### Background of the OFFICE OF INSPECTOR GENERAL

The Office of Inspector General was created in March 2009 as an independent watchdog feature to investigate fraud, waste and abuse in the Detroit schools’ system. In June 2015, the office was eliminated, and later reinstated in April 2016. The function of the OIG, as in the past, reports directly to the top, which assures the accomplishment of its mission, goals and objectives. Through our mission, we assist District leadership by:

- Identifying real or potential misuse of District resources;
- Recommending ways to improve District processes, programs, functions and activities;
- Promoting integrity, fiscal responsibility and ethical conduct; and
- Preventing, detecting, and deterring fraud, waste, and abuse within the District.

### OIG CORE VALUES

- Professionalism
- Timeliness & Accuracy
- Relationships
- Dedication & Hard work
- Value Added
July 24, 2018

Honorable President and School Board members
Superintendent of Schools

I am submitting this report in accordance with the Principles and Standards for Offices of Inspector General. This report summarizes some of the activities and accomplishments of the Office of Inspector General (OIG) for the recently concluded reporting period of fiscal year 2018 (July 1, 2017 through June 30, 2018).

As formally established by Board Policy 1270, the OIG is charged with the responsibility of investigating allegations of fraud, waste, abuse, and financial mismanagement within the jurisdiction of the Detroit schools. We fulfill our mission with the goal of enhancing the effectiveness and efficacy of District operations, and ensure accountability, transparency and integrity, while increasing the public’s confidence in the school system. We also aim to build stronger relationships with District departments and our external partners.

In addition to examining systemic issues, in FY2018, the OIG continued to receive, review, assess, investigate, and respond to complaints regarding a wide range of concerns; spanning from theft, payroll-related fraud, financial mismanagement, the abuse or misuse of District property, unauthorized employment, vendor improprieties to ethical violations. Our investigations serve an important function in informing the Board and District leadership about ongoing threats and internal control gaps in District processes, as we continue to provide investigative reports offering recommendations on how to enhance accountability and improve internal procedures. For FY18, the OIG initiated 39 investigations based on 59 complaints it received and made 114 recommendations for corrective action. The fraud hotline continues to be the main reporting avenue.

Lastly, this office embarked on proactive efforts in spreading fraud awareness and preventative strategies. A fraud risk assessment was completed which revealed the need to educate District employees about OIG’s mission, and activities, as well as actively engage employees in the prevention and detection of fraud, waste, and abuse. We will continue this investment in outreach and training on topics related to fraud and ethics in the coming months. My team of dedicated professionals and myself remain committed to effectively serve the Detroit schools. On behalf of the entire OIG staff, I thank you for your continued support.

Bernadette Kakooza, MBA, CFE, CIG
Inspector General
MISSION

The mission of the Office of Inspector General is to promote integrity, economy, efficiency, and effectiveness in the operations of the Detroit Public Schools Community District by conducting meaningful and accurate investigations, forensic audits and program reviews; to prevent, detect, and deter fraud, waste and abuse.

AUTHORITY AND REPORTING STRUCTURE

The Association of Inspectors General, a standard setting body for Inspectors General, recommends that all OIGs be established by Executive Order, Resolution, or Statute. The OIG derives its authority from Board Policy 1270 adopted May 2, 2018, which serves as the OIG Charter. Key provisions of this policy grant the IG authority to:

- Report directly to the Board of Education.
- Report to the Superintendent for day-to-day administrative issues.
- Provide the Board and Superintendent with information/reports necessary to fulfill its responsibilities.
- Maintain the independence necessary to ensure the accountability and integrity of investigative efforts.
- Investigate, and obtain testimony and requested documents from all District employees, contractors, vendors, agents, and representatives of the School District.
- Conduct investigations and forensic audits free of actual or perceived impairment; including freedom from any interference in OIG activities.
- Unrestricted access to District data including, but not limited to, information on activities, records, files, property, as well as timely access to electronic or automated data.
- Receive Whistleblower complaints, and ensure protections to those who report violations in good faith.
- Maintain a confidential Fraud Hotline for reports of fraud, waste, abuse, and other ethical violations.

