



County of Los Angeles
CONTRACTOR HEARING BOARD

500 W. TEMPLE ST., LOS ANGELES, CALIFORNIA 90012

Gevork Simdjian,
Acting Chair

Participating Departments:
Chief Executive Office
Department of Public Works
Department of Parks and Recreation

August 6, 2019

The Honorable Board of Supervisors
County of Los Angeles
Kenneth Hahn Hall of Administration
500 West Temple Street
Los Angeles, CA 90012

ADOPTED

BOARD OF SUPERVISORS
COUNTY OF LOS ANGELES

45 August 6, 2019

CELIA ZAVALA
EXECUTIVE OFFICER

Dear Supervisors:

**DEBARMENT OF INLINE VALVE SALES AND LUIS MORALES
ALL DISTRICTS
(3-VOTES)**

SUBJECT

Request for Board approval to adopt the proposed findings, decision, and recommendations of the Contractor Hearing Board (CHB) to debar Inline Valve Sales and its principal owner, Mr. Luis Morales, from bidding on, being awarded, and/or performing work on any contracts and/or purchase orders for the County of Los Angeles permanently from the date of the Board's approval of the recommendation, as a consequence of what the Contractor Hearing Board found to be serious purchase and ethical violations, and questionable practices.

IT IS RECOMMENDED THAT THE BOARD:

1. Adopt the proposed findings, decision, and recommendations of the Contractor Hearing Board to debar permanently, Inline Valve Sales and its principal owner, Mr. Luis Morales, from bidding on, being awarded, and/or performing work on any contracts or purchase orders for the County of Los Angeles from the date of the Board's approval of this action.
2. Instruct the Director of the Internal Services Department (ISD) to send notice to Inline Valve Sales and Mr. Morales, advising of the debarment action taken by the Board.

3. Instruct the Director of ISD to enter this determination to permanently debar Inline Valve Sales and Mr. Morales into the County's Contract Database and in the Listing of Contractors Debarred in Los Angeles County.

PURPOSE/JUSTIFICATION OF RECOMMENDED ACTION

The purpose of the recommended debarment action against the contractor, Inline Valve Sales and Mr. Morales (collectively "Inline"), is to ensure the County of Los Angeles (County) contracts only with responsible contractors and vendors.

Inline, a certified County Local Small Business Enterprise (LSBE), supplied the County various commodities such as air filters, temperature controllers, water feeders and other power plant items for ISD and the Department of Health Services (DHS) through the non-agreement procurement process, where bid price quotes from at least two multiple vendors were required and the lowest bidder received a purchase order (PO) for those commodities.

The Office of County Investigations (OCI) investigated and substantiated allegations that Inline was manipulating the bid price quotes provided to ISD and DHS by improperly using their LSBE status and maintaining an improper financial relationship and/or interest with multiple County employees and other registered County vendors, which resulted in County POs being improperly awarded at a higher cost to the County.

On April 3, 2019, the CHB convened at the request of ISD and DHS to initiate debarment hearings based on the OCI findings. ISD and DHS requested that Inline be permanently debarred for it had:

- 1) Violated a number of Terms and Conditions (T&Cs) in its POs with the County;
- 2) Committed and engaged in a pattern of acts that reflected negatively on its quality, fitness and capacity to perform on a contract with the County;
- 3) Committed acts which indicate a lack of business integrity and honesty; and
- 4) Made or submitted false claims against the County.

Represented by its principal owner, Mr. Morales, Inline provided no evidentiary documentation, but did provide oral statements and oral rebuttal at the hearing.

Based on the evidence presented, the testimony of all parties, and following deliberations at the April 3, 2019 hearing, the CHB found that Inline committed all of the above referenced acts and that a permanent debarment should be recommended to your Board.

ISD and DHS showed that Mr. Morales was the owner and operator of Inline, and as an LSBE vendor, engaged in various procurement schemes using its LSBE status. These schemes include, but are not limited to, bid rigging by sharing vendor quotes, collusive bid-rigging and complementary bidding. ISD and DHS also showed that Inline was aiding and abetting personal purchases with County funds, and maintaining improper financial relationships/interests with multiple County employees and vendors. The CHB's findings are set forth below.

IMPLEMENTATION OF STRATEGIC PLAN GOALS

The recommended action is consistent with the County Strategic Plan Goal III (Realize Tomorrow's Government Today), specifically Strategy 3 (Pursue Operational Effectiveness, Fiscal Responsibility, and Accountability) which supports shared values of accountability, integrity, professionalism, efficient and effective service delivery, and envisions the County as the premier organization for those working in the public's interest with a pledge to sustain essential County services through proactive and prudent fiscal policies and stewardship.

FISCAL IMPACT/FINANCING

Not applicable.

FACTS AND PROVISIONS/LEGAL REQUIREMENTS

The Contractor Non-Responsibility and Debarment Ordinance

The Determinations of Contractor Non-Responsibility and Contractor Debarment Ordinance, County Code Chapter 2.202 (Debarment Ordinance), provides the County with the authority to terminate contracts and debar contractors when the County finds, in its discretion, that the contractor has engaged in certain acts, including any of the following:

- Violated a term of a contract with the County or a nonprofit corporation created by the County;
- Committed an act or omission which negatively reflects on the contractor's quality, fitness, or capacity to perform a contract with the County, any other public entity, or a nonprofit corporation created by the County, or engaged in a pattern or practice which negatively reflects on the same;
- Committed an act or omission which indicates a lack of business integrity or business honesty; or

- Made or submitted a false claim against the County or any other public entity.

