



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

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*Roy S. Roberts, Emergency Manager*

June 28, 2013

Mr. Roberts,

I am pleased to forward to you the Office of Inspector General's (OIG) Annual Report summarizing our key activities and significant accomplishments for fiscal year (FY) 2013; the period between July 1, 2012 and June 30, 2013.

The OIG conducts comprehensive investigations and forensic audits based on allegations of waste, fraud, abuse, financial mismanagement and employee misconduct. The OIG also conducts audits and special reviews of the District's programs and operations to identify and mitigate business risks, and to offer recommendations for process improvement.

The OIG experienced significant changes in operations during FY13 as part of a restructuring initiative. The Emergency Manager approved the OIG recommendation to merge the Office of Auditor General with the OIG in the FY13 adopted budget. The OIG now has an Investigations, Forensic Audits and Internal Audits function. The merger improves 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 consolidation allowed investigative and audit personnel to focus their energies on mission-driven projects and creates opportunities to cross train staff.

The mission of the Office of Inspector General is "to ensure integrity and credibility in the District by conducting investigations, audits and reviews to detect and prevent waste, fraud and abuse, as well as identify opportunities for improving efficiency and effectiveness of internal controls." This report summarizes several key audit activities and investigations conducted in FY2013. Issued audit reports, in their entirety, and subject responses are all posted to the DPS website at [http://detroitk12.org/admin/inspector\\_general](http://detroitk12.org/admin/inspector_general). Additionally, an overview of DPS Police activities undertaken during the fiscal year is provided in this report.

The OIG continues to work alongside DPS Department heads as well as with local and federal law enforcement and prosecutorial authorities, as necessary, to ensure that serious violations of the law are properly investigated and prosecuted.

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

Wilbert V. Marsh  
**Inspector General**

## **About the Office of Inspector General**

The Detroit Public Schools (DPS) Emergency Manager (EM) created the Office of Inspector General (OIG) in March 2009. The DPS Police Department was placed under the supervision of the Inspector General (IG) in June 2009. The Office of the Auditor General was merged into the OIG in July 2012, creating departments of investigations and internal audits within the OIG. The Inspector General reports to the EM, thereby providing the OIG with independence required to ensure the integrity of its operations.

The OIG conducts independent audits, investigations and reviews of the District Operations, contracts and vendors in order to:

- Ensure compliance with applicable local, state and federal laws and District policies and procedures,
- Ensure District operations are effective and operating efficiently,
- Ensure District assets are properly safeguarded,
- Provide information that supports effective decision making,
- Prevent and detect waste, fraud and abuse within the District, and
- Provide oversight for the DPS Police Department managed by a Police Chief.

Through our work, we attempt to encourage a culture of accountability, transparency, collaboration and excellence and to assist the Emergency Manager and the Board of Education in their efforts to provide a first rate education for the students attending Detroit Public Schools.

## **Mission**

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.

## **A year in review**

On July 1, 2012, the offices of Inspector General and Auditor General were consolidated into one office identified as the Office of Inspector General (OIG). The mission of the OIG is to promote 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 results of OIG audits and investigations have identified 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 includes court-ordered monetary recoveries.

A paperless case management system (CMS), with search capability, is currently utilized by the OIG to record results of investigations and statistical accomplishments. As a result of the 2012 Auditor General consolidation, the OIG CMS was expanded to include an audit function. Permanent space was identified on the Fisher Bldg 6<sup>th</sup> floor to collocate the entire Audit and investigative units in a single location to foster a team approach as we address our work.

The OIG has effective liaison with a wide range of entities in Southeast Michigan that also provide operational support. These partnerships are comprised of both public and private sector concerns and include the FBI Public Corruption Task Force, Violent Crimes Task Force, Crimes Stoppers, the Detroit Crime Commission, Absolute Software, the High Intensity Drug Trafficking Area (HIDTA), Michigan State Police, Detroit Police Department, United States Attorney's Office (USAO), Wayne County Prosecutor's Office (WCPO), Wayne County Juvenile Court, United States Department of Education, and Michigan Department of Education. Additionally, all OIG investigators have liaison responsibility with District personnel that contribute to operational support and the generation of actionable complaints.

In June 2009, the District's Police Department (PD) was placed under the OIG. The Detroit Public Schools Police Department has a paramount interest in protecting students, staff and District assets by providing a safe and drug-free working environment. In February 2013, the Inspector General obtained Emergency Manager and Chief Labor Relations Officer concurrence to begin random drug screening of all sworn DPS police officers and Law Enforcement Information Network (LEIN) operators. These employees will be subject to drug screening on a random basis four times each calendar year. Drug screening of these employees may also be conducted at any time, when authorized by the Chief of Police. A vendor for drug screening was identified in April 2013. Random drug screening policies and procedures are under draft and should be completed by the end of FY13. The Inspector General anticipates that random drug screening will begin in FY14.

The Inspector General provided oversight for electronic security upgrades to District space in the Fisher Bldg. All District floors in the Fisher now have surveillance cameras that are tied to monitors viewed by PD Command Center and Campus Security Police Officers detailed to the Fisher Bldg. The Inspector General and a Deputy are also able to view the areas of coverage in real time. The system has a recording capacity of 30 days before the system rewrites recorded images.

In FY13, the Inspector General also provided oversight for the installation of security systems upgrades in 24 DPS buildings. These locations now have state of the art intrusion systems equipped with digital video surveillance cameras and access control panels that tie to the Command Center. Thirty-five PK-8 elementary schools have been identified for intrusion systems upgrades as well as for the installation of updated door contacts, motion detectors and digital cameras. It is anticipated this project will be completed before September 2013.

The use of electronic technology to provide quality security for students and staff, and to protect District assets, is another example of the layered approach in providing security for the

District that was put in place by the Inspector General and Police Chief. Many of the electronic security projects were funded using the 2010 \$500 million Capital Improvement Bond.

### Office of Inspector General Organizational Structure

The OIG is managed 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.

