

# INVESTIGATIVE AUDIT REPORT

## MEMPHIS CITY SCHOOLS FACILITY MAINTENANCE DIVISION

JULY 1, 2004, THROUGH JUNE 30, 2005



## State of Tennessee



**Comptroller of the Treasury  
Department of Audit  
Division of Municipal Audit**



STATE OF TENNESSEE

COMPTROLLER OF THE TREASURY

John G. Morgan

Comptroller

STATE CAPITOL

NASHVILLE, TENNESSEE 37243-0260

PHONE (615) 741-2501

September 7, 2007

Director of Schools and Members of the  
Board of Education  
Memphis City School System  
2597 Avery Avenue  
Memphis, TN 38112

Ladies and Gentlemen:

Presented herewith is the report on our investigative audit of selected records of the Memphis City Schools – Facility Maintenance Division. for the period July 1, 2004, through June 30, 2005. However, when the examination warranted, this scope was expanded. The audit was limited to the division's purchase of electric motors. The purpose of the investigative audit was to assist the District Attorney General in his inquiry.

In January 2005, the internal audit division of the Memphis City School System initiated a special investigation that eventually identified hundreds of unaccounted for electric motors purchased from one vendor. Their investigation revealed a significant number of questionable invoices from that vendor authorized primarily by one school system employee. The internal audit division referred this matter to the Division of Municipal Audit for further investigation.

Our review consisted primarily of making inquiries, examining selected documents and financial records, making physical inspections of property and equipment, and performing tests and other procedures as deemed necessary.

Our investigative audit revealed that a school system employee, Randle Taylor, and a school system vendor, Clyde Green, participated in a scheme to bill Memphis City Schools for electric motors that were not needed and were never delivered. This matter was referred to the local district attorney and the United States Attorney. In August 2007, Mr. Green and Mr. Taylor each pled guilty in federal court to federal mail fraud charges (Title 18, USC, §1341) and acknowledged causing losses to the Memphis City School System of approximately \$335,610.

Director of Schools and Members of the  
Board of Education  
Memphis City School System  
September 7, 2007

Copies of this report are being forwarded to Governor Phil Bredesen, the State Attorney General, the District Attorney General, certain state legislators, and various other interested parties. A copy is available for public inspection in our office.

Very truly yours,

A handwritten signature in black ink that reads "John G. Morgan". The signature is written in a cursive style with a vertical red line to its right.

John G. Morgan  
Comptroller of the Treasury



**STATE OF TENNESSEE  
COMPTROLLER OF THE TREASURY  
DEPARTMENT OF AUDIT  
DIVISION OF MUNICIPAL AUDIT**

**John G. Morgan**  
Comptroller of the Treasury

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**Dennis F. Dycus, CPA, CFE, Director**  
Division of Municipal Audit

September 7, 2007

Mr. John G. Morgan  
Comptroller of the Treasury  
State Capitol  
Nashville, TN 37243-0260

Dear Mr. Morgan:

We have completed our investigative audit of selected records of the Memphis City Schools Facility Maintenance Division. Our examination focused on the period July 1, 2004 through June 30, 2005. However, when warranted, this scope was expanded. The audit was limited to the division's purchase of electric motors. The purpose of the investigative audit was to assist the District Attorney General in his inquiry.

In January 2005, the internal audit division of the Memphis City School System initiated a special investigation that eventually identified hundreds of unaccounted for electric motors purchased from one vendor. Their investigation revealed a significant number of questionable invoices from that vendor authorized primarily by one school system employee. The internal audit division referred this matter to the Division of Municipal Audit for further investigation.

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Mr. John G. Morgan  
Comptroller of the Treasury  
September 7, 2007

If after your review, you have any questions, I will be happy to supply any additional information which you may request.

Sincerely,

A handwritten signature in black ink, appearing to read "Dennis F. Dycus". The signature is fluid and cursive, with a large initial "D" and "F".

Dennis F. Dycus, CPA, CFE, Director  
Division of Municipal Audit

**INVESTIGATIVE AUDIT OF SELECTED RECORDS OF THE  
MEMPHIS CITY SCHOOLS – FACILITIES MAINTENANCE DIVISION  
FOR THE PERIOD JANUARY 1, 2003, THROUGH JUNE 30, 2005**

**LEGAL ISSUES**

1. **ISSUE:       Fraudulent billing and apparent kickback scheme**

Our investigative audit revealed that during the period January 2003 through December 2004, Mr. Clyde Green, of Green Motor Works, billed the school system at least \$420,000 for electric motors that were never delivered or installed into school buildings. Mr. Green acknowledged that he and Mr. Randle Taylor, a former facility maintenance supervisor, participated in a scheme in which the Memphis City School System was billed for electric motors that were never delivered. The proceeds from this arrangement were divided between Mr. Green and Mr. Taylor for their personal benefit. Mr. Taylor apparently assisted Mr. Green in this scheme by signing his name, other school system employee's names, or directing other school system employees to sign their names to the fraudulent invoices. In exchange for his assistance in defrauding the school system, Mr. Green acknowledged paying Mr. Taylor at least \$141,885 during this two-year period.

