

SIGNIFICANT ACTIVITY REPORT

THURSDAY, SEPTEMBER 8, 2016

**THREE OIG INVESTIGATIONS UNCOVER FREE, OR ESSENTIALLY FREE,
USE OF HIGH SCHOOL FACILITIES BY PRIVATELY OWNED SPORTS CLUBS**

Three separate, in-depth OIG investigations that together focused on three commercial sports youth clubs and camps — a swimming club team (OIG 15-00302), a youth basketball club (OIG 14-00058), and a volleyball club that also offers camps (OIG 15-01073) — revealed that, for years, the administration at a high school (“School One”), under the leadership of its principal, had allowed the for-profit clubs to use its facilities for little to no cost, and did so without requiring the clubs to enter into the required facilities-rental contracts. Furthermore, in each instance, the sports clubs were owned by or employed School One personnel.

On May 9, 2016, the OIG issued summary reports to the Chicago Board of Education that detailed its findings and recommendations specific to each of the three investigations. The key takeaways from the investigations — both individually and in the aggregate — are as follows:

- The swimming club team had entered into back-to-back contracts to rent School One’s aquatics facilities from August 1, 2014, to September 30, 2016. For the contract that ran from August 1, 2014, to August 1, 2015, School One charged the team (what worked out to be) approximately \$1.20 an hour for rent. School One’s established list of facilities-rental prices did not include a rental price for the aquatics facilities. But using facilities-rental prices that were included on the list, the OIG calculated a baseline range of how much School One *should* have charged the club team, and subsequently concluded that, at a minimum, the school had forfeited \$71,701.70 to \$437,364.20 in rental revenue for that one year alone. Even more, when the second rental contract between School One and the swimming team ends on September 30, 2016, the school will have lost \$96,301.70 to \$582,504.20 in total rental revenue from August 1, 2014, to September 30, 2016.

- As to the youth basketball club, School One did not initially require it to enter into written rental contracts to use the school's gym, but instead operated under informal rental arrangements with the club until formal rental agreements were eventually put in place. Nevertheless, the club did not pay the rent that it had agreed to in either the informal arrangements or subsequent rental contracts, even though one of those contracts charged the club only \$250 a week in rent. As a result, the club ended up owing School One \$25,800 in back rent. And in an apparent attempt to collect a portion of the club's past rent, School One's principal entered into a bizarre agreement with the club's owner, through which the club proposed "to donate" approximately \$12,000 in basketball equipment that the school, in fact, actually already owned.
- The investigation of the volleyball club revealed that, in July of 2015 alone, the club had used \$7,115 to \$12,130 of free gym time to host a month-long series of volleyball camps at several CPS schools, including School One. In fact, the owner of the club, Coach A, admitted to the OIG that, from 2011 through 2015, his club had used the gym at School One, as well as the gyms at other CPS high schools, without executing the requisite rental contracts or paying any rent. The club also employed Coach B, who is School One's varsity volleyball coach. Evidence supported the conclusion that the club was able to operate at School One for free because of her employment.
- School One's principal and her former and current assistant principals (both of whom were and are, respectively, responsible for overseeing School One's facilities rentals) exhibited an unsettling willingness to allow school employees to use significant Board resources to make money through their privately owned sports clubs. In fact, when discussing the low rent that School A has charged the swimming club team, the principal told the OIG that she "definitely" would have instructed her subordinates to make sure that the team's rent was "as minimal as possible" so as to "reward[]" the team's owner for the contributions that he had made to the school as an employee and coach. The principal also told the OIG that she fully intended to allow the team's owner to make money through his commercial club team.
- Considering the three cases together, School One's administration gave hundreds of thousands of dollars in rental discounts to those private businesses, if not more, at the school's and the tax payers' expense.

