



# **FRAUD**

## during the pandemic

April 21, 2021

**Los Angeles County Management Council**



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**AUDITOR-CONTROLLER  
COUNTY OF LOS ANGELES**

# Welcome!



**CERTIFIED FRAUD  
EXAMINER**



Robert Campbell, CIA, CRMA, CFE

CHIEF



OFFICE OF COUNTY INVESTIGATIONS



**AUDITOR-CONTROLLER  
COUNTY OF LOS ANGELES**

# Topics for Discussion

- **About OCI & the County Fraud Hotline**
- **Fraud Trends and Lessons Learned**
- **Tips for Fraud Resilience and Prevention in the Post Pandemic World**



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# Who Performs Internal Investigations in LA County?

- **OCI** – Criminal & Administrative cases related to the duties & responsibilities of the A-C
- **District Attorney, Sheriff** – Criminal
- **Department of Human Resources** – Personnel, Hiring, Whistleblower Retaliation
- **County Equity Investigations Unit** – Related to the County Policy of Equity
- **Departmental Internal Affairs, Internal Audit, & Performance Management**



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# Our Mission

## Promote public trust in County government by:

- Providing a mechanism for reporting and investigating fraud, waste, and abuse
- Making impactful recommendations to improve business processes and strengthen internal controls
- Working with prosecutors and management to ensure that appropriate criminal and administrative actions are taken



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# Fraud/Waste/Abuse (FWA)

**Fraud** - wrongful or criminal deception for financial or personal gain. Fraud includes false representation of fact, making false statements, or by concealment of information.

**Waste** - thoughtless or careless expenditure, mismanagement, or abuse of resources to the detriment (or potential detriment) of the organization. Waste also includes incurring unnecessary costs resulting from inefficient or ineffective practices, systems, or controls.

**Abuse** - excessive or improper use of a thing, or contrary to policies or rules for its use. Abuse can occur in financial or non-financial settings.



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# OCI – What do we do?

- Operate the Fraud Hotline and maintain a database of FWA allegations and outcomes
- Investigate waste, fraud, and abuse allegations received via the Hotline
- Coordinate internal criminal investigations with other law enforcement and prosecutors
- Safeguard County assets, resources, and the integrity of County programs
- Serve as a resource to County departments



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# OCI – What do we investigate?

Fraud, Waste, and Abuse of County Resources By:

- Employees
- Contractors and Vendors
- Customers, Clients, and Participants
- The Public
- Other matters, as requested by the Board of Supervisors and/or department management



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# Computer Forensics

- Countywide IT Policies
- E-mail Monitoring & Analysis
- Internet Monitoring & Filtering
- Hardware Recovery & Analysis
- Remote Monitoring & Acquisition

**Computer forensics have become a critical part of most investigations conducted by OCI.**



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## Step 1: Allegation is received

Allegation reports are received by our hotline staff either electronically or manually. Electronic reports filed through this website are automatically assigned a case number. All other reports are entered in our hotline database manually before a case number is assigned.

## Step 2: Allegation is reviewed

Allegations are carefully reviewed to ensure all required information is included. A final review is conducted and the case remains open or is closed. Cases are closed when it is determined the allegation is either immaterial, previously investigated or not enough information was provided.

## Step 3: Case is placed in an investigative queue

Approved cases are placed in an investigative queue, from which they are assigned to an investigator based on the complexity, nature and specifics of the allegations involved.

## Step 4: Case is assigned for investigation

A case is assigned to an investigator. Depending on the complexity of the case, investigations can take a couple of weeks to several months to complete.

## Step 5: Investigation findings are reported

Findings are summarized in a confidential report to the appropriate department/agency including the District Attorney for possible criminal prosecution.

