

Roy S. Roberts, Emergency Manager



**Detroit Public Schools
Office of the Inspector General**

June 30, 2012

Mr. Roberts,

I am forwarding to you the Office of Inspector General's (OIG) Annual Report. This report contains our accomplishments for fiscal year 2012, the period between July 1, 2011 and June 30, 2012.

The OIG conducts investigations, forensic audits and special reviews of the District's programs and operations to identify opportunities for improving the efficiency and effectiveness of District operations and also to detect and prevent waste, fraud, and abuse.

The mission of the OIG is to ensure integrity, economy, efficiency and effectiveness in the operations of the Detroit Public Schools by conducting meaningful and accurate investigations, forensic audits, and program reviews, to detect waste, and abuse. We follow that with a goal of enhancing the public's confidence in DPS by assisting the District with improving its programs and operations, and fostering integrity in all of our operations.

I have spent a considerable amount of time working with my staff to create a document that is both clear and informative in telling you what the OIG is, what it does, and what benefit it provides to the District.

As part of the District-wide restructuring, the OIG experienced significant changes in its structure during fiscal year 2011/12. Those changes have had a positive effect on how we do our work and continue to carry out our mission, vision and core functions with independence and integrity.

On behalf of the entire OIG staff, I would like to thank you for your continued support.

Wilbert V. Marsh
Inspector General

ANNUAL REPORT

A YEAR IN REVIEW – JUNE 30, 2012

The OIG conducts investigations of alleged waste, fraud, and abuse to safeguard District resources, programs, and operations. The results of these investigations have identified and continue to identify systemic weaknesses in areas of program vulnerability which can be rectified through corrective management actions, an internal disciplinary process, and/or referral to the criminal justice process that included court ordered monetary recoveries.

The IG manages the department through two Deputy Inspectors who manage two units: the investigative unit consisting of four employees, and the forensic audit unit consisting of two employees. One Administrative Assistant supports the entire department.

OIG investigations are initiated upon the receipt of plausible allegation waste, fraud, abuse or mismanagement. The Inspector General and Deputy Inspector General are authorized to open and assign an investigation. Each new investigation receives a unique identification number and is entered into a paperless database system that has a search feature. The investigative techniques used may include interviews, document review and analysis, and physical and electronic surveillance coverage. Matters involving criminal activity are worked jointly with local, state or federal law enforcement agencies and/or with OIG of the State of Michigan or the United States Department of Education, and may involve traditional and sophisticated investigative techniques. Upon completion of the investigation, the investigator prepares an investigative report containing the allegation, executive summary, investigation conducted, findings and recommendations. The OIG investigative report is distributed to District officials requiring a response to its recommendations. The recommendations are monitored by the IG to ensure timely handling and resolution.

In a joint effort with the WCPO, the OIG helped expand Teen Court in two high schools. Teen Court is a juvenile diversion program run by the WCPO, in partnership with DPS, as an alternative to processing certain delinquency cases through the formal juvenile system. In Teen Court, juvenile offenders appear before a jury panel of high school students. After hearing the facts in the case, including the offender's admission of guilt, the teen jury's only function is to determine the sentences that will be imposed. In FY 12, the IG joined a small working group comprised of representatives from WCPO, Michigan Crime Stoppers, Wayne State University, District Courts, and Juvenile Court as well as principals and teachers from participating high schools to develop course curriculum, and handbooks to help expand this program. This program has enabled students to learn about our criminal justice system while handing down actual sentences in a responsible way. In FY 12, Teen Court was expanded to include Central Collegiate and Henry Ford high schools.

In an effort to stem the instances of crime and violence on school campuses, representatives from the OIG and DPS Police Department attend monthly scheduled Crime Stoppers meetings. Crimes Stoppers allows individuals with information concerning unsolved criminal activity that occurred on school campuses, to contact a telephone hotline with "tip" information. The identity of persons providing tip information remains anonymous. Actionable tip information may result in rewards paid by Crime Stoppers.

Since inception, the OIG has opened 550 investigative cases based on 668 complaints, of which 87% have been closed. To date, 109 employees have been referred for disciplinary hearings, resulting in 44 employee suspensions/administrative leave, 41 employee terminations/resignations and numerous other administrative actions. In addition, 26 search warrants have been executed, 38 cases were referred to the Wayne County Prosecutor’s Office and five to the United States Attorney’s Office. There have been ten federal indictments, 31 arrests, 31 convictions and court-ordered restitution totaling \$5,786,650. Currently 73 OIG investigations are in a pending or active status.

