



# A Case Study in Corruption at the Puerto Rico Department of Education

Dan Schultz, RIGA  
Gary Mathison, SAC

ESCUELA DE LA COMUNIDAD  
DR. ARTURO MORALES CARRION  
ELEMENTAL  
E INTERMEDIA



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PROYECTO  
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LAS BRUJAS  
No son buenas











# OIG Audits

Puerto Rico Department of Education  
Did Not Administer Properly a \$9,700,000 Contract  
With National School Services of Puerto Rico

## FINAL AUDIT REPORT



Audit Control Number ED-OIG/A01-A0004  
March 2001

Our mission is to promote the efficient and effective use of taxpayer dollars in support of America's education.



U.S. Department of Education  
Office of Inspector General  
New York Audit Region  
San Juan, PR Area Office

Puerto Rico Department of Education  
Did Not Administer Properly Three Contracts  
With R.V. Research and Management Group, Inc.

## FINAL AUDIT REPORT



Audit Control Number ED-OIG/A02-B0025  
September 2002

Our mission is to promote the efficiency, effectiveness and integrity of the Department's programs and operations.



U.S. Department of Education  
Office of Inspector General  
New York Audit Region  
San Juan, PR Area Office

## FINAL AUDIT REPORT

Puerto Rico Department of Education  
Did Not Administer Properly Title I Contracts  
With National School Services of Puerto Rico  
For the 1999/2000 and 2000/2001 School Years



## FINAL AUDIT REPORT

ED-OIG/A02-B0012  
September 2001

Our mission is to promote the efficiency, effectiveness and integrity of the Department's programs and operations.



U.S. Department of Education  
Office of Inspector General  
New York Audit Region  
San Juan, PR Area Office

# \$15.5 Million in Unsupported Costs \$2.9 Million in Questioned Costs



# *Audit Findings*

- Sole source non-competitive bid contracts (“Professional Services” Exemption)
- Accepted contractors’ lump-sum bids without a breakout or negotiation of line item costs
- Paid for questionable costs
- Failure to follow recommendations of PRDE’s Contract Award Panels and Office of Legal Counsel on competitive contracts
- Prompt payments to certain contractors



# *Audit of Safe & Drug Free School Funds*

Secretary Fajardo used funds to pay school security guards to:

- Transport his children to private schools
- Guard his personal residence
- Provide personal security
- Valet park cars at house parties
- Walk his dog twice daily

IN THE UNITED STATES DISTRICT COURT  
FOR THE DISTRICT OF PUERTO RICO

UNITED STATES OF AMERICA,

Plaintiff,

v.

- (1) VICTOR FAJARDO VELEZ,
  - (2) JOSE OMAR CRUZ MERCADO,
  - (3) RUPERTO VAZQUEZ LOPEZ,
  - (4) MARIA RAMOS MATOS, a/k/a  
"Bibi",
  - (5) MARIA T. PEREZ HUERTAS, a/k/a  
"Maritere",
  - (6) JESUS EMILIO RIVERA CLASS,
  - (7) EDUARDO FUERTES PASARELL,
  - (8) JOSE E. SANTOS RODRIGUEZ,
  - (9) VICTOR J. ALVAREZ RAMOS,
  - (10) FIDEL ALONSO VALLS,
  - (11) RICHARD D'COSTA OFREY,
  - (12) VICTORIA VARGAS ESQUILIN,
  - (13) NORMAN T. OLSON Jr.,
  - (14) MARTA J. SANTOS SANCHEZ,
  - (15) ROBERTO O. BONANO  
RODRIGUEZ,
  - (16) ANGEL A. PABON MOLINA,
  - (17) SYLVIA JANET LOPEZ VELEZ
- Defendants.

INDICTMENT

CRIMINAL NO. 02-42 (JAF)

VIOLATIONS:

- 18 USC § 1951
- 18 USC § 1956(a)(1)(B)(i) and 2
- 18 USC § 982
- 18 USC Sec. 666
- 18 USC § 2

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U.S. DISTRICT COURT  
SAN JUAN, P.R.

