



2013 ANNUAL REPORT

UNCOVERING A CITY YOU CAN TRUST



PHILADELPHIA OFFICE OF THE
INSPECTOR GENERAL

MICHAEL A. NUTTER, MAYOR
AMY L. KURLAND, INSPECTOR GENERAL



Introduction

The Office of the Inspector General (OIG) traces its roots back 30 years, when Mayor W. Wilson Goode Sr. unveiled the Office of Performance Assessment, an “inspector general-type” office that would investigate City agencies and programs under the mayor’s jurisdiction. That same day, Goode also announced the indictment of 28 people for their role in a long-running scheme to illegally dump trash and infectious hospital waste at a City incineration facility. The need for an agency to protect City residents against official wrongdoing, fraud and corruption could not have been clearer.

Several months later, Goode changed the agency’s name to the Office of the Inspector General. Mayor Edward G. Rendell then expanded the office’s jurisdiction to include City contractors and gave it administrative subpoena power and access to all City documents.

From these beginnings, the OIG has grown into an agency with a \$1.4 million budget staffed by highly trained investigators – 80 percent are certified by the National Association of Inspectors General and one is a Certified Fraud Examiner. These investigators handle hundreds of complaints every year from City employees and members of the public concerned about wrongdoing. And in fiscal year 2009, Mayor Nutter gave the OIG its own budget and operational independence, ensuring it the freedom and support to aggressively pursue investigations going forward.

The OIG’s work demonstrates a track record of meticulous investigations that have resulted in real savings and recovery for City taxpayers. Millions of dollars in improper spending by City contractors have been repaid. Dishonest City employees have been fired.

During the Nutter administration, the office has paid for itself many times over. And even more important, the OIG promoted government efficiency and effectiveness and sent a strong message that corruption will not be tolerated.

But the OIG’s work goes beyond the story these figures tell. At its most fundamental level, this office exists to bolster public confidence in City government – to prove wrong the old adage of Philadelphia being “corrupt and contented.” In this context, the OIG’s mission becomes even more crucial to the taxpayers of this City, who have the ability to ensure the OIG continues to have the resources and support necessary to carry out its mission into the future.



Table of Contents

Message from the Mayor	2
Message from the Inspector General	3
Power in Numbers.	4
How We Work	6
Rooting Out Fraud and Corruption	8
Administrative Actions	9
Criminal Prosecutions	10
Making Systemic Change Happen	12
Ensuring Compliance	14
Beyond Investigations	19
Case Updates	20
Recognizing Change	22
Our Mission	23

Note: This report was produced in accordance with Executive Order No. 4-94, which clarifies the role of the OIG. The order states that the OIG “shall provide continuous dialogue with the Mayor and department heads regarding significant problems or deficiencies within City operations and programs and provide recommendations to resolve those issues.” Furthermore, it is “the OIG’s mission to enhance the public confidence ... and provide leadership and guidance in recommending programs and/or policies which educate and raise awareness of all City officials/employees to integrity and ethics-related issues.”

Message from the Mayor

When I took office in 2008, I made a pledge to crack down on waste, fraud and abuse and to restore the public's trust in government. Every day, thousands of diligent City employees come to work committed to serving the citizens of Philadelphia. They work with honesty and integrity, squarely in the public's interest.

But there are a small number of City employees who do not follow that path. An aggressive and revitalized Office of the Inspector General is an important component of our agenda.

Working closely with the Office of the Chief Integrity Officer, the Ethics Board and law enforcement agencies like the Philadelphia Police Department and the Federal Bureau of Investigation, the OIG has time and time again sent the message that corruption and misconduct will not be tolerated in Philadelphia.

And the results have been extraordinary. During my time in office, the City fired or accepted the resignation of 193 employees based on investigations conducted by Inspector General Amy Kurland's office. And in the last year, the OIG saved and recovered nearly \$11 million on behalf of taxpayers. These numbers are especially impressive when you compare them to the office's budget, which stood at \$1.4 million in fiscal year 2014.

Yet changing a culture – and public perception – takes time. I have every confidence that the City can build on this momentum and continue demonstrating that people, whether working in City government or in the private sector, who cheat the taxpayers of this City will be caught and held accountable.



I want to thank Inspector General Kurland and her staff for their efforts on behalf of all Philadelphians, who are entitled to an honest and efficient government.

Sincerely,
Michael A. Nutter

Message from the Inspector General

Thirty years ago, Mayor W. Wilson Goode Sr., reacting to a municipal corruption scheme that led to the indictment of 28 people, created what would become the Office of the Inspector General. In doing so, he wanted to send a clear message that corruption and cronyism would not be tolerated, and taxpayer money would be protected.

Our efforts in 2013 speak to the continued importance of this office's work. Twenty-eight City employees were terminated, which shows that we can change the culture of City government and protect the reputation of thousands of honest City workers by rooting out the few bad apples. We have reviewed more than \$100 million worth of City contracts as part of our investigations. And at a time when the City is facing a major challenge dealing with its massive unfunded municipal pension liability, we saved the pension fund more than \$2 million in future liabilities in 2013 by ensuring that employees who break the rules don't enjoy the benefit of a City pension.

We continue to strengthen our new contract compliance program. We announced the first involuntary debarment of a City contractor in history, following an investigation that found the firm was violating rules aimed at ensuring contracting opportunities for minority-, women- and disabled-owned business enterprises (M/W/DSBEs). We recovered more than \$2 million for the Philadelphia Gas Works and the City from a construction firm that had overbilled PGW on a series of paving jobs it conducted dating back to 2010.

The office also operates efficiently. Our office's \$1.4 million budget represents just 0.04 percent of the City's general fund operating budget for fiscal year 2014. We saved and recovered more than seven times our budget on behalf of the City and its contract workforce.

Collecting fines and restitution and announcing arrests are only part of our enforcement efforts. We also entered into 10 compliance agreements with City contractors who were violating M/W/DSBE regulations, carefully tailoring our enforcement approach to bring firms into compliance and ensure they continue to follow City regulations.