# The Hotline Process

# Reviewing Allegations

The Fraud Hotline uses a systematic process to triage allegations. Factors considered include:

- Credibility, Specificity, Clarity, and Documentation to Support the Allegations
- Willingness of Informant to Cooperate
- Likelihood the Allegations can be Resolved
- Potential Harm/Risk



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# Assessment Matrix

SUFFICIENT MERIT TO INVESTIGATE		POSSIBLE MERIT TO INVESTIGATE		INSUFFICIENT MERIT TO INVESTIGATE	
SOURCE OF COMPLAINT		DOCUMENTATION (PROVIDED TO SUPPORT COMPLAINT (INVOICES, TIME CARDS, PURCHASE ORDERS))		SPECIFICITY OF CHARGES (REVEALS DATES, TIMES, DOLLARS METHOD OF THEFT, PARTIES INVOLVED)	
SERIOUSNESS OF CHARGES (VIOLATION OF LAW, POLICY, PROCEDURE)		RELATED ISSUES (ISOLATED, FEW, SYSTEMIC)		WILL HELP ASSISTANCE AVAILABLE	
ANONYMOUS	IDENTIFIED SOURCE (NOT AVAILABLE)	SOME SUPPORT	DETAILED EVIDENCE		
NONE	GENERAL REFERENCES	SPECIFIC CITATIONS			
VAGUE	RAISES CONCERN	GRAVE & MATERIAL			
MINOR	FEW SIMILAR ISSUES	SYSTEMIC or COMMON			
NONE					

# Duties and Responsibilities

County Employees and Contractors have a responsibility to report fraud, waste, and abuse to the Hotline, and to preserve potential evidence:

- Before initiating an investigation or taking other action that might alert the subject(s)
- Whenever misconduct jurisdictional to OCI is suspected, including the gross or criminal misuse of IT or other County resources



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Online:

<http://FRAUD.LACOUNTY.GOV>

Phone:

**(800) 544-6861**

Fax:

**(213) 947-5809**

E-Mail:

**fraud@auditor.lacounty.gov**

**YOU MAY REMAIN  
ANONYMOUS**



LOS ANGELES COUNTY

# FRAUD HOTLINE

**THEFT  
BRIBES/KICKBACKS  
FORGERY  
COLLUSION  
CYBERCRIME  
CONFLICT OF INTEREST  
BID RIGGING**

BY COUNTY EMPLOYEES,  
VENDORS AND CONTRACTORS

**Good Government  
Starts With You!**

**1-800-544-6861**  
[fraud.lacounty.gov](http://fraud.lacounty.gov)

E-mail:  
[fraud@auditor.lacounty.gov](mailto:fraud@auditor.lacounty.gov)

Write to:  
L.A. County Fraud Hotline  
500 W. Temple St., Suite 515  
Los Angeles, CA 90012

Fax:  
213-633-0191

**RECOGNIZE IT  
REPORT IT  
PREVENT IT**

**YOU MAY  
REMAIN  
ANONYMOUS**

**24 HOURS A DAY  
7 DAYS A WEEK**

SPONSORED BY THE LOS ANGELES COUNTY BOARD OF SUPERVISORS

# THE FRAUD TRIANGLE

## Pressure

Motivation or Incentive to  
Commit Fraud

## Rationalization

Justification of Dishonest  
Actions



**FRAUD**

## Opportunity

The Knowledge and Ability  
to Carry Out Fraud



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# Where can WE make a difference?



*Opportunity*



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# INTERNAL CONTROLS

Management is responsible for designing, implementing, and maintaining a system of controls that provides reasonable assurance that important departmental and County objectives are being achieved, and for monitoring on an ongoing basis to ensure that weaknesses and non-compliance are promptly identified and corrected.



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# INTERNAL CONTROLS



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# INTERNAL CONTROLS

## Examples of Internal Controls

- Duties should be separated so that no one employee controls all key aspects of a transaction (initiating, approving, processing, recording)
- Passwords, safe combination, etc., should be restricted to key personnel, secured in a safe place, and changed regularly
- Access to funds, records, blank check stock, confidential information, databases, etc., should be limited to authorized personnel



