

INSIDE EDUCATION

Part 2 Finance: How Robin Hood Hogs Feast on the School Treasure Chests!

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*"We're all born brave, trusting and greedy, and most of us remain greedy."
(Mignon McLaughlin)*

Part 1 last week dealt with the elephants in the school budget in order to understand the dynamics of the budget process. If the budgets were prepared as illustrated and monitored regularly, this article could not have been written.

The first thing to understand is what corruption means in education, and the fact that by definition all corruption is not illegal; as a result, corruption can be found in all schools, it's only a matter of classification and degree. Further, as will be seen, often it goes on for years meaning that required auditing procedures are totally inadequate to identify school corruption.

Corruption: breach of trust, bribery, crime, crookedness, deceit deception, dishonesty, exploitation, evil, extortion, fraud, graft, malfeasance, nepotism, payoff, profiteering, tainted, unethical, untrustworthy and unscrupulousness.

All of these are unpleasant and nasty words, but all do not mean they are illegal or criminal e.g. nepotism is common in politics, education and elsewhere, but not necessarily illegal unless it violates a policy against it. .

For my book, *School Corruption: Betrayal of Children and the Public Trust*, (published after I retired), I divided "corruption" into three separate categories:

- Cheating and Deceitful Practices—CheDe (cheaty). It's the moral and ethical decay of the school culture.
- Waste and Mismanagement—WhaMi (whammy); sometimes difficult to determine because too often, it is in the eyes of the beholder.
- Fraud and Stealing—FraSte (frosty); encompassing embezzlement and fraudulent activities in which actual dollars are involved.

There is also a credo involved that I developed:

The Corruptor's Code of Conduct

My Credo is Greed

If I can touch it
If it is within my reach
If I can control it
If I can manipulate it
If I feel entitled to it
If I want it
I will take it
and the public trust
and
children be damned!

The fairytale of Robin Hood tells how he stole from the rich and gave to the poor; but the fairytale has become a modern "real-tale" with a couple of twists. Today's Robin Hoods no longer steal from the rich barons, but rather from the rich education treasure chests, and now they consider themselves the "poor" and hog the loot for themselves.

The Robin Hood Hogs wrap themselves in education garments and operate with a host of willing bandits to plunder the schoolhouse treasures. Hard to believe? What is harder to believe is that much of the plundering goes unrecognized and unreported; it's covered up by various means to keep it

from public view. That's why it does not get much media attention. Corruption and fraud is often hushed-up by the system because it's embarrassing to the profession and the administration (personal experience suggests that for every publicized case of fraud, perhaps 10 are buried from view).

Furthermore, it occurs at every level of the organization, in every school building, in extra-curricular activities, parent-teacher organizations, with grants, requests for reimbursement, from candy sales, etc., any school activity invites the Robin Hood Hogs because of poor oversight. It then extends to state departments of education other agencies, and finally in the U.S. Office of Education. Wherever education dollars exist, a Robin Hood Hog exists.

Where you can be absolutely guaranteed for corruption to occur is in any transaction or activity involving cash. If all cash activities were added up that take place in schools, the amounts would be shocking and that would only represent cash reported, not collected.

Why it occurs would seem to have a simple answer—greed! Not so simple! Other reasons include deceitful (lying, cheating, etc.) practices that creates a climate for defrauding, and employees who are angry or frustrated because they feel mistreated or unappreciated and justify stealing as a way “to-get-even.” The system compounds the problem by making it ever-so-easy to plunder the treasure. Why? **No one wants to believe that educators would steal from the mouths of children they are dedicated to serve, and no one wants to believe that those who serve education would be prone to deceitful and corrupt practices.** That's why it has gone on daily, weekly, monthly, yearly and for decades; and continues to do so now and predictably into the future.

For example, no one would want to believe that The National Center for Educational Statistics—a seemingly innocuous agency responsible for collecting and disseminating education information and data—would harbor deceitful practices. However, the reality is that the last permanent commissioner was not re-nominated in 1999 because he resisted “*improperly politicizing test data*” designed to support political agendas.

The political agenda moves on to Capitol Hill and finds itself in the U.S. Office of Education—the dispenser and watchdog of federal education dollars (what a joke). Would it be shocking to know that it lost track of \$500 million due to mismanagement, fraud and theft covering just two years (1998 to 2000)? And would it be incredible to think that it could not account for another \$15 billion (almost one-third of its budget)? How could this happen? For starters, it never had a financial management system in place to track the 200 billion dollars it has doled out to schools. Such mismanagement breeds the greed. It starts small, like having 36 employees with credit cards to charge up to \$25,000 per month, allowing \$2 million intended for two South Dakota districts diverted into Maryland bank accounts to buy real estate and luxury sport-utility vehicles, and having twenty checks totaling \$250 million dollars issued twice to the same recipients. Finally, the “books are cooked” by showing 7.5 billions dollars as an asset when, in fact, it was money owed to the treasury department.