HOW WE OPERATE

The OIG conducts investigations and forensic audits in accordance with the Quality Standards for Investigations and Audits established by the Association of Inspectors General (Green Book – last revised May 2014). Investigations are initiated upon the receipt of credible information alleging an act of fraud, waste, abuse, financial mismanagement or ethical misconduct within the investigative jurisdiction of the OIG. Matters outside of the OIG’s purview are referred to other District offices or external law enforcement agencies. Upon completion of investigations, the OIG issues a Final Investigative Report and offers recommendations to District leadership and senior administration, who ultimately are charged with the responsibility for corrective actions. Responses to OIG’s recommendations can be broken down as follows:

- **Implemented**: The appropriate District administrator has accepted and implemented the OIG’s recommendations completely.
- **Accepted in Principle but Not Yet Implemented**: The administrator agrees with the OIG’s recommendation, and intends to implement the suggested corrective action in the near future.
- **Accepted but Alternative Resolution Followed**: The administrator acknowledges the need for corrective action; however, will implement an alternate resolution than that offered by the OIG.
- **Rejected**: The administrator does not agree with the OIG recommendation and will assume the risk not to implement them.

The majority of OIG recommendations were accepted by District administration. OIG closely monitors to ensure that the accepted recommendation is actually implemented. A completed matter is placed in inactive status until corrective action is fully implemented, and then the case is closed. As of June 30, 2018, four (4) matters remained in inactive status, with 11 recommendations that were pending response and/or implementation.
MONETARY BENEFITS

The OIG is committed to identifying and reducing fraud, waste, and abuse, and to identifying opportunities for achieving greater economy, efficiency, and effectiveness that result in monetary savings for the School District. As a component to investigations and forensic audits, OIG continually promotes the use of vendor suspensions and payment holds, where appropriate and necessary, as a means to protect District funds from further loss. When appropriate, OIG will request the procurement office to suspend the subject of an ongoing OIG investigation to ensure cost savings and avoid monetary loss due to continued financial transactions with those exhibiting a lack of business integrity.

During FY2018, OIG achieved over $7.3 million in monetary recoveries and savings for the District, bringing the total amount of monetary benefits since inception to $33,226,111. Monetary benefits are categorized as below:

<table>
<thead>
<tr>
<th>Table 1: MONETARY BENEFITS</th>
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<tbody>
<tr>
<td>Monetary Recovery</td>
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<tr>
<td>Court-ordered Restitution</td>
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<tr>
<td>Restitution Payments</td>
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<td>Cost Recovery</td>
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<tr>
<td>Cost Avoidance</td>
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<tr>
<td>Monetary Loss</td>
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</table>

Source: OIG Fraud Statistics Report

STATISTICAL ACCOMPLISHMENTS

As previously stated, during FY2018, OIG issued 39 reports containing 114 recommendations to promote integrity and reduce opportunities for fraud and unnecessary losses in District programs. Although the value and impact of the majority of OIG recommendations cannot be quantified, many have notably provided a solid framework for Board policy actions, and/or led to improvements in administrative procedures and operations.

In addition, OIG investigations have resulted in the following accomplishments to date: 134 employees referred for internal disciplinary hearings; 66 employee suspensions / administrative leave; 64 employee terminations; 15 resignations; 4 demotions and 45 with other administrative actions taken. In addition, 15 vendors were suspended or debarred, and 3 barred from school entry; 44 search warrants were executed; 65 subpoenas served; 40 cases were referred to the Wayne County Prosecutors Office; 6 to the United States Attorney’s Office; 15 to local law enforcement; 1 to state law enforcement, and 14 to federal law enforcement, which resulted in 26 federal indictments, 32 arrests, and 54 convictions.

Since inception, OIG has initiated 800 investigations, of which 780 were closed as of June 30, 2018. There were 11 open investigations and two inactive cases prior to this reporting period. As shown in the table below, at the end of the reporting period, 16 investigations remained open (ongoing) and four were placed in inactive status.

