

FY17 ANNUAL REPORT

OFFICE OF INSPECTOR GENERAL



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Dr. Nikolai Vitti, Superintendent

July 21, 2017

I am pleased to present the Office of the Inspector General (OIG) FY2017 Annual Report. This report is intended to summarize the activities and achievements of this office for the fiscal year of July 1, 2016 through June 30, 2017. This year has been one of change in many ways. At the beginning of the fiscal year, the function of Internal Audits was placed under the auspices of the Inspector General. Also, this year, Detroiters elected seven members to the School Board, ending years of Emergency Management for the District. Later in the year, the district welcomed a new Superintendent in May. The city of Detroit is on a steady pace of redevelopment and revitalization. The state of Detroit schools is an integral component to that trajectory.

While many within and outside of the District are familiar with the type of services the OIG provides, there still remains a sizeable number of individuals that believe our function involves mostly “finding criminal wrongdoing” within the District. Though an oversimplification, such work does represent a material share of our activities, but just not all. In the recent years, our work consistent with other OIGs, has increasingly involved investigating allegations into administrative misconduct, including ethical violations, conflicts of interest, waste, and abuse. Waste and abuse can occur in financial or non-financial settings; and does not necessarily involve fraud, violation of laws, or regulations. To a large extent, our work involves identifying major systemic problems, as opposed to concentrating on individual manifestations of these problems, and offering recommendations for proactive ways to avoid reoccurrence, by strengthening internal controls within District programs, operations, and activities.

The OIG strives to encourage a culture of accountability, integrity, transparency, collaboration and excellence; and to assist the Board and the Superintendent in your efforts to provide a high-quality education for the students of the Detroit Public Schools Community District. On behalf of the OIG staff, I thank you for your support of the Office of Inspector General.



Bernadette Kakooza, Inspector General



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OIG Core Values

Professionalism

Timely & Accurate results

*Relationships
(Internally & Externally)*

Dedication & Hard work

Value Added

Mission Statement

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

To maintain independence, the OIG reports functionally to the Board of Education of the School District, and administratively to the Superintendent. Its jurisdiction extends to all District employees, contractors and vendors that do business with the school district.

Statistical Accomplishments

Generally, the results of substantiated OIG investigations fall into **two** categories: referrals to OIG law enforcement partners for criminal action, and those referred to Human Resources recommending an internal administrative disciplinary hearing. Our investigations and audits have identified, and continue to identify, areas of program vulnerability that can be rectified through corrective management actions. To date, OIG's accomplishments are as follows: **132** employees referred for internal disciplinary hearings; **65** employee suspensions / administrative leave; **63** employee terminations; **12** resignations; **4** demotions and **44** with other administrative actions taken. In addition, **14** vendors were suspended or debarred, and **3** barred from school entry; **27** search warrants were executed; **64** subpoenas served; **39** cases referred to the Wayne County Prosecutors Office; **6** to the United States Attorney's Office; **15** to local law enforcement; **14** to federal law enforcement, which resulted in **26** federal indictments, **32** arrests, and **53** convictions.

Monetary Benefits

To date, the OIG's efforts have resulted in nearly **\$26 million** in monetary benefits to the District; classified into **five** categories: monetary recovery (**\$353,550**); court-ordered restitution (**\$12,022,411**); cost avoidance (**\$624,103**); cost recovery (**\$2,081,212**); and monetary loss identified (**\$10,445,497**).

How we Operate

The OIG conducts its investigations and audits in accordance with the Principles and Standards for Offices of Inspector General (Green Book) and United States General Accountability Office (GAO) Government Auditing Standards (Yellow Book). The OIG is managed by the Inspector General, who oversees both the investigative and internal audit units. Investigations are initiated upon the receipt of credible information alleging an act of fraud, waste, abuse or financial mismanagement within the OIG's jurisdiction. In performing its primary mission, the OIG is empowered to require the production of documents and records, as well as obtain witness testimony. The OIG is not a law enforcement entity, and as such, does not have authority to execute arrests or search warrants; therefore, effective liaison with law enforcement partners is critical.