All this may sound like a fairytale, but it's a real-tale—fact not fiction! What's more mind-boggling is that there is an Inspector General's Office in the U.S. Office of Education to guard against abuse and mismanagement and it reports semi-annually to Congress. Big deal! After reading the reports covering several years, there is a rather astonishing conclusion: the same mismanagement practices have been cited time and time again, but nothing changes because there are no consequences and politics get in the way as well.

However, one of the more recent Commissioners of Education, Rod Paige, should be commended for recognizing that change was needed. He began to implement a financial management system and was determined to change the “*culture of no accountability.*” In fact, in a short time, millions of the “lost” dollars were recovered. Apparently, he tried to clean up the mess described as “*a steep mountain to climb.*” He is a rare breed in D.C. Obviously, his tenure was short lived.

This is in contrast to New York City where a five-year, 7 billion dollar school capital improvement plan was short by 2 billion dollars. A report indicated that “*the system is so badly broken that the board is incapable of righting itself.*” However, the Schools Chancellor noted that “*not one dollar was lost to fraud, theft or waste.*” He must be taking Ecstasy because an audit found that “*the*

school board has limited knowledge of where its employees actually work or where its money goes...it has lost track of how \$3.4 billion of its budget is actually spent."

Oh, by the way, try to top this: Seven NYC part-time board members receive \$580,000 each per year in salary and perks—it's legalized gouging and gorging of the treasure chest, but legal.

Is it possible that voter approved bonds for school repairs could be used for something else? In San Francisco, \$60,000,000 was diverted from a \$350,000,000 publicly approved bond issue for school repairs to pay employee salaries—no permission was necessary, just do it! It happened in Connecticut too, the Amity Regional District was accused of misspending \$1.5 millions of bond money.

In the South Carolina Sumter School District 17, the role of Robin Hood Hog was filled by the Assistant Supt of Schools and his merry band of bandits who stole over \$3.5 million. In addition to his conviction, there were 15 others including three assistant coaches, an assistant principal, the district's auditor, a local travel agency and a New Jersey car dealer. Obviously, it's easy for the Robin Hood Hogs to get accomplices to participate in the hogging of the treasure chest.

Would a school district inflate attendance figures to get more state aid? It happened in Los Angeles--\$120 million was received for the inflated figures. Was anyone punished for such fraud? Of course not! Instead, the Governor rewarded the district and let it keep the money. Wow, what a message it sends to other school districts. But that's petty cash compared to \$600 million dollars wasted from a 2.4 billion dollar bond issue for repairs and improvements involving 12,495 projects. An investigation that followed revealed that there was no system in place to identify where projects were, their cost, and how they were being managed.

In Florida's Miami-Dade school district, thirteen top school administrators received up to \$15,000 a year for the hardships of extensive travel "*even though some rarely left the school district.*" This was in addition to reimbursement received for actual travel expenses. The deputy superintendent received over \$30,000 dollars, even though records showed that he only traveled four days on school business—for that amount, he must have traveled to Mars and back stopping to visit Pluto. And get this: none of the administrators who received such fraudulent funds were punished—not one. The rewards of corruption are plentiful in education. Where else could such corruption take place with no penalties or consequences?

I am certain this little bite of corruption examples has proved unbelievable, but there is more Where else have the hogs feasted?

No educational agency, school district, or school is immune from being plundered by Robin Hood Hogs who operate in the most devious, interesting, and creative ways.

Dallas, TX: A superintendent used \$9,440 of school dollars to purchase bedroom furniture for her home. The irony is that the superintendent requested the FBI to investigate the district because "*corruption was rampant and employees had illegally reaped millions of dollars in fraudulent pay.*" A 4-year investigation resulted in 15 convictions including four high level administrators. It was this probe that uncovered the superintendent's fraud (she was sentenced to 15 months in prison). A double standard at work—"*my fraud is okay, but yours is not.*"

Bessemer, AL: Three employees stole thousands of dollars from the system. This included the superintendent who made unauthorized purchases of \$30,000, the payroll officer who paid herself \$39,000 for overtime and cash advances, and an employee who wrote checks to herself totaling \$130,000, waited for them to clear, and then altered the payee's name.

Miami, FL: School coaches were charged with grand theft for awarding high grades to athletes for non-existent classes, and receiving \$25,000 for teaching the non-existent classes.

Coral Springs, FL: Officials paid one million dollars for a \$500 thousand track; it seems that 193 items valued at \$328,000 could not be located. Obviously, someone ran off with them.

Southern Regional School District, MA: During a conference in Key West, Florida, five school employees spent almost \$3,000 each on food, hotel rooms, and a Christmas tree--they believed that their goal was to spend lavishly, not wisely. Yep, they met their goal.