We have much more work to do, however.

True reform is born of persistence, and we continue to push for an amendment to the Home Rule Charter that will ensure the OIG's operational independence. This crucial step would safeguard our work for the next 30 years and beyond and would demonstrate this City's continued focus on efficient and effective government by giving the OIG a dedicated budget and protecting the office's work from outside influence.

Sincerely,
Amy L. Kurland



POWER IN NUMBERS

Financial Recovery

Recovery	\$2,800,033.92
Restitution	\$1,575,650.05
Fines	\$5,420.00
Recovery for Contract Workforce	\$435,387.14

Total Recovery \$4,816,491.11

Financial Savings

Suspension	\$81,025.71
Demotion/Salary Reduction (2-yr projection)	\$2,062
Termination/Resignation (2-yr projection)	\$1,984,246.72
DROP (resigned/terminated prior to DROP date)	\$70,575.91
PELP ¹	\$1,839,618.52
Pension Savings ²	\$2,155,626.87

Total Savings \$6,133,155.73

\$10,949,646.84

TOTAL SAVINGS AND RECOVERY

2013 Case Results

Arrests/Indictments	10
Convictions	9
Terminations/Resignations	28
Suspensions	3
Demotion	1
Restitution Orders	7
Policy Recommendation Reports	5
Compliance Agreements/Debarments	12

Year-End Data

641
TOTAL # OF COMPLAINTS RECEIVED

220
OF NEW CASES OPENED

¹OIG investigations often uncover significant inefficiencies that, if left unchecked, would cause economic loss. In such cases, OIG recommendations result in additional financial savings. Potential Economic Loss Prevented (PELP) is a standard measurement used by federal law enforcement agencies to capture those savings.

²Pension savings represent disqualification due to criminal conviction or withdrawal of contributions due to pending arrest or indictment. Pension disbursement savings arise when an employee is terminated or resigns as a result of an investigation prior to vesting. The figure is a conservative estimate based on Census Bureau life expectancy data.

Cases opened by department	#
Board of Revision of Taxes	1
City Controller's Office	1
Commerce Department	5
Courts	1
Department of Human Services	10
Department of Licenses & Inspections	42
Finance Department	1
Fire Department	4
Fleet Management	2
Free Library	3
Health Department	7
Law Department	3
Managing Director's Office	2
Mayor's Office	7
Mayor's Office of Community Services	1
Office of Behavioral Health	3
Office of Housing & Community Dev.	2
Office of Innovation and Technology	1
Office of Property Assessment	2
Parks and Recreation	28
Pensions & Retirement	1
Philadelphia Housing Development Corp.	1
Philadelphia Parking Authority	4
Philadelphia Prisons	10
Police Department	7
Procurement Department	1
Public Property	3
Records Department	5
Redevelopment Authority	1
Revenue Department	12
School District	2
Sheriff's Office	4
Streets Department	14
Water Department	18
Other	11
Source of opened cases	#
Anonymous	24
Business Owner	5
City Council	1
City Employee	103
Confidential	6
Contractor/Vendor	3
Government Agency	4
Integrity Officer	20
Resident	46
Other	8



HOW WE WORK

Most OIG cases originate from a complaint lodged by a member of the public, a City employee or an elected official. Outside agencies – including the courts, Philadelphia Parking Authority, Philadelphia Gas Works and the City Commissioners – also occasionally request our investigative assistance. Cases are assigned to investigators, who interview witnesses and review documents to ascertain whether City, state and federal regulations or laws have been broken. Where a violation has occurred, the OIG releases Reports of Investigation, which recommend corrective and disciplinary action to City departments, including termination. And where systemic problems are identified, the OIG issues Policy Recommendation Reports, which suggest changes to procedures to improve government efficiency and safeguard taxpayer dollars. OIG investigators also work closely with law enforcement agencies when criminal violations are suspected.

Tipsters

A large portion of the hundreds of complaints the OIG investigates each year come from City employees who want government to operate with honesty and integrity. Hundreds more tips come from members of the public, as well as elected officials who take time to report their concerns. We also work to protect whistleblowers who wish to remain anonymous. Without these committed citizens, the OIG's work would not be as effective.

The Integrity Officer Program

In 35 City departments, sworn OIG-trained Integrity Officers work closely with the office to ensure the highest ethical standards in City operations. The officers also collaborate with OIG investigators, making them aware of problems and providing invaluable

research, support and knowledge on the ground to aid the office in all its cases.

Integrity Officers are sworn in each year at a ceremony in City Hall. At this event, Inspector General Kurland also announces the Annual Inspector General Integrity Award to a City employee who makes a special effort to work with the OIG to promote ethical government. Indira Scott, now a Deputy Commissioner at the Department of Licenses and Inspections (L&I), received the first award in 2012, and John Davis, a Contract Coordinator for the Water Department, received the award in 2013.

Collaboration Yields Results

The OIG works closely with law enforcement and other oversight and regulatory agencies in cases where state and federal laws or regulations have been broken.

Solidifying years of interoffice cooperation, the OIG has been a part of a joint anti-corruption task force since 2012 that includes the Philadelphia Police Department, the Federal Bureau of Investigation, the United States Attorney's Office and the Pennsylvania Attorney General's Office.

OIG investigators frequently collaborate with these and other law enforcement agencies, including the District Attorney's Office. The OIG has also worked with the City Board of Ethics on cases where the subject has violated a provision of the Ethics Code.

But our outreach does not stop there. The OIG has also developed close relationships with other City departments to ensure that our policy recommendations are carried out to prevent fraud and theft from happening in the first place. These strong partnerships have yielded important victories in the battle against corruption.

Outreach

Because most of the OIG's cases originate from tips from members of the public and City employees, it is important to continue increasing awareness of the office – both to generate more investigative leads and to deter wrongdoing by showing that a vigilant watchdog is guarding the City.

