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L.A. County supervisors order crackdown on small business fraud after 3-year delay



L.A. County supervisors have ordered implementation of reforms recommended more than three years ago to root out fraud in a preference program for small businesses. Above, the county's Kenneth Hahn Hall of Administration. (Genaro Molina/Los Angeles Times)

BY REBECCA ELLIS | STAFF WRITER

SEPT. 26, 2023 8:28 PM PT

Los Angeles County supervisors voted Tuesday to ramp up efforts to root out fraud within a program meant to help small businesses, ordering staff to finally make

improvements that the county's own auditors had first recommended more than three years ago.

The Local Small Business Enterprise preference program gives a leg up to small local companies as they compete for county contracts. The Times [reported last week](#) that the initiative had been repeatedly targeted by fraudsters looking for easy access to taxpayer money.

The Office of County Investigations, which had opened 13 investigations into companies certified through the program, estimated the county had spent at least \$40 million on vendors they believed were conning the government — sometimes with the assistance of county employees. Five people had been criminally charged.

Following The Times' reporting, the supervisors unanimously approved a [motion](#) Tuesday that directs the Chief Executive Office and the Department of Economic Opportunity, which has overseen the program since mid-2022, to join a handful of other county departments in making recommendations on how to improve the program's "oversight, compliance, and governance."

Program staff must also plan to conduct a random sample of certified companies to gauge how many are legitimate small businesses. (The county certifies a company as a "small business" if it is a local, independently owned company with 100 or fewer employees.)



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Supervisor Hilda Solis, who co-authored the motion with Supervisor Janice Hahn, said she wanted to see the county crack down on bid-rigging, split purchases and other

common procurement schemes.

“Whether it’s internal employees or someone is working with our employees to understand how to game the system, that is money that the taxpayer is losing out on,” Solis said in an interview. “That, to me, is the bottom line.”

In 2020, county auditors sounded alarm bells about “repeated abuses” of the programs and made a number of [recommendations](#) for how the program leaders could deter fraud, including requiring companies disclose conflicts of interest and penalizing the companies that ignored program rules.

The report was given to the Internal Services Department and the Department of Consumer and Business Affairs, which oversaw the program at the time. Nothing happened.

“I don’t think from that point anyone really picked up the report to provide a path forward,” Solis said.

Supervisors now say they want to see some progress. The motion directs the Department of Economic Opportunity to “immediately” implement the recommendations auditors first made in 2020. The department is supposed to report back to the board in a month on its progress.



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“It is my hope that, with these new measures, our departments will be better able to spot fraud and make sure contracts are going to the legitimate small businesses that need and deserve these contracts,” Hahn said in a statement.

Kelly LoBianco, the head of the Department of Economic Opportunity, had previously called the contracting fraud “an outrageous breach of public trust” in a statement to The Times, though she emphasized the vast majority of contracts were going to legitimate small businesses. She said the department was taking steps to safeguard the program including internal audits and checking for conflicts of interest.

“We know that no system is 100% immune to those who are determined to commit fraud,” she said. “L.A. County is committed to ensuring that contracts go to small businesses that have been historically left out of county contracting and that compete honorably to earn them, not to those who cheat or try to rig the system.”



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Rebecca Ellis covers Los Angeles County government for the Los Angeles Times. Previously, she covered Portland city government for Oregon Public Broadcasting. Before OPB, Ellis wrote for the Miami Herald, freelanced for the Providence Journal and reported as a Kroc fellow at NPR in Washington, D.C. She graduated from Brown University in 2018. She was named a finalist for the 2022 Livingston Awards for her investigation into abuses within Portland’s private security industry.