OFFICE OF INSPECTOR GENERAL MONETARY BENEFITS - FY09-FY12

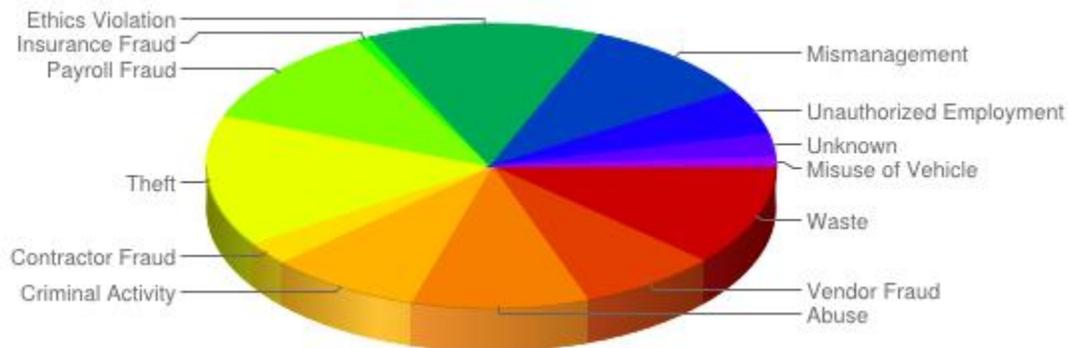
The OIG identified over \$16 million in monetary benefits through its investigations and forensic audits.

Summary of Fraud Statistics	Amount
Monetary Loss	\$ 7,045,171
Recovered Computers (514)	514,000
Monetary Recovery	190,880
Court Ordered Restitution	5,786,650
Cost Avoidance	744,794
Cost Recovery	2,012,805
Total	\$ 16,294,301

OFFICE OF INSPECTOR GENERAL FY12 BUDGET

In Fiscal Year 2012, the OIG continued to perform its function despite a \$21,000 budget reduction from FY11. In FY 11, the OIG was allocated \$1,029,400 and staffed with eight full time employees. The FY12 budget was \$1,008,693.

OFFICE OF INSPECTOR GENERAL COMPLAINT TYPE CHART



OFFICE OF INSPECTOR GENERAL INVESTIGATIVE STANDARDS

The OIG conducts its investigations in accordance 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 its investigations and issuing its reports and recommendations.

OFFICE OF INSPECTOR GENERAL IN-SERVICE TRAINING - FY12

The anti-fraud industry is constantly evolving. As such, each year members of our Forensic Audit staff are required to obtain continuing Professional Education (CPE) credits to stay current with the latest developments in the field. Members of the OIG staff attended the following training during FY12:

Course Title – Dates Attended:

Global Asset Tracking – September 2011

Association of Certified Fraud Examiners (ACFE) – November 2011

Managing Third Party Relationship Risks (webinar) - November 2011

Fraud Detection and Prevention in DPS (State & Fed) - December 2011

Transaction Auditing and Monitoring: Protection

Against Mistakes and Organized Fraud – January 2012

Audit Continuing Professional Development

Governmental Accounting Standards Board Tech Update - June 2012

Yellow Book & Industry Standards - June 2012

Top 12 Governmental and Nonprofit Accounting and Auditing Issue, Solving Complex Single Audit Issues for Government and Nonprofit Organizations, the 2011 Revised Yellow Book for Financial Audits and Frequent Frauds Found in Governments – October 2011

OFFICE OF THE INSPECTOR GENERAL STRUCTURE

The OIG is headed by the Inspector General (IG) who was appointed by the Emergency Manager. The OIG reports directly to the Emergency Manager. This reporting structure gives the OIG significant independence from District managers and staff which is critical in order for the OIG to perform its intended function.

Office of Investigations:

The Office of Investigations conducts investigations of alleged waste, fraud and abuse or other illegal activities by District Employees, contractors or related businesses. Most of the investigative workload is reactive in nature because investigations typically result from the receipt of complaints or allegations.

Office of Forensic Audits:

The Office of Forensic Audits conducts analysis of financial data and evidence and makes a determination if allegations of waste, fraud and abuse or other illegal activities exist. Our Forensic Auditors possess forensic audit certifications, have an understanding of basic accounting and basic legal concepts, and are able to serve as expert witnesses in investigative proceedings.

Office of Inspector General Restructured

The Office of Inspector General took the initiative to restructure organizationally in FY 12 (October 2011) by eliminating the Deputy Inspector General for Forensic Audits and a Special Investigator position. These positions were merged to create a new position entitled Senior Forensic Auditor.

This consolidation reduced the OIG staffing level from eight to seven employees resulting in an organizational structure that is focused more on investigative effectiveness without compromising management oversight. This restructure resulted in an OIG budget savings of \$78,024 to the FY12 adopted budget.

DETROIT PUBLIC SCHOOLS POLICE DEPARTMENT

In June 2009, the District's Police Department was placed under the OIG. Since that time the entire leadership of the department was replaced with a new Chief, two Deputy Chiefs, and a Director of Support Operations, and Inspectors for Investigations and Patrol. There are seven Sergeants, 46 Police Officers, 45 Campus Police Officers (CPOs), five investigators, one Civilian Investigator, one Volunteer Coordinator, 11 LEIN/Communications Operators, one vehicle maintenance Officer, and two Clerical Assistants for a total of 125 employees assigned to the PD.

