

April 15, 1999

Hon. Rudolph F. Crew
Chancellor
New York City Public Schools
110 Livingston Street, Room 1010
Brooklyn, New York 11201

Re: An Investigation Into
Community School District 14
SCI Case #92-2093

Dear Chancellor Crew:

I am writing to inform you of the results of an extensive investigation my office has conducted into criminal activities within Community School District 14, located in the Williamsburg section of Brooklyn. We received allegations of a far-reaching criminal conspiracy, involving millions of taxpayer dollars in salaries and health benefits paid to “no-show” employees over a number of years. The conspiracy, it was alleged, included the District 14 school superintendent, a rabbi in charge of a religious school, elected members of the local school board, and a large number of Williamsburg housewives. Specifically, District school superintendents over the last 20 years gave dozens of no-show Board of Education (“BOE”) jobs to members of the Williamsburg-area Satmar Hasidic community in exchange for the support of three local board members from that community. This support effectively guaranteed that the Superintendents could not be ousted from their chief executive positions.

Our investigation confirmed these allegations; we asked the United States Attorney for the Eastern District of New York to join our investigation and, in the past year, it has prosecuted criminal cases resulting in the conviction of four high-level conspirators by pleas of guilty, along with a million dollar forfeiture of monies illegally obtained from the Board of Education through the no-show jobs. Three other

conspirators are now deceased as a result of natural causes. Several others who committed acts of misconduct, including the current Acting Superintendent of the District, have not been charged with a crime. In the interest of restoring public confidence in the school system in District 14, we are releasing full details of the no-show conspiracy at this time.

The evidence we have assembled, through the guilty pleas and other investigative efforts, established that this criminal conspiracy existed in varying forms from the late 1970's through the mid-1990's; it ended only in 1994, when agents working for the U.S. Attorney for the Eastern District, along with our investigators, executed an extensive search warrant at the District 14 offices and the Beth Rachel School, a private religious school for girls in Williamsburg. The extent of District 14's no-show payroll operating through Beth Rachel is staggering: over the years, the BOE paid 81 "employees" approximately \$4,300,000 in salaries and paid approximately \$1,900,000 in health benefit contributions. For this money, the Board received no work whatsoever.

At its height, the District 14 payroll contained as many as 59 no-show employees at one time. Many of these were women with large families who did not work outside the home. Typically, these no-shows would kick back their salaries to Rabbi Hertz Frankel, principal of the elementary school of Beth Rachel, giving him the cash proceeds of their paychecks. In exchange for laundering the money from District 14, the women were allowed to keep the medical benefits for themselves and their families. For this reason, participants commonly referred to the no-show scheme as "the health insurance program." There was a second group of no-shows that worked directly for Beth Rachel. A large number of the religious school staff, in positions as wide-ranging as the high school principal to Rabbi Frankel's secretary, were paid BOE salaries.¹

Effectively, the conspiracy allowed Rabbi Frankel and the United Talmudical Academy ("UTA") – the umbrella organization under which the school operated – to use taxpayer and other government funds for the operation and maintenance of a private religious school. Additionally, large amounts of money are unaccounted for: some of this money made its way into myriad UTA organizations, and some has simply vanished. The conspiracy was effective for District 14 Superintendent William Rogers as well: he was able to retain his position for 20 uninterrupted years, which is highly unusual in the era of the "decentralized" school governance law.

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The criminal conspiracy involved not just Rogers and his successor Mario DeStefano,² but several other District 14 employees as well. Daniel LaBianca, Robert Rehm, and Mary Dunne³ played critical roles in keeping the conspiracy operating smoothly. Fran Gasman and teacher Gordon McLeer⁴ did a variety of administrative tasks to process the timesheet and payroll records. Gasman was a frequent intermediary with Frankel and Beth Rachel, and often drove prospective no-shows to the central Board's offices in Brooklyn for fingerprinting and processing. We have also concluded that some District employees, including current Acting Superintendent John Musico, destroyed records in an effort to cover up the conspiracy once this investigation began.

The District 14/Beth Rachel No-Show Scheme in Operation

To fully understand the no-show scheme, it is necessary to grasp some of the details of school funding. The millions of government dollars stolen in the Beth Rachel conspiracy came from two sources: "tax-levy" money,⁵ that is, funds raised through New York City and State taxes; and "Chapter One" money, federal funds reimbursing local school districts for conducting specified remedial classes for educationally and economically deprived children. For the purposes of this investigation, the key distinction is that tax-levy funds cannot be used on programs for children in private or religious schools. Federal Chapter One funds may be used for remedial instruction programs for private and religious school students, if the programs meet federal requirements. The Chapter One funds are used only to reimburse the school district for money already spent on qualifying programs, and are commonly referred to as "reimbursable programs."

The no-show scheme expanded both in numbers of employees and the amount of money they received during Rogers' tenure. When the number of no-shows exceeded any conceivable student demand for educators at Beth Rachel, Rogers put no-shows on the payroll as security guards. These positions are paid by tax-levy funds, and need not be tied to an eligible number of students. On the other hand, it is improper for any tax-levy money to benefit private school students. Rogers was apparently willing to take

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the risk that the guard payroll would be discovered. Further, Rogers devised a way to pay the no-shows during the summer months in addition to the regular school year. The no-show conspiracy flourished into the 1990's, and was in full force when we began our investigation late in 1992.

The no-show payroll was handled by a small number of individuals on the District's staff, all of whom took their direction from either the Superintendent or Frankel.⁶ During the school year, the no-show timesheets were divided into two groups: "Mary's shop" and "Fran's shop," after the BOE employee responsible for processing the payroll records for those employees. Mary Dunne, of "Mary's shop," was District 14's Personnel Director; "Fran" was Fran Gasman, the District's Coordinator for non-public schools within its boundaries. In the summer, a third group of no-show employees came into being, which we will call "Rehm's shop," combining those employees of Fran's shop and Mary's shop on the summer payroll. Rehm was Robert Rehm, a teacher and Special Assistant for Rogers and, briefly, DeStefano.

Every two weeks during the school year and the summers, Rabbi Frankel or his secretary delivered timesheets previously signed by the no-show employees to the District Office.⁷ The timesheets were in envelopes marked "Fran's shop" or "Mary's shop,"⁸ and Frankel would hand each envelope to the person responsible for that group of employees. Typically, this was Gasman and Dunne, who would then sign and process them so the paychecks could be cut. On paydays, Rabbi Frankel would stop by the District Office to pick up the no-show paychecks. Frankel was a regular at the District Office on paydays, and was known to much of the staff.

Fran's shop consisted, in most years, of approximately 18 employees in paraprofessional positions ostensibly at Beth Rachel. Their status as paraprofessionals gave the District some plausible cover, because paraprofessionals are commonly hired for Chapter One instructional programs at private or religious schools.⁹ Mary Dunne was District 14's Personnel Director,¹⁰ and her shop came into being in the early 1980's, also during Rogers' tenure as Superintendent.

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Rehm's Shop

Rogers' Special Assistant Robert Rehm supervised a number of legitimate "vacation day camps" at district schools for children in the neighborhood, which included sports, music, and art for a six-week period in the summers. A typical vacation site might have a staff of about six or seven part-time employees, including a few teachers, a school guard or aide, and several high-school aged student aides. Rehm would go from camp to camp as a roving supervisor during the summers.

