Potential Threats Facing State and Local Educational Agencies

Presentation to
NC DPI School Business Services
2025 Summer Conference

Office of Inspector General
Investigation Services
U.S. Department of Education

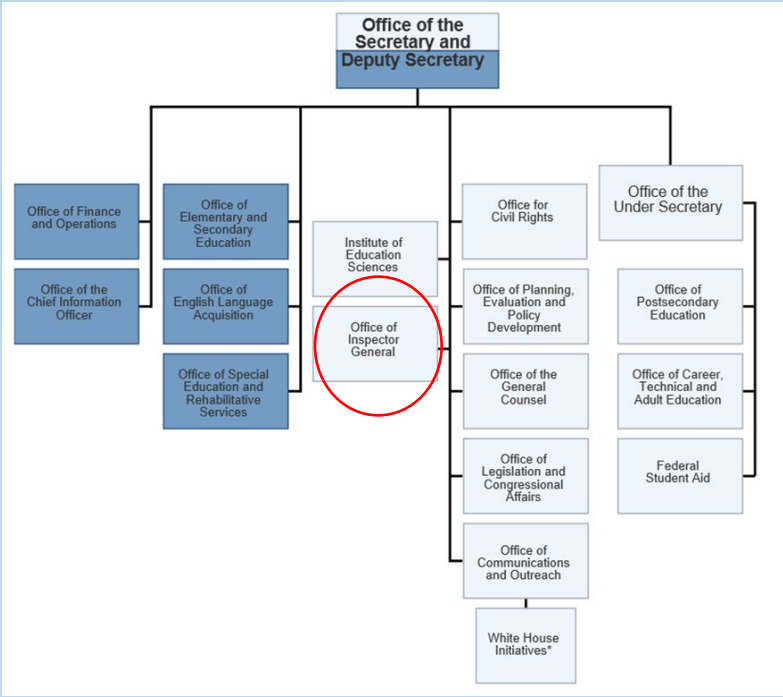
Agenda

- OIG Background and Mission
- Why Institutions are Targets
- Case Examples
- Pathways to Success
- How to Report Fraud
- Questions

OIG Background and Mission

- ". . . promote economy, efficiency and effectiveness . . . [and] prevent and detect fraud and abuse . . ." in Department of Education programs and operations.
- The Office of Inspector General (OIG) is an independent component of the Department. We examine allegations of fraud, waste, and abuse, and pursue those who seek to enrich themselves by abusing Department programs at the expense of our nation's taxpayers.

Inspector General Act of 1978



OIG Operational Components

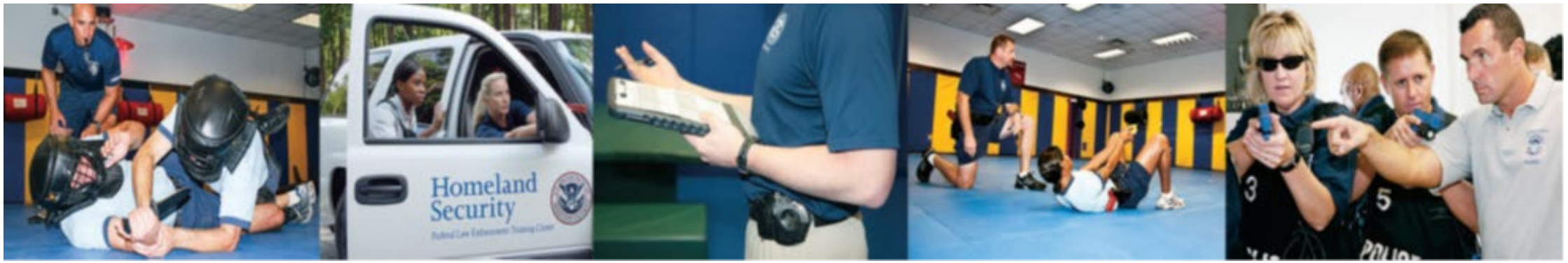
- Audit Services
- Technology Services
- Investigation Services

