



JOHN NAIMO  
AUDITOR-CONTROLLER

## COUNTY OF LOS ANGELES DEPARTMENT OF AUDITOR-CONTROLLER

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ADDRESS ALL CORRESPONDENCE TO:  
OFFICE OF COUNTY INVESTIGATIONS  
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April 18, 2018

TO: Antonia Jiménez, Acting Director  
Department of Public Social Services

Cynthia D. Banks, Director  
Workforce Development, Aging, and Community Services

FROM: Robert G. Campbell, Chief  
Office of County Investigations

SUBJECT: **DPSS AND WDACS - IMPROVEMENT OPPORTUNITIES NOTED  
DURING CHICANA SERVICE ACTION CENTER INVESTIGATION - CASE  
#2011-5711**

We completed an investigation of former County contractor Chicana Service Action Center (CSAC) with the Los Angeles County District Attorney (LADA). Our investigation found that CSAC executives fraudulently billed the County for services they did not provide, and misappropriated at least \$9,002,491 of County funds from Fiscal Year (FY) 2007-08 through FY 2011-12 from several Department of Public Social Services (DPSS) and Community and Senior Services (now Workforce Development, Aging, and Community Services or WDACS) contracts.

Between June 2015 and May 2017, the LADA arrested three CSAC executives and one employee, and charged them with a combined total of 65 criminal counts related to fraudulent billings and theft of public funds associated with their WDACS, DPSS, and City of Los Angeles contracts.

In August 2017, all four defendants entered negotiated guilty pleas to a combined total of 30 felony counts, including misappropriation of public funds, embezzlement, conspiracy, and preparing false documentary evidence. In December 2017, the Superior Court sentenced the defendants to a combined total of 12 years in State prison, and ordered them to pay restitution of \$9,002,491 to the County (\$4,182,927 to DPSS and \$4,819,564 to WDACS).

### **Lessons Learned**

CSAC's fraud of billing for services they did not provide continued undetected for several years before it was ultimately revealed by DPSS contract monitoring staff. Specifically, DPSS staff noted that CSAC billed for ineligible clients in 2011 when they began comparing the zip codes of clients billed with the zip codes that were eligible for services. A subsequent investigation by the Office of County Investigations (OCI) and the LADA found that CSAC also fraudulently billed the County for services they did not actually provide to real clients who were otherwise eligible for the services. Monitoring procedures in place at the time were not designed to detect fraudulent billings for otherwise eligible clients and consequently did not detect them.

To increase the likelihood of detecting fraud and improper billings more timely, minimize losses and questioned costs, and prevent similar frauds from occurring in the future, DPSS and WDACS must ensure that robust client and service verification procedures are in place whenever contractors directly provide social services to County clients. Details of our findings and recommendation for corrective action are included in Attachment I.

### **Review of Report**

We discussed these findings and recommendation with DPSS and WDACS managers responsible for the affected areas, who agreed and indicated they would review and implement enhanced monitoring procedures where not already present. We also included your written responses in Attachments II and III. Attachment IV describes our priority ranking system and prescribed timelines for the implementation of recommended corrective actions.

### **Follow-up Process**

The Auditor-Controller (A-C) has a follow-up process designed to provide assurance to the Board of Supervisors (Board) that departments are taking appropriate and timely corrective action to address recommendations for corrective action. Within six months of the date of this report, the department must submit a Corrective Action Implementation Report (CAiR) detailing the corrective action taken to address all recommendations in the report. Departments must also submit documentation with the CAiR that demonstrates the corrective action taken. We will review the department's reported corrective action and supporting documentation, and report back on the results. For any recommendations not fully implemented, departments must report the status of corrective action within six months after our first follow-up report is issued.

### **Management's Responsibility for Internal Controls**

Management of each County department is primarily responsible for designing, implementing, and maintaining a system of internal controls that provides reasonable assurance that important departmental and County objectives are being achieved.

Internal controls should sustain and improve departmental performance, adapt to changing priorities and operating environments, reduce risks to acceptable levels, and support sound decision-making.

Management must monitor internal controls on an ongoing basis to ensure that any weaknesses or non-compliance are promptly identified and corrected. The A-C's role is to assist management by performing periodic assessments of the effectiveness of the department's internal control systems. These assessments complement, but do not in any way replace management's responsibilities over internal controls.

### **Limitations of Internal Controls**

Any system of internal controls, however well designed, has limitations. As a result, internal controls provide reasonable, but not absolute assurance that an organization's goals and objectives will be achieved. Some examples of limitations include errors, circumvention of controls by collusion, management override of controls, and poor judgment. In addition, there is a risk that internal controls may become inadequate due to changes in the organization, such as reduction in staffing or lapses in compliance.

We thank DPSS and WDACS management and staff for their cooperation and significant assistance throughout our investigation. OCI will summarize this case in our next semi-annual Fraud Hotline Status Report to the Board.

If you have any questions please call me at (213) 893-0058, or your staff may contact Cristina del Rosario at (213) 893-0868.

