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November 22, 2023

TO: Each Supervisor

FROM: Oscar Valdez, Auditor-Controller

SUBJECT: **DEPARTMENT OF PUBLIC SOCIAL SERVICES – WELFARE FRAUD PREVENTION AND INVESTIGATIONS REVIEW (REPORT #K19CF) - FIRST FOLLOW-UP REVIEW**

We completed a follow-up review of the Department of Public Social Services (DPSS or Department) Welfare Fraud Prevention and Investigations Review dated September 16, 2022 (Report #K19CF). As summarized in Table 1, DPSS fully implemented one recommendation, partially implemented two recommendations, and did not implement two recommendations. DPSS should fully implement the four outstanding recommendations to strengthen controls and monitoring over welfare fraud prevention and investigation processes.

**Table 1 - Results of First Follow-up Review**

RECOMMENDATION IMPLEMENTATION STATUS				
PRIORITY RANKINGS	TOTAL RECOS	FULLY IMPLEMENTED	OUTSTANDING RECOMMENDATIONS	
			PARTIALLY IMPLEMENTED	NOT IMPLEMENTED
PRIORITY 1	2	1	1	0
PRIORITY 2	1	0	0	1
PRIORITY 3	2	0	1	1
TOTAL	5	1	2	2
			4	

For details of our review and the Department’s corrective actions, see Attachment. We will follow up and report back on the one outstanding Priority 1 and one outstanding Priority 2 recommendations. The two outstanding Priority 3 recommendations are exempt from subsequent follow-up reviews in accordance with our standard procedures.

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We thank DPSS management and staff for their cooperation and assistance during our review. If you have any questions please call me, or your staff may contact Mike Pirolo at [mpirolo@auditor.lacounty.gov](mailto:mpirolo@auditor.lacounty.gov).

OV:RGC:MP:ZP:am

Attachment

c: Fesia A. Davenport, Chief Executive Officer  
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AUDIT DIVISION

Report #K23EZ

DEPARTMENT OF PUBLIC SOCIAL SERVICES  
WELFARE FRAUD PREVENTION AND INVESTIGATIONS REVIEW (REPORT #K19CF)  
FIRST FOLLOW-UP REVIEW

RECOMMENDATION	A-C COMMENTS
<p><b>1</b> <b>Timeliness (Priority 1)</b> – Department of Public Social Services (DPSS or Department) management:</p> <p>a) Establish a process for monitoring both early fraud reviews and welfare fraud investigations and ensuring they are completed within established timeframes.</p> <p>b) Develop a plan to resolve the early fraud referral backlog.</p> <p>c) Reevaluate the welfare fraud investigation timeframes and consider using more reasonable and appropriate guidelines.</p> <p><b>Original Issue/Impact:</b> DPSS requires early fraud reviews (i.e., reviews of alleged fraud during the benefit application process) to be performed within 7 to 10 days for high-priority referrals and 30 days for lower priority referrals. The Department established the required timeframes because benefit payments are generally issued 30 days after receiving applications (regardless of a pending early fraud review, as per State regulations). However, they did not have a process for Welfare Fraud Prevention and Investigations (WFP&amp;I) supervisors to monitor these reviews and ensure they are completed within established timeframes (even though their tracking systems include sufficient information to do so). During our walkthrough at a district office, we noted a significant number of early fraud reviews over 30 days old, including some that were up to 11 months old.</p> <p>For welfare fraud investigations (cases involving individuals who are suspected of receiving fraudulent benefit payments), DPSS considers cases in progress for over four years to be past due as the statute of limitations for fraud is four years from the date it is discovered. While DPSS should certainly complete cases within that timeframe, it does not appear to be a reasonable basis for determining whether investigations are</p>	<p><b>Recommendation Status: Partially Implemented</b></p> <p>a) Early Fraud Reviews – We reviewed and confirmed DPSS updated their written procedures to require early fraud supervisors to monitor timely completion of early fraud reviews on an ongoing basis. We confirmed supervisors review the monthly Early Fraud Inventory Report, which identifies referral timeframes and follow-up with staff to discuss the status of referrals and develop solutions to help expedite reviews.</p> <p>Welfare Fraud Investigations – We reviewed and confirmed DPSS established a process to monitor welfare fraud investigations to ensure they are completed within established timeframes. However, as noted below, the Department indicated they revised the established timeframe from four years to one year and are currently working with their Human Resources Division (HRD) to update the policies and procedures to implement the change. WFP&amp;I’s current process consists of ensuring investigations are completed in chronological order (i.e., oldest to newest). Supervisors meet with staff monthly to review their oldest five cases, discuss progress, and develop solutions to expedite investigations. We also confirmed that supervisors annotate the Historical Investigations Inventory Report which identifies investigations by calendar year to document their monthly review, including the status of each investigation they reviewed.</p> <p>b) We confirmed DPSS resolved the early fraud referral backlog by reviewing the Early Fraud Monthly Management Report for August 2023 noting only 23 referrals over 60 days old (a rather immaterial amount given the 6,700 referrals they review annually). The Department indicated they dedicated overtime hours to review and process referrals, and the early fraud manager monitored the early fraud review inventory monthly and met</p>

**Priority Ranking:** Recommendations are ranked from Priority 1 to 3 based on the potential seriousness and likelihood of negative impact on the Agency’s operations if corrective action is not taken.

