

Fraud probe at S.F. schools after superintendent alerts FBI

By Julian Guthrie
CHRONICLE STAFF WRITER

The FBI is investigating whether the San Francisco Unified School District improperly obtained a \$50 million federal grant and mishandled a contract for \$32 million, the district's superintendent said yesterday.

San Francisco schools chief Arlene Ackerman said she contacted the FBI last week after discovering evidence of possible fraud and of the destruction of public documents. Ackerman, who is expected to announce the investigation today, declined to discuss specific details of the probe.

"I've never seen anything like this," said Ackerman, who ran the

beleaguered District of Columbia school system before coming to San Francisco. "I knew San Francisco wasn't sleepy, but I didn't know it was the wild, wild West."

Under investigation are a \$50 million technology grant awarded to the district by the U.S. Department of Education and a \$32 million energy-saving contract that the district gave North Carolina-based Strategic Resource Solutions (SRS).

"These two ... raise enough questions that I felt we needed a thorough investigation," Ackerman said.

Ackerman, who took the helm of San Francisco Unified on Aug.

S.F. superintendent asks FBI to probe possible fraud

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1, said a report on the district's troubled facilities division by the accounting firm Arthur Andersen first drew her attention to what she called a pattern of questionable contracting practices. A pattern of possibly illegal bid practices was highlighted in Arthur Andersen's draft report, completed in February.

Today Ackerman will detail the findings of Andersen's final report on the district.

The FBI investigation includes looking at whether SRS delivered the services it agreed to provide.

The district hired Strategic Resource Solutions in 1998. A handful of companies, including Honeywell and PG&E, bid for the contract, but SRS was chosen. The original \$17 million contract has since ballooned to \$32 million.

The Arthur Andersen draft report shows that in awarding SRS the contract, the district agreed to pay SRS \$4 million to buy a computer software package that would help the district manage its properties.

The Andersen report urges an

independent review of SRS to "understand its functionality and whether it supports the district's objectives."

The \$50 million technology grant was applied for by the district and approved last year by the U.S. Department of Education, but Ackerman didn't accept it. She has offered several explanations about why the district did not accept the grant. While saying the district lacked necessary matching funds, Ackerman has also said the district didn't want the grant because it would have required the district to introduce costly technology that was far too advanced and unnecessary.

The grant was written and submitted without authorization by former facilities director Tim Tronson and former security supervisor Desmond McQuoid, Ackerman said.

In reviewing the grant application, Ackerman found some troubling provisions but declined to specify what they were.

"I can't say what the specific issues are, but they are there," Ackerman said.

Tronson's contract was not renewed by Ackerman, and he is no longer with the district. McQuoid was one of three employees in the

facilities division who in recent weeks were placed on administrative leave pending an investigation. He remains on leave.

Ackerman said what is most troubling is that many documents that may be related to the grant and contract are missing and may have been shredded.

The FBI will work with investigators from San Francisco's city attorney's office and district attorney's office, Ackerman said. The superintendent consulted with City Attorney Louise Renne before contacting the FBI.

Renne confirmed yesterday that her office is involved in the investigation.

"The superintendent asked us to take a look at matters and, where appropriate, refer them to

the appropriate federal and state authorities and we have done that," Renne said.

The district attorney and the FBI declined to comment yesterday.

Ackerman said it is possible the investigation will broaden beyond the grant and contract.

"I want to look into the whole process of who got contracts, who was going to get contracts and how it happened," Ackerman said. "We will start with (the grant and contract). There may be others."

The draft report by Arthur Andersen was a blockbuster because it found that the district may have used \$30 million in voter-approved bond money meant for school construction on other expenses such as salaries and over-

head.

"We've accounted for all about \$3 million of the 1997 Pr A money," she said.

At tonight's school board meeting, Ackerman plans to detail other findings about where the vote approved bond money was spent. Ackerman said she wants to solve allegations of abuse of money and power to restore public trust in the city's schools.

"We will present resolution before the board that are related to improving our business practices," Ackerman said.

"I would like to go back to the business of focusing on achievement, building strong support systems and strong schools."