2. **ISSUE:       Falsified invoices**

Our investigative audit established that Mr. Green prepared fraudulent invoices for electric motors that were not needed and never delivered and submitted them to the Memphis City School System for payment. School facility maintenance technicians were assigned tasks pursuant to complaints about specific air conditioner units in the individual schools. Each air conditioner unit in each school had a unique number and the repair of that unit would have a unique work order number. Certain routine tasks that the facility maintenance technicians performed did not require the purchase and installation of an electric motor. For instance, a "change over" request required the technician to simply change the unit from heating to cooling, or vice versa. No motor was required for this procedure. Although an air conditioning unit may have required more than one electric motor, the motors were of different sizes. Once the facility maintenance technician had completed the repair, he remitted the work order to the facility maintenance supervisor to formally conclude that assignment.

Our investigative audit revealed that in order to authorize invoices for electric motors that were not needed and never delivered, Mr. Taylor apparently signed, or ordered some of his employees to sign, fraudulent invoices that:

- contained multiple electric motors of the same size for a single air conditioning unit
- were for the purchase of electric motors for tasks not requiring a new motor
- included multiple electric motors of the same size (as many as four) on one work order
- included electric motors for work orders that had already been completed

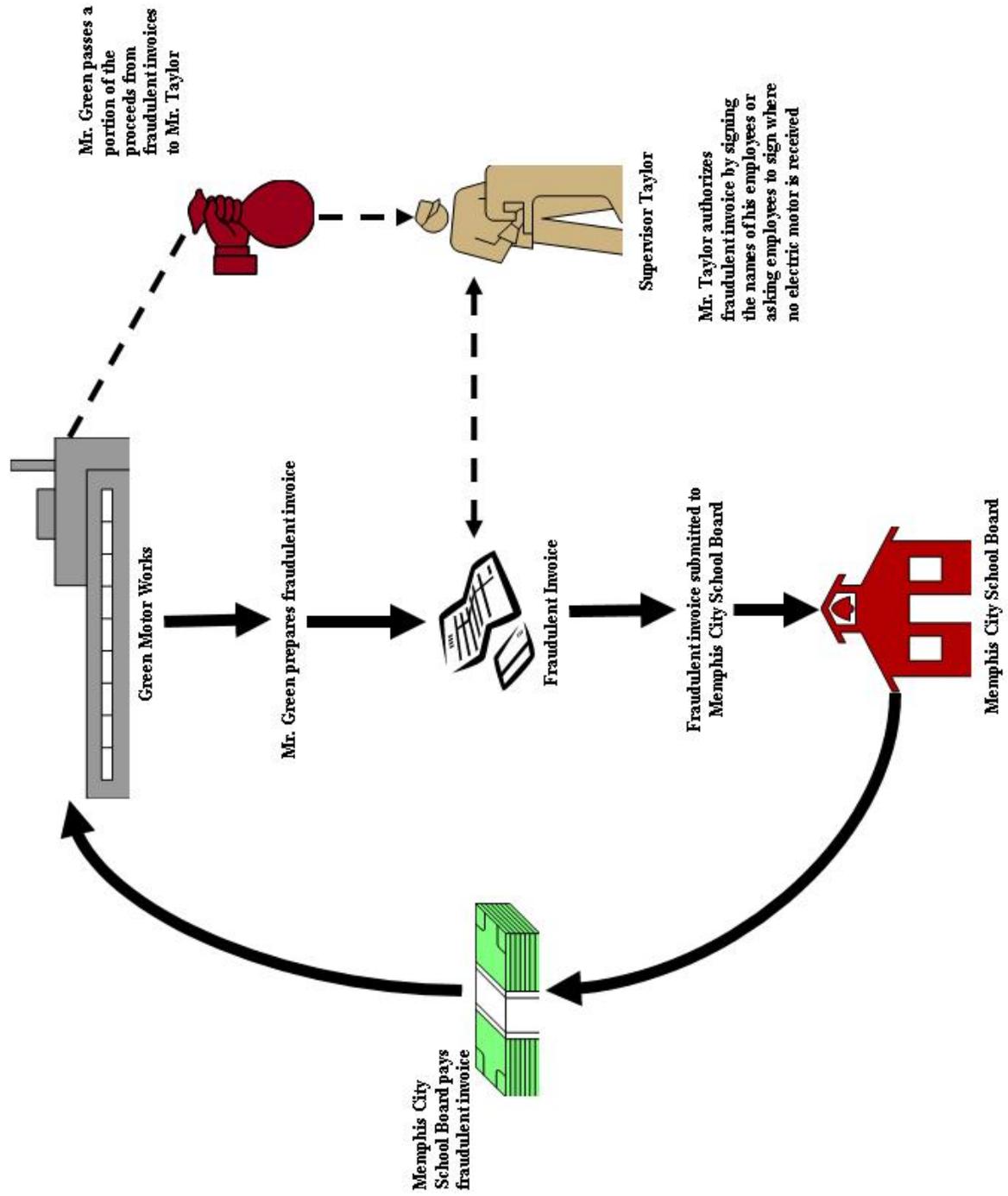
3. **ISSUE: Apparent forgeries**

Facility maintenance employees identified at least 1,300 invoices, totaling \$335,610, on which their names appeared, but they had not signed nor had they authorized anyone else to sign the invoices on their behalf. These apparent forgeries were on fraudulent invoices created by Mr. Green. Mr. Taylor acknowledged to internal auditors that he had signed the names of his employees on invoices. Mr. Taylor's writing on the fraudulent invoices made them appear authorized and advanced the fraudulent billing and kickback scheme.

