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**CONFORMED COPY
ORIGINAL FILED**
Superior Court of California
County of Los Angeles

JUN 30 2016

Sherri R. Carter, Executive Officer/Clerk
By: B. Burns Tucker, Deputy

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12 *Attorneys for Plaintiff*
13 **CITY OF LOS ANGELES**, acting by and
14 through its Department of Water and Power

15 **SUPERIOR COURT OF THE STATE OF CALIFORNIA**
16 **FOR THE COUNTY OF LOS ANGELES**

17 CITY OF LOS ANGELES , acting by and through its Department of Water and 18 Power, 19 Plaintiff, 20 v. 21 PRICEWATERHOUSE COOPERS, LLP , 22 Defendant. 23 24 25 26 27 28	Case No. BC574690 Assigned to: Hon. Elihu M. Berle Dept. 323 NOTICE OF MOTION AND MOTION FOR ORDER GRANTING LEAVE TO FILE [PROPOSED] FIRST AMENDED COMPLAINT; MEMORANDUM OF POINTS AND AUTHORITIES IN SUPPORT THEREOF; DECLARATION OF PAUL O. PARADIS IN SUPPORT THEREOF WITH EXHIBITS; and [PROPOSED] ORDER Complaint Filed: March 6, 2015 Trial Date: None Set Date: September 7, 2016 Time: 2:00 p.m. Dept.: 323
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1 **TO ALL PARTIES AND THEIR ATTORNEYS OF RECORD:**

2 **PLEASE TAKE NOTICE** that on September 7, 2016 at 2:00 p.m., or as soon thereafter
3 as Plaintiff can be heard in Department 323 of the above entitled Court, Plaintiff, the City of Los
4 Angeles, acting by and through its Department of Water and Power, (the "City" and "LADWP,"
5 respectively) will move the Court for an order granting Plaintiff leave to file a First Amended
6 Complaint.

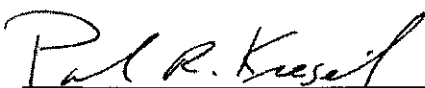
7 This motion is made on the grounds that: (i) Plaintiff has recently discovered new factual
8 information to support adding an additional separate cause of action alleging "Fraud" arising
9 from the same general set of facts; (ii) Plaintiff has also recently discovered new factual
10 information to support adding an additional separate cause of action alleging "Fraud –
11 Conspiracy to Commit Fraud" arising from the same general set of facts; (iii) discovery in this
12 matter is in the nascent stages and no trial date has been set. Accordingly, no prejudice will
13 inure to Defendant if the requested amendment is permitted.

14 The Motion will be based on this Notice of Motion, the accompanying Memorandum of
15 Points and Authorities; the attached Declaration of Paul O. Paradis in support thereof, which
16 attaches as Exhibit A the [Proposed] First Amended Complaint; all papers, pleadings and records
17 on file in this action and any evidence presented at the hearing on the Motion.

18 DATED: June 30, 2016

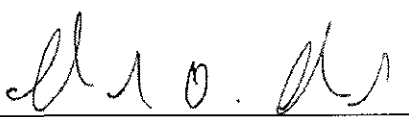
19 MICHAEL N. FEUER, City Attorney
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PARADIS LAW GROUP, PLLC

By: 

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Special Counsel for Plaintiff

1 **MEMORANDUM OF POINTS AND AUTHORITIES**

2 **I. FACTUAL BACKGROUND**

3 Plaintiff, City of Los Angeles, acting by and through its Department of Water and Power,
4 (the "City" and "LADWP" respectively), filed its initial complaint in this matter on March 6,
5 2015 (the "Complaint"). The Complaint alleges the following claims against Pricewaterhouse
6 Coopers, LLP ("PwC" or "Defendant"): (i) Fraudulent Inducement by Misrepresentation; (ii)
7 Fraudulent Inducement by Omission; and (iii) six additional causes of action for Breach of
8 Contract.

9 After the filing of the initial complaint, Defendant demurred to the First and Second
10 Causes of Action for Fraudulent Inducement and Answered Plaintiff's Breach of Contract
11 Claims. See accompanying *Declaration of Paul O. Paradis in Support of Plaintiff's Motion for*
12 *an Order Granting Leave to File the First Amended Complaint* ("Paradis Decl. at ¶ __") at ¶ 4.
13 The Court heard argument concerning Defendant's Demurrer on September 24, 2015. Id. at ¶ 5.
14 After hearing oral argument on Defendant's Demurrer, the Court issued its ruling denying
15 Defendant's Demurrer. Id. at ¶ 6.

16 Following the Court's ruling on Defendant's Demurrer, the parties have engaged in
17 document discovery. Id. at ¶ 7. On March 9, 2016, the parties appeared for a status conference
18 at which time Defendant informed the Court of Defendant's intention to move for summary
19 judgment against Plaintiff's Fraudulent Inducement claims. Id. at ¶ 8. At the conclusion of that
20 hearing, the Court Ordered Defendant to file any summary judgment motion involving Plaintiff's
21 Fraudulent Inducement claims by no later than August 31, 2016. Id. at ¶ 9.

22 As Special Counsel for the City and LADWP has previously informed the Court, the
23 investigation into the nature and scope of the wrongful acts committed by PwC in connection
24 with the implementation of the LADWP's new Customer Care and Billing software platform
25 ("CC&B") is continuing. Id. at ¶ 10.

26 As a result of that investigation, in May 2016, the City and LADWP discovered that,
27 from 2011 through at least 2013, PwC and several senior-ranking PwC Managers, including the
28 PwC Partner-in-Charge of the CC&B Billing System implementation project at LADWP,

1 engaged in a conspiracy to defraud the City and the LADWP by repeatedly submitting
2 intentionally falsified PwC time records and invoices to the LADWP and City to obtain
3 payments for work that PwC never performed on the CISCON project. Id. at ¶ 11.

4 The ongoing investigation has also confirmed that the co-conspirators in PwC's
5 fraudulent scheme conducted the conspiracy for the purpose of illegally bilking tens of thousands
6 of rate payer dollars from the City and personally used these stolen funds to purchase and pay
7 for:

- 8 • the services of prostitutes and escorts;
- 9 • a lavish bachelor party for the PwC partner in charge of the CISCON
10 implementation, which was held in Las Vegas during the weekend of
11 July 15-17, 2011 that included extravagant nights of partying, lavish
12 hotel stays and thousands of dollars in "bottle service" alcohol; and
- 13 • a lavish bachelor party for another senior PwC Manager and close
14 personal friend of the PwC partner in charge, which was also held in
15 Las Vegas during the weekend of May 17-19, 2013.

16 Id. at ¶ 12.

17 During the three years when the co-conspirators operated the conspiracy, they defrauded
18 the City and its ratepayers out of tens of thousands of dollars by approving and submitting
19 falsified – and artificially inflated – time records in connection with the LADWP's CC&B
20 Billing System implementation project for time that PwC never actually worked. The PwC
21 Partner who master-minded and personally directed the fraudulent billing conspiracy openly
22 boasted of his clear intention to steal from the City and its rate payers to pay for his own
23 bachelor party in July 2011 when he told one of his fellow co-conspirators, "*We are going to
cover a lot of this trip with LADWP money.*" Paradis Decl. Ex A at ¶ 167.

24 As detailed with great particularity in the [Proposed] First Amended Complaint that the
25 LADWP now seeks leave of the Court to file, the co-conspirators made good on that promise
26 during the July 2011 bachelor party when they used funds that had been stolen from the City and
27 its rate payers through PwC's fraudulent invoice scheme to pay for: (i) condoms; (ii) a steak
28 dinner at the N9NE Steakhouse at the Palms Casino Resort; (iii) a \$6,497 day-long poolside

1 cabana party complete with bikini models and “bottle service” liquor at the Hard Rock Beach
2 Club; and (iv) a \$2,184 “bottle service” party at the Vanity Nightclub in the Hard Rock Hotel &
3 Casino. Paradis Decl. Ex A at ¶ 168, 170.

4 As further alleged in the [Proposed] First Amended Complaint, the co-conspirators
5 continued to operate the fraudulent billing conspiracy and to defraud the City and LADWP
6 through at least 2013. For example, the co-conspirators purchased thousands of dollars in “bottle
7 service” alcohol and extravagant meals at the Ghostbar Nightclub in the Palms Casino Resort,
8 the Marquee Nightclub in the Cosmopolitan Hotel, the Chandelier Lounge in the Cosmopolitan
9 Hotel and the Encore Beach Club during the second bachelor party that the co-conspirators also
10 funded with rate payer dollars in May 2013. Paradis Decl. Ex A at ¶ 178, 180.

11 Finally, the [Proposed] First Amended Complaint also alleges that the co-conspirators
12 hired and paid for prostitutes and escorts using funds that had been stolen from the City by the
13 co-conspirators during both the July 2011 and May 2013 bachelor parties. Paradis Decl. Ex A at
14 ¶¶ 159, 169-170, 177, 179-180.

15 Because the conspirators took such painstaking measures to prevent discovery of their
16 illegal behavior, however, the existence of the conspiracy was not known to the LADWP or City
17 until May 2016. Paradis Decl. Ex A at ¶ 156.

18
19 **II. LEGAL ARGUMENT**

20 **A. A Timely Motion to Amend a Complaint Should**
21 **Be Liberally Permitted Where, As Here, The**
22 **Amendment Does Not Unduly Prejudice Defendant**

23 This Court may grant leave to amend a pleading at any time to achieve substantial justice.
24 “The Court may, in furtherance of justice, and on any terms as may be proper, allow a party to
25 amend any pleading...” *Code of Civil Procedure* § 473 subd. a(1) (emphasis added); see *Code*
26 *of Civil Procedure* § 576 (court may permit amendments to pleadings at any time). California
27 judicial policy favors permitting amendments to pleadings. See *Nestle v. Santa Monica* (1972) 6
28 Cal.3d 920, 939, 101 Cal. Rptr. 568(noting “the general rule... of liberal allowance of

1 amendments”); *Maybie v. Hyatt* (1998) 61 Cal. App.4th 581, 596, 71 Cal.Rptr.2d 657 (“If
2 discovery and investigation develop factual grounds justifying a timely amendment to a
3 pleading, leave to amend must be liberally granted”).

4 New legal theories may be introduced in amendments to the complaint so long as the
5 proposed amendments “relate to the same general set of facts” of the situation. *Atkinson v. Elk*
6 *Corp.* (2003) 109 Cal.App.4th 739, 761, 135 Cal. Rptr.2d 433 (citation omitted); *see Board of*
7 *Trustees of Leland Stanford Jr. University v. Superior Court* (2007) 149 Cal.App.4th 1154, 1163,
8 57 Cal. Rptr.3d 755 (affirming liberality of rule: “it is a rare case in which a court will be
9 justified in refusing a party leave to amend [a] pleading”); *Jaimez v. DAIOWS USA, Inc.* (2d Dist.
10 2010) 181 Cal.App.4th 1286, 1308, 105 Cal. Rptr.3d 443 (same).

11 12 **B. Plaintiff Seeks to Add a Cause of Action For Fraud**

13 Plaintiff provided Defendant with a copy of the [Proposed] First Amended Complaint on
14 June 22, 2016 and requested that Defendant stipulate to allowing Plaintiff to file the [Proposed]
15 Amended Complaint. Paradis Decl. at ¶ 18. Plaintiff also requested that Defendant inform
16 Plaintiff whether Defendant was willing to stipulate to the filing of the [Proposed] First
17 Amended Complaint by the close of business on June 24, 2016. *Id.* By letter dated June 27,
18 2016, Defendant informed Plaintiff that it would not stipulate to the filing of the [Proposed] First
19 Amended Complaint. Paradis Decl. at ¶ 19. Accordingly, Plaintiff respectfully moves this Court
20 for leave to file the [Proposed] First Amended Complaint.

21 Plaintiff seeks to amend its complaint to add a California state law cause of action for
22 fraud on the basis of newly discovered information that was not previously known to either the
23 City or the LADWP until May 2016. Namely, the [Proposed] First Amended Complaint alleges
24 that PwC and several senior-ranking PwC Managers, including the PwC Partner-in-Charge of the
25 CC&B Billing System implementation project at the LADWP, engaged in a three-year long
26 conspiracy to defraud the City and the LADWP by repeatedly submitting intentionally falsified
27 PwC time records and invoices to the LADWP and City to obtain payments for work that PwC
28 never performed from 2011 through at least 2013.

1 The elements of fraud are (1) misrepresentation, (2) knowledge of falsity, (3) intent to
2 induce reliance on the misrepresentation, (4) justifiable reliance on the misrepresentation, and (5)
3 resulting damages. *Lazar v. Superior Court* (1996) 12 Cal.4th 631, 638, 49 Cal. Rptr. 2d 377,
4 909 P.2d 981. Fraud allegations “ ‘involve a serious attack on character’ “ and therefore are
5 pleaded with specificity. *Hills Trans. Co. v. Southwest Forest Industries, Inc.* (1968) 266 Cal.
6 App.2d 702, 707, 72 Cal. Rptr. 441. The particularity requirement demands that a plaintiff plead
7 facts which “show how, when, where, to whom, and by what means the representations were
8 tendered.” *Id.* Further, when a plaintiff asserts fraud against a corporation, the plaintiff must
9 “allege the names of the persons who made the allegedly fraudulent representations, their
10 authority to speak, to whom they spoke, what they said or wrote, and when it was said or
11 written.” *Tarmann v. State Farm Mut. Auto Ins. Co.* (1991) 2 Cal.App.4th 153, 157, 2 Cal. Rptr.
12 2d 861.

13 The [Proposed] First Amended Complaint amply satisfies these requirements and
14 specifies with great particularity the names of the partnership and individuals involved in the
15 fraudulent billing conspiracy. The [Proposed] First Amended Complaint also alleges with great
16 particularity the dates, times, places and dollar amount in question. For example, the [Proposed]
17 First Amended Complaint annexed as Exhibit A to the accompanying Paradis Decl. sets forth
18 highly particularized allegations detailing the fraudulent conspiracy engaged in by PwC and the
19 co-conspirators for the purpose of illegally bilking tens of thousands of rate payer dollars from
20 the City and personally used these stolen funds to purchase and pay for: (i) the services of
21 prostitutes and escorts; (ii) a lavish bachelor party for the PwC partner in charge of the CISCON
22 implementation, which was held in Las Vegas during the weekend of July 15-17, 2011 that
23 included extravagant nights of partying, lavish hotel stays and thousands of dollars in “bottle
24 service” alcohol; and (iii) a lavish bachelor party for another senior PwC Manager and close
25 personal friend of the PwC partner in charge, which was also held in Las Vegas during the
26 weekend of May 17-19, 2013. *See, e.g.,* Paradis Decl. Ex. A at ¶¶ 159, 169-170, 177, 179-180.

27 The [Proposed] First Amended Complaint also alleges that, during the three years when
28 the co-conspirators operated the conspiracy, they defrauded the City and its ratepayers out of

1 tens of thousands of dollars by approving and submitting falsified – and artificially inflated –
2 time records in connection with the LADWP’s CC&B Billing System implementation project for
3 time that PwC never actually worked. The [Proposed] First Amended Complaint further alleges
4 that the PwC Partner who master-minded and personally directed the fraudulent billing
5 conspiracy openly boasted of his clear intention to steal from the City and its rate payers to pay
6 for his own bachelor party in July 2011 when he told one of his fellow co-conspirators, “*We are*
7 *going to cover a lot of this trip with LADWP money.*” Paradis Decl. Ex A at ¶ 167. (Emphasis
8 in original).

9 In addition, the [Proposed] First Amended Complaint details with painstaking detail how
10 the co-conspirators made good on the foregoing promise during the July 2011 bachelor party
11 when they used funds that had been stolen from the City and its rate payers to pay for: (i)
12 condoms; (ii) a steak dinner at the N9NE Steakhouse at the Palms Casino Resort; (iii) a \$6,497
13 day-long poolside cabana party complete with bikini models and “bottle service” liquor at the
14 Hard Rock Beach Club; and (iv) a \$2,184 “bottle service” party at the Vanity Nightclub in the
15 Hard Rock Hotel & Casino. Paradis Decl. Ex A at ¶¶ 168, 170.

16 Finally, the [Proposed] First Amended Complaint also alleges how the co-conspirators
17 continued to operate the fraudulent billing conspiracy and to defraud the City and LADWP
18 through 2013. For example, the co-conspirators purchased thousands of dollars in “bottle
19 service” alcohol and extravagant meals at the Ghostbar Nightclub in the Palms Casino Resort,
20 the Marquee Nightclub in the Cosmopolitan Hotel, the Chandelier Lounge in the Cosmopolitan
21 Hotel and the Encore Beach Club during the second bachelor party that the co-conspirators also
22 funded with rate payer dollars in May 2013. Finally, as detailed in the [Proposed] First
23 Amended Complaint, the co-conspirators also hired and paid for prostitutes and escorts using
24 funds that had been stolen from the City by the co-conspirators during both the July 2011 and
25 May 2013 bachelor parties. Paradis Decl. Ex A at ¶¶ 178, 180.

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1 **C. Plaintiff Seeks to Add A Cause of Action For Fraud – Conspiracy to Commit**
2 **Fraud**

3 “The elements of an action for civil conspiracy are (1) formation and operation of the
4 conspiracy and (2) damage resulting to plaintiff (3) from a wrongful act done in furtherance of
5 the common design.” *Doctors’ Co. v. Superior Court* (1989) 49 Cal.3d 39, 44. *Rusheen v.*
6 *Cohen* (2006) 37 Cal.4th 1048, 1062. A plaintiff need not allege in detail the acts that constitute
7 the conspiracy. *Greenwood v. Mooradian* (1955) 137 Cal.App.2d 532, 537-538. “[B]ecause of
8 the inherent difficulty in proving a conspiracy, it has been held that a conspiracy may sometimes
9 be inferred from the nature of the acts done, the relations of the parties, the interests of the
10 alleged conspirators, and other circumstances.” (*Id.* at p. 538.)

11 Plaintiff also respectfully seeks leave of the Court to amend its pleading to allege a cause
12 of action for “Fraud - Conspiracy to Commit Fraud.” As set forth in the [Proposed] Amended
13 Complaint, Plaintiff has alleged that PwC and the individual co-conspirators formed and
14 operated a conspiracy, the purpose of which was to “obtain payment for work that PwC falsely
15 represented had been performed in connection with the CISCON project.” *Paradis Decl. Ex. A*
16 *at* ¶ 151.