In 1982, Rogers decided to create a vacation camp at Beth Rachel, for which Rehm would also be responsible. Beth Rachel's was not to be a typical District vacation camp, however. By its payroll, which sometimes reached as many as 50 employees, the Beth Rachel summer program was many times larger than the next largest vacation camp in the District. Rehm, whose job it was to visit the vacation camps, was specifically instructed by Rogers not to visit the Beth Rachel site, however. Even without this instruction, Rehm would have been hard-pressed to visit the Beth Rachel program: there was no summer camp at Beth Rachel.¹³ Camp "employees" were often vacationing outside New York City in the summer, and prepared post-dated timesheets before they left. Most of the employees in Rehm's summer shop were no-shows from Fran's or Mary's school-year shops, and the camp was a fiction designed to keep them on the

¹¹ None of these Beth Rachel workers actually functioned as a guard. The title existed on paper, but in reality, they performed whatever duties they were assigned by the Beth Rachel administration.

¹² Paraprofessionals at private schools can be paid with Chapter One funds, when their programs qualify.

¹³ Beth Rachel had a swimming pool, and at times children from other Williamsburg camps would use it. No summer camp was run from Beth Rachel, however.

payroll during the summers. Thus, the no-shows received their paychecks every two weeks, without the burden of coming to work during summer vacation. This no-show payroll cost the Board as much as tens-of-thousands of dollars each summer. The summer shop scam ran from 1982 through 1992, up until our investigation began.

The No-Show Scheme Under Mario DeStefano.

In February 1992, after 20 years as District Superintendent, William Rogers retired. His lengthy reign, highly unusual under the political conditions fostered by the school governance law of the time, was due in no small measure to the support he derived from the Beth Rachel conspiracy. His successor, Mario DeStefano, was noticeably alarmed that the extent of the Beth Rachel payroll would draw unwanted attention, and immediately took steps to change the arrangement.

Far from cleaning up the no-show scam, however, DeStefano focused on better concealing it. This was important because the central BOE, in its first effort at “transparent budgeting,” published spending and staffing levels for each school district that spring. District 14 had spent by far the most money of any local school district on security guards. DeStefano was worried: if the BOE or the public discovered that the vast majority of those guards were assigned to one school – a private religious school no less – the whole no-show conspiracy could blow up in his face. DeStefano needed the Williamsburg board members’ support just as much as Rogers did, however, so he focused on making the scheme less obvious. Thus began a continuing effort to move the no-show security guards onto paylines as paraprofessionals, where he could at least contend they were performing a legitimate Chapter One function.

The makeover had a familiar drawback: security guards could be paid with District [tax-levy] funds, while paraprofessionals at Beth Rachel had to be paid through Chapter One Funds for reimbursable programs. The only way to increase Beth Rachel’s allotment of Chapter One funds was to increase the number of its eligible students. On paper at least, this was no problem: in 1991, the school’s Chapter One proposal indicated 857 eligible students; under DeStefano’s and Frankel’s direction, the “eligible students” suddenly ballooned to 1,758 in 1992; by 1993, the number was 2,168. In a similar way, DeStefano “created” a summer Chapter One program, and moved the “guards” in Rehm’s camp onto paraprofessional lines. While there was no Chapter One program in the summer, and indeed there was no significant increase in eligible students during the summer or the school year, DeStefano could now claim plausible legitimacy for the public expenditures at Beth Rachel. Since the additional eligible students did not exist, however, what DeStefano was really doing was keeping the no-show payroll alive by creating “no-show students.”

“We have a problem with the school guard program...”

But just as DeStefano was streamlining payroll procedures to more effectively conceal the no-show scam, the 20-year conspiracy was finally unraveling from within District 14. In the fall of 1992, this office, and some other law enforcement agencies, began receiving letters signed “A Concerned Citizen” from an anonymous source. The letters laid out much of the detail of the District 14/Beth Rachel conspiracy. Ultimately, we were able to uncover the identity of the authors, who turned out to be a group of disaffected staff members in the District.

Some time around Christmas 1992, Frankel learned about the anonymous letters. The “Concerned Citizen” group reasoned that Frankel had been alerted by a close political ally who worked at one of the organizations they had contacted. They discovered the link between Frankel’s ally and the organization only after they had sent the letters. In any event, Frankel called Fran Gasman from Israel, and told her that DeStefano should go to an office at Beth Rachel where he would get a phone number to call Frankel in Israel. She drove DeStefano to Beth Rachel, where Frankel’s secretary, as she placed the call, told Gasman that “we have a problem with the school guard program.” DeStefano was very upset at what Frankel told him over the phone, according to Gasman.

By the accounts of several District employees, DeStefano was panic-stricken at the news of the anonymous letters, and held a series of tense, secretive meetings to shape his response. Personnel Director [now Acting Superintendent] John Musico was present at some of these meetings. Musico helped DeStefano remove and destroy documents relating to the conspiracy. Shortly thereafter, DeStefano took a series of drastic measures to cut the no-show payroll, and hasten the transfer of the school guards to paraprofessional lines. By June 1993, the guards had dropped from 24 to just 8, while the paraprofessionals jumped from 24 to 33. Once again, however, while many job titles were switched around, little really changed at Beth Rachel: the no-shows still did no work for the public schools; and while there were slightly fewer of them, for most of the no-shows, the paychecks kept coming just as they always had.

The Conspiracy Unravels

In June 1994, agents for the United States Attorney for the Eastern District of New York, assisted by our investigators, executed a search warrant at the Beth Rachel elementary and high schools, as well as the District 14 office. This effectively ended the Beth Rachel no-show scheme, and led to a criminal investigation that ended last week

with Rabbi Hertz Frankel's plea of guilty to the federal crime of conspiracy to commit mail fraud. As part of his sentence, Frankel turned over a cashier's check in the amount of \$1,000,000 as restitution for the money he and others stole from the federal, state, and local governments by means of the no-show scheme.

In painstaking fashion, we assembled the bits and pieces that revealed the breadth of the District 14/Beth Rachel no-show conspiracy.

Prior to Rabbi Frankel's plea of guilty, he and others connected with Beth Rachel sought to minimize the criminal activity involving the school. These assertions were readily disproved, and are rendered moot by Frankel's plea of guilty and payment of \$1,000,000 in restitution. Nonetheless, they bear some discussion here. Some at Beth Rachel tried to argue that the school was only trying to get around bureaucratic BOE regulations regarding job requirements. Beth Rachel claimed it had a large Chapter One program in the school. In their community, this argument goes, it is unrealistic to expect the young women who teach at Beth Rachel to have the college credits necessary to work as teachers or paraprofessionals. Thus, women who had the credits would be placed on the payroll as educators, and give their paychecks to the younger women who were actually doing the teaching. Viewed from this vantage point, they contend, they were not really stealing money from the BOE.

There are enormous holes in this argument. First, it ignores the huge summer payroll at Beth Rachel: since there were no activities at the school in the summer, Rehm's shop was a complete fraud. Second, the sheer size of the payroll also argues against any quasi-legitimacy. While the school could reasonably argue for a modest Chapter One program, a staff of nearly 60 vastly exceeds any legitimate need for remedial instruction.¹⁴ Further, the contention that it was a lack of college credentials for its younger teachers which forced the school to replace them with properly qualified no-shows rings hollow: we also found that many of the no-shows *themselves* had faked credentials. We also note that Beth Rachel even faked the required doctor's examinations for the no-show employees. It seems unlikely that the school would see lacking credentials as a significant impediment.

¹⁴ In fact, Beth Rachel had a small Chapter One reading program, employing three BOE teachers. Even here, Beth Rachel violated federal law, because the classes were conducted inside a religious institution, instead of the "neutral site" required by law.

