United States Environmental Protection Agency
Criminal Investigation Division
Investigative Activity Report

Case Number
0506-0026

Case Title:
(b)(6), (b) Enterprises Inc.

Reporting Office:
Detroit, MI, Resident Office

Subject of Report:
Interview of (b)(6), (b) (7), Assistant Director of Finance, DWSD

Activity Date:
August 16, 2012

Reporting Official and Date:
(b)(6), (b) (7)(C)
Acting Assistant Special Agent in Charge
28-AUG-2012, Signed by (b)(6), (b) (7)

Approving Official and Date:
(b)(6), (b) (7)(C)
Special Agent in Charge
06-SEP-2012, Approved by (b)(6), (b)
Special Agent in Charge

SYNOPSIS

On August 16, 2012, U.S. EPA CID Special Agent (b)(6), (b) (7)(C) interviewed (b)(6), (b) (7)(C) Assistant Director of Finance, Detroit Water & Sewerage Department, regarding (b) (6) interactions with former Director (b)(6), (b) (7)(C)

DETAILS

On August 16, 2012, U.S. EPA CID Special Agent (b)(6), (b) (7)(C) interviewed (b)(6), (b) (7)(C) Assistant Director of Finance, Detroit Water & Sewerage Department, regarding (b) (6) interactions with former Director (b)(6), (b) (7)(C) Also present during the interview was City of Detroit Deputy Corporation Counsel (b)(6), (b) (7) After being informed of the identity of the interviewing agent and the purpose of the interview, (b)(6), (b) (7) provided the following information:

(b)(6), (b) (7)(C) (b)(6), (b) (7)(C) Troy, MI 48085: DOB: (b)(6), (b) cell: (b)(6), (b) (7)(C); office: (b) (6) (b)(6), (b)

(b)(6), (b) (7) began (b) (6) employment with the DWSD in 1987 as an accountant. After two years (b) (6) transferred to the Finance Department for the city. In 1995 (b)(6), (b) (7) came back to the DWSD as a Financial Manager. (b)(6), (b) (7) became the Assistant Director of Finance in 2001 and left in May of 2005 to work for Wayne County. (b)(6), (b) (7) returned to the DWSD as the Assistant Director in 2011. In this role (b)(6), (b) (7) oversees all purchasing, capital improvement plan, budget, accounting, and operational budget functions.

The capital improvement plan (CIP) is a five year plan set by the department to identify future contracting needs. Each department identifies their needs by filling out a form and project proposal. There are five major criteria defined by the department for future contracts and each proposal must meet one of those criteria. A steering committee, consisting of Executive Management Team (EMT) members, reviews the proposals and prioritizes the contracts but does not rank them. The engineer for the contract then takes the effort to shepherd the contract proposal through the Directors Office to get an accounting and cost central code assigned. At this point a contract can be put out for bid. (b)(6), (b) (7) pointed out that a proposed contract has to be approved by the Assistant Director and Director before this can happen.

(b)(6), (b) (7) recalled that contracts CS 1361 and CS 1387 were cancelled before going to City Council for approval but after the getting the last approvals from the DWSD. (b)(6), (b) (7) further recalled that CS 1361 sat at the Directors office level for a while and was eventually combined with an existing Inland Waters contract. (b)(6), (b) (7) was asked what reasoning or rationale was given for doing this.

This document contains neither recommendations nor conclusions of the EPA.
It is the property of the EPA and is loaned to your agency;
it and its contents are not to be distributed outside your agency.

(b)(6), (b) (7) replied that in (b) experience it was unusual to have a contract cancelled, and was the only time (b) experienced this, noting that it was pulled from the agenda for a Board of Water Commissioners meeting.

SA (b)(6), (b) (7) asked if the rationalization that it would save the department money to combine the contracts made sense. (b)(6), (b) (7) replied that (b) doesn't see how it would, that the department runs 50 plus contracts at a time so unless someone crunched the numbers and showed (b) (6) this (b) didn't think it would be the case. (b)(6), (b) (7) pointed out that it is (b) (6) job to make sure there is money available for contracts which are put out for bid.