In July 2010 the District terminated its in-school security and improved safety by contracting building security officers (SOs) through a private security company (Securitas Security Services, USA, Inc). The outsourcing provides a full daily complement of 270 security officers.

The PD has an officer assigned to the FBI sponsored Violent Crimes Task Force, who assist with investigations into violent criminal groups near school buildings. The task force officer provides the department with additional resources in the event of major violent acts, or criminal conspiracies affecting the District.

The Department also maintains a Gang Intelligence Unit, monitoring and taking action to gather intelligence and take action to address gang issues within the District. In addition, in 2011 a DPS-Police K-9 unit was recognized by "Police K-9 Magazine" as the National Police Canine Team of the Year. Police K-9 Magazine, located in Lakewood, CO, is a bi-monthly publication that serves K-9 law-enforcement officers and supervisors who work in the public and private sectors, including federal, state, and local agencies, the military, and private security firms

In June 2012, the PD assigned an officer to the Detroit Crime Commission (DCC) to participate in a one month pilot program to identify gangs operating in and around District's schools and report actionable intelligence to the District's PD and other appropriate law enforcement agencies.

Four PD police officers are assigned to Executive Protection coverage. Two officers are detailed to protective coverage for the Emergency Manager; one for the DPS Superintendent of Academics and one for the Chancellor of the Michigan Education Achievement Authority (EAA).

Overall, the DPS Police Department realized a 4% reduction in reported crimes when compared with the same period last school year. The data was gleaned from CRISNET reports, the official written report used by both the DPS Police Department and the Detroit Police Department to manage and store police information regarding criminal activity within Detroit.

Specifically, concealed weapons violations were reduced by 35%, felony assaults by 33% and armed robberies by 22%. Other reductions included larceny (down 10%), and misdemeanor assaults (down 5%). Vehicle break-ins and larcenies increased 23%. Building B&Es were down 7 % year to year including a 40% reduction in incidents at open school buildings. Increases were registered in alleged sexual assaults, narcotics violations, and unarmed robberies. Felony warrants obtained increased by 42% during this time period.

In July 2011, an OIG Special Investigator was reassigned to a DPSPD position created by the Inspector General entitled "Civilian Investigator". The reassignment assisted the PD with investigations into stolen DPS computers. In August 2011, the DPSPD created a Computer Fraud and Theft Recovery Unit to focus resources into DPS computer thefts in a coordinated manner. The statistical accomplishments of the Computer Fraud and Theft Recovery Unit have been outstanding. The Computer Fraud and Theft Recovery Unit is averaging over 1.2 laptops recoveries per day using the Absolute Software Tracking feature embedded in each computer BIOS firmware.

Prior to June 2009, laptops stolen from DPS buildings were not investigated and often went unreported. Estimates by police personnel indicate that more than 5000 laptops were stolen annually prior to 2009 although records for such thefts were not maintained. There have been 1752 laptops stolen from our buildings and 514 or 29% have been recovered since June 2009. In FY 12, there were 309 laptops reported stolen. Of these, 119 or 39% have been recovered by our PD.

In December 2011, the PD received national recognition from Absolute Software, Inc., as being the only known school District, to have used the Computrace lo-jack tracking feature with success to identify, disrupt, dismantle and prosecute a major organized group responsible for thefts of laptops from school buildings. Ten subjects were charged and eight have entered guilty pleas to violation of receiving and concealing stolen property, breaking and entering, and continuing criminal enterprise.

The reductions in some crimes were due to effective partnerships with other law enforcement organizations, organizational restructuring of the Police Department, additional training opportunities for police officers and security personnel, upgraded electronic building security systems, improved response time to alarms, successful prosecutions of offenders at the county and federal levels, and the dedication of officers and investigators. DPS has also expanded volunteer citizens' patrols as part of the comprehensive multi-agency program that has helped to reduce incidents.

Current and ongoing partnerships focused on safety, protecting District assets and providing safer travel routes for students include those with the Detroit Police Department, FBI, Michigan Department of Education, US Department of Education, Michigan State Police and other local and federal law enforcement organizations.

For FY 2012, the Police Department had a budget of \$17,347,445 from the general and grant funds, a \$3.1 million reduction from FY11 funding. Despite such challenges, the Police Department continues to yield remarkable results due to upgraded electronic building security systems, improved response time to alarms, successful prosecutions of offenders, and the dedication of officers and managers of this office.

DETROIT PUBLIC SCHOOLS AUDITOR GENERAL

In October 2011, the District's Office of Auditor General (OAG) was placed under the OIG. The OAG FY12 budget was \$732,142.

The OAG is staffed with an Auditor General who manages two Audit Managers, an Administrative Assistant, and three Auditors. For most of the School Year 2011-2012, the OAG operated with two vacancies. As a result, the OAG was not able to conduct all the audits listed in its Annual Audit Plan. However, even with the limited resources, through its involvement the OAG made significant contributions to the District in several key areas including:

- Driving the corrective action process to address audit findings,
- Strengthening the management process over the 2009 Bond program,
- Facilitating the student count process, and
- Assisting in the development of new procurement initiatives to enhance the value and quality of goods and services procured for the District.