Based on these conclusions, the OIG informed the Board that School One's principal's and assistant principals' actions should be a sobering wake-up call that a check is needed on school administrators' discretion as to how much to charge when renting school facilities — particularly the discretion that currently is afforded to

school principals. Consequently, the OIG recommended that the CPS Office of Real Estate enact mandatory guidelines that control the rental prices for school facilities. Such guidelines would (1) remove any specter that low rental prices are the result of favoritism on the part of school administration; (2) help ensure that the process of renting CPS school facilities is kept entirely transparent; (3) bring uniformity to the prices of school-facilities rentals across CPS; and (4) bring uniformity to the processes by which CPS school facilities are rented to outside groups.

The OIG further recommended that the Office of Real Estate should reiterate, and emphasize, to schools that a proper, written rental agreement needs to be completed every time facilities are rented. In addition, the rental prices should be kept up to date so as to reflect prevailing market rates. All payments must be made monetarily, and not through informal “in-kind” horse-trading. If appropriate, the guidelines may be comprised of ranges of rental prices that schools should use — for example, \$200 to \$250 an hour for rental of a gymnasium — instead of set prices. Regardless of how the Office of Real Estate structures the guidelines, the Office should make clear: (1) any facility that is not listed in the guidelines cannot be rented; and (2) all principals must follow the guidelines when renting school facilities, unless they provide a written explanation that presents a compelling justification to deviate from the guidelines. That written explanation should be sent to, and approved by, the Office of Real Estate before any rental contract is finalized, and be incorporated in the executed written rental contract. Once finalized, the Office of Real Estate should direct each school that rents its facilities to post the guidelines online so as to help ensure that CPS’s process of renting school facilities remains transparent.

Each of the three investigations is more fully summarized below:

Swimming Club Team (OIG 15-00302): Employee A, who also was School One’s aquatics head coach, solely owns a for-profit club swimming team that (1) operated out of School One’s aquatics facilities; (2) incorporated itself by using School One’s name; (3) listed School One’s address on its incorporation documents as the club’s address-of-record; and (4) advertised itself in such a way so as to suggest that it was formally affiliated with, or even sponsored by, School One. From August 1, 2014, to August 1, 2015, the team contracted to rent School One’s aquatics facilities for (what would work out to be) approximately \$1.20 an hour — a steeply discounted amount under any view.

Because School One did not list any prices for its aquatics center on its list of facilities-rental prices, the OIG was unable to determine the exact amount of rental revenue that it had abandoned through the club team’s discounted rent. Instead, the OIG could only calculate a range of forfeited rent by relying on the prices that the school charged to groups that rented a classroom (\$50 an hour), on the low end, and that rented the school’s largest gymnasium (\$295 an hour), on the high end. Relying

on these price points as references to what School One *should* have charged the club team, the OIG calculated that, from August 1, 2014, to August 1, 2015, the school had forfeited — at a minimum — \$71,701.70 to \$437,364.20 in rental revenue. And when the latest rental contract between School One and the swimming team ends on September 30, 2016, the school will have lost \$96,301.70 to \$582,504.20 in total rental revenue from August 1, 2014, to September 30, 2016.

When asked about the low rent that School One had charged the swimming club team, the school's principal admitted to the OIG that she intentionally had helped the swimming team — which is a privately owned and incorporated company — make money at the school's expense because Employee A owned the team. Specifically, she told the OIG that she “definitely” would have ensured that the team's rent was “as minimal as possible” so as to “reward[]” Employee A “for his contribution” to the school.

Based on these facts, the OIG determined that, by giving the swimming team up to half a million dollars (or more) in free rent through an insider process, School One's principal and current assistant principal completely abandoned their respective fiduciary duties to the school and the Board. Employee A, in turn, violated several provisions of CPS's Code of Ethics.

The OIG recommended appropriate discipline for School One's principal, current assistant principal, and Employee A. The OIG further recommended that the Board debar Employee A and the club swim team for an appropriate period of time.