In addition to Frankel, three other District 14 employees also pled guilty to criminal charges earlier in the investigation. Daniel LaBianca, currently the Director of Funded Programs,¹⁵ pled guilty in January 1999 to aiding and abetting the embezzlement of the money of the United States. Robert Rehm, formerly the Special Assistant to the District 14 Superintendent,¹⁶ pled guilty in May of 1998 to aiding and abetting the embezzlement of the money of the United States. Gordon McLeer, who was a teacher assigned to the District Office during many of the events that took place during the no-show conspiracy,¹⁷ pled guilty in May of 1998 to aiding and abetting the embezzlement of the money of the United States. On September 2, 1997, Fran Gasman was arrested and charged with theft concerning programs receiving federal funds. The case against her was abated by her subsequent death. William Rogers, the originator of the no-show conspiracy, and Mario DeStefano who took over for Rogers after the latter's retirement, are both deceased.

Conclusion and Recommendations

For decades, the Community School District 14 Superintendent and the head of a private religious school made and maintained a corrupt bargain where millions of dollars were stolen from the United States, New York State, and New York City governments in order to satisfy the selfish, private concerns of the parties. Education dollars are difficult enough to come by without no-show schemes feeding public cynicism about schools' ability to put money to proper, effective use. Perhaps most disturbing is that none of the parties to the conspiracy seemed the least concerned with the terrible example they set for the children for whom they were responsible.

We believe it will be necessary to make a clean sweep of the District to restore public confidence in District 14. It goes without saying that Acting Superintendent John Musico, who was part of DeStefano's concealment strategy and, indeed, destroyed school records to prevent their discovery, cannot remain in any position of significance in District 14 affairs. We recommend that his employment be terminated. Daniel LaBianca and Gordon McLeer, who pled guilty to aiding and abetting the embezzlement of government monies, should be terminated from their employment with the Board of Education. Robert Rehm, who has already retired, also pled guilty to aiding and abetting the conspiracy. Mary Dunne was not charged criminally, but she played a significant role in the administration of the conspiracy, and we also recommend the termination of her employment. LaBianca, McLeer, Rehm, and Dunne should not be rehired in any capacity, including consultant positions.

¹⁵ His BOE salary is approximately \$92,476.

¹⁶ Rehm's salary at the time of his retirement was approximately \$91,358.

¹⁷ McLeer is currently a teacher at IS158 in District 26 in Queens, with a salary of approximately \$48,985.

Harold Klagsbald, who was elected to the District 14 board in 1977, and whose daughters Chavy Klagsbald Strulowitz and Malky Klagsbald Posner held no-show jobs pursuant to the District 14/Beth Rachel conspiracy, should be removed from the board. Similarly, Rabbi Leopold Lefkowitz and Isaac Brauner, whose support for Rogers and later DeStefano was critical to the continuance of the conspiracy, should be removed from the board. It is difficult to believe that other board members were unaware of the no-show conspiracy. The Chancellor may well find in his evaluation of the District 14 board that it is prudent to remove other members, and perhaps the entire board, to reset the course for District 14. The same may be true of other District employees who played lesser roles in the scheme. We support any such reasonable actions to put District 14 on a sound course for the future.

Finally, though we know of no evidence of similar schemes in other districts, we urge the BOE to monitor closely other Chapter One programs to ensure against abuses.

Sincerely,

EDWARD F. STANCIK
Special Commissioner
Of Investigation for the
New York City School District

EFS:ai

c: Chad Vignola, Esq.

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President
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The No-Show Scheme Under Mario DeStefano.

In February 1992, after 20 years as District Superintendent, William Rogers retired. His lengthy reign, highly unusual under the political conditions fostered by the school governance law of the time, was due in no small measure to the support he derived from the Beth Rachel conspiracy. His successor, Mario DeStefano, was noticeably alarmed that the extent of the Beth Rachel payroll would draw unwanted attention, and immediately took steps to change the arrangement.

Far from cleaning up the no-show scam, however, DeStefano focused on better concealing it. This was important because the central BOE, in its first effort at “transparent budgeting,” published spending and staffing levels for each school district that spring. District 14 had spent by far the most money of any local school district on security guards. DeStefano was worried: if the BOE or the public discovered that the vast majority of those guards were assigned to one school – a private religious school no less – the whole no-show conspiracy could blow up in his face. DeStefano needed the Williamsburg board members’ support just as much as Rogers did, however, so he focused on making the scheme less obvious. Thus began a continuing effort to move the no-show security guards onto paylines as paraprofessionals, where he could at least contend they were performing a legitimate Chapter One function.

The makeover had a familiar drawback: security guards could be paid with District [tax-levy] funds, while paraprofessionals at Beth Rachel had to be paid through Chapter One Funds for reimbursable programs. The only way to increase Beth Rachel’s allotment of Chapter One funds was to increase the number of its eligible students. On paper at least, this was no problem: in 1991, the school’s Chapter One proposal indicated 857 eligible students; under DeStefano’s and Frankel’s direction, the “eligible students” suddenly ballooned to 1,758 in 1992; by 1993, the number was 2,168. In a similar way, DeStefano “created” a summer Chapter One program, and moved the “guards” in Rehm’s camp onto paraprofessional lines. While there was no Chapter One program in the summer, and indeed there was no significant increase in eligible students during the summer or the school year, DeStefano could now claim plausible legitimacy for the public expenditures at Beth Rachel. Since the additional eligible students did not exist, however, what DeStefano was really doing was keeping the no-show payroll alive by creating “no-show students.”

“We have a problem with the school guard program...”

But just as DeStefano was streamlining payroll procedures to more effectively conceal the no-show scam, the 20-year conspiracy was finally unraveling from within District 14. In the fall of 1992, this office, and some other law enforcement agencies, began receiving letters signed “A Concerned Citizen” from an anonymous source. The letters laid out much of the detail of the District 14/Beth Rachel conspiracy. Ultimately, we were able to uncover the identity of the authors, who turned out to be a group of disaffected staff members in the District.

Some time around Christmas 1992, Frankel learned about the anonymous letters. The “Concerned Citizen” group reasoned that Frankel had been alerted by a close political ally who worked at one of the organizations they had contacted. They discovered the link between Frankel’s ally and the organization only after they had sent the letters. In any event, Frankel called Fran Gasman from Israel, and told her that DeStefano should go to an office at Beth Rachel where he would get a phone number to call Frankel in Israel. She drove DeStefano to Beth Rachel, where Frankel’s secretary, as she placed the call, told Gasman that “we have a problem with the school guard program.” DeStefano was very upset at what Frankel told him over the phone, according to Gasman.

By the accounts of several District employees, DeStefano was panic-stricken at the news of the anonymous letters, and held a series of tense, secretive meetings to shape his response. Personnel Director [now Acting Superintendent] John Musico was present at some of these meetings. Musico helped DeStefano remove and destroy documents relating to the conspiracy. Shortly thereafter, DeStefano took a series of drastic measures to cut the no-show payroll, and hasten the transfer of the school guards to paraprofessional lines. By June 1993, the guards had dropped from 24 to just 8, while the paraprofessionals jumped from 24 to 33. Once again, however, while many job titles were switched around, little really changed at Beth Rachel: the no-shows still did no work for the public schools; and while there were slightly fewer of them, for most of the no-shows, the paychecks kept coming just as they always had.