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# FRAUD PREVENTION



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**Fraud Trends**

# Fraud Trends

**Semi-Annual Reports**

**Improvement Opportunity Reports**

**Recent Frauds**

Theft of Supplies/Assets/Capital  
Equipment

Procurement Fraud

Account Takeovers/Impersonations



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# Semi Annual Reports

## ***Prosecutions and Criminal Convictions***

- *OCI forensic staff assisted the Sheriff's Department and the Department of Health Services in an investigation of a former contract employee who stole \$6,700 of the prescription drug hydroxychloroquine from a County hospital pharmacy. The former contract employee was arrested and the Los Angeles District Attorney's Office (LADA) is prosecuting him for the theft.*
- *Investigative efforts by OCI in partnership with other local law enforcement entities resulted in the LADA accepting for prosecution three (3) new cases for which we found evidence that the subjects committed crimes against the County.*
- *In addition, another 22 cases remain in progress with various prosecutorial agencies (County and local District Attorneys). Such cases include felony violations of false government claims, theft of public funds, theft of County property, and depositing counterfeit and/or fraudulent County checks.*

# Improvement Opportunity Reports

OCI conducts investigations of fraud and misconduct, which provides a unique insight to internal control issues that may have led to the commission of fraud and that may not have been detected through routine audits of departmental internal controls. This unique perspective underscores the importance of making both departments and Audit Division management aware of the internal control weaknesses that OCI observes so they can address them. Therefore, when OCI becomes aware of internal control weaknesses, OCI issues "Improvement Opportunities Report" with recommendations for improvement. These reports are issued separately from confidential reports on the results of investigations.

To view these documents, you must have Adobe Acrobat Reader installed:



Report Date	Department	Report Title
2021-02-24	Public Works	<a href="#"><u>Improvement Opportunities Noted During Limited Review (Report #IOR-2018-14398) - First Follow-Up Review</u></a>
2021-02-22	Parks & Recreation	<a href="#"><u>Improvement Opportunities Noted During Limited Review #2017-13594</u></a>



## **Thefts of Supplies/Assets/Equipment**

# Thefts

- Supplies – PPE, COVID-related medications, fungible commodities
- Equipment – Computers, portable devices, consumable items
- Capital Assets



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# Thefts – Lessons Learned

- Securing High Demand Items
- Inventory Controls
- Physical Security
- Protocols/Procedures for Key Security and Inventory Tasks



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# Procurement Fraud

# Procurement Fraud

- **Employees and vendors colluded to:**
  - Rig bids to select a pre-determined vendor
  - Make-up fictitious vendors, sometimes controlled by the employee or by friends and family
  - Arbitrarily mark-up purchases
  - Launder bribe payments and personal purchases for employees
  - Act as brokers/intermediaries to create the appearance of an LSBE



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# Procurement Fraud

From: [REDACTED]  
<[REDACTED]@[REDACTED].lacounty.gov>  
Subject: FW: Quote # [REDACTED] Refurbishment  
for [REDACTED]  
To: "Mike XXXX" <XXXX@gmail.com>

Here is the quote from the vendor we want to hire for this job. Rebid on your letterhead, and mark up to \$14,759.24. I want to get started on this soon, so send it back before COB Wed.

[REDACTED]  
----- Forwarded message -----  
>From: [REDACTED] <[REDACTED]@[REDACTED].com>  
>Subject: Quote # [REDACTED] Refurbishment for [REDACTED]  
>To: [REDACTED] <[REDACTED]@[REDACTED].lacounty.gov>  
>  
>As requested, your quote is attached. Total is \$10,420, including removal of the existing unit. We  
>have availability beginning next week, depending when you like to get started.

# Procurement Fraud

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From: [REDACTED] <[REDACTED]@[REDACTED].lacounty.gov>

To: [REDACTED]

Subject: Quotes needed

We need more of the [REDACTED] like before. Probably 2,000 this time. Send me three quotes, and send them from different email addresses, on different letterheads. Keep it under \$5k.

