

# **STATE OF TENNESSEE**

**SPECIAL REPORT ON THE  
FAYETTE COUNTY SCHOOL FOOD  
SERVICE DEPARTMENT**

**FOR THE PERIOD JULY 1, 2007  
THROUGH DECEMBER 15, 2009**



**Division of County Audit**



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**SPECIAL REPORT ON THE  
FAYETTE COUNTY SCHOOL FOOD SERVICE DEPARTMENT  
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STATE OF TENNESSEE  
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April 27, 2010

To the Fayette County Interim Director of Schools, Board of Education,  
County Mayor, and Board of County Commissioners  
Fayette County, Tennessee

This office received allegations concerning unauthorized payments to a pest control vendor and kickbacks paid to the Food Service Supervisor of the Fayette County School Food Service Department (Food Service Department). Our office conducted a special investigation with the assistance of the Tennessee Bureau of Investigation (TBI) of the Food Service Department for the period July 1, 2007 through December 15, 2009. This investigation included a review of pest control bids, contracts, invoices, certain personal bank statements, time sheets, and interviews. We also reviewed the policies and procedures of the School Department and its Food Service Department.

We reviewed the findings resulting from this special investigation with the interim director of schools, the chairman of the board of education, the county mayor, and the district attorney general. These findings, together with our recommendations, and the response of the interim director of schools are presented in this report.

Sincerely,

A handwritten signature in black ink that reads "Jim Arnette".

Jim Arnette, Director  
Division of County Audit

cc: Honorable Mike Dunavant, District Attorney General  
Mr. Terry Dycus, Assistant District Attorney  
Twenty-Fifth Judicial District

Ms. Kathy Booker, Pesticide Administration  
Tennessee Department of Agriculture

**SPECIAL REPORT ON THE FAYETTE COUNTY  
SCHOOL FOOD SERVICE DEPARTMENT**  
**For the Period July 1, 2007 through December 15, 2009**

This office received allegations concerning unauthorized payments to a pest control vendor and kickbacks paid to the Food Service Supervisor of the Fayette County School Food Service Department (Food Service Department). Our office conducted a special investigation with the assistance of the Tennessee Bureau of Investigation (TBI) of the Food Service Department for the period July 1, 2007 through December 15, 2009. This investigation included a review of pest control bids, contracts, invoices, certain personal bank statements, time sheets, and interviews. We also reviewed the policies and procedures of the School Department and its Food Service Department.

This investigation concluded that a cash shortage of \$177,629.93 existed in the Food Service Department at December 15, 2009.

**BACKGROUND SECTION**

Purchasing procedures for the Fayette County School Department are governed by purchasing laws applicable to schools as set forth in Section 49-2-203, Tennessee Code Annotated, which provides for the county Board of Education, through its executive committee (director of schools and chairman of the Board of Education), to make all purchases. This statute also requires competitive bids to be solicited through newspaper advertisement on all purchases exceeding \$10,000.

The School Department's purchasing procedures (except for the Food Service Department) requires the issuance of purchase orders, approval of the purchase orders by the director of schools, and invoices processed and paid by the accounting office. The purchasing procedures of the Food Service Department requires the issuance of purchase orders, approval of these purchase orders by the director of schools, and invoices processed and paid by the Food Service Department.

The Food Service Department operates a centralized cafeteria system, maintains its own accounting records (except for payroll), and accounts for its operations in the Central Cafeteria Fund. The payroll for the Food Service Department is processed and paid by the School Department's accounting office. School cafeteria managers report all hours worked by their employees on time sheets. These time sheets are signed by the employees and approved by the school principal. The time sheets are then submitted to Ms. Joyce Owen, School Food Service Supervisor, for her approval and are subsequently forwarded to the accounting office for processing.

Findings and recommendations, as a result of our investigation, are presented below. We reviewed these findings and recommendations with the interim director of schools, the chairman of the board of education, the county mayor, and the district attorney general. The written response of the interim director of schools is included in this report.

**FINDING 10.01****THE FOOD SERVICE SUPERVISOR CIRCUMVENTED PURCHASING PROCEDURES RESULTING IN A CASH SHORTAGE OF \$142,433**

The Fayette County Food Service Department annually awards bids for pest control services; which include monthly inspections of the school system's ten cafeterias. For the fiscal year July 1, 2007 through June 30, 2008, Alliance Pest Control Company was awarded the bid for the Food Service Department at a cost of \$600 per month. However, according to the Tennessee Department of Agriculture, Alliance Pest Control did not have the proper license to perform pest control services.

For the fiscal years ended June 30, 2009, and June 30, 2010, Cook's Pest Control Company was awarded the bid for pest control services for the Fayette County Food Service Department. During the period under examination, Cook's Pest Control Company was paid \$450 per month. However, the Food Service Supervisor continued to make disbursements to Alliance Pest Control and/or Environmental Technologies.