The Conspiracy Unravels

In June 1994, agents for the United States Attorney for the Eastern District of New York, assisted by our investigators, executed a search warrant at the Beth Rachel elementary and high schools, as well as the District 14 office. This effectively ended the Beth Rachel no-show scheme, and led to a criminal investigation that ended last week

with Rabbi Hertz Frankel's plea of guilty to the federal crime of conspiracy to commit mail fraud. As part of his sentence, Frankel turned over a cashier's check in the amount of \$1,000,000 as restitution for the money he and others stole from the federal, state, and local governments by means of the no-show scheme.

In painstaking fashion, we assembled the bits and pieces that revealed the breadth of the District 14/Beth Rachel no-show conspiracy.

Prior to Rabbi Frankel's plea of guilty, he and others connected with Beth Rachel sought to minimize the criminal activity involving the school. These assertions were readily disproved, and are rendered moot by Frankel's plea of guilty and payment of \$1,000,000 in restitution. Nonetheless, they bear some discussion here. Some at Beth Rachel tried to argue that the school was only trying to get around bureaucratic BOE regulations regarding job requirements. Beth Rachel claimed it had a large Chapter One program in the school. In their community, this argument goes, it is unrealistic to expect the young women who teach at Beth Rachel to have the college credits necessary to work as teachers or paraprofessionals. Thus, women who had the credits would be placed on the payroll as educators, and give their paychecks to the younger women who were actually doing the teaching. Viewed from this vantage point, they contend, they were not really stealing money from the BOE.

There are enormous holes in this argument. First, it ignores the huge summer payroll at Beth Rachel: since there were no activities at the school in the summer, Rehm's shop was a complete fraud. Second, the sheer size of the payroll also argues against any quasi-legitimacy. While the school could reasonably argue for a modest Chapter One program, a staff of nearly 60 vastly exceeds any legitimate need for remedial instruction.¹⁴ Further, the contention that it was a lack of college credentials for its younger teachers which forced the school to replace them with properly qualified no-shows rings hollow: we also found that many of the no-shows *themselves* had faked credentials. We also note that Beth Rachel even faked the required doctor's examinations for the no-show employees. It seems unlikely that the school would see lacking credentials as a significant impediment.

¹⁴ In fact, Beth Rachel had a small Chapter One reading program, employing three BOE teachers. Even here, Beth Rachel violated federal law, because the classes were conducted inside a religious institution, instead of the "neutral site" required by law.

In addition to Frankel, three other District 14 employees also pled guilty to criminal charges earlier in the investigation. Daniel LaBianca, currently the Director of Funded Programs,¹⁵ pled guilty in January 1999 to aiding and abetting the embezzlement of the money of the United States. Robert Rehm, formerly the Special Assistant to the District 14 Superintendent,¹⁶ pled guilty in May of 1998 to aiding and abetting the embezzlement of the money of the United States. Gordon McLeer, who was a teacher assigned to the District Office during many of the events that took place during the no-show conspiracy,¹⁷ pled guilty in May of 1998 to aiding and abetting the embezzlement of the money of the United States. On September 2, 1997, Fran Gasman was arrested and charged with theft concerning programs receiving federal funds. The case against her was abated by her subsequent death. William Rogers, the originator of the no-show conspiracy, and Mario DeStefano who took over for Rogers after the latter's retirement, are both deceased.

Conclusion and Recommendations

For decades, the Community School District 14 Superintendent and the head of a private religious school made and maintained a corrupt bargain where millions of dollars were stolen from the United States, New York State, and New York City governments in order to satisfy the selfish, private concerns of the parties. Education dollars are difficult enough to come by without no-show schemes feeding public cynicism about schools' ability to put money to proper, effective use. Perhaps most disturbing is that none of the parties to the conspiracy seemed the least concerned with the terrible example they set for the children for whom they were responsible.

We believe it will be necessary to make a clean sweep of the District to restore public confidence in District 14. It goes without saying that Acting Superintendent John Musico, who was part of DeStefano's concealment strategy and, indeed, destroyed school records to prevent their discovery, cannot remain in any position of significance in District 14 affairs. We recommend that his employment be terminated. Daniel LaBianca and Gordon McLeer, who pled guilty to aiding and abetting the embezzlement of government monies, should be terminated from their employment with the Board of Education. Robert Rehm, who has already retired, also pled guilty to aiding and abetting the conspiracy. Mary Dunne was not charged criminally, but she played a significant role in the administration of the conspiracy, and we also recommend the termination of her employment. LaBianca, McLeer, Rehm, and Dunne should not be rehired in any capacity, including consultant positions.

¹⁵ His BOE salary is approximately \$92,476.

¹⁶ Rehm's salary at the time of his retirement was approximately \$91,358.

¹⁷ McLeer is currently a teacher at IS158 in District 26 in Queens, with a salary of approximately \$48,985.

Harold Klagsbald, who was elected to the District 14 board in 1977, and whose daughters Chavy Klagsbald Strulowitz and Malky Klagsbald Posner held no-show jobs pursuant to the District 14/Beth Rachel conspiracy, should be removed from the board. Similarly, Rabbi Leopold Lefkowitz and Isaac Brauner, whose support for Rogers and later DeStefano was critical to the continuance of the conspiracy, should be removed from the board. It is difficult to believe that other board members were unaware of the no-show conspiracy. The Chancellor may well find in his evaluation of the District 14 board that it is prudent to remove other members, and perhaps the entire board, to reset the course for District 14. The same may be true of other District employees who played lesser roles in the scheme. We support any such reasonable actions to put District 14 on a sound course for the future.

Finally, though we know of no evidence of similar schemes in other districts, we urge the BOE to monitor closely other Chapter One programs to ensure against abuses.

Sincerely,

EDWARD F. STANCIK
Special Commissioner
Of Investigation for the
New York City School District

EFS:ai

c: Members of the Board

April 15, 1999

Hon. Edward J. Kuriansky
Commissioner
New York City Department of Investigation
80 Maiden Lane, 17th Floor
New York, New York 10038

Re: An Investigation Into
Community School District 14
SCI Case #92-2093

Dear Commissioner Kuriansky:

I am writing to inform you of the results of an extensive investigation my office has conducted into criminal activities within Community School District 14, located in the Williamsburg section of Brooklyn. We received allegations of a far-reaching criminal conspiracy, involving millions of taxpayer dollars in salaries and health benefits paid to “no-show” employees over a number of years. The conspiracy, it was alleged, included the District 14 school superintendent, a rabbi in charge of a religious school, elected members of the local school board, and a large number of Williamsburg housewives. Specifically, District school superintendents over the last 20 years gave dozens of no-show Board of Education (“BOE”) jobs to members of the Williamsburg-area Satmar Hasidic community in exchange for the support of three local board members from that community. This support effectively guaranteed that the Superintendents could not be ousted from their chief executive positions.

Our investigation confirmed these allegations; we asked the United States Attorney for the Eastern District of New York to join our investigation and, in the past year, it has prosecuted criminal cases resulting in the conviction of four high-level conspirators by pleas of guilty, along with a million dollar forfeiture of monies illegally obtained from the Board of Education through the no-show jobs. Three other

conspirators are now deceased as a result of natural causes. Several others who committed acts of misconduct, including the current Acting Superintendent of the District, have not been charged with a crime. In the interest of restoring public confidence in the school system in District 14, we are releasing full details of the no-show conspiracy at this time.

The evidence we have assembled, through the guilty pleas and other investigative efforts, established that this criminal conspiracy existed in varying forms from the late 1970's through the mid-1990's; it ended only in 1994, when agents working for the U.S. Attorney for the Eastern District, along with our investigators, executed an extensive search warrant at the District 14 offices and the Beth Rachel School, a private religious school for girls in Williamsburg. The extent of District 14's no-show payroll operating through Beth Rachel is staggering: over the years, the BOE paid 81 "employees" approximately \$4,300,000 in salaries and paid approximately \$1,900,000 in health benefit contributions. For this money, the Board received no work whatsoever.

