



Forensic Strategic Solutions

Uncovering Massive Fraud Using ACL

“After Forensic Strategic Solutions completed the investigation, it opened a lot of eyes. It also demonstrated the effectiveness of ACL’s product, and the Los Angeles Unified School District purchased multiple licenses of ACL™ to use after we had completed the audit. The District recognized the need for a powerful data analysis tool to ensure proactive monitoring of areas such as exception reports and vendor encumbrances on an ongoing basis.”

Lisa Robbins, Manager of Fraud Examination

Forensic accounting and fraud examination specialists, Forensic Strategic Solutions PC, were hired by the Los Angeles Unified School District (LAUSD) to perform an examination of the District’s Belmont Learning Complex project. Mired with problems and a price tag estimated at over US \$200 million, the construction project for the high school became the most expensive in the country before the District was forced to step in and stop construction. Using ACL audit analysis technology, Forensic Strategic Solutions investigation uncovered a range of fraudulent activities and lapses in financial controls, including fictitious vendors, duplicate payments, and widespread violations of competitive bidding policies, the sum of which totalled more than US \$70 million.

Customer Profile

Forensic Strategic Solutions fraud examiners are national experts in the detection and deterrence of a wide variety of fraudulent conduct – from discovering employees or executives who misappropriate company assets to assisting investors who are defrauded in the course of commercial transactions. Their team of highly specialized fraud examiners relies on the powerful data analysis capabilities of ACL technology to assist them on projects such as the LAUSD audit and investigation.

Applications

Forensic Strategic Solutions uses ACL technology to analyze transactional data when conducting forensic examinations, to detect fraud, and identify weaknesses in internal financial controls.

FORENSIC  STRATEGIC
solutions pc

CHALLENGES

- » Fraudulent activities including fictitious vendors
- » Lapses in financial controls resulting in duplicate payments
- » Violations of competitive bidding policies, the sum of which totalled more than US \$70 million.

SOLUTION

- » **Data Analysis**
ACL™ Desktop

KEY BENEFITS

- » Uncovered 48 budget transfers authorized by one employee for US \$49,999 each within a four-month period
- » Identified overbilling of US \$2.1 million through payment applications

INDUSTRY

- » Business Services

REGION

- » North America



Challenges

The Los Angeles Unified School District is the second largest school district in the United States. With over 730,000 students and 75,000 employees, it spans 700 square miles and has an annual budget in excess of US \$9 billion – greater than that of many state governments.

Initially, the LAUSD's decision to build the Belmont Learning Center on a former oil field raised questions about the site selection process, but the project developer concluded the site was safe and should proceed as planned. Once the building was 60 percent complete, large pockets of methane gas were discovered that posed an immediate and serious safety risk. It was too late to install a methane barrier that would have stabilized the site, and the school district had to stop construction. Eventually, the site selection problem was revealed to be one of many serious flaws in how the project was managed. In the subsequent media uproar following the announcement of the construction's termination, Don Mullinax a Certified Fraud Examiner and the Inspector General for the Los Angeles Board of Education, demanded a full enquiry into the management of the Belmont project. Ralph Summerford, President of Forensic Strategic Solutions, was asked to come to Los Angeles to advise the struggling District on how to investigate the project. "Achieving fast results was critical given the daily media barrage focused on this high-profile project and the size of the expenditures involved," says Lisa Robbins, Senior Fraud Investigator for Forensic Strategic Solutions.

Solutions

Within weeks of the LAUSD's call to action, Forensic Strategic Solutions had begun their investigation. "If our staff had not been proficient with *ACL* and ready to take advantage of the software's powerful data analysis and verification capabilities, it could have taken years to get to the bottom of all the LAUSD's problems," says Ralph Summerford. "Using *ACL*, we were able to uncover and identify fraudulent transactions quickly and start to get the District's problems resolved. By optimizing the time and resources necessary for a project, it allows us to investigate large volumes of data faster and more efficiently than anything else we've found."

The first challenge discovered was that separate units within the CFO's office maintained parallel, though not consistent, sets of accounting records. Some processes were automated while others were manual, but collectively they did not constitute a generally accepted set of books by accounting

standards. *ACL* was used to normalize millions of data items so a single, consecutive set of records could be constructed. Following the reconciliation of the records, the investigative team identified an additional US \$2.1 million in project expenditures that had not been included in the total costs provided by the CFO.

The District's financial system also contained a control feature designed to reduce the risk of overpayment or improper payments by requiring a reference to a contract or purchase order number. However, it was learned that a system override could be performed to circumvent this control feature, allowing direct payments. Direct payments were routinely made to vendors and not posted to the original contracts, thereby allowing vendors to bill for much more than the specified contract amount. *ACL* analytic technology was used to identify transactions that matched these specific patterns and create a log file for further investigation.

During the audit of vendors, the two Forensic Strategic Solutions specialists working on the case found over 20 miscellaneous identification codes that could be used to pay invoices. These were vendors not appropriately tagged to projects who, in some cases, received checks for several million dollars. In total, payments under these miscellaneous vendor codes equaled more than US \$71 million. As specialists in fraud, Forensic Strategic Solutions recognized the possible signs of mismanagement immediately and further scrutinized the vendor file, drawing on the powerful analytics of *ACL* software. The resulting investigation revealed fictitious vendors, duplicate payments, and widespread violations of the competitive bidding policies throughout the District.

Results

Using *ACL* software, the Forensic Strategic Solutions investigative audit uncovered:

- 48 budget transfers authorized by one employee for US \$49,999 each within a four-month period circumventing LAUSD's policy requiring any spending greater than US \$50,000 receive approval from the Board of Education
- Overbilling of US \$2.1 million through payment applications made by the project developer, construction contractor, and some of the sub-contractors
- Circumvention of the proper payment codes using direct payments, resulting in outstanding encumbrances over a period of five fiscal years totalling approximately US \$77.8 million.

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