<table>
<thead>
<tr>
<th>Table 2: SUMMARY OF OIG INVESTIGATIONS</th>
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<tbody>
<tr>
<td>Investigations open at the start of the reporting period (carried from FY2017)</td>
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<tr>
<td>New investigations initiated during the reporting period (7/1/2017 – 6/30/2018)</td>
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<tr>
<td>Total Investigations / Forensic Audits handled during reporting period</td>
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<td>Investigations completed (closed) this reporting period</td>
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<tr>
<td>Total investigations placed in Inactive Status</td>
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<tr>
<td>Total investigations remain open at end of the reporting period (as of 6/30/2018)</td>
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</tbody>
</table>

Source: OIG Case Management System (CMS)
FY2018 HIGHLIGHTS

Following are summaries of some key investigations and forensic audits that demonstrate the different types of matters handled by this office, and the importance to identifying more efficient and effective policies and operational procedures. It should be noted that OIG investigations often involve multiple subjects, and may vary in complexity and impact – some take several months to conclude, some involve large dollar savings or losses, while some result in substantial restitution ordered, and/or disciplinary actions involving District employees.

Alleged Abuse of FMLA and/or other medical leave of absence by District employee

In December 2017, the OIG received information that a teacher was improperly working in another school district while still employed by this District, and reporting work absences as FMLA and/or other medical leave. The OIG investigation confirmed that the teacher’s FMLA request was never approved, but that they continued to report absences for a three-week period, resulting in a resignation from this District. Through surveillance, OIG was able to identify the other school district, who confirmed that the teacher had commenced full-time employment three-weeks prior to their resignation from DPSCD. The OIG investigation determined that the monetary loss due to salary payments to the teacher during the period that they remained on DPSCD payroll while working for the other school district was $7,650; which was successfully recovered from the former employee. Furthermore, their personnel record was flagged as “ineligible for rehire” with the District, and that this matter be considered should the former teacher ever reapply for employment with the DPSCD. In May 2018, the Board adopted and strengthened Family and Medical Leaves of Absence and Outside Employment policies, which prohibited outside supplemental employment while on any leave, including FMLA; specifically working for another employer and engaging in activities inconsistent with the imposed health condition limitations.

Alleged Abuse of authority and favoritism by District administrator

In January 2018, the OIG received information from a District administrator who alleged that another administrator was influencing employees in the Payroll department to take actions to refund garnished wages, in violation of a Writ of Garnishment court order. The OIG investigation confirmed that the payroll department received a Writ of Garnishment, which ordered the District to notify the concerned employee and forward the appropriate garnishment within 28 days. The department did not have written operational procedures, but traditionally followed a practice which allowed a one pay-period for employees to resolve issues with the courts on their own, before the department took action to comply with a garnishment order. The investigation determined that the employee had not been provided a grace period, and the payroll department tried to rectify this by refunding the one-pay period garnished monies. The employee’s remaining garnishment deductions remained in place. The investigation further determined that there was no abuse of authority and favoritism as had been alleged; although the OIG included a recommendation that the Chief Financial Officer oversee the creation of written operational procedures on the handling and processing of court ordered deductions, including garnishments, bankruptcy, childcare and levies; which are court complaint, for all district employees.

Unallowable Expenditures Outside of Title II, Part A Funding

An OIG investigation in October 2017 revealed that a District employee in a clerical position did not meet the criteria for allowable personnel costs per Title II, Part A federal program guidelines. The investigation established that the clerical’s administrator failed to secure the proper funding for the position, and consequently, continued to charge the unallowable personnel costs totaling $29,007 to the Title II grant; in so doing, risking an audit finding for the District, as well as the forfeiture of grant funds improperly spent. The OIG recommended that the employee be reclassified to a General Funds source of funding, and that written procedures be implemented to ensure accuracy of time-and-effort personnel costs charged to grants.
Over-Billing, Accounting, and Document Irregularities Involving a District Vendor

In May 2017, the OIG received a complaint that a District vendor was inflating labor cost, improperly billing non-reimbursable items, employing known felons, and expensing a sub-contractor at a rate in units instead of hours; resulting in double billing their services, among other allegations. OIG performed a forensic analysis, revealing that the vendor employees’ skill levels were misrepresented, hours not actually worked were recorded, that known unauthorized vendor employees were allowed on School District property, and that a subcontractor utilized half units instead of hours, as contractually required. The investigation also revealed that tools, among other items, was reimbursed as parts and supplies. The OIG recommended the recovery of District funds totaling over $5.4 million. The OIG also recommended numerous controls to safeguard future District funds and appropriate administrative disciplinary actions for lack of proper oversight, which caused significant monetary loss and potential litigation for the District. The results of the OIG investigation into this matter were referred to the District’s Office of General Counsel for legal actions.