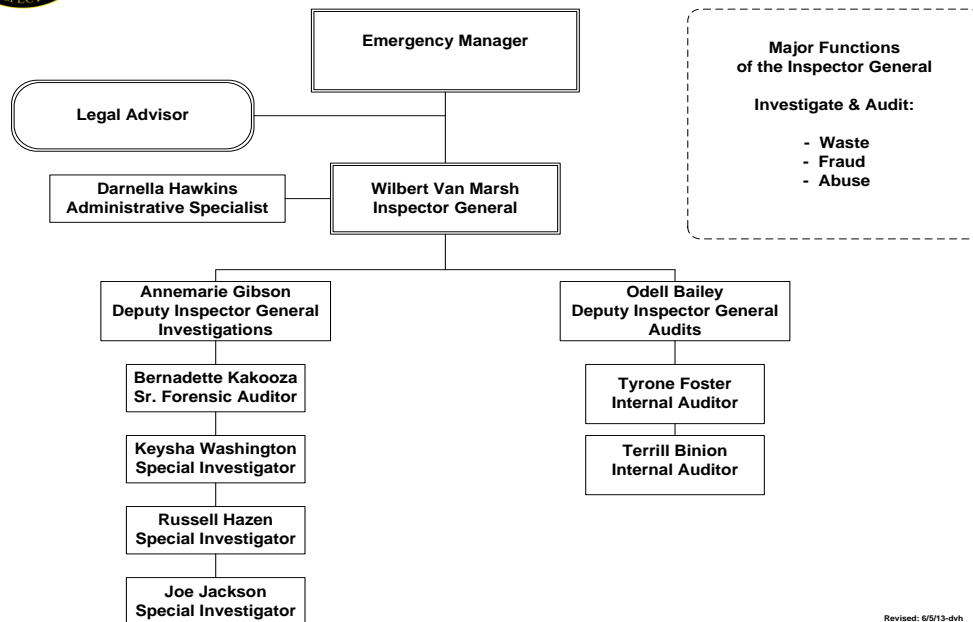
### Organizational Structure/Consolidation

The OIG experienced significant changes in its organizational structure during fiscal year 2012/13. Those changes have had a positive effect on how we achieve our mission, vision and core functions with independence and integrity. Effective July 1, 2012, the Offices of Inspector General and Auditor General were consolidated into one office identified as the “Office of Inspector General.

### Organizational Chart



## Detroit Public Schools Office of the Inspector General



Revised: 6/5/13-dvh

## **Investigations Department**

The Department of Investigations conducts investigations of alleged fraud, waste, abuse, mismanagement, misconduct and criminal activities by District employees, contractors and vendors. Most of the investigative workload is reactive in nature because investigations typically result from the receipt of complaints or allegations. A forensic audit involves the analysis of financial data and evidence to support allegations of fraud, waste, and abuse. Forensic audits are often conducted in order to calculate damages caused as a result of negligence or deliberate misconduct. OIG Forensic Auditors possess forensic audit certifications, have an understanding of basic accounting and basic legal concepts, and serve as expert witnesses in investigative proceedings. In fully addressing their typical caseload, OIG investigators spend time on post-investigation activity including document reproduction, preparation for and testimony at administrative hearings and criminal trials as well as other necessary tasks.

OIG investigations are initiated upon the receipt of plausible allegations of fraud, waste, abuse, or mismanagement. The Inspector General and Deputy Inspector Generals are authorized to open and assign an investigation or audit. Each new investigation or audit 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 typically involve traditional and sophisticated investigative techniques. Upon completion of the investigation, the investigator prepares an investigative report containing the allegation(s), executive summary, investigation conducted, findings and recommendations. The OIG investigative report is disseminated to those District officials who are required to provide a response to the report's recommendations. The recommendations are monitored by the IG to ensure timely response and resolution.

### **Fraud Hotline**

Individuals with information of fraud waste or abuse may contact the OIG anonymous telephone hotline at (313) 870-3436 or email tips to [inspectorgeneral@detroit12.org](mailto:inspectorgeneral@detroit12.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 14<sup>th</sup> Floor, 3011 W. Grand Boulevard  
Detroit, Michigan 48202-2710

## **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.

## **Whistleblower Protection Policy**

Complainants can remain anonymous if desired, and are protected by the Whistleblowers' Protection Act 469 of 1980 which allows and encourages the reporting of violations of law by employees. The Act provides protection to employees who report violations of state, local, or federal law and provides protection to employees who participate in hearings, investigations, legislative inquiries, or court actions, and prescribes remedies and penalties. In addition, the Act prohibits an employer from retaliating against an employee for reporting such violations.

## **Fiscal Year 2013 In-Service Training**

The OIG is a highly educated and diverse professional staff where all members have a four year degree; five hold Master's degrees in Business or Finance and one has a Juris Doctor degree. The OIG audit staff members possess one or more professional certifications and training in their areas of expertise, to include Certified Internal Auditor, Certified Fraud Examiner, and Certified Government Financial Manager. Three staff members are former law enforcement officers from federal, state, and local agencies. The constantly evolving anti-fraud industry requires that internal and forensic audit staff members annually obtain Continuing Professional Education (CPE) credits to stay current with the latest developments in the field. Members of the OIG attended the following training during FY13:

### **Course Title – Dates Attended**

Fraud Investigations and Evaluating Business Risk - November 2012

Getting the Truth in Interviews - November 2012

Due Diligence-A Framework for Digging Deeper into Risky Business - November 2012

Addressing Fraudulent Payment Activity (webinar) - November 2012

Ninth Annual Professional Development Conference-NABA-Detroit Chapter - November 2012

Leveraging Analytics in Internal Auditing (webinar) - February 2013

Rehmann/Robson Accounting Training - February 2013

Forensic Analytics, Techniques and Investigation - March 2013

Successful Fraud Investigations – Avoiding Pitfalls and Navigating Risks - March 2013

