

2016 ANNUAL REPORT



Judge Steven Rhodes
Transition Manager
Detroit Public Schools Community District

I am pleased to present the Office of the Inspector General (OIG) 2016 Annual Report. This report is intended to summarize the activities of our office for the fiscal year of July 1, 2015 through June 30, 2016. The OIG is required to submit an annual report covering its activities for the preceding fiscal year. In actuality, the OIG only operated for the last three months of this period. I also missed the opportunity to report on our activities and accomplishments during the fiscal year of July 1, 2014 through June 30, 2015; since the OIG was eliminated by the former Emergency Manager at the end of June 2015. Therefore, I will also present highlights of cases worked by the OIG during fiscal year 2015.

In April of 2016, after being appointed by Transition Manager Judge Rhodes, I am honored to return to what is now named the Detroit Public Schools Community District (DPSCD) as its Inspector General. The accomplishments of this office are due to the collective hard work and dedication of my former colleagues and leadership that have served in this office. I am committed to continuing our watchdog mission to fight fraud, waste, abuse and financial mismanagement within the Detroit schools; and in so doing, earn back the public's trust in our school system.

Once again, I am incredibly grateful to you for your continued support and faith in our office, our mission and our efforts; and for the opportunity to serve the Detroit students.

Sincerely,

Bernadette Kakooza
Inspector General

OIG Mission Statement

The Office of Inspector General promotes integrity and credibility in the District by conducting audits, investigations and reviews to detect and prevent waste, fraud and abuse, as well as identify opportunities for improving efficiency and effectiveness of internal controls.

Authority

Our jurisdiction extends to all District employees, contractors and vendors doing business with the school District.

Complaints may be filed anonymously via the Fraud Telephone Hotline at 313-870-3436; and or email: inspectorgeneral@detroitk12.org. Anyone filing a complaint with our office can be assured that the investigation will be conducted with independence, integrity, objectivity, and transparency in a timely manner; and with the utmost confidentiality.

Protocols

OIG investigative standards comply with the Principles and Standards for Offices of Inspector General; generally accepted principles, quality standards and best practices applicable to federal, state and local Offices of Inspectors General. In addition, the OIG, at all times, exercises due professional care in conducting thorough, objective and fair investigations and issuing reports and recommendations to improve efficiency and effectiveness of the District's internal controls.

Collaborative Partnerships

The OIG maintains liaison with critical partners including: FBI Public Corruption Task Force, United States Attorney's Office (USAO), Wayne County Prosecutor's Office (WCPO), Michigan Department of Education, High Intensity Drug Trafficking Area (HIDTA), Detroit Police Department, Michigan State Police and other OIGs. Additionally, the OIG has liaisons with other District personnel and departments who contribute to operational support and the generation of actionable complaints.

Statistical Accomplishments

As of June 30, 2015 when the office was eliminated, the OIG claimed the following statistical accomplishments: 122 employees referred for internal disciplinary hearings; 64 employee suspensions / administrative leave; 72 employee terminations or resignations and numerous other administrative actions. In addition, 11 vendors were suspended or debarred; 27 search warrants were executed; 63 subpoenas served; 39 cases referred to the Wayne County Prosecutor's Office; 6 to the United States Attorney's Office; 15 to local law enforcement; and 9 to federal law enforcement; which resulted in 10 federal indictments, 32 arrests, and 37 convictions. Altogether, OIG investigations and audits had identified close to \$19million in monetary benefits to the District.

FY2015 INVESTIGATIVE HIGHLIGHTS

Multiple administrators involved in Vendor Kickback Scandal

In June 2014, acting on tip information received by the OIG, an investigation was initiated concerning allegations of fraudulent procurement practices involving a school administrator and a District vendor. It was revealed that the administrator had authorized payments for textbooks and other supplies, valued at \$18,000, for which no evidence of delivery was found at the school. During the course of our investigation, the administrator abruptly resigned from the District. The OIG questioned the administrator's actions and expanded the investigation to determine if the improprieties uncovered were indicative of a wider problem. In the ensuing months, a detailed review was performed district-wide, for requisitions to those companies associated with this particular vendor. During the course of our review, the OIG requested the District to suspend all purchase orders and payments to the vendor. The results of our forensic review substantiated that other District administrators had also engaged the vendor in questionable purchasing activities, which would have potentially cost the District an additional \$70,155 in additional unnecessary expenditures. Given the evidence of criminal wrongdoing, the matter was referred to the FBI for further review and action. (*Update:* The FBI's investigation, which began in January 2015, resulted in findings of kickbacks received by the administrators and led to charges being filed in March 2016 by the US Attorney's Office against six current and seven former District employees, and the vendor; who was found to have fraudulently invoiced the District \$2.7 million over 13 years. Sentencing is pending for all subjects.)