(b)(6), (b) (7)(C) occasionally called (b)(6), (b) (7)(C) directly, either at the office or on (b) (6) cell, to complain about delayed payments. (b)(6), (b) (7)(C) also called (b)(6), (b) (7)(C) to complain about the payments. When (b)(6), (b) (7)(C) called (b)(6), (b) (7)(C) to complain (b)(6), (b) (7)(C) would tell (b)(6), (b) (7) to find out what the problem was with (b) (6) payments. (b)(6), (b) (7) clarified that (b) (6) phone numbers are publicly available and that almost all contractors have them. Many of them call (b) (6) staff to complain about payments. (b)(6), (b) (7)(C) never asked (b) (6) to do anything inappropriate. At times (b)(6), (b) (7)(C) called (b)(6), (b) (7)(C) staff about payments but often went directly to (b) (6) or (b)(6), (b) (7)(C) (b)(6), (b) (7) pointed out that the city is contractually obligated to pay interest on payments which are more than 45 days late.

(b)(6), (b) (7) was called into Mercado's office once and found that (b)(6), (b) (7)(C) was there "ranting and raving" about a payment issue. (b)(6), (b) (7) thought that this took place close to when (b) left (May of 2005). (b)(6), (b) (7) characterized it as unusual to have a contractor in the Directors office much less complaining in person.

(b)(6), (b) (7) was not employed by the DWSD in 2008 but heard that there was a rush to pay (b)(6), (b) (7)(C) on DWSD contracts around the time then Mayor (b)(6), (b) (7)(C) was leaving office. The DWSD person who would be best to talk to about this is FNU (b)(6), (b) (7) who has retired and moved to the Philippines.

(b)(6), (b) (7)(C) never asked (b)(6), (b) (7) to do anything illegal or inappropriate. (b)(6), (b) (7)(C) was a Deputy Director who technically was in between (b)(6), (b) (7) and (b)(6), (b) (7)(C) from a reporting standpoint.

(b)(6), (b) (7) was not aware of Amendment #4 for CS 1368 being "held up" or delayed and thought that this may have taken place while (b) was working for Wayne County.

(b)(6), (b) (7) explained that the cost of the 800 MHz contract was to be split 60/40 between the City and the DWSD with the DWSD having the 60%. Near the end of the fiscal year (b)(6), (b) (7)(C) asked (b)(6), (b) (7) not to "book" the 800 MHz contract debt from the city. (b)(6), (b) (7) told (b)(6), (b) (7)(C) that (b) would not do this at it was improper. (b)(6), (b) (7) of the Law Department supported (b)(6), (b) (7) in this position. (b)(6), (b) (7)(C) accepted (b)(6), (b) (7) explanation.

The DWSD spent around $400 million a year on both water and sewerage capital improvement projects during (b)(6), (b) (7)(C) tenure, which (b)(6), (b) (7) characterized as rampant. (b)(6), (b) (7) pointed out that given the age and condition of the city's infrastructure this spending was warranted. The plan to increase CIP spending started under DWSD Director (b)(6), (b) (7) . During (b)(6), (b) (7)(C) tenure the majority of the water rate increases were to pay for these construction projects.

This document contains neither recommendations nor conclusions of the EPA.
It is the property of the EPA and is loaned to your agency;
it and its contents are not to be distributed outside your agency.

(b)(6), (b) (7) was aware that the downtown water main project was awarded via a Special Administrators Order and thus did not go through the normal contracting process. DLZ was the construction manager and as such received bids for water main replacement work from the contracts. DLZ then recommended to the DWSD which contractors should receive contracts. (b)(6), (b) (7) had not heard that some of these contracts were awarded as "no bid."

Regarding DWS 844A, (b)(6), (b) (7) was present for discussions regarding the decision to conduct dual negotiations with the top two bidders. This was the first time (b)(6), (b) (7) saw this happen. (b)(6), (b) (7) recalled that it was (b)(6), (b) who requested authority from the BOWC to conduct the dual negotiations.

CM 2014/2015 was awarded using an average cost method. (b)(6), (b) (7) explained that this was a change from the normal process. (b)(6), (b) (7) commented that this was "truly a way of awarding a contract to the party you wanted" and they "used it to fudge the numbers." (b)(6), (b) (7) agreed that the use of average cost method was not a best accounting or contracting practice. (b)(6), (b) (7) stated "clever minds came up with that one." (b)(6), (b) (7) said this was not at all acceptable and had never been used by the DWSD before for a construction contract.

It is (b)(6), (b) understanding and the practice of the DWSD that additional work authorized under a change order has to be for the same scope of work and cannot be used for completely unrelated work. Change orders must be approved by the BOWC and City Council. (b)(6), (b) (7) explained that the department procurement policy as well as the boilerplate contract language contains language prohibiting this. (b)(6), (b) (7) added that it is not a good accounting or financial practice to pay a contractor a 5% fee just to sub the work to another prime contractor who then takes their 5% fee. (b)(6), (b) (7) commented that the department is trying to avoid this even now.