Emerging Fraud Risks – April 2013

Auditing Webinar - April 2013

Background Investigation Techniques - May 2013

Ethics – June 2013

Plante Moran Accounting Training - June 2013

**Monetary Benefits: FY09 – FY13**

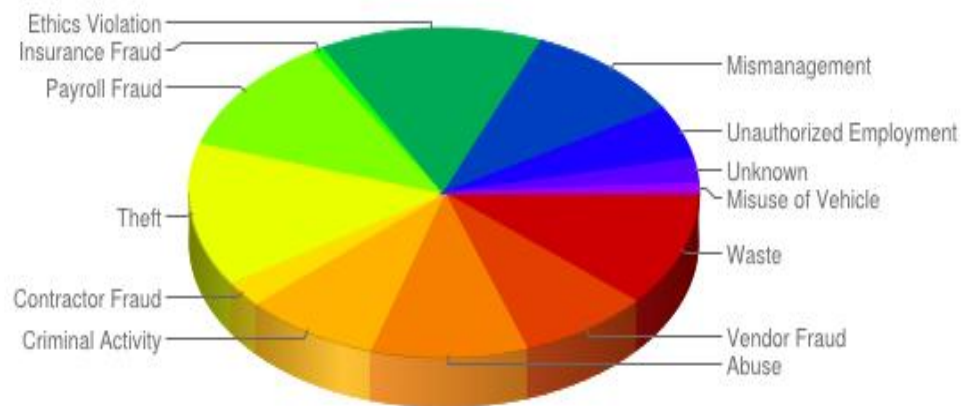
Since its inception, the OIG has identified over \$17 million in monetary benefits through its investigations and forensic audits.

Summary of Fraud Statistics	Amount
Monetary Loss	\$ 8,149,451
Recovered Computers (599)	599,000
Monetary Recovery	225,796
Court Ordered Restitution	5,793,098
Cost Avoidance	507,622
Cost Recovery	2,079,805
<b>Total</b>	<b>\$ 17,354,773</b>

During FY2013 alone, \$1,104,280 was identified in monetary loss and \$85,000 for the value of stolen computers that were recovered. An additional \$6,448 associated with cases referred for prosecution has resulted in a total of \$5,793,098 for court ordered restitution, of which \$34,916 was recovered during fiscal year 2013. Additionally, \$67,000 in costs was recovered, bringing the total of monetary benefits for the District to \$17,354,773.

**OIG Complaint Type Statistics**

The OIG evaluates complaints received via our fraud hotline, by email, through the electronic complaint form available on our webpage, and through direct communication with OIG personnel. If warranted, investigations are initiated, as categorized below, by complaint type:



As indicated in the chart below, theft of DPS funds and/or assets is by far the most frequent complaint that has been received and investigated by the OIG.

<b>Investigations per Type Categorized by Investigation Status</b>				
<b>Type</b>	<b>Total</b>	<b>Closed</b>	<b>Inactive</b>	<b>Pending</b>
Theft	186 (29.62%)	181	0	5
Ethics Violation	84 (13.38%)	72	2	10
Payroll Fraud	76 (12.10%)	73	2	1
Abuse	55 (8.76%)	53	0	2
Criminal Activity	51 (8.12%)	48	0	3
Mismanagement	48 (7.64%)	39	2	7
Vendor Fraud	46 (7.32%)	40	3	3
Unauthorized Employment	33 (5.25%)	32	0	1
Waste	33 (5.25%)	31	0	2
Contractor Fraud	9 (1.43%)	9	0	0
Misuse of DPS Vehicle	4 (0.64%)	4	0	0
Insurance Fraud	3 (0.48%)	3	0	0
<b>TOTAL</b>	<b>628</b>	<b>585 (93%)</b>	<b>9</b>	<b>34</b>

During FY2013, the OIG initiated 73 investigations identified in the following categories: Ethics Violations (21), Mismanagement (12), Abuse (10), Theft (9), Vendor Fraud (6), Payroll Fraud (5), Waste (3), Criminal Activity (3), Unauthorized Employment (3) and Contractor Fraud (1). Of these, 46 are closed, while 27 investigations are in pending status.

### Investigation Statistical Accomplishments

To date, the OIG has opened 628 investigations based on 876 complaints received. Of these, 585 (93%) have been closed. Forty-three cases are in pending or inactive status. Of the cases completed, 149 allegations were proven unfounded. For those substantiated, the OIG made recommendations for corrective action in 127 cases, while others had the following key results:

Employee Demotions	3	Arrests	32
Barred from school entry	3	Convictions	35
Referred to the United States Attorney's Office	5	Referred to Local Prosecution (Wayne County Prosecution Office)	38
Policy & Procedures Development and/or Revision	5	Subpoena Service	40
Federal Indictments	10	Employee Terminations / Resignations	56
Vendor Suspended / Debarred	11	Employee Suspensions / Administrative Leave	60
Search Warrant Executions	26	Referred for Disciplinary Hearing*	106

\*The OIG Annual Report for fiscal year ending June 30, 2012, erroneously reported as 109 matters referred for disciplinary hearing. The correct number of referrals from date of inception through FY12 was 96.



## **Fiscal Year 2013 Significant Investigations**

### **Theft by DPS Principal and Accountant**

This investigation involved theft by a District Principal, Accountant, and the Accountant's son. The Principal and accountant previously entered guilty pleas and were sentenced. In September 2012, the son pled no contest to Possession of a Financial Transaction Device, was ordered to pay \$6,448.50 in restitution to the District, and was sentenced to one year probation.

### **Allegation of Fraudulent Unemployment Claims by DPS Employees**

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 active DPS employees and 14 former employees involved in fraudulent unemployment benefit claims spanning four years. These individuals received a total of \$488,202 in fraudulent benefits payments which were charged against the District's unemployment tax account. Individual claims ranged from \$1,900 to \$31,000. In August 2012, the active employees were terminated and as a result, the District saved \$144,247 in earnings. The affected staff held positions which included director, auditor, teacher, education tech, school services assistant, and noon hour aide. The former employees' personnel files were flagged by the Human Resources department as "not eligible for rehire".

### **Allegation of Vendor Fraud**

In June 2011, an OIG investigation was initiated based on allegations from a DPS employee, that a District vendor was engaging in "improper billing practices". The OIG investigation confirmed that the vendor changed a contractual method of providing service without receiving approval from the Office of Procurement and Logistics. In July 2012, the OIG investigation identified cost avoidance totaling more than \$97,000 as a result of questionable, unfair and unethical billing practices by the vendor.

### **Alleged Billing Fraud by Former Title I Tutoring Companies**

In March and April 2013, the OIG recovered documents and financial data from five District departments, in furtherance of an ongoing FBI joint investigation of alleged program fraud by two supplemental education services tutoring companies contracting with the District. The investigation began after the OIG met in late 2011 with a cooperating witness who provided credible information alleging questionable activity about the two companies. The individual advised the OIG that the companies falsified numerous documents which are used to support billing for tutoring services, including pre-test scores. The OIG acquired crucial documentary evidence from the individual, which was turned over to the federal agency.