At its height, the District 14 payroll contained as many as 59 no-show employees at one time. Many of these were women with large families who did not work outside the home. Typically, these no-shows would kick back their salaries to Rabbi Hertz Frankel, principal of the elementary school of Beth Rachel, giving him the cash proceeds of their paychecks. In exchange for laundering the money from District 14, the women were allowed to keep the medical benefits for themselves and their families. For this reason, participants commonly referred to the no-show scheme as "the health insurance program." There was a second group of no-shows that worked directly for Beth Rachel. A large number of the religious school staff, in positions as wide-ranging as the high school principal to Rabbi Frankel's secretary, were paid BOE salaries.¹

Effectively, the conspiracy allowed Rabbi Frankel and the United Talmudical Academy ("UTA") – the umbrella organization under which the school operated – to use taxpayer and other government funds for the operation and maintenance of a private religious school. Additionally, large amounts of money are unaccounted for: some of this money made its way into myriad UTA organizations, and some has simply vanished. The conspiracy was effective for District 14 Superintendent William Rogers as well: he was able to retain his position for 20 uninterrupted years, which is highly unusual in the era of the "decentralized" school governance law.

¹ Higher-level staff often received supplementary payments from Beth Rachel.

The criminal conspiracy involved not just Rogers and his successor Mario DeStefano,² but several other District 14 employees as well. Daniel LaBianca, Robert Rehm, and Mary Dunne³ played critical roles in keeping the conspiracy operating smoothly. Fran Gasman and teacher Gordon McLeer⁴ did a variety of administrative tasks to process the timesheet and payroll records. Gasman was a frequent intermediary with Frankel and Beth Rachel, and often drove prospective no-shows to the central Board's offices in Brooklyn for fingerprinting and processing. We have also concluded that some District employees, including current Acting Superintendent John Musico, destroyed records in an effort to cover up the conspiracy once this investigation began.

The District 14/Beth Rachel No-Show Scheme in Operation

To fully understand the no-show scheme, it is necessary to grasp some of the details of school funding. The millions of government dollars stolen in the Beth Rachel conspiracy came from two sources: "tax-levy" money,⁵ that is, funds raised through New York City and State taxes; and "Chapter One" money, federal funds reimbursing local school districts for conducting specified remedial classes for educationally and economically deprived children. For the purposes of this investigation, the key distinction is that tax-levy funds cannot be used on programs for children in private or religious schools. Federal Chapter One funds may be used for remedial instruction programs for private and religious school students, if the programs meet federal requirements. The Chapter One funds are used only to reimburse the school district for money already spent on qualifying programs, and are commonly referred to as "reimbursable programs."

The no-show scheme expanded both in numbers of employees and the amount of money they received during Rogers' tenure. When the number of no-shows exceeded any conceivable student demand for educators at Beth Rachel, Rogers put no-shows on the payroll as security guards. These positions are paid by tax-levy funds, and need not be tied to an eligible number of students. On the other hand, it is improper for any tax-levy money to benefit private school students. Rogers was apparently willing to take

² Rogers and DeStefano are both deceased.

³ LaBianca is currently District 14's Director of Funded Programs; Rehm is retired; Mary Dunne remains the District's Personnel Director.

⁴ Fran Gasman is now deceased; Gordon McLeer is a teacher at IS 158 in Queens.

⁵ According to BOE budget office figures, the tax-levy funds came in nearly equal measure from the city and state budgets. For example, in fiscal year 1990, the city contributed 51.2% of tax-levy funds, while the state contributed 48.8%. These percentages vary only a few percentage points over the fiscal years 1989-93, the most critical time period for this investigation.

the risk that the guard payroll would be discovered. Further, Rogers devised a way to pay the no-shows during the summer months in addition to the regular school year. The no-show conspiracy flourished into the 1990's, and was in full force when we began our investigation late in 1992.

The no-show payroll was handled by a small number of individuals on the District's staff, all of whom took their direction from either the Superintendent or Frankel.⁶ During the school year, the no-show timesheets were divided into two groups: "Mary's shop" and "Fran's shop," after the BOE employee responsible for processing the payroll records for those employees. Mary Dunne, of "Mary's shop," was District 14's Personnel Director; "Fran" was Fran Gasman, the District's Coordinator for non-public schools within its boundaries. In the summer, a third group of no-show employees came into being, which we will call "Rehm's shop," combining those employees of Fran's shop and Mary's shop on the summer payroll. Rehm was Robert Rehm, a teacher and Special Assistant for Rogers and, briefly, DeStefano.

Every two weeks during the school year and the summers, Rabbi Frankel or his secretary delivered timesheets previously signed by the no-show employees to the District Office.⁷ The timesheets were in envelopes marked "Fran's shop" or "Mary's shop,"⁸ and Frankel would hand each envelope to the person responsible for that group of employees. Typically, this was Gasman and Dunne, who would then sign and process them so the paychecks could be cut. On paydays, Rabbi Frankel would stop by the District Office to pick up the no-show paychecks. Frankel was a regular at the District Office on paydays, and was known to much of the staff.

Fran's shop consisted, in most years, of approximately 18 employees in paraprofessional positions ostensibly at Beth Rachel. Their status as paraprofessionals gave the District some plausible cover, because paraprofessionals are commonly hired for Chapter One instructional programs at private or religious schools.⁹ Mary Dunne was District 14's Personnel Director,¹⁰ and her shop came into being in the early 1980's, also during Rogers' tenure as Superintendent.

⁶ The procedures used, with some minor variances, remained the same from the 1980's into the 1990's.

⁷ The secretary, Strasser, herself was a BOE no-show, drawing a BOE paycheck for her work as Rabbi Frankel's secretary. When Strasser left her employment with Frankel to become an employee in the District 14 office, Rifkah Steinberg replaced her and also drew a no-show check from the BOE.

⁸ The procedure varied during the summers.

⁹ Beth Rachel had, in fact, a small Chapter One reading program with three working BOE employees.

¹⁰ Dunne was the District 14 Personnel Director for almost all times relevant to this investigation. For a brief period of time just prior to Rogers' retirement, she stepped down to allow DeStefano to take the position. DeStefano, who had little administrative experience prior to becoming Superintendent, felt he needed the position to parry any attacks against his succeeding Rogers. Dunne reassumed the position once DeStefano's appointment was official.

Mary's shop was more troublesome for the conspirators. Chapter One applies only to educational programs, typically reimbursing teacher and paraprofessional salaries. The vast majority of the employees in Mary's shop were on the payroll as "security guards"¹¹ at Beth Rachel, and could never qualify for Chapter One funding. If BOE authorities focused on these employees, they could easily discover the no-show scheme. In 1991, District records showed that there were 31 school guards (all of them from Mary's shop) assigned to Beth Rachel. The number of guards assigned to one school is ludicrous on its face; worse, they were all in tax-levy positions, which is illegal because these funds cannot be used to pay employees for work in private schools. The nine paraprofessionals on the list were also being paid with tax-levy funds, raising the same problem.¹² Consequently, the scheme's illegality was evident on the face of the District's own records.

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For decades, the Community School District 14 Superintendent and the head of a private religious school made and maintained a corrupt bargain where millions of dollars were stolen from the United States, New York State, and New York City governments in order to satisfy the selfish, private concerns of the parties. Education dollars are difficult enough to come by without no-show schemes feeding public cynicism about schools' ability to put money to proper, effective use. Perhaps most disturbing is that none of the parties to the conspiracy seemed the least concerned with the terrible example they set for the children for whom they were responsible.