For the period July 1, 2007 to December 4, 2009, the Food Service Supervisor, Ms. Joyce Owen, made 70 disbursements totaling \$149,633 to Mr. Arnett Montague, Sr., owner of both Alliance Pest Control Company and Environmental Technologies. As previously noted, Alliance Pest Control was awarded a bid to provide pest control services for the 2007-08 year for \$7,200; therefore, we question the additional payments to Mr. Montague totaling \$142,433 (\$149,633 less \$7,200). These payments were disbursed from the Central Cafeteria Fund which includes federal grant monies targeted for school breakfast and national school lunch programs. Based upon our examination of invoices, many of these disbursements appeared to be double-billed, either for services previously invoiced or double-billed between Mr. Montague's two companies. Several invoices included descriptions of pest control services unrelated to school cafeteria operations such as football and baseball fields at various school locations as well as other non-cafeteria school locations. Some of the invoices also included charges for training and education. We could not determine if work was performed for any of the services invoiced. As previously noted, according to the Tennessee Department of Agriculture, Alliance Pest Control Company did not have the proper license to perform pest control services, and Environmental Technologies did not obtain a license to perform pest control services commercially until November 19, 2009. The questioned disbursements for the period under examination are as follows:

| Payee                      | 2007-08          | 2008-09          | 2009-10          | Total             |
|----------------------------|------------------|------------------|------------------|-------------------|
| Alliance Pest Control      | \$ 17,800        | \$ 37,715        | \$ 28,758        | \$ 84,273         |
| Environmental Technologies | 0                | 6,200            | 43,460           | 49,660            |
| Mr. Arnett Montague, Sr.   | 0                | 0                | 8,500            | 8,500             |
| <b>Total</b>               | <b>\$ 17,800</b> | <b>\$ 43,915</b> | <b>\$ 80,718</b> | <b>\$ 142,433</b> |

None of the questioned disbursements were channeled through the normal disbursement approval process. Purchase orders were not issued, and the approval of the director of

schools was not obtained. Ms. Owen would direct her bookkeeper to prepare a warrant for Mr. Montague or one of his companies from an invoice faxed by him to her office. The warrants would be prepared for payment on the same day the invoices were faxed. We were advised by food service personnel that the processed warrants were usually given to Mr. Montague by Ms. Owen at the food service office or Ms. Owen would personally deliver the warrants to Mr. Montague. It should be noted that the processing of vendor warrants at the Food Service Department routinely takes place once a month. However, the payments to Mr. Montague were the only vendor payments made the same day invoices were received.

To investigate the alleged kickback scheme, an examination of Mr. Montague's and Ms. Owen's personal bank accounts was performed. Table 1 reflects several instances from February 2008 through September 2009, where Mr. Montague received warrants payable to himself, Alliance Pest Control, or Environmental Technologies. These warrants were cashed at Somerville Bank & Trust where he did not have an account. On the same day these warrants were cashed, Ms. Owen's personal bank account would reflect a deposit of cash into her account. Officials at the Somerville Bank & Trust advised that they became suspicious about cashing these types of warrants and subsequently refused to cash any more of them. Table 2 reflects that Mr. Montague deposited several warrants into his bank account at First South Credit Union and received cash back from the deposits. On the same day of these transactions, Ms. Owen's personal bank account would also reflect a deposit of cash.

Table 1

| Payee                      | Warrant Amount   | Date Mr. Montague Cashed the Warrant | Cash Deposited into Ms. Owen's Account | Date of Ms. Owen's Cash Deposit |
|----------------------------|------------------|--------------------------------------|--|---------------------------------|
| Alliance Pest Control      | \$ 900           | 2-28-08                              | \$ 350                                 | 2-28-08                         |
| "                          | 1,250            | 2-6-09                               | 400                                    | 2-6-09                          |
| "                          | 300              | 2-10-09                              | 100                                    | 2-10-09                         |
| "                          | 4,600            | 4-1-09                               | 100                                    | 4-1-09                          |
| "                          | 1,175            | 5-5-09                               | 150                                    | 5-5-09                          |
| Environmental Technologies | 3,000            | 6-16-09                              | 300                                    | 6-16-09                         |
| "                          | 1,850            | 9-8-09                               | 300                                    | 9-8-09                          |
| "                          | 3,100            | 9-15-09                              | 610                                    | 9-15-09                         |
| "                          | 2,150            | 9-21-09                              | 2,300                                  | 9-21-09 (1)                     |
| Mr. Montague               | 1,000            | 9-21-09                              | (1)                                    | (1)                             |
| Environmental Technologies | <u>7,000</u>     | 9-28-09                              | <u>1,850</u>                           | 9-28-09                         |
| Total                      | <u>\$ 26,325</u> |                                      | <u>\$ 6,460</u>                        |                                 |

(1) two warrants totaling \$3,150 were issued on 9-21-09 for pest control services, and one deposit totaling \$2,300 was noted in Ms. Owen's account on 9-21-09.