### **Alleged Contracting Irregularities with a District Vendor**

In a joint FBI investigation, investigators are seeking to determine whether former independent contractors (IC) were engaged in possible criminal activity while providing services to the District. The investigation was opened by the OIG to determine if the ICs took improper actions during their DPS tenure which benefited a vendor that was a previous employer of the ICs. The focus of the investigation during 2013 was 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.

### **Alleged Payroll Fraud by Five DPS Employees**

In November 2012, the OIG concluded an investigation based on allegations that five food services employees were consistently departing their school work site by up to 30 minutes early, contrary to the time entries in timekeeping records, and that their on-site supervisor even went to a second job during her work shift without leave. Investigation included interviews, physical surveillance, and reviews of hundreds of payroll documents and discreet contacts with the on-site supervisor's outside job employer. Four of the five employees made admissions to investigators that they left the work site on several occasions contrary to their payroll records. The fifth employee who later denied ever leaving the work site early was one of those positively observed by OIG personnel leaving work early in mid-2012. In January 2013, OIG presented testimony and other evidence at five separate hearings held by the Office of Employee Relations. All employees received suspensions.

### **Alleged Payroll Fraud involving DPS Noon-Hour Aide**

In April 2012, the OIG received information alleging payroll abuse by a noon-hour aide. The OIG investigation included the conduct of interviews, review of payroll records and surveillance of the employee at the worksite. The investigative results produced evidence which reflected that the employee had received pay totaling \$1,067 for 140 hours that were not worked; in violation of the district's employee work rules. In May 2012, a disciplinary hearing with the Office of Employee Relations was held for the employee, and as result, the individual's employment with the district was terminated due to Just Cause, effective July 2012.

### **Alleged Conflict of Interest and Contracting Protocol Violations in Hiring Consultant**

In November 2012, the OIG concluded an investigation which revealed that a District administrator entered into a consultant agreement with a relative of a DPS employee, in violation of an Emergency Manager Order (EMO) and the DPS Code of Ethics. Prior to entering the consultant agreement, the administrator submitted a position justification form for a bookkeeper but had a need to ensure his/her department's financial records were current. The administrator and a DPS employee were unduly influenced when the latter employee suggested

that his/her relative would be able to fill the bookkeeping void, and the administrator proceeded accordingly. Evidence indicated that the administrator was unaware of the EMO, which required oversight by the Office of Procurement and Logistics and the use of a requisition before any consultant agreement was made. After investigation was concluded, the department's bookkeeping position was filled following protocol.

### **Alleged Mismanagement by Several School Administrators Regarding Teacher Misconduct**

In July and August 2012, the OIG uncovered evidence of systemic mismanagement by officials at several schools in addressing serial work rule violations by an employee. By September 14, 2012, 26 interviews were conducted of current and former DPS employees, hundreds of e-mails and other relevant documents were reviewed, and a search for salient documents at a high school was conducted. The evidence revealed that an egregious failure to document employee misconduct occurred at three schools, at minimum, and that some high-level school administrators were unfamiliar with the requisite protocol for handling certain types of employee misconduct. Regarding one case involving egregious misconduct by the employee, witness and documentary evidence revealed that an on-board employee may have not followed required protocol and as such, this matter is pending further investigation.

### **Abuse of Authority by School Service Assistant**

The OIG received anonymous tip information that a school service assistant (SSA) at a DPS school was involved in various financial irregularities; acting in (false) capacity as a teacher at the school. It was alleged that the employee conducted unauthorized and improper fundraiser activities, for which she collected and received monetary benefits on behalf of the school. It was also alleged that the SSA registered, and received pay, for hours not worked during the summer months while she vacationed. Through various interviews and record reviews, the investigation revealed a violation of DPS work rules regarding solicitation or collection of contributions without authorization, as well as falsification of payroll records. The employee was referred for disciplinary action, resulting in a five-day suspension without pay and ineligibility for future summer school assignments. In addition, the employee was prohibited from directly or indirectly coordinating, organizing or engaging in any and all school or any other DPS fundraising activities.

### **Alleged Fraudulent Check Cashing Scheme**

In July 2012, the OIG received a complaint that nearly \$7,000 in fraudulent checks had cleared from a DPS department checking account. According to records reviewed, it appeared that the perpetrators constructed checks almost similar to the original checks for the department. The signatures on the fake checks were forged and appeared authentic when compared to the signatures of the authorized signers for the bank account. Through interviews and digital surveillance of the suspects involved in this matter, it was confirmed that none of the authorized signers had authorized, issued or signed any of the fraudulent checks; or had any involvement with the fraudulent check activity. As result, the bank reimbursed DPS for the

monetary loss. To prevent this type of fraud from reoccurring, the OIG recommended that the Finance Division consider transferring all department checking accounts to a financial institution that offers positive pay security measures.

### **Alleged Vendor Fraud and other misconduct**

In July 2012, a complainant alleged to the OIG that a District administrator was involved in various financial irregularities, including making arrangements with certain vendors to invoice the district for goods that were not received or delivered to the school. It was also alleged that the administrator failed to follow proper District procedures for the conduct of fundraiser activities and accountability of cash proceeds from these activities. During the course of investigation, the OIG learned that the administrator had also engaged DPS students in completing fraudulent evaluation forms intended to garner favorable scoring for supplemental educational services (SES) provided by a family member. The investigation revealed that the family member did not provide any tutorial services to DPS students for the year. In addition, it was determined that District funds totaling more than \$13,000 were paid to vendors for goods that had not yet been delivered to the school. Furthermore, goods costing more than \$1,300 that were delivered, and personally received by the administrator, could not be accounted for at the school. The matter was referred for disciplinary action, and as result, the individual's administrator contract was terminated, and he/she was demoted to a teaching position.

### **Alleged Workshop Fraud at DPS High School**

The OIG received information that no parents attended pre-approved parent workshop held by a vendor at a DPS high school on July 24 and July 26, 2012. OIG investigation confirmed that the vendor invoiced the District \$18,000 for the two days of training. Inasmuch as no training occurred and an \$18,000 vendor payment was pending, the OIG recommended that Office of Procurement and Logistics (P&L) negotiate a reduced payment amount. As a result of the OIG investigation, the District settled with the vendor at a reduced amount resulting in a \$9,000 cost reduction.