In 2014, the OIG will launch an educational campaign to raise awareness of the office, which will be funded with assets seized in the course of the office's investigations – not with taxpayer dollars. We have a 24-hour hotline to report fraud, corruption and misconduct. We also maintain a website to report tips and provide the public with important information about investigations the OIG has conducted and policy recommendations we have released.

OIG staff members sit on several committees and working groups that aim to address systemic problems that open the door to corruption and inefficiency. These committees and working groups deal with specific problems, including collecting back taxes and fees and deterring fraud in City contracts.

Inspector General Kurland continues to speak to numerous local organizations to further the cause of good government, and she passed along the office's best practices to foreign delegations from China, the Czech Republic and Belarus as part of a partnership with the Philadelphia International Visitors Center and the United States Agency for International Development. Kurland's work with the OIG was also profiled in the Spring 2013 issue of *The Philadelphia Lawyer*, the Philadelphia Bar Association's quarterly magazine.

ROOTING OUT FRAUD AND CORRUPTION

When the OIG receives a complaint, the office determines whether the alleged violations at issue implicate City rules and regulations or whether criminal laws may have been broken. Our investigations range from violations of the City's residency requirements to complex criminal fraud cases involving City contracts worth millions of dollars.

The OIG recommends punishment only when a claim has been fully validated by the evidence. Often, the allegations are unfounded, and hard-working City employees are exonerated. In other cases, the unfortunate reality is evident and irrefutable, and the OIG issues a Report of Investigation, recommending administrative discipline or other corrective actions. The office also pursues criminal sanctions against the employee in collaboration with local, state and federal law enforcement agencies.

In most cases, departments accept OIG recommendations because they can rest assured that the evidence will withstand close examination by a court, arbitrator or the Civil Service Commission. Investigators are often called to testify before these tribunals. And in virtually all cases, the Civil Service Commission has declined to reinstate employees with back pay who were terminated on the OIG's recommendation – a testament to our exacting standards.

“WHEN OUR CITY WORKS CLEAN, OUR CITY WORKS SMART.”

– John Mondlak
Senior Director of Real Estate Development for the Commerce Department



ADMINISTRATIVE ACTIONS

Most OIG cases begin as investigations into violations of City rules and regulations. City employees are bound by a variety of City Charter rules, Civil Service and Administrative Board regulations and departmental policies – all of which are aimed at ensuring an honest and efficient workforce.

Where a report of a violation of these rules has been sustained against a City employee, the OIG issues a Report of Investigation that recommends disciplinary action – ranging from suspension to termination. The OIG also works closely with state and federal regulatory agencies, as well as the City Controller's Office and the Ethics Board, in cases where other administrative violations occur.

Terms of Service

An employee at the Mayor's Commission on Aging was terminated following an investigation that found he had regularly spent much of his work days on Internet forums – oftentimes making inappropriate sexually explicit statements.

Investigators found that this employee used his City computer to make more than 1,600 comments on an Internet forum during his work hours over the course of just eight months. The investigation found that the employee violated the City's Internet use and access policy because much of his time spent online was devoted to inappropriate – and frequently derogatory – sexual conversations.

Taking the Joy Out of Joyriding

A City fleet mechanic was suspended for 10 days without pay for joyriding police cars and posting pictures of his activities online. An OIG investigator found pictures posted by the employee on social media sites showing him driving police vehicles. One picture depicted him driving a police car at 85 miles an hour, which clearly violated City policies and represented a safety risk.

Theft from a Cash Register

The Department of Revenue contacted the OIG after it suspected that one of its employees stole money from a cash register. OIG investigators reviewed video from surveillance cameras located near the cash registers and established that several cameras caught a City employee stealing from the register. An audit determined that \$616 was missing from the register. The Revenue employee later admitted to taking the money, returned \$616 to the City and resigned in lieu of termination. The case was referred to the District Attorney's Office for possible prosecution.

Transferring Taxes Back to Where They Belong

As part of a joint investigation between the OIG and the Pennsylvania Department of Insurance, investigators determined that several sellers of City property falsely certified they were related to the buyers in real estate transactions. This allowed them to avoid paying City and state realty transfer taxes, which fund low-income housing developments in Philadelphia and open-space preservation and recreation activities throughout the Commonwealth. After referring the matter to the City

ADMINISTRATIVE ACTIONS CONT'D

Revenue Department, these parties were processed and billed a total of \$5,070 in back taxes.

Residency, Theft of Time and Sick Leave Abuse

Even as the OIG expands into new investigative areas, we continue to aggressively pursue allegations that

City employees are violating residency requirements, stealing time from the City or violating sick leave policies. In 2013, 10 employees were terminated or resigned in lieu of termination in connection with residency and theft-of-time investigations. These cases send a strong message that all City employees must follow the rules.

CRIMINAL PROSECUTIONS

The OIG works in close cooperation with local and federal law enforcement agencies – including the Federal Bureau of Investigation (FBI), United States Attorney's Office and District Attorney's Office – in cases where investigators suspect that state and federal criminal statutes may have been broken. Law enforcement agencies also request our assistance in ongoing criminal investigations involving City resources, officials and contractors. These partnerships led to the arrest or indictment of nine individuals in 2013.

Misdeeds

Two men were indicted on federal fraud, money laundering and aggravated identity theft charges in June following a joint OIG-FBI investigation into a scheme to steal houses and sell them to unwitting owners for a profit.

The FBI requested the assistance of the OIG in the multiyear investigation, which examined multiple real estate transactions involving Eric Tubbs. A federal grand jury found Tubbs caused fraudulent deeds to be recorded with the City Records Department falsely

indicating that he had bought three South Philadelphia properties. These properties were then sold, and Tubbs kept the proceeds. The grand jury also found that he enlisted the help of codefendant Douglas Fields to participate in the scheme by posing as a property owner.

