Office of
Inspector General
Chicago Board of Education
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SIGNIFICANT ACTIVITY REPORT

OIG 18-00133 **WEDNESDAY, MARCH 13, 2019**

PERFORMANCE REVIEW: PRE-K BILLING AND COLLECTIONS

KEY FINDINGS

CPS left as much as $2 million in parent payments involving two pre-K programs on the table over the last four school years, including money it was shorted by nearly 140 of its own employees, a performance review by the Office of Inspector General for the Chicago Board of Education has found.

The programs at issue are CPS's tuition-based pre-K, which this school year cost parents nearly $14,000 per full-day seat, and the less expensive sliding-scale pre-K program, which has charged parents copayments ranging from $260 a year to just over $4,400 a year for half-day seats, depending on family size and income.

Over the last four school years and across these two pre-K programs, CPS could have collected an additional nearly $1.6 million to $2 million but failed to do so due to pre-K application fraud by its own employees, lax debt collection, mismanagement, poor oversight of its tuition-collection arrangement with a for-profit company, and human or data errors, according to an OIG performance review of CPS pre-K billing and collections.

The OIG identified six ways in which CPS failed to collect all the money it was owed from the two programs in question — including from its own employees.

Overall, 138 CPS employees shorted CPS nearly $215,000 by either ignoring their tuition-based or sliding-scale pre-K bills or understating their incomes on applications for sliding-scale seats, an analysis of data provided by the CPS Office of Early Childhood Education, the for-profit tuition-collection vendor and other sources showed.

Specifically, 78 CPS employees shorted the district more than $114,000 by understating their CPS incomes on sliding-scale pre-K applications, thereby reducing or eliminating their copays, the OIG's Performance Analysis Unit found.

Table 1: Employees per SY Who Shorted CPS by Understating Their Incomes by $1,000 or More

SY	Employees	Money Shorted CPS	Free Seats From Understated Incomes
2014-15	23	$46,444	13
2015-16	35	$35,849	22
2016-17	19	$14,111	12
2017-18	23	$17,984	17
Total	**78***	**$114,387**	**64****

*Employees who understated income in multiple years or for multiple children are counted only once in the Total row.

**The 64 free pre-K seats benefited 55 children of 51 employees.

Source: OIG analysis of OECE and tuition-collection vendor data.

As indicated in **Table 1**, of these 78 employees, 51 won 64 free pre-K seats for their children (some attended for free two years in a row) by portraying themselves on applications as earning less than indicated by their CPS W-2s.

In addition, as shown in **Table 2**, 64 CPS employees neglected to pay more than $100,000 in bills for tuition-based pre-K or the sliding-scale program, despite repeated automated past-due warnings from the tuition-collection vendor.

The vast majority of these CPS-employee debtors — 61 of the 64 — owe money to the sliding-scale program, where CPS was especially lax about taking action against debtors, even if they listed six-figure incomes on pre-K application forms. Current OECE officials told the OIG that they could not remember ever removing the child of a single sliding-scale debtor from the program.

Table 2: Pre-K Debt Owed by CPS Employees in Last Four SYs

SY	Employees with Sliding-Scale Debt	Sliding-Scale Debt	Employees With Tuition-Based Debt	Tuition-Based Debt
2014-15	17	$20,461	1	$5,207
2015-16	20	$15,483	0	$0
2016-17	7	$14,404	1	$2,986
2017-18	25	$39,567	1	$2,207
Total	**61***	**$89,915**	**3**	**$10,400**

*Some employees incurred debts in multiple years. In the Total row, such employees are only counted once.

Source: OIG analysis of CPS and tuition-collection vendor tuition-based data as of Oct. 23, 2018, and sliding-scale data as of Oct. 2, 2018, with debt reflecting only tuition or copays owed, not late fees.

Such sliding-scale debtors include 2 principals, 2 assistant principals, 25 teachers and a Chicago police commander with a six-figure salary who has yet to pay nearly $8,900 in sliding-scale copays for the pre-K classes his two children enjoyed in 2015–16 and 2016–17.