In addition, the OAG conducted a number of follow-up audits to assess the level of progress in corrective actions designed to address OAG audit findings. Other achievements include audits of the District's P-card program, a SAS-70 audit, and a construction audit of two new schools built with 2009 Bond proceeds. In total, the OAG completed over 50 audits and special projects for the 2011-2012 School Year.

OFFICE OF INSPECTOR GENERAL FISCAL YEAR 2012 SIGNIFICANT INVESTIGATIONS

Alleged Payroll Fraud by DPS Official

In February 2012, the OIG received a complaint that a DPS official was benefiting from falsely reported double service credit hours and possible double pay for each payroll pay period. OIG investigation confirmed that due to having two Position Control Numbers (PCNs), the employee's service hours' record submitted to the Office of Retirement Services (ORS), State of Michigan, reported this employee as having earned 160 service credit hours for each bi-weekly pay period, instead of the standard 80 hours for salaried employees. The employee was not responsible for this false reporting and did not receive any double pay. It was revealed that the misreporting was due to an error in Human Resource data entry coding in PeopleSoft HCM module. The OIG investigation also determined that the falsely reported service credit hours may have potential effect on at least 3,500 other DPS employees with multiple PCNs; some having received double pay on at least one payroll pay period. The OIG recommended corrective steps to address.

Alleged Missing Money Bag picked up by delivery courier

In January 2012, the OIG received information that a money bag picked up from a DPS school in January, by delivery courier, was not received for deposit at the bank. The alleged missing bag was alleged to contain \$8,683 (\$7,329 in cash and \$1,354 in checks). An OIG investigation determined that the missing bag was logged in the school's pickup log, signed for upon pickup, and received for next day delivery at the courier's terminal. The bank verified that the money bag was not received at the bank's cash vault the following day. Due to an OIG recommendation, the District's Division of Finance forwarded a claim letter to the courier seeking reimbursement for the missing DPS money. In March 2012, the courier service made indemnification to DPS for the \$8,683 monetary loss.

Alleged Missing Money Bag picked up by delivery courier

In February 2012, the OIG received information that a money bag picked up from a DPS school on January 11, by delivery courier, was not received for deposit at the bank. The alleged missing bag was alleged to contain \$579 (all cash). An OIG investigation determined that the missing money bag was logged in the school's pickup log, signed for upon pickup, and received for next day delivery at the courier's terminal. The bank verified that the money bag was not received at the bank's cash vault the following day. Due to an OIG recommendation, the District's Division of Finance forwarded a claim letter to the courier seeking reimbursement for the missing DPS money. On March 2, 2012, the courier service reimbursed DPS for the \$579 monetary loss.

Alleged Vendor Fraud

In early 2010, the OIG initiated reviews of contracts and analysis of data records in pursuance of an investigation into DPS overcharges by an office supply company. Using comparisons of vendor data and other public entity pricing information, it is believed that DPS was overcharged approximately \$4 million. The vendor disputed the OIG claim based on the interpretation of the contract language, and offered a counter-claim. The OIG's recalculation of the overbilled amount, eliminating favorable pricing for non-contractual items, revealed that at least \$1,000,000 in charges was over billed to DPS. Negotiations with the vendor were held by the Office of General Counsel, which resulted in a settlement agreement.

Theft by DPS Truck Driver

A joint OIG and FBI investigation was conducted into the theft of \$70,000 worth of DPS desktop computers, printers and other property stolen from a district warehouse by a DPS truck driver. The truck driver was terminated and indicted by a Grand Jury in the Eastern District of Michigan in Detroit. In June 2011, the former employee pled guilty to conspiracy and theft of government property. In November 2011, the former employee was sentenced to 36 months probation, 6 months to be served at a Residential Re-entry Center and ordered to pay \$57,000 in restitution to the District.

Theft of DPS Computers

In December 2008, a principal of a DPS high school reported the theft of (30) Dell Latitude D-630 laptop computers. The total value of the stolen computers was \$37,710. Investigation conducted by the OIG and FBI identified a suspect as one of the individuals responsible for receiving and concealing the stolen laptops. The computers contained the Absolute Software tracking feature which led to the recovery of 14 of the stolen DPS laptops computers. Three DPS employees were terminated and one was referred for criminal prosecution through the Wayne County Prosecutor's Office. The subject pled guilty in December 2011, to one felony count of receiving and concealing stolen property over \$1,000 and under \$20,000, and was sentenced to 18 months probation; as well as ordered to pay \$8,000 restitution to the District.