Investigation Services

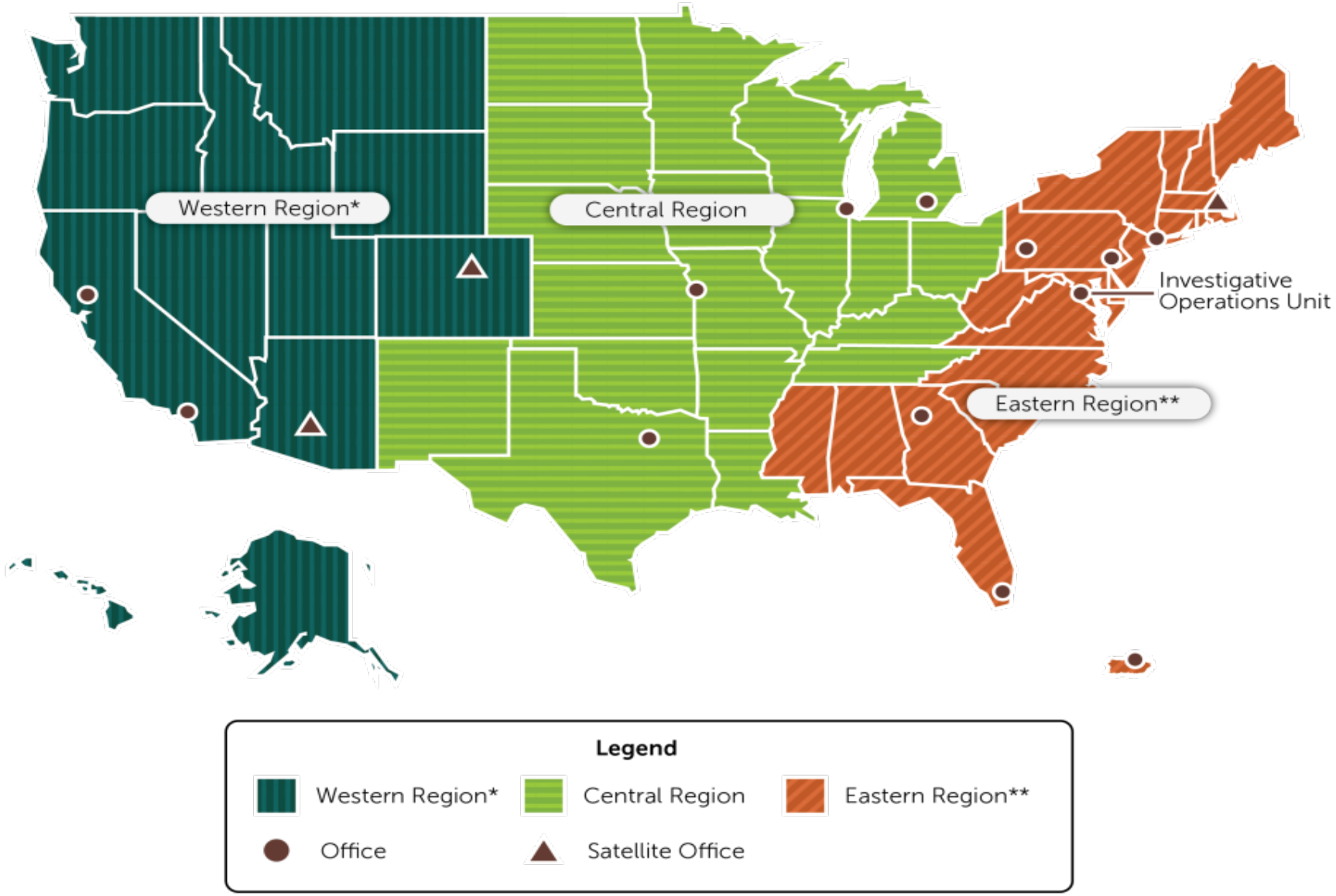
- Conduct criminal, civil, and administrative investigations—such as Federal student aid fraud, fraud and corruption in after-school programs, and grant and contract fraud
- Coordinate with other Federal, State, and local law enforcement agencies and Federal prosecutors at the U.S. Department of Justice
- Operate the OIG Hotline
- Work with the Department to develop appropriate enforcement actions and recommend fixes on programs vulnerable to fraud