The commander was among dozens of parents — including seven CPS employees — whose 63 children were allowed to attend a second year of pre-K even though they still owed money for the first year of pre-K. The commander and other such debtor parents then failed to pay additional bills for the second year of pre-K, racking up nearly $138,000 in total debt over both pre-K years. **Table 3** shows that these parents averaged even more debt in their child's second year than in the first.

Table 3: Pre-K Students with Two Years of Sliding-Scale Debt, SY 2014–15 to SY 2017–18

	Students	Total First Year Debt	Average First Year Debt	Total Second Year Debt	Average Second Year Debt
Total	63	$63,344	$1,005	$74,395	$1,180
With Employee Parents	7	$12,590	$1,799	$14,831	$2,119

Note: First-year debts do not carry over. Siblings who each had two years of debt were counted separately; siblings with one year of debt each are not reflected. Each employee-parent has one child with two years of debt.

Source: OIG analysis of CPS and tuition-collection vendor data.

This was the pattern of some of CPS's biggest debtors, including one family that owes CPS close to $15,500 over two years for two children; a CPS clerk who owes CPS more than $8,100 for her child's two years of pre-K in the school where she worked, and another Chicago police officer who owes CPS nearly $7,600.

Under Section 4-4(g) of the Board of Education Rules, CPS employees can be disciplined or fired for not paying city parking tickets but face no such penalties for not paying CPS pre-K bills. Thus, the OIG's 21 recommendations in its December 2018 report to the Board included updating Board Rules and Policies to impose consequences for pre-K debt by CPS employees.

Although CPS stopped charging sliding-scale copays this school year, it continues to provide free pre-K based on need by using an online application form the OIG views as flawed because it lacks an attestation of truthfulness, has no place for a signature and provides no clear indication of who filled out the form. The OIG recommended an improved form that includes these elements to discourage gaming of the system, especially by CPS employees as well as City of Chicago or sister agency employees.

The OIG does not take lightly a CPS employee who, in effect, lies to his or her employer for personal gain — and in a way that stiffs CPS. Income misrepresentation on a CPS pre-K application could amount to a criminal violation of the Illinois public benefits fraud law (*See* 720 ILCS 5/17-6(a)). The OIG recommended including a warning about this law on all pre-K applications.

In a February 22 response, CPS officials said they are planning improvements to the application form as well as to CPS's debt policy. In addition, they will seek recovery of pre-K debts from CPS employees, as well as possible discipline. Collection actions will be sought against non-employee debtors, according to a CPS Corrective Action Plan.

A MISMANAGED CONTRACT

Since 2001, CPS has provided a limited amount of full-day, tuition-based preschool for the city's 3- and 4-year-olds. The program represents an option for those parents whose children do not qualify for free pre-K based on low income or special need. This school year, tuition is $13,974 per child for 10 months of 10-hour classes.

Initially, schools collected this tuition, but one former official from the CPS Office of Early Childhood Education indicated schools were poor bill collectors. In one school, OECE could not even find the tuition checks, this former official said. So OECE looked for vendors to take over this task and settled on one particular for-profit vendor because it was the only one of four finalists to propose not charging CPS directly for its services, according to the former OECE official. Instead, the for-profit vendor planned to make money by withholding a portion of tuition payments as "processing fees" before tendering tuition to CPS and by charging parents late-payment fees.

In SY 2007–08, the vendor began collecting tuition-based payments from CPS parents. Apparently because CPS was not paying the vendor directly, the Procurement Department was not involved. No Board report was issued about the deal. CPS was given access to the vendor's online billing and collection interface, allowing it to monitor the process and make adjustments as needed.

However, evidence indicated that for eight years, there was no written agreement between CPS and the tuition-collection vendor outlining how the vendor would collect and remit what would turn out to be millions of dollars in tuition annually on CPS's behalf. The vendor at some point required parents to sign an enrollment form listing a tuition amount, a late fee and a processing fee, but neither the vendor nor CPS could produce any evidence the parties had any written agreement for the first eight years of their relationship.