17 Additionally, Plaintiff’s [Proposed] First Amended Complaint also alleges “damage
18 resulting to plaintiff from a wrongful act done in furtherance of the common design.” *Doctors’*
19 *Co. v. Superior Court* (1989) 49 Cal.3d 39, 44. More specifically, the [Proposed] First Amended
20 Complaint alleges, that “the LADWP and City were also damaged because the LADWP and City
21 paid PwC for the falsified time it submitted in furtherance of PwC’s fraudulent conspiracy to
22 defraud the LADWP and City.” *Paradis Decl. Ex. A at* ¶ 193.

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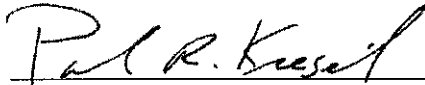
III. CONCLUSION

On the basis of the foregoing and the entirety of the record in this matter, Plaintiff respectfully requests that the Court issue an Order granting Plaintiff's Motion for Leave to File the [Proposed] First Amended Complaint annexed as Ex. A to the accompanying Paradis Declaration.

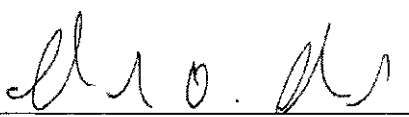
DATED: June 30, 2016

MICHAEL N. FEUER, City Attorney
THOMAS H. PETERS, Chief Assistant City Attorney
JOSEPH BRAJEVICH, Senior Assistant City Attorney
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ELECTRONIC PROOF OF SERVICE

STATE OF CALIFORNIA, COUNTY OF LOS ANGELES

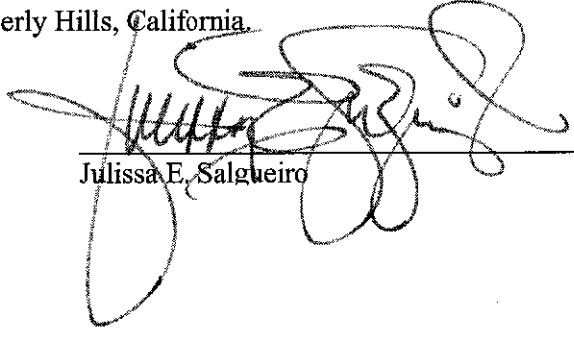
I am employed in the County of Los Angeles, State of California. I am over the age of 18 age and not a party to the within action. My business address is 8648 Wilshire Boulevard, Beverly Hills, CA 90211-2910.

On June 30, 2016, I served the foregoing document(s) described as **NOTICE OF MOTION AND MOTION FOR ORDER GRANTING LEAVE TO FILE [PROPOSED] FIRST AMENDED COMPLAINT; MEMORANDUM OF POINTS AND AUTHORITIES IN SUPPORT THEREOF; DECLARATION OF PAUL O. PARADIS IN SUPPORT THEREOF WITH EXHIBITS; and [PROPOSED] ORDER** on the interested parties in this action as follows:

BY ELECTRONIC SERVICE VIA FILE & SERVEXPRESS: In accordance with the Court's Order Authorizing Electronic Service governing Case No. BC574690 and related matters requiring all documents to be served upon interested parties via the File & ServeXpress Service system.

I declare under penalty of perjury under the laws of the State of California that the above is true and correct.

Executed on June 30, 2016, at Beverly Hills, California.



Julissa E. Salgueiro

KIESEL LAW LLP
Attorneys at Law
Beverly Hills, California

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 2 THOMAS H. PETERS, Chief Assistant City Attorney (SBN 163388)
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**Sherri R. Carter, Executive Officer/Clerk
 By: B. Burns Tucker, Deputy**

12 *Attorneys for Plaintiff*
 13 **CITY OF LOS ANGELES**, acting by and
 through its Department of Water and Power

14 **SUPERIOR COURT OF THE STATE OF CALIFORNIA**
 15 **FOR THE COUNTY OF LOS ANGELES**

<p>16 CITY OF LOS ANGELES, acting by 17 and through its Department of Water and 18 Power, Plaintiff, 19 v. 20 PRICEWATERHOUSE COOPERS, LLP, 21 Defendant. 22</p>	<p>Case No. BC574690 Assigned to: Hon. Elihu M. Berle Dept. 323 DECLARATION OF PAUL O. PARADIS IN SUPPORT OF PLAINTIFF’S MOTION FOR ORDER GRANTING LEAVE TO FILE [PROPOSED] FIRST AMENDED COMPLAINT</p>
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1 I, PAUL O. PARADIS, declare under penalty of perjury under the laws of California as
2 follows:

3 1. I am an attorney admitted to practice *pro hac vice* before this Court in the above
4 captioned action and I am one of the Special Counsel for Plaintiff in this action. I have personal
5 knowledge of the facts set forth herein and, if called upon to do so, I could and would
6 competently testify to the matters stated herein.

7 2. This Declaration is made in support of Plaintiff's Motion for Order Granting
8 Leave to File [Proposed] First Amended Complaint.

9 3. Attached as Exhibit A hereto is a true and correct copy of Plaintiff's [Proposed]
10 First Amended Complaint.

11 4. After the filing of the initial complaint, Defendant demurred to the First and
12 Second Causes of Action for Fraudulent Inducement and Answered Plaintiff's Breach of
13 Contract Claims.

14 5. The Court heard argument concerning Defendant's Demurrer on September 24,
15 2015.

16 6. After hearing oral argument on Defendant's Demurrer, the Court issued its ruling
17 denying Defendant's Demurrer.

18 7. Following the Court's ruling on Defendant's Demurrer, the parties have engaged
19 in document discovery.

20 8. On March 9, 2016, the parties appeared for a status conference at which time
21 Defendant informed the Court of Defendant's intention to move for summary judgment against
22 Plaintiff's Fraudulent Inducement claims.

23 9. At the conclusion of that hearing, the Court Ordered Defendant to file any
24 summary judgment motion involving Plaintiff's Fraudulent Inducement claims by no later than
25 August 31, 2016.

26 10. The investigation into the nature and scope of the wrongful acts committed by
27 PwC in connection with the implementation of the LADWP's new Customer Care and Billing
28 software platform ("CC&B") is continuing.

1 11. As a result of that investigation, in May 2016, the City and LADWP discovered
2 that, from 2011 through at least 2013, PwC and several senior-ranking PwC Managers,
3 including the PwC Partner-in-Charge of the CC&B Billing System implementation project at
4 LADWP, engaged in a conspiracy to defraud the City and the LADWP by repeatedly submitting
5 intentionally falsified PwC time records and invoices to the LADWP and City to obtain
6 payments for work that PwC never performed on the CISCON project.

7 12. The ongoing investigation has also confirmed that the co-conspirators in PwC's
8 fraudulent scheme conducted the conspiracy for the purpose of illegally bilking tens of
9 thousands of rate payer dollars from the City and personally used these stolen funds to purchase
10 and pay for: (i) the services of prostitutes and escorts; (ii) a lavish bachelor party for the PwC
11 partner in charge of the CISCON implementation, which was held in Las Vegas during the
12 weekend of July 15-17, 2011 that included extravagant nights of partying, lavish hotel stays and
13 thousands of dollars in "bottle service" alcohol; and (iii) a lavish bachelor party for another
14 senior PwC Manager and close personal friend of the PwC partner in charge, which was also
15 held in Las Vegas during the weekend of May 17-19, 2013.

16 13. Filed herewith is Plaintiff's Motion for Order Granting Leave to File [Proposed]
17 First Amended Complaint.

18 14. By and through Plaintiff's Motion for Order Granting Leave to File [Proposed]
19 First Amended Complaint, Plaintiff seeks to add to its initial complaint allegations concerning
20 the conspiracy to defraud the City that is described herein.

21 15. This proposed amendment is necessary and proper because the allegations
22 concerning the conspiracy described herein arise from the same general set of facts alleged in
23 Plaintiff's initial complaint, namely PwC's performance of the CISCON contract. Additionally,
24 this proposed amendment is necessary because it will allow for Plaintiff to seek recovery of the
25 additional damages incurred arising out of the conspiracy.

26 16. PwC will not be prejudiced by this proposed amendment because no trial date has
27 been set and discovery has only recently commenced.

28 17. Plaintiff was not able to make this proposed amendment earlier because, as set

1 forth in Paragraph 156 of the [Proposed] First Amended Complaint, because the conspirators
2 concealed their illegal behavior, the existence of the conspiracy was not known to the LADWP
3 or City until May 2016.

4 18. Plaintiff provided Defendant with a copy of the [Proposed] First Amended
5 Complaint on June 22, 2016 and requested that Defendant stipulate to allowing Plaintiff to file
6 the [Proposed] Amended Complaint. Plaintiff also requested that Defendant inform Plaintiff
7 whether Defendant was willing to stipulate to the filing of the [Proposed] First Amended
8 Complaint by the close of business on June 24, 2016.

9 19. By letter dated June 27, 2016, Defendant informed Plaintiff that it would not
10 stipulate to the filing of the [Proposed] First Amended Complaint.

11 20. A true and correct copy of the proposed changes to the original Complaint are
12 identified in a red-lined version attached hereto as Exhibit B.

13
14 I declare under penalty of perjury under the laws of the State of California that the
15 foregoing is true and correct.

16
17 Executed June 30, 2016, at Los Angeles, California.

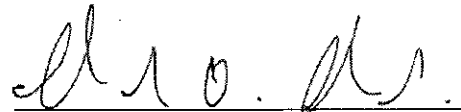
18
19 
20 Paul O. Paradis

Exhibit A

1 MICHAEL N. FEUER, City Attorney (SBN 111529x) No fee – Gov't Code 6103
2 THOMAS H. PETERS, Chief Assistant City Attorney (SBN 163388)
3 JOSEPH BRAJEVICH, Senior Assistant City Attorney (SBN 156144)
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14 Telephone: (310) 854-4444
15 Facsimile: (310) 854-0812

16 (Additional Counsel on Signature Page)

17 *Attorneys for Plaintiff*

18 **CITY OF LOS ANGELES**, acting by and
19 through its Department of Water and Power

20 **SUPERIOR COURT OF THE STATE OF CALIFORNIA**
21 **FOR THE COUNTY OF LOS ANGELES**

22 **CITY OF LOS ANGELES**, acting by
23 and through its Department of Water and
24 Power,

25 Plaintiff,

26 v.

27 **PRICEWATERHOUSE COOPERS, LLP**,

28 Defendant.

Case No. BC574690

**[PROPOSED] FIRST AMENDED
COMPLAINT FOR:**

- (1) FRAUDULENT INDUCEMENT BY MISREPRESENTATION
- (2) FRAUDULENT INDUCEMENT BY OMISSION
- (3) BREACH OF CONTRACT
- (4) FRAUD and
- (5) FRAUD - CONSPIRACY TO COMMIT FRAUD

JURY TRIAL DEMANDED

1 Plaintiff, the City of Los Angeles, acting by and through its Department of Water and
2 Power (“Plaintiff,” “City” and “LADWP,” respectively), alleges as follows:

3 **NATURE OF THE ACTION**

4 1. This complaint presents as classic an example as exists of a trail of broken
5 promises, intentional misrepresentations and omissions, the promotion of profit over
6 performance, and outright fraud as might be conjured by the most fertile imagination, all at the
7 expense of the public utility ratepayers of the City of Los Angeles.

8 2. In 2009, the Los Angeles Department of Water and Power (“LADWP”), the
9 nation’s largest public utility, sought to modernize its nearly forty-year-old utility Customer
10 Information System/Customer Care and Billing System, which had originally been implemented
11 in 1974, and which was known and referred to as the “TRES” System” (the “Legacy Billing
12 System” or “TRES”).

13 3. On November 23, 2009, the LADWP issued Request for Proposal No. 280-10
14 entitled, “*Proposals for Systems Integrator for Customer Information System Replacement*” (the
15 “LADWP RFP”). On January 8, 2010, PricewaterhouseCoopers, LLP (“PwC” or “Defendant”)
16 responded by providing the LADWP with PwC’s “*Proposal for Systems Integrator for Customer
17 Information System Replacement*” (the “PwC RFP Response”).

18 4. PwC’s RFP Response marked the beginning of a pattern of intentional deception,
19 breach of commitments, and an almost endless litany of attempts to deny or cover up those acts
20 or omissions by PwC that is virtually breathtaking in both its scope and its audacity. In
21 responding to the LADWP RFP, and to increase the likelihood of being awarded the contract that
22 was the subject of the LADWP’s RFP, PwC intentionally misrepresented and failed to disclose
23 material and critical facts. First, PwC claimed – falsely -- that PwC possessed the knowledge,
24 expertise, skills, and abilities necessary to perform the work required to implement a new Oracle-
25 based Customer Care & Billing software platform commonly known as the “CC&B billing
26 system” for the LADWP (the “CC&B billing system”). Second, PwC told the LADWP another
27 knowing falsehood: that PwC had “successfully implemented Oracle’s CC&B solution for . . .
28 [the] Cleveland Water Department” (“Cleveland Water”), which was also a client of PwC. In the

1 process, PwC was careful to conceal from the LADWP a number of material facts concerning
2 PwC's inability to properly and successfully implement and configure the CC&B platform at
3 Cleveland Water, including the fact that PwC had caused Cleveland Water to incur millions of
4 dollars in damages.

5 5. The results of PwC's breaches of contract, intentional representations, and
6 material and critical omissions were disastrous. There were numerous defects in the programs
7 installed in the various phases of the LADWP's CC&B billing system, and a lack of required
8 testing. Because of this, the Department was not able to bill some of its customers for more than
9 17 months, including more than 40,000 of its 400,000 commercial customers, resulting in an \$11
10 million loss in revenue for each month during this period. Moreover, for weeks, LADWP
11 couldn't bill any of its 1.2 million residential customers at all. In addition, the "Trend
12 Estimation" algorithms that PwC was supposed to configure as required by the LADWP was
13 entirely botched, resulting in countless LADWP customers being overbilled, and many others
14 being underbilled, resulting in an exponential surge in ratepayer complaints, non-payment of
15 bills, and an enormous spike in the aging of accounts receivable.

16 6. All of this followed the selection by the LADWP in February 2010 of two
17 finalists for the CC&B billing system: PwC and IBM. The Department invited each of these
18 vendors to make in-person presentations to LADWP officials.

19 7. In February 2010, PwC participated in an in-person interview with LADWP
20 officials. At the outset of the interview, PwC provided the LADWP with PwC's Interview
21 Presentation Book ("Interview Presentation Book").

22 8. In its Interview Presentation Book, and during the in-person interview, PwC made
23 additional misrepresentations, and again failed to disclose material facts to the LADWP, in order
24 to fraudulently induce the LADWP to award the contract to PwC.

25 9. The material misrepresentations and omissions made by PwC in its Interview
26 Presentation Book, and during the in-person interview, involved two distinct topics: (i) PwC's
27 purported 100% success rate in implementing Oracle's CC&B billing platform; and (ii) PwC's
28 purported successful implementation of Cleveland Water's new CC&B billing system.

1 10. At the times PwC made these misrepresentations, and failed to disclose these
2 material facts, to the LADWP PwC had actual knowledge that these representations were
3 materially false.

4 11. PwC intentionally misrepresented and failed to disclose these material facts to the
5 LADWP in order to fraudulently induce the LADWP into awarding the contract to PwC.

6 12. Unaware that PwC had intentionally misrepresented and failed to disclose these
7 material facts, and lacking knowledge that PwC had improperly implemented and configured the
8 Oracle CC&B platform at Cleveland Water, the LADWP justifiably relied on PwC's material
9 misrepresentations to its detriment, and was fraudulently induced to – and did – award LADWP
10 Agreement No. 47976 (the “CISCON Contract”) to PwC on July 20, 2010.

11 13. Had the LADWP known the truth concerning the material facts that PwC
12 intentionally misrepresented and failed to disclose to the LADWP, the LADWP would not have
13 awarded the CISCON Contract to PwC.

14 14. In addition to having fraudulently induced the LADWP to award the CISCON
15 Contract to PwC, PwC also failed to successfully perform several of the tasks that it was
16 contractually required to perform under the CISCON Contract, and thereby breached the
17 CISCON Contract in the various ways detailed herein.

18 15. In particular, PwC breached:

- 19 a. **Section 5.6.5** and **Section 6.3.4** of Exhibit E to the CISCON Contract by
20 failing to “Develop Automated Conversion Processing,” and to conduct
21 “Resolution Implementation” activities as PwC was required to;
- 22 b. **Section 5.6.8** of Exhibit E to the CISCON Contract by failing to “Develop
23 Interface Programs” as PwC was required to;
- 24 c. **Section 5.6.9** of Exhibit E to the CISCON Contract by failing to “Develop
25 CIS Application Enhancements” as PwC was required to;
- 26 d. **Section 5.6.10** of Exhibit E to the CISCON Contract by failing to “Implement
27 Reporting Environment and Develop Reports” as PwC was required to;
28 and
- e. **Section 5.6.12** of Exhibit E to the CISCON Contract by failing to properly
 “Develop Initial Configuration” as PwC was required to.

1 16. Because PwC lacked the skills and experience required to perform the work
2 required of PwC under the CISCON Contract, PwC caused the LADWP to sustain hundreds of
3 millions of dollars in damages. This action is brought to recover those damages.

4 17. In addition to the foregoing, while implementing the CISCON project for the
5 LADWP, PwC also engaged a conspiracy that was designed to – and did – defraud the City of
6 Los Angeles and its rate payers out of tens of thousands of rate payer dollars. As detailed herein,
7 this conspiracy enabled PwC, the PwC Partner-in-Charge of the LADWP’s CISCON
8 implementation project, Mr. Trevor LaRocque (“LaRocque”), and three other senior PwC
9 managers assigned to the CISCON project, to misappropriate tens of thousands of rate payer
10 dollars for their own benefit and to use these funds to purchase:

- 11 a. *the services of prostitutes and escorts;*
- 12 b. a lavish bachelor party for PwC’s LaRocque, in Las Vegas in July 2011 that
13 included extravagant nights of partying for the co-conspirators with large
14 quantities of very expensive “bottle service” alcohol; and
- 15 c. a lavish bachelor party for the PwC Conversion Lead of the LADWP’s
16 CISCON implementation project David Garcia (“Garcia”), which was also
17 held in Las Vegas in May 2013.

18 (Emphasis added).

19 18. By repeatedly, knowingly and intentionally submitting falsified time records in
20 order to procure a greater amount of money than PwC was contractually entitled to be paid by
21 the City of Los Angeles for work items performed by PwC under the CISCON Contract over a
22 period spanning three years, PwC committed, among other things, fraud.