THE GRAND JURY CHARGES:

INTRODUCTION

1. At times material to this Indictment, the Puerto Rico Department of Education

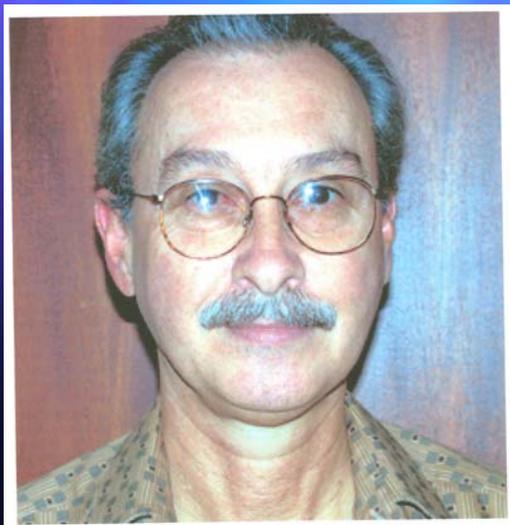
(the "PRDE") was an agency of the Government of Puerto Rico created for the purpose of



# *Puerto Rico Education Officials*



Secretary Fajardo



Assoc. Secretary Cruz

\$4.3 million in  
kickbacks



Special Assistant  
Heurtas

# Puerto Rico Contractors

\$138 million in contracts

VICTOR ALVAREZ RAMOS



ROBERTO BONANO RODRIGUEZ



FIDEL ALONSO



RICHARD D' COSTA OFREY



EDUARDO FUERTES PASARELL



JESUS E. RIVERA CLASS



JOSE SANTOS RODRIGUEZ



VICTORIA VARGAS ESQUILIN



MARGA A. RAMON NAITON



STYLIA JAHNET LOPEZ



ANGEL A. PADON HOLINA



MARTA SANTOS SANCHEZ



RUBERTO VAZQUEZ LOPEZ



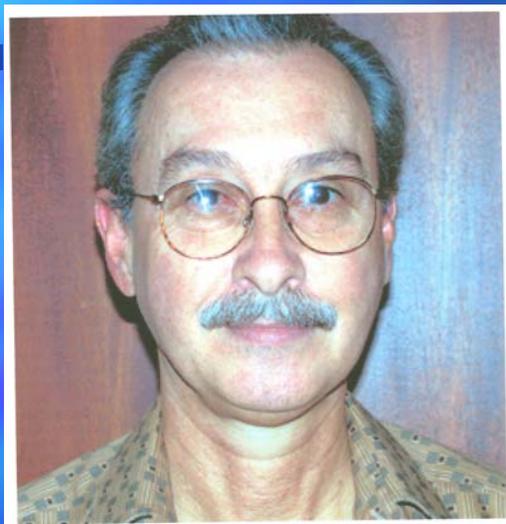


# *RV Research & Management Group, Inc.*



Secretary Fajardo

50 %



Assoc. Secretary Cruz

35%



Ruperto Vazquez

15%