# **Bid Rigging - Types**

**Bid Suppression** – competitors agree not to bid or allow a previously selected bidder to win

**Complementary Bidding** – conspirators submit intentionally high or non-conforming bids to give the appearance of competition

**Bid Rotation** – conspirators take turns selecting who will win bids

**Customer or Market Allocation** –  
Conspirators divvy up customers or geographic regions to suppress competition



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# **Bid Rigging**

## **Common Risks and Red Flags**

- Similar bids from supposedly different or unrelated companies
- A winning bidder subcontracts all or a substantial part of the award, especially to a losing bidder or known County vendor
- Bid documents appear altered or duplicated from a common template



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# **Bid Rigging**

## **Risks and Red Flags (cont.)**

- Evidence of personal relationships between contracting/procurement staff and vendors
- Specifications or requirements are unnecessarily restrictive or prescriptive
- Contracts for goods and services that are regular and recurring



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# **Bid Rigging**

## **Risks and Red Flags (cont.)**

- Large gap between the winning bid and other bidders, indicating a “number-to-bid-above”
- Evidence of bidder collusion – e.g., same handwriting, “vendor demographics,” or other commonalities between bids
- Lax documentation of vendor outreach



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# **Bid Rigging**

## **Risks and Red Flags (cont.)**

- **One employee has a high degree of control over- and/or technical knowledge about the procurement and selects the vendor**
- **Procurement requests lack sufficient detail or specificity for non-technical purchasing staff to independently procure the items/equipment/commodities**
- **Sharing quotes from one vendor with another before an award is made**



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# Procurement Fraud – Lessons Learned

- Know your vendors
- Separate procurement responsibilities
- Data analytics/payment trend analysis
- Procurement staff training
- Staff rotation
- Report!



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# Account Takeovers/Impersonation

# Account Takeovers/Impersonation

- **Malicious actors have recently:**
  - Impersonated vendors to change key information (address, email, bank account, EFT, etc.) to redirect correspondence and payments
  - Impersonated County employees to redirect pay checks/direct deposits and obtain credentials
  - Impersonated executives to apply for loans on behalf of the County, or direct staff to take other official actions/issue payments
  - Attempted to access/steal regulated data (PII/PHI)



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# Business Email Compromise (BEC) Attacks

- Criminal has a specific target
- Reliant on social engineering tactics
- Preys on unsuspecting employees
- and/or executives
- Could result in unauthorized payment to hacker



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## Step 1: Identify a Target



Organized crime groups target U.S. and European businesses, exploiting information available online to develop a profile on the company and its executives.

## Step 2: Grooming



Spear phishing e-mails and/or telephone calls target victim company officials (typically an individual identified in the finance department).

Perpetrators use persuasion and pressure to manipulate and exploit human nature.

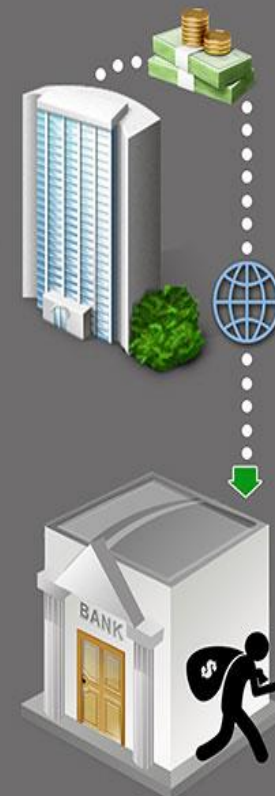
Grooming may occur over a few days or weeks.

## Step 3: Exchange of Information



The victim is convinced he/she is conducting a legitimate business transaction. The unwitting victim is then provided wiring instructions.

## Step 4: Wire Transfer



Upon transfer, the funds are steered to a bank account controlled by the organized crime group.\*

\*Note: Perpetrators may continue to groom the victim into transferring more funds.