23 19. By and through the two newly added Causes of Action for Fraud (Ninth Cause of
24 Action) and Fraud – Conspiracy to Commit Fraud (Tenth Cause of Action), the City and
25 LADWP also seek to recover the recently discovered additional damages incurred by the City as
26 a result of the fraud and theft engaged in by PwC, as detailed herein.

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PARTIES

20. Plaintiff, the City of Los Angeles is, and at all times mentioned was, a municipal corporation, acting by and through its Department of Water and Power.

21. Defendant Pricewaterhouse Coopers, LLP, is a Delaware limited liability partnership, having its principal office located at 300 Madison Avenue, 24th floor, New York, NY 10017 and having a local office at 350 South Grand Ave., Los Angeles, CA 90071.

22. Additionally, upon information and belief, numerous partners of Defendant are citizens of the State of California, including but not limited to Thomas McGuinness, Marci Castillo, James Levinson, Allison Monahan, Shannon O’Shea, Andy Sofield, Miho Yokoyama, Brian Culligan, and Michael Galper.

JURISDICTION and VENUE

23. This Court has jurisdiction over this matter pursuant to California Code of Civil Procedure (“CCP”) Section 410.10, because partners and/or members of the defendant limited liability partnership are domiciled within the State of California, and the amount in controversy exceeds the minimal jurisdictional limit of this Court.

24. Pursuant to CCP Section 395, venue in this Court is proper, because performance of the contracts and obligations at issue in this lawsuit were due in this County, and those contracts were in fact entered into in the County of Los Angeles.

SUBSTANTIVE ALLEGATIONS

PwC Fraudulently Induced the LADWP to Award the CISCON Contract to PwC by Misrepresenting and Failing To Disclose Material Facts to the LADWP

A. PwC’s Materially False and Misleading RFP Response

25. In 2009, the LADWP sought to modernize its nearly forty-year-old utility Customer Information System/Customer Care and Billing System known as the TRES System.

26. On November 23, 2009, the LADWP issued the LADWP RFP.

1 27. On January 8, 2010, PwC provided the LADWP with the PwC RFP Response to
2 the LADWP RFP.

3 28. In its January 8th RFP Response, PwC made the following representations
4 concerning: (i) PwC's CC&B billing system implementation skills and experience; and (ii)
5 PwC's implementation of the CC&B billing system at Cleveland Water:

6 **1. False Representations Concerning PwC's CC&B Billing System**
7 **Implementation Skills and Experience**

8 a. "From our prior work in business requirements, solution selection,
9 and systems implementation, we have developed leading practices that drive our projects to
10 success. Accordingly, we are uniquely positioned to serve you" (PwC RFP Response
11 Executive Summary p. 1);

12 b. "We have the leading Utility functional experience, project
13 management skills, deep technical knowledge of Oracle and SAP, and knowledge of your
14 business processes to help you realize your project objectives." (PwC RFP Response Executive
15 Summary p. 1); and

16 c. "Our proposed offering includes deep knowledge and experience
17 in all functional and technical areas." (PwC RFP Response Executive Summary p. 1);

18 **2. False Representations Concerning the Cleveland Water CC&B**
19 **Implementation Project**

20 a. "No other proposer can claim as many Oracle PS/CC&B
21 implementations as PwC over the last 10 years. With 10+ successful implementations and
22 upgrades, we are proud to retain each client as a partner and a reference" (PwC RFP
23 Response Executive Summary p. 4);

24 b. "Our proposed team has extensive project management skills,
25 technical SAP and Oracle know-how, deep industry knowledge and a track record of successful
26 CIS system selections and implementations. Having completed nearly 15 CIS implementations,
27 this team is committed to making your CIS project a success." (PwC RFP Response Executive
28 Summary p. 2);

1 c. "Our team has served a variety of large electric, water and
2 wastewater clients and has an unparalleled track record of implementing CC&B successfully on
3 time and within budget." (PwC RFP Response Executive Summary p. 4); and

4 d. In response to Question # 5. of the LADWP RFP, which asked
5 PwC to provide "a description of the firm's experience in successfully implementing projects
6 similar in nature to the services described in the RFP," PwC's RFP proposal states in relevant
7 part, "*PwC has successfully implemented Oracle CC&B solution in North America with the*
8 *following utilities: Cleveland Water Dept., OH, US - 450,000 customers.*" (PwC RFP Response
9 pp. 8-10)(Emphasis added).

10 **B. PwC's Materially False and**
11 **Misleading Interview Presentation Book**

12 29. In February 2010, PwC participated in a two-day long in-person interview
13 conducted by LADWP officials. This in-person interview was conducted in Conference Rooms
14 No. 1471 and 1514 at the LADWP's offices located at 111 N. Hope St. in Los Angeles. During
15 the interview, PwC was represented by Jim Curtin, Trevor LaRocque, Scott Strean, Kris Brown,
16 K.P. Reddy, David Workman, and Paul Butler, and the LADWP was represented by Matt
17 Lampe, Mark Townsend, John Chen, Flora Chang, Armando Bolivar, George Rofail, Cliff Eng,
18 and Aditya Sharma.

19 30. The purpose of this in-person interview was to evaluate each of the two service
20 providers that the LADWP had selected as finalists during the process of vetting possible
21 vendors to fulfill the CISCON Contract.

22 31. At the outset of PwC's in-person interview, PwC provided the LADWP with
23 PwC's Interview Presentation Book. In the Interview Presentation Book, PwC made the
24 following representations:

25 **1. False Representation Concerning PwC's CC&B Billing System**
26 **Implementation Skills and Experience**

27 a. "Key lessons learned on data conversion: *Reconcile data on every*
28 *step of the conversion process.* Conversion reports" (Interview Presentation Book Slide 91)

1 (Emphasis added);

2 **2. False Representations Concerning the Cleveland Water CC&B**
3 **Implementation Project**

4 a. *“PwC has a proven track record in delivering 100% successful*
5 *Oracle CC&B projects.”* (Interview Presentation Book Slide 28) (Emphasis in original);

6 b. Slide 6 of PwC’s Interview Presentation Book also provided a
7 “Firm Overview,” and identified a number of “PwC Key Contacts,” including Mr. Trevor
8 LaRocque. With respect to Mr. LaRocque, PwC represented that he had been “involved with 11
9 CIS engagements, 7 of them for the full life cycle implementation, [including the CC&B
10 engagement for] Cleveland Water.” (Interview Presentation Book Slide 6).

11 **C. The Materially False and Misleading**
12 **Nature of the Representations Made in PwC’s**
13 **RFP Response and Interview Presentation Book**

14 32. At the times PwC made each of the foregoing statements in its RFP Response and
15 Interview Presentation Book, PwC had actual knowledge that each of these statements was
16 materially false and misleading.

17 **1. PwC Knew That Its Representations Concerning**
18 **PwC’s CC&B Billing System Implementation**
19 **Skills and Experience Were False When Made**

20 33. PwC knew, but did not disclose that:

21 a. The PwC Project Team Manager PwC whom proposed to – and
22 ultimately did – assign to the LADWP CC&B implementation project had never managed a
23 project as large or complex as the LADWP project;

24 b. Many of the employees whom PwC proposed to – and ultimately
25 did – assign to the LADWP CC&B implementation project were filling new roles for which they
26 lacked experience; and

27 c. Many of the employees whom PwC proposed to – and ultimately
28 did – assign to the LADWP CC&B implementation project did not possess the qualities,

1 expertise, skills, and abilities to perform the work required of PwC under the Agreement.

2 **2. PwC Knew That Its Representations Concerning**
3 **the Cleveland Water CC&B Implementation**
4 **Project Were False When Made**

5 34. PwC knew, but did not disclose that:

6 a. PwC was responsible for the failed implementation of an identical
7 Oracle CC&B platform at Cleveland Water (the “Cleveland Water CC&B Project”) which PwC
8 prematurely took “live” in late September 2009 – just four months before PwC submitted its RFP
9 Response to the LADWP;

10 b. The PwC Utilities practice Team responsible for implementing the
11 Cleveland Water CC&B Project was comprised of many of the same individuals who were being
12 proposed as team members for the LADWP CC&B Project team, and the two senior PwC
13 executives on both of these CC&B projects were Jim Curtin, the Utilities Principal at PwC, and
14 Trevor LaRocque, then a Director, and later a Partner, in PwC’s Utilities practice;

15 c. The PwC employees who staffed the Cleveland Water CC&B
16 Implementation Project did not have and/or utilize a detailed Project and Deployment
17 Infrastructure Plan to manage and track the Cleveland Water CC&B project status;

18 d. The PwC employees who staffed the Cleveland Water CC&B
19 Implementation Project did not recognize or act upon key indicators pointing to the Cleveland
20 Water system’s lack of readiness for move to “Go-Live” and production;

21 e. The PwC employees who staffed the Cleveland Water CC&B
22 Implementation Project did not recognize or act upon Cleveland Water’s lack of preparedness for
23 daily operation of Cleveland Water’s new CC&B billing systems;

24 f. The PwC employees who staffed the Cleveland Water CC&B
25 Implementation Project supported the decision to “Go Live” and cutover to production despite
26 overwhelming evidence that Cleveland Water’s CC&B system was not ready to be cutover and
27 rendered “Live” and operational;

28 g. Immediately following the September 2009 “Go Live” of

1 Cleveland Water's new CC&B platform, PwC had actual knowledge that the PwC Team
2 responsible for implementing the Cleveland Water CC&B Project had improperly implemented
3 and configured Cleveland Water's new CC&B platform, which, in turn, created disastrous
4 consequences for Cleveland Water's business and billing operations;

5 h. Immediately following the September 2009 "Go Live" of
6 Cleveland Water's new CC&B platform, PwC learned that, because the PwC Utilities practice
7 team responsible for implementing the Cleveland Water CC&B Project had failed to properly
8 implement and configure Cleveland Water's new CC&B platform, Cleveland Water had
9 experienced a wide-range of critical CC&B system failures immediately upon "Go Live" of its
10 new CC&B System; and

11 i. In particular, immediately following the September 27, 2009 "Go
12 Live" of Cleveland Water's new CC&B System, PwC had actual knowledge and intentionally
13 did not disclose to the LADWP that:

- 14 o 15% of Cleveland Water's customer accounts (60,000 customer accounts)
15 immediately failed to bill at all because PwC had failed to properly configure
16 Cleveland Water's new CC&B platform;
- 17 o An additional 15% of Cleveland Water's customer accounts (an additional 60,000
18 customer accounts) were billed based on "estimated usage" -- despite the fact that
19 actual meter read data existed -- because PwC had failed to properly configure
20 Cleveland Water's new CC&B platform;
- 21 o Field meter read data entry validation did not function properly, because PwC had
22 failed to properly configure Cleveland Water's new CC&B platform. As a result,
23 manually keyed errors by meter readers flowed into the billing system without
24 being detected or remediated;
- 25 o Meter exchanges processed in the field were not completed in the system,
26 resulting in billing errors and customer service confusion, because PwC had failed
27 to properly configure Cleveland Water's new CC&B platform;

28 ///

- 1 ○ Cleveland Water experienced an immediate and exponential surge in billing errors
- 2 following “Go Live,” due to PwC having improperly implemented and configured
- 3 the system;
- 4 ○ Cleveland Water experienced a crippling increase in daily exceptions and other
- 5 billing errors that simply could not be addressed on a timely basis due to staffing
- 6 issues, which created an increasingly large backlog of customer bills; and
- 7 ○ The exponential increase in incorrect and unaddressed customer billing issues
- 8 caused Cleveland Water’s Accounts Receivables to skyrocket – growing at the
- 9 rate of \$1 million per month following the failed implementation of its new
- 10 CC&B platform by PwC in September 2009.

11 35. On the basis of the foregoing, PwC’s representations, including, in particular, the
12 representation that “*PwC has a proven track record in delivering 100% successful Oracle*
13 *CC&B projects,*” were known to PwC to be blatantly false at the times PwC made these
14 statements to the LADWP in January and February 2010. (Emphasis in original).

15 36. Similarly, PwC’s response to Question # 5 of the LADWP RFP, in which PwC
16 stated that PwC had “successfully” implemented Oracle’s CC&B platform for Cleveland Water
17 (PwC RFP Response pp. 8-10) was also known to PwC to be materially false and misleading at
18 the time PwC made this statement in January 2010.

19 37. Finally, in light of PwC’s failed implementation of Cleveland Water’s CC&B
20 billing system just four month earlier, and the fact that the Cleveland Water CC&B Project had
21 been managed and staffed by many of the same PwC personnel who were proposed to – and
22 ultimately did – manage and staff the LADWP CC&B Project (including Messrs. Curtin and
23 LaRocque), PwC knew, but did not disclose, that each of the statements set forth above were
24 materially false and misleading at the times PwC made these statements, because PwC knew that
25 PwC’s proposed team did not possess the “extensive project management skills, technical Oracle
26 know-how, [and] deep industry knowledge” that PwC falsely claimed to possess, and lacked the
27 knowledge, expertise, skills and abilities to perform the work required of PwC under the
28 CISCON Contract.

1 38. PwC made each of these statements with the intent and for the purpose of
2 inducing the LADWP to rely on these statements, and to induce the LADWP to award the
3 CISCON Contract to PwC, rather than one of PwC's competing bidders.

4 39. Because the LADWP was unaware of the materially false and misleading nature
5 of these statements by PwC at the time these statements were made, the LADWP did, in fact,
6 justifiably rely on these statements in making the decision to award the CISCON Contract to
7 PwC rather than one of PwC's competing bidders.

8 40. The fact that the LADWP believed and justifiably relied on PwC's representations
9 in awarding the CISCON Contract to PwC is demonstrated by numerous "evaluation comments"
10 made by LADWP Evaluators during PwC's February 2010 interview. After having considered
11 the representations made by PwC in its RFP Response and Interview Presentation Book, the
12 LADWP Evaluators demonstrated that they believed PwC's representations in a variety of
13 comments that they made during PwC's February 2010 in-person interview. The LADWP
14 evaluators commented in relevant part:

15 a. "PwC is stronger on the Oracle side" and "PwC has a stronger Oracle
16 Team PwC has a more business focused approach, which is more critical for this type of
17 large scale process changing projects";

18 b. "PwC has a business process centric approach that is critical for this
19 project";

20 c. "Strong Oracle experience in utilities sector" and "strong Oracle team was
21 proposed"; and

22 d. "The identification of a strong Oracle side delivery executive also
23 contributed to the strength."

24 41. Because the LADWP was unaware that PwC lacked the knowledge, expertise,
25 skills and abilities that PwC falsely claimed it possessed to perform the work required of PwC
26 under the CISCON Contract, the LADWP justifiably relied on these false representations to its
27 detriment, and incurred hundreds of millions of dollars in damages as a result of doing so, when
28 PwC failed to perform as it was required to by the terms of the CISCON Contract. In addition,

1 because PwC did not disclose to LADWP the existence of the CC&B related operational issues
2 and other problems that PwC knew existed at Cleveland Water, PwC further deceived the
3 LADWP, and prevented the LADWP from identifying these operational issues and problems as
4 areas warranting special attention and additional testing in connection with the LADWP CC&B
5 implementation project.

6
7 **The CISCON Contract and PwC's Breach of the CISCON Contract**

8 **A. LADWP Contracted with PwC to Provide**
9 **Software System Implementation and**
10 **Integration Services for Replacement of**
11 **the LADWP's Customer Information System**

12 **1. The Initial Agreement**

13 42. On or about July 20, 2010, LADWP entered into a Professional Services
14 Agreement with PwC known as "LADWP Agreement No. 47976" and referred to herein as "the
15 CISCON Contract."

16 43. Section 103 of Article I of the CISCON Contract sets forth the purpose of the
17 Agreement and states in relevant part,

18 LADWP is seeking to modernize its legacy utility Customer Information System
19 implemented in 1974, as well as related processes, procedures and business
20 requirements to provide a long-term automated CIS solution that is user-friendly,
21 proven in production in a large utility environment, and powerful enough to meet
22 the current and anticipated future needs of LADWP.

23 The purpose of this Agreement is to obtain professional services to assist LADWP
24 in selecting and replacing LADWP's existing CIS, which includes water and
25 electric utility customer information, billing, customer accounting, reporting and
26 collection system.... all tasks under this Agreement are termed the CIS
27 replacement project ("CIS Replacement Project").

28 44. The "Services and Deliverables" to be provided by PwC under the CISCON
Contract are set forth in Section 401 of the CISCON Contract, which states in relevant part, PwC
"shall provide the Services and the Deliverables identified in the two statements of work
("Statements of Work" or "SOWs") attached to this Agreement as Exhibits D and E and made a

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part hereof.”

45. Section 401.1 of the CISCON Contract states in relevant part,

The project scope is defined in the two SOWs set forth in Exhibits D and E, which represent the two phases of the project. The work contemplated in Exhibit D is referred to as phase 1 (“Phase 1”) of the project, while the work contemplated in Exhibit E is referred to as phase 2 (“Phase 2”) of the project...

Phase 1 will include activities concerning the evaluation and selection of a CIS replacement solution (“CIS Replacement Solution”), and which includes preparation for implementation of the CIS Replacement Solution

Phase 2 will include activities concerning a successful implementation of the CIS Replacement Solution. The activities in Phase 1 and Phase 2 are more fully described in Exhibit D and Exhibit E.

46. According to Sections 201 and 301, of the CISCON Contract, respectively, the initial term of the CISCON Contract was three years and the “total compensation” payable to PwC “for the complete and satisfactory performance of services under this Agreement shall not exceed Fifty-Seven Million Two Hundred Thousand dollars (\$57,200,000)” and the work to be performed as set forth in Exhibit E to the Agreement had “a total not-to-exceed amount of Forty-Four Million Five Hundred Thousand dollars (\$44,500,000).”

2. The First Amendment to the CISCON Contract

47. On May 16, 2013, LADWP requested approval by the Mayor’s Office of a proposed resolution authorizing the execution of the first amendment to the Agreement with PwC (the “First Amendment”). The First Amendment extends the term of the Agreement by two years, to August 12, 2015 and provides additional funding authority in the amount of \$12 million for a new Agreement not-to-exceed total of \$69.2 million.

48. Because the cumulative length of the Agreement exceeded three years, approval by the Los Angeles City Council was required in order for the LADWP to enter into the First Amendment. On June 24, 2013, the LADWP presented Amendment No. 1 to the City Council for approval. On August 13, 2013, the City Council voted to approve Amendment No. 1.