RECOMMENDATION	A-C COMMENTS
<p>completed timely given that four years is a significant length of time and individuals under investigation continue to receive benefit payments while cases are in progress. In addition, similar to early fraud reviews, DPSS did not have a monitoring process in place to ensure welfare fraud investigations are completed timely. However, we did not identify the same types of resulting delays/backlogs during our review.</p> <p>The Department conducts approximately 6,700 early fraud reviews and 15,000 welfare fraud investigations annually. If these reviews and investigations are not completed timely, it significantly increases the risk of issuing benefit payments to ineligible applicants or issuing overpayments to applicants, and having those payments continue for substantial lengths of time.</p>	<p>with supervisors/staff to discuss referral backlog progress.</p> <p>c) DPSS indicated they revised the welfare fraud investigation timeframe from four years to one year and are currently working with HRD to update their policies and procedures to include and implement the one-year timeframe.</p> <p>The Department plans to fully implement this recommendation by February 29, 2024.</p>
<p><b>2</b> <b>Action Taken on Fraud (Priority 1)</b> – DPSS management:</p> <p>a) Remind Eligibility Workers to take appropriate follow-up action on early fraud review findings and document the action taken in the case management system.</p> <p>b) Establish a process to track early fraud referrals with findings and corresponding actions taken by Eligibility Workers and resolve discrepancies.</p> <p><b>Original Issue/Impact:</b> WFP&amp;I Early Fraud Investigators report results of early fraud reviews back to the referring Eligibility Worker. If positive fraud findings are noted, Eligibility Workers must take appropriate follow-up action (e.g., request additional information from applicant, deny application) and document actions taken in the Department’s case management system. However, DPSS does not have a process for tracking referrals with findings and ensuring action is taken on all findings. During our walkthrough at one district office, a WFP&amp;I supervisor indicated that in some cases, Eligibility Workers do not take action on positive fraud findings or document actions taken in the system.</p> <p>WFP&amp;I identifies fraud findings on over half of their early fraud reviews. If Eligibility Workers do not take appropriate follow-up action on positive fraud findings, it significantly increases the risk of issuing benefit payments to ineligible applicants or issuing</p>	<p><b>Recommendation Status: Implemented</b></p> <p>a) We confirmed Eligibility Workers were reminded to take appropriate follow-up action on early fraud review findings and document the action taken in the Department’s case management system by reviewing the Operations Memo distributed to managers and staff reminding them of the procedures for processing early fraud findings which includes taking appropriate action within 10 business days and creating an entry to document the action taken in the Department’s case management system.</p> <p>b) We confirmed DPSS management established a process for tracking early fraud referrals with findings and corresponding actions taken by Eligibility Workers by reviewing the Operations Memo requiring Early Fraud Investigators to create a task in the Department’s case management system to notify the respective Eligibility Worker of the findings for review and appropriate action, and requiring Eligibility Worker supervisors to review the tasks daily to ensure action is taken within 10 business days. We reviewed examples of these tasks and noted Eligibility Workers generally documented actions taken within 10 business days and marked tasks as ‘Completed.’ In addition, we reviewed communications demonstrating that supervisors and managers follow-up with staff on the status of tasks to ensure timely completion.</p>

RECOMMENDATION	A-C COMMENTS
<p>overpayments to applicants. In addition, if the action is not documented in the system, it prevents management from regularly ensuring Eligibility Workers follow-up and take action on positive fraud findings.</p>	
<p><b>3</b> <b>Performance Management (Priority 2)</b> – DPSS management develop a WFP&amp;I performance management process that includes:</p> <ul style="list-style-type: none"> <li>a) Defining operational objectives.</li> <li>b) Developing performance metrics/Key Performance Indicators (KPI) to determine if the operational objectives are being effectively and efficiently achieved.</li> <li>c) Tracking and comparing actual results to performance metrics/KPIs.</li> <li>d) Establishing measurable goals for improvement and plans to achieve them.</li> <li>e) Communicating the performance management results to key stakeholders.</li> </ul> <p><b>Original Issue/Impact:</b> DPSS collects and reports required welfare fraud review/investigation activity data (e.g., fraud overpayments identified, number of reviews/investigations completed) to the State every quarter. However, DPSS did not use this information to measure the performance of WFP&amp;I operations and did not have a formal performance management process. Robust performance management processes provide management with information on current and ideal performance and serve as a mechanism for setting direction and bridging gaps. Without a comprehensive process to evaluate operational performance, there is an increased risk of inefficient and ineffective operations and greater likelihood of not achieving WFP&amp;I’s mission and objectives.</p>	<p><b>Recommendation Status: Not Implemented</b></p> <p>The Department has not developed a formal WFP&amp;I performance management process that includes defining operational objectives, developing suitable performance metrics/KPIs to determine if objectives are achieved, tracking and comparing actual results to performance metrics/KPIs, establishing goals for improvement and plans to achieve them, and communicating results to key stakeholders.</p> <p>Although the Department indicated that established review and investigation timeframes (e.g., early fraud reviews must be completed within 30 days) serve as performance metrics/KPIs, they do not include an evaluation component to determine whether the operational objective of timely reviews/investigations is achieved. For example, a performance metric/KPI related to timeliness could be completing a specific percentage of reviews and investigations within the established timeframes.</p> <p>The Department plans to fully implement this recommendation by February 29, 2024.</p>
<p><b>4</b> <b>Written Standards and Procedures (Priority 3)</b> - DPSS management:</p> <ul style="list-style-type: none"> <li>a) Update written standards and procedures to adequately guide supervisors and staff in the performance of their WFP&amp;I duties, including those areas noted in our review.</li> <li>b) Establish a process to regularly review written policies and procedures and update them when necessary to reflect expected practices.</li> </ul>	<p><b>Recommendation Status: Partially Implemented</b></p> <ul style="list-style-type: none"> <li>a) We reviewed and confirmed DPSS management updated and distributed written standards and procedures to adequately guide supervisors and staff in the performance of their WFP&amp;I duties for the areas noted in our review, including processes for monitoring early fraud reviews and ensuring they are completed within established timeframes, tracking early fraud referrals with findings and corresponding actions taken by Eligibility Workers (and resolving discrepancies), and conducting early fraud reviews and investigations to reflect</li> </ul>

