CROCKETT COUNTY SCHOOLS

Investigative Report
September 2, 2015

Justin P. Wilson, Comptroller

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
FINANCIAL AND COMPLIANCE INVESTIGATIONS

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September 2, 2015

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Mr. Mullins:

As a result of irregularities involving certain invoices, we performed an investigation, with the assistance of the Tennessee Bureau of Investigation (TBI), of selected records of the Crockett County School Department. The invoices in question had been approved for payment by the Director of Technology, Mr. Ashley Jordan (the director) and were payable to Integrated Computer Solutions (ICS) and Technology Associates (TA), which were companies owned by the director's former employer. We also discovered noncompliance with established purchasing procedures of the School Department. We noted numerous instances where bids were required but not solicited properly, purchase orders were not issued or issued after the purchases were made, and invoices from ICS that were dissimilar in appearance and configuration, appearing to be fabricated. As a result, we expanded our examination of transactions to include a review of technology related bids, contracts, invoices, accounting records, the director's email communications, imaged computer files, and interviews. Our investigation was for the period September 1, 2002, through September 9, 2014, and noted the following findings.

- The School Department had a cash shortage of at least $5,923 on September 9, 2014, and electronics and supplies in the amount of $5,451 had been misappropriated.

- E-Rate Program funding of $1,089,820 to the School Department and numerous kickbacks are in question based on the actions of the former director.

- The former director made questionable disbursements of at least $372,455.

- Irregularities were noted in the School Department's purchasing process.

- The School Department had deficiencies in the acquisition and use of technology equipment and in the maintenance of inventory records.

- School Department management did not provide adequate oversight, which facilitated improper activities by the former director.

On July 18, 2014, during an interview with the Tennessee Bureau of Investigation and our investigator, the director admitted to receiving kickbacks from his former employer for steering business that included equipment purchases and/or bid projects (E-Rate Program) to businesses that his former employer owned (Integrated Computer Solutions (ICS) and Technology Associates (TA)). Not only did the director provide his former employer certain amounts of business from the Crockett County School Department, he also provided his former employer certain amounts of business from the director's personally owned business (Tri-Star Group Consultants). The director's consulting business assisted school departments in becoming eligible for federal E-Rate Program funding. The E-Rate Program is a federal program that provides funding to schools to obtain affordable telecommunications and Internet access.

The director also admitted to falsifying bids and invoices, and stealing from the Crockett County School Department. He admitted there may have been some equipment orders from ICS that the School Department may not have received, and some E-Rate Program projects that did not get completed, which required the School Department to provide additional resources to complete. He further admitted that he used School Department equipment and supplies and worked during normal school hours to operate his personal business (Tri-Star Group Consultants). The director stated that he received compensation (kickbacks) in the form of goods from his former employer (ICS) and from a business (Vintage Rose Emporium) owned by his former employer's wife. The director admitted to receiving high-end cookware, Waterford crystal, a $7,000 Rolex watch, Vera Bradley bags, St. Louis Cardinals baseball tickets, jewelry, and lodging at various locations. We also noted from documentation at the School Department that the director received other gifts, including a Garmin GPS system, flat screen televisions, and an air conditioning unit for a personally owned tour bus. The director estimated the value of these goods (kickbacks) to be between $35,000 and $40,000.

The director tendered his resignation from employment with the Crockett County School Department on July 23, 2014. On July 20, 2015, the Crockett County Grand Jury indicted Mr. Jordan on three counts: theft over $10,000, tampering with evidence, and official misconduct.

Background

Crockett County is located in West Tennessee, and its School Department has its administrative office in Alamo, Tennessee. The School Department is governed by a seven-member school board and operates one high school, one middle school, and three elementary schools with a total student enrollment of approximately 2,035 students.

Findings and recommendations, as a result of our investigation, are presented below. These findings and recommendations have been reviewed with management to provide an opportunity for their response. Management's responses are paraphrased in the report. Also, these findings and recommendations were reviewed with the district attorney general for the Twenty-eighth Judicial District, the United States Attorney for the Middle and Western Districts of Tennessee, and the Federal Bureau of Investigation, Louisville Division.