As provided for in County Code Chapter 2.202, a contractor "...includes a contractor, subcontractor, vendor or any of their respective officers, directors, owners, co-owners, shareholders, partners, managers, employees or other individuals associated with the contractor, subcontractor, vendor who participated in, knew of, or had reason to know of any wrongdoing." In considering debarment, the County may consider the seriousness and extent of the contractor's acts, omissions, patterns, or practices and any relevant mitigating factors.

Contractor Hearing Board Representatives

The Debarment Ordinance established the CHB to allow for an independent review of a contracting department's recommendation to debar a contractor. The regular membership of the CHB is comprised of representatives from ISD, the Chief Executive Office (CEO), and the Department of Public Works (DPW). In addition, the CHB has alternate members that include DHS, Parks and Recreation (Parks), Public Social Services (DPSS), and any other County departments serving as alternate members. The ISD representative generally serves as the Chair in the CHB hearings.

In this particular debarment hearing, the CHB was comprised of representatives from the CEO, DPW, and Parks. Since ISD and DHS initiated debarment hearings against this contractor, they abstained from participating in the CHB hearing and the CEO Representative served as the Chair.

Background

In November 2018, ISD on behalf of itself and DHS, requested the CHB to convene to initiate debarment hearings against Inline. The CHB hearing was scheduled for April 3, 2019. On February 19, 2019, ISD sent proper notice via certified mail to Inline, notifying them of ISD's and DHS's intent to initiate debarment actions against Inline, with the hearing scheduled for April 3, 2019 at 2:00 p.m. at the ISD's Administrative Offices (Attachment I). Inline confirmed it would attend the debarment hearing on April 3, 2019.

On March 19, 2019, ISD provided Inline with a list of prospective witnesses and copies of all documentary evidence that ISD and DHS planned to use in the debarment hearing. Inline did not provide any documentary evidence for the debarment hearing.

The debarment hearing was publicly noticed and conducted on April 3, 2019 (Attachment II). The hearing was recorded and the recording is available upon request, as well as all documents entered into the record as exhibits during the hearing. Attachment III is a listing of the exhibits that were entered into the record, and which form a part of the record and this recommendation, as though fully set forth herein. Attachment IV is a listing of

CHB members for this hearing, ISD and DHS representatives, witnesses put on by ISD and DHS, the Inline representative, and participating lawyers from County Counsel.

SUMMARY OF EVIDENCE AND ARGUMENT

County Counsel lawyers represented ISD and DHS, and presented evidence in the form of supporting documentation and oral testimony from a number of OCI investigators and an ISD employee to demonstrate that Inline was eligible for permanent debarment under the Debarment Ordinance. In summary, ISD and DHS showed that Mr. Morales was the owner and operator of Inline, that Inline had improper financial relationships and/or interests with County employees, that Inline improperly used its LSBE status, that Inline violated a number of terms and conditions set forth in the County POs, and that Inline engaged in various procurement schemes, all of which resulted in the improper awarding of County POs to Inline.

Based on the evidence presented, the testimony presented by ISD, DHS and Inline, and following deliberations on the record, the CHB found that Inline engaged in all of the above referenced acts. Additionally, the CHB determined by a preponderance of the evidence, that Inline had knowledge of its wrong doing, but continued to willfully and intentionally commit these acts.

Inline Improperly Used Its LSBE Status to Mark Up Prices and Did Not Perform a Commercially Useful Function

Inline was notified by the County on November 29, 2010 and December 6, 2012 that it qualified as a LSBE. Inline then used its LSBE status to inappropriately pass off quotes from other vendors to give the appearance that these quotes were received from an LSBE. OCI's investigation found that Inline exists primarily as an entity through which purchase transactions are laundered to create the appearance of an LSBE, and they found no evidence that Inline performed any commercially useful function in these transactions. Inline did not make or manufacture any parts, and did not have a warehouse to store any parts. Its two business addresses were at a local apartment and a residential home in local cities. Yet, it was supplying all kinds of parts and equipment to the County by passing through products of other suppliers, for which it appears Inline then marked up at disproportionate costs to the County.

E-mails produced by ISD and DHS as early as August 2011, showed that a County employee would pass and share quotes from both LSBE and non-LSBE County vendors to Mr. Morales. Mr. Morales would then mark up the quotes by 3% to 151%, submit it to the County on Inline's letterhead, contact the LSBE or non-LSBE County vendor to do the work or supply the goods, and then submitted invoices claiming Inline performed the work or delivered the goods. Inline was then subsequently paid for the marked up amounts. Based on OCI's investigation of a sample of 116 Inline transactions with the County, this

practice resulted in the County incurring additional and unnecessary costs of at least \$87,500 on these 116 transactions alone, which had an average mark-up of 26%. An ISD employee who has worked for 40 years in the purchasing area provided testimony that a typical mark-up was four 4% to 6%. Anything above 15% was high. If the 26% mark-up was extrapolated to Inline's \$2.2M in total sales to the County since 2008, the estimated potential loss to the County could be as much as \$572,000.

Per County Code Chapter 2.204.030, et seq., a certified LSBE should provide goods and services that contribute to the fulfillment of the contract requirements by performing a commercially useful function. Specifically, the Code states that, "A contractor, subcontractor, or supplier will not be considered to perform a commercially useful function if the contractor's, subcontractor's, or suppliers role is limited to that of an extra participant in a transaction, contract, or project through which funds are passed to obtain the appearance of an LSBE." Indeed, it appears Inline was just an extra participant, and Mr. Morales' emails as gathered by OCI confirmed this. OCI found emails between Mr. Morales and a County employee regarding marking up quotes from both LSBE and non-LSBE vendors for parts ranging from filters, temperature controllers, and water feeders. Inline did not make any of these parts themselves, but secured them from other vendors.

