



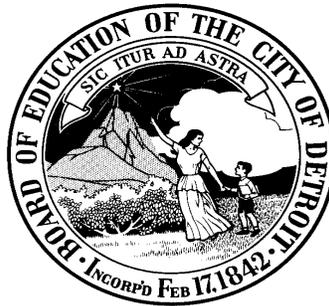
Detroit Public Schools

Office of Inspector General

Annual Progress Report

To The Emergency Financial Manager

March 17, 2010



Submitted by:

John E. Bell, Jr.

Inspector General

Office of Inspector General A Year in Review – March 2010

This document is intended to summarize the activities of the Detroit Public Schools, Office of Inspector General (OIG) over the course of its first year in existence. The investigative synopsis and other findings outlined in this report are by no means complete, but rather meant to be illustrative of the body of work undertaken by the OIG.

The OIG was created in March of 2009 by Emergency Financial Manager (EFM) Robert Bobb to investigate fraud, waste, and abuse in the Detroit Public School system. Since its creation, the office has been staffed with an Inspector General (IG), four experienced investigators, two forensic auditors, and one administrative assistant. Temporary staff office space was obtained on the 6th floor of the Fisher Building. OIG identification credentials and badges were obtained to identify investigators to District employees and the public. Protocols were developed for conducting investigations and referring results of those cases for in-house disciplinary action and/or to appropriate state and federal prosecutors for prosecution. A paperless case management system, with search capability, was designed and developed to record the results of investigations and statistical accomplishments. OIG telephone and email hotlines were instituted and widely publicized to generate tips on fraud, waste, and abuse.

The OIG drafted “Employee Code of Ethics” and “Whistleblower” policies which were adopted by the EFM for the District. During this past year, a robust intelligence base has been developed and working partnerships have been established with the FBI, Detroit Police Department, Wayne County Sheriff’s Office, and the U.S. Dept. of Education OIG. The Inspector General and the Auditor General met regularly to coordinate their respective findings and discuss policy and procedure recommendations. In order to conduct accurate, timely, and independent investigations, the OIG staff obtained access and training on the District’s PeopleSoft databases, and acquired ACL (a data analytical tool) and CPEasy (continuing education credits for auditors). Additional investigative resources were obtained with the OIG’s access to the Michigan State Police ICHAT database (criminal histories) and the HIDTA Investigative Support Center.

In June 2009, the District’s Office of Public Safety (OPS) was placed under the OIG. Since that time, the entire leadership of the department has been replaced with a new Chief of Police, two Deputy Chiefs, and a Director of Support Operations. A new organizational structure was designed and put in place to increase accountability and efficiency of operations. During the past year, training increased significantly for all police and security personnel. In addition, Public Safety commenced training a second K-9 Unit and a police evidence technician. New policies were instituted relating to police response procedures and conduct of investigations. These policies have resulted in increased arrests and prosecutions, as well as a reduction in school burglaries. An enhanced District wide security plan was developed to provide better safety and security to the District’s students, employees, schools, buildings and other assets through the use of technology that includes state of the art surveillance, alarm and identification systems.

During this past year, a Campus Police Officer classification was established to provide an on-campus police presence in many of the District’s high schools and middle schools. Approval for

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the Campus Police Officer (PA 330) position was obtained from the Wayne County Prosecutor, Detroit Chief of Police, and MCOLES. One class of 25 officers graduated from the Schoolcraft College program and a second class is currently undergoing training. To combat extremely high absenteeism and tardiness by Public Safety Officers (in school non-certified officers), in January 2010, a demonstration project was instituted at four high schools involving the use of contracted security personnel, under the direction of Campus Police Officers. The goal of the demonstration project was to provide a consistent and reliable security presence in the schools. The success of this project has been touted by all four high school principals involved. As a result, the contracted security program will be expanded in the upcoming year.