INVESTIGATIVE FINDINGS AND RECOMMENDATIONS

FINDING 1 THE SCHOOL DEPARTMENT HAD A CASH SHORTAGE OF AT LEAST $5,923 ON SEPTEMBER 9, 2014, AND ELECTRONICS AND SUPPLIES IN THE AMOUNT OF $5,451 HAD BEEN MISAPPROPRIATED

A cash shortage of at least $5,923 existed on September 9, 2014, and electronics and supplies in the amount of $5,451 had been misappropriated resulting from the practices of the Director of Technology, Mr. Ashley Jordan:

A. An invoice dated June 30, 2010, from Integrated Computer Solutions (ICS) for $17,122, was falsified by the director. The invoice was for equipment (projectors, a smart board, and computer peripheral items) totaling $11,199, plus the cost of labor, materials, and shipping (LMS) totaling $5,923. The director's assistant advised investigators that the LMS charge was falsified, the cost should have been itemized per unit, and that the installation of the projectors and smart board was performed by another vendor. The equipment cost of $11,199 is considered as a questionable purchase in this report, and the LMS of $5,923 will be reported as a cash shortage.

B. On July 18, 2014, the TBI and our investigator executed a search warrant at the director's residence. We discovered seven computers, several data storage items, a communication device, a printer, and supplies that were the property of the School Department. We observed that the equipment was not tagged as property of the School Department as required by school board policy; however, the director advised us that three of the seven computers were his personal property. He further advised us that he used the School Department's equipment and supplies in his personal business. Subsequently, our investigation revealed that the ownership of the three above-noted computers was indeed the property of the School Department. The director had established three desktop icon accounts on one of the computers (an Apple IMac) for himself, another for his wife, and a generic user. We determined this computer was purchased on October 21, 2011, with School Nutrition funds. On September 9, 2014, in an interview with the director's wife, who was the School Nutrition Fund's bookkeeper, she confirmed the computer had been purchased with School Nutrition funds. She further advised that the computer had been at their residence for about six months. However, interviews with other School Department employees

provided information that the computer had been removed from the School Department shortly after it had been purchased on October 21, 2011, and was replaced by another model for the bookkeeper's use. School Department employees provided documentation that the electronics and other supplies in the possession of Mr. Jordan and his wife amounted to $5,451.

RECOMMENDATION

Officials should take immediate steps to recover the cash shortage of at least $5,923 plus the electronics and supplies.

MANAGEMENT'S RESPONSE – ROBERT F. MULLINS, JR., DIRECTOR OF SCHOOLS

Neither Mr. Jordan nor anyone else is disputing the ownership of the computers, data storage items, and a communications device that were in the physical possession of Mr. Ashley Jordan, an employee of the Board of Education. The property is currently in the possession of the district attorney general. The Board of Education will work closely with the district attorney general to recover any and all property, monies, and proceeds to which the Board of Education is legally entitled.

FINDING 2 **E-RATE PROGRAM FUNDING FOR THE SIX NOTED YEARS TOTALING $1,089,820 AND NUMEROUS KICKBACKS ARE IN QUESTION BASED ON THE ACTIONS OF THE DIRECTOR OF TECHNOLOGY**

The E-Rate Program is a federal program that provides funding to schools in obtaining affordable telecommunications and Internet access. According to the data provided to us by the Federal Communications Commission, Office of Inspector General, the Crockett County School Department was approved for $1,089,820, with E-Rate Program funds of $879,979 and local matching funds of $209,841 for Internet access projects through the Universal Service Administrative Company's Schools and Libraries (E-Rate) Program (USAC) for funding years 2003 through 2010. Local school districts are required to fund a local match in order to receive E-Rate Program funds. The following table details the funding received from the federal program and local match:

Funding Year		E-Rate Funds		Local Match		Total Project Cost
2003	$	61,600	$	17,900	$	79,500
2004		37,939		11,981		49,920
2005		377,090		83,310		460,400
2008		22,500		2,500		25,000
2009		360,600		89,400		450,000
2010		20,250		4,750		25,000
Total	$	879,979	$	209,841	$	1,089,820

The director of technology participated in the E-Rate Program as an administrator on behalf of the Crockett County School Department and as an E-Rate Program consultant representing other school districts in the states of Tennessee and Missouri through his personal business, Tri-Star Group Consultants. These questionable activities were discovered through our review of documents at the School Department's central office and files recovered from the director's personal residence and are as follows:

