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TO: Fred Verdugo, Deputy Human Resources Director; Gary Anderson, Principal Deputy City Attorney; and Eric Golz, Sergeant, Financial Crimes Detail.

FROM: **REDACTED THROUGHOUT TO PROTECT WHISTLEBLOWER IDENTITY**

DATE: 9/7/2021

RE: Complaint – Misappropriation of Public Funds/Contract Fraud

Below is my report alleging misappropriation of public funds and contract fraud committed by City Auditor Laura Doud within the Long Beach City Auditor's Office.

1. My relationship to the subject:

My name is **REDACTED** and I am currently **REDACTED** at the Long Beach City Auditor's Office.

REDACTED.

Please keep my identity confidential.

2. Description of the misappropriation of public funds/contract fraud:

I suspect misappropriation of public funds or contract fraud has been committed by City Auditor Laura Doud since 2006. At her direction and approval, a regional lobbying firm, called Kindel Gagan (formerly known as Rose & Kindel), has been paid \$5,700 or \$6,000 per month since late 2006 with City of Long Beach funds without providing any services or products. These consistent payments appear to be made shortly after Ms. Doud's election as the City Auditor in November 2006. According to the City's financial system records, I estimate a total of \$1,018,500 has been paid to Kindel Gagan to date and payments are still ongoing.

Based on my knowledge, research and inquiry, no actual services have been nor are currently being provided. There is no contract agreement that defines the services to be performed and the terms of the agreement, such as the consultant's hourly rates. My current and former coworkers and I are not aware of any deliverables, reports, audits or analyses provided. When asked, City Auditor Doud refuses to share what Kindel Gagan actually does for the Office or for her.

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The City Auditor's Office has entered into many contracts with consulting firms to perform external auditing or accounting work for us. For each of these engagements for professional services, we have a clear contract agreement, with a clear scope of work, expectations and deliverables. Our auditors and I meet with these professional services firms on a regular basis to discuss project status, and we receive updated/draft reports and final audit reports. We review and confirm invoices received to ensure that services have in fact been rendered as indicated in the contract agreements. The arrangement with Kindel Gagan is nothing like our normal practice in managing our contracted professional services for these reasons:

a) No contract agreement with Kindel Gagan exists to delineate services, terms and deliverables.

There is no current contract agreement. For the past 15 years, only one single two-year contract for 2016 and 2017 could be located. I was able to locate three scopes of work proposals for 2006, 2007 and 2009; however, it appears that these scopes were never incorporated into formal contract agreements. In my opinion, this single contract from 2016-17 and prior scope proposals are not legitimate, given that Kindel Gagan does not possess the expertise to provide the services described in the contract agreement and is unlikely to provide such services to any other client.

The single contract agreement and the past scope of service proposals describe financial analysis services of City budget, pension costs and liabilities to be provided by Kindel Gagan. However, Kindel Gagan is a regional lobbying firm. They are a registered lobbyist with the City of Long Beach, as well as with other Southern California municipalities. They do not have the expertise to provide financial analysis services, especially with respect to pensions and budgets, as they are not financial analysts or actuaries. Further, I believe this contract agreement and work scopes are structured in ways to make it difficult to verify that work was performed. For example, the payments are described as monthly "retainer" payments for the described services, and the services include "monitoring" which is difficult to verify.

b) No work is performed by Kindel Gagan. No report drafts, final analyses, final reports, and/or recommendations from Kindel Gagan have been located that can verify that work was actually performed. Ms. Doud has not explained the services provided.

I (and current and former coworkers) was not able to identify and locate any information or documentation (reports, draft reports, memos, spreadsheets, analysis, etc.) to confirm that actual services were provided by Kindel Gagan for the City Auditor's Office. If financial analysis were the service to be provided by

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Kindel Gagan, the audit staff and I would have been aware of the firm's work, given the nature of our work, which is operational and financial auditing.