**\$4.5 million in PRDE contracts**  
**\$1.3 million in subcontractor payments**



# *National Consulting Group, Inc .*



Secretary Fajardo



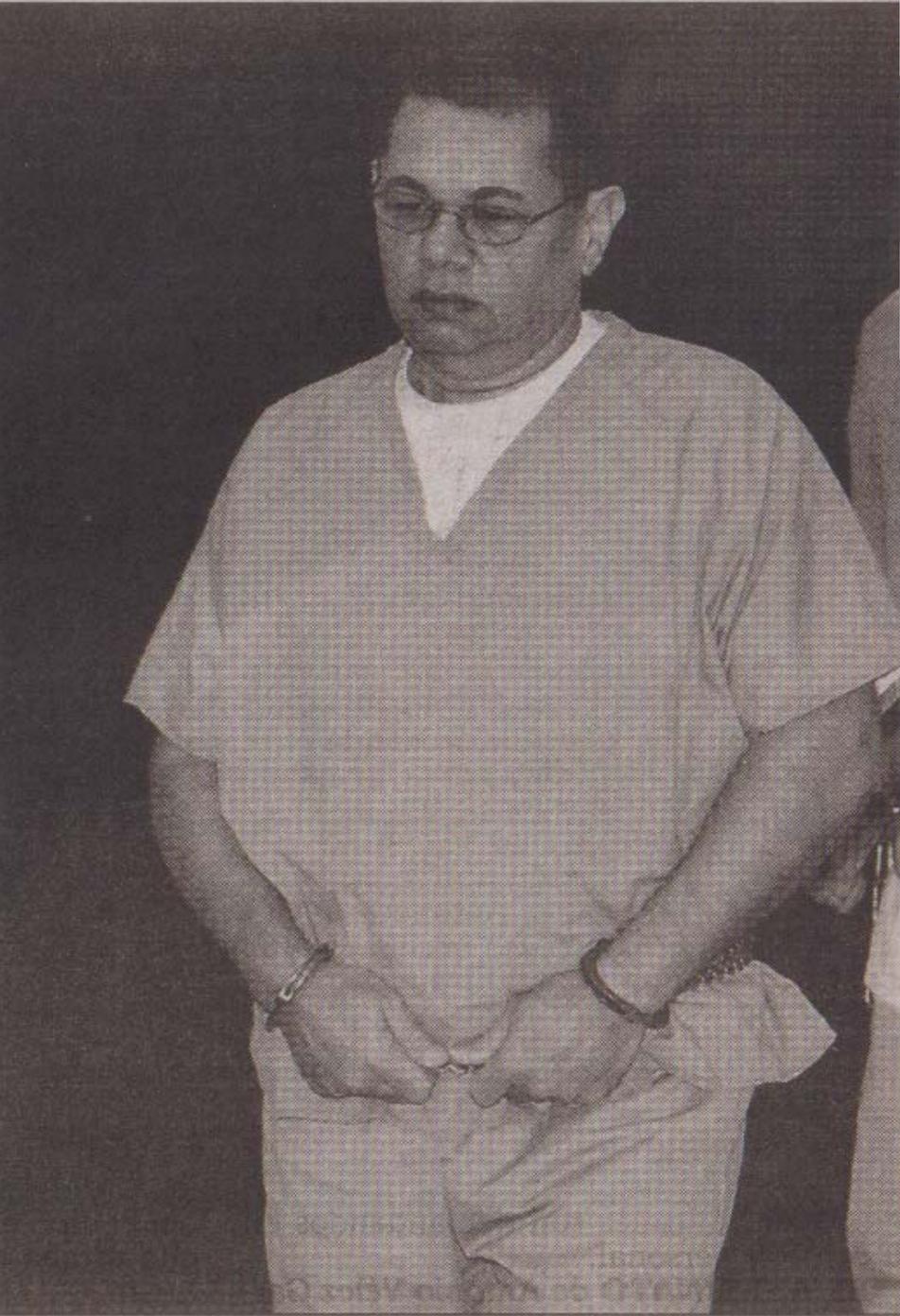
Maria Ramos

**\$2.1 million in subcontractor payments**









# Puerto Rico faces corruption scandal with vow of change

Federal Sentence:  
12 years and 7 months

\$1.3M in forfeitures

# S.J. judge sentences Fajardo to 25 years

BY CARLOS ANTONIO OTERO  
oter@sanjuanstarmedia.net  
The STAR Staff

After accepting a plea-bargain agreement between former Education Secretary Víctor Fajardo and the Special Independent Prosecutor's Office, San Juan Superior Court Judge Kalil Bacó on Thursday sentenced Fajardo to 25 years in prison for racketeering, extortion and ethics violations. The sentence is concurrent with the 12-plus-year conviction Fajardo got in federal court on similar charges related to a \$4.3 million extortion scheme at the Education Department he conducted during his tenure.