OIG Special Agents

- Special Agents attend the Criminal Investigator Training Program at the Federal Law Enforcement Training Center, and receive training in the following areas:
  - Interviewing/Interrogation
  - Criminal Law
  - Civil Law
  - Program and Contract Fraud
  - Firearms/Defensive Tactics



Investigation Services Office Locations



* The Western Region includes American Sāmoa, the Commonwealth of the Northern Mariana Islands, and Guam

** The Eastern Region includes Puerto Rico and the Virgin Islands

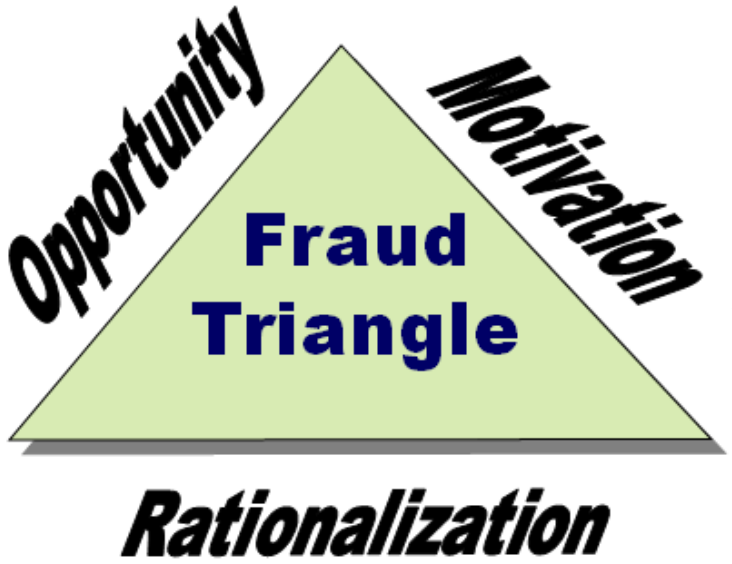
Why Institutions are Targets of Fraud

What is Fraud?

A deliberate distortion of the truth in an attempt to obtain something of value.

-or-

Lying and cheating.



Little or no oversight

Weak controls

Lax rules

Debt

Addictions

Status

Greed

Everyone does it.

I was only borrowing the money.

I was underpaid and deserve it.

Fraud Risk Indicators

- One person in control
- No separation of duties
- Lack of internal controls / ignoring controls
- Services not rendered (false billing)
- Financial records not reconciled
- Questionable contracts (kickbacks, bribes, steering)
- Unexplained entries in records
- Unusually large amounts of cash payments
- Inadequate or missing documentation
- Altered records
- Unauthorized transactions
- Related party transactions

Sources of Allegations

- OIG Hotline
- OIG Audit Services
- Independent Auditors
- ED Program Offices
- School Employees and Officials
- Citizens and Parents/Students
- Competing Vendors/Schools
- Federal Bureau of Investigation
- Other Federal Agencies
- U.S. Attorney’s Offices
- State and Local Education Agencies

Gathering Evidence

- Statutory and Regulatory Access to Records
- Consensual Search/Access
- Search Warrant
- Court Order
- Subpoenas
- Grand Jury
- Administrative
- Interviews

Criminal Remedies Used by OIG

- 18 USC 201 – Bribery
- 18 USC 641 – Embezzlement
- 18 USC 666 – Theft
- 18 USC 1341 – Mail Fraud
- 18 USC 1343 – Wire Fraud
- 18 USC 1001 – False Statements
- 18 USC 371 – Conspiracy
- 20 USC 1097-Student Financial Aid Fraud (Title IV only)
- 18 USC 1516-Obstruction of a Federal Audit