In our line of work, Long Beach's pension costs and annual budget regularly arise in staff discussions and staff meetings with Ms. Doud. She has never mentioned that Kindel Gagan was providing financial analysis on City pension costs or the budget, nor has she provided any analyses, reports, recommendations or memos from Kindel Gagan related to pension or budget analysis that would help inform our audit work. In fact, Ms. Doud has regularly asked staff to review the City's pension costs and budget.

For this reason, I was taken aback when I came upon the past contract agreement describing pension and budget analysis as the scope of work performed by Kindel Gagan. In my opinion, it is simply unreasonable to pay a company – let alone a lobbyist – on a monthly basis for the past 15 years for financial analysis work without any service deliverables. Furthermore, I cannot think of a service that a lobbyist can provide that would be beneficial to a government auditing department. To this day, Ms. Doud has not provided an explanation.

c) Monthly invoices for the past 15 years contain no information describing the services or hours that were rendered for that invoice period.

For the past 15 years, the monthly invoices simply state "Professional Services" with no other information to describe the services rendered. As stated above, with all other contract agreements for professional services, my staff and I review and confirm invoices to ensure that services have been rendered in accordance with the contract terms. In reviewing invoices for payment approval, we typically look out for the description of the work performed during the invoice period, hours worked, the hourly rates charged, as well as backup documentation, such as a status report or other deliverables that can substantiate the work performed. None of this information is provided in the Kindel Gagan invoices.

In our auditing work, we have conducted many audits of the City's oversight and management of contracts. During such audits, if we were to discover both the lack of a contract agreement and the lack of invoice documentation and work deliverables for extended periods of time, we would certainly identify these observations as clear red flags that warrant further analysis. There are simply too many red flags with Ms. Doud's Kindel Gagan payment scheme. In my opinion, compared to the issues found in the many contract oversight audits and hotline investigations that my fellow auditors and I have conducted over the years, Ms. Doud's override of internal controls and evasion of City procurement policies to execute the Kindel Gagan scheme are by far the worst.

3. How did I become aware of this violation?

REDACTED - - , I signed the monthly invoices from Kindel Gagan for a period of time, based on Ms.

Doud's verbal acknowledgement that services were rendered. However, after multiple attempts of requesting and recommending to Ms. Doud that she put together a real contract agreement with legitimate services, and after receiving no responses to my requests/recommendations, I informed her in mid-2019 that I would no longer sign the monthly invoices from Kindel Gagan, as I could not approve invoices without a contract and adequate back-up documentation of invoices. Since then, Ms. Doud personally approves Kindel Gagan invoices. Each time I have raised my concerns about these payments to Kindel Gagan, Ms. Doud has either ignored me or expressed anger, displeasure and disapproval of my recommendations.

4. What is Ms. Doud's rationalization for the payment scheme?

In response to Ms. Doud's rationalization for the payment scheme, I responded, "just because others do it, it doesn't mean it's right, especially given your role as the City Auditor." Notably, during these meetings, Ms. Doud never explained the type of services provided by Kindel Gagan.

Please note that I have no knowledge of another payment scheme within the City similar to the one that Ms. Doud has set up for Kindel Gagan (with the possible exception of the contract with the Davis Group, another dubious contract agreement initiated by Ms. Doud, which is further described below).

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Since my refusal in 2019 to no longer sign/approve all further invoices from Kindell Gagan and the Davis Group, Ms. Doud has been and continues to approve the invoices. **REDACTED**, I approve all invoices that come through the Office, with the exception of the monthly invoices from Kindel Gagan and the DavisGroup. I also refused to approve invoices from the Davis Group.

Ms. Doud approves these two invoices on a monthly basis. Please note that the Davis Group, a political campaign consulting firm, is another firm that receives monthly payments (initially \$3,000 and now \$3,600) for services that are not fully clear to me or my colleagues in the Office. I believe that there is a current contract agreement with the Davis Group, but the scope of services is highly vague and greatly overlaps with the work performed by our in-house Communications Director. My co-workers and I suspect that if the Davis Group actually performed services, the work is minimal at best. In my opinion, the payment scheme with the Davis Group warrants further investigation.