On Thursday, Fajardo pleaded guilty to 36 of the 45 charges pending against him.

Prosecutor César López Cintrón agreed to drop nine counts related to the use of Education funds — about \$229,000 from the Drugs and Weapons Free School Zone program. Fajardo was charged with using the public funds to pay for a security detail for his family and to transport political propaganda during a New Progressive Party primary activity in Ponce.

In exchange for the dropping of these charges, Fajardo agreed to pay back the money, plus an additional \$10,000 for fees he incurred while prosecuting the case.

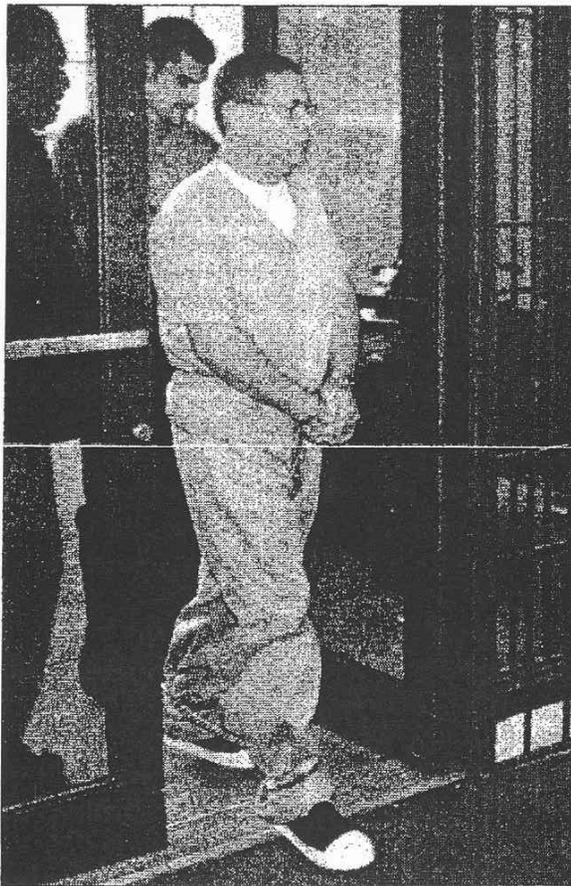
The former secretary also accepted as part of the plea-bargain agreement to fully cooperate with the SIP or Justice in any pending investigation.

Fajardo, 54, dressed in the cream-colored uniform of federal prisoners, said during a morning hearing he had repented.

"I never intended to end my professional career like this," he said. "I also never imagined my actions could bring so much pain to my wife of 31 years, my children, my niece and my closest relatives. I broke their trust, and that of the people of Puerto Rico."

"These things [for which I pleaded guilty] have been moved by me in search for personal improvement and the benefit to the ideological group that inspired me at that moment," Fajardo said.

The former teacher used to raise large sums of money from Education contractors in exchange for multi-million-dollar



STAR FILE PHOTO

**Former Education Secretary Víctor Fajardo** is brought into a hearing at the San Juan Judicial Center.

contracts with the agency. He also created ghost companies where he transferred large amounts of Education funds.

"Today I reiterate before this court I sincerely repent," he said.

Attorneys for the disgraced former Cabinet chief said that Fajardo could walk out of prison in a little over nine years, after completing 85 percent of his federal sentence. Defense attorney Héctor Santiago said if the 1st Circuit of Appeals Court in Boston rules in his favor regarding the sentence handed down against him by U.S. District Chief Judge Héctor Laffitte, Fajardo could get out on probation in five to seven years.