Initial steps have been undertaken to select a design team and location for a new Public Safety headquarters building located on existing District property. The new facility will accommodate a new command center and software to monitor all District alarm and surveillance assets and provide dispatch services to Public Safety personnel. The new headquarters facility will replace the current School Annex Building, which can no longer accommodate the technology or personnel assigned to Public Safety.

In the course of the last twelve months, the OIG opened 248 cases based on 280 complaints. These cases ranged from theft, to mismanagement, to waste or abuse. There have been 136 cases closed, 25 cases placed in inactive status, and there are currently 87 pending cases. The type and number of each investigative category is shown below. Pending cases are active investigations, inactive cases are complete in regards to OIG's work, but awaiting finalization from another area, i.e., Human Resources, Wayne County Prosecutor, etc. A closed case requires no more time or resources from any source.

Type	Count	Pending	Inactive	Closed
Theft	70	40	7	23
Payroll Fraud	38	9	1	28
Unauthorized Employment	27	4	5	18
Waste	23	4	1	18
Ethics Violation	19	2	4	13
Vendor Fraud	19	14	2	3
Mismanagement	15	4	0	11
Abuse	13	3	4	6
Criminal Activity	12	5	0	7
Contractor Fraud	7	2	0	5
Misuse of Vehicle	3	0	1	2
Insurance Fraud	2	0	0	2
Grand Total	248	87	25	136

The 291 statistical accomplishments achieved during these investigations are outlined below:

- Seventy allegations were proven unfounded.
- Ninety-seven recommendations were made in thirty-two cases.
- Twenty-seven cases were referred for disciplinary hearing.

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- To date, nineteen search warrants were executed, two cases were referred to law enforcement; sixteen cases were referred to the local prosecutor with three cases leading to an indictment, three cases led to an arrest, two cases involved in a judicial proceeding, and seven cases ended in convictions.
- Five cases were referred to the FBI and are still jointly under investigation.
- Contracts were reviewed in fifteen cases, corrective actions were taken in one case, four vendors were debarred, and a federal, state, or local department was involved in seven cases.
- A variety of outcomes have been achieved to date. Employee suspensions occurred in seventeen cases, employee termination in eleven cases, employee reprimand in four cases, administrative action in four cases, and a warning was issued in two cases.
- Four cases involved employees who resigned prior to the disciplinary hearing.
- Seven cases warranted restitution, sixteen cases involved the recovery of DPS assets, and five cases identified monetary loss to the district.
- Four cases were involved in public hearings, four cases had issues that were referred to the Office of the Auditor General for additional audits, and one case was referred to the Office of the General Counsel.

A Sample of Investigative Results:

In a joint FBI and OIG investigation into allegations of DPS payroll fraud, involving the illegal disbursement of over \$53,000 in school funds, a District financial specialist, school service assistant, and truck driver were all convicted and sentenced. The truck driver was convicted on a misdemeanor charge and ordered to serve 60 days in jail. The school service assistant was sentenced to three years' probation and ordered to repay \$14,007 to DPS, and the financial specialist was sentenced to five years probation and ordered to pay \$42,021 in restitution.

In another payroll fraud investigation, a former DPS financial specialist entered a guilty plea to federal charges of conspiracy to unlawfully convert DPS funds for her own use. This employee illegally disbursed over \$378,765 to a retired DPS employee. The retired DPS employee was ordered to pay \$378,765 in restitution and faces an 18-24 months prison term. The financial specialist was ordered to pay a fine of not more than \$75,000 and faces a 30-37 month prison term.

In a joint OIG and Office of Auditor General investigation, a vendor provided uncertified sign language interpreters to the Detroit Public Schools in violation of the Michigan Deaf Persons' Interpreters Act (P.A. 204). At least 26 interpreters used by this vendor were not certified. From 2004 – 2009, this vendor was paid \$5,881,881 for its services. This matter was accepted by the Wayne County Prosecutor's Office in late 2009. This vendor was debarred by DPS and the matter has been referred for prosecution in state court.