A. The director falsified the bid for the $410,400 contract for the 2005 funding year. The funding year also contained an additional contract of $50,000; however, we could not obtain documentation for this contract. Our examination of his computer files revealed that he steered the project to Integrated Computer Solutions (ICS), a company owned by the director's former employer, by falsifying the request for proposal (RFP) and invoices created from a template found on the director's computer. A closer examination of the RFP revealed that the signature of the ICS owner had been forged. These bid documents were in a Word format document capable of being edited. Also, the vendor's template was found on the director's computer that was used to create the falsified bids. The School Department paid ICS a matching amount of $71,810 for the project. Therefore, for this project, there was no competitive bid process, the consultant was not independent, the director steered the department's business to his former employer, bids were falsified so the director could receive kickbacks, invoices were falsified, and the project costs may have been inflated.

   During a 2007 upgrade of the wireless network system at one of the elementary schools, the School Department's IT staff discovered that some cabling was not installed on the E-Rate Program project that was performed by ICS. This omission required the School Department to provide additional

materials and labor that the School Department estimated to cost $4,500. We were informed by an IT staff employee that the director of technology advised him not to report other incomplete jobs, if found, to the director of schools.

B. The director falsified the bids for the $450,000 contract for the 2009 funding year. The project called for internal connections ($390,000) and basic maintenance ($60,000). Documents found in his computer files revealed that he falsified the bids by creating bid quotes from ICS. These bid documents were in a Word format document capable of being edited. Also, the vendor's template was found on his computer that was used to create the falsified bids. The internal connections bid also contained a labor cost of $156,950, which he fabricated. ICS failed to complete the project, which required the School Department to provide additional resources, which were estimated to cost $2,880 to complete the project.

   The director, serving as the consultant or an agent of the vendor, cannot objectively estimate labor cost. The director also admitted he received kickbacks. The School Department paid ICS a matching amount of $89,400 for the project. Therefore, for this project, there was no competitive bid process, the consultant was not independent, bids were falsified to steer the department's business to his former employer so the director could receive kickbacks, and the project labor cost may have been inflated.

C. During our interview with the director of technology on July 18, 2014, he informed the TBI and our investigator that he knew some of the E-Rate Program projects performed by ICS were never completed. He further acknowledged that the School Department had to provide additional resources on these projects to get the equipment installed. Also, he admitted to falsifying bids and invoices for ICS in order to receive kickbacks from ICS in the form of goods. The director stated that this scheme started after he was rehired by the Crockett County School Department as the technology coordinator on September 1, 2002. According to his personnel files, the director worked for the School Department from January 1, 1995, through March 31, 2000. He was employed with Integrated Computer Solutions from April 1, 2000, through August 22, 2002, performing E-Rate Program related business. The director was rehired by the School Department on September 1, 2002, and resigned from the School Department effective July 23, 2014.

D. The director created other fictitious bid quotes while in his position as an E-Rate Program consultant. Computer files indicated several quotes were falsified by the director for other school districts in Tennessee and possibly Missouri.

E. Our examination of email communications and documents created by the director disclosed that he was participating as an agent of the service provider's businesses, Integrated Computer Solutions and Technology Associates, businesses of his former employer. The director falsified bids and quotes, signed the quotes on behalf of service provider, completed the

requests for proposals (RFP), signed the RFP, and awarded the bid to the service provider.

F. The director also admitted that E-Rate Program guidelines prohibit the service provider from participating in the planning process for school districts such as requesting bids and RFP's for E-Rate projects. The service provider can only participate after the bid process is completed. He stated that his former employer used him to circumvent this process and steer school contracts to his businesses. This same scheme was also carried out in other school districts in the states of Tennessee and possibly Missouri.