RECOMMENDATION	A-C COMMENTS
<p><b>Original Issue/Impact:</b> DPSS did not have a process in place to regularly review written policies and procedures and update them when necessary to reflect expected practices. In addition, we noted that the policies and procedures need to be updated in the following areas to adequately guide supervisors and staff in the performance of their WFP&amp;I duties:</p> <ul style="list-style-type: none"> <li>• Specify processes for monitoring both early fraud reviews and welfare fraud investigations and ensuring they are completed within established timeframes.</li> <li>• Identify processes for tracking early fraud referrals with findings and the corresponding actions taken by Eligibility Workers and resolving discrepancies.</li> <li>• Update policies and procedures for conducting welfare fraud reviews/investigations to reflect WFP&amp;I's current expected practices (including relevant timeframes/deadlines). We noted that they have not been updated in 18 years and reference some systems no longer in use.</li> </ul> <p>Outdated written standards and procedures increases the risk of staff performing tasks incorrectly or inconsistently and deviating from processes designed by management to accomplish departmental objectives. In addition, there is an increased effort required to train new staff and prevents management from effectively evaluating processes and controls.</p>	<p>current practices. However, as noted in Issue No. 1, the Department indicated they are currently working with HRD to update their policies and procedures to include and implement the one-year timeframe for welfare fraud investigations.</p> <p>b) The Department's Program Compliance Division (PCD) is responsible for identifying department policy changes (e.g., new State requirements), updating DPSS' written policies and procedures to reflect those changes, and distributing revised policies and procedures to DPSS units, including WFP&amp;I. For example, we noted that PCD revised DPSS' Case Control Desk Guide and distributed revisions to WFP&amp;I. However, DPSS does not have a process for regularly reviewing policies and procedures and updating to reflect expected practices, when necessary. This process would reveal any current WFP&amp;I processes or practices that need to be reflected in their written policies and procedures.</p> <p>The Department plans to fully implement this recommendation by February 29, 2024.</p>
<p><b>5</b> <b>Management Monitoring of Internal Controls (Priority 3)</b> - DPSS management develop ongoing self-monitoring processes that include:</p> <ul style="list-style-type: none"> <li>a) Examination of process and control activities, such as a review of an adequate number of transactions on a regular basis to ensure adherence to County and/or departmental policies.</li> <li>b) Documenting the monitoring activity and retaining evidence so it can be subsequently validated.</li> <li>c) Elevating material exceptions to management on a timely basis to ensure awareness of relative control risk, and to ensure appropriate corrective actions are implemented.</li> </ul>	<p><b>Recommendation Status: Not Implemented</b></p> <p>The Department indicated WFP&amp;I is in the process of developing an ongoing self-monitoring process.</p> <p>The Department plans to fully implement this recommendation by February 29, 2024.</p>

RECOMMENDATION	A-C COMMENTS
<p><b>Original Issue/Impact:</b> DPSS did not have a self-monitoring process in place over early fraud reviews (including action taken on fraud findings) and welfare fraud investigations to ensure processes and controls were working as intended. This weakness increases the risk of not promptly identifying and correcting any process/control weaknesses or instances of non-compliance with relevant County and/or departmental policies and procedures, such as referrals not being reviewed timely and distributing benefits to ineligible individuals. This weakness also prevents management from having reasonable assurance that important County and departmental objectives for WFP&amp;I are being achieved.</p>	

We conducted our review in conformance with the International Standards for the Professional Practice of Internal Auditing. For more information on our auditing process, including recommendation priority rankings, the follow-up process, and management’s responsibility for internal controls, visit [auditor.lacounty.gov/audit-process-information](http://auditor.lacounty.gov/audit-process-information).