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**CONFIDENTIAL**

February 7, 2019

TO: Scott Minnix, Director  
Internal Services Department

FROM: Robert G. Campbell, Chief  
Office of County Investigations

SUBJECT: **EVIDENCE OF VENDOR MISCONDUCT BY LUIS MORALES, DBA  
INLINE VALVE SALES – PROCUREMENT IMPROPRIETIES –  
CASE #2015-10649**

The Los Angeles County (County) Auditor-Controller's Office of County Investigations (OCI) completed an investigation into alleged procurement improprieties by Luis Morales, owner and operator of County vendor Inline Valve Sales (Inline Valve), a certified County Local Small Business Enterprise (LSBE). During investigations by OCI into an alleged improper relationship between an Internal Services Department (ISD) employee and a County contractor, we found evidence that Mr. Morales engaged in various procurement schemes (e.g., bid-rigging, split purchase orders, and kickbacks) with ISD and Department of Health Services (DHS) employees.

### Results Summary

We determined that Mr. Morales colluded with ISD and DHS employees and other registered County vendors and engaged in various procurement schemes (rigging bids, creating fictitious Purchase Orders [POs], etc.), resulting in the improper awarding of County POs to Inline Valve 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<sup>1</sup>, in violation of County Code Chapter 2.204.030 (C)(4).

Our investigation found that Inline Valve exists primarily as a legal entity through which purchase transactions are laundered to create the appearance of an LSBE, and we did not find any evidence that Inline Valve performed any commercially useful function in

<sup>1</sup> The County established the LSBE Preference Program to enhance contracting opportunities for small businesses located within the County.

these transactions. Instead, it appears that the goods and services for which Inline Valve invoiced the County and was paid for were actually provided directly by various non-LSBE County vendors. This had the effect of preventing legitimate LSBE vendors from competing for and obtaining County business, and resulted in losses in the form of additional non-value added costs to the County. Mr. Morales' conduct fundamentally compromised the County's competitive purchasing process, and violated County and ISD procurement policies. Further, Mr. Morales engaged in potentially criminal misconduct, as evidenced by the following. Mr. Morales:

- Colluded with County employees to prepare fictitious quotes to launder procurements from legitimate vendors through Inline Valve, misusing his company's LSBE status and the LSBE Preference Program. We reviewed 116 (18%) of 633 purchases made by the County from Inline Valve through May 2017, which resulted in losses to the County of approximately \$87,500, in the form of unnecessary additional costs, based on these 116 transactions.
- Repeatedly submitted invoices to the County that he knew to be false and misleading, including by intentionally misrepresenting that goods and services were provided by Inline Valve when he knew they were not, and by inflating the invoice amounts significantly (up to 151%) over the actual cost of the goods and services that were provided.
- Colluded with ██████████ Chief Stationary Engineer, ISD, to bid-rig a \$22,885 County solicitation to direct a County PO to another vendor that Mr. ██████████ pre-selected. The bid-rigging involved falsely creating the appearance of a competitive process when none existed.
- Colluded with ██████████ Steam Fitter and Refrigeration Supervisor, DHS, and Larry Nunley<sup>2</sup>, Refrigeration Supplies Distributor-Gardena (RSD), to bid-rig County solicitations to direct POs to vendors that Mr. ██████████ pre-selected. The bid-rigging involved Messrs. Morales and Nunley supplying fabricated quotes to Mr. ██████████ to use as fictitious non-competitive bids.
- Aided and abetted Mr. ██████████ in misusing the County's purchasing process to misappropriate \$5,989 in County funds by procuring various items for Mr. ██████████ personal use, including an off-road racing radio and various radio-related accessories (totaling \$4,951), and two motorhome power window regulators (totaling \$1,038).
- Made improper payments to a public official and created a conflict of interest by paying Mr. ██████████ a total of \$8,438, at the same time that Mr. ██████████ was a principal decision maker for the County in directing DHS purchases to Inline Valve. Mr. Morales claimed the payments were "loans," but we found no evidence of formal loan agreements memorializing the terms or that the amounts purportedly

<sup>2</sup> Mr. Nunley passed away on September 9, 2016.

lent were repaid. Even if the payments were personal loans, the financial relationship constitutes a prima facie conflict of interest.

- Made improper payments to a public official and created a conflict of interest by paying for Mr. [REDACTED] personal expenses, in the form of a \$550 PayPal payment for transmission repair work on Mr. [REDACTED] motorhome.
- Failed to report to the County that Mr. [REDACTED] improperly solicited him for a \$550 PayPal invoice payment for Mr. [REDACTED] motorhome transmission repair work.
- Submitted false claims to the County in the form of invoices for goods and services that were never provided, which were tracked in an off-the-books ledger. [REDACTED] Chief Stationary Engineer, ISD, referred to these funds as money “in the bank” in a variety of e-mail correspondence. Mr. [REDACTED] told us that he authorized payment of Inline Valve invoices for goods and services that were never provided, kept a ledger of those improper payments, and claimed that he used the funds to make other, unaccountable purchases to benefit the County. We 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.

The following table summarizes the significant policy violations noted during our review, including references to the pages/line numbers where those violations are detailed in the report.