In another joint FBI and OIG investigation, information was received from the Office of General Counsel (OGC) that a vendor was paid \$320,279 from 2006-2007, for tutorial supplies. The OGC provided information indicating the vendor was not registered with the state or listed in telephone records, but had a post office box for billing purposes. The building listed in the contract was a largely vacant warehouse with no apparent nexus to the vendor. OIG and FBI

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investigation has failed to show any product was ever delivered to DPS. It is anticipated several DPS employees will face disciplinary hearings and federal prosecution.

An OIG investigation was predicated on information that a DPS employee, assigned to a 7 ½ hour work day was claiming an inordinate amount of overtime over several years. The claims for overtime were hand written and investigators found that no other similar employees were receiving overtime on a regular basis. The investigation resulted in the employee's arrest on local felony charges of embezzlement in the amount of \$44,771. The employee entered a guilty plea and is awaiting sentencing.

The OIG received a tip indicating a high school employee was "stealing \$300 a day in cafeteria money" while handling the cash and during cash reconciliations. The OIG utilized electronic monitoring devices and recorded the employee taking money from the cafeteria cash drawer on eight separate occasions. The subject was confronted in such a way as to not compromise the investigative technique and stolen money was recovered. The employee was immediately suspended pending a disciplinary hearing. Each week, more than \$27,000 in cash proceeds are generated from cafeteria food sales district wide. It is estimated that more than 5% of those proceeds are lost to theft. This matter has been accepted by the Wayne County Prosecutor.

The OIG received hotline email and telephone complaints indicating a high school principal and assistant principal had mismanaged grant monies awarded from the Michigan Department of Education (MDE) for Advanced Placement (AP) exam testing. There were also complaints alleging mismanagement and perhaps theft in connection with the high school's handling of proceeds from the sales of temporary and replacement identification cards (IDs) for students. Investigation determined students were inappropriately charged fees to take AP examinations, and that from 2004 thru 2009 over \$39,000 was collected for student IDs. Much of the money could not be accounted for. The investigation substantiated the validity of the allegations. Advanced Placement fees were returned and the assistant principal received a suspension of two days without pay. The principal was suspended for 15 work days without pay.

A former DPS truck driver was indicted by a federal grand jury for theft of approximately \$70,000 worth of DPS desktop computers, printers and other property from a DPS warehouse following a joint DPS OIG-FBI investigation. Another former DPS employee was believed to have been a participant in the theft, although insufficient evidence existed to charge that employee in the indictment. The former truck driver was terminated and is currently on bond awaiting a trial date. The other former employee was terminated by DPS as a result of another OIG investigation.

The OIG received information indicating a former high school assistant principal and athletic director allegedly took DPS funds. The schools principal had an audit conducted that revealed \$39,000 from sales of temporary and replacement identification (ID) cards to students were collected and handled by the assistant principal. A forensic audit conducted by an OIG special investigator disclosed \$40,242 was collected at the high school for temporary and replacement IDs from 2003 to 2009. Of that total, \$11,815 was accounted for and the remaining amount, \$28,427, could not be accounted for and evidence indicated the assistant principal was

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responsible for the missing funds. The assistant principal was suspended by DPS. He was afforded a disciplinary hearing and the results of the hearing are pending.

The OIG received information that a District Tech Center's director and accountant used school funds to remodel their homes and used a tech center account with Home Depot and Sam's Club for personal purposes. Investigation substantiated allegations that the principal had a room furnace installed in his/her residence, and also took products from the Tech Center's boutique. Interviews and analysis of Tech Center bank records, invoices and other documents revealed that the accountant made over \$27,000 in payments on his/her personal residential mortgage using the Tech Center's checking account and allowed others to purchase items paid for by the District. Those items included carpeting, a film projector, appliances, a generator, food and gasoline. Total loss to the District was approximately \$100,000. The director and accountant were suspended pending disciplinary hearings and the accountant later resigned. The matter has been referred to the Wayne County Prosecutor for charges.