This matter was referred to the local district attorney and the United States Attorney. Mr. Green and Mr. Taylor each pled guilty in federal court to federal mail fraud charges (Title 18, USC, §1341) causing losses to the Memphis City School System of approximately \$335,610.

## **EXHIBITS**

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**Green Electric Motor**  
**3759 Homewood Rd.**  
**Memphis, TN 38118**

**Invoice**

DATE	INVOICE #
11/30/2004	20672

Phone # (901) 368-0305

**BILL TO**  
**Memphis City Schools**  
**2597 Avery**  
**Memphis, Tn. 38112**

P.O. NO.	TERMS	DUE DATE	EMPL ID	PROJECT	JOB NO.
175036	Net 30	12/30/2004	57359	Rainshaven EL	362591

QUANTITY	DESCRIPTION	RATE	AMOUNT
1	New Electric Motor 1/4 hp blower motor	180.00	180.00

*Jra Simon*

Not authentic system employee signature

362591	HEAT**SWITCH FROM A/C TO HEAT	COMP	10/06/2004	RAINESHAVEN ELEMENTARY - Z4B
11/11/2004	57359	SIMMONS IRA	3.00	0.00
12/15/2004	57359	SIMMONS IRA	1.00	0.00
PO-> 175036	HVAC FIELD PURCHASE/T546	RANDY TAYLOR	STORS/TICKET#	11/30/2004
Line item ->	3 19161	MOTOR 1/4 HP 1/4" LOWER MOTOR OEM DIRECT DRIVE		180.00

Procedure did not require motor

Randy Taylor requested purchase order

Please Pay from this invoice **Total \$180.00**

**Green Electric Motor**  
**3759 Homewood Rd.**  
**Memphis, TN 38118**

**Invoice**

DATE	INVOICE #
12/8/2004	20709

Phone # (901) 368-0305

**BILL TO**  
**Memphis City Schools**  
**2597 Avery**  
**Memphis, Tn. 38112**

P.O. NO.	TERMS	DUE DATE	EMPL ID	PROJECT	JOB NO.
175444	Net 30	1/7/2005	M3147	Sherwood Elem	362602

QUANTITY	DESCRIPTION	RATE	AMOUNT
1	New Electric Motor 3/4 hp pump motor and bearing assembly	425.00	425.00

*Blake Carter*

Not authentic system employee signature

362602

HEAT**SWITCH FROM A/C TO HEAT	COMP	10/06/2004	SHERWOOD ELEMENTARY - Z3B
12/2/2004 M3147 MARTIN, BLAKE	3.00	0.00	
12/2/2004 M3147 MARTIN, BLAKE	3.00	0.00	
11/10/2004 S7136 SCOTT, BRYAN	2.00	0.00	

PO 175444	FIELD PURCHASE/T548	RANDY TAYLOR/PUMPS/TICKET#	12/08/2004
Line item ->	2 11461	PUMP MOTOR	425.00

Procedure did not require motor

Technician time was never charged to install motor

Randy Taylor requested purchase order

Please Pay from this invoice	Total	\$425.00
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