Shell Company; Alleged Vendor Fraud

From 2004 through 2007, a former DPS vendor and her daughter, a DPS teacher, are alleged to have fraudulently received \$539,000 in federal funds, using a shell company with a fictitious address and a post office box. More than 40 interviews were conducted by the OIG, including many with the FBI. Investigation revealed that DPS payments were made to the shell company at a post office box address for learning supplies which according to evidence obtained, were never provided to any DPS school or other entity. Many of the DPS payments were for orders to schools scheduled to be closed. In October 2010, investigators with the FBI, DPS-OIG, and U.S. Department of Education-OIG executed federal search warrants at two residences and one

business office that produced pertinent document evidence. As of February 2012, the FBI/OIG served 16 subpoenas to different DPS departments as part of this investigation. In January 2012, both subjects were indicted in the Eastern District of Michigan on counts related to their alleged fraudulent activities with the shell company, including program fraud, conspiracy, money laundering, wire fraud, and false statements. They were arrested in early February 2012 and federal prosecution is pending. The teacher was also suspended and had an internal disciplinary hearing in May 2012.

Theft by DPS Accountant and Principal

The OIG received an allegation that a DPS accountant and principal diverted school funds to remodel homes. The OIG conducted an extensive financial audit and investigation that determined the accountant, her son, boyfriend, and principal embezzled \$151,700 from February 2006 through June 2009. The matter was referred to the Wayne County Prosecutor's Office. The former school accountant pled guilty to embezzlement and was sentenced to 2 ½ years in prison and ordered to pay \$75,000 in restitution to the District. The case against the principal was dismissed, appealed, and then reversed. On March 21, 2012, the principal plead guilty to a misdemeanor and was sentenced to one year probation, 25 hours of community service, and court costs. The former accountant's boyfriend, a former Detroit Police Officer, was sentenced to one year in jail and has paid \$75,000 in restitution to the District. Earlier dismissal for the case against the accountant's son was reinstated by the Michigan Court of Appeals, and a date for the hearing remains to be determined.

Allegations of Ethics Violation Involving a DPS Teacher

The OIG received information alleging a DPS teacher had posted an audio/video recording on a social media site which displayed inappropriate behavior. The audio/video content is described as bizarre, and demonstrates inappropriate behavior and poor decision making. Allegations of unprofessional conduct were referred to Human Resources for a disciplinary hearing. The OIG recommended that the DPS teacher be terminated.

Theft of DPS Computers

In a joint investigative effort with the Wayne County Prosecutors' Office, FBI, University of Michigan Department of Public Safety, Michigan State University Police Department, Michigan State Police, Livonia Police Department, St. Clair Shores Police Department, Detroit Police Department, and Detroit Public Schools Police Department, the OIG investigated, disrupted, and dismantled an organized criminal group responsible for thefts of DPS laptops from several school buildings. The investigation resulted in 15 search warrants, in four metro Detroit counties. In September 2010, ten subjects were charged by the Wayne County Prosecutor's Office with violation of RICO, CCE, B&E, Larceny and Receiving and Concealing. To date, nine subjects have entered guilty pleas with one outstanding fugitive subject. Collective restitution to DPS was ordered in the amount of \$103,000.

Unauthorized Disclosure of Confidential Information by DPS employee

In September 2011, the OIG received information that a DPS employee disclosed confidential DPS information without authorization. The OIG investigation included interviews, document analysis and a forensic examination of electronic activity. The evidence uncovered determined the employee violated policy governing DPS internet usage and the Employee Code of Ethics. The employee admitted to policy violation and was terminated.

Alleged DPS Training Center Mismanagement by Administrator

The OIG received information in 2011, that a DPS building administrator assigned to a training center permitted first hour instruction to occur in common areas, such as the auditorium or cafeteria, instead of classrooms as indicated by the Master Schedule during the 2010/11 SY. OIG investigation determined that the principal was aware of this activity and permitted it to occur. Fourteen teachers were found to have provided instruction to students outside of their special education classification. Non-certified and/or non-qualified substitute teachers taught students during the first hour Social Responsibility class. Some teachers were assigned more students than their special education classification allowed. OIG investigation reflected that teachers signed inaccurate attendance summary sheets in violation of established DPS work rules. WRESA conducted a separate audit on these issues and deducted \$503,262.00 in state funding as a result of their findings. The 14 employees were referred to the Office of Employee Relations for a decision on discipline.

Theft by DPS Cashier Helper

The OIG received information from an anonymous source that a cashier helper assigned to a DPS high school was stealing cash proceeds from the sale of food services. The OIG investigation produced evidence of 13 acts of embezzlement by the employee during a two week period. The employee provided a statement admitting daily thefts of \$100 -\$200 over a six month period. The 26 year employee was terminated and in September 2011, the former employee was charged by the Wayne County Prosecutor Office with a three (3) count felony warrant for larceny and embezzlement. The former employee pled guilty to all three counts and in February 2012, was sentenced to 18 months probation and ordered to pay \$3,500 in restitution to the District.