The OIG views this as a dangerous business practice, as it left CPS with tenuous recourse should it discover any vendor errors or have any disputes with the tuition-collection vendor.

By SY 2013–14, CPS decided to expand its pre-K offerings by launching a "sliding-scale" pre-K program that offered parents a half-day of pre-K for a fee — but for less than the tuition required in the district's full-day tuition-based program.

Copays were tied to family size and overall income as listed on pre-K applications. Copays kicked in for families making more than 200 percent of the federal poverty level. For example, last school year a family of four making less than $49,200 would qualify for free seats. Families of four making more than that amount (or more than 200 percent of the FPL for that family size) would pay anywhere from $270 a year to as much as $4,410 a year. The top copay of $4,410 kicked in for families of four making more than $100,873 — all the way through the millionaire level.

Once again, the same for-profit vendor was recruited to bill and collect payments from sliding-scale parents without going through a formal procurement process.

Finally, under different Early Childhood leadership, another OECE official realized CPS had no contract with the for-profit vendor. A services agreement was executed, starting on July 1, 2015, covering both the tuition-based and sliding-scale programs.

However, from the first year of the 2015 agreement, the vendor charged higher fees than those in the contract. It did so without the written approval of CPS, as required by the contract. CPS parents picked up the extra tab, which went to the vendor.

At the end of June 2016, the contract expired. CPS then let the tuition-collection vendor operate on an expired contract — an unsound business practice in the OIG's view. Meanwhile, the vendor continued to raise fees without written approval from CPS. Again, parents shouldered the increases; the vendor reaped the benefit.

Plus, for years, parents at different tuition-based schools have been paying different fee amounts, ranging last school year from $46 to $50 for processing fees and from $20 to $90 *per* late payment. Most of these fees were above the contracted amounts. Several top current and former OECE officials were unaware of this practice and said the fee should have been the same across schools. Concerning late payments, one representative of the tuition-collection vendor speculated that tuition-based schools must have requested different late-payment amounts.

In the last four years alone, the vendor collected nearly $20 million from CPS parents and withheld more than $240,000 of that amount in processing fees as well as another $148,000 in late fees, an analysis of the vendor's records indicated.

Despite the millions the vendor collected annually on CPS's behalf, the OIG could find no evidence that CPS had ever audited the tuition-collection vendor over the last four school years. It may well have never done so.

As of this writing, the vendor continues to collect tuition-based payments from CPS parents on CPS's behalf.

OTHER CONCERNS

In addition to OECE mismanagement of the tuition-collection contract, the OIG made several other findings concerning CPS pre-K billing and collection practices.

The OIG found that OECE employees in the best position to be riding herd over the tuition-collection vendor did not know key specifics of the contract, such as the contracted amount of the vendor's processing and late fees or when the contract expired. Thus, they were unable to detect when fees were above the contracted amount or to recommend exercising an option to renew the contract.

Current OECE officials could not remember any sliding-scale debtor ever being removed from the program for lack of payment, including those who listed six-figure incomes on their applications. OECE never referred pre-K debtors to a bill collector during the four years examined, even though a bill collector was under contract with CPS for part of this time period.

In recent years, CPS never systematically checked whether any debtors were CPS employees, although one key OECE official noted that he did not have the ability to do so.

One CPS employee who dealt with the tuition-collection vendor has been working alone in a 3,200-square-foot office space, located in a shopping mall, this school year as well as last school year. Such a large space for one person is "a waste of money,'' a former OECE official told the OIG. This year's rent is costing CPS more than $70,000.

At least two CPS departments that work with or monitor the vendor's billing and collection functions displayed poor recording-keeping in that they were missing vital records in their official files or kept incomplete or unauditable records.