Civil Remedies Used by OIG

Civil False Claims Act 31 U.S.C. § 3729

Knowingly presents, or causes to be presented, to the United States Government a false or fraudulent claim for payment or approval (no proof of specific intent to defraud is required)

…or makes, uses, or causes to be made or used, a false record or statement to get a false or fraudulent claim paid or to conceal, avoid, or decrease an obligation to the Government

Burden of Proof – “Preponderance of the Evidence” (More likely than not)

Specific Intent to Defraud the Government not required

Liable for Civil Penalties of between $10K and $20K per count **plus** 3 times the amount of actual damages

Case Examples

Fraud by School District Chief Information Officer

- The former CIO at a County Public School directed the purchase of flat screen devices at an inflated price from a company without going through the district's required bidding process. The district overpaid the company $1,800 per device.
- The company was awarded $17 million for the purchases from 2015-2019. The CIO received a job for himself and his sons from the company. The company also sold a home to the CIO at $150,000 below market value.
- An audit revealed that the large purchases were split under the $500,000 threshold needed for School Board approval.
- In January 2021, the former CIO was arrested after an indictment for bid tampering and unlawful compensation.

Fraud by Charter School Officials

- The former CEO, the principal, and vice-principal of Bradley Academy of Excellence reported hundreds of fake student profiles to the Arizona Department of Education to receive approximately $2.5 million in Federal and State funding.
- The vice-principal entered the fake student information into the Arizona Department of Education's registration portal, which was then used by the State to determine the amount of aid the Bradley Academy received.
- In September 2020, the former principal and vice principal were sentenced to 3.75 years in prison and 4 months in jail, respectively, and ordered to pay more than $2.5 million in restitution.
- In March of 2021, the former CEO was sentenced to four years in prison and ordered to pay more than $2.5 million in restitution with 2 other co-defendants

Contract Fraud by Superintendent

- The former superintendent of Houston Gateway Academy (HGA) charter school conspired with a former HGA vendor to improperly award a “no-bid” contract to Hot Rod Systems for over $280,000
- The contract was for the installation and configuration of new IT equipment on a new HGA campus that had not been constructed
- The owner of Hot Rod Systems sent approximately $164,000 via wire transfers to a bank account of a company owned by the former superintendent
- The former superintendent was sentenced in April of 2021 to sixty months of incarceration and ordered to pay restitution

Fraud by Charter School CEO

- The founder and ex-CEO of Celerity Educational group, a Los Angeles-based group of charter schools was also the CEO of Celerity Global Development, a charter management organization.
- The CEO and her co-conspirators caused the Celerity charter schools and Celerity Educational Group to falsely certify they were complying with all rules and regulations governing the use of public funds that they received. The CEO used public funds for a variety of personal expenses and improper expenditures.
- The CEO pled guilty in 2019 to one count of conspiracy to misappropriate and embezzle public funds and was sentenced to 30 months in federal prison for conspiring to misappropriate approximately $3.2 million in public education funds allocated to some of her company's schools.

Fraud by After-School Program Provdider

- Father and son executives of two suburban Chicago tutoring companies fraudulently obtained funds from school districts by misrepresenting the nature of their companies' tutoring services and falsely inflating invoices for tutoring work that was never performed.
- The companies received more than $33 million from more than 100 school districts and small schools throughout the country.
- The executives also paid bribes to school officials and teachers to make sure the fraud was not detected.
- Each pled guilty to one count of mail fraud. In 2017, the father was sentenced to six years in prison. The son was sentenced to five years and ten months in prison.

Fraud by SEAs

- Former Executive Director and three contractors of the Mississippi Department of Education allegedly conspired to alter purchase orders, obtain false quotes, and split contracts into multiple smaller contracts to avoid threshold limits that would trigger a competitive bidding process.
- They allegedly obtained false and inflated quotes to make the intended conspirator's business the lower bid and to guarantee the award of the contract and received kickbacks from the winning bidder.
- The scheme resulted in an estimated loss of $650,000 from the State of Mississippi, including federal funds from the U.S. Department of Education.
- In September of 2020, the subjects were charged with conspiracy, federal bribery, wire fraud, and money laundering.