The OIG has conducted **761** investigations to date, based on **1,135** complaints received; of these, **748** matters have been closed (**98%**). There were **33** investigations initiated during FY17; of these, two (2) matters are in inactive status, and eleven (11) are ongoing. Sometimes, complaints are unactionable or are outside of the OIG's investigative purview. In such cases, the OIG refers the matter to the appropriate District administrator for handling. Investigative reports are not published on the OIG website due to their sensitive nature; however, some significant matters are mentioned in our Annual Reports. Audits and internal control reviews are performed based on levels of risk assessed; may be due to concerns identified resultant of investigations, or at the request of division heads. Nearing the end of fiscal year 2017, Risk Assessment surveys were distributed to various location heads and the Board, seeking their input for FY18 audit engagements. Audit reports are published and posted on the OIG website, which is accessible to the public.

Summaries of the most significant matters handled in FY2017 are provided below.

Active Salary Payments while on approved leave of absence

In October 2016, the OIG received a complaint that a district employee was benefiting from active salary pay inadvertently being made while this individual was on an approved workers compensation leave of absence. OIG investigation confirmed that, the employee's work location had erroneously continued to report time for this individual, over a six-month period; although no services were being performed, which resulted in salary payments totaling \$13,418 being made to the individual. As result of the investigation, the employee was made to refund the district for the overpayment amount. The OIG further recommended that a uniform procedure for placement of employees on approved workers' compensation or other medical leave be considered; which requires written confirmation, from location supervisors, that employees on medical leave have been appropriately recorded as such.

Alleged Missing Money Deposit Bag

In January 2017, the OIG received information that a money deposit bag containing \$695 was reportedly missing at a school. The investigation determined that the missing money was not recorded in the school's pickup log, nor had it been reported missing by the school bookkeeper for two months. A search of the bookkeeper's work area revealed other unreceipted cash totaling \$1,137, being held in the bookstore safe, with documentation which suggested that the cash had been in the bookkeeper's custody for over a month, despite several armored car deposit pickups made at the location. Although the investigation found no direct evidence to substantiate a claim that the bookkeeper intended to personally benefit from these funds, there was evidence to support a claim of negligence in job responsibilities. As result, this employee was referred to Human Resources, requesting an administrative hearing and appropriate disciplinary resolution. A hearing is pending.

Unqualified Administrative Applicant

At the request of the Transition Manager, the OIG conducted a background investigation in October 2016, concerning an applicant who was being considered for an administrative position within the District. Results obtained confirmed that the employment applicant lacked the educational background claimed on their resume. There was also an inconsistency in records obtained through social media and other valid record databases. In addition, there was no evidence obtained, validating any of the certifications listed by the applicant. Due to the OIG's findings, the Transition Manager chose not to extend an employment offer to this individual.

Allegations of Improper Hiring of District administrator

In another matter, the OIG initiated an investigation in January 2017, which concerned allegations that a recently hired administrator had not passed the mandatory pre-employment drug test. The Health Insurance Portability and Accountability Act of 1996 (HIPAA) rule forbids sharing and/or disclosure of protected health information outside of the "covered entities"; to which the OIG is not an exemption. Without violating HIPAA or any other laws, the OIG verified the employee's information through conclusive collaboration with a certified health professional. As result, the investigation obtained a Certificate of Authenticity which validated the drug test results, and did not substantiate the allegation.

Allegations of Improper Calculation of Service Years Credit and Pension Eligibility

In November 2016, the OIG received a complaint from a former employee, alleging that the district had improperly reported their service years credit to the Office of Retirement Services, which may have impacted the former employee's pension eligibility. The former employee claimed that, due to the alleged improper calculation of their Final Average Compensation amount, they were made to refund ORS a total amount of \$3,034. The OIG did not substantiate any malfeasance on the part of any District employee; rather, an audit performed of the former employee's pension account confirmed that carry over (summer spread) earnings that were previously included in regular earnings for the employee had been adjusted post-retirement; which resulted in a reduction of earnings in specific years. Based on the forensic audit results, the OIG confirmed the former employee's FAC and pension amount as accurate.

Alleged Abuse of District Purchasing Card

In February 2017, a District administrator referred to the OIG a matter regarding suspicions of abuse of a District P-Card by a subordinate employee. According to the administrator, this employee had failed to provide documentation to support transactions totaling approximately \$27,000, despite numerous requests from the administrator. Additionally, there were concerns raised regarding unauthorized travel and meal expenditures. The OIG investigation confirmed that food purchases for staff meetings, totaling \$5,300, and unsupported travel expenditures close to \$2,000 made by the employee, although in connection with official business, were not authorized. As result of the investigation, the employee's credit card privileges were revoked, and they were also asked to reimburse the district for the unsupported travel expenses. Furthermore, as result of this matter, the OIG made several recommendations to ensure compliance and adherence to the Purchasing card policy and procedures.