Laffitte revoked Fajardo's cooperation agreement with federal authorities after determining he had incurred in perjury during court testimony.

Santiago said once Fajardo serves his term in a prison on the mainland, he could come back to the island, and spend the rest of his local conviction on probation.

Fajardo's other attorney, Osvaldo Carlo Linares, said his client wants to serve his time at a prison in Miami. He is currently serving time at the Metropolitan Detention Center in Guaynabo.

Fajardo has agreed to cooperate with the SIP and Justice in other pending investigations. In exchange, no more charges will be filed against him, his relatives or his friends who worked for the ghost companies he created in relation to this case.

"With this ruling, the SIP ends the case against Fajardo," López Cintrón said while leaving the courtroom.

He stressed Justice can still charge Fajardo in relation to other cases that have yet to surface. He said Justice is investigating the management of Education funds assigned to the school lunch program.

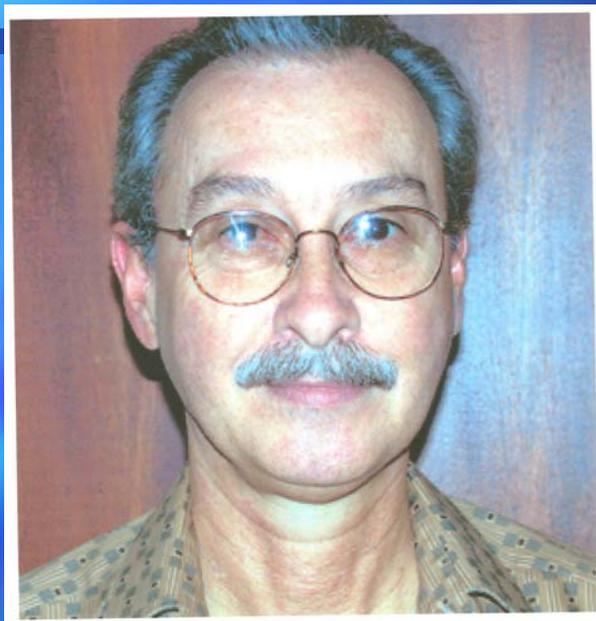
Though Justice Secretary Anabelle Rodríguez has said she would not use Fajardo as a witness during her investigations after he lied in federal court, a Justice prosecutor visited Fajardo a month ago, Santiago said.

The attorney said Fajardo was interviewed in relation to the case of Education contractors who allegedly paid him bribes in exchange for agency contracts.

Fajardo worked in several posts at the Education Department, starting as a teacher. In December 1992, former Gov. Pedro Rosselló recruited him to head the agency, at age 43.