### **Allegations of Nepotism**

In October 2012, a complainant, who requested anonymity, alleged to the OIG that two DPS employees, a mother and daughter, may have violated DPS rules regarding nepotism, given that they were both employed at the same work location. The OIG initiated an investigation to determine whether any district policies and procedures were violated. The investigation included interviews and document reviews, including the DPS Policy on Ethics and various email correspondence. The investigation did not sustain the allegations. It was determined that there was no evidence of a conflict of interest, and furthermore, the district's Nepotism Policy only prohibits the employment of an individual in an area where he or she has a direct or indirect reporting or supervisory relationship to a member of his or her immediate family, domestic partner, relative, and/or significant other. Other than this exception, there is no general policy against hiring of relatives to work at the same location.

### **Allegations of Improper Billing by Service Provider**

In October 2012, the OIG became aware of potential overbilling by a vendor that provided services to the district. A forensic analysis was performed for all the provider's invoices during the course of a two-year period; which compared billing records to contractually established procedures and rates. The investigation revealed that DPS incurred a monetary loss totaling more than \$65,000 due to the overbilling. The matter was referred to the district's General Counsel for legal action. Resultantly, a settlement was negotiated with the vendor, who awarded the district in excess of \$100,000 in damages.

### **Alleged Mismanagement of an After-School Program by Company and DPS Employees**

In October 2012, OIG concluded an investigation based on allegations that an after-school program's DPS employees left the school building before all children were picked up by family members, and that exterior lighting was poor and jeopardized the safety of children and adults. Interviews of DPS employees and company personnel did not reveal that any child was left unattended. However, evidence was developed and an admission was obtained from a DPS employee revealing that an adult who was not authorized to remain in a DPS facility was left in the building by a substitute site coordinator after the program ended one evening. In addition, information was developed from the company's site compliance monitor that the site coordinator was not always punctual to meet with child participants of the after-school program. The lighting issue was rectified, and the OIG recommended that unannounced inspections of the program be conducted by the Office of Health and Physical Education.

### **Theft/Recovery of DPS Equipment**

In February 2013, the OIG received tip information that a former employee was in possession of equipment, allegedly obtained from a DPS school where the individual formerly worked. The investigation revealed that the equipment valued at \$2,500 was stolen from the school between August 2006 and August 2007 during the time that the individual worked as an Audio Visual Technician with the district. The OIG was able to recover the equipment from the individual who had relocated out of state upon leaving DPS. The OIG recommended to the Division of Technology and Information Services (DTIS) to evaluate the adequacy of controls over the inventory, distribution and disposition of IT equipment, and other electronic equipment for the district.

### **Alleged Mismanagement of Unused Sick Leave Pay-outs to Separated Employees**

In February 2013, the OIG initiated an investigation predicated on allegations of mismanagement by an administrator when pay-outs of up to 70 days of sick leave were made to 15 principals at the time of their separation from the District between July 2011 and February 2013. Two Emergency Manager Orders (EMO's) suspended the pay-out of sick leave to employees separated from the District due to retirement or resignation. In spite of the suspension edicts of the EMO's, the administrator approved pay-outs of accumulated sick leave

up to 70 days to 15 principals and one Assistant Director from July 2011 to February 2013. The OIG investigation, which included interviews and analysis of benefits-related data, revealed that the sick leave pay-outs were disparate, and in violation of intent of the EMO's. The OIG investigation included six recommendations.

### **Allegations of Conflict of Interest regarding Hiring Process by DPS Official**

In February 2013, the OIG initiated an investigation predicated on information alleging a DPS manager hired an employee with whom there was a conflict of interest. Complaints were received from several anonymous sources that the DPS manager and newly hired employee had a previous relationship and the employee was living in the rental property of the manager. Complainants alleged that the manager circumvented established DPS protocol for the selection process. The OIG investigation found that the manager did not disclose the relationship on District forms as required. The manager did not believe his/her actions created a conflict. The matter was referred to the Office of Employee Relations requesting a disciplinary hearing.

### **Allegations of Fraud Involving DPS Student Services Assistant**

In February 2013, the OIG initiated an investigation that was received from an anonymous source alleging that a DPS employee submitted a fraudulent college transcript to Human Resources which qualified her for a promotion. Documentation subsequently obtained from the college registrar was contradictory to information in the submitted "transcript." The OIG investigation determined that the submitted college transcript was fraudulent. When the OIG contacted the employee for interview, the employee abruptly resigned the following day.

### **Alleged Unauthorized Employment involving a DPS Employee**

In May 2013, the OIG initiated an investigation predicated on information received from a District employee alleging that a current DPS employee applying for a high school principal position held unauthorized employment with another school district during the time he/she was on approved sick leave with the District for the period of 2008-2010. The personnel file of the DPS employee was reviewed along with the conduct of interviews and logical record review and analysis. If the allegation is substantiated, the OIG will refer investigative results to the Office of Employee Relations requesting a disciplinary hearing.

### **Allegations of Grade Changes at DPS Elementary-Middle School**

In April 2013, a long term substitute teacher advised OIG that from February 2013 until mid-April 2013, he was assigned to teach Social Studies classes at a K-8<sup>th</sup> grade school in place of a teacher who went on leave in December 2013. The substitute teacher did not have access to the grading database, so he provided copies of his handwritten grade-book to a secretary to enter his third quarter grades. During parent-teacher conferences in mid-April 2013, the substitute teacher discovered that some of his Social Studies grades were changed without his

prior consent or knowledge. For instance, one of the grades was changed from an "F" to a "D" for a student who never attended class. In addition to the suspicious grade changes, the substitute teacher was told by the Principal that the Social Studies grade each student received would also be used as grades for three other courses, despite the fact that the substitute teacher never taught the three courses. The substitute teacher was supposedly informed by Human Resources that he was being released from his assignment at the school because he gave out too many "F's" and other low grades. The OIG investigation determined that the substitute teacher's students' third quarter grades were changed to better grades by the school secretary at the direction of the Principal. The evidence revealed that an estimated 25 grades for Social Studies were changed, and 75 fictitious grades were given for three other courses not taught. The Principal said that she did not consult the District managers before she authorized the grade changes. During interview by the OIG, the principal admitted her complicity in the grade falsifications. The OIG recommended that affected student grades be changed to "P"s for the January through April 2013 marking period and that all letter grades be removed for the same period for those students who received grades for the three courses the substitute never taught. The OIG also recommended that the Office of Employee Relations convene an administrative hearing for the Principal.