**Summary of Policy Violations by Mr. Morales/Inline Valve**

Page (Line Number)	Violation	Policy
6 (14, 35, 45), 7 (9)	Conspired with County employees to launder procurements from legitimate vendors through Inline Valve’s LSBE status.	County Code Chapter 2.204
6 (35, 45), 7 (9)	Submitted false invoices to the County by intentionally misrepresenting that goods and services were provided by Inline Valve when the goods and services were provided by other vendors.	Penal Code (PC) Section (§) 72 Fraudulent Government Claims
7 (33), 8 (9, 16), 9 (8, 32), 10 (1)	Colluded with County employees to bid-rig County solicitations.	PC § 182 Conspiracy
10 (20), 11 (8)	Colluded with County employees to intentionally misidentify goods and services on official County procurement documents.	PC § 182 Conspiracy
13 (35), 14 (29)	Colluded with County employee to submit invoices for goods and services that were never provided.	PC § 72 Fraudulent Governments Claims
13 (3)	Failed to report to the County the improper solicitation by a County employee for PayPal invoice payment.	PO Terms and Condition of Purchase
11 (27)	Provided personal loans to a County employee.	

**Authority**

OCI operates the Los Angeles County Fraud, Waste, and Abuse Hotline (Hotline) pursuant to Government Code § 53087.6, and conducts criminal and administrative investigations into allegations received via the Hotline pursuant to PC § 830.13 and Board of Supervisors Policy 9.040.

**Scope**

OCI investigators reviewed evidentiary documents and records, including data from the electronic Countywide Accounting and Purchasing System (eCAPS), ISD and DHS Procurement Requests and POs, applicable ISD and County procurement and conflict of interest policies, and LexisNexis. In addition, we served search warrants and reviewed pertinent documents and records obtained from Messrs. [REDACTED] and Morales' personal residence, e-mail, and bank accounts. We also interviewed Messrs. [REDACTED] [REDACTED] and Morales.

**Background**

1 Inline Valve has been a registered County vendor (#146004) since 2008, and is a certified  
2 LSBE vendor (certification #7571), with a listed business address of 747 West Duell  
3 Street, Azusa, California. According to Inline Valve's website, the company specializes  
4 in pipe valves and fittings. LexisNexis records indicate that Mr. Morales is the owner of  
5 Inline Valve. During our investigation, we determined that 747 West Duell Street is a  
6 single-story, single-family home which, according to Department of Motor Vehicles and  
7 County Assessor records, is also Mr. Morales' personal residence. According to eCAPS,  
8 the County has made purchases from Inline Valve totaling approximately \$2.2 million  
9 since the company became a County vendor.

**Applicable Laws and Policies**

10  
11  
12  
13 According to the County Office of Small Business, Department of Consumer and  
14 Business Affairs, the County established the LSBE Preference Program to enhance  
15 contracting opportunities for small businesses located within the County. LSBEs are  
16 eligible for a 15% bid price reduction or "preference" during the bid evaluation process.  
17 County Code Chapter 2.204, et seq., indicates that a certified LSBE shall provide goods  
18 and services that contribute to the fulfillment of the contract requirements by performing  
19 a commercially useful function. The Code states that, "A contractor, subcontractor, or  
20 supplier will not be considered to perform a commercially useful function if the  
21 contractor's, subcontractor's, or supplier's role is limited to that of an extra participant in  
22 a transaction, contract, or project through which funds are passed to obtain the  
23 appearance of an LSBE."  
24  
25  
26  
27

1 According to the County’s PO Terms and Conditions of Purchase:

2  
3 9. Covenant Against Gratuities – Vendor warrants that no gratuities (in the  
4 form of entertainment, gifts, or otherwise) were offered or given by vendor,  
5 or any agent or representative of vendor, to any officer or employee of the  
6 County with a view toward securing a PO or favorable treatment. In the  
7 event of breach of the terms of the Terms and Conditions, the County shall  
8 be entitled to pursue...termination.

9  
10 10.2. Vendor shall comply with all conflict of interest laws, ordinances and  
11 regulations. Vendor also attests that it is not aware of any facts, which  
12 create a conflict of interest. If vendor hereafter becomes aware of any facts,  
13 which might reasonably be expected to create a conflict of interest, it shall  
14 immediately make full written disclosure of such facts to the County. Full  
15 written disclosure shall include, but it is not limited to, identification of all  
16 persons implicated and a complete description of all relevant  
17 circumstances.

18  
19 29. Termination for Improper Consideration: The County may...immediately  
20 terminate the rights of the vendor...if it is found that consideration, in any  
21 form, was offered or given by the vendor, either directly or through an  
22 intermediary, to any County officer, employee...with the intent of securing  
23 the PO or securing favorable treatment.

24  
25 The vendor shall immediately report any attempt by a County officer or  
26 employee to solicit such improper consideration. The report shall be made  
27 either to the County manager charged with the supervision of the employee  
28 or to the Hotline.

29  
30 Among other items, such improper consideration may take the form of cash,  
31 discounts, service, the provision of travel, entertainment, or tangible gifts,  
32 or the promise of any of these.