Tax Credits

Darlene Johnson pleaded guilty in connection with a scheme to defraud the Internal Revenue Service (IRS) with false claims of the First-Time Home Buyer Credit. A joint investigation between IRS Criminal Investigation and the OIG found that Johnson prepared approximately 45 federal income tax returns and claimed the First-Time Home Buyer Credit on all the returns. However, none of the 45 taxpayers were qualified for the tax credit, and a large share of the money resulting from the IRS' payment of the credit was deposited into Johnson's bank account. As a result of Johnson's actions, the loss to the federal government totaled \$367,180.65. Johnson pled guilty to charges of conspiracy to submit false claims to the government and submitting false claims against the government. Johnson also resigned



her position at the Department of Human Services. The case is being prosecuted by the U.S. Attorney's Office.

Prison Smuggling

The District Attorney's Office, Philadelphia Police Department and the FBI launched an investigation into prison guard Dion Reid after Prison System officials received information that he was smuggling contraband into the prison. The investigation, which was assisted by the OIG, found that Reid agreed to provide marijuana, Xanax pills, tobacco and cell phones to a prisoner at the Philadelphia Industrial Corrections Center. Reid pleaded guilty to three counts in connection with the scheme and was sentenced to 14 months in prison. The case was prosecuted by the U.S. Attorney's Office.

Fraud at the Sheriff's Office

A federal jury found Aarti Gupte guilty of depositing four bogus checks from the Sheriff's Office, worth a total of \$242,186, as part of a kickback scheme. Gupte

was sentenced to three years in prison and ordered to pay \$242,586.73 in fines and restitution following his conviction on counts of wire fraud and conspiracy for working with an accounting clerk in the Sheriff's Office to take the money. Gupte split the proceeds of the check with the clerk, Richard C. Bell II, who also pleaded guilty as part of the scheme.

Gerard Joseph pleaded guilty in a separate scheme to obtain an illegal discount at sheriff's sales with Bell's help. While successful bidders at sheriff's sales are required to pay the total sale price within 30 days of the auction, Joseph put down only 10 percent for four properties he bought in 2007. Joseph and Bell falsified records to make it appear that Joseph had made the required payments and avoided paying the Sheriff's Office the other 90 percent. Joseph then sold the properties for a substantial profit. The scheme cost the Sheriff's Office more than \$400,000.

In both cases, federal investigators requested the assistance of the OIG. The cases were prosecuted by the U.S. Attorney's Office.

MAKING SYSTEMIC CHANGE HAPPEN

The OIG's work centers on administrative and criminal investigations. Yet our investigators also strive to prevent the root causes of fraud, theft and mismanagement and help craft policy solutions aimed at saving taxpayer money and promoting ethical government.

When OIG investigations into fraud and corruption show that lax internal controls or other flaws in the system allowed the fraud or corruption to occur, we don't walk away from the problem. Instead, in these cases, the OIG releases Policy Recommendation Reports. These reports note systemic problems that foster misconduct and offer concrete solutions to prevent wrongdoing in the future. Investigators then work closely with other City agencies to implement these changes and to enact stronger internal controls.

Taking Off with New Compliance Measures

An OIG contract-compliance investigation culminated in October with the arrest of John Hart on 10 counts of felony forgery and four misdemeanors for submitting false documents to the City. The City also obtained a substantial judgment against his company, Hart Enterprises & Associates.

Investigators discovered that Hart had forged 10 surety bonds to win construction and demolition contracts in 2011 and 2012 at the Philadelphia International Airport, L&I and the Department of Public Property. Surety bonds protect the City by providing compensation if there are problems with completing or implementing a contract.

Hart's company was also paid about \$275,000 for work on these contracts despite owing \$21,000

in back taxes dating back to 2006 and failing to pay its workers more than \$120,000 in wages. Our investigation also revealed shoddy construction work and other costs that totaled more than \$150,000.

The OIG, the Airport and the Law Department worked together to recover more than \$97,000 from Hart Enterprises already by garnishing payments that were to go to the firm, and the Law Department has obtained a judgment for the remaining \$200,000. The OIG also worked closely with the District Attorney's Office, which charged Hart for his false representations to the City.

The OIG found that internal control failures allowed Hart to win these contracts even when he was not qualified and issued a Policy Recommendation Report to address these internal control failures. The report calls for independently verifying surety bonds to make sure that they are valid and for better internal safeguards to prevent violations of the City's prevailing wage rules and improve the collection of back taxes owed by contractors. The OIG also participates in two working groups that have been established to review prequalification requirements for City contractors and crack down on contractors who are tax delinquent to address systemic problems that the case brought to light.

Bounced Checks

In early 2012, the Revenue Department reported to the OIG a Philadelphia businessman who repeatedly paid for City licenses using checks that later bounced. The complaint led to an investigation that identified numerous checks written to L&I that banks had returned to the City due to insufficient funds.



The OIG also examined check processing in 10 additional agencies, including the Health, Public Property, Streets, Records and Law departments.

In April, the OIG issued a Policy Recommendation Report that detailed a severe breakdown in communications among different City departments about how to process bounced checks. In one year alone, the OIG found the City accepted more than \$500,000 in bounced checks. And the investigation established that these failures cost the City nearly \$350,000 in uncollected revenue between June 2011 and June 2012.

As part of its report, the OIG identified problems and recommended the City improve every phase of the payment-collection process. We suggested the City increase its scrutiny of checks before processing them to reduce the risk of accepting bad checks. The OIG also called for greater cooperation among departments to ensure bounced checks do not fall through the cracks and urged stronger enforcement actions against individuals who have repeatedly submitted bad checks.

These reforms are now being implemented, and the OIG is working with the Law and Revenue departments to recover this money. As a result of this effort, the City has entered into more than 10 settlement agreements to recover these funds and has revoked the licenses of offenders who failed to cooperate with the City's collection efforts. The stepped-up collection efforts have led to agreements to recover more than \$200,000.