5. Why has Ms. Doud been able to execute the payment scheme?

There are a number of associated factors that create the opportunity for Ms. Doud to be able to execute this payment scheme for 15 years without being caught:

- a) Ms. Doud has been able to skirt the City's purchasing policies by having staff submit the Kindel Gagan invoices as if they are one-time payments each month, rather than ongoing payments that should be tied to a contract agreement. Since the invoices are treated as one-time payments, they are not required to undergo competitive bidding (or multiple proposals) or have proper contract terms.
- b) The City's policy guidance on approval of vendor invoices for payment allows discretion and flexibility to each City department. If the City department approves the invoice, there is an assumption that the department has performed the due diligence to verify the services or products provided.
- c) Elected Offices within Long Beach are afforded an even higher level of autonomy and independence. In my opinion, accountability is more lacking with respect to the Elected Offices. Many of the City's Administrative Regulations are optional to Elected Offices. For example, AR 23-2 (the requirement to verify the work performed billed in invoices) appears to be violated by Ms. Doud's payment scheme but the regulation is optional for Elected Offices.
- d) Internal controls within the City Auditor's Office to flag such payments are simply ineffective or non-existent because Ms. Doud has the power to override these controls. Protests and recommendations raised by me and likely by my predecessor to correct the Kindel Gagan payment scheme to Ms. Doud have had no impact on her actions. Administrative staff who process the invoices have

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recently and in the past asked for a contract agreement, but have been directed to process the invoices as one-time payments.

- e) Ms. Doud's payment scheme is executed out in the open. People within the City Auditor's Office are aware of the scheme, but are likely too afraid of reprisals from Ms. Doud to report the scheme to others outside of the City Auditor's Office. So, they often would ignore the Kindel Gagan scheme or attempt to derive various explanations to justify the payment scheme (e.g., "she's the boss, she can do anything she wants," or "give her the benefit of the doubt because maybe Kindel Gagan does provide her services that we just don't know about").

Ms. Doud has shunned and isolated her staff, and diminished the responsibilities of staff who question her decisions regarding various matters (I have been experiencing escalating reprisals for at least the past 1.5 years). Most of our employees are at-will and not part of an employee bargaining unit, so fears of reprisals are elevated. I myself grappled with the decision of expressing my concerns and recommending appropriate actions to Ms. Doud. I was fearful that Ms. Doud would terminate my employment shortly after I refused to approve invoices from Kindel Gagan and Davis Group, but I felt that it was the right thing to do, regardless of the possible consequences, from which I am suffering now. I believe this fear of retaliation has prevented other staff members from reporting her payment scheme in the past, and has allowed her to continue the scheme without being caught.

Please note that I am not certain whether concerns over the Kindel Gagan payment scheme have been reported by other City Auditor staff to external parties. However, if no external reporting has been made in the past, I believe there is a strong fear of retaliation among those who are or were aware of the payment scheme. I believe the risk levels between reporting a fellow co-worker and reporting your elected boss are entirely different.

6. What has motivated Ms. Doud to execute the payment scheme?

Currently, I am not aware of monetary kick-backs to Ms. Doud from Kindel Gagan or the Davis Group but this may be an avenue to further investigate. In my opinion, Ms. Doud's motivation to fulfill this payment scheme for 15 years stems from her profound sense of loyalty, obligation and indebtedness to the people she believes were and are responsible for her success.

In my opinion, I believe Ms. Doud arranged these monthly payments for such an extended time because Ms. Doud feels indebted to certain individuals for their help and assistance in jumpstarting her career as an elected politician. I believe that both Kindel

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Gagan and Davis Group helped her political campaign in 2006 when she was first elected, with the Davis Group serving as her campaign manager in the 2006 election.