33  
34 PC § 67, Bribery, states, "**Every person who gives or offers any bribe to any executive**  
35 **officer in this state, with intent to influence him in respect to any act, decision, vote,**  
36 **opinion, or other proceeding as such officer, is punishable by imprisonment in the**  
37 **state prison for two, three or four years.**"

38  
39 PC § 72, Fraudulent Government Claims, states, "**Every person who, with intent to**  
40 **defraud, presents for allowance or for payment to any state board or officer, or to any**  
41 **county, city, or district board or officer, authorized to allow or pay the same if genuine,**  
42 **any false or fraudulent claim, bill, account, voucher, or writing, is punishable either**  
43 **by imprisonment in the county jail for a period of not more than one year, by a fine**  
44 **of not exceeding \$1,000, or by both imprisonment and fine.**"  
45

1 PC § 182(a), Conspiracy, states, “*If two or more persons conspire: (1) to commit any*  
2 *crime...(4) to cheat and defraud any person of any property by any means which*  
3 *are in themselves criminal, or to obtain money or property by false pretenses or by*  
4 *false promises with fraudulent intent not to perform those promises.*”

5  
6 PC § 532(a)(1), Theft by False Pretenses, states, “*Any person who shall knowingly*  
7 *make or cause to be made, either directly or indirectly or through any agency*  
8 *whatsoever, any false statement in writing, with intent that it shall be relied*  
9 *upon...for the purpose of procuring in any form whatsoever, either the delivery of*  
10 *personal property, the payment of cash...the execution of a contract of guaranty or*  
11 *suretyship...or the making, acceptance, discount, sale or endorsement of a bill of*  
12 *exchange, or promissory note, for the benefit of either himself or herself or of that*  
13 *person, firm or corporation shall be guilty of a public offense.*”

### 14 Findings

#### 15 Procurement Scheme – Bid-Rigging and Purchase Structuring by Sharing Vendor Quotes

16  
17 Our review of Outlook e-mail accounts for the involved County employees revealed that  
18 as early as August 2011 (earliest e-mails available), they engaged in a pattern of conduct  
19 wherein the County employees forwarded quotes from legitimate, non-LSBE County  
20 vendors to Mr. Morales. Mr. Morales in turn marked up the quotes by apparently arbitrary  
21 amounts ranging from 3% to 151% of the actual invoice amount, and placed the quotes  
22 on his business’s letterhead to give the false appearance that his company would perform  
23 the work or furnish the goods.  
24

25  
26 Mr. Morales later submitted invoices claiming to have performed the work and/or provided  
27 goods that he did not provide, at prices in excess of those charged by the entity actually  
28 performing the work or providing the goods. The County employees subsequently  
29 recommended payment of the marked-up Inline Valve invoices, resulting in the County  
30 incurring additional and unnecessary costs of at least \$87,500, based on a sample of 116  
31 Inline Valve transactions we reviewed. The average mark-up Inline Valve applied to the  
32 purchases in our sample is 26%. If that mark-up is extrapolated to Inline Valve’s total  
33 sales to the County since 2008, which totaled \$2.2 million, the estimated potential loss to  
34 the County could be as much as \$572,000.  
35

36  
37 The following are examples of POs awarded to Inline Valve as a result of collusion  
38 between the County employees and Mr. Morales:

39  
40 **Advanced Filtration Concepts, Inc. (AFC, vendor #060890):** On July 20, 2015, John  
41 Fintland, General Manager, AFC, e-mailed Mr. [REDACTED] a \$2,774.20 quote for 30 air filters.  
42 Later that same day, Mr. [REDACTED] forwarded the AFC quote to Mr. Morales and instructed  
43 him to provide a quote and to, “contact John @ AFC to let [sic] him know that you will be  
44 ordering them for me through you.” The following day, Mr. Morales e-mailed Mr. [REDACTED]  
45 a \$3,813.58 quote for the same 30 filters, which is \$1,039.38 (37%) more than AFC’s  
46 quote. Inline Valve’s bank account records showed that Mr. Morales paid AFC \$2,774.20

1 by credit card for 30 air filters and the County subsequently paid Inline Valve \$3,809.98  
2 (Inline Valve miscalculated the tax amount by \$3.60).

3 **Horizon Scientific, Inc. (Horizon, vendor #129849):** On September 7, 2016, Courtney  
4 Baumbach, Service Parts Administrator, Horizon, provided Mr. [REDACTED] a \$935 quote for  
5 two temperature controllers (\$467.50 each). Mr. [REDACTED] responded that, “[Morales] will  
6 be calling you sometime today from Inline Valve Sales to purchase both temperature  
7 controllers.” Later that same day, Mr. [REDACTED] forwarded Horizon’s quote to Mr. Morales  
8 and told him, “I would like for you to purchase two of these temperature controllers...you  
9 can mark each one up say \$727.” On September 9, 2017, Mr. Morales e-mailed  
10 Mr. [REDACTED] an Inline Valve quote for \$1,620.50 for two temperature controllers, which is  
11 \$685.50 (73%) more than Horizon’s quote. DHS subsequently issued PO #T13033-  
12 16297 for \$1,620.50 to Inline Valve and paid the company the amounts quoted.