Improper Food Store operated at District school

In July 2014, the OIG initiated an investigation, based on allegations of improper food sales being made within a school building. The investigation confirmed that the building principal approved the operation of a food store at the school without following prescribed District fundraising guidelines and cash management policies and procedures. There was no evidence provided for accountability of sales proceeds; nor was there any evidence that the proceeds were used to benefit the students, as required. As result of the investigation, the principal was referred to administrative discipline and subsequently removed from position.

Improper Retention of Payroll Overpayments

In August 2014, the OIG initiated an investigation into allegations that a District employee had improperly received salary overpayments totaling approximately \$50,000 over a one-year period, and had not disclosed the overpayments. The investigation revealed that the overpayments resulted from a HR data entry error. The employee was referred for discipline for failing to disclose and improperly retaining the payroll overpayments, and resultantly, was made to repay the District for the amount.

Alleged Missing Funds at District School

In October 2014, the OIG received a complaint from a building administrator, alleging missing funds at the school. Preliminary inquiry by the OIG revealed that approximately \$2500, that was collected and bagged for pickup and deposit by armored car, was unaccounted for. Witness interviews revealed that the funds were collected by various staff members for a students' field trip and remitted to the school bookkeeper for deposit handling. The investigation revealed that the signature indicating deposit pickup in the log book was forged, and that the funds had not been picked up from the school. The OIG was able to identify the employee that had accessed the school vault where the funds were secured. The matter was referred to HR for administrative discipline and the Wayne County Prosecutor's Office for prosecution. An administrative hearing was held for the employee, and the disposition is pending.

Fraudulent Transcripts provided upon hire

In October 2014, the OIG initiated an investigation, based on allegations that a District employee submitted a fraudulent educational document to obtain employment with the school District. A review of personnel records revealed that the employee had been actively employed for 12 years in a position as a teacher aide at the time that the complaint was received by the OIG. Verification sought by the OIG with the state certification office confirmed that the individual did not have a valid record or official transcript on file. As result, the employee was referred for administrative discipline and was subsequently terminated.

Alleged Conflict of Interest involving a District Employee and Tutoring Vendor Company

In a joint FBI and OIG investigation initiated in December 2014, it was revealed that a District employee, who was in position to select and provide oversight of companies that provided tutorial services to DPS students, had manipulated the District's lottery process to improperly benefit his/her tutoring company. The investigation confirmed that tutorial services were provided to DPS during 2009-2011; and as result, the employee realized fraudulent gains which amounted to approximately \$1.3million. The employee admitted to intentionally altering the lottery results and to concealing his/her ownership of the tutorial company. His/her actions were found to be in violation of the District's Code of Ethics, Conflict of Interest, Employee Work Rules and the District's contractual requirements, and was subsequently terminated.

Missing Technology Equipment

Acting on tip information received in December 2014, the OIG initiated an investigation into missing technology equipment from a District office. Assistance was obtained from the District's IT department, who were able to utilize remote tracking to identify the location and verify activity on the equipment, which was confirmed to be operated outside of the District's network environment. The investigation established that the equipment was in the possession of a retired District employee. The OIG was able to recover the equipment from the (former) employee's residence.

Fraudulent Unemployment Benefits claimed by DPS employee

In April 2015, the OIG received information from the state's Unemployment Insurance Agency, advising that an onboard District employee had claimed and received unemployment benefits, to which they were not entitled. Investigation confirmed that the employee claimed and received unemployment benefit payments, totaling \$14,000, for a one-year period when the employee was partially on an approved Family and Medical Leave of absence. The investigation further revealed that the employee also received earnings from the District totaling \$49,000 during the same period that he/she claimed and collected the benefit payments. The matter was referred to administrative discipline.

FY2016 INVESTIGATIVE HIGHLIGHTS

Alleged Payroll Fraud by District employee

Based on an anonymous tip received in February 2016, an investigation was initiated into allegations that an hourly District employee was falsifying payroll records and had claimed an inordinate amount of overtime; which resulted in overtime pay received for periods of time that he/she did not actually work. Investigation determined that the employee had entered and approved his/her own overtime on the District's payroll system, which he/she accessed using a supervisor's password. It was further revealed that the supervisor had provided the employee the password, but claimed not to be aware of nor to have authorized the excessive overtime hours claimed by the employee. The investigation revealed that a total of 153 overtime hours were improperly claimed by the employee, which amounted to \$59,000 in overtime pay over a five year period. As result, both the employee and supervisor were referred for administrative discipline. The employee was subsequently terminated.