### **Alleged Mismanagement of Procurement Process and Policy**

In May 2013, the OIG received allegations that a school administrator had engaged the services of a supplier without the required issuance of a purchase order. Furthermore, the complainant alleged that the Principal had also violated the procurement process by giving a vendor "internal information" which may have unfairly helped the vendor win approval to do business with the District. The OIG investigation included interviews, and review of email correspondence, the District's Procurement Policy and Procedures, as well as the Emergency Manager Order, relevant to procurement procedures. Investigation revealed that the Principal had violated procurement policy and procedures by committing a vendor without the proper approval. Regarding the second vendor, the investigation determined that the Principal did not engage in misconduct. It was also determined that the District incurred a monetary loss of \$4,425 due to a payment made to the vendor for unperformed services. The matter was referred to the District's General Counsel for further action, as deemed appropriate.

### **Alleged Theft of Funds at DPS High School**

In May 2013, the OIG initiated an investigation predicated on a financial audit which reported funds that were missing, or otherwise unaccounted for, at a DPS high school. The investigation involved interviews and a review of the school's cash receipt and deposit records. A forensic analysis was completed to compare incoming funds which were receipted during the audit period (7/1/2011 – 12/31/2012) to deposit records from the school's banking institution. The OIG investigation did not uncover any theft or fraud, but it did identify a lack of effective internal controls and attention to detail in cash receipt and handling procedures which contributed to the alleged missing funds. The OIG also recommended that the Finance Division afford all District Principals and bookkeepers cash management training.

## **Audit Department**

In the first year of the consolidation of the District's investigative and audit functions, the Audit Department worked closely with the Investigative Department to consolidate operational and administrative procedures to become one seamless operational office. As part of this effort, the audit function was added to the OIG Case Management System. The CMS provides a method for timely and effective management reviews to ensure compliance with Generally Accepted Government Auditing Standards promulgated by the U.S. Comptroller General.

The Audit Department provides a critical function to the District through monitoring and assessment of internal controls to ensure (1) compliance with federal, state and local laws as well as District policies; 2) financial information is timely, accurate and reliable; and (3) district operations are effective and efficient in pursuing their mission.

In accordance with Government Auditing Standards, the OIG Audit department staffs each audit with qualified and trained audit professionals. Auditors perform research on applicable laws and policies related to the matter to be audited in order to understand the requirements and mandates of the audited function. Ultimately, auditors become very knowledgeable about the process or issue being audited. In this regard, the DPS audit team provides a valuable resource of information to the District and is often called upon by other departmental staff for input.

Once an audit is completed, a draft report is sent to the auditee and an exit conference is held to discuss any factual inaccuracies or concerns of the auditee. Any factual inaccuracy is corrected in the draft report which is sent to the auditee for their management response. The management response includes the auditee's corrective actions to mitigate internal control weaknesses identified in the audit. In many cases, the auditee will provide evidence that corrective actions have been implemented to address specific recommendations. All audit recommendations are tracked by the OIG for resolution. When it is not evident that a corrective action has been implemented, a follow-up audit is scheduled to determine if the risk has been addressed.

As shown in the organizational chart on page four of this report, the OIG Audit department consists of two internal auditors and a Deputy Inspector General for Audit. All three members are veteran auditors with significant government and private sector auditing experience. The most recent member to join the team served as a consultant for several major CPA and consultant firms whose client base includes local municipalities, school districts, and not-for-profit entities. Prior to that, he served with the Wayne County Auditor General as part of the management team.

The Deputy Inspector General for Audit serves as the District's Chief Audit Officer and was responsible for re-establishing the District's audit function after four years without one. He and another internal auditor have been with the District since 2009 and have gained valuable experience and knowledge of District operations.



In addition to audits, the OIG Audit department performs consulting work for the District which is typically classified as a review. Reviews, unlike audits, are initiatives that require the audit team to assist DPS departments or administrators in achieving a given task or initiative. In this regard, the OIG-Audit department provides additional value to the District. While audits represent a review of what has happened in respect to the control environment, consulting reviews place the auditor in the position of the client or auditee in helping to resolve an issue. Most reviews are time-sensitive, and some matters require attention on an exigent basis.

### **Contract Audits**

From time to time, the OIG-Audit function will contract with local auditing and accounting firms to perform prescribed audits that are closely managed by OIG-Audit. Such efforts are reserved for those initiatives that require more resources than can be committed by the OIG-Audit team. The benefit of contract audits is the ability to provide audit coverage of District operations in a short time frame. It also allows the audit function to extend its monitoring efforts beyond the capacity of the limited audit resources.

This approach was used this fiscal year to accomplish a financial audit of each of the District's 24 high schools and its three career technical centers. The fieldwork was performed by contract auditors and managed closely by the OIG-Audit. The timely completion of these audits allowed for critical input and guidance to Principals and bookkeepers that can be useful during this school year and beyond.

### **Office of Inspector General Auditing Standards**

OIG audits are conducted in accordance with Government Auditing Standards as promulgated by the Comptroller General of the United States Government Accountability Office, formerly the General Accounting Office, as well as audit standards of the Institute of Internal Auditors.

The OIG work-papers are designed to ensure compliance with these standards. Over the years, the audit industry has developed Government Auditing Standards and standards promulgated by the American Institute of Certified Public Accountants (AICPA) to be more principles-based which is resulting in a convergence of the two sets of standards. This is an important step that will ultimately reduce the difference of what is required for audits of government versus publically-traded or private entities.

### **Annual Risk Assessment Process**

Annually, the audit function updates a District-wide risk assessment, by department, based on such factors as changes in personnel, identified internal control weaknesses from the external audit, system upgrades, and other factors that have the potential of increasing risks that can impede a DPS department or division from achieving their mission.