Further, Inline repeatedly submitted invoices to the County for payments that Mr. Morales knew to be false and misleading, including by intentionally misrepresenting that goods and services were provided by Inline when he knew they were not. He also knew that he had marked-up the invoice amounts significantly (up to 151%) over the actual cost of the goods and services that were provided, and received payments from the County for those marked up amounts.

Inline Improperly Used Its LSBE Status to Engage In Bid-Rigging

Inline also inappropriately used its LSBE status to bid-rig quotes to inappropriately win purchase orders and limit competition, all to the detriment of the County. ISD Purchasing Policy A-0300, effective October 1, 2016, provides for the Simplified Acquisition Process (SAP) that permits departmental purchases from \$5,001 to \$24,999 to be made using a two LSBE-bid process. Inline, along with County employees and several other LSBEs and non-LSBE County vendors, colluded to bid-rig the SAP solicitation process. This was done by sharing quotes, submitting high bids and submitting no-bids. The bid-rigging involved falsely creating the appearance of a competitive process when none existed. For example, Inline colluded with an ISD employee to bid-rig a \$22,885 County solicitation to direct a County PO to another vendor that the ISD employee pre-selected. On another occasion, Inline colluded with a DHS employee and another vendor to bid-rig County solicitations to direct POs to vendors pre-selected by the DHS employee. Inline supplied fabricated quotes in this instance to use as fictitious non-competitive bids.

This bid-rigging hurts the County because without a competitive process, the County is not likely to get the best price for goods and services. This bid-rigging also hurts other LSBE's. According to the County Office of Small Business, Department of Consumer and Business Affairs, the County established the LSBE Preference Program to enhance contracting opportunities for small businesses located within the County. These LSBEs are eligible for a 15% bid price reduction or "preference" during the bid evaluation process, and are entitled to prompt payment within net 15 days of an approved invoice. By colluding with others, Inline prohibited legitimate LSBEs from bidding on this work for goods and services, and who could have benefited from the LSBE Preference Program. The County could have also benefited from more competitive quotes with potentially better goods and services.

Inline Improperly Maintained Financial Relationships and Interests with County Employees

ISD and DHS presented substantial evidence from OCI's investigation of Inline that documented a number of improper financial relationships and interests with County employees. It appears that Mr. Morales aided and abetted a County employee in misusing the County's purchasing process to misappropriate \$5,989 in County funds for the County employee's personal use. Mr. Morales procured various items for the County employee's personal use, including an off-road racing radio and various radio-related accessories in the amount of \$4,951 (which was marked up by 32%), and two motorhome power window regulators in the amount of \$1,038. While Mr. Morales denied at the April 3, 2019 debarment hearing that he knew the race radios were for the County employee's personal use, the radios were shipped to the County employee's residence. Mr. Morales and the County employee also colluded to revise the race radio quote details multiple times in an attempt to hide the nature of the items being purchased. Further, with respect to the two motorhome power window regulators, Mr. Morales admitted to OCI investigators during OCI's investigation of Inline that he purchased these items for the County employee, and "figured it was no big deal, buying a window thing."

Inline also made improper payments to an employee and created a conflict of interest by paying a County employee over three transactions a total of \$8,438. This employee was a principal decision maker for the County in directing DHS purchases to Inline. It appears that these payments assisted the DHS employee in paying back withdrawal amounts from his retirement account, when he fell behind in monthly child support payments, and to settle a lawsuit this DHS employee was involved in. Mr. Morales claimed that the payments were "loans", but OCI found no evidence of formal loan agreements memorializing the terms or that all of the amounts purportedly were repaid.

On another occasion, Mr. Morales created another conflict of interest and further paid an improper gratuity to another County employee by paying for this employee's personal expenses. Mr. Morales submitted a \$550 PayPal payment for transmission repair work

on the employee's motorhome and by failing to report that the County employee improperly solicited him to pay the \$550 invoice. The County employee at issue emailed Mr. Morales after payment was made by PayPal, and stated "We will pay you back on the next project". Apparently, this was "payback" for the County employee directing future POs to Inline.

Finally, whether these amounts were paid or not is immaterial. Inline's actions created a conflict of interest, constituted improper gratuities, and were a breach of the standard terms and conditions contained in the County POs issued to Inline. Inline violated the following County's standard terms and conditions in the POs:

- Section 9 (Covenant Against Gratuities) - "Vendor warrants that no gratuities (in the form of entertainment, gifts, or otherwise) were offered or given by vendor, or any agent or representative of Vendor, to any officer or employee with the County with a view toward securing this Purchase Order or favorable treatment with respect to any determination concerning the performance of this Purchase Order."
- Section 10 (Conflict of Interest) – "No County employee whose position with the County enables such employee to influence the award of the Purchase Order of any competing agreement...shall have any direct or indirect financial interest in this Purchase Order."
- Section 29 (Termination for Improper Consideration) – "The County may...immediately terminate the right of the Vendor to proceed under this Purchase Order if it is found that consideration, in any form, was offered or given by the Vendor, either directly or through an intermediary, to any County officer, employee or agent." Inline was on notice that these improper gratuities were not permitted, and that such actions could result in termination of its POs."

The CHB finds it troubling that Mr. Morales stated at the April 3, 2019 hearing that after several years of doing business with the County, he developed a close relationship with the employees and they would even participate in certain events such as barbecues. Mr. Morales indicated there was nothing wrong with this behavior.