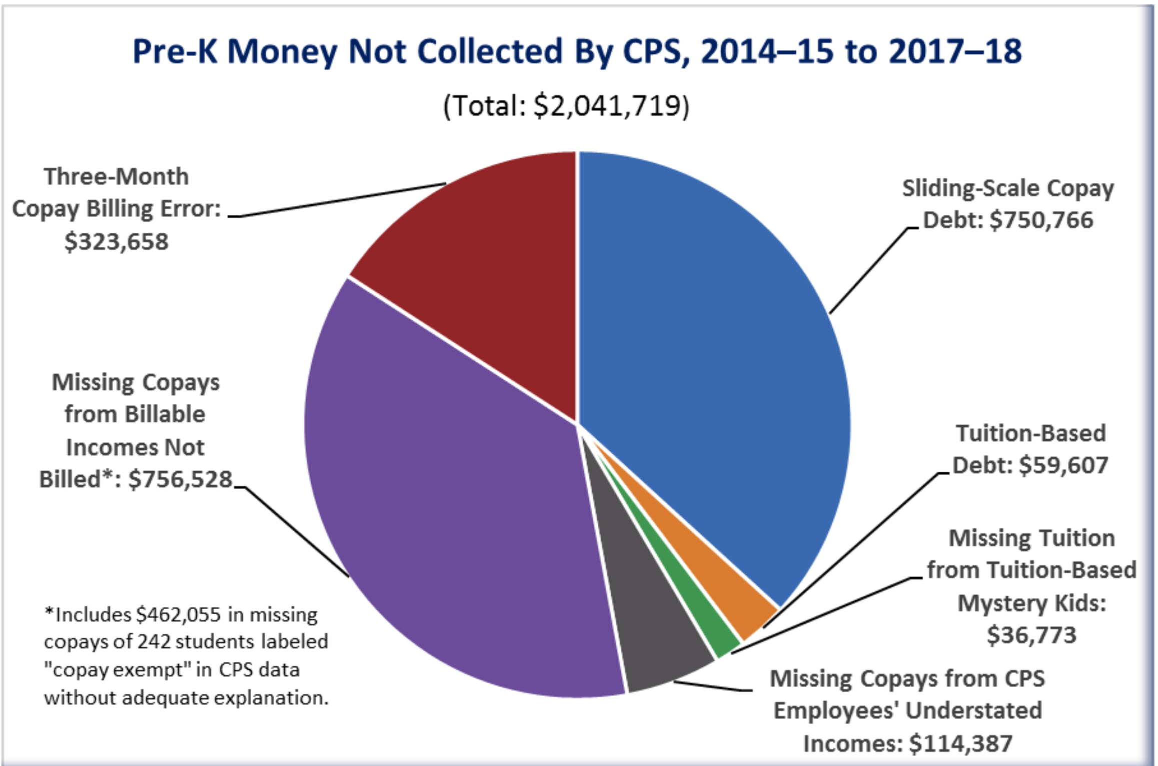
At the time of the OIG's performance review, CPS employees were sharing passwords and user names to vendor billing accounts that had been used by employees who had left CPS years ago. This theoretically gave ex-CPS employees who remembered their old user names and passwords the ability to alter tuition or billing information and to see personal information about students and parents. It also left behind inaccurate audit trails.

In recent years, on-site supervision of one CPS employee with the power to waive fees or tuition was non-existent.

CPS used three different databases to collect pre-K application information for its sliding-scale program over the four years surveyed. This created the opportunity for numerous data errors and billing mistakes. The OIG also found what appeared to be numerous human errors in Early Childhood and pre-K data and files.

SIX SHORTING METHODS

Using data provided by OECE or contained in databases maintained by CPS or the tuition-collection vendor, the OIG's Performance Analysis Unit identified six ways in which CPS failed to collect all the money it was due from its tuition-based or sliding-scale pre-K programs between SY 2014–15 and SY 2017–18:



Source: OIG Analysis of CPS and tuition-collection vendor data 2014–15 through 2017–18.