13  
14 **George T. Hall Company, Inc. (George T. Hall, vendor #047648):** On March 7, 2017,  
15 Raymond Torres, Branch Manager, George T. Hall, e-mailed Mr. [REDACTED] a \$1,454.66 quote  
16 for two McDonnell Miller model #126800 water feeders. The following day, Mr. [REDACTED]  
17 forwarded the George T. Hall quote to Mr. Morales and instructed him to provide a quote  
18 for the water feeders. Later that same day, Mr. Morales e-mailed Mr. [REDACTED] a \$3,649.31  
19 quote for two “McDonnell-Miller 126800 25 A Feeder,” which is \$2,194.65 (151%) more  
20 than George T. Hall’s quote. We noted that between March 17 and 20, 2017, Mr. Morales  
21 corresponded with Hilda Torres, Project Assistant, George T. Hall, and discussed the  
22 water feeder order and Inline Valve’s resale card. The County subsequently issued PO  
23 #17741052 to Inline Valve and paid the company the amount quoted.

24  
25 In the sample of 116 Inline Valve transactions involving quote sharing, we did not find any  
26 evidence that Inline Valve performed any commercially useful function. Instead, the role  
27 of Inline Valve was limited to that of an extra participant in the transactions through which  
28 funds were passed to give the appearance that the purchase was made through an LSBE.  
29 All goods and services for which Inline Valve invoiced the County and was paid for appear  
30 to have been provided directly by various non-LSBE County vendors.

31  
32 *Procurement Scheme – Collusive Bid-Rigging*

33  
34 ISD Purchasing Policy A-0300 was amended effective October 1, 2016 reflecting the  
35 establishment a Simplified Acquisition Process (SAP), which allows for departmental  
36 purchases from \$5,001 to \$24,999 to be made from an LSBE using a two-LSBE bid  
37 process. The SAP applies only to spot purchases<sup>3</sup> made from a certified LSBE, a certified  
38 Disabled Veteran Business Enterprise, or a certified Social Enterprise<sup>4</sup>. On  
39 November 3, 2016, Mr. [REDACTED] e-mailed an invitation to 11 LSBEs (including Mr. Morales)  
40 to attend a “Local Small Vendor Meeting” at the Central Heating Plant (CHP) located at  
41 301 N. Broadway, Los Angeles. Mr. [REDACTED] invitation read, in part:

42  
<sup>3</sup> Spot purchases include one-time emergency purchases, low-dollar/low-complexity purchases, unmanaged category purchases, and unique purchases.

<sup>4</sup> Social enterprises have a social mission that enhances the County in terms of its economic and environmental sustainability.

1           *"We need to have a meeting with all of you to go over the changes to the*  
2           *LSBV [sic] Program. There [sic] some very exciting thing now available to*  
3           *you all and I want to get together and make sure we are all in agreement on*  
4           *how we here @ CHP and the County will proceed thus forward working*  
5           *together. This will also allow all of you to meet and greet as well...I know*  
6           *that you all are busy...but this will allow you to make even more money with*  
7           *this new program."*

8  
9           We interviewed an owner of one of the LSBEs who attended the LSBE meeting at CHP,  
10          and the owner told us that Mr. ██████ discussed the new SAP program and how he plans  
11          to "use all" of the LSBEs, as well as the "rules of how he wants everything to be done,  
12          and the LSBEs were to follow them."

13  
14          Subsequently between November 11, 2016 and January 3, 2017, Mr. ██████ along with  
15          several LSBEs (including Mr. Morales) and non-LSBE County vendors, colluded to bid-  
16          rig County solicitations (totaling \$92,050) wherein Mr. ██████ predetermined the bid  
17          amounts and the winning bidders. The following is an example of collusive bid-rigging by  
18          Messrs. ██████ and Morales, and Sun Environmental Engineering Services, Inc. (Sun  
19          Environmental).

20  
21          **Sun Environmental (vendor #047885):** On November 28, 2016, Debra Osorio, Sun  
22          Environmental, sent a \$23,500 quote to Mr. ██████ for the CHP office floor replacement  
23          solicitation. On December 2, 2016, Mr. ██████ sent an e-mail to both Mr. Morales and  
24          Steve Nwaiwu, Project Manager, Sun Environmental, with an attached ISD scope of work  
25          for the floor replacement solicitation and the following message:

26  
27                 *"Gentlemen, here is the scope of work for the Floor abatement and*  
28                 *replacement. Please fill out the 1<sup>st</sup> page with your Company info, write As*  
29                 *Specified if you agree with all line items...Then attach your quote to this*  
30                 *doc. [sic] and send it back to me. [sic] in an e-mail form."*

31  
32          The attached scope of work was a T-Bar specification (also referred to as a T-Sheet), a  
33          document used by ISD for lengthy or complex specifications. Later that same day,  
34          Mr. ██████ forwarded Sun Environmental's quote to Mr. Morales with instructions to  
35          "...use the figures to complete your quote." On December 14, 2016, Mr. Morales e-mailed  
36          Mr. ██████ a \$24,533 quote. However, he did not include Inline Valve's company  
37          information as Mr. ██████ had requested. Mr. ██████ responded with the message:

38  
39                 *"Please send me the 'T Sheet' I sent you...make sure that you fill out the*  
40                 *Company info and write 'as specified' next to each line item...please get*  
41                 *it back to be [sic] asap."*

42  
43          On December 15, 2014, Mr. Morales e-mailed Mr. ██████ a \$24,533 quote and the  
44          completed T-Sheet. On January 12, 2017, the County issued PO #17322740 for \$22,885<sup>5</sup>

<sup>5</sup> We could not locate any documentation to show why the PO amount was decreased.