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1 **B. PwC Breached Numerous**
2 **Provisions of the CISCON Contract**

3 49. As detailed herein, PwC materially breached the CISCON Agreement in several
4 respects, each of which caused the LADWP to incur damages. In particular, PwC breached the
5 following Sections of the CISCON Contract:

6
7 **PwC Breached Sections 5.6.5 and 6.3.4**
8 **of Exhibit E to the CISCON Contract**
9 **By Failing to: (i) Develop and Deliver**
10 **Conversion Load Programs Capable of**
11 **Successfully Loading and Transforming**
12 **Legacy Billing Data; and (ii) Conduct**
13 **“Unit Testing” of PwC’s Conversion Load Programs**
14 **And/Or “Hot Fixes,”As Required By The CISCON Contract**

15 50. According to the Product Data Sheet for “Oracle Utilities Customer Care and
16 Billing” product, “Oracle Utilities Customer Care and Billing (CC&B) is a complete billing and
17 customer care application for utilities serving residential, commercial and industrial customers.”

18 51. Oracle’s CC&B product is an off-the-shelf, highly configurable and extensible
19 software platform that is sold to, and used by, utilities across the world to bill their customers
20 and manage various aspects of customer relationships. Because the CC&B product is highly
21 configurable and extensible, it is capable of being configured and extended in myriad ways to
22 suit the needs of the various utilities using the product.

23 52. In the case of the CISCON Contract, LADWP contracted with PwC to configure
24 and extend the CC&B billing platform that PwC was hired to implement for the LADWP.

25 **“Converting” Legacy TRES and BANNER Data into CC&B Format**

26 53. One of the most critical tasks required to be undertaken to successfully implement
27 the LADWP’s new CC&B billing system involved converting the customer billing data
28 maintained in the legacy TRES and BANNER systems into a format that could be read and
properly processed by the new Oracle CC&B billing system.

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54. One of the primary challenges involved with converting the LADWP’s customer billing data arises from the fact that the LADWP’s legacy TRES system stores customer billing data in a single “flat file” data structure such that all customer data for each residential and business customer is maintained in a single file that contains all of the data field elements associated with a given customer. In contrast, the LADWP’s new Oracle CC&B system maintains and stores customer billing data in literally hundreds of relational database data tables.

55. To effectuate this billing data conversion, it was necessary to extract the customer billing data for the approximately 1.6 million customers that was stored in “flat file” format in the legacy TRES system, and customer billing data for approximately 10,000 customers in the Owens Valley area that was stored in database tables in the legacy BANNER system, and to convert this data into the format and data structure required by the new CC&B billing platform. This was necessary so that the CC&B system could store this data in hundreds of relational database tables, and process this data to generate customer bills. Doing so requires both a thorough understanding of how to extract, transform (convert), and load legacy customer billing data from the TRES and BANNER legacy billing systems into the Oracle CC&B billing system and a high degree of programming sophistication, capability and accuracy.

56. In PwC’s RFP Response, PwC made a number of statements demonstrating the significance of this conversion process. In particular, PwC stated in relevant part:

Data Conversion is a key aspect of CIS implementation, PwC follows a proven Conversion methodology which is part of the overall Transformation Methodology and comprises Data Selection, Data Mapping, Data Extraction, Data Cleansing, Data Transformation and Data Reconciliation.

* * *

Data Conversion Approach

Data conversion is a key aspect of CIS implementation, PwC’s proven conversion methodology includes the following components:

- Documented conversion strategy, developed and agreed upon at the beginning of the project.
- Documented data mapping.

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- Documented cross referencing of legacy values to the configuration, as it is being developed over the life of the project.
- Documented balancing procedures, for both data elements and financial balances.

PwC's Data Conversion methodology covers the following . . . areas:

* * *

Data Transformation

The PwC conversion team will reformat and move data from the legacy system staging areas into structures and tables and files, depending on the conversion tool to be used. This process includes the generation of a number of reports, including data exceptions as well as statistical reporting to support the reconciliation process. The exception reports will be used for identifying changes needed in the conversion processing, especially the cross reference processing and for identifying data cleansing issues which must be addressed in the legacy systems.

Conversion reconciliation

During the process of extracting data from legacy systems, loading it into the staging area and migrating it into the structures, it is necessary to assess data integrity at each step. Statistical and financial totals are generated at each step and compared and reconciled to the preceding step. This processing required to generate these totals are part of the conversion processing. LADWP will be responsible for reporting out of the legacy systems. The PwC conversion team will be responsible for reporting out of the staging layer and CIS system. This reporting and the reconciliation process is part of the conversion process and will be tested with each practice conversion.

(PwC RFP Response p. 61)(Emphasis added).

57. Despite PwC's recognition of the critical significance of the conversion process and representations that it possessed the skills needed to effectuate a successful data conversion in connection with performing its duties under the CISCON Contract, PwC breached Sections 5.6.5 and 6.3.4 of the CISCON Contract in connection with PwC's conversion of the LADWP's legacy billing data into the data format required by the new CC&B billing system.

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1 **A. PwC Breached Section 5.6.5 of Exhibit E**
2 **To The CISCON Contract by Failing**
3 **To Develop “Conversion Load Programs” Capable**
4 **Of Successfully “Loading and Transforming”**
 Legacy Billing Data Provided by The LADWP

5 58. Section 5.6.5 of Exhibit E to the Agreement (“Section 5.6.5”) states that PwC is
6 responsible for developing and delivering the conversion programs required to load and
7 transform legacy billing data provided by the LADWP.

8 59. Section 5.6.5 is entitled, “Activity – Develop Automated Conversion Processing”
9 and states in relevant part,

10 Description

11 *The purpose of this activity is to Code and Unit Test the necessary Extract,*
12 *Transform, and Load (ETL) processing and to conduct Conversions. Programs*
13 *will be developed and tested. . . .*

14 (Emphasis added).

15 60. Section 5.6.5 also identifies the “Deliverable” that PwC was required to provide
16 under this Section. Pursuant to Section 5.6.5, PwC was required to provide Deliverable No.
17 D3.6, which were the “Conversion Code Loads.” As stated in the CISCON Contract, in order to
18 fulfill this Deliverable requirement, PwC was required to “*develop conversion programs to load*
19 *and transform data from data provided by LADWP.*” (Emphasis added).

20 61. Additionally, Deliverable No. D3.6 required that PwC “unit” test the Conversion
21 Load Programs.

22 62. “Unit testing” is a software testing method by which individual units of code are
23 tested to ensure functionality.

24 63. In order to prepare for the actual conversion from the LADWP’s legacy billing
25 system to the new CC&B billing system, the LADWP and PwC conducted monthly “full data
26 conversions” throughout much of the project, with the last “full data conversion” occurring on
27 August 7, 2013 (the “August 7th Conversion”).

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1 64. After conducting the August 7th Conversion, PwC became aware that PwC had
2 not written the Conversion Load Programs properly and that, as a result, numerous defects
3 existed in these Conversion Load Programs as a result.

4 65. In light of the fact that so many defects existed in the Conversion Load Program,
5 as of August 7, 2013, less than one month from “Go Live,” PwC breached the contractual
6 requirement of Section 5.6.5 by failing to develop and deliver “conversion [load] programs” that
7 were capable of successfully “load[ing] and transform[ing] Legacy data provided by the
8 LADWP.

9 66. PwC further breached Section 5.6.5 by failing to unit test the Conversion Load
10 Programs, as required by Deliverable No. D.6.

11 67. Because PwC did not conduct this required unit testing, PwC delivered
12 defectively programmed Conversion Load Programs to the LADWP that were then used to load
13 and transform legacy billing data into the new CC&B billing system. Because these Conversion
14 Load Programs were written in a defective manner and therefore did not function properly, they
15 were incapable of successfully “loading and transforming” legacy billing data provided by the
16 LADWP as required by Section 5.6.5.

17 **B. PwC Breached Section 6.3.4 of**
18 **Exhibit E by Failing To Conduct**
19 **Unit Testing On “Resolutions That**
 Involve Changes to The CIS Solution”

20 68. Unable to satisfy its obligation arising under Section 5.6.5 of Exhibit E, and
21 unable or unwilling to rewrite the Conversion Load Programs in a manner that eliminated these
22 code defects in the Conversion Load Programs, PwC developed a series of “resolutions,”
23 otherwise referred to as “hot fixes,” which were intended to eliminate a variety of “conversion
24 load errors” that were caused by the improper programming and functioning of the defectively
25 written Conversion Load Programs.

26 69. A “hot fix” is an SQL script that is designed to correct a software defect. This fix
27 is referred to as “hot” because it is applied to a system or program that is “live,” i.e., currently
28 running and in production status rather than in development status. Generally, an individual

1 SQL script or “hot fix” is designed to correct only one very specific defect in a system or
2 program, i.e., the target defect. A “hot fix” should only affect the target defect and should not
3 affect any other collateral data.

4 70. Prior to the September 3, 2013 “Go Live” date, PwC developed certain
5 conversion SQL scripts and certain “hot fixes” that were intended, among other things, to correct
6 certain defects in the converted data streams that had been generated by PwC running the
7 defectively programmed Conversion Load Programs.

8 71. To ensure that each individual conversion SQL script and/or “hot fix” functioned
9 according to design and/or corrected only its intended target defect, and did not adversely affect
10 any other collateral data or otherwise cause any unforeseen and unanticipated data or system-
11 related defects, Section 6.3.4 of Exhibit E required that PwC conduct “unit testing” (as defined
12 above) on any “resolution that involves changes to the CIS Solution,” to confirm and
13 demonstrate that no other collateral data or CC&B system functionality had been adversely
14 affected by the conversion SQL scripts or the implementation of the “hot fixes.”

15 72. Despite this contractual requirement, PwC failed to conduct the required unit
16 testing for either the conversion SQL scripts or the “hot fixes” created by PwC prior to “Go
17 Live.”

18 73. As a result of PwC’s failure to unit test these conversion SQL scripts and “hot
19 fixes,” PwC’s delivery and implementation of these wholly untested conversion SQL scripts and
20 “hot fixes” adversely affected, among other things, collateral data and CC&B system
21 functionality when the LADWP went “live” with its new CC&B billing system on September 3,
22 2013.

23 74. By way of example, the LADWP’s IT Department has now confirmed that *the*
24 *untested conversion SQL scripts and/or “hot fixes,” in particular Hot Fix Nos. 34 and 101,*
25 *which were applied by PwC, caused “critical” meter configuration defects as follows:*

<u>No. of Meters</u>	<u>Type of Meter Configuration Defect</u>
37,278 meters	ERTs are missing on meters converted into CC&B from MR10
31,234 meters	Legacy meters with bad program id, model, manufacture
21,667 meters	KW full scale does not match digits left/right in meter config.
21,317 meters	Meters with wrong interval register 91 KW
16,940 meters	Meters had only one register when they are converted to CC&B
9,776 meters	Meters consist of wrong configurations
9,365 meters	A NET KWH2, KWH2V, and KWH2D meters w/ wrong flag
7,809 meters	Net Meters GE210 converted & configured incorrectly
6,290 meters	Net KWH meters have wrong read sequence
5,000 meters	Electric meters without ERT in CCB
3,305 meters	Electric meters without read sequence
2,528 meters	Electric meters have mismatch
2,482 meters	Meters are missing required registers on their configuration
1,681 meters	Meters had wrong full scale
1,495 meters	Meters with incorrect read sequence 74
1,251 meters	Meters error out by MUP2 due to bad meter configurations
16 meters	Few left meters still have invalid register 1 or 2

75. Stated another way, *PwC's misconduct* had devastating consequences for the LADWP and *resulted in the LADWP being unable to bill more than 180,000 of its customers -- many for a period of more than 17 months.*

76. In quantifying the revenue loss associated *only* with the LADWP's inability to bill approximately 40,000 out of a total of 400,000 commercial LADWP customer accounts, one senior-ranking LADWP executive estimated that the LADWP had foregone \$11 million per month in revenue due to its inability to bill these 40,000 commercial customers due to PwC's misconduct. This \$11 million per month *does not* include *any* unbilled revenue associated with any of the LADWP's residential accounts. When the unbilled revenue associated with these residential accounts is considered, the revenue loss experienced by the LADWP due to PwC's

1 breach of the CISCON Contract increases exponentially as detailed below.

2 77. While the revenue loss associated with both commercial and residential customer
3 accounts that was caused by PwC's misconduct has been staggering, the damages incurred by the
4 LADWP as a result of PwC's actions have also been exacerbated by the fact that the LADWP's
5 has had to retain other IT and billing system consultants to: (i) perform the work that PwC was
6 already paid to perform, but failed to; and (ii) remediate the damage to the LADWP's CC&B
7 billing system caused by PwC personnel.

8
9 **PwC Breached Section 5.6.8 of the**
10 **CISCON Contract by Failing To Develop**
11 **The "INT028 Meter Read Upload Interface"**
As Required by The CISCON Contract

12 78. Section 5.6.8 of Exhibit E to the CISCON Contract governs creation of the
13 "INT028 Meter Read Upload Interface" and other "Interfaces" and states that PwC is responsible
14 for "delivery of CIS Solution Interface source and executable code" to the LADWP.

15 79. Section 5.6.8 is entitled, "Activity – Develop Interface Programs" and states in
16 relevant part:

17 Description

18 *The purpose of this activity is to Code and Unit Test Interface Programs. The*
19 *Interface Programs will be based upon the Interface Specifications.*

20 *The deliverable will be the completed code for each interface (Programs that*
21 *require send/receive data interchanges between third party applications and the*
22 *CIS Solution), including the documentation for each program/executable code*
23 *that has been developed, successfully unit tested and delivered based on the*
functional and technical specifications. This deliverable will function in
accordance with associated Specification Documentation.

24 The Consultant [PwC] will address and resolve all of the Unit Test Incidents that
25 pertain to Interfaces or CIS application components, which are caused by the CIS
26 application side of the Interface. . . .

27 (Emphasis added).

28 ///

1 80. Another of the more critical tasks required to be undertaken to successfully
2 implement the LADWP's new CC&B billing system involved developing and implementing the
3 "Interface" necessary to "upload" the meter read data collected by meter readers to the CC&B
4 billing system so that data could be processed and used to generate customer bills. The
5 particular interface required to perform this task in the case of the CISCON Contract was known
6 as "Interface 028," which was also referred to as the "Meter Read Upload Interface" or "MRU
7 Interface."

8 81. The meter read data collected by meter readers using the ITRON Field Collection
9 System ("FCS") is stored in "Extensible Markup Language" or "XML" format. "XML" is a data
10 format that is consistent with the data format used with web services, and is commonly used with
11 Service Oriented Architecture or "SOA" based Interfaces. XML formatted data includes both
12 the data and the descriptor for the data, which makes it particularly wordy. The XML data must
13 therefore be parsed before it can be loaded into a data table or used in any data validations.
14 Meter read files in XML format are very large, as the read files can be up to 50,000 meters in the
15 daily read. Because there are a large number of variables and variable descriptors stored in the
16 meter read files, these files are very large.

17 82. The Meter Read Upload Interface is designed to take meter read data, which is
18 collected by meter readers in the field using the ITRON FCS, into the MRU Interface and to then
19 transmit or "upload" that data to a staging table in CC&B. Interface 028 at issue here was
20 defectively designed, written and developed by PwC.

21 83. When the MRU Interface is working properly and as intended, once the meter
22 read data is delivered to the CC&B staging table, CC&B runs this data through a series of
23 validations before it gets into the read table. These validations are well integrated into the
24 CC&B application, and errors create "to-do's" in the system where the "business side" of the
25 LADWP can see the error and take action on the error within the user interface.

26 84. Immediately after going "live" with the new CC&B billing system on September
27 3, 2013, the LADWP attempted to run the MRU Interface and found that it could not
28 successfully be run in the "production environment" at all.

1 85. The consequences of the inability to run the MRU Interface were immediate and
2 disastrous. Because the LADWP was completely unable to run the MRU Interface in the
3 “production environment,” the LADWP was suddenly unable to bill any of its 1.2 million
4 residential customers, 50,000 of which were billed each night that the LADWP remained unable
5 to get the MRU Interface to function in the “production environment.”

6 86. The LADWP’s IT Department immediately informed PwC of this critical issue,
7 including PwC’s LaRocque, only to be told that PwC would look into the matter, but was
8 uncertain as to why the MRU Interface would not function at all in LADWP’s “live” “production
9 environment.”

10 87. In an effort to stave off a complete billing disaster and mitigate its damages, the
11 LADWP immediately assigned one of its top SOA programmers to begin investigating the
12 reason(s) why the MRU Interface would not function at all in the “live” “production
13 environment.” On doing so, this SOA programmer discovered that the size of the file, combined
14 with the large number of data validations that were being attempted, quickly caused the memory
15 capacity of the system to be exceeded – which, in turn, caused the system to lock up and stop
16 running the “meter read upload” operation each time it was attempted by the LADWP.

17 88. Although this SOA programmer was unable to identify the ultimate reason or
18 “root cause” of the system lock up each time the meter read upload operation was attempted, he
19 did determine that he could manually over-ride the system by employing a fully manual “work
20 around” which involved him breaking the XML file into smaller pieces and processing each of
21 these segments manually.

22 89. The SOA programmer found that, if he “chopped up” the XML meter read data
23 file into smaller files and carefully fed them into the system sequentially while monitoring the
24 system, he was able to manually parse the meter read data stored in XML format and load it into
25 the CC&B staging table. This took many hours and literally necessitated that the SOA
26 programmer work through the night – each night for nearly three weeks – simply to accomplish
27 the meter read data “upload” so that this data could be used to manually bill 50,000 LADWP
28 customers each night. Given the sheer volume, this manual method of billing 50,000 LADWP

1 customers each night quickly proved completely unworkable and unsustainable because it
2 delayed the nightly batch billing runs and required extraordinary commitment of staff time.

3 90. Because both PwC and LADWP had been unable to identify the reason(s) why
4 the MRU Interface failed to function in the “live” “production environment,” the LADWP was
5 required to hire Oracle Corporation to conduct a trouble shooting investigation into the matter.

6 91. Oracle provided a highly-skilled SOA programmer who worked closely with the
7 LADWP’s own SOA programmer to help identify the cause of the failure. After working for
8 several weeks, Oracle’s SOA programmer found that PwC had defectively coded the MRU
9 Interface and delivered and implemented the defectively coded MRU Interface to the LADWP.