G. The director advised us that he was compensated by his former employer for his services with kickbacks in the form of various goods. He revealed that he had open accounts with Integrated Computer Solutions (ICS), his former employer, and his former employer's wife's business, Vintage Rose Emporium, and that he never paid for any of the goods processed through these accounts. He ordered the goods from these accounts, and these orders were delivered by an ICS representative to him approximately every two weeks from Murray, Kentucky. These goods consisted of high-end cookware, Waterford crystal, a $7,000 Rolex watch, Vera Bradley bags, a Garmin GPS system, flat screen televisions, an air conditioning unit for a bus, St. Louis Cardinals baseball tickets, jewelry, etc. He also stated that occasionally his former employer paid for his lodging at various locations. The former director valued these goods between $35,000 and $40,000; however, we cannot ascertain what or the value of the goods the director received as a result of his questionable activities.

Data provided by USAC noted all of the E-Rate Program projects for the School Department were awarded by the director to Integrated Computer Solutions or Technology Associates for all the funding years previously detailed in this report. Based upon available documentation at the School Department, we were only able to examine the two projects noted in Parts A and B above.

RECOMMENDATION

Proper bid procedures should be followed as required by federal guidelines. These federal guidelines require local school districts to comply with all applicable state and local bid requirements to ensure an open and fair competitive bid process to receive E-Rate Program funding. Documents should not be falsified. Goods in the form of kickbacks to service providers' agents/consultants are prohibited by federal guidelines.

MANAGEMENT'S RESPONSE – ROBERT F. MULLINS, JR., DIRECTOR OF SCHOOLS

The Board of Education has communicated with employees on board policies to ensure an open and fair competitive bid process. Employees have been informed that receiving goods in the form of kickbacks is prohibited as stated in our Board Policy.

FINDING 3 **THE DIRECTOR OF TECHNOLOGY MADE QUESTIONABLE DISBURSEMENTS OF AT LEAST $372,455**

For the period July 1, 2008, through June 30, 2013, we examined School Department records for disbursements made to Integrated Computer Solutions (ICS) and found disbursements totaling $372,455 to ICS. We requested invoice confirmations from ICS for transactions with the School Department for this same period. ICS provided 46 invoices totaling only $262,162, a difference of $110,293. On July 18, 2014, the director admitted to the TBI and our investigator that he provided the invoices to ICS for our confirmation request. He further advised that his former employer contacted him and stated that they did not have the invoices.

The entire $372,455 of disbursements to ICS are considered questionable due to the following:

A. The director falsified numerous invoices from ICS by using an invoice template that was stored on the director's computer.

B. The director had the electronic signatures of two former directors of schools and the current school board chairman on his computer that he used to affix their signatures on documents without their authorization.

C. The director did not require ICS to provide packing slips or serial numbers on invoices for computer equipment. This practice made it difficult for the School Department to determine if purchases that were ordered were actually received and accounted for properly.

D. The director falsified bids to steer purchases to his former employer.

E. We found invoices from ICS for $39,760 that were never paid by the School Department. It should be noted that the director purchased and approved all invoices from ICS for payment.

F. The director admitted to receiving kickbacks from his former employer for making School Department purchases from ICS.

RECOMMENDATION

Officials should take steps to determine the validity of the questionable disbursements. If the questionable disbursements are determined to be improper, steps should be taken to recover the funds.

MANAGEMENT'S RESPONSE – ROBERT F. MULLINS, JR., DIRECTOR OF SCHOOLS

The Board of Education, during annual audits, determined that the validity of disbursements were questionable. The Board of Education requested for an investigation to be conducted by the Comptroller's Office in July 2011.

INVESTIGATOR REBUTTAL

Comptroller auditors advised the School Department to submit a Fraud Reporting Form in July 2011, after the discovery of suspicious invoices from the former employer of the director of technology.

FINDING 4 IRREGULARITIES WERE NOTED IN THE PURCHASING PROCESS

Our investigation of the purchasing process and records maintained by the director of technology revealed the following irregularities:

A. On July 18, 2014, the director admitted he falsified a bid for his former employer for computer equipment that was due at the School Department on January 5, 2011, by creating the quote, signing the computer vendor representative's signature on the request for proposal, and dating the bid for January 1, 2011. He also admitted to the same practice on other bids and improperly steering other bids to his former employer.

B. An examination of email communications between the director and his former employer from January 31, 2006, through February 8, 2006, detailed some questionable issues. The email communications disclosed that the director received bids from four vendors, which included his former employer, on three different technology projects. The director emailed his former employer the bid amounts of the three other vendors on February 3, 2006, which gave his former employer an unfair advantage. On February 6, 2006, on the advice of the director to the school board, all three bids were awarded to his former employer, ICS.