Actively employed but receiving pension from the State

In December 2016, information was reported to the OIG regarding an active employee, who was also receiving a retirement pension from the state. At the time that the OIG was made aware, the employee had collected a pension for just over six months, and although they had submitted a retirement notice to the state, the employee did not follow through to officially terminate employment from the District. As result of the OIG investigation, the individual was made to reimburse the state for the improper pension amount received for the six-month period; additionally, the OIG recommended that the district resolves the individual's personnel status, and the individual was appropriately retired.

Alleged Abuse of District-owned vehicle by District executive

In March 2017, an anonymous allegation received by the OIG and school board members alleged that a District executive was observed utilizing a District-owned vehicle outside of official business hours, and in situations which appeared to be personal in nature. The OIG initiated an investigation to determine who the culpable individual(s) was/were, and any possible employee work rule violation thereof. The investigation substantiated work rule violation and abuse of District property, as there was no basis for the employee to utilize a District vehicle outside of their normal work hours, and/or during weekends or holidays; given that their duties did not require 24/7 possession of a District vehicle. Additionally, there was no written authorization provided authorizing this employee to utilize the vehicle outside of normal business hours. Resultantly, the OIG recommended that the executive cease and desist from driving the District vehicle to their home, as this was not considered a legitimate use of a District asset.

Retired administrator utilizing District-paid cellular services

In March 2017, a complaint received by the OIG alleged that a retired District principal was still in possession of a District-owned cellular device, and was utilizing cellular services paid by the District. Preliminary OIG investigation confirmed that the individual had retired from the District nine months prior, but had not returned the District property upon their separation from employment. The OIG was able to secure the return of the cellular device from the former employee, who was also made to reimburse the District for the amount paid in cellular services for the device, which totaled \$566. Following this investigation, the OIG made a recommendation to Human Resources, to implement uniformity in employee exit procedures districtwide, which would require all separating employees to document return of any District-owned property in their possession prior to their exit from the District.

Allegations of Procurement Fraud and Code of Ethics violations by District principals

Pursuant to a federal criminal investigation into allegations of kickbacks and corruption involving several District principals and a (former) District vendor, the OIG initiated an internal investigation in December 2016, to determine whether any District procurement regulations and procedures, as well as the Code of Ethics was violated by seven onboard administrators. Documents obtained and witness interviews indicated several actions done, suggesting a failure to abide by proper procurement protocols as well as actions that a prudent person would consider unethical of a public official in performance of their duties. As result of the investigation, the OIG recommended administrative disciplinary hearings for six individuals. One administrator was cleared of any wrongdoing. Of the six remaining, two chose to voluntarily separate from the district in advance of administrative action. Following administrative hearings, Human Resources found no basis for disciplinary action for the involved individuals. (Most recently, the OIG received additional *information and documents from the FBI, involving other past and present principals who may have been involved in transactions with the same vendor. The OIG will review this matter to determine the appropriate course of action.*)

Retired employee collecting pension and still receiving regular salary payments

In April 2017, the OIG initiated an investigation, following a complaint received regarding a retired District employee who was still receiving active pay, due to active time being reported for this former employee by their previous work location. Preliminary OIG verification confirmed that the former employee had already began to collect a pension from the State, and had received pension payments for at least four months following their separation from the District. The investigation revealed systematic problems regarding the time and effort electronic reporting system utilized by the District; whereby employees whose time is entered for “exceptions” leads to risk of misreporting time or inaccuracies in payroll if all parties involved in the process are not fully made aware of any exceptions; as was the case in this matter. The investigation further confirmed that the former employee submitted a notice of separation to Human Resources, which was not timely and appropriately processed, and resulted in the erroneous salary payments made to the former employee. Although no fault of theirs, this individual received salary totaling over \$5,000, and was made to reimburse the district. Additionally, the OIG recommended that Human Resources develops a uniform procedure of timely removing separating employees (due to Retirement, Resignation, Laid-Off, and Just Cause) from active employee status within PeopleSoft personnel system; and that these procedures include communication with all parties involved in the process. The OIG is currently performing an internal audit to assess the adequacy of controls utilized by Human Resources in terminating employees from active personnel status.