Inline Improperly Received County Funds for POs that Were Cancelled

ISD and DHS also presented evidence from OCI's investigation that showed that Inline submitted false claims to the County in the form of invoices for goods and services that were never provided, and which were tracked in an off-the-books ledger. OCI discovered handwritten notes in documents maintained by County employees that seemed to track funds in Mr. Morales' possession, i.e. a "bank." Some of these document notes stated

"22K in bank", "Total \$7,787 in bank", "12,897.00 in bank". When OCI investigators inquired about this "bank" with Mr. Morales, he stated it was an accounting of money in Mr. Morales' possession from unfilled POs where he received payment, but the contractors who were actually supposed to do the work never completed it, so he kept the payments. The payments then were supposedly used to purchase items as needed for the County in emergencies. OCI reviewed the ledger that purportedly tracked these payments, but were unable to account for all of these funds or verify that they were used to benefit the County.

Mr. Morales stated at the April 3, 2019 hearing, however, that once he received POs from the County, he always delivered the items required by the POs. He stated he had documentation proving that he always delivered items, but the CHB notes that he did not provide any documentary evidence for the hearing.

FINDINGS AND RECOMMENDED DECISION

After considering the evidence and arguments presented by ISD, DHS and Inline, the CHB finds that ISD and DHS demonstrated that Inline and Mr. Morales should be permanently debarred. The CHB finds that:

Inline and Mr. Morales Violated Multiple Terms and Conditions of Contracts with the County

As set forth above, ISD and DHS demonstrated that Mr. Morales maintained improper financial relationships and financial interests with County employees. Inline aided and abetted a County employee in misusing the County's purchasing process to misappropriate \$5,989 in County funds for the County employee's personal use. Inline made improper payments to a County employee over three transactions for a total of \$8,438, and characterized it as "loans", even though the employee was a principal decision maker for the County in directing DHS purchase orders to Inline. Inline also made a \$550 PayPal payment for transmission repair work, which was "payback" for the County employee directing POs to Inline in the future. All this was done in violation and breach of Section 9 (Covenant Against Gratuities), Section 10 (Conflict of Interest) and Section 29 (Termination for Improper Consideration) of the County's terms and conditions set forth in the POs.

*Inline and Mr. Morales Committed an Act or Omission Which Negatively Reflected on the Contractor's Quality, Fitness, or Capacity to Perform a Contract with the County; **AND** Committed an Act or Offense Which Indicates a Lack of Business Integrity or Business Honesty*

Through the oral and documentary evidence presented, ISD and DHS demonstrated that Mr. Morales colluded with County employees and other registered County vendors (some

who were LSBE vendors and others who were not) to engage in various procurement schemes like bid rigging and creating fictitious POs for payment at substantially marked up costs. This resulted in the improper awarding of County POs to Inline and other County vendors, and/or procurements from legitimate vendors being "laundered" by using Inline Valve's LSBE status to give the appearance that the purchases were made under the LSBE Preference Program, in violation of County Code Chapter 2.204.030 (C) (4). This resulted in a lack of competition to the detriment of the County, and denied other legitimate LSBE vendors the opportunity to competitively participate in the SAP procurement process.

The evidence also showed that Mr. Morales purchased goods and services from third parties, and marked-up the pricing anywhere between 3% to 151% percent to sell to the County. If the average mark-up of 26% was extrapolated to Inline's \$2.2M in total sales to the County since 2008, the estimated potential loss to the County could be as much as \$572,000. These County purchases were paid for with taxpayer funds, and without the process being competitive as required, the County can only assume that it overpaid for these goods and services.

Inline and Mr. Morales Submitted a False Claim to the County

Inline improperly received County funds for POs that were cancelled. Mr. Morales submitted invoices for payment for work or goods that he claimed was completed or delivered, but apparently that was not the case. He allegedly then used these funds for future emergency purchases for the County. ISD and DHS presented evidence from OCI's investigation of Inline that showed that Inline submitted false claims to the County in the form of invoices for goods and services that were never provided, but that he was paid for, and which were then tracked in an off-the-books ledger. These ledger amounts were substantial. Handwritten notes referenced a number of large amounts, including \$7,787, \$12,897, and \$22,000 in the "bank".

The following factors assisted the CHB in reaching its recommendation for permanent debarment of Inline and Mr. Morales:

- *Actual or potential harm or impact that results or may result from the wrongdoing.*

As discussed above, Inline and Mr. Morales' actions violated County purchasing rules and the spirit of competition that such rules are meant to foster. Receiving competitive quotes from multiple independent vendors gives the County some assurances that what it's paying for was secured at a good price and good quality. Inline and Mr. Morales' actions undermined that competitive process.

- *Frequency and/or number of incidents and/or duration of the wrongdoing; whether there is a pattern or prior history of wrongdoing.*

As demonstrated by ISD and DHS pursuant to OCI's investigation, Inline and Mr. Morales' wrongdoing was numerous and extensive. There was a long history of at least five to eight years of submitting multiple fictitious quotes. If the average mark-up of 26% was extrapolated to Inline's \$2.2M in total sales to the County since 2008, the estimated potential loss to the County could be as much as \$572,000.

- *Whether a contractor's wrongdoing was intentional or inadvertent.*

The totality of the evidence suggests that Mr. Morales knew what he was doing was wrong. The evidence suggests that Mr. Morales engaged in a pattern of misconduct wherein he maintained improper financial interests and relationships with County employees who he knew could direct and award future POs to Inline. He also knew that he was receiving quotes from other vendors and he applied mark-ups to those quotes so he could profit from the mark-up. He then placed the quotes on his business letterhead to give the false appearance that his company, a certified LSBE, would perform or furnish the goods. In addition, based on Mr. Morales' own statements, he knowingly submitted false invoices to the County requesting payment for goods and services that he did not provide, and which ultimately were not provided. Those amounts were then kept by him, the "bank."