The OIG also recommended that the Law Department send a letter to Employee A, ordering him to cease and desist using any statements or marks that suggest that the swim team was sponsored by, or was formally affiliated with, School One, instead of being an independent business. And the OIG further recommended that the Law Department terminate or appropriately amend the swim team's rental contract with School One that was in existence at the time of the investigation.

Youth Basketball Club (OIG 14-00058): Employee B, who was also School One's sophomore men's basketball coach, owns a youth basketball club. School One did not initially require Employee B to enter into written rental contracts so that his club could use the school gym. Instead, Employee B and School One had informal, verbal rental arrangements in place until formal written rental contracts were reached. Nevertheless, the club did not pay the \$25,800 in rent that it had agreed to through either the informal arrangements or subsequent rental contracts.

The OIG found that, in an attempt to recover the rent that the club owed to School One, the current assistant principal made an ad hoc amendment to the rental contract, lowering the club's rent to \$250 a week. That amendment bore a striking similarity to the rental contracts that School One had entered into with the

swimming team club in OIG 15-00302, in that it resulted in an unreasonably low hourly rental rate for the gym's use — specifically, in this case, what amounted to be only \$5.68 an hour. In other words, both School One's current assistant principal's amendment to the basketball club's rental contract, and the school's rental contracts with the swimming team club, furthered the OIG's conclusion that School One's administration provided unreasonably low and indefensible rent for outside organizations that had ties to the school.

The OIG also uncovered evidence that showed that School One's principal entered into an odd — if not a sham — business deal with the basketball club, whereby she agreed to accept an "in-kind donation" of approximately \$12,000 in basketball equipment (specifically, automatic basketball shooting machines) in exchange for reducing the amount of back rent that the club owed to the school. The OIG determined, however, that School One already owned the shooting machines that the club attempted "to donate", and which the principal initially agreed to accept as payment.

By way of background, in the summer of 2015, School One's men's varsity basketball coach and Employee B contacted an Ohio-based company to purchase two shooting machines that, together, cost \$11,630. School One's basketball booster club — which Employee B helped to establish — made a \$5,000 down payment on the machines. In June of 2015, School One's principal and the men's varsity basketball coach signed a \$6,630 financing agreement with the company to cover the outstanding amount. The varsity coach further instructed the company to paint the machines in School One's colors, and to include lettering that touted the school's state championships. In addition, the invoice for the sale, as well as each of the two receipts for the two machines, listed the varsity coach as the individual at School One to whom the machines would be shipped.

But then, in November of 2015, Employee B approached School One's principal, proposing that his basketball club "donate" the shooting machines to defray the club's debts to the school. To prove that the club owned the shooting machines, Employee B presented falsified documents that purported to show that he had purchased the equipment personally. The principal agreed to the proposal. She later called the deal off, but only after the OIG pointed out to her that (1) School One, and not the basketball club, already owned the shooting machines; and (2) she had, in fact, personally approved School One's purchase of the shooting machines by signing the \$6,630 finance agreement for the equipment, not even five months earlier.

For her part, the principal told the OIG that she did not realize that School One had owned the shooting machines. The OIG, though, determined that the principal's claimed ignorance of School One's ownership of the machines strained credulity, at best, particularly given: (1) she and the men's varsity basketball coach had signed

the \$6,630 finance agreement for the machines; (2) the varsity basketball coach had assured the OIG that, before they executed the finance agreement, he had discussed it with the principal, the circumstances under which the machines were purchased, and how the down payment was made; (3) the varsity basketball coach, as well as the head of School One's basketball booster club, each unequivocally stated that the machines were purchased for the school, and not Employee B's basketball club; (4) the machines were customized to reflect School One's ownership of them; and (5) the total cost of the machines was over the procurement limit of \$10,000, which should have resulted in increased scrutiny on the principal's part. Moreover, when the OIG confronted the principal with the finalized finance agreement and asked why she had signed it, her first response was to acknowledge that the facts "did not look good." And although she confirmed that she had signed the finance agreement, the principal could not explain why she did.