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Schools' financial fiascoses snowball

S.F. district already under FBI probe

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The San Francisco Unified School District, already under investigation by the FBI for allegedly mishandling a multimillion dollar contract and a grant, is missing \$15 million it received from the state for school construction, a report revealed yesterday.

The final report by the accounting firm Arthur Andersen shows that the district received \$30 million from the state since 1996 for school construction and modernization, but district employees can account for only half that money.

Superintendent Arlene Ackerman released Andersen's findings yesterday and acknowledged for the first time that her administration was using voter-approved bond money intended for new schools on salaries and benefits instead. She said the practice had begun in a past administration, and she promised to end it this year.

Some legal experts say such use of bond money may violate state law.

"In 32 years of experience, there were some practices that were an absolute first," she said at a news conference. "Any time there is a mishandling of funds that should be used for children, it's unacceptable."

The Andersen report focused

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\$15 million state bond money missing from S.F. schools

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on the district's facilities division, which oversees millions of dollars in bond money, enters into hundreds of contracts each year and is responsible for everything from janitors to school repair.

The report, which was requested by Ackerman months after she became superintendent last August, looked at district practices between July 1996 and June 2000.

The review found that the district had spent \$27 million of \$90 million in bond money on items that were not part of the initial bond proposals. Much of the money was spent on salaries, according to the report.

And while the practice of spending bond money on staff salaries continues, Ackerman said she expected to make the accounting changes necessary to end the practice by August. Then, the salaries will be paid from the general fund.

Bond money can be spent only on salaries of employees working on a designated bond project, legal experts say. The district has halted work on new schools.

"We didn't know until late February that bond money was spent on salaries," Ackerman said. "I'm just glad we have found all of these things."

Much remains to be uncovered, she said. For starters, the district needs to determine where the missing bond money went.

Called Leroy Greene funds, for a former Sacramento senator who headed the Senate Education Committee, the money missing in San Francisco is given to districts for specific projects, such as building a new library or science wing or replacing portable classrooms.

Officials from the state's Office



Arlene Ackerman acknowledged that money for new schools was being used for salaries.

of Public School Construction declined to comment yesterday on whether the district would be subject to penalties for its handling of state money.

The Andersen report found that district employees who were responsible for managing the state funds "can only account for \$14.9 million of actual deposits into the Leroy Greene Fund. The balance of these proceeds have apparently been deposited into other district accounts."

Another \$3 million remains missing from the 1997 Proposition A bond fund, Ackerman said.

The district's accounting woes are well-documented. An independent review of the district's fiscal operations performed last year by the state Fiscal Crisis Management Assistance Team

found the district unable to perform such basic tasks as tracking fund balances and providing lists of personnel.

That review, which uncovered some problems in the facilities division, urged the district to commission an independent audit of that division.

Since arriving in the district, Ackerman has spent much of her time working to uncover alleged abuses. In November, she won approval from the school board to spend \$350,000 on the facilities review by Andersen when questions arose over how money was being spent.

City Attorney Louise Renne, who attended yesterday's briefing, said, "I don't think I've ever seen such a full and complete disclosure."

The findings of the report were released the day after Ackerman told The Chronicle that she had contacted the FBI to investigate possible fraud in some of the district's contracts and destruction of public documents.

The FBI began its investigation last week into whether district employees improperly obtained a

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S.F. superintendent of schools

\$50 million federal grant and mishandled a \$32 million energy-savings contract.

The city attorney's office and the San Francisco district attorney's office will work with the FBI on the investigation.

Investigators from the city agencies are already conducting a handful of criminal and civil investigations involving former and current school district employees. The continuing cases include

investigating how a woman was paid \$50,000 a year to repair sewing machines when the district had all but ended sewing programs a decade ago; how a handful of school custodians and security supervisors doubled their pay through overtime, and how an employee was able to change internal accounting codes to increase the weekly salary of her son, also a district employee.

Ackerman is confident she will be able to restore public trust by tightening procedures and policies in the facilities division. She plans to wait until substantial changes have been made to go before voters and ask them to approve another school bond.

The district is expected to float a \$100 million general obligation bond measure in 2002, Ackerman said. An oversight agency will be established to monitor the spending, and respected former San Francisco schools chief Ramon Cortines has agreed to be the chairman of the monitoring committee.

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