- *The positions held by the individuals involved in the wrongdoing.*

The wrongdoing was at the highest levels. Mr. Morales is the principal owner of Inline and colluded with County employees and other registered County vendors, and engaged in various procurement schemes as described above, resulting in the improper awarding of County POs to Inline.

After weighing the presentation of evidence by both parties, the CHB unanimously voted to recommend to the Board that Inline and Mr. Morales be debarred. By a separate unanimous vote, the CHB recommends that Inline and Mr. Morales be permanently debarred. The reasons cited by the CHB for debarring Inline and Mr. Morales are as indicated above, given he was the principal owner of Inline and was involved with improper relationships with County employees and various procurement schemes, resulting in the improper awarding County POs for a long period of time.

IMPACT ON CURRENT PROJECTS

Not applicable.

CONCLUSION

Due to the foregoing, and to ensure that the County contracts only with responsible contractors who comply with all relevant laws, as well as the terms and conditions of their contracts, the CHB respectfully requests that your Board adopt the proposed findings and recommendations relating to Inline and Mr. Morales, and permanently debar both.

Respectfully submitted,



GEVORK SIMDJIAN, ACTING CHAIR
Contractor Hearing Board
Manager, CEO
Chief Executive Office

GS:cg

Attachments

- c: Executive Office, Board of Supervisors
- Gevork Simdjian, Chief Executive Office
- Isaac Gindi, Department of Public Works
- Alina Bokde, Department of Parks and Recreation
- Truc L. Moore, County Counsel for Contractor Hearing Board
- Scott Minnix, Director of Internal Services Department
- Christina R. Ghaly, M.D., Director of Health Services
- Patrice Salseda, County Counsel for Internal Services Department
- Brian Chu, County Counsel for Department of Health Services



SCOTT MINNIX
Director

County of Los Angeles INTERNAL SERVICES DEPARTMENT

1100 North Eastern Avenue
Los Angeles, California 90063

Telephone: (323) 267-3101
FAX: (323) 263-5286

"Trusted Partner and Provider of Choice"

February 19, 2019

VIA EMAIL & U. S. Mail

Luis A. Morales
Inline Valve Sales
747 West Duell Street
Azusa, CA 91702

Dear Mr. Morales:

DEBARMENT PROCEEDINGS

The County of Los Angeles Internal Services Department (ISD) intends to initiate debarment proceedings against Inline Valve Sales and Mr. Luis Morales, as an individual (collectively referred to as Inline Valve). The recommended debarment will be made pursuant to Los Angeles County Code Chapter 2.202, Determination of Contractor Non-Responsibility and Contractor Debarment.

You are hereby notified that the department hearing with the Contractor Hearing Board will be held on:

Date: Wednesday, April 3, 2019
Time: 2:00 pm
Place: Internal Services Department
Conference Room G-101
1100 N. Eastern Avenue
Los Angeles, CA 90063

This notice specifies the basis for the debarment recommendation, the proposed period of debarment and a summary of evidence to support the recommendation, in Attachment A, incorporated herein by reference.

At the Contractor Hearing Board, you are entitled to appear and/or be represented by an attorney or other authorized representatives to present evidence against a finding of debarment. At the hearing, your representative may offer documentary evidence, present witnesses and offer rebuttal evidence as authorized by the County Code. After the debarment hearing, the Contractor Hearing Board will prepare a proposed decision to the County Board of Supervisors (Board). The decision will include a

Mr. Luis A. Morales
February 19, 2019
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recommendation on whether or not to debar you and/or Inline Valve and if so, the appropriate length of time for debarment. The Board may, in its discretion, limit any further hearing to the presentation of evidence not previously heard. The Board has the right to modify, deny, or adopt the Contractor Hearing Board's proposed decision and recommendation. Any debarment finding shall become final upon the approval by the Board.

Inline Valve must submit a written confirmation to ISD indicating whether you and/or attorney or other authorized representative will be present at the debarment hearing. **This confirmation must be sent to Ms. Christie Carr, Contracting Division, 11100 N. Eastern Avenue, Los Angeles, CA 90063, or emailed to ccarr@isd.lacounty.gov, and must be received no later than 5:00 p.m. on Wednesday, February 27, 2019.** Failure to confirm the hearing date or otherwise respond may result in waiving of all rights to a hearing before the Contractor Hearing Board.

If Inline Valve Sales intends to contest the debarment at the Contractor Hearing Board, ISD will provide you with a list of prospective witnesses and copies of all documentary evidence at least ten (10) business days prior to the scheduled hearing.

If Inline Valve intends to present evidence against the proposed debarment, it must provide ISD with a list of prospective witnesses and five (5) copies of all documentary evidence at least five (5) business days prior to the scheduled hearing. The deadline for Inline Valve to submit these documents is 12:00 pm on Wednesday, March 27, 2019.

If you have any questions, please contact me at (323) 267-2101, via email at: sminnix@isd.lacounty.gov, or your staff may contact Christie Carr at (323) 267-3101; via email: ccarr@isd.lacounty.gov.