1. **Sliding-Scale Debtors:** Nearly $751,000 in copays was never collected from the parents of 677 students in the sliding-scale program, including nearly $90,000 in debt accumulated by 61 CPS employees. Those employees include 2 principals, 2 assistant principals and 25 CPS teachers with debts over $500. The biggest CPS sliding-scale debtor is a school clerk who owes more than $8,100 from her child's two years of pre-K in the school where she worked. Among non-CPS employees, the biggest debtor has an unpaid tab of nearly $15,500. The second-largest non-CPS debtor is a Chicago police commander with a six-figure salary who owes CPS nearly $8,900 for the two years his two children attended sliding-scale pre-K. Another Chicago police officer, with an annual salary of more than $85,000, owes CPS nearly $7,600. All four of these debtors displayed

a pattern exhibited in the cases of 63 sliding-scale students: their parents owed money at the end of their first year of pre-K, but the children were allowed to return for a second year, when their parents rang up even more debt, on average, than the first year.

2. **Tuition-Based Debtors:** Nearly $60,000 in tuition was never collected from the parents of 28 students in the tuition-based pre-K program. Of that amount, $10,400 in debt was racked up by three CPS teachers. The biggest CPS-employed tuition-based debtor was a teacher who failed to pay more than $5,200 for her child's tuition-based pre-K in the school where she worked.

3. **Tuition-Based Mystery Kids:** CPS could not produce any proof that nearly $37,000 in tuition was ever paid on behalf of four students who were not billed by the tuition-collection vendor, meaning those students may well have slipped into tuition-based seats without ever paying CPS. The OIG recommended a way of catching such non-billed students in the future.

4. **CPS Employees with Understated Incomes:** More than $114,000 in additional sliding-scale copays should have been collected from 78 CPS employees who understated their incomes on applications for sliding-scale seats, resulting in shortages to CPS. The bulk of these employees — 51 of 78 — obtained free pre-K seats for their children under this scheme, some for two consecutive years.

5. **Billable Incomes Not Billed:** Nearly $757,000 in sliding-scale copays was never collected from the parents of 379 students who were listed in data provided by OECE with family sizes and incomes that normally should have triggered sliding-scale copays — yet, inexplicably, they were never billed. This tally includes 242 students from one anomalous year, SY 2015–16, who were listed as "copay exempt" in CPS records without any supporting information to indicate why they should be exempt from paying what should have been more than $462,000 in copays. Key CPS officials could not adequately explain the basis of these waivers. Some of these families had six-figure incomes and possibly were granted copay exemptions based on standards that were not applied in the three other years examined by the OIG. If the $462,000 in questionable copay exemptions from 2015-16 is presumed to be accurate, CPS would have left nearly $1.6 million on the table across all six schemes identified by the OIG. But if the OIG applies the same copay exemption standards to SY 2015–16 as CPS allowed in other years, CPS would have left just over $2 million on the table from all six schemes over the four years analyzed.

6. **Three-Month Billing Error:** Nearly $324,000 in sliding-scale copays was never collected in SY 2017–18 due to a billing error involving 690 students whose parents mistakenly were not billed for the first three months of the program. CPS Early Childhood officials waived these three months of copays after finding

CPS erred in not initially notifying or billing these parents. Early Childhood officials did not try to determine why the error occurred.

TOP RECOMMENDATIONS AND CPS RESPONSES

As a result of its performance review, the OIG's Performance Analysis Unit referred some cases to other OIG investigative units. The OIG also issued 21 recommendations to the Board on December 14, 2018, concerning pre-K billing and collection procedures. The first 10 recommendations were considered time-sensitive, so the OIG asked CPS for a corrective action plan addressing them within two months. A CPS corrective action plan was provided on February 22. The OIG expects responses to the 11 remaining recommendations by mid-June.

The IG's 10 time-sensitive recommendations, and CPS's responses, are as follows:

1. **Consider an RFP.** CPS should consider an RFP for SY 2019–2020 tuition-based collections because the tuition-collection vendor has not abided by its contract and handles millions of dollars in CPS tuition annually. If CPS decides to continue to use the same vendor, it should renegotiate its now-expired contract and monitor it carefully.

   CPS Response: *CPS will be working on a new contract with the same vendor, targeted to start April 30, 2019.*

2. **Standardize fees.** Any new contract should establish and enforce consistent *late* fees, which last school year ranged from $20 to $90 across all tuition-based schools, as well as consistent *processing* fees, which last school year ranged from $46 to $50 per tuition-based student, depending on the school. References to these fees in vendor or CPS material should use consistent and correct figures. (Note that the sliding-scale program was halted this school year so its fees are moot.)