We believe it will be necessary to make a clean sweep of the District to restore public confidence in District 14. It goes without saying that Acting Superintendent John Musico, who was part of DeStefano's concealment strategy and, indeed, destroyed school records to prevent their discovery, cannot remain in any position of significance in District 14 affairs. We have recommended to the Board of Education that his employment be terminated. We have also recommended that Daniel LaBianca and Gordon McLeer, who pled guilty to aiding and abetting the embezzlement of government monies, should be terminated from their employment with the Board of Education. Robert Rehm, who has already retired, also pled guilty to aiding and abetting the conspiracy. Mary Dunne was not charged criminally, but she played a significant role in the administration of the conspiracy, and we have also recommended the termination of her employment. LaBianca, McLeer, Rehm, and Dunne should not be rehired in any capacity, including consultant positions.

¹⁵ His BOE salary is approximately \$92,476.

¹⁶ Rehm's salary at the time of his retirement was approximately \$91,358.

¹⁷ McLeer is currently a teacher at IS158 in District 26 in Queens, with a salary of approximately \$48,985.

Harold Klagsbald, who was elected to the District 14 board in 1977, and whose daughters Chavy Klagsbald Strulowitz and Malky Klagsbald Posner held no-show jobs pursuant to the District 14/Beth Rachel conspiracy, should be removed from the board. Similarly, Rabbi Leopold Lefkowitz and Isaac Brauner, whose support for Rogers and later DeStefano was critical to the continuance of the conspiracy, should be removed from the board. It is difficult to believe that other board members were unaware of the no-show conspiracy. The Chancellor may well find in his evaluation of the District 14 board that it is prudent to remove other members, and perhaps the entire board, to reset the course for District 14. The same may be true of other District employees who played lesser roles in the scheme. We support any such reasonable actions to put District 14 on a sound course for the future.

Finally, though we know of no evidence of similar schemes in other districts, we have urged the BOE to monitor closely other Chapter One programs to ensure against abuses.

Sincerely,

EDWARD F. STANCIK
Special Commissioner
Of Investigation for the
New York City School District

EFS:ai

April 15, 1999

Hon. Richard P. Mills
Commissioner
New York State Department of Education
Washington Avenue
Albany, New York 12231

Re: An Investigation Into
Community School District 14
SCI Case #92-2093

Dear Commissioner Mills:

I am writing to inform you of the results of an extensive investigation my office has conducted into criminal activities within Community School District 14, located in the Williamsburg section of Brooklyn. We received allegations of a far-reaching criminal conspiracy, involving millions of taxpayer dollars in salaries and health benefits paid to “no-show” employees over a number of years. The conspiracy, it was alleged, included the District 14 school superintendent, a rabbi in charge of a religious school, elected members of the local school board, and a large number of Williamsburg housewives. Specifically, District school superintendents over the last 20 years gave dozens of no-show Board of Education (“BOE”) jobs to members of the Williamsburg-area Satmar Hasidic community in exchange for the support of three local board members from that community. This support effectively guaranteed that the Superintendents could not be ousted from their chief executive positions.

Our investigation confirmed these allegations; we asked the United States Attorney for the Eastern District of New York to join our investigation and, in the past year, it has prosecuted criminal cases resulting in the conviction of four high-level conspirators by pleas of guilty, along with a million dollar forfeiture of monies illegally obtained from the Board of Education through the no-show jobs. Three other

conspirators are now deceased as a result of natural causes. Several others who committed acts of misconduct, including the current Acting Superintendent of the District, have not been charged with a crime. In the interest of restoring public confidence in the school system in District 14, we are releasing full details of the no-show conspiracy at this time.

The evidence we have assembled, through the guilty pleas and other investigative efforts, established that this criminal conspiracy existed in varying forms from the late 1970's through the mid-1990's; it ended only in 1994, when agents working for the U.S. Attorney for the Eastern District, along with our investigators, executed an extensive search warrant at the District 14 offices and the Beth Rachel School, a private religious school for girls in Williamsburg. The extent of District 14's no-show payroll operating through Beth Rachel is staggering: over the years, the BOE paid 81 "employees" approximately \$4,300,000 in salaries and paid approximately \$1,900,000 in health benefit contributions. For this money, the Board received no work whatsoever.

At its height, the District 14 payroll contained as many as 59 no-show employees at one time. Many of these were women with large families who did not work outside the home. Typically, these no-shows would kick back their salaries to Rabbi Hertz Frankel, principal of the elementary school of Beth Rachel, giving him the cash proceeds of their paychecks. In exchange for laundering the money from District 14, the women were allowed to keep the medical benefits for themselves and their families. For this reason, participants commonly referred to the no-show scheme as "the health insurance program." There was a second group of no-shows that worked directly for Beth Rachel. A large number of the religious school staff, in positions as wide-ranging as the high school principal to Rabbi Frankel's secretary, were paid BOE salaries.¹

Effectively, the conspiracy allowed Rabbi Frankel and the United Talmudical Academy ("UTA") – the umbrella organization under which the school operated – to use taxpayer and other government funds for the operation and maintenance of a private religious school. Additionally, large amounts of money are unaccounted for: some of this money made its way into myriad UTA organizations, and some has simply vanished. The conspiracy was effective for District 14 Superintendent William Rogers as well: he was able to retain his position for 20 uninterrupted years, which is highly unusual in the era of the "decentralized" school governance law.

¹ Higher-level staff often received supplementary payments from Beth Rachel.

The criminal conspiracy involved not just Rogers and his successor Mario DeStefano,² but several other District 14 employees as well. Daniel LaBianca, Robert Rehm, and Mary Dunne³ played critical roles in keeping the conspiracy operating smoothly. Fran Gasman and teacher Gordon McLeer⁴ did a variety of administrative tasks to process the timesheet and payroll records. Gasman was a frequent intermediary with Frankel and Beth Rachel, and often drove prospective no-shows to the central Board's offices in Brooklyn for fingerprinting and processing. We have also concluded that some District employees, including current Acting Superintendent John Musico, destroyed records in an effort to cover up the conspiracy once this investigation began.

The District 14/Beth Rachel No-Show Scheme in Operation

To fully understand the no-show scheme, it is necessary to grasp some of the details of school funding. The millions of government dollars stolen in the Beth Rachel conspiracy came from two sources: "tax-levy" money,⁵ that is, funds raised through New York City and State taxes; and "Chapter One" money, federal funds reimbursing local school districts for conducting specified remedial classes for educationally and economically deprived children. For the purposes of this investigation, the key distinction is that tax-levy funds cannot be used on programs for children in private or religious schools. Federal Chapter One funds may be used for remedial instruction programs for private and religious school students, if the programs meet federal requirements. The Chapter One funds are used only to reimburse the school district for money already spent on qualifying programs, and are commonly referred to as "reimbursable programs."

The no-show scheme expanded both in numbers of employees and the amount of money they received during Rogers' tenure. When the number of no-shows exceeded any conceivable student demand for educators at Beth Rachel, Rogers put no-shows on the payroll as security guards. These positions are paid by tax-levy funds, and need not be tied to an eligible number of students. On the other hand, it is improper for any tax-levy money to benefit private school students. Rogers was apparently willing to take

² Rogers and DeStefano are both deceased.

³ LaBianca is currently District 14's Director of Funded Programs; Rehm is retired; Mary Dunne remains the District's Personnel Director.