I believe that Michael Gagan (founder of Kindel Gagan) was someone with whom she worked in her prior job 20 years ago with the Water Replenishment District (WRD). I recall that Ms. Doud once told me that it was Mr. Gagan who, as her long-time mentor, encouraged her to run for public office in 2006. Ms. Doud's win immediately propelled her from a staff accountant at WRD to one of the most influential public figures in Long Beach. Therefore, I believe that these monthly payments, especially to Mr. Gagan, were "tokens" of her appreciation for his guidance and encouragement.

7. Who else can support your description or provide additional information?

There are both current and former City Auditor employees who can corroborate much of this information. These individuals hold/held management-level positions in the Office, with the exception of administrative staff who had to process the invoices. I have not discussed my complaint with any of these employees. I do not know for certain whether anyone outside of the City Auditor's Office is aware of the alleged activity.

8. Has City management been notified?

No. At the time I submitted my complaint to the Los Angeles District Attorney's Public Integrity Division on August 6, 2021, I did not believe that Ms. Doud was aware that I had made the complaint. I now believe that she suspected that I had reported my concerns, given the escalating retaliatory actions she has taken against me soon after submitting my complaint to the District Attorney's Office. These retaliatory actions include shutting me out of meetings and projects that I have been involved in, diminishing and reassigning my responsibilities, and reaching out to the HR Department to begin the process of terminating my employment. I was very wary about notifying anyone within the City government structure, because I was afraid that Ms. Doud would somehow find out. I am fearful of retaliation and being wrongfully terminated.

9. Have I filed this information with any other agency or investigative entity?

Given my concern that Ms. Doud would discover my complaint and given my fears of retaliation from her, I had not submitted my allegation to the City Attorney's Office, which may investigate my allegation as a possible administrative violation. I did not want anyone else within the City to know about my allegations, and simply wanted to leave the investigation of the allegations to the District Attorney's Office.

Further, I did not submit a complaint to the City Auditor's Fraud Hotline because of the apparent conflict of interest, since the Deputy City Auditor who reports to me manages the Fraud Hotline. Outside of the City, as I have noted before, I have submitted a

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complaint to the Los Angeles County District Attorney's Public Integrity Division. I have not filed a complaint with the California Department of Industrial Relations.

As of today, given recent developments, I am sharing this information with Gary Anderson (City Attorney's Office), Fred Verdugo (HR Department), and Eric Golz (Police Department).

10. Have I filed a lawsuit and/or administrative grievance against the department or individual?

No. As I have indicated to Fred Verdugo, I just want to do the right thing and had only wanted the District Attorney's Office to review the fraud allegation. I communicated to Fred that I want to leave Long Beach with my integrity and my reputation intact. I do not want to be tainted by any wrongful termination and an unwanted lawsuit that will affect my future employment elsewhere.

11. Do I have documents or files that support my report?

Please see attached for:

- a) A summary report listing of payments to Kindel Gagan and Rose & Kindel from 12/11/2006 to 2/13/2019. This report was generated from the City's FAMIS legacy financial management system, and it shows payments totaling \$858,000 during this period.
- b) A summary report listing all invoices from and checks to Kindel Gagan from 2/1/2019 to 6/1/2021. This report was generated from the City's new MUNIS financial management system, and it shows invoices totaling \$159,600 and checks totaling \$148,200.
 - i. Please note that I have not had the chance to clean the data (particularly of the FAMIS invoice report in item "a" above) of possible duplicate entries. However, these payments have been consistently paid each month for the past 15 years. So, based on the timeframe and the same monthly amounts (\$6,000 during the earlier parts of the 15-year period and \$5,700 for most of that period), I estimated a total of \$1,018,500 in payments to Kindel Gagan from December 2006 to August 2021.
- c) Four recent examples of the monthly invoices, along with three past invoices from Rose & Kindel dated 10/1/2007, 11/1/2007 and 12/1/2007 for "Professional Services" for the amount of \$6,000 per invoice. I include these three Rose & Kindel invoices because they could not be located in the City's financial management system.