1 to Sun Environmental, and subsequently issued the company warrant #24586614 for the  
2 PO amount. As a result of Mr. Morales' collusive bid, Sun Environmental was selected  
3 under the SAP, and the County was denied the benefit of any actual competition for this  
4 solicitation.

5  
6 Although Mr. Morales did not directly profit from this bid-rigging incident, we noted that  
7 Inline Valve received more than \$1.76 million of County business from ISD since 2009.  
8 It appears that Mr. Morales may have participated in Mr. [REDACTED] bid-rigging scheme in  
9 return for Mr. [REDACTED] directing other POs to Inline Valve.

10  
11 *Procurement Scheme – Complementary Bidding*

12  
13 Our review of Mr. [REDACTED] County e-mail revealed that as early as November 2011,  
14 Mr. Morales colluded with Messrs. [REDACTED] and Nunley to submit complementary bids<sup>6</sup> to  
15 improperly direct POs to pre-selected vendors. Our review identified a pattern of conduct  
16 wherein Mr. [REDACTED] forwarded quotes from other legitimate vendors to Messrs. Morales  
17 and Nunley, often with specific instructions to submit high bids (marked up \$125 to  
18 \$3,500) and/or no bids. Mr. [REDACTED] subsequently submitted the falsified Inline Valve and  
19 RSD quotes, as well as the original vendor quotes, to DHS procurement as legitimate  
20 bids for evaluation and selection of winning bidders, creating the appearance of  
21 competition where none existed and fundamentally compromising the competitive  
22 solicitation process. We reviewed 11 (8%) of the 146 quotes Mr. [REDACTED] forwarded to  
23 Messrs. Morales and Nunley and found that all 11 (from four vendors) resulted in POs  
24 (totaling \$42,563) being awarded to the same four vendors.

25  
26 We noted that the 146 quotes Mr. [REDACTED] forwarded from May 2011 to May 2017 represent  
27 more than \$711,000 in purchasing activity, and that as a result of his conduct we have no  
28 assurance that the County received the highest quality goods and services or competitive  
29 prices for the POs awarded to these vendors. This scheme compromised the County's  
30 primary control against being overcharged, and denied other legitimate vendors the  
31 opportunity to compete for County business.

32  
33 Below are examples of POs awarded to Daikin Applied Americas, Inc. (Daikin, vendor  
34 #044135) and Follett (vendor #037732) as a result of collusion between Mr. Morales and  
35 Messrs. [REDACTED] and Nunley.

36  
37 **Daikin – MicroTech Control Board Procurement:** On April 27, 2015, Mr. [REDACTED]  
38 forwarded to Messrs. Morales and Nunley a \$5,814 quote from Daikin to install a  
39 MicroTech Control Board for a chiller at the Hubert Humphrey Medical Center located at  
40 5850 South Main Street in Los Angeles. In the e-mail, Mr. [REDACTED] instructed Messrs.  
41 Morales and Nunley to "...submit no bid at this time." Later that same day, both Messrs.  
42 Morales and Nunley e-mailed Mr. [REDACTED] their bid responses. Mr. Morales indicated on  
43 the quote, "Sorry no bid at this time," and Mr. Nunley indicated, "RSD decline to quote  
44 cannot supply install and material at this timed [sic]." On April 29, 2015, and based on

<sup>6</sup> Complementary bidding occurs when vendors agree to submit bids that are intended to be unsuccessful so that another vendor can win the contract. Complementary bids are designed to minimize suspicion.

1 the falsified bid responses received from the other vendors, DHS issued PO #R18506-  
2 21579 for \$5,814 to Daikin and the County subsequently issued the company warrant  
3 #21969128 in the amount of \$5,814.

4  
5 **Follett – Medical-Grade Freezer Procurement:** On July 27, 2015, Mr. [REDACTED] forwarded  
6 a \$2,799.84 quote from Follett for a stainless steel, medical-grade freezer to  
7 Messrs. Morales and Nunley. In the e-mail, Mr. [REDACTED] instructed them to, “make  
8 sure...bid is higher than the original...no bid is acceptable as well.” Later that same day,  
9 Mr. Morales e-mailed Mr. [REDACTED] an Inline Valve quote for \$3,462.41 to provide the same  
10 equipment. The following day, Mr. Nunley e-mailed Mr. [REDACTED] a “No Bid” quote indicating  
11 that, “Non Stock...RSD cannot bid on this item at this time.” Based on the falsified bid  
12 responses, DHS subsequently issued PO #S13029-30071 for \$2,799.84 to Follett and  
13 the County issued the company warrant #22609972 in the amount of \$3,186.49 (the  
14 \$386.65 difference was for freight charges).