Very truly yours,



Scott Minnix
Director

SM:SH:MO:CC:cb

Attachment

c: County Counsel
Contractor Hearing Board Member

**ATTACHMENT A
BASIS FOR PROPOSED RECOMMENDATION AND
SUMMARY OF EVIDENCE TO SUPPORT THE RECOMMENDATION**

The basis for the proposed debarment recommendation is that Inline Valve Sales and Mr. Luis A. Morales, as an individual (collectively referred to as Inline Valve), (1) violated a term of a contract with the County or a nonprofit corporation created by the County; (2) committed an act or omission which negatively reflects on the contractor's quality, fitness or capacity to perform a contract with the County, any other public entity, or a nonprofit corporation created by the County, or engaged in a pattern or practice which negatively reflects on same; (3) committed an act or omission which indicates a lack of business integrity or business honesty; or (4) made or submitted a false claim against the County or any other public entity.

The Internal Services Department (ISD) and the Department of Health Services (DHS) will recommend a permanent debarment for Inline Valve Sales and its owner, Mr. Luis A. Morales.

A summary of the evidence to support the debarment recommendation is set forth below:

1. Inline Valve has been a County vendor since 2008 and has been issued approximately 590 Purchase Orders (POs) totaling approximately \$2 million. The POs awarded to Inline Valve include the County's Standard Terms and Conditions (T&Cs), Terms of Conditions of Purchase.

The County is prepared to produce documentary evidence.

2. According to County records, Inline Valve has been certified as an eligible participant in the County's Local Small Business Enterprise Preference Program (LSBE) since 2010 to present. As a LSBE, Inline Valve is eligible for a 15% bid preference, prompt payment and exclusive listing on the County's online directory of certified LSBEs. Additionally, in November 2016, ISD updated Purchasing Policy A-0300, Departmental Authority, to incorporate the Simplified Acquisition Process (SAP) which allows for departmental purchases from \$5,001 to \$24,999 to be made using a two LSBE-bid process.

The County is prepared to produce documentary evidence.

3. A SmartLinx Business Report, obtained from Lexis Nexis for Inline Valve on September 22, 2016 identifies:
 - Luis A. Morales is the registered owner of Inline Valve
 - Operating Location: 747 Duell Street, Azusa, CA 91702

The County is prepared to produce documentary evidence of these reports.

4. Inline Valve, a LSBE vendor, engaged in various procurement schemes using their LSBE status including, but not limited to, bid-rigging and purchase structuring by

ATTACHMENT A
BASIS FOR PROPOSED RECOMMENDATION AND
SUMMARY OF EVIDENCE TO SUPPORT THE RECOMMENDATION

sharing vendor quotes, collusive bid-rigging, complementary bidding, aiding and abetting personal purchases with County funds, improper financial relationship, kickback/bribery and financial interest with multiple County employees and other registered County vendors, resulting in County POs being improperly awarded to Inline Valve and/or purchases from legitimate vendors being "laundered" through Inline Valve in violation of County PO T&Cs and LSBE requirements.

The Auditor-Controller's Office of County Investigations (OCI) conducted an investigation revealing that as early as August 2011, Inline Valve received quotes from LSBE and non-LSBE County vendors and recreated the quotes resulting in the County incurring additional and unnecessary costs based on a sample of 116 Inline Valve transactions reviewed. Based on their investigation, OCI found several improprieties and violations of County PO T&Cs and LSBE requirements by Inline Valve including:

- Inline Valve arbitrarily marked up quotes originating from Advanced Filtration Concepts, Inc. (AFC), a LSBE vendor, for air filters. Inline Valve was awarded the PO and subsequently corresponded with AFC to discuss payment options, including providing their credit card information for parts. Thus, the County paid Inline Valve for parts that were provided by AFC, which constitute an improper award to Inline Valve for purchases that were laundered through the procurement process from other legitimate vendors.
- Inline Valve arbitrarily marked up a quote originating from Horizon Scientific, Inc. (Horizon), a non-LSBE vendor, for temperature controllers. Inline Valve was awarded the PO and subsequently corresponded with Horizon to discuss payments. Thus, the County paid Inline Valve for parts that were provided by Horizon, which constitute an improper award to Inline Valve for purchases that were laundered through the procurement process from other legitimate vendors.
- Inline Valve arbitrarily marked up a quote originating from George T. Hall Company, Inc. (George T. Hall), a non-LSBE vendor, for water feeders. Inline Valve was awarded the PO and subsequently corresponded with George T. Hall to discuss the water feeder order and Inline Valve's resale card. Thus, the County paid Inline Valve for parts that were provided by George T. Hall, which constitute an improper award to Inline Valve for purchases that were laundered through the procurement process from other legitimate vendors.

The County is prepared to produce documentary evidence demonstrating the procurement schemes and is prepared to produce a witness from OCI who will testify to the schemes discovered.

5. OCI found evidence of Inline Valve colluding with two County employees by submitting complementary bids to improperly direct POs to pre-selected vendors. The bid-rigging

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involved falsely creating the appearance of a competitive process when none existed by submitting falsified bids for the following requests:

- A 'falsified 'No Bid' response to a request for the installation of a MicroTech Control Board. As a result of the falsified bid, the County issued a PO to Daikin for the requested service, compromising the County's primary control against being overcharged and denying other legitimate vendors the opportunity to compete for County business.
- A falsified quote for \$3,462.41 to provide a Medical-Grade Freezer. As a result of the falsified quote, the County issued a PO to Follett for the requested parts, compromising the County's primary control against being overcharged and denying other legitimate vendors the opportunity to compete for County business.

The County is prepared to produce documentary evidence demonstrating the procurement schemes and is prepared to produce a witness from OCI who will testify to the schemes discovered.

