

## EYE ON ED

### Episode 6: Protecting Federal K–12 Funds from Fraud

**[Intro]** This is Eye on Ed. Your source for information about audits, investigations, and other work by the U.S. Department of Education Office of Inspector General. Tune in for the latest news on our efforts to find and stop fraud, waste, and abuse involving Federal education programs, operations, and funding.

**[Stephanie Bloom]** Hi, I'm Stephanie Bloom, and welcome to another episode of Eye on ED.

The U.S. Department of Education disburses billions of dollars each year to individuals and local, State, and Federal entities, including school districts, schools, colleges, and universities. But every year bad actors intentionally misuse, steal, or otherwise abuse those funds for their own selfish purposes. This is particularly egregious when it involves funding that supports the education of kids in kindergarten through twelfth grade, as the perpetrators of these crimes tend to be school officials—people in positions of trust to educate children.

The Office of Inspector General works to stop those who steal or otherwise abuse these funds. But we can't do this alone. We need your help. And that is what we're here to talk about today.

And here to help us do just that, we have Ali Turon, a criminal investigator with our Dallas Regional Office, and Dana McKay, a criminal investigator in our Denver Office. Ali, Dana, thank you for joining us.

**[Ali Turon]** Glad to be here.

**[Dana McKay]** Happy to be here.

**[Stephanie Bloom]** For our listeners, Dana was a teacher before becoming an OIG Criminal Investigator, so we'll definitely be touching on that a little later in the podcast. Dana, your experience as both a teacher and a criminal investigator may really help people identify fraud. I think it could be especially helpful to teachers and school employees.

**[Dana McKay]** Absolutely.

**[Stephanie Bloom]** Ok, so the OIG investigates cases that involve U.S. Department of Education funds that have been abused or stolen. This includes funding that the Department provides to States, school districts, and schools. Ali and Dana, can you give us some examples of what those Federal K–12 funds should be used for?

**[Dana McKay]** Sure. The Department administers more than 100 K–12 programs, providing funding mostly to States for school districts and schools with a high percentage of students from low-income families. These programs and funding are intended to help districts better serve children who without this funding could not be properly supported. The funds are designed to be

used to pay a wide variety of costs related to the educational needs of the district, for example, salaries, counseling and tutoring services, and college and career awareness and preparation.

**[Ali Turon]** Right. And the Department also provides funding that's used for students with disabilities. For example, the funds can be used to cover costs for special ed teachers, counselors, nurses, therapist, and specialized equipment or devices.

**[Stephanie Bloom]** So how big of a problem is fraud involving K–12 funds?

**[Ali Turon]** Anytime you're talking about school officials stealing school funds—taxpayer funds—it's a problem, but it's hard to quantify the scope of the problem because we only know about the cases we know about. But we find K–12 fraud in school districts large and small, affluent or underprivileged, and regardless of geography—big cities, suburbs, rural communities. These are crimes of greed, and sad to say, greed isn't going away.

**[Dana McKay]** Right. And you've probably read the headlines in newspapers. School officials—some very senior officials like school superintendents and school board members—have gone to prison for stealing or otherwise abusing these funds. In our Semiannual Reports to Congress, we regularly share examples of our investigative cases involving millions of dollars lost to fraud, abuse, and criminal activity involving these K–12 funds. We investigate cases involving things like nepotism, quid pro quo, procurement fraud, construction fraud, and personal enrichment.

**[Stephanie Bloom]** Tell us about some of the common types of fraud you've seen involving Federal K–12 funds.

**[Dana McKay]** I have investigated cases involving misapplication more often than other areas of K–12 fraud. Misapplication is the using of funds for other than their intended purpose. These allegations really need to be scrutinized though, because sometimes what a complainant believes is a criminal act may be related to a mistake or an error, or bad business practices. Having said that, an environment of repeated “mistakes” or audit findings may be a red flag there is something criminal going on. When an official misapplies Federal funds and personally benefits by purchasing a boat, car, or paying for personal travel, then it is likely criminal charges will be filed.