   CPS Response: *The new contract with the same vendor will have the same processing fee and late fee across all tuition-based schools. These rates will be used consistently across all communications with parents and in the contract.*

3. **Demand payment.** CPS should demand payment, preferably with interest, from CPS employees with tuition-based or sliding-scale debt and carefully weigh all options against non-employee debtors with pre-K debt, particularly those with tuition-based debt or large debt amounts. In addition, CPS should send up-to-date bills to parents of the four tuition-based mystery kids.

   CPS Response: *The Law Department will be contacting high-level employees, and then rank-and-file employees, to seek repayment and/or possible disciplinary* *action. The Law Department also will seek collection actions against debtors who are not employed by the Board.*

4. **Update indebtedness policies and rules.** The current Board Policy on Indebtedness requires CPS job applicants to pay outstanding parking tickets as a condition of employment. In addition, under Board Rules, existing CPS employees can be disciplined or dismissed for any City of Chicago debt. Board Rules and Policies should be amended to address CPS pre-K debt by CPS employees and job applicants.

   CPS Response: *The Law Department will be updating Board Rule 4-4(g) to expand its coverage to all public debt above and beyond just debt to the City of Chicago. The proposed changes may require negotiations with labor organizations.*

5. **Check annually for CPS debtors**. CPS should conduct an annual check for employees with pre-K tuition debt. Action should then be pursued against CPS-employed pre-K debtors under the updated Board Rules and Policies recommended above.

   CPS Response*: The Office of Early Childhood will provide the appropriate CPS departments with a report on CPS employees who owe pre-K tuition debt.*

6. **Add attestation box and warning.** Current applications for free pre-K should contain an attestation-of-truthfulness box and require a clear indication of who filled out the form so CPS employees, in particular, can be held accountable if they provide false information. To discourage application fraud, such forms should include a warning that providing false or misleading information could result in criminal penalties under the Illinois public benefits fraud law, 720 ILCS 5/17-6(a).

   CPS Response*: The Office of Early Childhood will ask the City Department of Family Support Services to work with its software vendor to add the attestation box and warning. This attestation box and warning will apply to all public entities, not limited to CPS and the City of Chicago.*

7. **Employment disclosure needed.** The OIG recommends that CPS's free pre-K application require disclosure of whether any parent or guardian of a child applicant works for CPS — and possibly for the City of Chicago or its sister agencies. This will provide valuable information in the event CPS wants to seek back-tuition from its employees or sister-agency employees, all of whom should be held to the highest standards when debts to public agencies are involved.

   CPS Response: *The Office of Early Childhood will request that the DFSS work with their software vendor to add a section requiring that any guardian of a child* *applicant disclose his or her current employment status with CPS, the City of Chicago or any other public entity.*

8. **Audit trail and audits needed.** CPS needs to establish an auditable way of maintaining tuition-based application and payment information. The audit trail on data in the current electronic application database is not readily available to CPS officials. Audits of the billing and collection vendor should be conducted on a regular basis to ensure the vendor is withholding the correct amount of fees and tendering the correct tuition.

   CPS Response: *The tuition-collection vendor will be asked to provide a monthly report on all students' tuition payments and fees, which CPS will monitor for delinquencies and discrepancies in payments made.*

9. **End the lease.** When CPS's lease on the 3,200-square-foot office space now being used by only one CPS employee — a person who monitors tuition billing — expires on June 30, 2019, CPS should consider ending the more than $70,000-a-year lease.

   CPS Response: *This lease will not be renewed and the employee will be housed at Central Office.*

10. **Update usernames and passwords.** During the time period examined, CPS employees used the usernames and passwords of former CPS employees to access the vendor's database of CPS tuition-based and sliding-scale accounts. This prevented accurate audit trails and theoretically allowed ex-employees to tamper with tuition bills and access student information. In the future, all vendor database usernames and passwords should be used in a way that is consistent with CPS password guidelines.

    CPS Response: *CPS says it has corrected this issue.*