The OIG recommended appropriate discipline for School One's principal and its former and current assistant principals. Employee B, however, resigned his position with CPS while under investigation. Because that investigation was substantiated, the OIG recommended that the Board place a permanent Do Not Hire classification in his personnel file. The OIG additionally recommended permanent debarments for Employee B and his basketball club, and that the Board take legal action against Employee B and the club to recover the \$25,800 in unpaid back rent, if it deemed that such legal efforts would be financially practicable.

Volleyball Club Team and Camps (OIG 15-01073): Volleyball Coach A was both a CPS employee in the district's Department of Sports and Facilities Management, as well as a former volleyball coach for a different high school ("School Two"). Coach A's volleyball club (which reported approximately \$1.285 million in annual revenue in its most recent financial report) also employed volleyball Coach B, who was a gym teacher and the volleyball head coach at School One. Coach A admitted to the OIG that, from 2011 through 2015, his volleyball club had used the gym at School One, as well as the gyms at School Two and another CPS high school, School Three, without executing the requisite rental contracts or paying any rent.

Because of the lack of any rental contracts or other similar documents that reflect the extent to which the club had used school facilities, the OIG could not calculate with any certainty the total amount of back rent that the volleyball club owed. Nevertheless, that amount was, undoubtedly, substantial. The OIG found that, in July of 2015 alone, the volleyball club held 28 volleyball camps, during which the club used — free of charge — 17 hours of gym time at School One, 12 hours at School Two, and 24 hours at School Three. Thus, for only one month out of five years of free gym usage, the volleyball club's unpaid rent totaled \$7,115 to \$12,130 (an amount reached by multiplying the individual schools' different rental rates by the number

of hours that the club had used the schools' facilities, and then totaling the resulting products).

The OIG concluded that Schools One, Two, and Three all should have been aware that the club was using their facilities for such a prolonged period of time without paying rent. Each of the schools displayed varying degrees of culpability, though, in failing to obtain rental contracts from the club. As to School One, its principal and former and current assistant principals each violated CPS school-usage policies by failing to enter into written rental contracts with the club. And Coach A publicly suggested that the volleyball club was able to use School One's gym free of charge as a form of compensation for Coach B's employment at the school. School Three's principal and its director of facilities, likewise, each violated CPS school-usage policies by failing to enter into written rental contracts with the club. School Two, though, was the only school that the OIG could not find was entirely at fault. Specifically, School Two's business manager credibly explained to the OIG that she did not know how often Coach A had used the school's gym for events associated with his private volleyball club, as opposed to events for School Two's official volleyball team. And, the business manager insisted, had the club asked to rent facilities, she would have charged it the full price of using the gym: \$230 an hour.

Coach A also told the OIG that the volleyball club did enter into one rental contract with an additional high school — School Four — that ran from September of 2015 to February of 2016. However, the club violated that contract by failing to carry sufficient general liability insurance. Moreover, Coaches A and B each violated provisions of the CPS Code of Ethics. Coach A violated the Code's provisions that proscribed (1) his secondary employment with his volleyball club; and (2) his conflict of interest in entering into a contract with School Four while having an economic interest in that contract. And Coaches A and B each improperly used Board resources to perform their secondary employment for the volleyball club.

The OIG recommended appropriate discipline for School One's principal and former and current assistant principals; the principal and facilities manager for School Three; and Coach B. The OIG also recommended that the Board terminate Coach A's employment with CPS and place a permanent Do Not Hire classification in his personnel file. Finally, the OIG recommended permanent debarments for Coach A and his volleyball club, and that the Board take legal action to recover from Coach A and his volleyball club the \$7,115 to \$12,130 of unpaid rent stemming from its use of facilities throughout July of 2015, if it deemed that such legal efforts would be financially practicable.