Theft at the Anti-Graffiti Network

When an Anti-Graffiti Network supervisor discovered that work crews were requesting an inordinate

MAKING SYSTEMIC CHANGES HAPPEN CONT'D

amount of supplies – including paint and cleaning solvents – the OIG launched an investigation and conducted extensive surveillance of the employees. The investigation established that paint and cleaning solvents were missing. Investigators also observed cleaning crews playing basketball for hours at a time while on the clock and saw that they regularly took their City vehicles outside their assigned cleaning areas.

Two employees of the Anti-Graffiti Network were terminated – and three more resigned – following the investigation, which uncovered multiple instances of theft of time, theft of City property, falsification of documents and misuse of City resources. The employees admitted to significant misconduct, including falsifying work orders and secretly selling City supplies to make extra money on the side.

The OIG also issued a Policy Recommendation Report

that addressed systemic problems in the oversight of the Anti-Graffiti Network and exposed a widespread culture of theft, fraud and abuse at the agency, which performs an important service and combats blight by removing graffiti from community streets and buildings throughout Philadelphia. The report called on the agency to improve oversight of its workers and to ensure crews actually remove graffiti as reported. The report also recommended the Anti-Graffiti Network more closely monitor the use of cleaning materials.

Carroll Park

The OIG received a complaint from the Office of Housing and Community Development (OHCD) alleging that Carroll Park Community Council staff members may have engaged in theft of City and Federal funds.

OHCD provided Carroll Park with federal Community

Development Block Grant funds, as well as City funds, to deliver housing counseling and neighborhood advisory services to low- to moderate-income residents of Philadelphia. Carroll Park also provided energy assistance and maintained a food bank for the neighborhood.

An OIG investigation determined that certain staff had improperly received handwritten checks labeled “payroll.” OHCD closed Carroll Park as a result of this issue, as well as additional ongoing administrative problems. Carroll Park was not able to reopen because it failed to fully address corrective actions imposed by OHCD.

The OIG issued a Policy Recommendation Report in 2013, which analyzed systemic management issues present at the organization. The report recommended a set of changes that would improve OHCD oversight of similar non-profit groups and addressed Carroll Park’s poor handling of its financial and administrative records and alleged mismanagement of City and federal funds.

business and the implementation of corporate compliance agreements aimed at preventing future violations and ensuring greater M/W/DSBE participation in the future.

Standing Up for Disadvantaged Businesses

A major focus of the OIG’s contract compliance efforts is enforcement of minority participation rules designed to foster the development of the City’s M/W/DSBE community. The City’s disadvantaged-business programs are aimed at ensuring M/W/DSBEs have access to important City contracts and subcontracts to help them grow their businesses and gain valuable skills.

ENSURING COMPLIANCE

In 2011, the OIG formed a new contract compliance unit to improve oversight of City contracts. The goal of the unit is to ensure a level playing field for potential City vendors and to protect against fraud and misconduct by businesses that hold City contracts. The unit also enforces the City’s minority-owned business requirements and anti-discrimination policies concerning minority-, women- and disabled-owned business enterprises (M/W/DSBE).

Our enforcement actions in this area have yielded valuable results. In 2013, the office reviewed more than \$100 million worth of contracts and saved or recovered

more than \$4 million from vendors – a figure that represents nearly 40 percent of the OIG’s total savings and recovery for the year.

But fines and financial restitution are only a few of the ways in which the OIG ensures fairness in the awarding and administration of City contracts. The office works with the Law Department to carefully tailor enforcement actions to the facts of each case and to pursue a multifaceted approach with different enforcement tools – including the pursuit of civil claims against contractors, the removal of contractors from the certified M/W/DSBE list, the debarment or suspension of contractors to prevent them from getting further City

“I THINK THE INTEGRITY OFFICER PROGRAM HAS BEEN VERY EFFECTIVE TO THE MISSION OF THE INSPECTOR GENERAL’S OFFICE. I’M GLAD TO BE A PART OF IT.”

– Frank Leo
Streets Department
Integrity Officer



ENSURING COMPLIANCE CONT'D

Through Executive Order 03-12, Mayor Nutter strengthened those policies and rules and gave the City more tools to investigate violations. It requires that contractors make their best efforts to ensure that at least 20 percent of their contracted work is performed by M/W/DSBEs that provide a “commercially useful function.” A commercially useful function is performing, managing or supervising meaningful work or supply efforts that are distinct from other parts of the contract and worthy of the funds allotted to it.

OIG investigations over the past three years have discovered contractors and subcontractors who circumvented these rules, leaving legitimate minority-owned businesses at a disadvantage when competing for City work. Aggressive enforcement of the City’s affirmative-action rules has repeatedly sent a strong message that fraud will not be tolerated. The OIG has worked closely with the City’s Office of Economic Opportunity (OEO) to ensure that minority participation goals are met. Inspector General Kurland serves as a member of the Mayor’s Economic Opportunity Cabinet, which sets policy to support increased participation in City contracting opportunities. Our compliance team members also participate in quarterly “Compliance Matters” meetings with OEO and other City departments to review M/W/DSBE goals, strengthen enforcement actions and implement policies to prevent future fraud.

First Involuntary Debarment

The OIG achieved a major milestone in its compliance efforts in June, when the City issued its first-ever involuntary debarment to Jamie Kovacs and her company, JHK Inc. JHK falsely represented its role as a women-owned subcontractor to Corizon Health Services Inc., which held a health care contract with the Prison System. The debarment ensures that neither

Kovacs nor JHK can work for the City for three years.

Corizon had held a contract with the Prison System to provide health care services and represented that it subcontracted 40 percent of its work to a woman-owned business to provide pharmaceutical supplies. But a lengthy OIG investigation found that Corizon, which was then known as Prison Health Services, subcontracted with JHK to make it appear that JHK had provided pharmaceutical supplies to the Prison System.

JHK, however, admitted that it had not actually provided any services to the Prison System. Instead, Corizon paid JHK to allow Corizon to place its name – and use its woman-owned business certification – on paperwork submitted to the City. JHK’s scheme cost the City more than \$400,000, since the 1 percent surcharge the company imposed on Corizon to use its name was passed on to the City.