6. OCI found evidence of Inline Valve aiding and abetting one County employee's personal purchases by misusing the County's purchasing process to misappropriate County funds by:
 - Sanitizing a quote received from PCI Race Radios (PCI), a non-LSBE vendor, for off-road radio racing components, which Inline Valve quoted as, 'Radio Parts and Accessories'. Thus, the County issued a PO for 'Parts & Accessories for Radio System' to Inline Valve (totaling \$5,989). In the interview that was conducted by OCI, Inline Valve admitted to purchasing the race radios for the County employee.
 - Submitting a quote for 'Regulator Power 10108534 and Regulator Power 10108533', as well as an 'Instrument Calibration' line item, for two Fleetwood motorhomes. Thus, the County issued a PO for 'Regulators and Instrument Calibration' to Inline Valve (totaling \$1,038). In the interview that was conducted by OCI, Inline Valve admitted to purchasing two power window regulators for the County employee.

The County is prepared to produce documentary evidence demonstrating the aiding and abetting of employee's personal purchases with County funds and is prepared to produce a witness from OCI who will testify to the procurement scheme discovered. Additionally, the interview with Mr. Morales was recorded and a transcript of the proceedings will be provided.

7. OCI found evidence of improper financial relationships between one County employee and Inline Valve. Inline Valve made improper payments to the County employee (totaling \$8,438), which created a conflict of interest, since the County employee was

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a principal decision maker for the County in directing County purchases to Inline Valve. When interviewed by OCI, Mr. Morales admitted paying the County employee money but Inline Valve claimed the payments were "loans," but no evidence was found of formal loan agreements memorializing the terms or that the amounts purportedly lent were repaid.

The County is prepared to produce documentary evidence demonstrating the improper financial relationships between the County employee and Inline Valve and is prepared to produce a witness from OCI who will testify to the procurement scheme discovered. Additionally, the interview with Mr. Morales was recorded and a transcript of the proceedings will be provided.

8. OCI found evidence of a kickback/bribery to one County employee as Inline Valve made improper payments to the County employee by paying for the employee's personal expenses, in the form of a \$550 PayPal payment for transmission repair work on the County employee's motorhome, which created a conflict of interest. Subsequently, the County indirectly paid for the repairs, as the County employee expected Inline Valve to recoup the \$550 via future business with the County. Inline Valve failed to report to the County that the County employee improperly solicited him for the motorhome transmission repair work.

The County is prepared to produce documentary evidence demonstrating the kickback / bribery to the County employee and is prepared to produce a witness from OCI who will testify to the procurement scheme discovered.

9. OCI found evidence of Inline Valve's financial interest with one County employee, as noted on at least 25 occasions, of County employee asking Inline Valve about money, or the accounting of money in Inline Valve's possession from unfulfilled POs, where he knowingly submitted false invoices and received payment for goods and services that were never provided, suggesting an improper financial arrangement.

The County is prepared to produce documentary evidence and witness statements demonstrating Inline Valve's financial interest with one County employee and is prepared to produce a witness from OCI who will testify to the procurement scheme discovered.

10. Inline Valve violated numerous terms of the County Code Chapter 2.204 LSBE Program including Section 4. (b) which states, "A contractor, subcontractor, or supplier will not be considered to perform a commercially useful function if the contractor's, subcontractor's, or supplier's role is limited to that of an extra participant in a transaction, contract, or project through which funds are passed in order to obtain the appearance of a LSBE."

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The County is prepared to produce a witness from ISD who will testify to the LSBE requirements. In addition, the County is prepared to provide documentary evidence of Inline Valve's violation of the specified code, including Inline Valve's emails.

11. Inline Valve violated numerous terms with the County's PO Standard Terms & Conditions (T&Cs), Terms & Conditions of Purchase including: (1) Covenant Against Gratuities, (2) Conflict of Interest, (4) Compliance with Applicable Laws and (4) Termination for Improper Consideration.

The County is prepared to produce a witness from ISD who will testify to the County's PO T&Cs and also provide documentary evidence demonstrating the terms of the County's PO and the requirements of the applicable law.

12. Inline Valve violated the Simplified Acquisition Process (SAP) which allows for departmental purchases from \$5,001 to \$24,999 to be made using a two LSBE-bid process which became effective October 2016.

The County is prepared to produce a witness from ISD who will testify to the County's SAP. The County is also prepared to provide documentary evidence demonstrating the SAP requirements of the applicable law and Inline Valve emails.

13. Inline Valve may have violated numerous California Penal Codes (PC) including: (i) PC 67 Bribery, (ii) PC 72 Fraudulent Government Claims (iii) PC 182(a) Conspiracy and (iv) PC 532(a)(1) Theft by False Pretenses.

The County is prepared to produce documentary evidence demonstrating the terms of the Penal Codes and the requirements of the applicable law.

County of Los Angeles
CONTRACTOR HEARING BOARD

500 W. TEMPLE ST, LOS ANGELES, CALIFORNIA 90012



Gevork Simdjian, Acting Chair

NOTICE OF REGULAR MEETING

April 3, 2019, 2:00 p.m.
Internal Services Department, Room G101
1100 N. Eastern Ave
Los Angeles, CA 90063

AGENDA

- I. Call to Order
- II. Debarment Proceedings against Inline Valve Sales and Luis Morales, as initiated by the Internal Services Department
- III. Consideration of other items not on the posted Agenda
- IV. Public Comment
- V. Adjournment

For additional information, contact Gevork Simdjian of the Chief Executive Office, at 213-893-9736 or by email, gsimdjian@ceo.lacounty.gov.

