evidence needed to make a compelling argument

- **Condition** - What happened
- **Criteria** – What should have happened
- **Cause** – Why it happened
- **Effect** – The impact (cost) of the condition’s deviation from the criteria
- **Recommendation** – What could have stopped it from happening

CONTACT INFORMATION & QUESTIONS

- Beth Kennedy, Chief Internal Auditor, Office of the City Controller:
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