Mismanagement, Nepotism, and other vendor improprieties at District school

In June 2017, the OIG received allegations of mismanagement, nepotism and vendor improprieties involving a school administrator and a District vendor. An OIG investigation revealed that the vendor, although contracted to provide tutoring services to students, was more involved in sales of food at the school, and that the administrator enabled the vendor to sell food items to students during regular class hours. Further, investigation confirmed that the school administrator supervised a long-term substitute teacher that was a family member, in violation of the District’s Nepotism policy. As a result of the OIG investigation and documented contract non-compliance, the vendor’s contract with the District was terminated. The OIG also recommended to Human Resources that the administrator’s relative be transferred to another District school.

Alleged Conflict of Interest in Interview Process, and other improprieties in the hiring process

In April 2018, the OIG received information from a District employment applicant, who alleged that a District teacher, someone who the applicant had previously supervised during after-hours employment and caused to resign, participated in the applicant’s interview and hiring process. The OIG investigation confirmed that the District teacher had an adverse relationship with the applicant and failed to disclose this relationship on the Conflict of Interest statement they completed before the interview process. The investigation determined that there were no obvious deviations or signs of bias, but that the teacher’s participation in the interviewing process gave the perception of a conflict of interest and a risk of inference of bias and pre-judgement. The OIG recommended that language be added to the Conflict of Interest policy to include clarification on not only avoiding actual conflicts of interest, but the appearance of such conflicts; whether from the employee or an applicant’s perspective, and to require that Interview Chairpersons canvass panel members to determine if any have past or present personal or professional relationships with any of the interview candidates.

The complainant also alleged that the candidate that was eventually hired was not eligible to instruct. The OIG determined that the hired teacher had the necessary qualifications; but was required to obtain a Michigan Department of Education’s (MDE) Annual Occupational Authorization (AOA) before commencing employment. The investigation determined that the District had failed to timely apply and secure the AOA prior to placing the teacher into the classroom. The OIG recommended that the District issue reporting dates after receiving MDE confirmation of all necessary certifications, and that a date stamped paper trail be utilized for the passing from one Human Resource employee to another of time sensitive duties and documents during the recruitment process.
Abuse of a District Vehicle

In March 2018, the OIG received an anonymous hotline complaint, alleging misuse of a District vehicle by an identified District employee. Preliminary OIG investigation determined that the employee was assigned a District vehicle, although was not approved to drive the vehicle during non-work hours and/or on weekends for personal use. Through electronic surveillance, the OIG obtained evidence to support that the vehicle was being operated to personal venues including golf clubs, shopping centers, night clubs, restaurants, and personal residences; which substantiated the allegation. The employee’s actions were found to be in violation of the District’s Code of Ethics and Employee Work Rules and indicated a historical pattern of vehicle abuse. Based on a recommendation from the OIG, the employee reimbursed the District for the mileage abused during the period covered by the OIG investigation, which totaled $526, and received a five-day suspension without pay.

Improper Salary payouts and Benefits for Former Employees

In October 2017, the OIG issued an audit report, which detailed a finding that former District employees were not timely removed by HR from active employee database following termination/separation from the District. In February 2018, the OIG initiated an investigation to determine the extent of monetary loss to the District due to salary overpayments and employer-paid benefits erroneously paid for the identified former employees, and to recover the amount. OIG established that the District improperly paid salary to 19 individuals totaling $45,734, and employer-paid (fringe) benefits which totaled $22,110. Through direct contact with the individuals, the OIG successfully collected reimbursement for the full salary amount from nine of the identified former employees and recommended that the District’s General Counsel take legal action to recover $25,594 from the remaining 10 individuals. To prevent this type of loss from reoccurring, OIG recommended to Human Resources to implement procedures to ensure that all notices of retirement/resignation are timely processed.