The risk assessment prioritizes risk based on scores measuring the significance of the risk and the likelihood it could occur for each department. Once the risk assessment has been updated, those risks with the greatest impact and likelihood to occur are included in an annual audit plan, and scheduled for audit based on available audit resources.

In addition to this approach, some audits are requested by the Emergency Manager or Department heads that have a particular concern about District operations. In these situations, the OIG Audit function will include these requested audits in the risk assessment and score the risk based on a set of criteria that include management concern. In most cases, these requests are based on known conditions that impede management's ability to efficiently achieve their objective. After the risk is scored, it is included in the annual audit plan and prioritized for audit.

### **Fiscal Year 2013 Significant Internal Audits**

#### **Farbman lease review**

The District leases space in the Fisher Building and the amount is assessed each year for potential increases based on changes in property taxes and the cost of operations. The OIG-Audit department was requested by the Chief Operating Officer to review and verify the proposed rental increase to determine if it is consistent with the current contract language and is supported by increased cost in taxes and maintenance expenses. The review determined that the proposed increase was appropriate given changes in property taxes and increases in the cost of operation.

#### **Adult Education Department audit**

The audit objective was to determine whether the cash receipts and disbursements were properly documented and processed in compliance with policies and procedures set forth in the School Administrative Financial Manual. The audit found that all monies processed during the audit period were accounted for but that over \$34,000 in questionable expenditures were identified, including over \$6,500 for travel to conferences, which violated Emergency Order 2011 dated August 4, 2011.

The audit also revealed non-compliance with procedures related to the transfer of funds from one account to another within Adult Education. In addition, program staff members were transporting deposits in their personal vehicle which increases the risks of loss due to theft.

#### **Charter School Financial Review**

For Fiscal Year 2012/13, the District sponsored 18 Charter Schools. Nine of the 18 schools were added for this school year while the remaining nine schools had previously operated as charter schools under DPS sponsorship. The OIG was approached by the management staff responsible for the effective oversight of these schools, each of which has a governing council to manage its

operations. The management team asked for OIG assistance in developing an approach for a high level financial assessment on the operations of each school.

The review included an assessment of the financial statements for each of the 18 DPS-charter schools to prepare financial ratios for liquidity, solvency and long term debt paying ability for management to review. Ultimately, the review determined that most of the schools have concerns with liquidity and cash flow based on the financial ratios prepared from the school's financial records.

### **Audits of Cash Management Systems at DPS High Schools & CTCs**

The OIG-Audit department contracted with a local financial consulting firm to assign teams of auditors to perform a financial audit of the cash management systems at the 27 DPS high schools and Career Technical Centers. The audits determined the collective incoming funds for these schools exceeded \$3.5 million during the 18-month audit period, with a collective balance of \$1.1 million at the end of calendar year 2012. The audit also identified multiple areas of non-compliance and certain practices that pose a risk to the District's ability to comply with federal law.

A total of 130 recommendations were made to these schools to enhance the compliance with school financial procedures. Four audits identified wasteful and abusive practices that were referred to the OIG Investigation department for further review.

### **Review of Corrective Actions for Year Ending 6/30/2012**

Each year, District units undergo an external audit, performed by an independent audit/accounting firm, and are required to address its findings. This is done by documenting corrective actions to mitigate the risk that led to the audit finding. The report prepared by the District's external auditors is called the Comprehensive Annual Financial Report (CAFR) and includes both a financial statement audit and a single audit of federal grant monies.

The OIG Audit team meets with each unit whose operations were cited in one or more of the audit findings from the external audit. After obtaining information on what led to the audit finding and reviewing external auditors work-papers, the audit team assesses the corrective action to ensure it fully addresses the risk which led to the audit finding. Once this occurs, testing and/or confirmation is scheduled to determine if the designed control is being implemented effectively. The testing results are reported to the department head as well as the Emergency Manager and cabinet members.

This marks the second consecutive year that the OIG-Audit department performed this review. Last year 80 percent of the 27 audit findings passed. For the Year Ending June 30, 2012, the District was cited with 18 audit findings—6 financial statement and 12 single audit findings. This represents a decrease of 30 percent in findings. At the time of this report, 47 percent of the 18 findings passed and 6 percent have failed with 47 percent in process.

The U.S. Department of Education and the Michigan Department of Education visited DPS in April 2013 and concluded that this process of testing corrective actions, along with improvements in the procurement and financial management of the District, will be a contributing factor in a decision to remove the District from the “high risk” status under which it was classified in December 2008.

### **Terminated Employees with Benefits**

The OIG received a tip from a former employee who had resigned from the District in 2011, but continued to receive District-sponsored benefits. Once the allegation was confirmed, the OIG-Audit Department launched an audit of the internal controls in place to ensure terminated employees do not continue to receive benefits.

The audit represented a collaborative effort with the District’s Information Technology team in running queries of large volumes of personnel data to identify employees who were still categorized as active 45 days after their effective separation date. Using this universe of employees, we identified 172 former employees that continued to receive benefits costing the District over \$444,500 and 78 active employees on no-pay status but received benefits that cost the district \$77,470; while another 108 active employees selected flexible spending accounts but filed claims exceeding their contributions by \$24,626. The total loss to the District identified in this audit was \$546,653.

The audit recommended ways to ensure that employees who separate from the District are not privy to benefits beyond the required period and to avoid the District from incurring administrative fees beyond the separation date for these employees.

### **Financial Impact of Coding Error on Health Benefits**

At the time that the OIG was conducting an audit of terminated employees with benefits, the DPS General Counsel and Chief Human Resources Officer were negotiating a settlement with certain medical service providers and the third-party administrator regarding a coding error that resulted in over \$500,000 in costs to the District for claims and administrative fees for employees who transferred from one health care provider plan to another, but continued to receive benefits from the previous service provider. At issue is whether the third-party administrator properly notified the service provider to terminate benefits for certain DPS employees. The OIG-Audit department was requested to review the information and offer opinion in terms of which company is responsible for the cost and the amount substantiated.

## **Contract Work Analysis**

The OIG Audit department had two contracted work initiatives for fiscal year 2013. The first was an ongoing effort under the 2009 Bond Program. When the Bond Program was initiated in early 2010, the former Emergency Financial Manager was assigned the responsibility of ensuring an inclusion program designed to employ Detroit residents for trade and non-trade jobs resulting from the construction of new and renovated schools. This was a hallmark of the \$500 million program because the EFM and his team set stretch targets of 65 percent of the hours going to Detroit trade workers for every trade at every contractor level.