UPDATE TO PRIOR INVESTIGATIVE MATTERS

Former District administrator sentenced due to Federal Program Fraud

A joint investigation between the OIG and federal authorities, initiated in June 2011, resulted in a (former) Director of Grant Development pleading guilty to one count of federal program fraud. Investigation substantiated that between 2005 and 2012, then District employee abused their position within the Grants' District office to obtain student records, which they used as part of a scheme to provide supplemental educational services to eligible students. The individual set up two tutorial companies, using family members' names as owners for the companies, and obtained at least \$1,275,000 from the District, mostly involving fraudulent billings for tutorial services purportedly for the students. On March 31, 2017, the former employee was sentenced to 18 months imprisonment and 4 months in a halfway correctional discipline house, following release. Additionally, restitution to the District in the amount of \$980,855 was ordered by the court, and personal assets for the same amount were forfeited.

Former Supplemental Educational Services Provider sentenced due to Federal Program Fraud

A joint OIG and federal investigation involving a former Program Director of a SES company resulted in a guilty plea to federal program fraud. The investigation, initiated in March 2011, substantiated that this provider set up a tutorial company and obtained authorization from the State of Michigan to provide supplemental educational services to eligible students. Subsequently, the subject SES company submitted invoices which were processed and aid by the District for tutorial services that were not provided to District students, between 2010 through 2012. The fraudulent billings amounted to \$684,644. On May 19, 2017, the former SES provider was sentenced to 37 months in federal prison, and restitution was awarded to the District for the same amount of fraudulent invoices paid.

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 individuals 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.

INTERNAL AUDIT PROJECTS

Review of Internal Controls over Gift Cards purchased for student incentives

A review was conducted in March 2017, to assess the processes, procedures, and internal controls utilized, regarding gift cards purchased for Count day student incentives. As part of the review, internal audit reviewed the processes in place for handling gift cards, safeguards related to the access and chain of custody of gift cards, and files and records maintained by the district unit, as relates to the receipt, storage and disposition of gift cards. The review identified some deficiencies which required management to correct, in order to maintain accountability and security of gift cards; from the time they are acquired through distribution. A key OIG recommendation was for Finance to establish a comprehensive districtwide Gift Card Policy and Procedures; to facilitate the appropriate use and accountability of gift cards acquired for specific programs or activities throughout the district.

Districtwide Risk Assessment / Annual Audit Plan

In the later part of FY2017, the OIG initiated a districtwide risk assessment to identify areas of high risk, and which pose challenges to the accomplishment of either the District or unit's organizational goals, objectives, and mission. Input was obtained from several District administrators, who were each asked to identify within their areas, where internal controls could be strengthened, or where the risk of fraud, waste and abuse appears greatest. In addition to concerns identified through prior investigative and audit matters, as well as requests for internal audit services received by the OIG, these responses will be taken into consideration as we begin to prepare our Audit Plan for fiscal year 2018. The completed document will be submitted to the Superintendent and the Board for their review and acceptance before implementation.

Advisory / Consulting services

The OIG continues to provide advisory services to District units regarding a myriad of matters. For instance, we have participated in discussions regarding improving the District's purchasing and accounts payable process, to ensure that controls are strengthened throughout all stages, starting with the requisition process, approvals, receiving through to final invoicing by suppliers. This effort is ongoing, and is managed by the Office of Procurement and Logistics, Division of Finance.

Employee Disclosure Process

As result of a Memorandum of Understanding executed, in October 2016, between the school District and Michigan Department of Education, the OIG was requested to review the Conflict of Interest and Disclosure process, and perform independent testing to vet its effectiveness in ensuring that all district employees and Board members undergo mandatory disclosures and acknowledgements of the Conflicts of Interest, Nepotism, Financial Disclosure, Code of Ethics, and Revised School Code Excerpt. During March 2017, the OIG participated in several meetings with representatives from the Division of Technology & Information Services (DTIS) to review the processes in place at that time. Several issues were revealed which required correction to ensure that the electronic disclosure process would flow seamless. Corrective measures were implemented by DTIS to remove the identified deficiencies, and the OIG was provided an opportunity to test the disclosure process thereafter; which the OIG found to be sufficient. Following this exercise, the OIG certified to Human Resources that the disclosure process was ready to be rolled out districtwide, and also be included as part of HR's onboarding process.