Alleged Abuse of Family Medical Leave Act (FMLA) by District employee

In October 2017, the OIG initiated an investigation into allegations that a District employee was engaged in unauthorized outside employment, while on an intermittent FMLA absence from the District. The OIG investigation confirmed that the employee was employed as a temporary worker with an out-of-state company, in violation of the FMLA policy. During the process of investigation, the employee abruptly resigned from the District. OIG obtained confirmation of the individual’s days and hours worked from the other employer and copies of paystubs, as well as compared the dates worked with the other employer to days reported absent from work with the District, due to FMLA. Given this information, the OIG calculated that the individual received $364 for two days fraudulently reported as sick, which they were made to reimburse to the District.

Alleged Unethical Behavior by District Principal

In September 2017, the OIG initiated an investigation into allegations received that a District principal created a “GoFundMe” account, soliciting public support to raise money for the repair of a bus they claimed to have purchased for the school to provide free student transportation. The investigation determined that the bus was a personal vehicle, and that the GoFundMe account had raised $3,045. There was no evidence gathered to indicate that the fundraising proceeds from the GoFundMe account were deposited into the school's bank account. OIG investigation further revealed that the Principal did not obtain District approval to conduct fundraising for the bus, nor were they authorized to park the bus on school property. The investigation also revealed other improper fundraising activities by the Principal, which included food sales held at the school, without District authorization. Resultantly, the OIG recommended administrative discipline for the Principal, for having violated Employee Work Rules, Code of Ethics, and District policies regarding fundraising activities. The Principal was issued a 30 days’ suspension without pay, and subsequently demoted.
Forensic analysis of Service Provider agreement with the School District

In July 2017, the OIG initiated a forensic audit of a contractual agreement between the District and a service provider for a restorative program in identified District schools. The review was initiated based on concerns expressed to the OIG about possible misuse of Title One grant funds expended by the District for the program. The OIG analyzed all the supplier’s invoices received by the District and related payments, to verify amounts billed for contractual services versus timesheets submitted for hours worked by the vendor’s representatives. The OIG review did not address performance related standards. The OIG audit revealed that, for the two-year period that the supplier provided services to the District, billings totaling $649,122 exceeded payable hours worked by a total of $39,566. The audit also identified other anomalies, including change in scope of services without District authorization, as well as billings for days such as District holidays and professional development days when students were not in school. The OIG recommended that the District’s Finance division withhold payments in the amount overbilled to the District. Additionally, other recommendations were made to improve oversight of contracted services as well as the billing process to ensure compliance.

Alleged Child Care Service Provider Fraud

A complainant alleged to the OIG that a teacher had improperly set up a child care center in a District school and was billing for children while they were attending school, as well as billing for children that did not attend school within the District. The teacher had not obtained the proper Community Use permit and authorization from the District to use the school facility to conduct their private business. The OIG conducted a joint investigation with the state’s Department of Health and Human Services (DHHS) Office of Inspector General. The investigation learned that the center was considered a full-time child care center by the state and was receiving state subsidies for care services allegedly provided to District students whose families were eligible for family assistance benefits payable by the state. Interviews of parents were conducted which confirmed the allegations and revealed that the teacher had billed the maximum number of hours authorized by DHHS for each child, over a period of almost two years. OIG received the day care’s billing history from the State of Michigan, and compared these records to District students’ information, to calculate the number of absent hours billed, and the fraudulent billings; which totaled $48,295. The employee was subsequently terminated, and DHHS pursued prosecution by the Michigan Department of Attorney General for Intentional Program Violation (Program Fraud) and recoupment.

Improper Possession and Use of a District Cellular Device

In August 2017, the OIG initiated an investigation into allegations that a former District administrator, who had separated from the District two years prior, was still in possession of a District cellular device. The OIG contacted the individual via the cellular number assigned to the District device and established that the mobile device was active, and still being used by this individual. The OIG investigation determined that, during the two-year period that the District device was misused by the individual after separation from the District, cellular charges totaling $1,592 were billed to the District. In addition, the OIG had the cellular device disconnected, and directed the former administrator to have it returned to the District, as well as reimburse the District for the cellular charges paid by the District. In a twist to this matter, another municipal agency had employed the former District administrator, following their separation from the District, but when the new employer became aware of this investigative matter, the individual was subsequently terminated for unethical conduct.
Allegations of Conflict of Interest involving a School Board Member