As part of that effort, the OIG Audit department was responsible for auditing and verifying the number of hours worked by verified Detroiters. To do this, the OIG has tracked, compiled and audited 800 individual firms and thousands of individuals in effort to ensure the program had integrity. Firms that achieved this target were eligible for a one percent bonus and those that did not meet the target were assessed a three percent penalty. Collectively, over \$8 million in bonus and penalties were assessed.

The OIG Audit department contracted with a Detroit headquartered firm to hire two contractors to input inclusion data. The team is managed closely by the OIG internal auditors. The bond program is scheduled to conclude by the end of calendar year 2013.

The second contracted audit was with a local accounting and auditing firm that the OIG audit department had previous experience working with on a couple audits/initiatives. The audit spanned six weeks and included a full day training provided by the OIG staff. A team of two auditors were assigned to specific schools/centers to audit the cash management systems, and closely supervised by two senior OIG staff.

The school audits identified trends of noncompliance in disbursements, cash receipts, fundraisers, banking timeliness and monthly reporting.

## **DETROIT PUBLIC SCHOOLS POLICE DEPARTMENT**

Since June 2009, the entire leadership of the Police Department was replaced with a new Chief, two Deputy Chiefs, a Director of Support Operations, and Inspectors for Investigations and Patrol. There are eight Sergeants, 46 Police Officers, 45 Campus Security Police Officers (CSPOs), five Investigators, one Civilian Investigator, one Volunteer Coordinator, 11 LEIN/Communications Operators, one vehicle maintenance Officer, and two Clerical Assistants making a total of 125 employees assigned to the PD. The new structure was put in place to increase accountability and efficiency of operations.

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). In FY13, Securitas provided a full daily complement of 98 security officers.

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 officer for the Chancellor of the Michigan Education Achievement Authority (EAA).

In school year 2012-2013, the Education Achievement Authority (EAA) of Michigan took control of six Detroit high Schools and nine elementary schools. The EAA entered into a one year contract with DPS for DPS police services. As such, our Police Department provided full police services, alarm and camera monitoring and detailed two CSPOs at each EAA high school. All electronic surveillance monitoring feeds go to the Police Department's state of the art command center.

The DPS Police Department (DPS-PD) also contracted to provide a menu of police services for ten Charter Schools and nine Self Governing or Detroit Rising Schools. Services provided to the Charter Schools included alarm and camera monitoring. The Self Governing Schools contracted with DPS for Securitas guards, alarm and camera monitoring and full police services.

The DPS-PD has an officer assigned to the FBI-sponsored Violent Crimes Task Force which assists 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. A police officer was detailed to the Detroit Crime Commission (DCC) to participate in a pilot program which monitors social media networks in an effort to develop intelligence on gang activity around Detroit Public Schools. This initiative has produced actionable intelligence to the District's PD and other appropriate law enforcement agencies.

**Members of the DPS Police Department participated in the following training during FY13:**

- Firearms Safety, Policy and Procedures
- In car video camera instruction
- CPR/First Aide
- Probable Cause legal standards
- Scooter Training
- Law Enforcement Information Network
- Radar Traffic Enforcement Equipment
- Verbal Judo Interview techniques
- Coach mentoring for Supervisors
- K-9 specialized training
- Gang Intelligence gathering
- Evidence collection process and procedures
- Investigative techniques
- Tactical firearms techniques

**The DPS Police Department conducted the following initiatives during FY13:**

- Updated and disseminated the District Emergency Safety Procedures booklet;
- Following the December 14, 2012 shooting at Sandy Hook Elementary in Newtown, Connecticut, the DPS Police Department presented staff training for “Active Shooter/Intruder in buildings with gun”;
- Developed and deployed an Auto Theft Surveillance Task Force to address vehicle vandalism and theft on District property; and
- Implemented a School Zone Traffic Enforcement Team

Overall, the DPS Police Department realized a 12% increase in all matters handled in and around schools (1650) when compared with the same period last school year. The data was gleaned from reports from the CRISNET crime reporting system which is used by both the DPS Police Department and the Detroit Police Department.

Specifically, concealed weapons violations increased to 32 or by 31%. There were 77 felony assaults reported for a 22% increase, 26 armed robberies equaled a 46% increase, misdemeanor assaults experienced a 24% reduction. Building Breaking & Enterings (B&E’s) were down 7% year to year including a 40% reduction in incidents at open school buildings. Decreases were also registered in alleged sexual assaults at 49, or a 19% reduction. Narcotics violations decreased to 55, or by 3.5%, while unarmed robberies increased to 25, or by 28% from last year. There were no changes to the number of felony warrants obtained (142) when compared to last fiscal year.

In August 2011, the DPSPD created a Computer Fraud and Theft Recovery Unit to focus resources into DPS computer thefts in a coordinated manner. To date, 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 2084 laptops stolen from our buildings and 599 or 29% have been recovered since June 2009. In FY 13, there were 189 computers reported stolen. Of these, 66 or 35% have been recovered by our PD.

The reductions in some crimes were due to effective partnerships with other law enforcement organizations, organizational restructuring of the DPS Police Department, and 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.

The following volunteer organizations have partnered with the DPS Police Department to provide safe environments in and around schools:

- Brothers on Patrol - 10 members
- Made Men - 20 members
- North-End Radio Patrol - 55 members
- Man Network - 50 members
- DPSPD Chaplin Corp - 15 members
- Yellow Jacket Brigade Teams:
  - a. Carstens/Remus Robinson School Volunteer Team - 15 members
  - b. FLICS School Volunteer Team - 10 members
  - c. Renaissance High School Volunteer Team - 15 members.

For FY13, the Police Department had a budget of \$17,952,351 from the general and grant funds, a \$2,093,362 million reduction from FY12 funding. Despite such challenges, the Police Department continues to yield remarkable results due to upgraded electronic building security systems, policing via technology, improved response time to alarms, effective partnerships with other law enforcement organizations, successful prosecutions of offenders, and the dedication of officers and managers in the Police Department.





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