The OIG received anonymous telephonic complaints alleging an OPS employee regularly went home during his scheduled work shift and remained there without performing any work. It was alleged this employee would travel to work in his personal vehicle, secure a DPS-OPS vehicle, and then travel home. The complaints further alleged that this employee would frequently stay home for most of his shift until the following morning, at which time he would return to the Annex located at 9001 Woodward, "make an appearance" then depart in his personal vehicle, ending his work day. The investigation included electronic monitoring of this employee during his work shift. The employee admitted that he falsified DPS records on 21 separate occasions during the 22 days he was monitored. This employee was terminated effective March 11, 2010.

Since June of 2009, the Detroit Public Schools experienced over twenty school burglaries, resulting in the theft of 647 laptop computers. As a result of OIG investigation, thirty-three subjects have been identified and over 80 stolen laptop computers have been recovered. The OIG has executed 17 search warrants in this case. The investigation has disrupted a highly organized group of thieves and has curtailed the number of burglaries victimizing the Detroit Public Schools. This matter has been referred to the local prosecutor for criminal charges.

On December 8, 2008, 30 Dell laptops from Detroit City High School (DCHS), valued at \$52,439, were stolen. This matter was jointly investigated by the OIG and Detroit FBI. To date the investigators have recovered 11 of the stolen laptops. Two DPS custodians responsible for the theft and sale of the stolen laptops were identified. Both custodians were afforded a disciplinary hearing and were subsequently terminated by DPS. Federal criminal charges are pending.

The OIG received information from a DPS parent that billing records of an SES provider falsely indicated their son received tutoring during 2009. The student's parents further claimed their signatures were forged on billing records. The OIG and Department of Education OIG obtained the 2008-2009 billing records for the provider. Interviews were conducted of parents, guardians, students, and others. The interviews revealed that 27 students received no tutoring as billed by the provider or a discrepant billing amount of \$51,219. This matter has been referred to federal prosecutors.

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Two DPS engineers were investigated for unauthorized outside employment. One engineer was alleged to have abused his sick leave balance in order to support outside employment with another company. The other engineer was alleged to have abused her FMLA in order to support outside employment at the same location. An OIG investigator verified the outside employment by both. The engineers were charged with District work rules and contract violations. Both resigned prior to a scheduled disciplinary hearing. The matter was referred to the WCPO for possible criminal charges.

A DPS board member was investigated in regards to a conflict of interest. The board member has been the president of an SES provider for over 20 years and this provider has provided tutorial services to DPS since 2004. As a result of this OIG investigation the SES provider was initially suspended by the Michigan Department of Education as a DPS SES provider. The provider was later reinstated after the board member resigned his position on the school board.

An OIG review of DPS lease contracts disclosed DPS leased closed schools to various businesses and other organizations. Due to a lack of contract management and financial controls, it was determined the District suffered losses amounting to \$918,079 due to rent not being collected and/or building utilities being paid by DPS because the utilities were not put in the lessee's name per the lease agreement. OIG findings were referred to the EFM and the Chief Financial Officer.

The Auditor General's office turned over 37 payroll checks and 220 payroll remittance advices totaling over \$208,000 to the OIG for investigation regarding possible ghost employees. OIG investigation was conducted on each check and remittance. In the end, all but one employee was verified. This employee no longer works for the district. This investigation was closed as the allegation was deemed unfounded.

The OIG conducted a year long investigation into monies spent by the District under a 1994 \$1.5 billion Capital Improvement Bond. Paramount among complaints received about the bond program was the relocation of the District's Central Office to the Fisher Building. Other complaints involved land purchases for construction of Cass Tech, Renaissance, and DSA high schools and a proposed new Northeastern High School. As a result of OIG investigation, the EFM conducted a series of Investigative Hearings to determine what occurred and the role of current and former DPS officials and School Board members. At the conclusion of the investigation a report will be prepared outlining OIG findings. That report will be released to the public, the FBI and the Michigan Attorney General's office.