The debarment came after a June 2012 settlement with Corizon, in which the company agreed to pay the City \$1.85 million – believed to be the largest of its type in City history – and to strengthen its corporate compliance program.

A Tailored Approach

The OIG’s carefully calibrated enforcement approach was utilized in an investigation involving William Betz Jr. Inc., a local heating- and plumbing-supply company. Betz agreed to pay the City \$128,000 after the OIG found the company had circumvented M/W/DSBE requirements and anti-discrimination policies in at least 15 City contracts. In the process, Betz had colluded with several other companies, including JHS and UGI, to make it appear that these companies had provided equipment and supplies when Betz was, in reality, the supplier.

As a result of the investigation, the OEO in 2012 removed JHS from its list of certified minority vendors. UGI also paid the City \$100,000 to settle claims related to its involvement in the scheme.

UGI had signed a \$1 million contract with the Philadelphia Housing Development Corporation in June 2010 to make the homes of low-income Philadelphians more energy efficient, and in its settlement, UGI promised to raise minority-owned business participation to 50 percent in future City weatherization contracts. The firm also agreed to implement new policies and procedures to ensure its employees comply with the City’s anti-discrimination and M/W/DSBE policies in the future.

At the same time, the OIG continued its investigation of contracts involving JHS and Betz and found that JHS acted as a sham minority subcontractor to 10 prime contractors across 18 PHDC contracts, which ranged in value from \$100,000 to \$530,000. Many of the prime contractors who used JHS as a minority pass-through were small businesses that did not fully understand the City’s anti-discrimination requirements. The companies reached out to other contractors or suppliers for advice on how to comply with the requirements when they should have instead sought assistance from the Office of Economic Opportunity.

Rather than pursuing sanctions against these firms, which could have proven needlessly crippling, the City entered into compliance agreements with them to clarify their legal obligation to provide meaningful opportunities for M/W/DSBE subcontractors going forward. The OIG also educated the contractors about assistance the City can provide throughout the contracting process. In this way, the OIG helped to prevent future abuses of the City’s economic opportunity policies while also protecting small businesses and their employees.

PGW

Danella Companies Inc., a Plymouth Meeting-based construction firm, paid the City and the Philadelphia Gas Works (PGW) more than \$2 million to settle claims that it overbilled PGW on a series of paving jobs it performed.

Danella is one of several firms PGW hired to reconstruct City roadways after PGW replaced aging cast-iron gas lines as part of its infrastructure-modernization efforts. The contract required Danella to use a specified amount of concrete and asphalt in repaving the roadways.

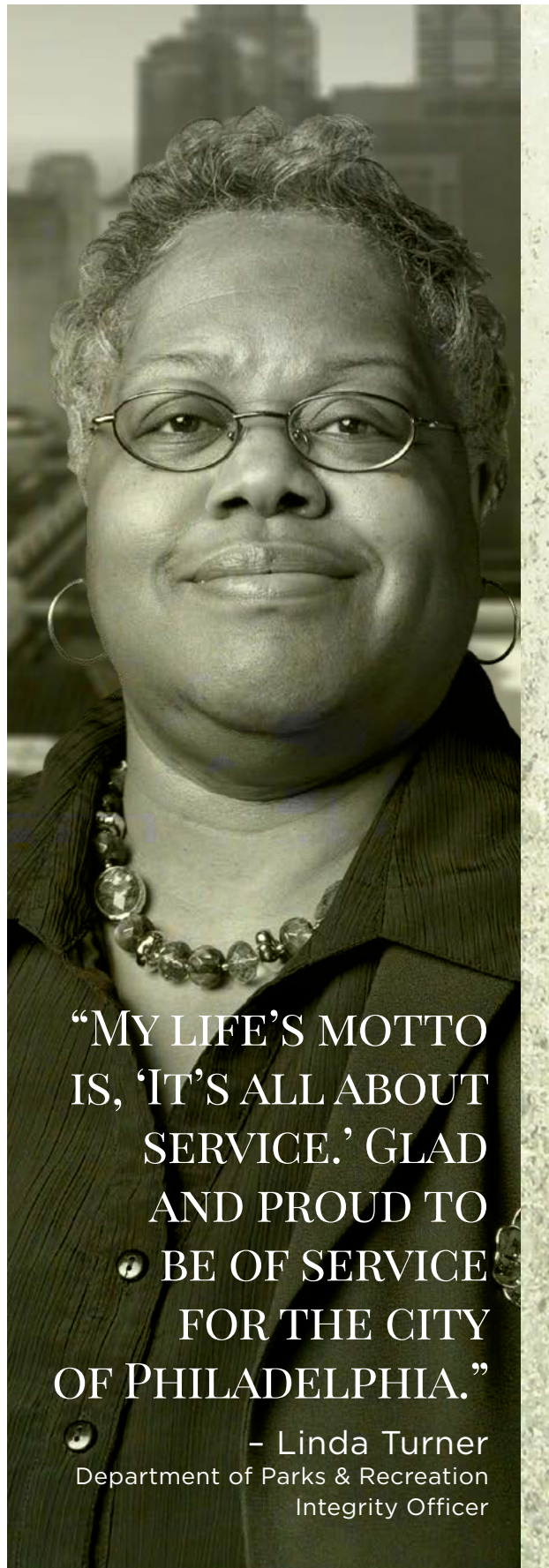
However, an analysis of about 400 core samples taken from different paving projects dating back to 2010 found that Danella had frequently used significantly less concrete and asphalt than required and overbilled PGW by \$1.7 million for construction material it did not actually use.

As part of a settlement, Danella paid \$1,836,000 to PGW, which represents the amount Danella overcharged, plus the cost of the core samples. The firm also paid the City an additional penalty of \$525,000 and implemented a corporate compliance program to prevent similar shortages in the future. And though the materials shortages have not caused any problems with the roadways, Danella agreed to indemnify PGW and the City for three years to guard against any future issues.