C. In some instances, the director of technology failed to issue purchase orders or issued purchase orders after the purchases were made and approved some purchase orders with the electronic signatures of former directors of schools without their authorization for purchases made with a business owned by the director's former employer.

RECOMMENDATION

Competitive bids should be solicited through newspaper advertisements for all purchases exceeding $10,000 as required by state statute. Management should ensure controls are in place to detect fictitious documents and the steering of purchases/contracts to businesses of former employers. Management of the School

Department should ensure purchase orders are issued for all applicable purchases before purchases are made, and all purchase orders are properly approved to strengthen internal controls over purchasing procedures and to document purchasing commitments.

MANAGEMENT'S RESPONSE – ROBERT F. MULLINS, JR., DIRECTOR OF SCHOOLS

The Board of Education detected fictitious documents and the questionable purchases from the possibility of fraud. All purchase orders now go through the proper channels as per Board Policy.

FINDING 5 THE SCHOOL DEPARTMENT HAD DEFICIENCIES IN THE ACQUISITION AND USE OF TECHNOLOGY EQUIPMENT AND IN THE MAINTENANCE OF INVENTORY RECORDS

The School Department's policy for the acquisition and use of technology equipment provides that the Technology Department is responsible for the proper installation, maintenance, repair and replacement of equipment, the tagging of equipment, and maintaining an accurate equipment inventory. Our investigation disclosed the following deficiencies:

A. The technology director had seven School Department computer devices and a printer at his personal residence that were not tagged as school property.

B. The director and his wife admitted to using School Department equipment both at home and while at the School Department during school hours in their personal business.

C. Only one piece of equipment found at the director's residence was recorded on the School Department's technology inventory records. It should be noted that the director was in charge of maintaining the equipment inventory.

D. The technology equipment ordered by the director from a business owned by his former employer did not have packing slips of equipment delivered or documentation of serial numbers of the equipment on the invoices.

RECOMMENDATION

School Department equipment should not be maintained at personal residences and should be used only for official business. All School Department equipment should be properly tagged as department property and should be recorded on the department's inventory records. Purchased equipment should have packing slips and invoices identifying the items delivered and applicable serial numbers.

MANAGEMENT'S RESPONSE – ROBERT F. MULLINS, JR., DIRECTOR OF SCHOOLS

All equipment received is properly tagged and added to the inventory records. Packing slips are required on all purchases as per Board Policy.

FINDING 6 **SCHOOL DEPARTMENT MANAGEMENT DID NOT PROVIDE ADEQUATE OVERSIGHT, WHICH FACILITATED IMPROPER ACTIVITIES BY THE DIRECTOR OF TECHNOLOGY**

School Department management did not provide adequate oversight of the director of technology. The director was allowed to make purchases without following proper department purchasing procedures even after audit findings were reported for fiscal years 2011, 2013, and 2014 detailing these deficiencies in purchasing procedures. He was allowed to order items, approve his own purchases for payment, and make purchases from a former employer without following proper bid procedures. He was allowed to control all aspects of the department's E-Rate Program, which resulted in the deficiencies noted in this report. The director and his spouse were able to operate their personal business on school property during school hours, and utilized school equipment and supplies in the operation of this side business at their personal residence.

RECOMMENDATION

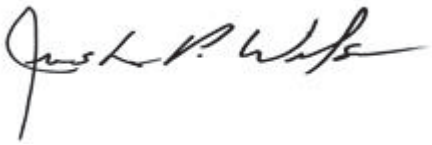
School Department management should provide adequate oversight of school employees to ensure the department and its employees comply with applicable laws, regulations, and department policies and procedures.

MANAGEMENT'S RESPONSE – ROBERT F. MULLINS, JR., DIRECTOR OF SCHOOLS

The Board of Education's oversight of school employees has addressed the findings of this report. In addition, Board Policy is communicated to all employees. If questionable actions are noted, steps are taken to ensure that employees follow Board Policy.

If you have any questions concerning the above, please contact this office.

Sincerely,



Justin P. Wilson
Comptroller of the Treasury

JPW/kbh

CC: Members of the Crockett County Board of Education