DPS Employee Failure to comply with Reporting Requirement

The OIG initiated an investigation involving a DPS teacher for failure to report a 2010 felony arrest and conviction as required by law. The OIG conducted interviews and document reviews and determined that the teacher did not make a report to the school of the arrest and/or conviction. An affidavit was obtained from the DPS Human Resource Supervisor of the Criminal Convictions Unit, in which it was averred that no report of the arrest and/or conviction was disclosed. The matter was referred to the Wayne County Prosecutor's Office and on September 14, 2011, an arrest warrant was authorized for the DPS teacher for Failure to Report the arrest and conviction. The teacher was subsequently arrested, pled guilty, and on January 20, 2012, was sentenced to one year probation and costs, and placed under restrictions derived from the pre-sentence report information garnered from the OIG investigation.

Program Fraud and other Federal Crimes by DPS Employee

In November 2010, the OIG initiated an investigation in support of the U.S. Attorney's Office's prosecution of former DPS Risk Management director, program supervisor, and several individuals associated with a DPS vendor. Between 2005 and 2006, DPS employees received kickbacks and favors, including a new Mustang vehicle and a Dodge Durango truck, from a DPS vendor and three partners in a vendor company. Prior to formation of the OIG, the FBI and IRS developed evidence that the vendor and co-conspirators gave the Risk Management director kickbacks which were demanded in exchange for facilitation of paying the vendor \$3.3 million of DPS funds for a "wellness program" which originally contracted for \$150,000. The vendor and co-defendants submitted inflated invoices which were approved in exchange for 5% kickbacks. In April 2010, a federal grand jury returned an indictment of the Risk Management director, program supervisor, and seven others. As of June 2011, eight defendants in this matter were convicted. In September 2011, the former DPS Risk Management director was sentenced in federal court; to 60 months in prison and ordered to pay restitution of \$3.32 million.

Allegations of DPS Contract Bid Irregularities

The OIG received anonymous tip information that alleged a contractor was given an unfair advantage during a 2008 bid process. It was alleged that the contractor had unauthorized access to a DPS school damaged by a fire. One month later, an invitation to bid was put out and the contractor given prior access to the building was allowed to bid, and ultimately was awarded the contract. The OIG investigation is ongoing.

Allegations of Fraudulent Unemployment Claims by DPS

The OIG received a tip that several DPS employees fraudulently received unemployment benefits while employed full time with the District. In a joint investigation with the Michigan Unemployment Insurance Agency and DPS Human Resources, the OIG identified 18 DPS employees and 14 former employees involved in fraudulent unemployment benefit claims covering four years. Individual claims ranged from \$1,900 to \$31,000. The affected staff held positions which included: director, auditor, teacher, education tech, school services assistant, and noon hour aide. Collectively, these individuals received a total of \$488,202 in fraudulent benefits payments which were charged against the District's unemployment tax account. The 18 current employees were suspended on May 24, 2012. On June 27 and 29 the District's Office of Employee Relations held disciplinary hearings for these employees. The hearings dispositions are pending. The OIG has expanded its investigation to include examination of all unemployment claims filed beyond the four years.

Theft of Cash from DPS High School Food Sales by a Cashier Helper

The OIG received information that a cashier helper was stealing approximately \$150 to \$200 daily from food services sales. Subsequent investigation confirmed the allegation of theft and video surveillance identified thirteen recorded acts of embezzlement from the cash register, money room, and other cashiers. The DPS employee was terminated and the matter referred to the Wayne County Prosecutor's Office for prosecution. The former employee was charged with 4 felony counts; 2 for Embezzlement and 2 for Larceny. In October 2011, the former employee pled guilty, was sentenced to 90 days in jail, 2 years probation, and ordered to pay \$5,000 in restitution to the District.

Alleged Conflict of Interest

A DPS employee self-reported a potential conflict of interest after reviewing the revised DPS Code of Ethics and Conflict of Interest Policy authored by the Inspector General and General Counsel. The employee advised that a vendor paid his/her airfare for round trip travel to Melbourne, Australia to attend a professional development conference July 7-9, 2010. The vendor's contract had no provision to cover travel expenses for DPS employees. The employee paid for his/her lodging, meals and incidentals and attempted to reimburse the vendor who declined the refund. The matter was referred to the Office of Employee Relations for a decision on discipline.

Alleged DPS Vendor Fraud

The OIG initiated an investigation based on allegations of vendor fraud. It was alleged that a vendor was requesting service payments for work they were not contractually authorized to perform. The vendor bypassed the normal administrative process in an effort to deliver services to a DPS school without the knowledge and approval of the school's administration. The OIG investigation included significant record reviews and interviews. Service payments to the vendor were suspended and the investigation is ongoing.

Alleged Contracting Irregularities with Vendor

In July 2011, the OIG initiated a joint investigation with the FBI, that independent contractors (IC) may have taken improper actions during their DPS tenure which benefited a vendor that was a previous employer of the ICs. The focus of this investigation will seek to determine the nature of the ICs' relationship with the prior vendor during the period of time the ICs were providing services for the District, and if any actions by the ICs presented a conflict and/or whether criminal charges or civil litigation will ensue.