**[Ali Turon]** I've also seen some misapplication cases where trusted employees simply embezzled district funds by exploiting a weakness in the district's system of checks and balances. They essentially wrote checks or wired money to themselves. Another type of fraud is false invoicing, where a school employee offers to split the proceeds with a vendor. For example, the vendor might overstate an invoice to create extra money: the vendor bills the school for, let's say, 1,000 widgets, but only delivers 900. The vendor keeps the extra “profit.” Or if they need a district employee to facilitate the scheme, they just split the money. In other schemes people create fictitious companies, submit completely fabricated invoices, and the districts receive absolutely nothing of value... it's 100% fraud.

**[Stephanie Bloom]** Wow. You mentioned that a number of high-ranking school officials have gone to prison for stealing or abusing Federal K–12 funds. Can you highlight a couple of cases for us?

**[Dana McKay]** Sure. I'll start. I'll give you a recent example from California. The founder and former CEO of Celerity Education Group, a nonprofit company that owned and operated charter schools, was sentenced to 30 months in prison for misappropriating about \$3.2 million in public education funds. The founder used the money to pay personal expenses, including first-class air travel, fine dining, and luxury goods from shops in Beverly Hills and Tokyo. Money was also used to purchase a building for another charter school in Ohio, renovations at a soundstage and recording studio that students rarely used, and even for leather-making equipment used by a for-profit company the founder and her family were involved with.

**[Ali Turon]** One of my cases was a family defrauding a little school district. The father, who was a convicted felon, and his three sons worked for the school district or the school board. One of the sons was also the mayor of the city! Each one played a part in creating what's called a "pay-to-play" contracting system, where they used their control of the school board to extract bribes and kickbacks from a construction company and an architectural firm hired to build new schools for the district. They also used a supply company that one of the other sons owned to submit false invoices to the district. The dad and sons were sentenced to prison and had to pay close to \$1 million in restitution.

**[Dana McKay]** And if I can just add, not all of our investigations result in criminal prosecution. Our investigations can also lead to audits, where auditors can take a look at a school or school district practices that may not be criminal but still need to be fixed. And our investigations can also lead to administrative actions, like replacing school officials or school board members.

**[Ali Turon]** Yeah, and some of our cases have both. I'll give you an example. A school superintendent was sent to prison for fraud. It was contract fraud, where he basically gave a contract to his mistress for work that was never completed.

That was the criminal aspect, and then there's the administrative action. While all this was going on, the superintendent and the administration were manipulating school records and testing records in order to make it appear that the schools were complying with specific Federal requirements, when in fact they weren't. Because of these fraudulent actions, the school district avoided repercussions, and the superintendent received a big financial bonus. The school board was supposed to provide oversight of the superintendent. They claimed to be unaware that all this was going on, so ultimately, the State came in and replaced the entire school board.

**[Stephanie Bloom]** How did you find out about people who participate in these types of schemes?

**[Dana McKay]** We receive allegations of K–12 fraud from many sources. We hear from school employees, State educational agencies, or other law enforcement agencies.

**[Ali Turon]** Right! In the case I gave as an example, the lead came from an FBI agent that I had previously worked with. But really, every day people can be in the position to help us with information: a concerned citizen, a vendor that protests the awarding of a contract, or an honest employee who just happens to find a suspicious check on a printer.

**[Stephanie Bloom]** Dana, you were a teacher before you become a criminal investigator.

**[Dana McKay]** Yes! I taught high school and junior high English!

**[Stephanie Bloom]** And as a former teacher, I bet you have a lot of insight into what it's like "on the ground" and what teachers might see. What would you say to a teacher, or someone working at a school, or a school volunteer to help them identify fraud?

**[Dana McKay]** As a teacher, your main focus is on the students—making lesson plans, handling discipline issues, and correcting papers. Having said that, teachers are definitely concerned about available resources to do the job. They attend school board meetings and community forums. So they are in position to see things that others might not. And of course they want to see funds being used for educational purposes.