Massachusetts: An attempt by the governor to have an independent office to audit state-aid-to-school expenditures amounting to 4 billion dollars failed. Instead, the legislature refused to provide funds for any audit agency. How nice for the Robin Hood Hogs!

This one is absolutely amazing. Charlton, MA: An assistant superintendent who managed the finances for a vocational school was convicted of embezzling \$5.5 million over seven years. He used the money to buy 40 thoroughbred racing horses. He probably planned to use the horses for pupil transportation.

New Jersey: An investigation of 23 districts revealed rip-offs of over 10 million dollars in roofing contracts. A consultant would design the specifications with high-cost materials (available from only one contractor) who would submit a highly inflated bill, and the consultant would then get a kickback. It's estimated that over 12 billion dollars is involved in roof scams.

Wyckoff, NJ: The Internal Revenue Service raided the school offices in this affluent town looking for money laundering, corruption and budget irregularities. Was that all?

El Paso, TX: \$4.7 million was used to pay for employee background checks at \$3,500 each; however, the reports were unnecessary because the district already had the criminal history—if any—on each employee. Don't fret, they were probably seeking a second opinion.

Detroit, MI: Courville Elementary School, A principal was arraigned on charges that he embezzled money from the student activity funds totaling \$7,381. School bookkeepers at three other schools also pleaded guilty to embezzlement. It's nice to spread the "gravy" around.

Detroit, MI: School supplies were delivered to "*a convenience store, a gas station, and just about anyone with cash in hand,*" and a principal and five teachers received \$10,000 for fraudulent work hours: "*We were given that (the pay) to keep us quiet about what we were really embezzling—hundreds of thousands of dollars in state-aid money.*" Now the shocker: The Attorney General's Office declined to press criminal charges because there were no findings of criminality. He must have viewed school embezzlement as professional development.

Richmond, CA: The school district had to seek bankruptcy protection because of "*unsound management practices and unjustified budgeting techniques*" by the superintendent. The grand jury exonerated the superintendent and the board because "*there are no legal penalties for failings of either the superintendent or board.*" Pity the poor taxpayers!

Los Angeles, CA: Criminal charges were brought against 43 teachers who received salary increases based on fraudulent college credits. They did receive credit for Fraud 101.

Newark, NJ: A former mayor was charged with conspiracy, bribery, and fraud for bilking the Irvington, NY school district for work his company did not perform. Two school board members who were part of the scam received thousands of dollars in kickbacks.

Kentucky State Dept of Education: An auditor charged the Department with violating state laws by transferring unspent money to various schools districts rather than returning it to state coffers. This practice enabled a former department official to embezzle more than \$500,000.

Camden, NJ: An investigation revealed that the school district had 336 more food service workers than necessary, and 3,714 employees received \$7.2 million in extra pay.

Sacramento, CA: \$150,000 worth of computers was stolen from schools because "*they are so easy to burglarize.*" Thefts of technological equipment are a growing concern.

Arizona: “One of the biggest cases of fraud” involved state and local educators who stole hundreds of thousands of dollars over eight years. The auditors were on vacation for 8 years.

Des Moines, IA: \$340,000 was misspent for no-bid work done by an employee’s son that also included purchases of champagne, cakes, taco bars, photo albums and a hair dryer. These purchases were probably needed for the remedial math/reading program it was supposed to fund.

Washington DC: A lawyer representing special ed clients demands further testing, and then likely private school placement. One itchy-bit problem, the lawyer is also President of the testing company and the private schools (charging the highest tuition rates) with corporate ties to the law firm. A ten million dollar rip-off so far and it’s all legal. “*Education*” certainly pays, but it’s not the students that get the gravy!

Hartford, CT: School officials say they were “held hostage” to lease the G. Fox building they didn’t want because the price tag was too high, but greedy politics prevailed; another example of legalized pilfering of the education treasure chest.

All of these have occurred for just two reasons (1) poor oversight and accountability and (2) poor policies or no policies to prevent corrupt acts. This does not cost money to do, but the schools make it every so easy to do; and, in fact, with little real consequences. Rarely are the perpetrators sent to prison.

Of course, there are situations that do not get publicized and sometimes for practical reasons. For example, the advisor for a school yearbook in a very small district embezzled \$8,000. Because the district was small, the school board provided a small stipend of \$2,000 because the cost of the yearbook exceeded the ads from sales and from income from purchased yearbooks. However, the advisor got greedy and asked for a higher stipend because he claimed the account would go into a deficit without the increase.

This request caused the principal to get a little ansy because he thought it wasn’t needed (he had a degree in business administration). He brought the matter to the superintendent to determine how to prove that higher funding was not needed. Together, what they did, was to add up the sales from the various ads, added the sales and even donations; when totaled, the income was greater even without the initial yearly stipend. In discussing the issue with the school attorney, he said this was not enough evidence without an audit. An auditor was then hired and found how the advisor was embezzling funds. Many of the sales and some of the other income were in cash; yet, when the auditor checked the deposits slips, no cash was ever deposited. In other words, the advisor pocketed all cash.