The settlement was the first step in an ongoing, wide-ranging investigation into City and PGW paving contracts.

Fighting for Fair Wages

All City contractors are required to pay their workers fair wages. An OIG investigation resulted in the payment



“MY LIFE’S MOTTO IS, ‘IT’S ALL ABOUT SERVICE.’ GLAD AND PROUD TO BE OF SERVICE FOR THE CITY OF PHILADELPHIA.”

– Linda Turner
Department of Parks & Recreation
Integrity Officer

ENSURING COMPLIANCE

CONT'D

of nearly \$290,000 in back pay to a group of workers who were underpaid for work beginning in 2003.

The City's Labor Standards Unit determined that LP Group 2 Inc. underpaid workers on two City contracts a total of more than nearly \$313,000. The contracts included stucco work for the exterior of several properties involved in City demolitions and contracting services for the Neighborhood Transformation Initiative (NTI).

Though the City released more than \$106,000 in back wages to the stucco workers who could be located, an OIG investigation revealed that nearly \$195,000 that had been set aside for the NTI workers had never been distributed. Following a set of recommendations from the OIG, the City's Board of Labor Standards resolved the long-running dispute in November 2013 and found that LP Group 2 intentionally violated City rules. The workers were awarded back pay plus 6 percent interest for a total award of more than \$290,000. Many of the workers received their payments the day before Thanksgiving. The City's Procurement Department also followed the OIG's recommendation and suspended LP Group 2 from performing any contracts with the City of Philadelphia for three years.

Securing Wages for Security Guards

An OIG investigation revealed that a small firm that provides private unarmed and armed security services to a City agency was not paying its workers fair wages. We also discovered inaccuracies in the budgets and contract documentation the company provided to the City. The OIG worked with the firm to ensure all security guards were paid more than \$20,000, which they were due. The OIG helped the firm correct budget inaccuracies and improve contract reporting procedures moving forward.

BEYOND INVESTIGATIONS

Even as the OIG aggressively investigates allegations of City corruption, the office has also branched out to more broadly further the cause of ethics and good government. At the request of Mayor Nutter, the OIG has also assisted in several areas to improve government efficiency and protect City residents' rights as well as enhance their safety.

Counting Ballots

One of the most important rights guaranteed by the Constitution is participation in the electoral process. Yet independent observers called the 2012 presidential election one of the worst-run elections in Philadelphia's history. Residents who showed up to vote found their names weren't included on the rolls and were forced to cast thousands of provisional ballots. Other voters were confused because hundreds of polling stations were moved before the election.

To determine what happened and to prevent similar irregularities in the future, Mayor Nutter appointed an OIG investigator to a panel, led by Managing Director Richard Negrin, that conducted a comprehensive review of the election. The administration's report, released in June, found problems with training materials for the city's 6,500 poll workers and suggested ways of reducing backlogs in processing new voter registrations. The report also found a glitch with the state's voter-registration system that left nearly 5,000 voters off the rolls at the time of the election.

Reforming L&I

Spurred by the collapse of a building in Center City that left six people dead, Mayor Nutter in October 2013 announced the creation of a Special Independent Advisory Commission to review L&I's operations to

prevent similar tragedies in the future. The Commission is charged with examining the Department's past and current operations, budget and organizational structure. The Mayor asked an OIG investigator to participate in the Commission's work. The body's recommendations for changes to L&I is due in July.

Taking a Stand on Ethics

While much of the work of the OIG centers on behind-the-scenes investigations, the office assumed a public role before the Ethics Board in the Fall of 2013 to advocate for common-sense ethics reforms.

The Board is an independent agency that enforces the City's campaign finance and ethics rules. It was faced with the daunting task of promulgating regulations, based on an imperfect ordinance, that would specify the value of gifts a City employee can receive.

The Board welcomed public input and held hearings in which it considered the comments and opinions of the OIG, which feared that some aspects of the proposed regulations could make it more difficult to hold City employees accountable in the future.

Together with Joan Markman, the City's former Chief Integrity Officer, the OIG raised these concerns in testimony before the Ethics Board. Markman and Inspector General Kurland jointly wrote an op-ed in the *Philadelphia Daily News* and gave interviews to other news outlets expressing concerns about the rules.

CASE UPDATES

Mara Management

In 2011, federal prosecutors and the OIG announced that Barry Jones, former president of Mara Management Services, had been charged with crimes in connection with a four-year scheme to defraud the City of more than \$1 million.

The Haddonfield, N.J., firm had collected nearly \$6 million from the City from 2004 to 2008 through a series of contracts to maintain computers at several City agencies, including the Revenue and Water departments, as well as Community Behavioral Health, a nonprofit that provides substance-abuse and mental health treatment on behalf of the City.

But investigators with the OIG and the U.S. Postal Inspection Service discovered that Jones routinely defrauded the City by issuing false invoices for 17,000 subcontractor hours and hundreds of hours he said he worked himself. The investigation began after a referral from the Revenue Department. Following the indictment, Jones pleaded guilty to all charges. Jones was sentenced in 2013 to 21 months in prison. He was also ordered to pay \$1.2 million in restitution to the City.

Invisible Ink

After a Water Department employee in 2011 reported that Calvin Duncan, a mail-room clerk, had been ordering excess printer ink and toner cartridges, the OIG and FBI launched a joint investigation. They found that Duncan ordered \$1.3 million in printer ink cartridges for the City between 2006 and 2012 that he shipped to two co-conspirators, Derek and Danita Willis, in Arkansas for later resale. Duncan made more than \$500,000 from the sales.

Duncan was charged by federal prosecutors in 2012 in connection with the scheme. He pleaded guilty in 2013. The Willises are scheduled for trial in 2014.