(b)(6), (b) (7) opined that a lot of power is seated in the Director's Office, Contracts & Grants and the head engineers. (b)(6), (b) (7) explained how (b)(6), (b) (7)(C), who was (b) (6) replacement (from 2005-2011), was promoted two or three times in order to be made the Assistant Director of Finance. (b)(6), (b) (7) characterized (b)(6), (b) (7)(C) as a yes man who would not have stood up to (b)(6), (b) (6) or (b)(6), (b) (7)(C) went from a Field Inspector to a Deputy Director, as did (b)(6), (b) (6).

(b)(6), (b) never liked the Engineering staff and that's why (b) put (b)(6), (b) in charge of the group. (b)(6), (b) took (b)(6), (b) (7) out of the position to replace (b) (6) with (b)(6), (b) (7) and (b)(6), (b) (7) did not get along either. (b)(6), (b) (7) got "beat up" by (b)(6), (b) at every EMT meeting. (b)(6), (b) (7) does not recall a meeting where (b)(6), (b) verbally lashed out at White over a proposed change order to DWS 844A.

(b)(6), (b) (7) was asked why (b) left the DWSD in 2005. (b)(6), (b) (7) commented "that's a good question" and explained that things were different under (b)(6), (b) and (b)(6), (b) (7). (b)(6), (b) (7) had 18 years in by that point and was not going to be anyone's yes man. (b)(6), (b) (7) also felt (b) was not going to be listened to anyway. (b)(6), (b) (7) characterized (b)(6), (b) (7) as a very vengeful person and for a time (b)(6), (b) (7) had to report through (b) (6)

SA (b)(6), (b) (7) asked what was different working under (b)(6), (b) and (b)(6), (b) (7). (b)(6), (b) (7) said it was everything from contracts being put on hold, pressure being brought on certain issues and a lack of explanation for decisions including the cancellation of contracts CS 1387 and CS 1361. (b)(6), (b) (7)

This document contains neither recommendations nor conclusions of the EPA.
It is the property of the EPA and is loaned to your agency;
it and its contents are not to be distributed outside your agency.

added that (b) knew something was going to come from all of this.

(b)(6), (b) governed like a dictator and didn't seem to listen to anyone else but (b)(6), (b) (b)(6), (b)(6), was a legend in the DWSD and was one to make sure things got done. When (b)(6), (b) and (b) got into a conflict over a reporter wanting to interview (b)(6), (b) (7), they met with the Mayor who sided with (b)(6), (b)

IMG was brought in by (b)(6), (b) The IMG staff took (b)(6), (b) work and presented it to Judge John Feikens as if it as their own. (b)(6), (b) (7) was aware that (b)(6), (b) authorized the reimbursement of IMG's bills for eating at Bazookis.

The DWSD needed to replace about 240,000 water meters and were typically replacing about 20,000 a year. (b)(6), (b) (7) proposed that instead of a $150 million contract the DWSD should hire summer workers to do the replacements with a goal of replacing 40,000 to 60,000 units a year at half the cost. (b)(6), (b) (7) put this proposal in writing for the rest of the DWSD management. (b)(6), (b) (7) heard from a Walbridge employee that (b)(6), (b) was pressured to award the contract to Johnson Controls.

(b)(6), (b) recalled being in meetings with (b)(6), (b) when (b) would read text messages from Mayor (b)(6), (b) (b)(6), (b) (7) was asked how (b) knew that (b)(6), (b) was reading a text from the Mayor. (b)(6), (b) (7) explained that (b)(6), (b) would say "you don't need to know the details but the mayor wants it…" These discussions were about contracts.

(b)(6), (b) tried not to get the employees involved in fundraising for the Mayor. (b)(6), (b) (7) heard that (b)(6), (b) held fundraisers in (b) basement and commented that no other director had held fundraisers. (b)(6), (b) collected all of the contractor's names and sent solicitation letters to them. (b)(6), (b) (7) commented that (b)(6), (b) chose this path.

(b)(6), (b) (7) was at a Vision Award event and heard that (b)(6), (b) held a private meeting with contractors prior to it.

When (b)(6), (b) came to the DWSD (b) seemed to want to do the right thing but over time (b) evolved to settling down and was a go along guy with the (b)(6), (b) Administration.

(b)(6), (b) hired a private investigator to follow DWSD employees during work hours. If the investigator found the employees doing personal business on work time they were fired.

This document contains neither recommendations nor conclusions of the EPA.
It is the property of the EPA and is loaned to your agency;
it and its contents are not to be distributed outside your agency.