# COUNTY OF LOS ANGELES
## DEPARTMENT OF AUDITOR-CONTROLLER

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July 8, 2003

TO:        Robert Ryans, Director
           Department of Community & Senior Services

           Bryce Yokomizo, Director
           Department of Public Social Services

FROM:      J. Tyler McCauley
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SUBJECT:   REVIEW OF FRAUDULENT ISSUANCES

We have completed an initial review of the recently detected fraudulent issuances of CalWorks program funds by RITE contract employees. The purpose of the review was to determine factors that contributed to the issuances and determine why they were not previously detected. We found that system controls weaknesses contributed to the thefts and inadequate monitoring prevented their detection.

## System Controls

### Payment Approvals

The thefts were processed through the GEARS system. For transportation and ancillary payments only one approval is required to generate payments. Virtually all the fraudulent issuances were processed with only one approval for transportation payments less than $150.

A basic control is to require a minimum of two individuals to approve the processing of a payment, regardless of dollar amount. This greatly discourages theft, but does increase workload. However, it is a necessary control, as evidenced by the fraudulent issuances. It should be noted that the Countywide Accounting and Purchasing System (CAPS) requires two approvals for all payments and there have been no known thefts in many years of operation.

In the case of contractor processed payments, one approval should be from a County employee.  Requiring the approval for a separate entity should further reduce the chances of theft.

Closed Cases

The thefts were accomplished through processing payments on closed cases which required only one approval for payments less than $150. An improved control would be to require the approval of two individuals to process payments on closed cases.  Again, requiring one of the approvals to be from a County employee would further improve controls.

System Access

A review of GEARS system access records indicated that there were user I.D.'s where the name was blank and others where the name was "test."  It appears that there is a need to clean up this file to ensure only authorized individuals who need access have access and that transactions can be traced back to a user.

County Employee Approval

It may not be practical to require a County employee to approve payments in all cases. If the Departments believe it is not practical, they should ensure that, as discussed next, a diligent  monitoring program is implemented and maintained.

**Recommendations**

1. **DPSS modify GEARS to require two approvals for all payments and assign level two approvals to only County employees.**

2. **DPSS and DCSS review the system access files to ensure that unnecessary user I.D.'s are removed, all I.D.'s have an identified user, and that only individuals who need access have access.**

Monitoring

DPSS , DCSS  Monitoring

The nature of the fraudulent issuances is such that they could have been detected through better monitoring controls (i.e., exception reports that list payments on closed cases, numerous payments in the same amount, on the same day, on the same case, etc.)  However, exception reports of this nature do not currently exist and this limits DCSS' and DPSS' ability to properly monitor for irregularities in transportation issuances made through GEARS.

A review of the MOU indicates DCSS and DPSS both have monitoring responsibilities. DPSS is to monitor DCSS activities; and DCSS is to monitor program compliance by its contractors.  However, both departments acknowledge that improvements must be made to ensure program integrity and compliance.  Changes should be made to the GEARS system to produce monitoring reports, and training given to staff to aid DCSS and DPSS to properly monitor the program.

It is highly recommended that DCSS and DPSS (1) jointly develop policies and procedures that clearly designate each department's responsibility for monitoring (2) jointly develop new GEARS generated reports that can be used to closely monitor irregularities in any disbursements made through the system (3) develop the appropriate training for DCSS and its contractors, and DPSS internal staff on the use of the reports, and (4) modify the MOU to reflect the clarified responsibilities.

Monitoring Reports

As noted, the current monitoring reports issued by the GEARS system are inadequate. DPSS recently started producing the Detail of All Transaction Types report which provides some very useful information for monitoring purposes.  However, exception reports to identify suspicious transactions for investigation do not exist.  For example, a report of payments on closed cases, or a report on multiple payments on the same case within a time period, or a report of lifetime payments over a certain dollar amount would be helpful in identifying potential thefts.

## **Recommendations**

3. **DPSS and DCSS jointly develop policies and procedures that clearly designate each department's responsibility for monitoring.**

4. **DPSS and DCSS jointly develop new GEARS generated reports that can be used to closely monitor irregularities in any disbursements made through the system.**

5. **DPSS and DCSS jointly develop the appropriate training for DCSS and its contractors, and DPSS internal staff on the use of the reports.**

6. **DPSS and DCSS jointly modify the MOU to reflect the clarified responsibilities.**

We are continuing our investigation and plan on conducting a more thorough evaluation of GEARS internal controls in the future.  If you have any questions, please call me or have your staff call Pat McMahon at (213) 974-0729.

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