An OIG investigation was conducted into allegations that a DPS Career Tech Center principal and bookkeeper were involved in the theft of school funds. As a result of the investigation, employment terminations occurred for the bookkeeper for stealing funds, and the principal, for using school resources for personal use. This case has been referred to federal authorities for prosecution.

The OIG uncovered repeated instances of principals who reportedly worked over holidays and school breaks, and found numerous examples where leave taken was not reflected in payroll records. In each case the principal signed his/her own payroll sheet. An advisement was provided

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to all Regional Superintendents to ensure that principals accurately adjusted payroll records of their use of vacation and other leave during holidays and school breaks. The advisement noted that any further failure to accurately reflect leave taken on District payroll records will result in disciplinary action.

An OIG inquiry determined that a bookkeeper at a Career and Technical Center stole at least \$57,413 from DPS. The case is being worked jointly with the FBI. The investigation to date determined money was taken and checks were written and cashed by this bookkeeper with various vendors. The bookkeeper was terminated and the matter has been referred for federal prosecution.

A teacher at a middle school did not teach as required during the 2009 summer school as she elected to meet with her thesis advisor on two different days. The teacher arranged for a substitute with the principal's approval. The teacher no longer works for the district and, as such, DPS cannot recover the money paid to her for these two days. The principal received a verbal reprimand and was required to provide a corrective action plan.

A District cabinet level executive was terminated following an OIG investigation involving unethical behavior and conflict of interest. Investigation determined District vendors paid for travel and hotel costs related to four of the executive's trips, and the executive received partial funding for two other trips. This executive was also provided lunch or dinner on numerous occasions. The vendors involved were attempting to obtain contracts with DPS.

Other Miscellaneous OIG findings:

Due to similar invoices, a DPS vendor was found to have been double paid by the District. Because of quick action by the OIG, a check in the amount of \$43,937 that was ready to be sent was voided and a check in the amount of \$843 that was already mailed was returned by the vendor. The vendor also reimbursed DPS in the amount of \$53,340 for invoices that were double paid. The total amount of these checks was \$98,120.

In a separate review of invoices for another vendor, it was determined the supplier inconsistently applied pricing. Because of the OIG inquiry, the vendor agreed to credit DPS in the amount of \$5,888. The vendor also agreed to provide extensive detail on its future invoices to ensure proper pricing.

Based on a previous investigation, a vendor became non-approved in the District's PeopleSoft system. Several months later, while researching payments to this supplier, the OIG determined the vendor had an additional vendor number for which it had received \$3,429. Accounts Payable agreed to change this second vendor number to a non-approved supplier and to advise all schools to discontinue using this company.

During an investigation of a Second Step Provider, the OIG office was able to identify \$660,000 in Safe and Drug Free School Grant funds for security. The Office of Public Safety has used this money to supplement security costs in the schools. As this was the last year of the program, there will be no additional funds disbursed to Public Safety.

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Going Forward:

As the OIG enters its second year, investigators and forensic auditors will continue to aggressively pursue ongoing investigations and new allegations of fraud, waste, and abuse.

Working with the Auditor General's office, a District wide risk assessment must be conducted to identify areas of vulnerability and potential asset and monetary loss. Other undertakings must also include:

- Increasing OIG office space to accommodate personnel and investigative needs.
- Replacing outdated second hand computers initially scavenged during OIG start-up.
- Development of an OIG budget, which includes line items for minimal evidence purchases and other investigative expenses.
- Commencement of succession planning.
- Providing oversight on construction of a new Office of Public Safety headquarters.
- Incorporating a second Campus Police Officer class into District security operations.
- Exploring contracting out the in-school security officer functions beginning with the start of summer school 2010.
- Assisting in developing an Office of Public Safety budget which includes funds to manage scheduled replacement of essential equipment and vehicles.
- Providing oversight of implementation of the District's "Safety and Security Enhancement Plan" to include a new Command Center.
- Implementing and staffing the new Office of Public Safety organizational plan.