Conflict of Interest involving District administrator and District supplier

In April 2016, an investigation was initiated into allegations of vendor conflict of interest involving a school principal and a vendor that provided tutorial services at the administrator's school. The investigation revealed that the principal had arranged with the vendor to hire his/her family members, although unqualified, to provide tutorial services at his/her school; and as result, the vendor received payment for services not rendered by these family members. The investigation further revealed that another (former) principal had also arranged for his/her family member to be hired by the same vendor, who received payment on behalf of the principal's family member, for services that were not performed. Based on reconciled billings and payments made for personnel, whose time and services to the District could not be substantiated, the OIG recommended that the District seek recovery of \$35,000 from the supplier. As a result of the OIG investigation and documented contract non-compliance, the supplier's contract with the District was terminated, and the supplier was banned from future business with the District.

Tutoring Vendor Fraud involving District administrator

In May 2016, the US Attorney's office announced charges against a former District employee (administrator) for federal program fraud. This matter resulted from an investigation conducted by the OIG in June 2011, following a complaint received by the OIG alleging discrepancies in student tutoring documentation submitted to the District. The OIG investigation revealed that the administrator did not disclose his/her ownership interest in two companies that were later awarded tutoring contracts with the District. Furthermore, investigation revealed that the employee submitted invoices to the District for payment to these companies, for tutorial services that were never rendered to DPS students, and additionally, directed his/her tutorial staff to input phony pre-test scores before students were tested; created fake individualized learning plans for students; used proxies to remove parents from oversight of their students' learning progress; and forged parental signatures on attendance records. The investigation determined that the employee received payments totaling \$2.7 million from the District between 2010 through 2012; of which approximately \$2million was invoiced fraudulently. The OIG referred the matter to the FBI in November 2011, leading to the recent federal charges announced. Sentencing for the former employee is pending.

Alleged Abuse of FMLA by District employee

In June 2016, the OIG received information from a District administrator who alleged that a School Social Worker employed at a DPS school was engaged in outside employment while on an approved Family and Medical Leave of Absence from the District. The OIG investigation confirmed that the employee requested and was granted continuous medical leave effective April 2016; in accordance with FMLA policy and procedures, for a duration through June 2016. A review of the employee's personnel file revealed that the employee had submitted a "Verification of Employment" request form in late February 2016, and requested that the form be submitted, via fax transmission, to a fax number which the OIG verified as belonging to an out-of-state school District. Contact made with the out-of-state school District's Human Resource department confirmed that the DPS employee was actively employed with that school District, and was hired on an effective start date that the FMLA was approved to begin. There was no evidence indicating that the employee had submitted a resignation to DPS before commencing employment with the out-of-state school District. The employee's actions were found to be in violation of, not only the District's Code of Ethics, Conflicts of Interest, and Employee Work Rules, but a clear abuse of federal regulations regarding FMLA. The OIG referred the matter to Employee Relations for administrative discipline. A hearing is pending.

MOVING FORWARD: FY2017 INITIATIVES

Effective July 1, 2016, the OIG was restructured to include two primary functions: fraud investigations / forensic audits and internal audits / compliance (formerly performed by the Office of Auditor General). This new organizational structure allows coordination of efforts to ensure that responsibilities and roles of the District's fraud investigation and internal audit functions are seamlessly meshed to assure effectiveness and efficiencies in District operations, and ultimately accomplish the OIG's mission, objectives and goals.

FY17 priorities include:

- Implementing and staffing the new OIG reorganizational structure, and obtaining resources to accommodate personnel, investigative and audit needs;
- As part of its proactive efforts, the OIG will conduct risk assessment surveys and compliance reviews, aimed at identifying high risk areas that are especially vulnerable to fraud and/or monetary loss and recommending internal controls and efficiencies;
- Distribute fraud prevention and awareness posters districtwide; to encourage all employees and the general community to report fraud, waste and abuse to the OIG;
- Spread the word about the 'Whistleblower Protection Act'; to encourage employees to report acts of fraud, waste, abuse and financial mismanagement without the fear of retaliation by their supervisors;
- Conduct informational sessions with various groups of employees, departments and within schools; to educate individuals regarding the District's Code of Ethics policy, Conflicts of Interest, Nepotism and required disclosures; financial or otherwise.

How to Contact the OIG

Physical / Mailing Address

3011 W. Grand Boulevard,
14th Floor, Fisher Building, Suite 1404
Detroit, MI 48202

Main Office Telephone

313-870-5664

Office Hours

Monday – Friday; 8:30am – 5:30pm

Email

inspectorgeneral@detroitk12.org

Hotline Fax

313-870-3405

FRAUD HOTLINE

313-870-3436

OIG Webpage

www.detroitk12.org/admin/inspector_general