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- d) Scope of service proposals from Rose & Kindel that discuss the provision of financial analysis of the City budget and CalPERS pension costs/liabilities. No other proposed scopes of service for other years were found. No contract agreements were found to execute and approve these proposed scope of services proposals.
 - i. Proposed scope of services from Rose & Kindel, dated 10/6/2006.
 - ii. Proposed scope of services from Rose & Kindel, dated 10/30/2007.
 - iii. Proposed scope of services from Rose & Kindel, dated 11/10/2009.

- e) The single professional services agreement was for the period of 1/1/2016 to 12/31/2017, and executed on 12/21/2015. I believe this contract was drafted by Ms. Doud due to pressure and recommendation from my predecessor to rectify the situation. However, I have not found any information to confirm that the services described in this agreement were performed or provided. You will also notice that although the agreement stipulates a monthly payment of \$5,600, Ms. Doud paid Kindel Gagan for \$5,700 during the two-year agreement period. It is unclear why this discrepancy exists.

12. Other comments:

When I assumed my current position, I gave City Auditor Doud the benefit of the doubt. After all, she was my boss and she was, in fact, the elected City Auditor. Even after multiple recommendations to Ms. Doud to put together a legitimate contract agreement with Kindel Gagan, I thought that she would follow through and do the right thing at some point. But that has never happened.

My confidence in Ms. Doud's ethics and integrity has plummeted because of these inappropriate payment arrangements and because of other unethical decisions that Ms. Doud has made in the past several years, especially in her role as the City Auditor. Such decisions from Ms. Doud include shutting down audits and investigations because of political or personal reasons. The totality of Ms. Doud's actions and behavior, including her retaliatory actions against me for communicating my protests and reservations to her, has led me to speculate that fraud has been and continues to be committed. As I have mentioned earlier, I oversee a Fraud Hotline. If a similar complaint came through the Fraud Hotline, we would conclude that there is substantial predication to further investigate the allegation.

Reporting this allegation has been a very difficult decision that I have grappled with for a rather long time. I genuinely love auditing work. I hold a great deal of respect for the auditing profession and its standards for integrity and ethical behavior. And I truly enjoy serving in this Office and the City of Long Beach. I also have a tremendous amount of respect for the City Auditor's Office and its work. Thus, I feared that by reporting these

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allegations it would cast a shadow on the auditing profession, on my fellow colleagues in the City Auditor's Office, and on our many accomplishments on behalf of the Long Beach public.

I tried my best to rectify the situation internally. But I can no longer accept or tolerate the payment scheme executed by City Auditor Doud. Whether the scheme is a criminal offense, an administrative violation or an extended ethical lapse, I believe it is a gross violation of the public trust. Over \$1 million of taxpayer funds have been paid to Kindel Gagan, which likely did not provide any service or product that benefited the public, since the service or product cannot be described, located or verified. These payments need to stop.

The audit staff and I understand the importance of ethics and accountability, and we diligently strive to meet the professional standards that are important to our profession set forth by the U.S. Government Accountability Office, Institute of Internal Auditors, and the Association of Certified Fraud Examiners. We also adhere to the City's Ethics Guide and Code of Ethics. Further, on the City Auditor's website, part of our organizational mission is:

We work to:

- *Provide assurance City funds are spent as intended*
- *Promote transparency and accountability of City operations*
- *Prevent fraud, waste and abuse of City resources*

And one of our Core Values is *Integrity: We commit to putting Long Beach first by promoting honesty, transparency and ethical behavior in our culture, actions and decisions.*

In my opinion, her payment scheme to Kindel Gagan goes against everything we stand for, as auditors and public servants.

I sincerely hope that you will be able to thoroughly investigate these allegations. I genuinely thank you for your consideration and am available if you need additional information. I will reiterate my request to please keep my identity confidential.