# *Assoc. Secretary Cruz Sentencing*



Federal Sentence 11 Years

\$600,000 in Forfeitures

State Sentence 6 Years

VICTOR FAJARDO VELEZ



JOSE OMAR CRUZ MERCADO



MARIA PEREZ HUERTAS



FIDEL ALONSO



VICTOR ALVAREZ RAMOS



ROBERTO BONANO RODRIGUEZ



RICHARD D' COSTA OFREY



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RUBERTO VAZQUEZ LOPEZ



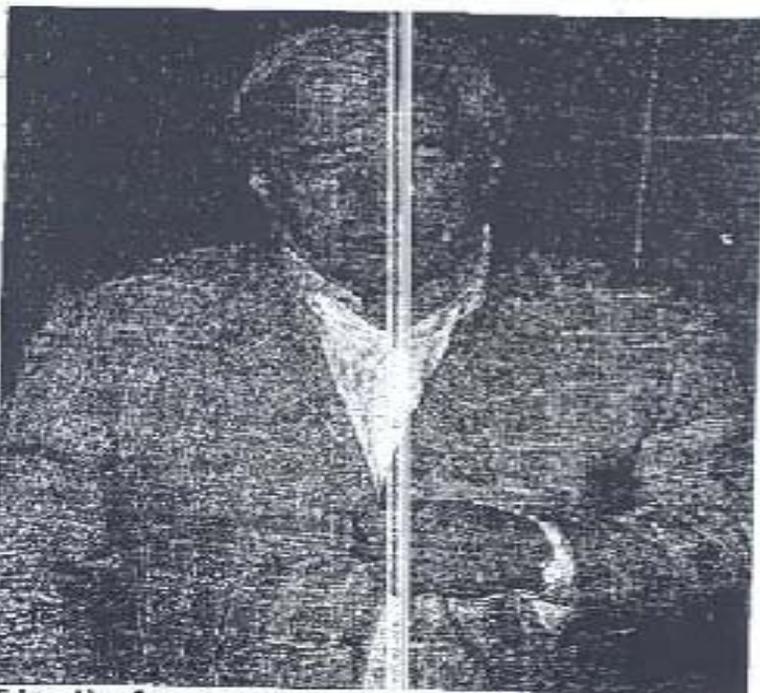
# Olson guilty of attempted bribery in Education case

BY STAR Staff and wire services

**A**gency contractor Norman Olson was found guilty Friday on attempted bribery charges stemming from the more than \$4 million kickback and money-laundering scheme orchestrated by former Education Secretary Victor Fajardo.

San Juan Superior Court Judge Kalil Bacó convicted Olson on all four bribery counts he faced. The judge immediately revoked bail and ordered Olson jailed pending sentencing.

Olson, the president of Chicago-based National School Services, faces up to 48 years in prison. Last week, he had opted for a bench trial rather than having a jury decide his fate.



Education Department contractor Norman Olson during his trial on bribery charges at the San Juan Judicial Center.

"As these crimes do not allow for probation, jailing must be ordered," Bacó said to Olson, who stood motionless with his wife, lawyers and an interpreter.

As the judge spoke, Olson wore a look of resignation and clutched his wife's hands before being escorted out of the courtroom by bailiffs.

A last minute bid by defense attorneys to keep Olson out of jail failed when Bacó denied their request to have the convictions rendered under an Electoral Law statute that allows for suspended sentences.

"We can't do that because it is illegal," Bacó said.

However, he called for the prosecution and the defense to file written arguments on the defense request and set a hearing in the matter for next Wednesday.

A sentencing hearing has not been scheduled.

Fajardo and former Deputy Education Secretary José Omar Cruz are both serving time in federal prison after pleading guilty to federal and local charges in the \$4.3 million scheme to enlist agency contractors and divert federal funds from the Education Department during the Roselló administration. Prosecutors claim that more than \$1 million was funneled to pay New Progressive Party bills.

Olson's lawyers had hinged their defense strategy on claims of selective prosecution. Their argument was based on the immunity granted to Jesús Rivera Class, another Education Department contractor who Cruz testified made more than \$1.5 million in payoffs in the scheme.

Quality Educational Services, a company owned by the Popular Democratic Party-affiliated Rivera Class, landed Education Department contracts totaling more than \$44.7 million under Fajardo's tenure.

He was granted full immunity from local prosecution in the case by then-justice Secretary Anabelle Rodríguez during the Calderón administration in 2002.

Olson and Rivera Class were among nearly a dozen Education Department contractors indicted in January 2002 on federal charges in the scheme. The cases fell apart and the charges were dismissed in October 2002 when the U.S. Attorney's Office determined Fajardo committed perjury during the trial of co-defendant María Teresa "Maritona" Pérez Huerta, Olson and attorney Roberto Bonano.

# Olson sentenced to 10 years in prison in Education kickback case

By STAR Staff and wire services

Businessman Norman Olson was sentenced to a 10-year prison term on Friday for his role in a \$4.3 million kickback scheme at the Education Department in the late 1990s.

San Juan Superior Court Judge Kalil Bacó handed down 10-year sentences for each of Olson's four attempted bribery convictions, but determined that the jail time would run concurrently. The convicted former Education Department contractor had faced up to 48 years in prison.