15  
16 Mr. Morales’ active participation in these bid-rigging incidents compromised the County’s  
17 competitive solicitation process, and created the appearance of market competition where  
18 none existed. We believe that Mr. Morales participated in Mr. [REDACTED] complementary  
19 bidding scheme in return for Mr. [REDACTED] directing POs to Inline Valve, which received  
20 more than \$398,000 of County business from DHS since 2007.

21  
22 *Aiding and Abetting County Employee’s Personal Purchases with County Funds*

23  
24 **Off-Road Racing Radio Components:** On approximately August 22, 2016, Mr. [REDACTED]  
25 contacted Kyle Egkan, PCI Race Radios<sup>7</sup> (PCI), located in Signal Hill, and inquired about  
26 radio component prices. On August 22, 2016, Mr. Egkan e-mailed Mr. [REDACTED] a  
27 \$3,758.48 quote for eight different radio components including: Kenwood Power Source  
28 radio (\$1,499.95), Alpha Numeric dash mount (\$1,299.95), VHF handheld radio  
29 (\$349.95), and other smaller components ranging from \$29.95 to \$115.95. Later that  
30 same day, Mr. [REDACTED] forwarded PCI’s quote to Mr. Morales and instructed him to provide  
31 a quote and that, “We will call it radio parts.” Mr. Morales responded with a \$4,951.04  
32 Inline Valve quote that mirrored PCI’s quote, but was marked-up by \$1,192.56 (32%). In  
33 subsequent e-mail exchanges between Messrs. [REDACTED] and Morales, we noted that Inline  
34 Valve’s initial quote was revised twice, each time containing less detail, with the final  
35 version containing just two line items, “Radio Parts & Accessories” and “Freight.” On  
36 August 25, 2016, the County issued PO #17709976 for \$4,951.04 to Inline Valve to  
37 purchase “Parts & Accessories for Radio System,” and subsequently issued the company  
38 warrant #TS24077563 for the total amount quoted.

39  
40 We located in Mr. [REDACTED] County e-mail a PCI sales receipt that shows the Bill To and  
41 Ship To as “[REDACTED] at 301 N. Broadway,” (the CHP location) and “[REDACTED] at  
42 [REDACTED]” respectively. According to eHR, [REDACTED]  
43 [REDACTED] is Mr. [REDACTED] residence.

44  

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7 According to PCI’s website, the firm specializes in radios for off-road racers and racing enthusiasts.

1 We interviewed Mr. Morales and he admitted to purchasing the race radios for Mr. [REDACTED]  
2 Mr. Morales claimed that at the time, he believed the radios were for CHP staff's use, and  
3 that he was not aware the items were race radios. However, we noted that the PCI quote  
4 Mr. [REDACTED] forwarded to Mr. Morales includes a PCI company logo that contains the  
5 words, "RACE RADIO," and "PCI Race Radio, Inc." Further, given that Mr. Morales has  
6 been purchasing goods and services for ISD power plants since January 2009, we  
7 question the reasonableness of his claim. Taken together with the fact that  
8 Messrs. [REDACTED] and Morales corresponded repeatedly on the detail to include in the quote  
9 and invoice for the radios, and that the final version was sanitized to remove any detailed  
10 references to the equipment being purchased, it appears that Mr. Morales knew or should  
11 have known that the radio components from PCI were not intended for County use.

12  
13 **Fleetwood Motorhome Power Window Regulators:** On April 17, 2017, Mr. [REDACTED]  
14 forwarded a \$703.09 quote for two Fleetwood motorhome power window regulator  
15 replacements to Mr. Morales and instructed him to send him a quote for the regulators,  
16 and to add an instrument calibration to the quote as well.

17  
18 Mr. Morales subsequently e-mailed an Inline Valve quote for "Regulator Power 10108534"  
19 and "Regulator Power 10108533," as well as an Instrument Calibration line item. We  
20 noted that Mr. Morales marked up the "Regulator Power" units \$251.83 (36%) more than  
21 the original quotes, and that the "Regulator Power" part numbers on the Inline Valve quote  
22 are identical to the window regulator part numbers in the initial quote. The County  
23 subsequently issued PO #17748483 for "REGULATORS" and instrument calibration to  
24 Inline Valve. We have not located the County warrant issued to Inline Valve for the power  
25 window regulators.

26  
27 Mr. Morales admitted to purchasing two power window regulators for Mr. [REDACTED] and  
28 stated that he "figured it was no big deal, buying a window thing."

29  
30 *Improper Financial Relationship with County Employee*

31  
32 We served search warrants on Mr. Morales' business and personal bank accounts held  
33 respectively with Chase Bank (Chase) and Bank of America, as well as Mr. [REDACTED]  
34 County-sponsored retirement savings plan account administered by Great-West  
35 Retirement Services (Great-West)<sup>8</sup>, and noted three transactions that provide evidence  
36 of an improper financial relationship between Messrs. Morales and [REDACTED] which creates  
37 a conflict of interest.