Contract Bid Irregularities

The OIG received allegations of contract bid irregularities related to a security integrator project by a DPS employee. OIG investigation included interviews and document reviews which confirmed the DPS employee violated policy and procedure regarding the DPS procurement process, exceeded delegated approval authority, and made a unilateral decision to award the contract to a non-recommended vendor; a decision that negatively impacted the district \$202,142. The DPS employee was terminated.

Unorthodox DPS Real Estate Transactions

In March 2009, the OIG received complaints and concerns regarding several prior DPS real estate transactions in connection with the 1994, City of Detroit \$1.5 billion capital improvement bond. The OIG conducted a full investigation which included a series of public investigative hearings convened in October 2009. Based upon the investigation and testimony, the OIG concluded that the relocation of the District's central office from another Detroit site to the Fisher Building lacked evidence of justification for the relocation. There was a lack of documentation of sound rational decision making and due diligence used in the process, and evidence of waste and abuse in the process relative to the decision to relocate.

In regard to the land acquisitions concerns, the OIG investigation determined that DPS paid higher amounts than the first buyers did in regards to land for Cass Tech and Detroit School of Arts high schools. In connection with DPS policies and procedures, the OIG determined that DPS had very few applicable policies and procedures governing transactions of this nature; those that did apply were inadequate to provide meaningful guidance. There was some inconclusive evidence of violations of standard real estate practices. There was no evidence of violations of law. Overall, the OIG determined that there was a lack of due diligence and/or managerial oversight, minimal levels of inexplicable spending, and no evidence of real estate flipping.

Alleged Conflict of Interest involving DPS Bookkeeper

In February 2012, a complainant provided the OIG information that a DPS bookkeeper was engaged in various activities at the school that were perceived as a conflict of interest. It was alleged that the bookkeeper was also the school's senior class advisor and Athletics Coordinator. The bookkeeper conducted the seniors' fundraisers and collected proceeds and dues as part of the responsibilities as senior class advisor, while at the same time, was responsible for the funds as the bookkeeper. It was also alleged that the bookkeeper collected funds from various remitters without providing receipts. The OIG investigation determined that a conflict of interest existed due to the failure to separate the cash control function from the receiving function (that of an activity account sponsor). The investigation also revealed non-compliance with Cash Management Policies and Procedures regarding segregation of duties and accountability of school funds. Based on these results, the OIG recommended that the Principal assumes ultimate responsibility to ensure that the bookkeeping function is equipped and supervised adequately; as well as separated from other cash receiving functions at the school. It was also recommended to the Administrator of Athletics to consider segregation of responsibilities in assigning personnel to work in schools.

Alleged Payroll Fraud involving DPS employee

In February 2012, the OIG received information that a DPS employee was facilitating improper payments for other DPS employees working athletics events. It was alleged that rather than directing game personnel to complete the appropriate information indicating that they were on board employees, hence receive payment for athletics services through regular payroll, the employee allowed some employees to report themselves as non-DPS employees on "Receipt for Payment for Athletics Game Services" form and as result, enabled these employees to receive direct payments by check issuance from the Office of Athletics. It was revealed that one DPS employee did receive direct checks totaling \$140 from the Office of Athletics. The OIG investigation found no evidence of fraud, however, there were examples of failure to exercise due diligence to ensure compliance with measures put in place for payment process of personnel working athletics events at the school. The OIG recommended that the Office of Athletics disseminate guidelines regarding the Athletics Policy and Procedures to all personnel providing services in different capacities at athletics events. The Office of Auditor General was also requested to perform testing to ensure compliance to the payroll process.

Alleged Violation of DPS Work Rules

In March 2012, the Emergency Manager and OIG received anonymous letters which alleged that two District employees were committing fraud by attending classes at a local university while on duty. The OIG investigation substantiated the allegation and obtained an admission from one of the accused. Evidence of falsification of District records was also uncovered. The results of the investigation were referred to the DPS Office of Employee Relations requesting that an internal disciplinary hearing be scheduled for both employees.

Alleged Misappropriation of senior dues at a DPS school

In March 2012, the OIG received information that certain staff members at a DPS school made arrangements with a particular vendor to receive "kickbacks" for graduation cap and gown orders placed by students. It was alleged that the vendor provided the staff members \$10 for every 'cap and gown package' order made by the school. The investigation did not sustain the allegation, but determined that improper methods were used to collect graduation fees from students. The investigation also revealed that a fundraiser conducted in support of senior activities, by the parent group, was not properly approved and was in violation of the District's and Michigan schools' nutritional standards. Based on these results, the OIG recommended that the Principal assumes ultimate responsibility to ensure that all expenses from senior dues revenue conform to the purpose of each fee, and that senior dues information is accurate and complete. It was also recommended that the Principal advise parents regarding the District's set standards for nutrition, and ensure that these standards are adhered to.