⁴ Fran Gasman is now deceased; Gordon McLeer is a teacher at IS 158 in Queens.

⁵ According to BOE budget office figures, the tax-levy funds came in nearly equal measure from the city and state budgets. For example, in fiscal year 1990, the city contributed 51.2% of tax-levy funds, while the state contributed 48.8%. These percentages vary only a few percentage points over the fiscal years 1989-93, the most critical time period for this investigation.

the risk that the guard payroll would be discovered. Further, Rogers devised a way to pay the no-shows during the summer months in addition to the regular school year. The no-show conspiracy flourished into the 1990's, and was in full force when we began our investigation late in 1992.

The no-show payroll was handled by a small number of individuals on the District's staff, all of whom took their direction from either the Superintendent or Frankel.⁶ During the school year, the no-show timesheets were divided into two groups: "Mary's shop" and "Fran's shop," after the BOE employee responsible for processing the payroll records for those employees. Mary Dunne, of "Mary's shop," was District 14's Personnel Director; "Fran" was Fran Gasman, the District's Coordinator for non-public schools within its boundaries. In the summer, a third group of no-show employees came into being, which we will call "Rehm's shop," combining those employees of Fran's shop and Mary's shop on the summer payroll. Rehm was Robert Rehm, a teacher and Special Assistant for Rogers and, briefly, DeStefano.

Every two weeks during the school year and the summers, Rabbi Frankel or his secretary delivered timesheets previously signed by the no-show employees to the District Office.⁷ The timesheets were in envelopes marked "Fran's shop" or "Mary's shop,"⁸ and Frankel would hand each envelope to the person responsible for that group of employees. Typically, this was Gasman and Dunne, who would then sign and process them so the paychecks could be cut. On paydays, Rabbi Frankel would stop by the District Office to pick up the no-show paychecks. Frankel was a regular at the District Office on paydays, and was known to much of the staff.

Fran's shop consisted, in most years, of approximately 18 employees in paraprofessional positions ostensibly at Beth Rachel. Their status as paraprofessionals gave the District some plausible cover, because paraprofessionals are commonly hired for Chapter One instructional programs at private or religious schools.⁹ Mary Dunne was District 14's Personnel Director,¹⁰ and her shop came into being in the early 1980's, also during Rogers' tenure as Superintendent.

⁶ The procedures used, with some minor variances, remained the same from the 1980's into the 1990's.

⁷ The secretary, Strasser, herself was a BOE no-show, drawing a BOE paycheck for her work as Rabbi Frankel's secretary. When Strasser left her employment with Frankel to become an employee in the District 14 office, Rifkah Steinberg replaced her and also drew a no-show check from the BOE.

⁸ The procedure varied during the summers.

⁹ Beth Rachel had, in fact, a small Chapter One reading program with three working BOE employees.

¹⁰ Dunne was the District 14 Personnel Director for almost all times relevant to this investigation. For a brief period of time just prior to Rogers' retirement, she stepped down to allow DeStefano to take the position. DeStefano, who had little administrative experience prior to becoming Superintendent, felt he needed the position to parry any attacks against his succeeding Rogers. Dunne reassumed the position once DeStefano's appointment was official.

Mary's shop was more troublesome for the conspirators. Chapter One applies only to educational programs, typically reimbursing teacher and paraprofessional salaries. The vast majority of the employees in Mary's shop were on the payroll as "security guards"¹¹ at Beth Rachel, and could never qualify for Chapter One funding. If BOE authorities focused on these employees, they could easily discover the no-show scheme. In 1991, District records showed that there were 31 school guards (all of them from Mary's shop) assigned to Beth Rachel. The number of guards assigned to one school is ludicrous on its face; worse, they were all in tax-levy positions, which is illegal because these funds cannot be used to pay employees for work in private schools. The nine paraprofessionals on the list were also being paid with tax-levy funds, raising the same problem.¹² Consequently, the scheme's illegality was evident on the face of the District's own records.

Rehm's Shop

Rogers' Special Assistant Robert Rehm supervised a number of legitimate "vacation day camps" at district schools for children in the neighborhood, which included sports, music, and art for a six-week period in the summers. A typical vacation site might have a staff of about six or seven part-time employees, including a few teachers, a school guard or aide, and several high-school aged student aides. Rehm would go from camp to camp as a roving supervisor during the summers.

In 1982, Rogers decided to create a vacation camp at Beth Rachel, for which Rehm would also be responsible. Beth Rachel's was not to be a typical District vacation camp, however. By its payroll, which sometimes reached as many as 50 employees, the Beth Rachel summer program was many times larger than the next largest vacation camp in the District. Rehm, whose job it was to visit the vacation camps, was specifically instructed by Rogers not to visit the Beth Rachel site, however. Even without this instruction, Rehm would have been hard-pressed to visit the Beth Rachel program: there was no summer camp at Beth Rachel.¹³ Camp "employees" were often vacationing outside New York City in the summer, and prepared post-dated timesheets before they left. Most of the employees in Rehm's summer shop were no-shows from Fran's or Mary's school-year shops, and the camp was a fiction designed to keep them on the

¹¹ None of these Beth Rachel workers actually functioned as a guard. The title existed on paper, but in reality, they performed whatever duties they were assigned by the Beth Rachel administration.

¹² Paraprofessionals at private schools can be paid with Chapter One funds, when their programs qualify.

¹³ Beth Rachel had a swimming pool, and at times children from other Williamsburg camps would use it. No summer camp was run from Beth Rachel, however.

payroll during the summers. Thus, the no-shows received their paychecks every two weeks, without the burden of coming to work during summer vacation. This no-show payroll cost the Board as much as tens-of-thousands of dollars each summer. The summer shop scam ran from 1982 through 1992, up until our investigation began.

The No-Show Scheme Under Mario DeStefano.

In February 1992, after 20 years as District Superintendent, William Rogers retired. His lengthy reign, highly unusual under the political conditions fostered by the school governance law of the time, was due in no small measure to the support he derived from the Beth Rachel conspiracy. His successor, Mario DeStefano, was noticeably alarmed that the extent of the Beth Rachel payroll would draw unwanted attention, and immediately took steps to change the arrangement.

Far from cleaning up the no-show scam, however, DeStefano focused on better concealing it. This was important because the central BOE, in its first effort at “transparent budgeting,” published spending and staffing levels for each school district that spring. District 14 had spent by far the most money of any local school district on security guards. DeStefano was worried: if the BOE or the public discovered that the vast majority of those guards were assigned to one school – a private religious school no less – the whole no-show conspiracy could blow up in his face. DeStefano needed the Williamsburg board members’ support just as much as Rogers did, however, so he focused on making the scheme less obvious. Thus began a continuing effort to move the no-show security guards onto paylines as paraprofessionals, where he could at least contend they were performing a legitimate Chapter One function.

The makeover had a familiar drawback: security guards could be paid with District [tax-levy] funds, while paraprofessionals at Beth Rachel had to be paid through Chapter One Funds for reimbursable programs. The only way to increase Beth Rachel’s allotment of Chapter One funds was to increase the number of its eligible students. On paper at least, this was no problem: in 1991, the school’s Chapter One proposal indicated 857 eligible students; under DeStefano’s and Frankel’s direction, the “eligible students” suddenly ballooned to 1,758 in 1992; by 1993, the number was 2,168. In a similar way, DeStefano “created” a summer Chapter One program, and moved the “guards” in Rehm’s camp onto paraprofessional lines. While there was no Chapter One program in the summer, and indeed there was no significant increase in eligible students during the summer or the school year, DeStefano could now claim plausible legitimacy for the public expenditures at Beth Rachel. Since the additional eligible students did not exist, however, what DeStefano was really doing was keeping the no-show payroll alive by creating “no-show students.”