ATTACHMENT III

**DEBARMENT DOCUMENTARY EVIDENCE
 INLINE VALVE SALES (INLINE VALVE)
 DEBARMENT DATE (APRIL 3, 2019) ***

TAB	DOCUMENTS
1	Debarment Proceedings Letter from ISD to Inline Valve - March 19, 2019
2	LA County Vendor Information for Inline Valve - 2008 to present
3	Local Small Business Enterprise (LSBE) Certification Letters to Inline Valve - 2010 to 2018
4	SmartLinx Business Report from LexisNexis for Inline Valve Sales- September 22, 2016
5	Inline Valve Sales total purchases - 725 Purchase Orders (PO) totaling \$2.32M - 2009 to 2018
6	LA County Vendor Registration Portal and Doing Business with the County
7	PO Standard Terms & Conditions, Terms & Conditions of Purchase
8	ISD Purchasing Policy A-0300 Departmental Authority - November 22, 2016
9	LSBE Brochure - April 13, 2017
10	LA County Code, CA Code of Ordinances, Chapter 2.204 Local Business Enterprise Preference Program
11	County of Los Angeles, LSBE, Disabled Veterans Business Enterprise, and Social Enterprise Programs Implementation Guidelines - November 2016
12	Auditor-Controller (A-C) Office of County Investigations (OCI) report of Inline Valve procurement improprieties - February 7, 2019
13	ISD supporting documentation from July 2015 to September 2015 for PO awarded and payment to Inline Valve for Air Filter parts provided by Advanced Filtration Concepts, Inc. - Bid-Rigging
14	DHS supporting documentation from September 2016 to November 2016 for PO awarded and payment to Inline Valve for Temperature Controls provided by Horizon Scientific, Inc. - Bid-Rigging
15	ISD supporting documentation from March 2017 to April 2017 for PO awarded and payment to Inline Valve for a Water Feeders provided by George T. Hall - Bid-Rigging
16	ISD supporting documentation from November 2016 to February 2017 regarding Inline Valve recreating a fictitious quote for Floor Replacement - Collusive Bid-Rigging
17	DHS Supporting documentation from April 2015 to May 2015 regarding a falsified bid submitted by Inline Valve for a MicroTech Control Board - Complementary Bidding

**DEBARMENT DOCUMENTARY EVIDENCE
 INLINE VALVE SALES (INLINE VALVE)
 DEBARMENT DATE (APRIL 3, 2019) ***

TAB	DOCUMENTS
18	DHS Supporting documentation from July 2015 to October 2015 regarding a falsified bid submitted by Inline Valve for a Medical Grade Freezer - Complementary Bidding
19	ISD Supporting documentation from August 2016 to October 2016 for PO awarded to Inline Valve for Radio Parts and Accessories for County employee - Aiding and Abetting County Employee's Personal with County Funds
20	ISD Supporting documentation from April 2017 to May 2017 for PO awarded to Inline Valve for Regulators and Instrument Calibration parts for County employee - Aiding and Abetting County Employee's Personal with County Funds
21	DHS Supporting documentation from June 2012 to November 2017 regarding Inline Valve making improper payments to County employee - Improper Financial Relationship with County Employee
22	ISD Supporting documentation from January 2017 to February 2017 regarding \$550 PayPal payment for transmission repair work for County employee's motorhome - Kickback / Bribery to County Employee
23	ISD Supporting documentation from September 2012 to March 2017 of the County employee asking Inline Valve about money, or the accounting of money - Financial Interest with County Employee
24	Letter to Inline Valve regarding Temporary Suspension of County Vendor Account - July 23, 2018
25	Debarment Proceedings letter from ISD to Inline Valve - February 19, 2019

*Government Code 53087.6(e)(2) Any investigative audit conducted pursuant to this subdivision shall be kept confidential, except to issue any report of an investigation that has been substantiated, or to release any findings resulting from a completed investigation that are deemed necessary to serve the interests of the public. In any event, the identity of the individual or individuals reporting the improper government activity, and the subject employee or employees shall be kept confidential. (3) Notwithstanding paragraph (2), the auditor or controller may provide a copy of a substantiated audit report that includes the identities of the subject employee or employees and other pertinent information concerning the investigation to the appropriate appointing authority for disciplinary purposes. The substantiated audit report, any subsequent investigatory materials or information, and the disposition of any resulting disciplinary proceedings are subject to the confidentiality provisions of applicable local, state, and federal statutes, rules, and regulations.

ATTACHMENT IV

CONTRACTOR HEARING BOARD MEMBERS FOR APRIL 3, 2019 PROCEEDING

- Gevork Simdjian, Chair of CHB, Chief Executive Office
- Alina Bokde, Department of Parks and Recreation
- Isaac Gindhi, Department of Public Works
- Truc L. Moore, County Counsel for Contractor Hearing Board

REPRESENTATIVES IN SUPPORT OF INTERNAL SERVICES DEPARTMENT & DEPARTMENT OF HEALTH SERVICES

- Patrice Salseda, County Counsel for Internal Services Department
- Brian Chu, County Counsel for Department of Health Services
- Gerald Plummer, Internal Services Department
- Christopher Magtoto, Office of County Investigations, Los Angeles County Department of Auditor-Controller
- Steven Lee, Office of County Investigations, Los Angeles County Department of Auditor-Controller
- Robert Campbell, Office of County Investigations, Los Angeles County Department of Auditor-Controller

REPRESENTATIVES IN SUPPORT OF INLINE VALVE SALES

- Luis A. Morales, Principal Owner of Inline Valve Sales