# What is Social Engineering?

- Trick people into making mistakes, sidestep procedures, and/or divulge sensitive information
- Malicious human interactions
- Psychological manipulation



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# Social Engineering Life Cycle

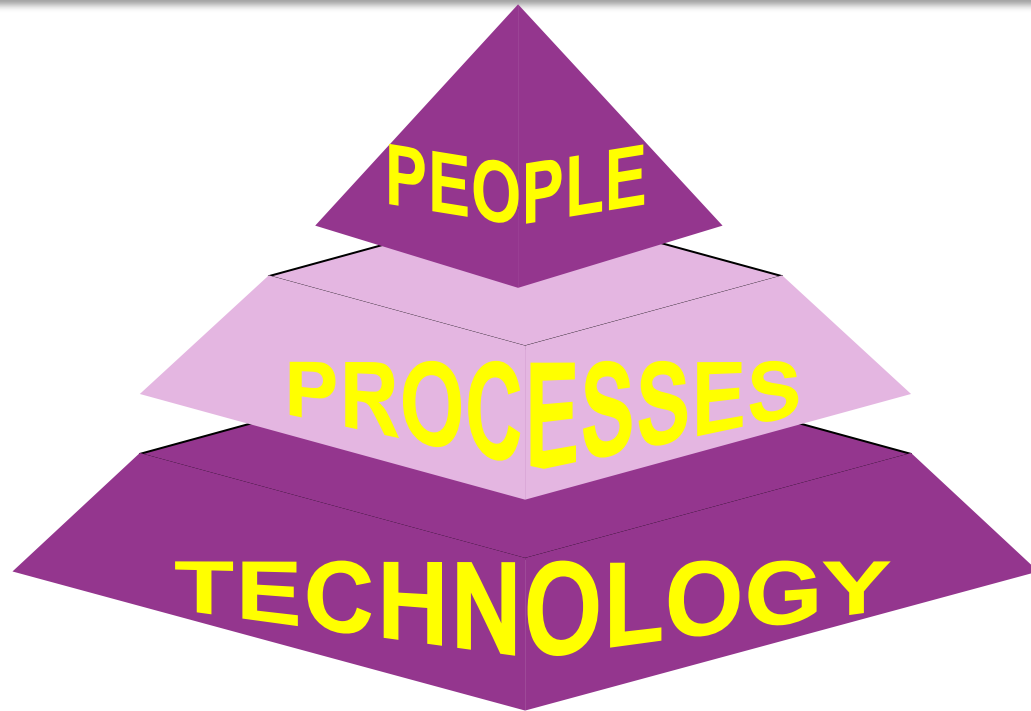
- Information gathering
- Victim engagement
- Attack
- Cherry Picking & Clean up



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# Three Pillars of Cybersecurity



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# Account Takeovers/Impersonation - Lessons Learned

- Be careful sharing information online or on social media. By openly sharing pet names, schools you attended, family members, and your birthday, you give a scammer everything they need to guess passwords, answer security questions and build rapport.
- Don't click on anything in an unsolicited email or text message asking you to update or verify account information. Look up the company's phone number on your own (don't use the one a potential scammer is providing), and call to verify if the request is legitimate.
- Carefully examine the email address, URL, and spelling used in any correspondence. Scammers use slight differences to trick your eye and gain your trust.



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# Account Takeovers/Impersonation - Lessons Learned (cont.)

- Never open an email attachment from someone you don't know and be wary of forwarded attachments.
- Set up two-factor (or multi-factor) authentication on any account that allows it, and never disable it.
- **Verify payment and purchase requests in person if possible or by calling the person to make sure it is legitimate. You should verify any change in account number or payment procedures with the person making the request.**
- Urgency and requests to act quickly are red flags.



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# Account Takeovers/Impersonation - Lessons Learned (cont.)

## TRAIN, TRAIN, TRAIN: EVERYONE!

- What to look out for?
- How to practice good (Internet) hygiene
  - Hover before you click!
  - Don't overshare!
  - When to compromise processes and controls for VIPs and urgent requests (Hint: NEVER!)
- What to do RIGHT AWAY if you suspect a problem



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# Account Takeovers/Impersonation - Lessons Learned (cont.)

## SECURE USER CREDENTIALS

- Strong password policies
- Robust controls over the inventory of active credentials, especially for privileged access
- Strict segregation between incompatible or high-risk access types/duties
- Control system/service accounts



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# Account Takeovers/Impersonation - Lessons Learned (cont.)