Governance and District leadership support

In March 2017, in a show of support of the OIG's function, the Board President directed that the OIG relocate its office to the 12th floor Fisher building. A new office space was designed to consolidate the functions of investigations and internal audit, and allow personnel seamlessly and efficiently coordinate their roles, while improving work flows and communications. The new location also ensures the OIG's independence and affords more discretion to potential whistleblowers and complainants. Our new mailing address is: 3011 W. Grand Boulevard, 12th floor, Fisher Building, Detroit, MI 48202. Along with the School Board's support, the OIG remains committed to performing its mission in support of the Superintendent's mission and overall strategic plan for the district.

FY18 Challenges and Impediments

Towards completion of FY2017, the OIG underwent a three-day on-site Peer Review performed by the Association of Inspectors General (AIG). We were evaluated based upon AIG Principles and Standards for Offices of Inspector General (Green Book) and United States General Accountability Office (GAO) Government Auditing Standards (Yellow Book). While the Peer Review team found the performance of the district's OIG to be effective and professional, they identified areas of concern and non-compliance with the AIG standards, that are "fairly likely" to affect or impact the quality of ongoing and future OIG projects. The major concerns were as follows:

- *"The current OIG staffing is at a crucial level and the need for additional staff is evident."*

In 2009, when the OIG was created for the district, eight employees comprised the OIG staffing level; including an IG, two Deputy IGs, four investigators and an administrative assistant. At that time, the OIG's work involved conducting investigations into allegations of waste, fraud and abuse; only. In FY2017, the district's internal audit function was added to the OIG responsibilities. At the time this annual report is being released, the OIG's current staffing consists of three employees, including the IG, a senior auditor and an administrative assistant. Although the IG is not recommending a return to 2009 staffing levels, it is clear that the current staffing level is inadequate to address investigations or internal audits in an effective, timely, and comprehensive manner, while ensuring integrity of results. Accordingly, an urgency exists to approve, process and bring onboard OIG applicants who were interviewed and budgeted for, to fill existing vacancies.

- *"The Peer Review Team recommends the DPSCD-OIG consider a presentation to the Detroit School Board regarding the role and contributions of the OIG. This consideration is recommended as a result of an interview conducted by Peer Review members of a current Board member who expressed to Peer Review members they did not clearly understand the role of the DPSCD-OIG."*

The IG looks forward to establishing an effective and sustainable working relationship between the OIG and the School Board, to address matters of mutual interest to district stakeholders. The OIG reports directly to the Board and anticipates continued support allowing the OIG to conduct its investigations and audits with independence of operation, to ensure integrity of work results.

- *"The DPSCD-OIG lacks a basis for legal authority... Emergency Manager Order 2016-EMSR-06, dated April 22, 2016 was created when the District was still under an Emergency Manager."*

The Association of Inspectors General's Principles and Standards recommend that the OIG be established by statute, executive order or a Resolution; which is necessary to clearly identify its establishment, mission, authority, evaluation, reporting, and additional duties of the Inspector General. The IG requests the Board to consider formalizing the establishment of the DPSCD-OIG.

REPORT FRAUD, WASTE and ABUSE

THE MANY WAYS TO REPORT FRAUD TO THE OFFICE OF INSPECTOR GENERAL

Online at:

www.detroitk12.org/admin/inspector_general



Mail to:



Fraud Hotline:

(313) 870-3436

In Person:

Office of Inspector General
12th floor Fisher Building



Fax to:

(313) 870-3405



Email to:

Inspectorgeneral@detroitk12.org

KICKBACKS
WASTE
FRAUD
ABUSE
CORRUPTION
INSURANCE FRAUD
ETHICS VIOLATIONS
EMPLOYEE MISCONDUCT
CONFLICTS OF INTEREST
MISUSE OF DISTRICT ASSETS
VENDOR FRAUD
THEFT
MISAPPROPRIATION
CONTRACTOR FRAUD
UNAUTHORIZED EMPLOYMENT
FINANCIAL MISMANAGEMENT
PAYROLL FRAUD

Report Fraud Confidentially