10 92. In particular, Oracle’s SOA programmer discovered that PwC had defectively
11 coded the MRU Interface by having written the code for the MRU Interface so that it included a
12 large number of data validations, which, in turn, forced the MRU Interface to parse the data, and
13 run a series of validations, involving comparing many of the data elements, one at a time, to a
14 table of valid values. Given the sheer volume of data, the wordiness of the XML format, and
15 large number of independent table look ups, the MRU Interface could not successfully process
16 the required nightly file which was critical to the billing process, because the system almost
17 immediately ran out of memory each time the LADWP attempted to upload the meter read data
18 using the MRU Interface, causing the system to lock up and stop operating.

19 93. More remarkably – and highly demonstrative of the fact that PwC lacked the
20 skills and experience that PwC had falsely represented it possessed – Oracle’s SOA programmer
21 also confirmed that PwC had defectively coded the Meter Read Upload Interface by
22 programming it to include these data validations, because the CC&B billing system already
23 contained all of these validations. Accordingly, by coding the Meter Read Upload Interface to
24 also include these data validation protocols, PwC had nearly completely duplicated the software
25 functionality that was already possessed in the CC&B product by also programming these logic
26 rules into the MRU Interface itself.

27 94. Had PwC understood and been knowledgeable about the functionality and coding
28 of the CC&B product as PwC had repeatedly falsely claimed, PwC would *not* have deliberately

1 programmed these same data validation rules into the MRU Interface because doing so:

- 2 • Was purely duplicative of the functionality that already existed in CC&B, and required
- 3 excessive memory which caused the system to lock up entirely;
- 4 • Extended the batch window to an unacceptable length; and
- 5 • Where errors were identified, prevented the data from getting loaded into the staging
- 6 table.

7 **PwC Breached Section 5.6.9 of the**
8 **CISCON Contract by Failing to Develop**
9 **the “Auto-Close of Off Orders Enhancement”**
9 **As Required by The CISCON Contract**

10 95. Section 5.6.9 of Exhibit E to the CISCON Contract (“Section 5.6.9”) is entitled,
11 “Activity – Develop CIS Application Enhancements” and states in relevant part:

12 Description

13 The purpose of this activity is to develop and unit test all enhancements to satisfy
14 the functions specified in the final approved Scope Document and Functional
15 Specifications.

16 *The Consultant will design and develop enhancements to the product* utilizing
17 the standard CIS application exit points without modifying the core code

18 *The Consultant will develop the enhancements to the CIS application. These*
19 *enhancements will be built as defined in LADWP approved Functional*
19 *Specifications and the Consultant developed Technical Specifications.*

20 (Emphasis added).

21 96. One of the “enhancements” to the new CC&B billing system that was defined in
22 the LADWP approved Functional Specifications was for an “enhancement” referred to as “Auto-
23 Close of Off Orders.” Simply stated, this “enhancement” was intended to automatically close
24 out “off orders” that were not completed in the field upon the occurrence of a subsequent “on
25 order” at the same location, thereby ensuring that billing was stopped and started properly.

26 97. By way of example, assume an LADWP customer is moving out of an apartment
27 and places an “Off Order” so that service to the apartment is terminated. Then assume that a
28 new resident moves into that same apartment days later. The “Auto-Close on Off Orders”

1 enhancement was intended to ensure that billing to the customer who is moving out of the
2 apartment is completely stopped when the “On Order” is placed, so that the new resident – rather
3 than the resident who is moving out – is billed for service once the “On Order” is placed.

4 98. Despite being contractually obligated to “design and develop” this
5 “enhancement,” PwC failed to design and develop the “Auto-Close on Off Orders” enhancement
6 as was required, and breached Section 5.6.9 of the CISCON Contract as a result.

7 99. Because PwC failed to design and develop the “Auto-Close on Off Orders”
8 enhancement as was required, the LADWP was unable to accurately bill its customers in
9 circumstances where this “enhancement” would have done so on an automated basis.
10 Specifically, because PwC failed to provide this enhancement, the LADWP continued to bill
11 customers *after* they had placed “Off Orders,” and was unable to bill new customers who had
12 placed “On Orders” upon moving into a residence where a corresponding “Off Order” had been
13 placed.

14 100. PwC’s failure to design and develop the “Auto-Close on Off Orders”
15 enhancement caused the LADWP to incur damages in an amount to be determined at trial.

16
17 **PwC Breached Section 5.6.10 of the**
18 **CISCON Contract by Failing to “Develop and**
19 **Unit Test” the “Consultant Developed Reports”**
As Required By The CISCON Contract

20 101. Section 5.6.10 of Exhibit E to the CISCON Contract (“Section 5.6.10”) is entitled,
21 “Activity – Implement Reporting Environment and Develop Reports” and states in relevant part:

22 Description

23 *The purpose of this activity is to implement a reporting environment and use it*
24 *to develop and unit test the reports, which were mutually agreed as needed for*
25 *Go Live.*

26 The deliverable is the Completed Code for each Report, including documentation
27 for the program/executable code for each development object, successfully unit
28 tested and delivered based on the Functional Design Specification and Technical
Specifications.

1 *Consultant will develop and unit test the reports for which the Consultant is*
2 *responsible. . . .*

3 (Emphasis added).

4 102. Despite being contractually obligated to provide the “executable code for each
5 Consultant Report” prior to the September 3, 2013 “Go Live” date of the LADWP’s new CC&B
6 billing system, PwC failed to provide such code and was therefore unable to produce and test a
7 number of critical reports as it was also contractually required to do.

8 103. Internal LADWP documents dated November 5, 2013 confirm that PwC had not
9 yet developed, unit tested, or successfully delivered the following *fifteen* critical reports to the
10 LADWP as of November 5, 2013 – *more than two months after the September 3, 2013 “Go*
11 *Live” had occurred:*

- 12 (i) RPT008 – Batch Payment Control Report;
- 13 (ii) RPT016 – Collection Activity Report;
- 14 (iii) RPT039 – Renewable Energy Summary Report;
- 15 (iv) RPT040 – Sanitation Billing and Revenue Report;
- 16 (v) RPT051 – Total AR Aging Report (by Customer Class);
- 17 (vi) RPT067 – Billing and Revenue Report (by Bill Cycle);
- 18 (vii) RPT068 – Billing Summary (by GL Account);
- 19 (viii) RPT069 – Summary of Cancelled Bill Segments;
- 20 (ix) RPT070 – Trial Balance Report (by GL Account and SA Type);
- 21 (x) RPT076 – Suspense Payment Report;
- 22 (xi) RPT085 – Adjustment Summary (by GL Account);
- 23 (xii) RPT087 – Detail Adjustment Listing Report;
- 24 (xiii) RPT089 – Detail Refund AP Adjustment Report;
- 25 (xiv) RPT091 – GL Summary Report (by GL Account); and
- 26 (xv) RPT093 – Unbilled Revenue Report (Monthly Customers).

27 104. Particularly critical among these reports was the “Total AR Aging Report.”
28 Unable to generate this report because of PwC having breached Section 5.6.10 of the CISCON

1 Contract, the LADWP lacked the ability to assess the age and collectability of its Accounts
2 Receivables, and was materially damaged in its business. Because PwC failed to timely develop
3 and unit test the executable code required to generate these contractually required reports prior to
4 the September 3, 2013 “Go Live” date – and for months after the “Go Live” date as well - the
5 LADWP lacked the financial reporting it needed to operate its financial and business operations,
6 and incurred damages in an amount to be determined at trial.

7
8 **PwC Breached Section 5.6.12 of Exhibit E**
9 **To The CISCON Contract by Failing To**
10 **Configure The “Trend Estimation”**
11 **Algorithm in the LADWP’s New CC&B**
12 **Billing System as Required by the CISCON Contract**

13
14 **A. PwC Was Contractually Responsible for Delivering the**
15 **Initial Configuration of the LADWP’s New CC&B**
16 **Billing System Pursuant to the CISCON Contract**

17 105. Pursuant to Section 5.6.12 of Exhibit E to the CISCON Contract (“Section
18 5.6.12”), PwC was responsible for developing the initial configuration of the CC&B billing
19 system for the LADWP.

20 106. Section 5.6.12 is entitled, “Activity – Develop Initial Configuration” and states in
21 relevant part:

22 Description

23 *The purpose of this activity is to enter configuration settings into, and perform*
24 *configuration test of the CIS Solution. . . .*

25 *Consultant will lead and manage configuration activities, with participation and*
26 *support by LADWP functional and technical teams. . . .*

27 *The Initial Configuration of the CIS Solution will be delivered by the*
28 *Consultant*

(Emphasis added).

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1 **B. PwC Failed to Configure the CC&B**
2 **“Trend Estimation” Algorithm As Required**
3 **By Requirement ID 04.00.64 of Deliverable D2.01-14**

4 107. According to Requirement ID 04.00.64 of Deliverable D2.01-14 (Version 7.0
5 Final) (the “Billing Management Scope Document”), the LADWP’s requirements for Initial
6 Configuration necessitated that PwC configure the LADWP’s CC&B system to permit the
7 LADWP to utilize what is referred to as “Trend Estimation” in order to estimate LADWP
8 customer bills under certain circumstances.

9 108. “Trend Estimation” of customer bills is performed where the LADWP estimates
10 consumption when it is otherwise unable to obtain a meter reading. The LADWP utilizes the
11 “Trend Estimate” to calculate “estimated” bills for its customers who have no prior billing
12 history, rather than calculating customer bills based on actual usage. When performed properly,
13 the use of “Trend Estimation” is a widely accepted and perfectly permissible practice that is
14 utilized by utilities across the United States.

15 109. To perform “Trend Estimation” properly, a utility billing system utilizes a series
16 of algorithms that analyze such things as geographic area, type of customer, etc. to estimate a
17 customer’s usage.

18 110. These criteria are examined and utilized in calculating a “Trend Estimate” to
19 ensure that the “Trend Estimate” used to bill customers is as close to actual usage data as
20 possible, and that the “estimated” bill is therefore as close to what a bill based on actual usage
21 data would be.

22 111. When configured properly, the algorithms that calculate the “Trend Estimate” will
23 use a “neighborhood” attribute to ensure that the usage patterns employed to calculate a “Trend
24 Estimate” for a customer are based on the usage patterns of other customers who also live in the
25 immediate geographic area, rather than on the usage patterns of customers who live in, for
26 example, disparate geographic locations. Stated another way, in order to calculate a reliable and
27 valid – and therefore, reasonable - “Trend Estimate,” it is critical that the billing system used to
28 calculate the Trend Estimate be programmed in such a way that the billing system compares

1 apples with apples, and generates the Trend Estimate based on the billing system having done so.

2 112. PwC breached Section 5.6.12 when it failed to configure the LADWP's Oracle
3 CC&B software package in the manner specified by LADWP in Requirement ID 04.00.64 of
4 Deliverable D2.01-14 (Version 7.0 Final), which required that PwC configure the CC&B product
5 so that "Trend Estimates" would be based on "similar customers."

6 113. Rather than configuring the LADWP's new CC&B billing system in the manner
7 specified by LADWP so that the CC&B System would generate reliable, valid, and therefore
8 reasonable "Trend Estimates" based on "similar customers," PwC breached Section 5.6.12 by
9 configuring the LADWP's CC&B billing system to calculate all Trend Estimates as: (i) a simple
10 "straight average" of all residential customers served by LADWP in broad geographic areas,
11 such as the entire San Fernando Valley – which includes both some of the smallest and largest
12 residential properties in Los Angeles; (ii) a simple "straight average" of all "commercial"
13 customers served by LADWP; (iii) a simple "straight average" of all "industrial" customers
14 served by LADWP; and (iv) a simple "straight average" of all "governmental" customers served
15 by LADWP.

16 114. Stated another way, rather than configuring the LADWP's new CC&B billing
17 system so that the "Trend Estimates" generated by the CC&B billing system would be based on
18 "similar customers," PwC ignored its contractual obligations and, instead, configured the
19 LADWP's new CC&B system so that the "Trend Estimates" would be based on a simple
20 "straight average" of the usage of the four aforementioned "customer" types and then divided the
21 LADWP's entire 464 square mile service area into *only* 6 geographic areas that included: (i)
22 "West Los Angeles; (ii) Metro Area; (iii) Upper Harbor; (iv) Lower Harbor; (v) Valley and (vi)
23 Owens Valley.

24 115. By configuring the new CC&B billing system in this manner, PwC breached
25 Section 5.6.12 of the CISCON Contract and caused the LADWP's new CC&B billing system to
26 generate Trend Estimates that were neither reliable, valid nor reasonable. As a result, LADWP
27 experienced an exponential increase in customer complaints where customers routinely
28 complained that they were being grossly overcharged based on grossly inflated "estimates" that

1 were wildly high -- and which customers believed had been deliberately inflated to unjustly
2 enrich the LADWP. As a result, the LADWP also experienced a sharp increase in non-payments
3 and aged Accounts Receivables associated with these customers and was damaged thereby.

4 116. In reality, however, these customers were being charged for greater quantities of
5 electricity and water than they had actually used through no fault of the LADWP, but rather
6 because PwC had breached Section 5.6.12 of the CISCON Contract by ignoring the LADWP's
7 configuration requirements, and because PwC had improperly configured the Trend Estimate
8 algorithms when it performed the initial configuration of the LADWP's new CC&B billing
9 system.

10 117. When the LADWP received this sudden influx of customer complaints from
11 customers who had been overcharged, LADWP officials immediately investigated the matter,
12 and discussed this issue with the PwC team in an effort to identify the cause of these incorrect –
13 and extremely high – estimated bills.

14 118. When confronted by LADWP concerning this defect, PwC was completely unable
15 to rectify the cause of both the extremely high and extremely low estimated bills that had been
16 generated because PwC failed to configure the Trend algorithms in the manner specified by the
17 LADWP. PwC's inability to do so strongly evidences the fact that the PwC team lacked the
18 knowledge, expertise, skills, and abilities necessary to perform the work required of PwC under
19 the CISCON Contract -- which PwC had repeatedly falsely represented that it did possess.

20 119. Both the extremely high and extremely low bills were incorrect because they did
21 not estimate customer usage in the manner that LADWP had specified, and these incorrect bills
22 generated a high degree of customer complaints. For example, the customers who initially
23 received the "high" bills were immediately upset, and the customers who initially received the
24 "low" bills, only to later receive bills for large amounts that were reconciled, or "trued up" the
25 previous under-payments, also eventually complained of having been charged what they viewed
26 as incorrect amounts.

27 120. Because PwC breached Section 5.6.12 of the CISCON Contract, and because
28 PwC could not correct its material breach, the LADWP was required to retain the services of

1 Oracle software engineers who were hired by LADWP at a cost of several million dollars to
2 LADWP, to review the manner in which PwC had configured the LADWP's new CC&B billing
3 system. Upon performing their configuration analysis, the Oracle engineers identified the facts
4 that: (i) PwC had improperly configured the Trend Estimate algorithms when PwC configured
5 the LADWP's new CC&B billing system; and (ii) as a result of PwC having done so, the
6 LADWP's customers were being overcharged based on the artificially inflated Trend Estimates
7 that were being used to bill these customers.

8 121. In addition, because there were a number of LADWP customers who had usage
9 that was well above the "straight average" that was used to bill these customers, these customers
10 were grossly *underbilled*, and the LADWP incurred damages when it billed these customers for
11 less electricity and water than they had actually used, and for which the LADWP was
12 contractually entitled to bill those customers.

13
14 **PwC Defrauded the LADWP**
15 **Into Going "Live" With the**
16 **CC&B Billing System On September 3, 2013**

17 122. On August 21, 2013, the LADWP's Chief Information Officer emailed a draft
18 meeting agenda for a meeting that was to be held at 5:00 pm the following day (the "August 22nd
19 Meeting") to PwC's Trevor LaRocque, and the LADWP's Assistant IT Director, Assistant
20 General Manager and Customer Service Manager and CISCON Project Manager.

21 123. The August 22nd Meeting had been scheduled to allow meeting invitees to:

- 22 (i) Participate in an open and honest discussion concerning the status of the
23 CISCON project and whether the proposed "Go Live" date of September
24 3, 2013 was realistic; and
- 25 (ii) Conduct an advisory vote for the LADWP's General Manager on whether
26 the meeting invitees believed the LADWP should "Go Live" with its new
27 CC&B billing system on September 3, 2013.

28 124. Accordingly, the CIO's draft agenda identified items including "Schedule,"
"Operational readiness," and "Key problem/watch areas" for discussion at the upcoming

1 meeting. In his email, the CIO also invited LaRocque and the other invitees to identify any
2 comments or concerns that they might have.

3 125. At 4:46 am on the morning of August 22, 2013, LADWP's Assistant IT Director
4 responded to the CIO's invitation and provided a heavily edited version of the proposed August
5 22nd Meeting agenda. As the LADWP executive who possessed the most intimate knowledge of
6 the CISCON Project at LADWP, LADWP's Assistant IT Director sought to ensure that the
7 meeting invitees had complete information concerning the status of the CISCON project before
8 casting their votes on whether LADWP should "Go Live" on September 3, 2013 as was then
9 currently being proposed.

10 126. In his covering email, the Assistant IT Director stated his belief that the August
11 22nd Meeting agenda as initially proposed presented an optimistic view of where LADWP was
12 on the CISCON project at that time. LADWP's Assistant IT Director then raised a number of
13 issues that he wanted fully vetted by all meeting invitees with PwC during the August 22nd
14 meeting. His email stated in relevant part,

- 15 • Yesterday we had 160+ unresolved severity 1 defects. There
16 are approx. 90 defects in fix or retest
- 17 • The reduction in the number of unresolved defects has slowed
18 if not stopped since [PwC's] Luis [Zayas] left the project.
- 19 • Approximately two thirds of the go no-go criteria are still Red
20 or Yellow.
- 21 • Nightly batch still has jobs that fail with known defects. Given
22 that, the first time we run all batch jobs end to end will be in
23 production.
- 24 • The conversion balancing reports still don't balance. The
25 money is close but there is still a gap on the number of services.

26 The Assistant IT Director concluded his August 22, 2013 email of 4:46 am by stating, "*I don't*
27 *think the system is ready to go-live*" (Emphasis added).

28 127. At 8:12 am on the morning of August 22, 2013, PwC actively sought to assuage
the LADWP's Assistant IT Director and to quell any concerns that might arise as a result of his

1 email of earlier that morning. PwC did so by having PwC's Erwin Nisperos circulate a detailed
2 memorandum concerning "Defect Metrics" that sharply contradicted the statements made in the
3 Assistant IT Director's email. In particular, while the Assistant IT Director's email had stated
4 that there were "160+ unresolved severity 1 defects" as of August 21st, PwC's Nisperos now
5 claimed that there were only 59 severity 1 defects – approximately one-third the number claimed
6 by the Assistant IT Director.