RGC:GH:CDR  
R-2011-5711

#### **Attachments**

c: John Naimo, Auditor-Controller  
Audit Committee

**DPSS AND WDACS - IMPROVEMENT OPPORTUNITIES  
NOTED DURING CHICANA SERVICE ACTION CENTER INVESTIGATION #2011-5711**

<b>FINDINGS AND RECOMMENDATIONS FOR CORRECTIVE ACTION</b>					
	<b>ISSUE</b>	<b>RISK</b>	<b>RECOMMENDATION</b>	<b>P<sup>1</sup></b>	<b>SUMMARY OF RESPONSE</b>
<b>1</b>	DPSS and WDACS contract monitoring procedures can be enhanced to prevent and/or detect billings for clients who did not receive services and/or who are not eligible for services.	Contract fraud and improper billings can occur and continue undetected without direct client and service verification procedures at the departmental contract monitoring level.	<b>DPSS and WDACS management ensure that robust client- and service-verification procedures are in place whenever contractors directly provide social services to County clients. Such verification can be accomplished in many ways, but must include specific procedures for directly contacting, corresponding with, and/or interviewing a representative sample of service recipients to obtain assurance that they exist, are eligible, and have received the services specified in the contracts and billed to the County.</b>	<b>2</b>	<b>DPSS and WDACS management agreed and indicated that where not already established, they will include direct verification procedures in their contract monitoring processes.</b>

<sup>1</sup> **Priority Ranking:** Recommendations are ranked from Priority 1 to Priority 3 based on the potential seriousness and likelihood of negative impact on departmental operations if corrective action is not taken. See Attachment IV for definitions of priority rankings.

County of Los Angeles

DEPARTMENT OF PUBLIC SOCIAL SERVICES

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Acting Director



Board of Supervisors  
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Fifth District

April 5, 2018

**TO:** Robert G. Campbell, Chief  
Office of County Investigations

**FROM:**   
Antonia Jimenez, Acting Director

**SUBJECT: RESPONSE TO AUDITOR-CONTROLLER FINDINGS AND  
RECOMMENDED CORRECTIVE ACTIONS**

The Department has reviewed the attached Auditor-Controller's report and is in agreement with the findings and recommendations. The Department will report the corrective actions planned and/or taken to address the recommendations within the respective timeframes established by the priority rankings. DPSS will ensure that best practices used in other contracts are applied to all service contracts to verify that DPSS participants linked to our services are properly served and costs properly invoiced.

If you have any questions, please contact me at (562) 908-8383, or your staff may contact Jose R. Perez, Administrative Services Division Manager at (562) 908-3001.

Please let me know if you have any questions.

AJ:DR

Attachment



lacounty.gov

Hilda L. Solis  
Mark Ridley-Thomas  
Sheila Kuehl  
Janice Hahn  
Kathryn Barger

**COUNTY OF LOS ANGELES  
WORKFORCE DEVELOPMENT, AGING  
AND COMMUNITY SERVICES**

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wdacs.lacounty.gov

Cynthia D. Banks  
Director

Otto Solórzano  
Chief Deputy

*"Connecting communities and improving the lives of all generations"*

March 22, 2018

TO: Robert G. Campbell, Chief  
Office of County Investigations

FROM: Cynthia D. Banks, Director

SUBJECT: **RESPONSE TO AUDITOR-CONTROLLER FINDINGS AND  
RECOMMENDED CORRECTIVE ACTIONS**

Workforce Development, Aging and Community Services (WDACS) has reviewed the Auditor-Controller's report, and is in agreement with the findings and recommendations. WDACS will report the corrective actions planned and/or taken, to address the recommendations within the respective timeframes established by the priority rankings.

Should you have any questions, please have your staff contact Mr. Paul Goldman, Assistant Director, at (213) 738-2763.

PG:eb

## **PRIORITY RANKING DEFINITIONS**

Auditors use professional judgment to assign rankings to recommendations using the criteria and definitions listed below. The purpose of the rankings is to highlight the relative importance of some recommendations over others based on the likelihood of adverse impacts if corrective action is not taken and the seriousness of the adverse impact. Adverse impacts are situations that have or could potentially undermine or hinder the following:

- a) The quality of services departments provide to the community,
- b) The accuracy and completeness of County books, records, or reports,
- c) The safeguarding of County assets,
- d) The County's compliance with pertinent rules, regulations, or laws,
- e) The achievement of critical programmatic objectives or program outcomes, and/or
- f) The cost-effective and efficient use of resources.

### **Priority 1 Issues**

Priority 1 issues are control weaknesses or compliance lapses that are significant enough to warrant immediate corrective action. Priority 1 recommendations may result from weaknesses in the design or absence of an essential procedure or control, or when personnel fail to adhere to the procedure or control. These may be reoccurring or one-time lapses. Issues in this category may be situations that create actual or potential hindrances to the department's ability to provide quality services to the community, and/or present significant financial, reputational, business, compliance, or safety exposures. Priority 1 recommendations require management's immediate attention and corrective action within 90 days of report issuance, or less if so directed by the Auditor-Controller or the Audit Committee.

### **Priority 2 Issues**

Priority 2 issues are control weaknesses or compliance lapses that are of a serious nature and warrant prompt corrective action. Priority 2 recommendations may result from weaknesses in the design or absence of an essential procedure or control, or when personnel fail to adhere to the procedure or control. These may be reoccurring or one-time lapses. Issues in this category, if not corrected, typically present increasing exposure to financial losses and missed business objectives. Priority 2 recommendations require management's prompt attention and corrective action within 120 days of report issuance, or less if so directed by the Auditor-Controller or the Audit Committee.

### **Priority 3 Issues**

Priority 3 issues are the more common and routine control weaknesses or compliance lapses that warrant timely corrective action. Priority 3 recommendations may result from weaknesses in the design or absence of a procedure or control, or when personnel fail to adhere to the procedure or control. The issues, while less serious than a higher-level category, are nevertheless important to the integrity of the department's operations and must be corrected or more serious exposures could result. Departments must implement Priority 3 recommendations within 180 days of report issuance, or less if so directed by the Auditor-Controller or the Audit Committee.