Neighborhood Renewal

In 2011, the OIG discovered more than \$100,000 in unused bonus points in an unauthorized corporate rewards account that two former City employees had opened through the City's contract with Verizon. The employees had used more than \$48,000 worth of points to improperly procure TVs, iPods, coffeemakers and other items for themselves and coworkers.

The remaining rewards points have provided the City with a unique opportunity to turn a disgraceful situation into something that could directly improve the quality of life of Philadelphians. In coordination with the OIG, the Managing Director's Office turned the unused points into gift cards to purchase supplies for community-revitalization projects run by the innovative PhillyRising program.

Over time, the gift cards have become a crucial component of the program, which focuses on improving neighborhoods that are plagued by chronic crime and quality-of-life concerns. The gift cards support nearly all of PhillyRising's materials and supplies budget.

In 2013, PhillyRising used \$3,000 in gift cards to buy equipment and supplies for the Philadelphia Youth Music Program. Located in the Point Breeze section of South Philadelphia, the initiative, founded in 2012, offers free music training sessions conducted by well-known industry professionals and has served more than 100 area children. The program has since expanded to include video recording and production training.

Health Department Workers Plead Guilty in Drug Conspiracy

In 2012, two Health Department workers were indicted for their involvement in schemes to illegally distribute prescription drugs.

Arlene Gerson worked as a pharmacist at the City's Health Center Number 5 in North Philadelphia. A joint OIG, FBI, District Attorney's Office and Drug Enforcement Administration investigation revealed that Gerson used blank prescription pads and her access to doctor and patient information to create phony prescriptions. She then worked with co-conspirators to fill those prescriptions and sell the drugs illegally on the street.

A joint investigation also found that Maria Josey, a clerk typist, illegally distributed hundreds of Percocet, Oxycontin and Endocet tablets. Josey also used a registration number issued to another person for the purpose of acquiring and obtaining Oxycodone.

Both pleaded guilty in 2013. The cases are being prosecuted by the U.S. Attorney's Office.

“WHEN YOU
WORK WITH
ETHICAL PEOPLE,
EVERYBODY’S WORK
IS BETTER.”

– Jeremiah Laster
Fire Paramedic
Services Chief



CASE UPDATES CONT'D

Theft from Rec Center

In 2011, Celestine Marks, a Recreation Leader at the Tustin Recreation Center in West Philadelphia, was terminated for violating the City's residency requirement. A joint Philadelphia Police and OIG investigation later sustained allegations that Marks diverted funds from the local Recreation Advisory Council. Recreation Advisory Councils assist the City with programming and provide the local community a voice in managing recreation centers.

Investigators found that, over a period of 10 months, Marks spent more than \$3,000 that should have gone to the Recreation Advisory Council on personal expenses, including supermarkets and for fast food purchases. The funds came from facility rental and other fees generated by the Recreation Center.

A joint investigation was then launched into Marks' activities at Tustin. She was arrested in January 2013 and was charged by the Philadelphia District Attorney's Office with two counts of theft.



RECOGNIZING CHANGE

The American Society for Public Administration (ASPA) is the nation's largest and most prominent professional association dedicated to improving public and non-profit administration. Every year, the society recognizes researchers, officials and government agencies that advance the cause of good government.

At ASPA's 2013 conference in New Orleans, representatives of the OIG were honored to receive the organization's public integrity award. Given to an organization "that has made outstanding contributions to responsible conduct in public service," the award shows the attention this office is garnering for its aggressive advocacy of good government. It is an important validation that the national perception of Philadelphia as "corrupt and contented" is changing, and that a new reputation of clean and effective management is growing.



Our Mission

The goal of the Office of the Inspector General is to boost public confidence in City government by rooting out corruption, fraud, misconduct, waste and mismanagement.

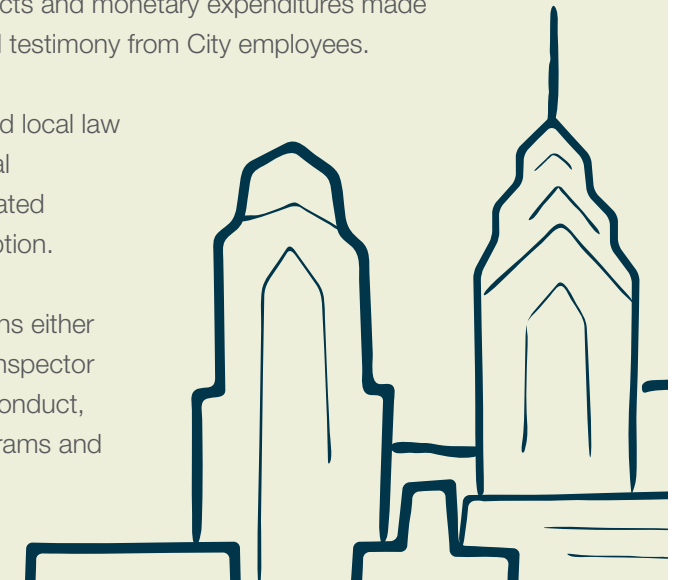
A watchdog for City taxpayers, the OIG has authority under the Philadelphia Home Rule Charter to conduct investigations of all departments, agencies, commissions and boards under the Mayor's jurisdiction.

The office also investigates individuals or companies doing business with the City or receiving City funding. Its investigative expertise is available to any City agency in need of assistance.

An operationally independent office, the OIG conducts both criminal and administrative investigations. It has the power to issue subpoenas; to examine all City documents, contracts and monetary expenditures made from the City treasury; and to demand testimony from City employees.

The office works with federal, state and local law enforcement when conducting criminal investigations and serious integrity-related complaints of fraud, abuse and corruption.

The office conducts these investigations either in response to a complaint or on the Inspector General's own initiative to detect misconduct, inefficiency and waste within the programs and operations of City government.





PHILADELPHIA OFFICE OF THE
INSPECTOR GENERAL

MICHAEL A. NUTTER, MAYOR
AMY L. KURLAND, INSPECTOR GENERAL