



## Dixon Odom PLLC: Dixon Odom Uncovers Massive Fraud Using ACL

*"After Dixon Odom 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  
Dixon Odom PLLC*

- The Forensic Accounting & Fraud Examination division of the CPA firm, Dixon Odom PLLC, was hired by the Los Angeles Unified School District (LAUSD) to perform an examination of the district's Belmont Learning Complex project. The project, mired with problems and a price tag estimated at over US \$200 million, was the most expensive high school in the country before the district was forced to step in and stop construction. Using ACL data analysis technology, Dixon Odom's investigation uncovered a range of fraudulent activities and lapses in financial controls, including fictitious vendors, duplicate payments, and widespread violations of competitive bidding policies, totalling more than US \$70 million.

### CUSTOMER PROFILE:

Dixon Odom is one of the top 30 independent certified public accounting firms in the US and an industry leader in fraud detection and auditing for school districts and government organizations across the country. With over 450 accountants and offices in six states, Dixon Odom has built a reputation as one of the country's foremost fraud and investigative accounting specialist firms. Their team of highly specialized fraud examiners relies on the powerful data analysis capability of ACL™ to assist them on projects such as the LAUSD audit.

### APPLICATIONS:

Dixon Odom uses ACL to analyze transactional data when conducting forensic evaluations to detect fraud and identify weaknesses in internal financial controls.

### BUSINESS CHALLENGE: *Finding Fraud While Under the Media Spotlight*

The Los Angeles Unified School District is the second largest 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, CFE, the Inspector General for the Los Angeles Board of Education, demanded a full enquiry into the management of the Belmont project. Ralph Summerford, senior partner with Dixon Odom's forensic accounting and fraud examination services, 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, manager of fraud examination for Dixon Odom.



### **SOLUTION:** *A Complete Overhaul of the LAUSD's Financial Management Practices*

Following the LAUSD's call to action, within weeks Dixon Odom had a team of specialists working on the complex case. "If our staff had not been very familiar with *ACL* and ready to take advantage of the software's powerful data analysis and verification capabilities, it could have taken years to get 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."

The first challenge uncovered by the investigative team was that separate units within the CFO's office maintained parallel, though not consistent, sets of accounting records. Some systems 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 reconstructed. 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, therefore allowing vendors to bill for much more than the specified contract amount. *ACL* was used to identify transactions that matched these specific patterns and create a log file for further investigation.

During the vendor audit, the Dixon Odom team found over 20 miscellaneous identification codes that could be used to pay invoices. These were vendors not appropriately tagged to projects and, in some cases, receiving checks for several million dollars. In total, payments under these miscellaneous vendor codes equalled more than US \$71 million. As specialists in fraud, Dixon Odom 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 Dixon Odom investigative audit team uncovered:

- 48 budget transfers authorized by one employee for US \$49,999 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

#### **ACL Headquarters**

T 604 669 4225  
F 604 669 3557

■ [acl.com](http://acl.com)  
[info@acl.com](mailto:info@acl.com)