Pathways to Success

Why Are You Important to OIG?

- **You** play a critical role in helping us achieve our mission by serving as the OIG's "eyes and ears" to help us detect and prevent fraud.

SEA and LEA Responsibilities

- State and local entities that oversee and administer ED funds are in the best position to identify fraud, waste, and abuse
- Maintain contact with grantees
- Accept applications/grant programs
- Administer and disburse funds
- Conduct audits
- Discretionary components in the GEER and ESSER funds can provide opportunity for fraud

Best Practices

- Conduct a fraud risk assessment and assess potential threats
- Create a plan to mitigate risks and to evaluate potential fraud
- Ensure adequate monitoring and oversight to include separation of duties and an established approval process for purchases, contracts, and other expenditures
- Review documents thoroughly, question/verify authenticity, and request additional information
- Ensure that staff receive necessary training and fraud awareness materials
  - GAO Report for Managing Fraud Risks https://www.gao.gov/assets/680/671664.pdf

Your Role in Preventing and Detecting Fraud

- Stay current on alerts and communication from the Office of Elementary and Secondary Education (OESE)
- Stay current on types of fraud affecting SEAs and LEAs by signing up for the OIG's free **Notification Service**, and follow us on **Facebook** and **Twitter**
- Formalize a process for reporting potential fraud, waste, and abuse to OIG
- **Cooperate with the OIG in connection with an audit or investigation.** Don't "tip off" subjects of actual or pending investigation, continue normal course of business unless otherwise directed

National Defense Authorization Act (NDAA) 41 USC 4712

The statute protects employees of Federal **contractors, subcontractors, grantees and subgrantees** from **being discharged, demoted, or discriminated against** for disclosing to **certain parties*** information the employee **reasonably believes** evidences **wrongdoing,* generally related to Federal funds.***

**as enumerated in the statute*

How to Report Fraud

ED OIG HOTLINE

OIGhotline.ed.gov

or

Contact an OIG regional office at www.ed.gov

Secure Electronic Reporting

OIGHOTLINE.ED.GOV

OIG Hotline

Report Fraud Now!

The OIG Hotline is available for anyone who knows of or suspects fraud, waste, abuse, mismanagement, or violations of laws and regulations involving ED funds or programs. This includes allegations of suspected wrongdoing by ED employees, contractors, grantees, schools and school officials, persons in positions of trust involving ED funds or programs, collection agencies, recipients of student financial assistance, or lending institutions. If you have knowledge of any wrongdoing involving ED funds or operations, let us know! **Click the button below to get started.**

REPORT HERE

- What to Report to the OIG Hotline
- What Not to Report to the OIG Hotline

DISCLAIMER - U.S. Department of Education Office of Inspector General Hotline Portal