38  
39 We noted that these transactions occurred during the time Mr. [REDACTED] was a principal  
40 decision maker in directing County business to Mr. Morales' company, and approving  
41 payments of invoices to Mr. Morales. Specifically:

- 42  
43 • On June 3, 2012, an \$800 personal check, #2894, was drawn on Mr. Morales'  
44 personal account at Bank of America, and made payable to [REDACTED] [REDACTED] The

<sup>8</sup> Now known as Empower Retirement

1 check image captured an endorsement along with a fingerprint indicating that  
2 Mr. [REDACTED] presented the check to a Bank of America teller and cashed it.  
3

- 4 • On April 20, 2016, Mr. Morales withdrew \$3,638.59 to purchase a Chase cashier's  
5 check, #9593600678, made payable to "LA County Plans – Great-West," and  
6 indicated the Remitter as "[REDACTED] [REDACTED]". An image of the \$3,638.59 cashier's  
7 check also showed similar notation, "Loan 4. [REDACTED] ID #4373628 Plan  
8 #98996-01." During our review of Mr. [REDACTED] Great-West account, we noted that  
9 his Participant ID and Group No. are #43736285 and #98996-01, respectively, the  
10 same ID # and Group No. as on the \$3,638.59 cashier's check.  
11
- 12 • On April 29, 2016, Mr. Morales deposited a \$4,100 Rancho Federal Credit Union  
13 (RFCU) cashier's check, #4466551369, to his business account. The RFCU  
14 cashier's check was made payable to Messrs. Morales and [REDACTED]. According to  
15 Mr. [REDACTED] April 2017 paystub, his direct deposit is with RFCU.  
16

17 We also located a County e-mail dated November 20, 2017, from Mr. [REDACTED] to  
18 Mr. Morales with the following message:  
19

20 *"Luis, attached to this email, is the letter Ms. [REDACTED] sent with regards to*  
21 *taking me to court. I know I have asked several times this year for a loan,*  
22 *an [sic] I am embarrassed having to ask once again. I can pay back in full*  
23 *when I get my taxes at the end of March 2018. I need to borrow \$4,000, I*  
24 *have to pay her November 27, 2017 which is next week, I have the rest. I*  
25 *can write up a contract with you an [sic] also as collateral let you hold my*  
26 *pink slip to my truck as good faith effort to repay by March 2018!"*  
27

28 When interviewed by OCI investigators, Mr. Morales admitted paying Mr. [REDACTED] the \$800  
29 Bank of America check, the \$3,638.59 Chase cashier's check, and another \$4,000, and  
30 he characterized the payments as loans. Mr. Morales claimed that Mr. [REDACTED] asked him  
31 for an \$800 loan to cover lawyer fees related to his (Mr. [REDACTED] ex-fiancé, a \$3,638.59  
32 loan as repayment for an earlier withdrawal Mr. [REDACTED] made from his Great-West  
33 account, and \$4,000 to settle a lawsuit related to Mr. [REDACTED] outside employment. Mr.  
34 Morales told us that the \$4,100 RFCU check was Mr. [REDACTED] \$3,638.59 loan repayment,  
35 and the \$461.41 difference (\$4,100 less \$3,638.59) was for "doing the favor."  
36

37 Mr. [REDACTED] stated that he borrowed money from Mr. Morales to repay funds he  
38 (Mr. [REDACTED] withdrew from his retirement account. Mr. [REDACTED] told us that he also  
39 borrowed money from Mr. Morales when he fell behind in his \$1,050 monthly child support  
40 payments. According to Mr. [REDACTED] he still owes Mr. Morales approximately \$4,000, and  
41 that it is his "intention" to repay Mr. Morales through monthly payments. While both  
42 Messrs. [REDACTED] and Morales characterized the payments as loans, we were unable to  
43 locate formal loan agreements or contracts, or evidence that all of the purported loans  
44 were repaid.  
45

1 We found that Mr. Morales created a conflict of interest when he provided \$8,483 (\$800  
2 + \$3,638 + \$4,000) in payments to Mr. [REDACTED]. We noted that these transactions occurred  
3 during the time when Mr. [REDACTED] was a principal decision maker in directing County  
4 business to Mr. Morales' company, and approving payment of invoices to Mr. Morales.

5  
6 *Kickback/Bribery to [REDACTED]*

7  
8 As part of our review of Mr. [REDACTED] County e-mail, we noted that on February 2, 2017,  
9 Mr. [REDACTED] received an e-mail from PayPal notifying him that Transmission Instruments  
10 sent him an invoice for \$550. The e-mail contained a note from Transmission  
11 Instruments: "We have your unit repaired and ready to be shipped back to you...Please  
12 make a payment at your earliest convenience..." The invoice attached to the e-mail  
13 indicated that Mr. [REDACTED] was being billed for "rebuild of ECU-WTEC II repair of power  
14 supply."

15  
16 Later that same day, Mr. [REDACTED] forwarded the PayPal invoice to Mr. Morales and directed  
17 him to contact Transmission Instruments and pay them "ASAP." In this e-mail, Mr. [REDACTED]  
18 also told Mr. Morales, "We will pay you back on the next project." The following day,  
19 PayPal e-mailed Mr. [REDACTED] notifying him that \$550 was paid to Transmission  
20 Instruments. The PayPal e-mail contained the notation, "Thanks for using PayPal, LUIS  
21 MORALES," and the payment detail, "Paid with VISA x-7053." According to our review  
22 of Mr. Morales' business e-mail, he frequently paid vendors with a Visa debit card account  
23 ending with "x-7053."