7 128. Unbeknownst to LADWP at that time was the fact that PwC would do virtually
8 anything it needed to in order to ensure that the LADWP's new CC&B billing system went
9 "Live" on September 3, 2013 as planned. The reason for PwC doing so stemmed from the fact
10 that PwC was already significantly past due in its contractual obligations to another of its utility
11 customers, Madison, Wisconsin based Alliant Energy, which had hired PwC to install and
12 implement a CC&B billing system identical to the one that PwC was implementing for the
13 LADWP.

14 129. Under the terms of PwC's CC&B implementation contract with Alliant Energy,
15 PwC had been required to deploy virtually the same CC&B implementation team that was still
16 working on the LADWP's CC&B implementation to Alliant's Wisconsin headquarters in May
17 2013 – and *PwC was therefore already more than four months behind schedule in*
18 *commencing work on the Alliant Energy CC&B contract.*

19 130. Because of the material defects that continued to plague the LADWP's CC&B
20 implementation project, however, PwC had repeatedly been forced to delay the deployment of
21 the PwC team to Alliant and, by August 2013, Alliant had grown both tired of, and greatly
22 displeased with, PwC's repeated delays in commencing the Alliant CC&B implementation
23 project. As a result, Alliant was now threatening to take action against PwC if PwC did not
24 deploy the PwC team to Alliant immediately.

25 131. Because of the tremendous pressure PwC was under to re-deploy its CC&B
26 implementation team away from the LADWP and to Alliant during the July and August 2013
27 time frame, PwC's LaRocque was repeatedly telephonically instructed by Jim Curtin, the PwC
28 partner to whom LaRocque reported, to "Go Live" with the LADWP CC&B billing system even

1 if it was not operating properly, because PwC did not want to be sued by Alliant for having
2 breached its contract with Alliant as a result of having repeatedly delayed the commencement of
3 the Alliant CC&B implementation project.

4 132. As the September 3, 2013 “Go Live” deadline neared, PwC continued to ignore
5 risks arising from PwC’s rush for the LADWP to “Go Live” on September 3rd that were raised
6 by others. For example, Diedmar van der Ryst, an analyst with Five Point Partners, the entity
7 that had provided Quality Assurance/Quality Control Supervision over the implementation of the
8 CISCON project throughout the life of the project, learned that PwC was purportedly resolving
9 defects in a stand-alone production environment without conducting any unit testing in violation
10 of Sections 5.6.5 and 6.3.4 of the CISCON Contract. When he questioned PwC’s Paul Butler on
11 the morning of August 22, 2013 about the risk of passing defects in an environment that had not
12 been tested, PwC acted intentionally to deceive the LADWP into believing that PwC was, in fact,
13 conducting the unit testing that it was required to conduct under the terms of the CISCON
14 Contract.

15 133. When Mr. van der Ryst raised his concerns with the LADWP’s Assistant IT
16 Director that same morning, the Assistant IT Director also expressed his concern about PwC’s
17 intentional and grossly reckless course of action directly to PwC’s Butler, only also to be
18 rebuffed. In responding to the Assistant IT Director, PwC’s Paul Butler intentionally lied and
19 falsely represented that the “conversion is not being pushed out to users” and that, “we will be
20 using it only for conversion defect verification only [sic].” At the time PwC’s Butler made this
21 statement, he knew that it was false, because he knew, at that time, PwC was routinely deploying
22 completely untested “hot fixes.” This was occurring because PwC was frantically trying to
23 ensure that the LADWP went “live” with its CC&B billing system on September 3, 2013 so that
24 PwC could move its key CC&B Team personnel to Wisconsin to begin work on the already
25 severely delayed the Alliant Energy CC&B project.

26 134. Unconvinced by PwC’s representations, the LADWP’s Assistant IT Director
27 persisted in questioning PwC’s Butler and asked, “How do we ensure that the hot fixes don’t
28 break something else without running regression testing?”

1 135. By 2:24 pm in the afternoon of Thursday, August 22, 2013, PwC's Trevor
2 LaRocque had grown very concerned with the ever-increasing doubt being expressed by senior-
3 ranking LADWP personnel who were increasingly questioning PwC's ability to deliver on its
4 representations that the LADWP's new CC&B billing system would be ready to successfully
5 "Go Live" on September 3, 2013.

6 136. PwC's LaRocque then acted intentionally to quell these concerns by falsely
7 reassuring senior ranking LADWP officials that the LADWP's new CC&B billing system could
8 be brought live on September 3rd as planned.

9 137. At 5:00 p.m. later that day, LADWP officials convened a meeting that was
10 attended by decision makers from the LADWP, PwC, and Five Point Partners. The meeting was
11 conducted in Room No. 1550 at the LADWP's headquarters located at 111 N. Hope St. in Los
12 Angeles. The invitees included the following LADWP personnel: Ron Nichols, then the General
13 Manager of the LADWP, Sharon Grove, Aran Benyamin, Jim McDaniel, Matt Lampe, John
14 Chen, Ann Santilli, Gary Wong, Mark Townsend, John Dennis, Andy Linard, Julie Spacht, Phil
15 Leiber, Alex Helou, and Marvin Moon. In attendance for PwC was Trevor LaRocque, while
16 Mario Bauer attended for Five Point Partners.

17 138. The August 22nd Meeting was convened for the purpose of allowing the
18 aforementioned participants to discuss the status of the CISCON project – including all of the
19 risks and proposed risk mitigation tactics identified in LaRocque's memorandum of earlier that
20 same day.

21 139. It took only 30 minutes for PwC's LaRocque to defraud all of those in attendance
22 into believing that PwC had a very firm grasp on the LADWP's CC&B implementation project,
23 and that a successful "Go Live" on the September 3rd was readily achievable. During this
24 meeting, PwC's LaRocque repeatedly: (i) boasted of PwC's prior successes in taking numerous
25 other CC&B billing systems live for other utility companies; (ii) reassured everyone at the
26 meeting that any issues that were being encountered with the operation of the LADWP's new
27 CC&B billing system were only minor in nature and were not affecting – and would not impact
28 or otherwise hinder - the operational capability or functionality of the new CC&B billing system

1 once the system was taken “live”; and (iii) reiterated that, in the event that the LADWP
2 experienced a “bumpy landing” in taking the new CC&B billing system “live,” PwC would be
3 on-site to immediately identify and remediate any and all issues that might be encountered at
4 “Go Live;” and (iv) assured the LADWP attendees that there was nothing to fear, because PwC
5 was not going to abandon the LADWP if the Department needed PwC’s continued assistance in
6 the post “Go Live” environment after September 3, 2013.

7 140. Having been thoroughly reassured by LaRocque, the meeting participants then
8 voted on whether to proceed with the LADWP’s planned “Go Live” of the CC&B billing system
9 on September 3, 2013. LaRocque had been so convincing that the vote was unanimous in favor
10 of going “Live” on September 3rd as planned.

11 141. Following the August 22, 2013 vote, however, doubt continued to linger among
12 other LADWP IT personnel who had been involved with validating the results of PwC’s work
13 product and who had not been present at the August 22nd Meeting -- and who had therefore not
14 heard LaRocque’s impassioned speech about how PwC had firm control over the LADWP’s
15 CC&B billing system implementation and was therefore highly confident about PwC’s ability to
16 successfully “Go Live” on September 3rd.

17 142. The day after the “Go Live” vote had occurred, other LADWP IT personnel were
18 quick to echo sentiments previously expressed by the LADWP’s Assistant IT Director:

19 According to Paul [Butler], not everything was reloaded/converted *I am*
20 *having a very difficult time accepting this as a good way to test defects.*

21 As Diedmar stated in our meeting this morning, it seems as though when one item
22 is fixed another gets broken. *How are we to know that these fixes did not break*
23 *something else that was not broken, especially if it was not included in the data*
that was loaded? How can I be sure my defects have been truly fixed if I cannot
spot check other areas that might also have been affected by the fix . . . ?

24 (Emphasis added).

25 143. Once again, PwC acted intentionally to falsely assuage LADWP’s concerns that
26 the CC&B billing system was not ready to “Go Live” on September 3, 2013. PwC again did so
27 on August 29, 2013 by directing PwC’s Erwin Nisperos to distribute another detailed
28 memorandum concerning “Defect Metrics” that reflected a drastic reduction in the number of

1 “severity 1” defects from a total of 59 in his August 22nd memorandum to a total of only 10
2 “severity 1” defects on August 29th, just 7 days later.

3 144. What the LADWP did not know, however, was that PwC had intentionally
4 misled the LADWP and its decision makers into voting to “Go Live” by intentionally failing to
5 disclose material facts to the LADWP and its decision makers.

6 145. Among the facts that PwC and Messrs. LaRocque and Nisperos intentionally did
7 not disclose to the LADWP were that:

8 (i) PwC had failed to write the Conversion Load Programs necessary to
9 convert the legacy billing data into the format required by the new CC&B billing system
10 properly; and

11 (ii) Because these Conversion Load Programs had not been written properly,
12 they did not function properly, and several hundred thousand items of the LADWP’s legacy
13 billing data were therefore not being properly converted; they were, therefore, either being
14 rejected or simply not recognized by the new CC&B billing system.

15 146. Because PwC alone was responsible for writing, Code Testing and Unit Testing
16 these Conversion Load Programs under the terms of the CISCON Contract, PwC alone knew that
17 it had failed to write the Conversion Load Programs properly, and that these programs were
18 therefore not executing properly. PwC intentionally did not disclose these clearly material facts
19 to the LADWP, because PwC needed to take the LADWP’s new CC&B billing system “Live” on
20 September 3rd -- despite the fact that it was known to PwC not to be operating properly -- so that
21 PwC could extract key members of its CC&B team who had been working on the LADWP’s
22 CC&B implementation project and send them to Wisconsin to begin work on the already
23 severely delayed CC&B project for Alliant Energy.

24 147. Because the LADWP lacked the knowledge and ability to write the Conversion
25 Load Programs necessary to convert the legacy data into the format required by the CC&B
26 billing system, the LADWP had hired and justifiably relied on, PwC to perform this task.
27 LADWP had done so because PwC had repeatedly represented that it possessed the skills,
28 expertise, and experience necessary to write these Conversion Load Programs and to effectuate a

1 successful conversion of the LADWP's legacy billing data, and did not know that the
2 Conversion Load Programs written by PwC had not been written properly, and were therefore
3 not functioning properly

4 148. PwC further acted to conceal these material facts from the LADWP during the
5 period August 7, 2013 until after September 3, 2013, as part of an undisclosed and desperate
6 attempt on the part of PwC to ensure that the LADWP CC&B billing system went "Live" on
7 September 3rd.

8 149. The LADWP did not learn until December 4, 2013, that, at the time PwC's
9 LaRocque fraudulently induced all of those in attendance at the August 22nd Meeting to
10 "consent" to "Go Live" on September 3rd, LaRocque and the entirety of the PwC team were well
11 aware that:

12 (i) PwC had failed to write the Conversion Load Programs necessary to
13 convert the legacy billing data into the format required by the new CC&B billing system
14 properly; and

15 (ii) Because these Conversion Load Programs had not been written properly,
16 they did not function properly, and several hundred thousand items of the LADWP's legacy
17 billing data were therefore not being properly converted and were, either being rejected or
18 simply not recognized by the new CC&B billing system.

19 150. Had the LADWP known these material facts, it would not have consented to "Go
20 Live" on August 22, 2013, and would not have gone "Live" on September 3, 2013.

21 Because the LADWP was not involved in, or responsible for, writing the Conversion Load
22 Programs necessary to effectuate the data conversion required to take the new CC&B billing
23 system "Live," and because PwC acted intentionally to deceive the LADWP as detailed herein,
24 the LADWP lacked knowledge of PwC's inability to successfully effectuate the legacy data
25 conversion and to perform the other tasks that PwC was contractually required to perform as
26 detailed herein.

27 ///

28 ///

1 **PwC and Several Senior Members of the PwC Management**
2 **Team Responsible for Implementing the LADWP's CISCON**
3 **Project Participated In A Conspiracy That Was Designed**
4 **To and Did Defraud The City of Los Angeles into**
5 **Paying PwC Tens of Thousands of Dollars For Time That**
6 **PwC Falsely Claimed It Had Worked on the CISCON Project**

7 151. In addition to having fraudulently induced the LADWP into awarding the
8 CISCON Contract to PwC as detailed herein, PwC also further defrauded the City of Los
9 Angeles and LADWP by operating a conspiracy that involved the submission of intentionally
10 falsified PwC time records to the LADWP and City to obtain payment for work that PwC falsely
11 represented had been performed in connection with the CISCON project.

12 152. The conduct engaged in by PwC in furtherance of this conspiracy constituted,
13 among other things, fraud.

14 153. This conspiracy was conceived of, orchestrated and directed by the PwC Partner-
15 in-Charge and PwC Project Manager of the LADWP's CISCON implementation project, Mr.
16 Trevor LaRocque.

17 154. The co-conspirators in this conspiracy included PwC, LaRocque, three other
18 senior ranking members of the PwC Management Team responsible for implementing the
19 LADWP's CISCON Project and one outside Solution Architect who had been contracted to work
20 on the CISCON project by PwC as follows:

21 (i) Mr. David Garcia ("Garcia"), the PwC Conversion Lead of the LADWP's
22 CISCON implementation project;

23 (ii) Mr. Paul Butler ("Butler"), the PwC CIS Functional Lead of the LADWP's
24 CISCON implementation project;

25 (iii) Mr. Luis Zayas ("Zayas"), the PwC Development and Technical Lead of the
26 LADWP's CISCON implementation project; and

27 (iv) Mr. Nasir Kahn ("Kahn"), a Solution Architect who had been contracted by
28 PwC to work on implementing the LADWP's CISCON project.

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1 155. All of the co-conspirators were actively engaged in working on the CISCON
2 implementation project at the LADWP at the time they participated in this conspiracy to defraud
3 the LADWP and City.

4 156. The existence of the conspiracy was unknown to the LADWP and the City until
5 May 2016.

6 157. The participants in PwC's fraudulent scheme conducted the conspiracy for the
7 purpose of illegally bilking tens of thousands of rate payer dollars from the City of Los Angeles
8 and Messrs. LaRocque, Butler, Garcia, Zayas and Khan personally used these stolen funds to
9 purchase and pay for:

10 a. *the services of prostitutes and escorts;*

11 b. a lavish bachelor party for PwC's LaRocque, which was held in Las Vegas
12 during the weekend of July 15-17, 2011 that included extravagant nights of partying,
13 lavish hotel stays and thousands of dollars in "bottle service" alcohol; and

14 c. a lavish bachelor party for PwC's Garcia, which was held in Las Vegas
15 during the weekend of May 17-19, 2013.

16 (Emphasis added).

17 158. Because LaRocque, Butler, Garcia and Zayas were all salaried PwC employees
18 and Kahn was the only non-PwC employee and an outside contractor who was paid on an hourly
19 basis for the work he performed for PwC on the CISCON project, Kahn's participation in the
20 conspiracy was critical to the ability of the conspiracy to operate and succeed because Kahn was
21 the only conduit through which PwC could – and did – act to funnel the funds that PwC had
22 fraudulently obtained from the City and its rate payers for the benefit of the co-conspirators.

23 159. Kahn routinely acted on instructions that he received from PwC's LaRocque and
24 expended tens of thousands of dollars in purchasing the services of prostitutes and escorts and
25 two lavish bachelor parties in Las Vegas that included extravagant nights of partying and "bottle
26 service" alcohol -- all of which were purchased using rate payer funds that were obtained from
27 the City through PwC's fraudulent time record falsification scheme.

28 ///

1 160. During the course of the three-year period during which the co-conspirators
2 operated the conspiracy, they defrauded the City and its ratepayers of tens of thousands of dollars
3 by approving and submitting falsified – and artificially inflated – time records in connection with
4 the CISCON project.

5 161. While Khan was working for PwC as a contracted Solution Architect on the
6 CISCON project, Kahn was compensated on an hourly basis and was required to, and did, submit
7 weekly time records that stated the number of hours that he had purportedly worked for PwC on
8 the CISCON project on any given day. During this time period and while he was working on the
9 CISCON project, Kahn was repeatedly instructed by LaRocque to falsify his time records by
10 artificially inflating the number of hours that Kahn had purportedly worked on the CISCON
11 project above the *actual* number of hours that he had worked on the CISCON project in a given
12 reporting period in order to provide PwC with a way to reimburse Kahn for various expenditures
13 described in ¶ 157 herein that Kahn had made at LaRocque’s direction for the benefit of the co-
14 conspirators.

15 162. Whenever Khan was instructed by PwC’s LaRocque to do so, Khan intentionally
16 submitted time records that reported an artificially inflated and fictitious number of hours that
17 was greater than the number of hours that he had actually worked on the CISCON project for the
18 given reporting period and Khan input the fictitious time records into a software program called
19 “BeeLine.” Khan’s time reports were then reviewed and approved (in writing and electronically)
20 by two levels of PwC management personnel. The initial level of managerial review and
21 approval of Khan’s fictitious time records was performed by PwC’s Butler, Garcia and Zayas,
22 while the second level of managerial review and approval of Khan’s weekly time records was
23 performed by LaRocque, himself. Messrs. Butler, Garcia and Zayas, were each personally
24 chosen by LaRocque to approve Kahn’s falsified time records because “they were all in on it”
25 and each had personal knowledge of PwC’s fraudulent time record falsification scheme that was
26 being directed by LaRocque and were each personally benefitting from the funds that had been
27 illegally obtained by PwC as a result of this fraudulent scheme.

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1 163. Significantly, Kahn never submitted falsified time unless he had been instructed
2 to do so by LaRocque because Kahn knew that LaRocque would not authorize any falsified time
3 that LaRocque himself had not previously directed be submitted.

4
5 **PwC's Trevor LaRocque Orders the Falsification**
6 **of PwC Time Records to Obtain the Funds to Pay**
7 **for His Own Bachelor Party in Las Vegas in July 2011**

8 164. On the weekend of July 15-17, 2011, LaRocque flew to Las Vegas, Nevada along
9 with Messrs. Butler, Garcia, Khan and Zayas to attend his own bachelor party. The co-
10 conspirators stayed at the Palms Casino Resort located at 4321 West Flamingo Road, in Las
11 Vegas during their weekend-long celebration.