In August 2017, the OIG initiated an investigation regarding an allegation that a school board member had a conflict of interest involving a service contract that was awarded by the Detroit Board of Education. The investigation corroborated the allegation that the board member worked for the contracted company as a consultant. However, the services provided by the board member were not related to the contract awarded to the company by the School Board. Most importantly, the investigation confirmed that the Board member had recused themselves from voting on the contract when it was approved by the School Board. The OIG found that the Board member’s actions were in compliance with Michigan Statute – M.C.L 380.1203, which generally requires a board member to abstain from voting on any contract in which the board member has a conflict of interest. The OIG recommended that the School Board adopt policy that covers situations when a board member must abstain from voting on a school district contract or financial transaction due to financial or ethical conflicts of interest, and furthermore, that all school board members complete annual financial disclosures to guard against any situations of conflicts of interest that may create a potential liability for the school district.
OIG STAFF QUALIFICATIONS & PROFESSIONAL DEVELOPMENT

The OIG is a highly educated and diverse professional staff where all members have a four-year degree; and two possess either advanced degrees or one or more professional certifications in their areas of expertise. Staff members have diverse background, knowledge, experiences and academic degrees in: Accounting, Business Administration, Finance, Criminal Justice, Law, Law Enforcement, and Ethics and Compliance. One staff member holds a Master’s degree in Business Administration, and one has a Juris Doctor degree. Two staff members are former law enforcement officers from federal and local agencies.

The anti-fraud industry is constantly evolving. To ensure compliance with the Principles and Standards for Offices of Inspector General, each year, staff are required to obtain at least 20 Continued Professional Education (CPE) credits to stay current with the latest developments in the field. Members of the OIG staff fulfill this requirement through in-house webinars, at minimal or no cost, as well as participating in professional development meetings and other networking opportunities made affordable through memberships with the Association of Inspectors General, Association of Certified Fraud Examiners, Society of Compliance and Ethics, and a variety of other government and non-government organizations.

OTHER ACTIVITIES

As part of a District-wide restructuring, the OIG experienced significant changes in its structure during fiscal year 2018. The function of Internal Audits was transferred from the OIG to the Division of Finance. The OIG also created a new position for a Compliance Officer to promote continuing education in fraud awareness and ethics.

In December 2017, the School Board adopted Whistleblower Policy 1244, which provides protections to allow and encourage the reporting of violations of fraudulent activities by employees. Complainants are required to call the Fraud Hotline or contact the OIG directly when they have credible information regarding potential fraudulent activity. The OIG has the authority to investigate violations of the Whistleblower Protection policy. Employees who make reports in good faith cannot be subjected to retaliation for reporting such violations. This policy was established pursuant to the State of Michigan Whistleblower Protection Act 469 of 1980. Pursuant to adoption of this District policy, the OIG is in the developmental stages of providing training, in our office and via the District’s intranet, to educate employees about prohibitions on retaliation for whistleblowing, as well as employees’ rights and remedies if anyone retaliates against them for making a protected disclosure.

GOING FORWARD

In FY2018, the OIG was allocated $577,598 and staffed with five full time employees. While the OIG is encouraged by this increase in resources from the previous reporting period, there still remains the challenge to fully and timely address complaints, due to the small staff size. In FY19, OIG requests additional funds to adequately support an additional forensic auditor position and allow the OIG to provide investigative evidence and reports to improve District financial and nonfinancial processes. As previously reported by this office, the inadequacy of staff results in an inability to complete investigations or forensic audits in an effective, timely, and comprehensive manner, while ensuring integrity of results.

In conclusion, this report, as with other OIG Annual Reports in previous years, is offered as a road map restating our mission, how we conduct our work, highlighting noteworthy accomplishments, and identifying impediments to our efficiency during FY19 and beyond; if left unaddressed. On behalf of the entire OIG team, I thank the Board and District leadership for their continued support and for setting a tone of zero tolerance of waste, fraud and abuse within the district. Your continued support and leadership allows my office to address our work with integrity and independence of operation while producing credible results.
OFFICE OF INSPECTOR GENERAL

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