The problem then was what to do and how to do it. The advisor was a really very nice young man with a newborn baby just getting started in the education profession at a low pay. He was also offered summer employment opportunities to augment his salary. If his crime got reported to the authorities, he would likely lose his certification in the state and have difficulty with getting references going to another state. Furthermore, it would likely result in a trial that would cost the district for legal fees, without any assurance of getting the \$8,000 back. So under these circumstances, what would be the most practical to do?

The super and principal met with the advisor without telling him in advance what the meeting was for and proceeded to tell him what they and the auditor found. He broke down, cried and was remorseful. He was then offered a deal, refund what was stolen and resign; if he agreed, the incident would go no further than the meeting. Needless to say, he agreed and refunded the money within 5 days as agreed. In addition to saving the \$8,000 the district also saved the yearly \$2,000 stipend all because of a ansy principal.

The issue now is whether there are procedures that can be put into place at no cost whatsoever by having well written policies to prevent corrupt acts along with required effective monitoring. The book outlines a series of guidelines as well, and the first is *to accept the fact that corruption does and will occur so actively look for it*. Unfortunately, the reaction to my book from my fellow superintendents and school board association took a much different position by claiming I was not truthful when I said corruption, by definition, could be found in all districts, and then they went beyond

even ethical grounds. They notified every district in writing not to have any dealings with me. This effort was done despite the fact that the book included over 900 references to verify every corrupt act. In addition, the only thing I was offering to do was to assist any school district in CT, AT NO COST, who would be interested in knowing what to do and how to do it to prevent corruption. This even included various materials I developed at no cost. In other words, it was not as though I was competing with them by offering such information because they did nothing in the past to address this issue at conferences and workshops—it was a VERBOTEN topic to discuss.

It got even more interesting, because one superintendent was more sympathetic to what I was trying to do and he asked me if I would be willing to debate both of the associations--superintendent and school board, and he would make the arrangements in his district to do so—a David vs Goliath show. Guess what? They refused and I think it was that the arrangements would have included a TV showing of the debate. They were fearful, in my opinion, of any publicity that corruption occurs in education. Perhaps some were feeling that it might also surface corruption in their district.

If you don't look for it, you can't find it; and if you can't find it, it does not exist and that's why it exists and continues to do so each and every day somewhere in some school districts. Since the time of the publication I have kept track of other examples and have enough new ones to write another book.

Previously I mentioned that when reviewing school financial policies from all over, I only found one that in a simple, one page policy did the job and it's available for any district emulate. It's from Ann Arbor, MI

This is the most dynamic, critical and meaningful financial policy that should be adopted in some form by every district.

No superintendent job description or other description of the superintendent's responsibilities was found to be so explicit in addressing this absolutely critical role in financial management for the superintendent and staff.

FINANCIAL MANAGEMENT

a. ANN ARBOR, MI--EFFICIENCY IMPROVEMENT--3300 (UNDER REVIEW)

The Superintendent shall diligently identify opportunities to reduce costs and improve operating efficiency in all areas of district operations.

1. Purpose
 - a. To provide guidelines to support constant and continual improvement in the organization and operation of the district...
2. Background Information
 - a. **The Superintendent is charged with the responsibility of seeking ways to reduce costs and improve efficiency while maintaining the AAPS mission and performance.**
 - b. **It is the responsibility of all AAPS staff to help identify ways and opportunities to promote savings and improved efficiencies.**
3. Procedures
 - a. **The Supt shall regularly inform new and current AAPS employees that finding more efficient ways to the district's educational mission is an implied component of every job description.**
 - b. **Department heads shall continually monitor their areas to identify areas for potential cost reduction and/or efficiency improvement.**
 - c. **As deemed appropriate by the Superintendent, any AAPS employee may be called on to assist in a formal investigation to identify methodology for more efficient operations and/or cost-reduction opportunities.**
 - d. **As deemed appropriate by the Superintendent, a system shall be established through which employees may make suggestions relating to more efficient operations and/or cost-reduction opportunities.**
 - e. **The Superintendent shall present findings related to efficiency improvement to the Board in a timely manner.**
 - f. Any changes which materially affect AAPS operations shall be reflected in the current and/or

projected AAPS budget.

Adopted: June 11, 2003 Revised: Effective: July 1, 2003

If such a policy was adopted and properly monitored, corruption, at no extra cost would be reduced to pretty close to zero. But it would require effort, persistence, and patience to monitor, and that's not considered a need in education because why do it if there are no consequences?

Next week, Part 3 Finance: Do Budgets Come Fat Free?