## ENFORCE BUSINESS PROCESSES & PROCEDURAL CONTROLS

- Empower staff at EVERY level to **OWN** key business processes and enforce compliance – on everyone!
- Special training for staff with high-risk duties (disbursements, sensitive information handling) to identify attacks like “tailgating” or “piggybacking”

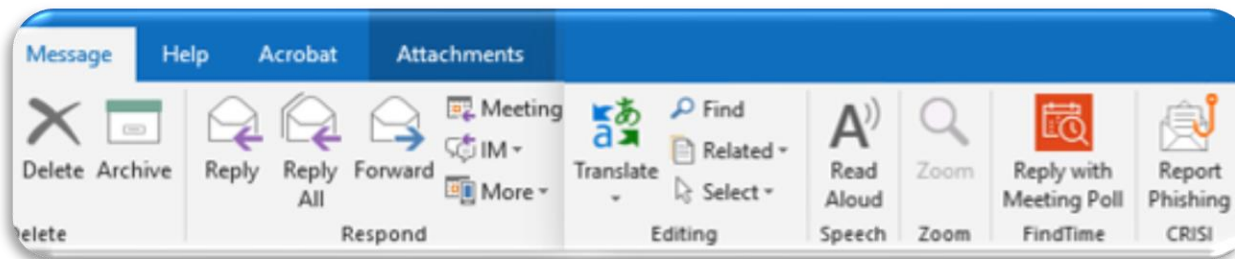


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# Account Takeovers/Impersonation - Lessons Learned (cont.)

## AUTOMATE INTELLIGENCE & REPORTING TOOLS



- Mobile device management
- External e-mail visual indicators
- Link re-writing
- Electronic Policy Orchestration



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# Account Takeovers/Impersonation - Lessons Learned (cont.)

**PUT YOUR PEOPLE & PROCESSES TO  
THE TEST – BEFORE ATTACKERS DO!**

- Unannounced, routine testing
- Security & system data analytics
- Phishing e-mail campaigns
- Incident response simulations
- Penetration testing
- Walkabout!



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# **Fraud Resistant Systems and Programs**

# An Opportunity

The pandemic has forced fundamental changes in how we deploy staff, serve clients, and deliver programs. While challenging, this presents us a once-in-a-lifetime opportunity to make lasting improvements, allowing us to better serve our constituents and create an organization that is resilient and resistant to fraud, waste, and abuse.



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# **Workforce Accountability/Integrity**

- Measure what matters
- Key performance indicators
- Data driven management
- Project cost accounting/budgeting
- Cost/benefit analysis
- Disclosure of conflicts
- Engagement



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# Continuity of Operations

- Desk procedures and policies
- Training aids
- Deliverable calendar
- Key contacts/partners (internal and external)
- Process maps/workflow diagrams
- Cross training plan



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# Vendor/Contractor/Program Management

- Objectively measurable deliverables and outcomes
- Access to and auditability of data, particularly in external information systems
- Periodic auditing and verification
  - Field observation/confirmation of services
  - Direct client verification
- Authorized representative validation process
- Confirmation of changes in sensitive data



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Responsibility is a unique concept... You may share it with others, but your portion is not diminished. You may delegate it, but it is still with you... If responsibility is rightfully yours, no evasion, or ignorance or passing the blame can shift the burden to someone else. Unless you can point your finger at the man who is responsible when something goes wrong, then you have never had anyone really responsible