Long before I was an agent for OIG, a teacher friend of mine in a small district once told me she discovered a closet full of computer equipment while searching for fitness equipment for her P.E. class. She knew a Federal grant was supposed to purchase this equipment for the technology department, but teachers in that department had been told they would have to do without because the grant never came in. My friend was really scared and did not know who to report it to.

I guess my advice to teachers and other people in the school system is simply to pay attention to things that seem out of place. Trust your gut. There's often a shred of truth to rumors. And know that the OIG is here to help if you see something that's not right.

**[Ali Turon]** And that applies to school employees, volunteers, employees of businesses that have contracts with the schools and school districts, and parents of students, and community members too. If something doesn't seem right, it may not be right.

An example I have in a case that I worked was a guy in the community became a little suspicious when he noticed that a school employee was accumulating a small fleet of somewhat expensive cars. And he was also making some pretty substantial additions and renovations but only to the back of his house.

So this man reports his suspicions to us, and eventually we were able to determine that the employee was the chief financial officer for the local school district. And it turns out that he was wiring himself money and using the proceeds to fund the additions and renovations to his house and to buy cars. Eventually he went to prison for stealing over \$3 million from the school district.

**[Stephanie Bloom]** Wow. So that guy knew where to go to report suspicions of fraud. I'm sure there are other people who don't know how to report fraud or maybe are afraid to do so.

**[Dana McKay]** Yes, fear can be a big factor. And I'll speak directly to teachers and school employees. School staff need to realize a couple things: you have an ethical responsibility to report fraud. You want to preserve the integrity of the programs—make sure the money is being spent in the ways they are supposed to, and to help kids and teachers. Also, you don't want to become part of a fraud scheme. There could be serious consequences such as criminal prosecution. It's just not worth it.

**[Ali Turon]** And again, same goes for employees of companies that do business with school districts. Look, getting caught up in a fraud scheme isn't as crazy as it sounds. We know that people get stuck in the middle. Maybe they agreed to sign a document or approve a payment that they know or at least suspect is wrong. But they did it anyway because they trusted their supervisor to follow the law or they feared losing their job if they said something.

**[Dana McKay]** So here's our advice. If it seems wrong, don't do it. Call us and let us help. Look, it is completely understandable to fear retaliation for bringing an allegation forward. That's why we handle allegations confidentially, and there are legal protections in place for whistleblowers.

**[Stephanie Bloom]** So what can people do?

**[Ali Turon]** First thing, go to our website. We have all kinds of information on there that can help you identify and report fraud. We even have free posters with information that you can print out and post in your school if you like—that may be one way to keep fraud from happening! They'll know someone's watching!

**[Dana McKay]** And you'll also find information on protections for whistleblowers on our website. So if you suspect waste, fraud, abuse or other criminal activity involving K–12 funds, please don't be afraid to let us know. Remember, *your* hard-earned tax dollars fund these education programs. Help us to ensure that they are being used as intended. Contact the OIG. The link to our Hotline is right on our website.

**[Stephanie Bloom]** Yes, and the OIG Hotline is available online 24-7.

**[Dana McKay]** And you can file a complaint or allegation anonymously—just please be sure to provide as much credible information as possible in your submission. For example, dates, eyewitness accounts, places, names, amount of money impacted, any documentation of the alleged fraud.

**[Stephanie Bloom]** Ali and Dana, this was really interesting, and I think you provided our listeners with some great information about identifying and reporting fraud to the OIG. Thank you so much for being here today and sharing some fascinating examples of the types of cases the OIG investigates.

**[Ali Turon]** Honored to be your guest and glad to do it.

**[Dana McKay]** Thank you for having us!

**[Stephanie Bloom]** And thanks to our listeners for tuning in. You can read more about the OIG's investigative efforts on our website. And please be sure to download our free posters and flyers to help make sure that Federal education dollars are safe from fraud and other criminal activities.

I'm Stephanie Bloom with the U.S. Department of Education Office of Inspector General, and this has been Eye on ED.