24  
25 We noted that on January 26, 2017, Mr. [REDACTED] e-mailed an individual named "John" at  
26 Transmission Instruments thanking him for his help and that he "will sent [sic] it as soon  
27 as possible." According to Transmission Instruments, the company was founded by John  
28 Kopalek in 2004.

29  
30 During our interview with Mr. [REDACTED] he admitted that Mr. Morales paid for the \$550  
31 transmission repair at his (Mr. [REDACTED] request, and that Mr. Morales did this as "payback"  
32 in return for Mr. [REDACTED] directing POs to Inline Valve.

33  
34 We found that the County indirectly paid for the repair as Mr. [REDACTED] expected Mr. Morales  
35 to recoup the \$550 via future business with the County, likely via markups in County POs  
36 to Inline Valve.

37  
38 *Financial Interest with [REDACTED]*

39  
40 As part of our review of Mr. [REDACTED] County e-mail, we noted that on at least 25 occasions  
41 from as early as September 19, 2012, Mr. [REDACTED] asked Mr. Morales about money, or the  
42 accounting of money, that he (Mr. [REDACTED] had "in the bank." These statements suggest the  
43 existence of an improper financial arrangement between Messrs. Morales and [REDACTED]. The  
44 following are samples of Mr. [REDACTED] inquiries to Mr. Morales:

- 45  
46
- "I also need to know how much I have in the bank."

- 1 • *“If I remember right I have \$9,000 left with you? Is that right.”*  
2  
3 • *“Do I have \$4,000 or \$5,000 in the bank?”*  
4  
5 • *“Take the money out of the bank and give me a total of the account.”*  
6  
7 • *“I should have \$10,991.00 in the bank.”*  
8

9 On April 11, 2018, we served a search warrant on Mr. [REDACTED] residence and his County  
10 office located at 14445 Olive View Drive, Sylmar (Olive View), and conducted an interview  
11 with Mr. [REDACTED] at ISD Headquarters. At Olive View, we located a five-page, hand-written  
12 document listing POs issued to various County vendors from January to April 2014. We  
13 noted that every Inline Valve PO entry was highlighted in yellow, and that on the bottom  
14 of the first page the following handwritten entries:

- 15  
16 • *“Total \$131,537.99<sup>9</sup> – 10% \$13,153.79”*  
17 *“15% \$19,730.71”*  
18

19 We also noted handwritten entries on various paperwork we found at Olive View that  
20 contain the following notations:

- 21  
22 • *“22K in Bank”*  
23  
24 • *“Inline 542472 4,900<sup>00</sup> 1032,” “Total \$7,787 in Bank,” “15% 1,375 Luis %”*  
25  
26 • *“12,897<sup>00</sup> in bank”*  
27

28 Mr. Morales claimed that the “bank” in question was actually an accounting of money in  
29 his (Mr. Morales’) possession from unfulfilled POs where he received payment but the  
30 contractors that were actually supposed to provide the goods and/or services failed to  
31 complete the work, and were not compensated (by Inline Valve). Mr. Morales asserted  
32 that Mr. [REDACTED] tracked these payments, and used the balance to purchase items for Olive  
33 View in emergencies, or as needed.  
34

35 Based on Mr. Morales’ own statements, he knowingly submitted false invoices to the  
36 County requesting payment for goods and services that he did not provide, and which  
37 ultimately were never provided. Because the underlying invoices were falsified, it is  
38 impossible for us to determine the amount of money misappropriated through this  
39 scheme, though the notations on underlying documents located in Mr. [REDACTED] desk  
40 suggest that at least tens of thousands of dollars were paid for goods and services never  
41 provided. We are also unable to verify whether any of the funds “in the bank” were  
42 ultimately used for legitimate County purchases, because such purchases would have  
43 occurred entirely outside the County’s established procurement processes, would not be

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<sup>9</sup> Inline Valve’s total PO amount on the five-page document (Mr. [REDACTED] summation).

- 1 reported in the County's financial and procurement systems, and would not have been
- 2 subject to any management scrutiny or review.

**Management Follow-Up**

Overall, Mr. Morales' conduct appears to violate a number of County procurement policies, implicates him in the crimes orchestrated by the County employees he conspired with to carry out these schemes, and raises questions about his responsibility as a vendor, and his compliance with the County Code provisions governing the LSBE program under which Inline Valve operates. ISD should review the findings in this report and take any administrative action it determines is appropriate, including consulting with County Counsel about the possibility of debarring Mr. Morales and Inline Valve, and options to recover funds the County lost to these schemes.

Aspects of the investigation are ongoing, and accordingly if additional evidence of significant misconduct comes to our attention concerning this vendor it will be reported under separate cover. However, nothing about the pendency of additional investigation or the potential for future criminal prosecution should prevent the Department from taking any administrative or other actions concerning the findings contained in this report.

If you have any questions please call me at (213) 893-0058, or your staff may contact Supervising Investigator Steven Lee at (213) 893-0551.

RGC:AMS:sI  
VR-2015-10649 Inline Valve

c: John Naimo, Auditor-Controller