HYMAN G. RICKOVER



## Virtual Fraud Awareness Training

Upcoming  
Training  
Opportunity

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300  
participants



Presented by the Los Angeles County Auditor-Controller

Office of County Investigations

Tuesday, May 18, 2021

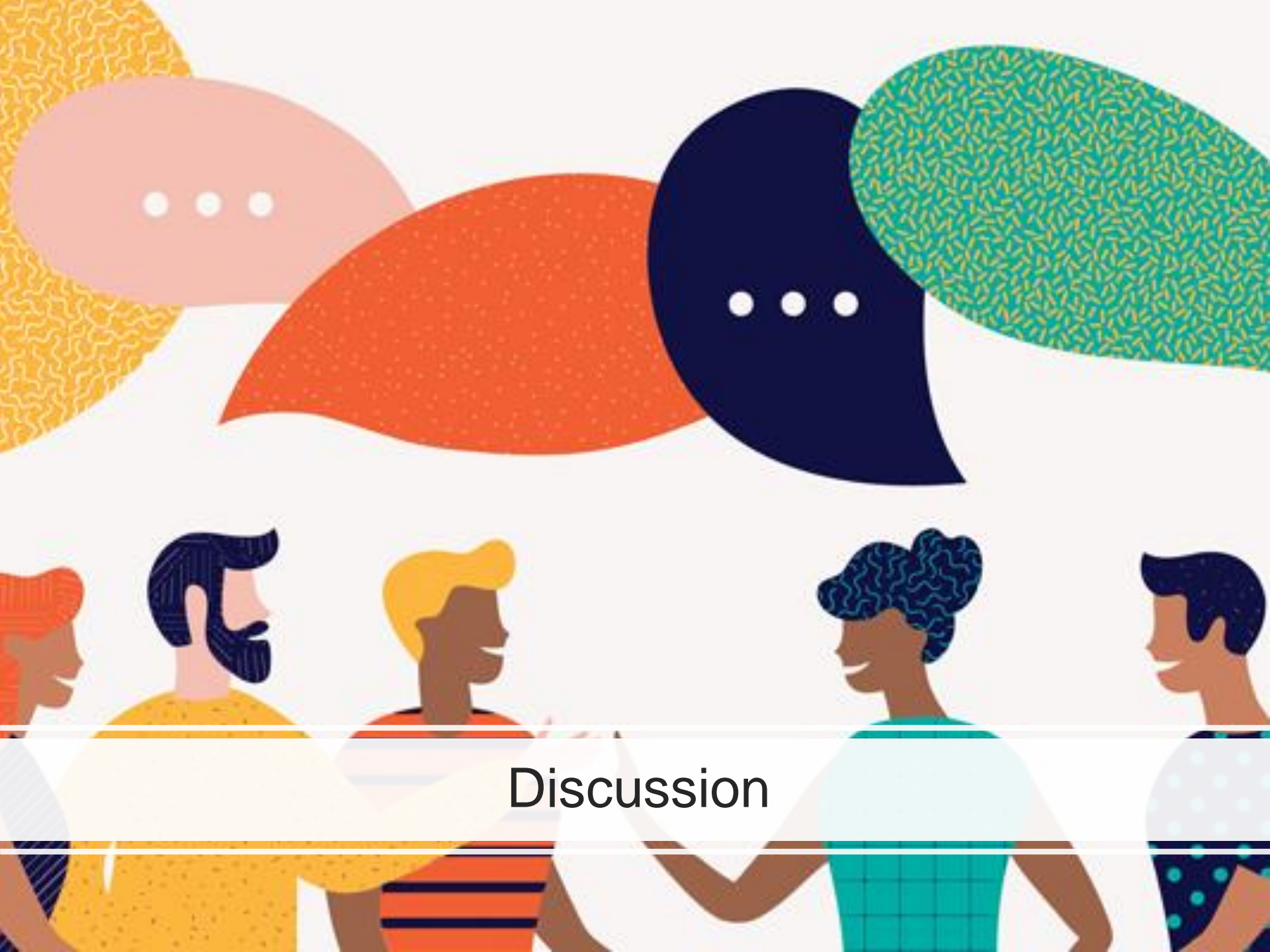
8:00 a.m. to Noon



If you are interested, please register by sending your contact information (name, department and email address to [oci@auditor.lacounty.gov](mailto:oci@auditor.lacounty.gov)). A confirmation email will be sent to each participant.

Red Flags of  
**FRAUD**





Discussion

# Contact Me!



**Robert Campbell**

**(213) 893-0058**

[rcampbell@auditor.lacounty.gov](mailto:rcampbell@auditor.lacounty.gov)

<http://fraud.lacounty.gov>



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