12 165. PwC's LaRocque acted in furtherance of the conspiracy to defraud the City of Los
13 Angeles and its rate payers for the first time during his bachelor party weekend in Las Vegas
14 when he instructed Khan to use Khan's personal credits cards to pay for: (i) condoms; (ii) a steak
15 dinner at the N9NE Steakhouse at the Palms Casino Resort; (iii) a "bottle service" party at the
16 Vanity Nightclub in the Hard Rock Hotel & Casino; and (iv) a day-long poolside cabana party
17 complete with bikini models and "bottle service" liquor at the Hard Rock Beach Club.

18 166. Notably, LaRocque also instructed Khan to pay for prostitutes for LaRocque and
19 Khan while in Las Vegas for LaRocque's bachelor party weekend.

20 167. While in Las Vegas, LaRocque, Garcia, Butler and Khan celebrated by engaging
21 the services of multiple prostitutes, eating at extravagant restaurants, purchasing thousands of
22 dollars in alcohol, renting a private cabana with a pool and going to strip clubs. During
23 LaRocque's bachelor party weekend, Khan was repeatedly instructed by LaRocque to pay for the
24 foregoing items with Khan's personal credit cards or in cash. LaRocque further instructed Khan
25 to falsify Khan's time CISCON project time records so that Khan could get reimbursed for the
26 money Khan had spent on the foregoing items. During the LaRocque bachelor party weekend in
27 Las Vegas, LaRocque told Khan, "*We are going to cover a lot of this trip with LADWP money.*"
28 (Emphasis added).

1 168. While in Las Vegas for the LaRocque bachelor party weekend, Khan followed
2 LaRocque's instructions and used Khan's personal American Express Platinum Card ending in
3 "73002" to purchase and pay for:

4 (i) \$97.94 of condoms at the CVS Pharmacy located at 3758 South Las Vegas
5 Boulevard in Las Vegas on July 15, 2011;

6 (ii) \$445.00 toward a steak dinner at the N9NE Steakhouse at the Palms Casino
7 Resort located at 4321 West Flamingo Road in Las Vegas, which was
8 attended by the co-conspirators on July 15, 2011;

9 (iii) a \$6,497.00 tab for a day-long poolside cabana party complete with bikini
10 models and "bottle service" liquor at the Hard Rock Beach Club, located in
11 the Hard Rock Hotel & Casino at 4455 Paradise Road in Las Vegas, which
12 was attended by the co-conspirators on July 16, 2011; and

13 (iv) a \$2,184.00 tab for a "bottle service" party at the Vanity Nightclub located in
14 the Hard Rock Hotel & Casino at 4455 Paradise Road in Las Vegas.

15 169. Khan also paid for prostitutes for himself and LaRocque during their trip to Las
16 Vegas for LaRocque's bachelor party as LaRocque had directed Khan to do.

17 170. Soon after returning to Los Angeles after LaRocque's bachelor party, Khan
18 followed LaRocque's instructions to submit falsified and artificially inflated time in connection
19 with Khan's work on the LADWP's CISCON project in order to allow PwC to charge the
20 LADWP for this artificially inflated time and PwC to pay Khan for the thousands of dollars in
21 expenses Khan had incurred in Las Vegas in connection with LaRocque's bachelor party.

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1 171. Time records submitted by Khan to PwC reflect the fact that Khan submitted
2 artificially inflated time to recover a significant portion of the expenses Khan had incurred at
3 LaRocque's bachelor party as LaRocque had instructed Khan to do as follows:

<u>Reporting Period</u>	<u># of Falsified Hours</u>	<u>Gross \$ Amount of Overcharge to City</u>
5 7/25/11 – 7/29/11	10	\$1,780.00
6 8/1/11 – 8/5/11	10	\$1,780.00
7 8/8/11 – 8/12/11	10	\$1,780.00
8 9/6/11 – 9/9/11	8	\$1,424.00
	Total:	\$6,764.00

9
10 172. The automated "Beeline Notifications" that were automatically generated by the
11 Beeline system make clear that LaRocque promptly personally approved each of Khan's
12 fraudulent time sheets as he had promised Khan he would in furtherance of the conspiracy:

- 13 a. "Timesheet for Nasir Khan was set to APPROVED by Trevor LaRocque
14 Timestamp: 8/2/2011 3:11:56 PM
15 Time Period: 7/25/11 to 7/31/2011"
- 16 b. "Timesheet for Nasir Khan was set to APPROVED by Trevor LaRocque
17 Timestamp: 8/8/2011 5:01:36 PM
18 Time Period: 8/1/11 to 8/7/2011"
- 19 c. "Timesheet for Nasir Khan was set to APPROVED by Trevor LaRocque
20 Timestamp: 8/16/2011 12:49:56 PM
21 Time Period: 8/8/11 to 8/14/2011"
- 22 d. "Timesheet for Nasir Khan was set to APPROVED by Trevor LaRocque
23 Timestamp: 9/12/2011 3:36:59 PM
24 Time Period: 9/5/11 to 9/11/2011"

25 173. LADWP's internal records confirm that PwC billed the LADWP and City for
26 Khan's falsified time and that the LADWP and City paid PwC for Khan's falsified time because
27 the LADWP and City lacked knowledge that PwC's time submission was fraudulent. Because
28 the LADWP and City paid PwC for the falsified time, the LADWP and City were damaged as a

1 result of PwC's fraudulent conspiracy to defraud the LADWP and City.

2
3 **PwC's Trevor LaRocque Orders the Falsification**
4 **of PwC Time Records to Obtain the Funds to Pay**
5 **for David Garcia's Bachelor Party in Las Vegas in May 2013**

6 174. On May 17, 2013, LaRocque, Garcia, Khan and Zayas again travelled to Las
7 Vegas for another bachelor party that the conspirators once again planned would be largely paid
8 for with rate payer dollars that they fraudulently obtained from the City of Los Angeles in
9 furtherance of the conspiracy. This bachelor party was for another one of the co-conspirators,
10 namely, PwC's David Garcia, who LaRocque counted as one of his closest personal friends.

11 175. During Garcia's bachelor party weekend, the co-conspirators stayed at The
12 Cosmopolitan of Las Vegas Hotel located at 3708 S Las Vegas Blvd. in Las Vegas.

13 176. As he had so many times before, during Garcia's bachelor party weekend,
14 LaRocque again acted in furtherance of the conspiracy to defraud the City of Los Angeles and its
15 rate payers when he instructed Khan to use Khan's personal credits cards and cash to pay for
16 thousands of dollars in lodging, food and "bottle service" alcohol throughout the weekend.

17 177. LaRocque shared a room at the Cosmopolitan with Khan during Garcia's bachelor
18 party weekend and once again instructed Khan to pay for prostitutes for LaRocque and Khan
19 while in Las Vegas for Garcia's bachelor party weekend.

20 178. Khan followed LaRocque's instructions and used Khan's personal American
21 Express Platinum Card ending in "73002" to purchase and pay for:

- 22 a. \$1,274.55 of "bottle service" alcohol at the Ghostbar Nightclub located in the
23 Palms Casino Resort at 4321 W Flamingo Rd. in Las Vegas on May 17, 2013;
- 24 b. \$1,517.37 of "bottle service" alcohol at the Marquee Nightclub located in The
25 Cosmopolitan Hotel on May 18, 2013;
- 26 c. \$713.00 of food and drinks in the Chandelier Lounge in The Cosmopolitan
27 Hotel on May 18, 2013;
- 28 d. \$725.03 of food and drinks at the Marquee Nightclub located in The
Cosmopolitan Hotel on May 18, 2013;

- 1 e. \$1,216.95 of "bottle service" alcohol at the Ghostbar Nightclub located in the
- 2 Palms Casino Resort on May 18, 2013;
- 3 f. \$515.00 of food and drinks at the Encore Beach Club located at 3131 S Las
- 4 Vegas Blvd in Las Vegas on May 19, 2013;
- 5 g. \$432.00 of food and drinks in the Chandelier Lounge in The Cosmopolitan
- 6 Hotel on May 19, 2013;
- 7 h. An additional \$505.00 of food and drinks at the Encore Beach Club located at
- 8 on May 19, 2013; and
- 9 i. \$1,351.77 for lodging at The Cosmopolitan Hotel for the balance due on the
- 10 room that LaRocque and Khan shared during Garcia's bachelor party
- 11 weekend.

12 179. Khan also paid for two prostitutes for LaRocque while in Las Vegas for Garcia's
 13 bachelor party weekend.

14 180. Soon after returning to Los Angeles after Garcia's bachelor party, Khan followed
 15 LaRocque's instructions to submit falsified and artificially inflated time in connection with
 16 Khan's work on the LADWP's CISCON project in order to allow PwC to charge the LADWP
 17 for this artificially inflated time and PwC to pay Khan for the thousands of dollars in expenses
 18 Khan had incurred in Las Vegas in connection with Garcia's bachelor party in order to recover
 19 the thousands of dollars Khan had spent at LaRocque's direction.

20 181. Time records submitted by Khan to PwC reflect the fact that Khan submitted
 21 artificially inflated time to recover a significant portion of the expenses Khan had incurred for
 22 Garcia's bachelor party in May 2013 as LaRocque had instructed Khan to do as follows:

23 <u>Reporting Period</u>	<u># of Falsified Hours</u>	<u>Gross \$ Amount of Overcharge to City</u>
24 6/3/13 – 6/7/13	10	\$1,780.00
25 6/10/13 – 6/14/13	10	\$1,780.00
26 6/17/13 – 6/21/13	10	\$1,780.00
27 6/24/13 – 6/28/13	10	\$1,780.00
28 7/1/13 – 7/5/13	8	\$1,424.00

1	7/8/13 – 7/12/13	10	\$1,780.00
2	7/29/18 – 8/02/13	10	\$1,780.00
3	8/5/13 – 8/09/13	10	\$1,780.00
4	8/12/13 – 8/16/13	10	\$1,780.00
5	8/26/18 – 8/30/13	10	\$1,780.00
6		Total:	\$17,444.00

7 182. The automated “Beeline Notifications” that were automatically generated by the
8 Beeline system make clear that LaRocque promptly personally approved each of Khan’s
9 fraudulent time sheets as he had promised Khan he would in furtherance of the conspiracy:

- 10 a. “Timesheet for Nasir Khan was set to APPROVED by Trevor LaRocque
11 Timestamp: 6/11/2013 1:21:18 PM
12 Time Period: 6/3/13 to 6/9/2013”
- 13 b. “Timesheet for Nasir Khan was set to APPROVED by Trevor LaRocque
14 Timestamp: 6/17/2013 5:18:31 PM
15 Time Period: 6/10/13 to 6/16/2013”
- 16 c. “Timesheet for Nasir Khan was set to APPROVED by Trevor LaRocque
17 Timestamp: 6/28/2013 3:11:43 PM
18 Time Period: 6/17/2013 to 6/23/2013”
- 19 d. “Timesheet for Nasir Khan was set to APPROVED by Trevor LaRocque
20 Timestamp: 6/28/2013 3:11:44 PM
21 Time Period: 6/24/2013 to 6/30/2013”
- 22 e. “Timesheet for Nasir Khan was set to APPROVED by Trevor LaRocque
23 Timestamp: 7/9/2013 2:59:30 PM
24 Time Period: 7/1/2013 to 7/7/2013”
- 25 f. “Timesheet for Nasir Khan was set to APPROVED by Trevor LaRocque
26 Timestamp: 7/15/2013 5:46:25 PM
27 Time Period: 7/8/2013 to 7/14/2013

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- 1 g. "Timesheet for Nasir Khan was set to APPROVED by Trevor LaRocque
2 Timestamp: 8/12/2013 1:13:13 PM
3 Time Period: 7/29/2013 to 8/4/2013"
- 4 h. "Timesheet for Nasir Khan was set to APPROVED by Trevor LaRocque
5 Timestamp: 8/19/2013 2:16:54 PM
6 Time Period: 8/5/2013 to 8/11/2013"
- 7 i. "Timesheet for Nasir Khan was set to APPROVED by Trevor LaRocque
8 Timestamp: 8/26/2013 5:14:18 PM
9 Time Period: 8/12/2013 to 8/18/2013"
- 10 j. "Timesheet for Nasir Khan was set to APPROVED by Trevor LaRocque
11 Timestamp: 9/5/2013 1:13:53 PM
12 Time Period: 8/26/2013 to 9/1/2013"

13 183. LADWP's internal records confirm that PwC billed the LADWP and City for
14 Khan's falsified time and that the LADWP and City paid PwC for Khan's falsified time because
15 the LADWP and City lacked knowledge that PwC's time submission was fraudulent. Because
16 the LADWP and City paid PwC for the falsified time, the LADWP and City were damaged as a
17 result of PwC's fraudulent conspiracy to defraud the LADWP and City.

18
19 **LADWP Incurred Hundreds of**
20 **Millions of Dollars in Damages**
21 **As A Result of PwC's Material**
22 **Misrepresentations and Omissions**
23 **Material Breaches of the CISCON Contract and Fraud**

24 184. Because PwC intentionally misrepresented and failed to disclose material facts
25 known only to PwC, and breached material provisions of the CISCON Contract as detailed
26 herein, the LADWP incurred hundreds of millions of dollars in damages.

27 185. First, the LADWP was fraudulently induced into awarding the CISCON Contract
28 to PwC, and paid over \$70 million for a CC&B system that, even as of the date of the filing of
this Amended Complaint, long after the September 3, 2013 "Go Live" date, still does not meet

1 all of the requirements agreed to by PwC, because many of the “Deliverables” that the LADWP
2 paid for were either delivered in a defective condition, or never delivered at all.

3 186. Additionally, because PwC delivered defective “Deliverables” or completely
4 failed to deliver many “Deliverables” at all, the LADWP was also required to hire outside IT
5 consultants (including Oracle and TMG Consulting) to remediate the CC&B billing system in
6 order to make it operate in accordance with PwC’s contractual obligations. As a result, the
7 LADWP was forced to expend millions of dollars on outside IT consultants and labor costs
8 (including millions of dollars in overtime) to remediate the CC&B billing system.

9 187. Second, because PwC breached material provisions of the CISCON Contract as
10 detailed herein, the LADWP was unable to bill a material number of its customers immediately
11 after the new CC&B billing system went “live” on September 3, 2013. This fact was confirmed
12 by the LADWP’s Assistant IT Director in a “Defect” Report he opened and filed on November
13 1, 2013. This “Defect Report” was assigned “Defect No. 7987,” and titled, “Revenue billed in
14 September is less than expected.”

15 188. The revenue loss experienced by the LADWP immediately following the
16 September 3, 2013 “Go Live” was caused by PwC’s failure to properly implement the new
17 CC&B billing system as PwC had agreed by contract. As detailed in the Defect Report for
18 Defect No. 7987, the amount of this revenue loss is absolutely staggering. This Defect Report
19 states in relevant part, “*the total revenue billed in August 2013 was \$633,499,790.99, the total*
20 *revenue billed in September is \$465,267,489.99, a difference of \$168,231,276.44.*” (Emphasis
21 added).

22 189. As reflected in the LADWP’s internal financial reports, this revenue loss
23 continued over the next several months and has had a severely negative – and continuing –
24 impact on the LADWP’s cash flow. This fact is demonstrated by contrasting the (\$14.8 mm)
25 “Power Revenue” Cash Variance for Fiscal Year 2012-2013 with the (\$193.9) mm “Power
26 Revenue” Cash Variance for Fiscal Year 2013-2014 and (\$44.0) mm “Power Revenue” Cash
27 Variance for the first seven months of the current Fiscal Year.

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1 190. Because PwC breached material provisions of the CISCON Contract as detailed
2 herein, the LADWP was also unable to bill a significant number of its customers for the correct
3 amounts that they owed. As a result of the material defects in the CC&B billing system caused
4 by PwC's acts and omissions as detailed herein, the LADWP sent a significant number of its
5 customers' bills that were incorrect, because these bills purported to charge: (i) many LADWP's
6 customers for amounts that were significantly *greater than* the amounts that these customers
7 actually owed; and (ii) many other LADWP's customers for amounts that were significantly *less*
8 *than* the amounts that these customers actually owed.

9 191. When the customers who had been billed for significantly incorrect amounts
10 complained, the LADWP experienced a sharp rise in complaints – including complaints received
11 from customers who had been billed for correct amounts, but nevertheless refused to pay their
12 bills and continued to argue that they had been billed an incorrect amount. This sharp increase in
13 customer complaints concerning billed amounts quickly resulted in an accompanying sharp rise
14 in non-payments, and a material increase in the age of the LADWP's Accounts Receivable
15 caused by continuing non-payments. Additionally, the collectability of these Accounts
16 Receivable plummeted because customers believed that they had been billed incorrectly and
17 simply refused to pay, or were otherwise unable to pay the amounts that they were incorrectly
18 billed. As a result, the LADWP has been unable to collect and/or forced to write-off millions of
19 dollars in Accounts Receivable.

20 192. PwC's misconduct has also caused the LADWP to be unable to levy and collect
21 "Late Payment Charges" as it did prior to the botched "Go Live" of the new CC&B Billing
22 System, thereby resulting in the LADWP having to forgo additional millions of dollars in
23 revenue each month.

24 193. Finally, the LADWP and City were also damaged because the LADWP and City
25 paid PwC for the falsified time it submitted in furtherance of PwC's fraudulent conspiracy to
26 defraud the LADWP and City.

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1 **FIRST CAUSE OF ACTION**

2 (FRAUDULENT INDUCEMENT BY MISREPRESENTATION)

3 194. Plaintiff incorporates by reference each of the foregoing allegations as if fully set
4 forth herein.

5 195. This Cause of Action is based on a theory of fraudulent inducement, which falls
6 outside any purportedly enforceable integration clause in the CISCON Contract.