“We have a problem with the school guard program...”

But just as DeStefano was streamlining payroll procedures to more effectively conceal the no-show scam, the 20-year conspiracy was finally unraveling from within District 14. In the fall of 1992, this office, and some other law enforcement agencies, began receiving letters signed “A Concerned Citizen” from an anonymous source. The letters laid out much of the detail of the District 14/Beth Rachel conspiracy. Ultimately, we were able to uncover the identity of the authors, who turned out to be a group of disaffected staff members in the District.

Some time around Christmas 1992, Frankel learned about the anonymous letters. The “Concerned Citizen” group reasoned that Frankel had been alerted by a close political ally who worked at one of the organizations they had contacted. They discovered the link between Frankel’s ally and the organization only after they had sent the letters. In any event, Frankel called Fran Gasman from Israel, and told her that DeStefano should go to an office at Beth Rachel where he would get a phone number to call Frankel in Israel. She drove DeStefano to Beth Rachel, where Frankel’s secretary, as she placed the call, told Gasman that “we have a problem with the school guard program.” DeStefano was very upset at what Frankel told him over the phone, according to Gasman.

By the accounts of several District employees, DeStefano was panic-stricken at the news of the anonymous letters, and held a series of tense, secretive meetings to shape his response. Personnel Director [now Acting Superintendent] John Musico was present at some of these meetings. Musico helped DeStefano remove and destroy documents relating to the conspiracy. Shortly thereafter, DeStefano took a series of drastic measures to cut the no-show payroll, and hasten the transfer of the school guards to paraprofessional lines. By June 1993, the guards had dropped from 24 to just 8, while the paraprofessionals jumped from 24 to 33. Once again, however, while many job titles were switched around, little really changed at Beth Rachel: the no-shows still did no work for the public schools; and while there were slightly fewer of them, for most of the no-shows, the paychecks kept coming just as they always had.

The Conspiracy Unravels

In June 1994, agents for the United States Attorney for the Eastern District of New York, assisted by our investigators, executed a search warrant at the Beth Rachel elementary and high schools, as well as the District 14 office. This effectively ended the Beth Rachel no-show scheme, and led to a criminal investigation that ended last week

with Rabbi Hertz Frankel's plea of guilty to the federal crime of conspiracy to commit mail fraud. As part of his sentence, Frankel turned over a cashier's check in the amount of \$1,000,000 as restitution for the money he and others stole from the federal, state, and local governments by means of the no-show scheme.

In painstaking fashion, we assembled the bits and pieces that revealed the breadth of the District 14/Beth Rachel no-show conspiracy.

Prior to Rabbi Frankel's plea of guilty, he and others connected with Beth Rachel sought to minimize the criminal activity involving the school. These assertions were readily disproved, and are rendered moot by Frankel's plea of guilty and payment of \$1,000,000 in restitution. Nonetheless, they bear some discussion here. Some at Beth Rachel tried to argue that the school was only trying to get around bureaucratic BOE regulations regarding job requirements. Beth Rachel claimed it had a large Chapter One program in the school. In their community, this argument goes, it is unrealistic to expect the young women who teach at Beth Rachel to have the college credits necessary to work as teachers or paraprofessionals. Thus, women who had the credits would be placed on the payroll as educators, and give their paychecks to the younger women who were actually doing the teaching. Viewed from this vantage point, they contend, they were not really stealing money from the BOE.

There are enormous holes in this argument. First, it ignores the huge summer payroll at Beth Rachel: since there were no activities at the school in the summer, Rehm's shop was a complete fraud. Second, the sheer size of the payroll also argues against any quasi-legitimacy. While the school could reasonably argue for a modest Chapter One program, a staff of nearly 60 vastly exceeds any legitimate need for remedial instruction.¹⁴ Further, the contention that it was a lack of college credentials for its younger teachers which forced the school to replace them with properly qualified no-shows rings hollow: we also found that many of the no-shows *themselves* had faked credentials. We also note that Beth Rachel even faked the required doctor's examinations for the no-show employees. It seems unlikely that the school would see lacking credentials as a significant impediment.

¹⁴ In fact, Beth Rachel had a small Chapter One reading program, employing three BOE teachers. Even here, Beth Rachel violated federal law, because the classes were conducted inside a religious institution, instead of the "neutral site" required by law.

In addition to Frankel, three other District 14 employees also pled guilty to criminal charges earlier in the investigation. Daniel LaBianca, currently the Director of Funded Programs,¹⁵ pled guilty in January 1999 to aiding and abetting the embezzlement of the money of the United States. Robert Rehm, formerly the Special Assistant to the District 14 Superintendent,¹⁶ pled guilty in May of 1998 to aiding and abetting the embezzlement of the money of the United States. Gordon McLeer, who was a teacher assigned to the District Office during many of the events that took place during the no-show conspiracy,¹⁷ pled guilty in May of 1998 to aiding and abetting the embezzlement of the money of the United States. On September 2, 1997, Fran Gasman was arrested and charged with theft concerning programs receiving federal funds. The case against her was abated by her subsequent death. William Rogers, the originator of the no-show conspiracy, and Mario DeStefano who took over for Rogers after the latter's retirement, are both deceased.

Conclusion and Recommendations

For decades, the Community School District 14 Superintendent and the head of a private religious school made and maintained a corrupt bargain where millions of dollars were stolen from the United States, New York State, and New York City governments in order to satisfy the selfish, private concerns of the parties. Education dollars are difficult enough to come by without no-show schemes feeding public cynicism about schools' ability to put money to proper, effective use. Perhaps most disturbing is that none of the parties to the conspiracy seemed the least concerned with the terrible example they set for the children for whom they were responsible.

We believe it will be necessary to make a clean sweep of the District to restore public confidence in District 14. It goes without saying that Acting Superintendent John Musico, who was part of DeStefano's concealment strategy and, indeed, destroyed school records to prevent their discovery, cannot remain in any position of significance in District 14 affairs. We have recommended to the Board of Education that his employment be terminated. We have also recommended that Daniel LaBianca and Gordon McLeer, who pled guilty to aiding and abetting the embezzlement of government monies, should be terminated from their employment with the Board of Education. Robert Rehm, who has already retired, also pled guilty to aiding and abetting the conspiracy. Mary Dunne was not charged criminally, but she played a significant role in the administration of the conspiracy, and we have also recommended the termination of her employment. LaBianca, McLeer, Rehm, and Dunne should not be rehired in any capacity, including consultant positions.

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Harold Klagsbald, who was elected to the District 14 board in 1977, and whose daughters Chavy Klagsbald Strulowitz and Malky Klagsbald Posner held no-show jobs pursuant to the District 14/Beth Rachel conspiracy, should be removed from the board. Similarly, Rabbi Leopold Lefkowitz and Isaac Brauner, whose support for Rogers and later DeStefano was critical to the continuance of the conspiracy, should be removed from the board. It is difficult to believe that other board members were unaware of the no-show conspiracy. The Chancellor may well find in his evaluation of the District 14 board that it is prudent to remove other members, and perhaps the entire board, to reset the course for District 14. The same may be true of other District employees who played lesser roles in the scheme. We support any such reasonable actions to put District 14 on a sound course for the future.

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Sincerely,

EDWARD F. STANCIK
Special Commissioner
Of Investigation for the
New York City School District

EFS:ai

c: Peter Sherman, Esq.