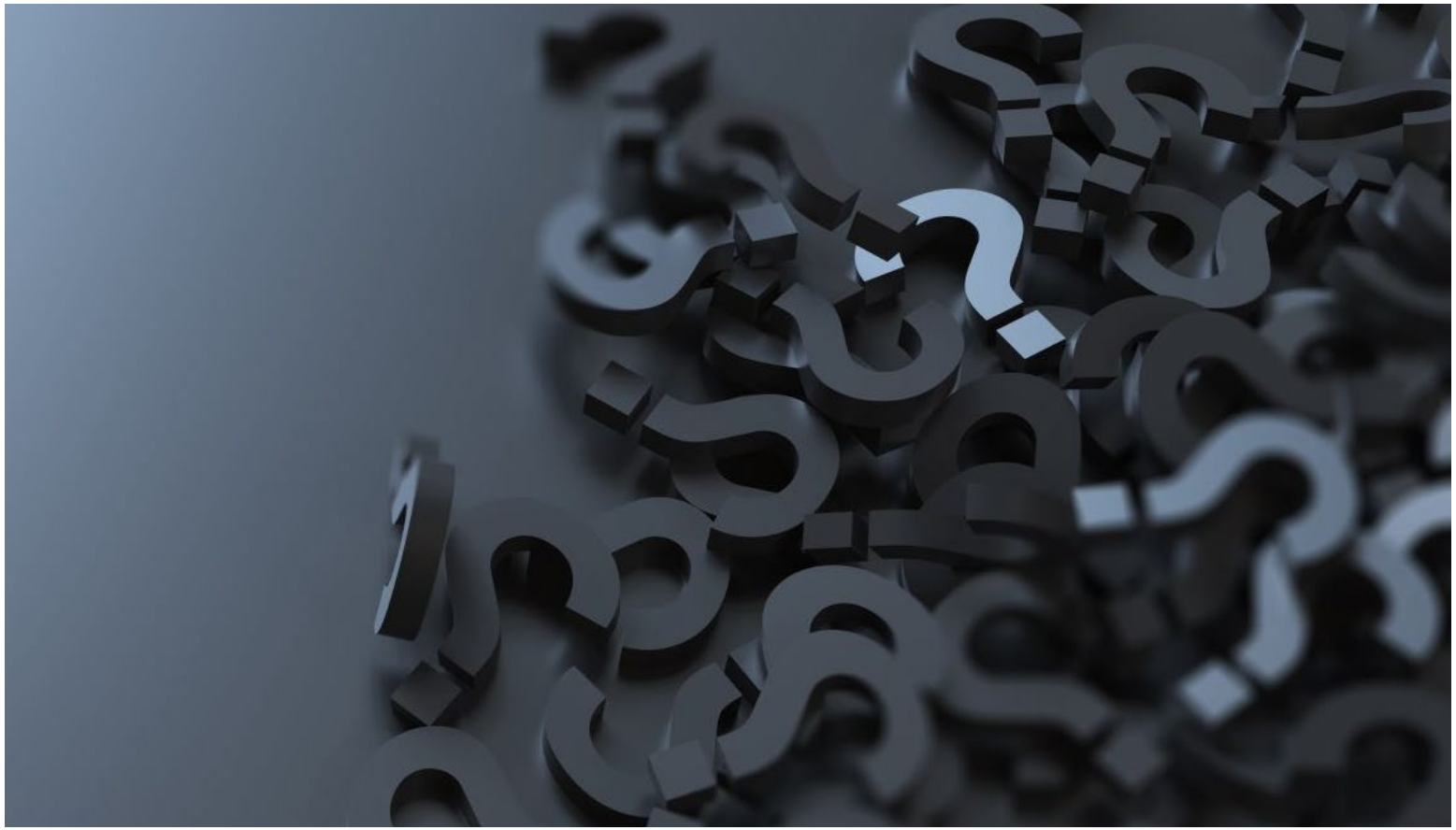
Warning
You are accessing a U.S. Federal Government computer system intended to be solely accessed by individual users expressly authorized to access the system by the U.S. Department of Education. Usage may be monitored, recorded, and/or subject to audit. For security purposes and in order to ensure that the system remains available to all expressly authorized users, the U.S. Department of Education monitors the system to identify unauthorized users. Anyone using this system expressly consents to such monitoring and recording. Unauthorized use of this information system is prohibited and subject to criminal and civil penalties. Except as expressly authorized by the U.S. Department of Education, unauthorized attempts to access, obtain, upload, modify, change, and/or delete information on this system are strictly prohibited and are subject to criminal prosecution under 18 U.S.C § 1030, and other applicable statutes, which may result in fines and imprisonment. For purposes of this system, unauthorized access includes, but is not limited to:

Any access by an employee or agent of a commercial entity, or other third party, who is not the individual user, for purposes of commercial advantage or private financial gain (regardless of whether the commercial entity or third party is providing a service to an authorized user of the system); and

Any access in furtherance of any criminal or tortious act in violation of the Constitution or laws of the United States or any State.

If system monitoring reveals information indicating possible criminal activity, such evidence may be provided to law enforcement personnel.

Accept



Questions?

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