Alleged DPS Credit Card Misuse

In April 2012, the Office of Inspector General (OIG) reviewed a report prepared by the Office of Auditor General (OAG) indicating that an unnamed Purchase Card (P-Card) holder made cash withdrawals at a Michigan casino using the DPS P-card. P-Cards are commercial credit cards embossed with the cardholder's name and "Detroit Public Schools," and are issued to certain DPS employees for business purposes only. The OIG investigation found that the employee violated the work rule prohibiting the conversion of District property for personal use. The employee was also found to have falsified District records when he/she certified on the P-Card Monthly Reconciliation Form that the cash withdrawals made at the casino in November 2011 were for official DPS business. The results of the investigation were referred to the DPS Office of Employee Relations requesting that an internal disciplinary hearing be scheduled.

Alleged Financial Improprieties at DPS schools

In February 2012, the OIG received information that there were many activities involving collection of funds, in some DPS schools, that did not follow proper fundraising procedures. It was also alleged that there were individuals working in the school buildings without the proper clearance or authorization. The investigation revealed a violation of Fundraising Policy and Procedures by the school administration in regards to obtaining approval of fundraiser events and completion of Profit/Loss statements to account for fundraiser proceeds, where necessary. It was also determined that the school administration did not ensure that non-board employees serving in different volunteer capacities within the school were cleared to do so. The OIG recommended that the school administration ensure that Fundraising Policies and Procedures are followed for any future events in the school building. The school administration was also tasked to ensure security measures put in place by DPS Police Department, regarding persons entering school buildings, are followed.

Alleged Payroll Fraud involving DPS Noon-Hour Aide

In April 2012, an allegation was received by the OIG, stating that an hourly DPS employee (noon-hour aide) was falsifying timesheets and leaving work an hour earlier than scheduled. It was also alleged that this employee had other employment outside of the district. The OIG investigation determined the allegations were founded. A review of timesheets and payroll records also confirmed that the employee physically entered erroneous time on the timesheets, hence received payment for 140 hours not worked, which totaled \$1,066.80 in overpayment. Evidence uncovered determined the employee's actions were intentional. The OIG recommended that the employee reimburse the district for the unearned wages received. In May 2012, a disciplinary hearing with the Office of Employee Relations was held for the employee. Results of the hearing are pending.

Alleged Abuse of Authority by a DPS Employee

In December 2011 the OIG received information alleging abuse of authority by a member of the District Executive Staff. The OIG investigation included the conduct of numerous interviews, document analysis and coordination with other law enforcement agencies. The investigative results produced evidence that reflected the employee appeared to have violated the District's policies covering Conflict of Interest, Nepotism, Employee Disclosure, Code of Ethics (Abuse of Authority), Students and Staff Acceptable Usage Policy of the Internet and Intranet, Payroll Fraud and violation of the Michigan School Code Act 451, (failure to report arrest/convictions). In June 2012, a disciplinary hearing with the Office of Employee Relations was held for the employee. Results of the hearing are pending.

OFFICE OF INSPECTOR GENERAL GOING FORWARD:

- The Inspector General recommended a merger of the OIG and OAG functions in its FY13 budget submission. If approved, the new office will have a Department of Investigations and a Department of Internal Audits. This new office will be identified as the “Office of Inspector General”. The mission and objectives for the new OIG states “The OIG 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”. The merger would improve coordination of efforts to ensure that responsibilities and roles of the two functions are seamlessly meshed to assure effectiveness and efficiencies of the District’s operations. In addition to the cost savings realized, this alternative allows investigative and audit personnel to focus their energies on mission-driven projects and will create opportunities to cross train staff.
- The OIG will establish a library for investigative resources and tools.
- Identify training opportunities for OIG investigators, auditors and administrative staff consistent with available funding.
- Develop a paperless Case Management System for the Police Department.
- The Office of Inspector General is prepared to provide a menu of investigative and internal audit services to EAA, Self Governing and Detroit Charters upon request.
- Conduct joint investigator-auditor investigations regarding alleged falsification of records, recruitment violations, and overbilling by external providers for DPS and the EAA.
- Convene monthly meetings with Office of Employee Relations management personnel to review status of OIG cases awaiting adjudication and to address other matters of mutual interest to both offices to ensure effectiveness and efficiency of operation.

FRAUD HOTLINE

Individuals with information on waste, fraud or abuse may contact the OIG anonymous telephone hotline at (313) 870-3436 or email tips to inspectorgeneral@detroitk12.org. OIG staff is available to field calls or “walk-in complaints” Monday through Friday between 8:00 A.M. and 5:00 P.M. (EST). Individuals may also provide information to hotline personnel by writing to the following address:

*Office of the Inspector General
Detroit Public Schools
ATTN: Inspector General
Fisher Building 14th Floor, 3011 W. Grand Boulevard
Detroit, Michigan 48202-2710*

INTERNET ADDRESS

The FY 2012 OIG Annual Report and other OIG materials may be accessed on the internet at the following address: http://detroitk12.org/admin/inspector_general/