7 196. In order to fraudulently induce the LADWP into awarding PwC the CISCON
8 Contract, PwC made a series of misrepresentations in its RFP Response and Interview
9 Presentation Book regarding the knowledge, expertise, skills and abilities that PwC purportedly
10 possessed, which was necessary to perform the work required to convert the LADWP's legacy
11 billing system and implement a new CC&B billing system for the LADWP. In particular, PwC
12 stated in relevant part:

13 a. "From our prior work in business requirements, solution selection, and
14 systems implementation, we have developed leading practices that drive our projects to success.
15 Accordingly, we are uniquely positioned to serve you" (PwC RFP Response Executive
16 Summary p. 1);

17 b. "We have the leading Utility functional experience, project management
18 skills, deep technical knowledge of Oracle and SAP, and knowledge of your business processes
19 to help you realize your project objectives." (PwC RFP Response Executive Summary p. 1); and

20 c. "Our proposed offering includes deep knowledge and experience in all
21 functional and technical areas." (PwC RFP Response Executive Summary p. 1);

22 d. "Key lessons learned on data conversion: *Reconcile data on every step of*
23 *the conversion process.* Conversion reports"

24 197. At the time PwC made each of the foregoing statements, PwC had actual
25 knowledge that each of these statements was materially false and misleading. PwC knew that the
26 foregoing statements were materially false and misleading because PwC knew that:

27 a. The PwC Project Team Manager whom PwC proposed to – and ultimately
28 did – assign to the LADWP CC&B implementation project had never managed a project of the

1 size or complexity of the LADWP project;

2 b. The vast majority of the employees whom PwC proposed to – and
3 ultimately did – assign to the LADWP CC&B implementation project were filling new roles for
4 which they lacked experience; and

5 c. The vast majority of the employees whom PwC proposed to – and
6 ultimately did – assign to the LADWP CC&B implementation project did not possess the
7 qualities, expertise, skills, and abilities to perform the work required of PwC under the
8 Agreement.

9 198. PwC also intentionally misrepresented material facts concerning its
10 implementation of a similar billing system at Cleveland Water in its RFP Response and
11 Interview Presentation Book. In particular, PwC stated in relevant part:

12 a. “No other proposer can claim as many Oracle PS/CC&B implementations
13 as PwC over the last 10 years. With 10+ successful implementations and upgrades, we are proud
14 to retain each client as a partner and a reference” (PwC RFP Response Executive
15 Summary p. 4);

16 b. “Our proposed team has extensive project management skills, technical
17 SAP and Oracle know-how, deep industry knowledge and a track record of successful CIS
18 system selections and implementations. Having completed nearly 15 CIS implementations, this
19 team is committed to making your CIS project a success.” (PwC RFP Response Executive
20 Summary p. 2);

21 c. “Our team has served a variety of large electric, water and wastewater
22 clients and has an unparalleled track record of implementing CC&B successfully on time and
23 within budget.” (PwC RFP Response Executive Summary p. 4);

24 d. In response to Question # 5 of the LADWP RFP, which asked PwC to
25 provide “a description of the firm’s experience in successfully implementing projects similar in
26 nature to the services described in the RFP,” PwC’s RFP proposal states in relevant part, “*PwC*
27 *has successfully implemented Oracle CC&B’s solution in North America with the following*
28 *utilities: Cleveland Water Dept., OH, US - 450,000 customers.”* (PwC RFP Response pp. 8-

1 10)(Emphasis added); and

2 e. *“PwC has a proven track record in delivering 100% successful Oracle*
3 *CC&B projects.”* (Interview Presentation Book Slide 28) (Emphasis in original).

4 199. At the time PwC made each of the foregoing statements, PwC had actual
5 knowledge that each of these statements was materially false and misleading. PwC knew that the
6 foregoing statements were materially false and misleading because PwC knew that:

7 a. PwC was responsible for the failed implementation of an identical Oracle
8 CC&B platform at Cleveland Water (the “Cleveland Water CC&B Project”) which PwC
9 prematurely took “Live” in late September 2009 – just four months before PwC submitted its
10 RFP Response to the LADWP;

11 b. The PwC Utilities Practice Team responsible for implementing the
12 Cleveland Water CC&B Project was comprised of the same individuals who were being
13 proposed as team members for the LADWP CC&B Project team, and the two senior PwC
14 executives on both of these CC&B projects were Jim Curtin, the Utilities Principal at PwC and
15 Trevor LaRocque, then a Director, and later a Partner, in PwC’s Utilities practice;

16 c. The PwC employees who staffed the Cleveland CC&B Implementation
17 Project did not have and/or utilize a detailed Project and Deployment Infrastructure Plan to
18 manage and track the Cleveland Water CC&B project status;

19 d. The PwC employees who staffed the Cleveland CC&B Implementation
20 Project did not recognize or act upon key indicators pointing to the Cleveland Water system’s
21 lack of readiness for move to “Go-Live” and production;

22 e. The PwC employees who staffed the Cleveland CC&B Implementation
23 Project did not recognize or act upon Cleveland Water’s lack of preparedness for daily operation
24 of Cleveland Water’s new CC&B billing systems;

25 f. The PwC employees who staffed the Cleveland CC&B Implementation
26 Project made the decision to “Go Live” and cutover to production despite overwhelming
27 evidence that Cleveland Water’s CC&B system was not ready to be cutover and rendered “Live”
28 and operational;

1 g. Immediately following the September 2009 "Go Live" of Cleveland
2 Water's new CC&B platform, PwC had actual knowledge that the PwC Team responsible for
3 implementing the Cleveland Water CC&B Project had improperly implemented and configured
4 Cleveland Water's new CC&B platform, which, in turn, created disastrous consequences for
5 Cleveland Water's business and billing operations;

6 h. Immediately following the September 2009 "Go Live" of Cleveland
7 Water's new CC&B platform, PwC learned that, because the PwC Utilities practice team
8 responsible for implementing the Cleveland Water CC&B Project had failed to properly
9 implement and configure Cleveland Water's new CC&B platform, Cleveland Water had
10 experienced a wide-range of critical CC&B system failures immediately upon "Go Live" of its
11 new CC&B System; and

12 i. In particular, immediately following the September 27, 2009 "Go Live" of
13 Cleveland Water's new CC&B System, PwC had actual knowledge that:

- 14 • 15% of Cleveland Water's customer accounts (60,000 customer
15 accounts) immediately failed to bill at all because PwC had failed to
16 properly configure Cleveland Water's new CC&B platform;
- 17 • An additional 15% of Cleveland Water's customer accounts (an
18 additional 60,000 customer accounts) were billed based on "estimated
19 usage" despite the fact that actual meter read data existed because
20 PwC had failed to properly configure Cleveland Water's new CC&B
21 platform;
- 22 • Field meter read data entry validation did not function properly
23 because PwC had failed to properly configure Cleveland Water's new
24 CC&B platform. As a result, manually keyed errors by meter readers
25 flowed into the billing system without being detected or remediated;
- 26 • Meter exchanges processed in the field were not completed in the
27 system, resulting in billing errors and customer service confusion,
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because PwC had failed to properly configure Cleveland Water’s new CC&B platform;

- Cleveland Water experienced an immediate and exponential surge in billing errors following “Go Live” due to PwC having improperly implemented and configured the system;
- Cleveland Water experienced a crippling increase in daily exceptions and other billing errors that simply could not be addressed on a timely basis due to staffing issues, which created an increasingly large backlog of customer bills; and
- The exponential increase in incorrect and unaddressed customer billing issues caused Cleveland Water’s Accounts Receivables to skyrocket – growing at the rate of \$1 million per month following the failed implementation of its new CC&B platform by PwC in September 2009.

200. The LADWP believed the foregoing representations to be true and, on that basis affirmatively relied on PwC’s representations in entering into the CISCON Contract with PwC.

201. At the time PwC made these false representations, PwC intended to, and did, in fact, induce reliance by the LADWP on these representations.

202. Because the LADWP lacked knowledge that PwC did not possess the qualities, expertise, skills, and abilities necessary to perform the work required of PwC by CISCON Contract, and that PwC had misrepresented its success at Cleveland Water, the LADWP reasonably and justifiably relied on PwC’s misrepresentations to the detriment of the LADWP, entered into the CISCON Contract with PwC, and was caused to incur millions of dollars in damages, as detailed above.

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1 **SECOND CAUSE OF ACTION**

2 (FRAUDULENT INDUCEMENT BY OMISSION)

3 203. Plaintiff incorporates by reference each of the foregoing allegations as if fully set
4 forth herein.

5 204. This Cause of Action is based on a theory of fraudulent inducement, which falls
6 outside any purportedly enforceable integration clause in the CISCON Contract.

7 205. In order to fraudulently induce the LADWP into awarding PwC the CISCON
8 Contract, PwC failed to disclose several material facts to the LADWP in its RFP Response and
9 Interview Presentation Book regarding the knowledge, expertise, skills, and abilities that PwC
10 purportedly possessed, which were necessary to perform the work required to convert the
11 LADWP's legacy billing system, and to implement a new CC&B billing system for the LADWP.
12 In particular, PwC failed to disclose that:

13 a. The PwC Project Team Manager PwC whom proposed to – and ultimately
14 did – assign to the LADWP CC&B implementation project had never managed a project as large
15 or complex as the LADWP project;

16 b. The vast majority of the employees whom PwC proposed to – and
17 ultimately did – assign to the LADWP CC&B implementation project were filling new roles for
18 which they lacked experience; and

19 c. The vast majority of the employees whom PwC proposed to – and
20 ultimately did – assign to the LADWP CC&B implementation project did not possess the
21 qualities, expertise, skills, and abilities to perform the work required of PwC under the
22 Agreement.

23 206. PwC also failed to disclose to the LADWP in its RFP Response and Interview
24 Presentation Book material facts concerning PwC's implementation of a similar billing system at
25 Cleveland Water. In particular, PwC failed to disclose that:

26 a. PwC was responsible for the failed implementation of an identical Oracle
27 CC&B platform at Cleveland Water, which PwC prematurely took "Live" in late September
28 2009 – just four months before PwC submitted its RFP Response to the LADWP;

1 b. The PwC Utilities Practice Team responsible for implementing the
2 Cleveland Water CC&B Project was comprised of the same individuals who were being
3 proposed as team members for the LADWP CC&B Project team, and the two senior PwC
4 executives on both of these CC&B projects were Jim Curtin, the Utilities Principal at PwC, and
5 Trevor LaRocque, then a Director, and later a Partner, in PwC's Utilities practice;

6 c. The PwC employees who staffed the Cleveland CC&B Implementation
7 Project did not have and/or utilize a detailed Project and Deployment Infrastructure Plan to
8 manage and track the Cleveland Water CC&B project status;

9 d. The PwC employees who staffed the Cleveland CC&B Implementation
10 Project did not recognize or act upon key indicators pointing to the Cleveland Water system's
11 lack of readiness for move to "Go-Live" and production;

12 e. The PwC employees who staffed the Cleveland CC&B Implementation
13 Project did not recognize or act upon Cleveland Water's lack of preparedness for daily operation
14 of Cleveland Water's new CC&B billing systems;

15 f. The PwC employees who staffed the Cleveland CC&B Implementation
16 Project made the decision to "Go Live" and cutover to production despite overwhelming
17 evidence that Cleveland Water's CC&B system was not ready to be cutover and rendered "Live"
18 and operational;

19 g. Immediately following the September 2009 "Go Live" of Cleveland
20 Water's new CC&B platform, PwC had actual knowledge that the PwC Team responsible for
21 implementing the Cleveland Water CC&B Project had improperly implemented and configured
22 Cleveland Water's new CC&B platform, which, in turn, created disastrous consequences for
23 Cleveland Water's business and billing operations;

24 h. Immediately following the September 2009 "Go Live" of Cleveland
25 Water's new CC&B platform, PwC learned that, because the PwC Utilities practice team
26 responsible for implementing the Cleveland Water CC&B Project had failed to properly
27 implement and configure Cleveland Water's new CC&B platform, Cleveland Water had
28 experienced a wide-range of critical CC&B system failures immediately upon "Go Live" of its

1 new CC&B System; and

2 i. In particular, immediately following the September 27, 2009 “Go Live” of
3 Cleveland Water’s new CC&B System, PwC had actual knowledge of but failed to disclose that:

- 4 • 15% of Cleveland Water’s customer accounts (60,000 customer
5 accounts) immediately failed to bill at all because PwC had failed to
6 properly configure Cleveland Water’s new CC&B platform;
- 7 • An additional 15% of Cleveland Water’s customer accounts (an
8 additional 60,000 customer accounts) were billed based on “estimated
9 usage” despite the fact that actual meter read data existed because
10 PwC had failed to properly configure Cleveland Water’s new CC&B
11 platform;
- 12 • Field meter read data entry validation did not function properly
13 because PwC had failed to properly configure Cleveland Water’s new
14 CC&B platform. As a result, manually keyed errors by meter readers
15 flowed into the billing system without being detected or remediated;
- 16 • Meter exchanges processed in the field were not completed in the
17 system, resulting in billing errors and customer service confusion,
18 because PwC had failed to properly configure Cleveland Water’s new
19 CC&B platform;
- 20 • Cleveland Water experienced an immediate and exponential surge in
21 billing errors following “Go Live” due to PwC having improperly
22 implemented and configured the system;
- 23 • Cleveland Water experienced a crippling increase in daily exceptions
24 and other billing errors that simply could not be addressed on a timely
25 basis due to staffing issues, which created an increasingly large
26 backlog of customer bills; and
- 27 • The exponential increase in incorrect and unaddressed customer
28 billing issues caused Cleveland Water’s Accounts Receivables to

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skyrocket – growing at the rate of \$1 million per month following the failed implementation of its new CC&B platform by PwC in September 2009.

- The LADWP affirmatively relied on the completeness of the RFP Response and Interview Presentation Book in entering into the CISCON Contract with PwC.

207. At the time PwC failed to disclose these material facts, PwC intended to, and did in fact, induce reliance by the LADWP on completeness of the RFP Response and Interview Presentation Book.

208. Because the LADWP lacked knowledge that PwC did not possess the qualities, expertise, skills, and abilities to necessary to perform the work required of PwC by CISCON Contract and that Cleveland Water’s billing project failed because of PwC, the LADWP reasonably and justifiably relied on the completeness of the RFP Response and Interview Presentation Book to the detriment of the LADWP, entered into the CISCON Contract with PwC, and was caused to incur millions of dollars in damages, as detailed above.

THIRD CAUSE OF ACTION

(BREACH OF CONTRACT – SECTION 5.6.5)

209. Plaintiff incorporates by reference each of the foregoing allegations as if fully set forth herein.

210. On or about July 20, 2010, the LADWP entered into the CISCON Contract with PwC.

211. At all times relevant hereto, LADWP fulfilled its contractual obligations under the CISCON Contract.

212. Pursuant to Section 5.6.5 of Exhibit E of the CISCON Contract, PwC was required to “develop conversion programs to load and transform data from data provided by LADWP.”

213. Furthermore, pursuant to Section 5.6.5 of Exhibit E of the CISCON Contract, PwC was required to unit test the Conversion Load Programs.

1 235. On or about July 20, 2010, the LADWP entered into the CISCON Contract with
2 PwC.

3 236. At all times relevant hereto, LADWP fulfilled its contractual obligations under the
4 CISCON Contract.

5 237. Pursuant to Section 5.6.10 of Exhibit E of the CISCON Contract, PwC was
6 required to provide the LADWP with “executable code for each Consultant Report” prior to the
7 September 3, 2013 “Go Live” date of the LADWP’s new CC&B billing system.

8 238. PwC breached this contractual obligation by failing to provide the LADWP with
9 such executable code and was therefore unable to produce and test a number of critical reports as
10 PwC was also contractually required to do.

11 239. In fact, as of November 5, 2013 – more than two months *after* the September 3,
12 2013 “Go Live” had occurred – PwC had not yet produced, tested or successfully provided the
13 following critical reports to the LADWP:

- 14 i. RPT008 – Batch Payment Control Report;
- 15 ii. RPT016 – Collection Activity Report;
- 16 iii. RPT039 – Renewable Energy Summary Report;
- 17 iv. RPT040 – Sanitation Billing and Revenue Report;
- 18 v. RPT051 – Total AR Aging Report (by Customer Class);
- 19 vi. RPT067 – Billing and Revenue Report (by Bill Cycle);
- 20 vii. RPT068 – Billing Summary (by GL Account);
- 21 viii. RPT069 – Summary of Cancelled Bill Segments;
- 22 ix. RPT070 – Trial Balance Report (by GL Account and SA Type);
- 23 x. RPT076 – Suspense Payment Report;
- 24 xi. RPT085 – Adjustment Summary (by GL Account);
- 25 xii. RPT087 – Detail Adjustment Listing Report;
- 26 xiii. RPT089 – Detail Refund AP Adjustment Report;
- 27 xiv. RPT091 – GL Summary Report (by GL Account); and
- 28 xv. RPT093 – Unbilled Revenue Report (Monthly Customers).

1 249. During the performance of the CISCON Contract, Defendant approved and
2 submitted to Plaintiff certain time records.

3 250. Defendant knew, at the time that Defendant approved and submitted these time
4 records to Plaintiff, that the time records contained false representations concerning the number
5 of hours worked by Nasir Kahn, a contractor. The number of hours actually worked by Kahn
6 constituted material facts.

7 251. In particular, Defendant knew, at the time that Defendant approved and submitted
8 the time records to Plaintiff, that the time entries contained in the time records reflected a greater
9 number of hours than Kahn had actually worked on the CISCON project. Defendant possessed
10 this knowledge because employees of Defendant personally directed Kahn to falsify the time
11 records.

12 252. By directing Kahn to falsify the time records and by submitting the falsified time
13 records to Plaintiff, Defendant intended to defraud Plaintiff into believing that Kahn had worked
14 a greater number of hours than he had actually worked on the CISCON Contract.

15 253. By directing Kahn to falsify the time records and by submitting the falsified time
16 records to Plaintiff, Defendant intended to defraud Plaintiff into compensating PwC for a greater
17 number of hours than Khan had actually worked on the CISCON Contract.

18 254. Defendant intended to defraud Plaintiff into compensating PwC for a greater
19 number of hours than Kahn had actually worked on the CISCON Contract in order to obtain the
20 funds necessary to reimburse Kahn for various expenditures which Kahn had incurred at the
21 direction of employees of Defendant and which were incurred at the direction of and for the
22 benefit of these employees. These expenditures included, but were not limited to: payments to
23 prostitutes, lavish bachelor parties in Las Vegas, Nevada in 2011 and 2013, lavish hotel stays,
24 extravagant dinners, and tens of thousands of dollars in alcohol, all of which were purchased by
25 Kahn for various employees of Defendant including LaRocque, Garcia and Butler.

26 255. Plaintiff was, at all times relevant hereto, unaware of the material
27 misrepresentations in the time records.

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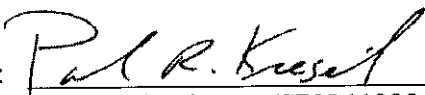
DEMAND FOR A TRIAL BY JURY

Plaintiff demands a trial by jury on all issues so triable as a matter of right.


DATED: June 29, 2016

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