The 62-year-old president of Chicago-based National School Services has been behind bars at the Bayamón Regional Prison since Bacó found him guilty on all charges in a bench trial last week.

Olson's wife, two daughters, a son and a close friend had flown in from Chicago and were in the courtroom Friday when he was led in for sentencing clad in prison khakis, ankle chains and a black rosary around his right wrist.

The convicted contractor was allowed to

address Bacó before being sentenced at the San Juan Judicial Center.

"I respect the court's decision even though I feel I am innocent of the charges," Olson said.

"And, I am confident in the justice system of the Commonwealth of Puerto Rico," he added.

Defense attorneys Jorge Díaz Reverón and Eduardo de Jesús appealed Olson's convictions and successfully argued that their client poses no flight risk and should be freed on bond pending a decision by a higher court.

"I will not fight extradition. I will not dishonor my family or this court by becoming a fugitive," Olson repeated several times, swearing under oath he would return to Puerto Rico if the appeals court or the commonwealth Supreme Court decides to uphold the verdict and sentence rendered by Bacó.

The judge set bond at \$40,000 and ordered Olson's release based on "the convict's good character" and because he has no prior criminal record.

"The type of person we have before us poses no threat to society and is not a violent per-

son," Bacó said.

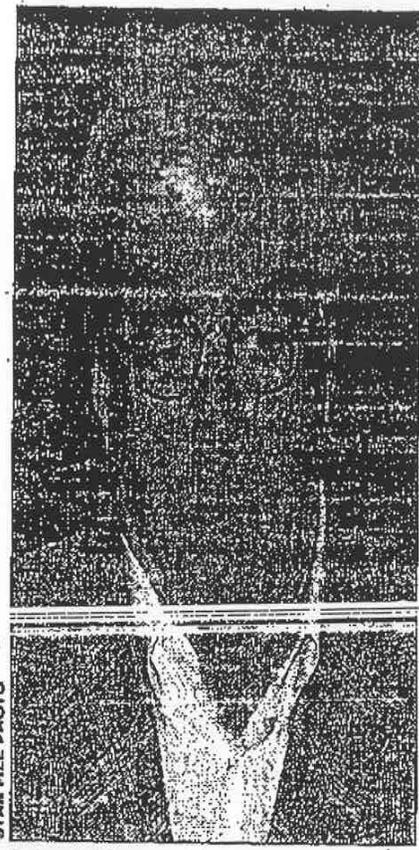
With no family ties and no current business dealings in Puerto Rico, there is nothing to keep Olson from refusing to return to the island if freed and allowed to go home to Illinois, countered prosecutor Alberto Valcárcel, in arguing against bail.

The judge also denied the prosecutor's request that Olson's passport be confiscated.

According to the charges, Olson kicked back more than \$73,000 between 1999 and 2000 in exchange for juicy contracts with the Education Department under Fajardo. Prosecutors said some of the money was funneled to cover New Progressive Party bills while part of the payoffs went straight to Fajardo and his then-Deputy Education Secretary José Omar Cruz Mercado in the form of cash, trips and other gifts.

Fajardo and Cruz have pleaded guilty to federal and local charges stemming from the scheme and are both serving more than 10-year sentences in federal prison.

Olson was among nearly a dozen Education



Norman Olson

Department contractors indicted in January 2002 on federal charges in the scheme to divert and launder federal education funds. Those federal cases fell apart and the charges were dismissed in October 2002 when the U.S. Attorney's Office determined Fajardo committed perjury during the trial of co-defendants Marla Teresa "Marito" Pérez Huertas, Olson and attorney Robert C. Ojano.



## *2003 PCIE Award for Excellence*

OIG Auditors/OIG & FBI Agents received the PCIE Team Award for their work in the successful federal prosecution of former Puerto Rico Education Officials and contractors.