Table 2

| Payee                      | Warrant Amount          | Date Deposited<br>Mr. Montague<br>Deposited<br>the<br>Warrant | Amount<br>of Cash<br>Received<br>From<br>Deposit | Cash<br>Deposited<br>into<br>Ms. Owen's<br>Account | Date<br>of<br>Ms. Owen's<br>Cash<br>Deposit |
|----------------------------|-------------------------|---|--|--|---|
| Alliance Pest Control      | \$ 750                  | 3-23-09   | \$ 400   | \$ 300   | 3-23-09                                     |
| "                          | 5,990                   | 9-1-09  | 2,811  | 2,000  | 9-1-09                                      |
| "                          | 1,000                   | 9-22-09   | 400  | 400  | 9-22-09                                     |
| Environmental Technologies | 3,500                   | 10-26-09  | 3,500  | 3,900  | 10-26-09 (1)                                |
| Mr. Montague               | 6,000                   | 10-26-09  | 0  | (1)  | (1)   |
| Environmental Technologies | 660                     | 11-12-09  | 460  | 330  | 11-12-09                                    |
| "                          | <u>4,700</u>            | <u>12-1-09</u>  | <u>4,000</u>                                     | <u>3,640</u>                                       | <u>12-1-09</u>                              |
| Total                      | <u><u>\$ 22,600</u></u> |   | <u><u>\$ 11,571</u></u>                          | <u><u>\$ 10,570</u></u>                            |   |

(1) two warrants totaling \$9,500 were issued on 10-26-09 for pest control services, and one deposit totaling \$3,900 was deposited into Ms. Owen's account on 10-26-09.

One of our objectives was to determine whether any relationships existed between the dates that deposits were made in cash as reflected in Ms. Owen's bank accounts to the dates warrants were cashed or deposited by Mr. Montague. Our conclusion is that there is a relationship between the 18 warrants cashed and/or deposited between the two individuals as noted in Tables 1 and 2 above. However, we cannot determine whether any relationships existed with the other warrants issued to Mr. Montague by the Food Service Department.

#### RECOMMENDATION

Officials should take immediate steps to collect the \$142,433 cash shortage. Purchasing procedures for the School Food Service Department should be consistent with the purchasing procedures for the entire School Department. Purchase orders should be issued for all purchases, and all purchase orders should be approved by the director of schools. The accounting for the Food Service Department should be processed by the School Department's accounting office. If the accounting remains in the Food Service Department, at a minimum, warrants generated by the Food Service Department, accompanied by the original invoice, should be forwarded to the accounting office to be reviewed, signed, and mailed by personnel independent of the Food Service Department.

**FINDING 10.02****THE FOOD SERVICE SUPERVISOR ALTERED TIME SHEETS  
OF A PART-TIME CAFETERIA WORKER RESULTING IN A  
CASH SHORTAGE OF \$35,196.93**

Ms. Joyce Owen is the Fayette County Food Service Supervisor. During an examination of her bank account, we noticed that funds had been received by Ms. Owen from Ms. Jerlene Jones, a retired Fayette County school cafeteria manager. From July 1, 2007 through December 15, 2009, Ms. Jones received \$35,196.93 for part-time cafeteria work at two schools in the county. The cafeteria managers at these two schools maintained time and attendance sheets listing all cafeteria workers. These time and attendance sheets are signed by the employee and approved by the principal before being submitted by the cafeteria managers to Ms. Owen for approval. We examined all 62 time sheets containing hours for Ms. Jones on file at the accounting office for the period July 1, 2007 through December 15, 2009, and compared them with copies retained by the cafeteria managers (cafeteria managers were unable to locate 13 of the 62 timesheets). All of the 49 corresponding time sheets examined contained changes made by Ms. Owen increasing the number of hours worked by Ms. Jones. In most instances, time sheets retained by the cafeteria managers did not contain any time worked for Ms. Jones. Ms. Owen admitted to us that she "made-up" time for Ms. Jones and added Ms. Jones to the time sheets submitted by the cafeteria managers. Also, Ms. Jones admitted she had not signed any of the time sheets submitted by the cafeteria managers. Ms. Owen signed Ms. Jones' name to the time sheets and placed her initials (JO) as an acknowledgement of the signature. As a result of actions related to Ms. Jones' payroll, we examined Ms. Jones' bank records. Our examination of Ms. Jones' bank account revealed 26 checks totaling \$4,128 were written to Ms. Owen from Ms. Jones' bank account. Due to Ms. Owen's admission that she falsely reported time for Ms. Jones and due to the payments made by Ms. Jones to Ms. Owen, we question the entire payroll amount of \$35,196.93 paid to Ms. Jones.

**RECOMMENDATION**

Officials should take immediate steps to collect the \$35,196.93 cash shortage. Any adjustments to the time and attendance sheets submitted by the cafeteria managers should be documented and communicated to the cafeteria managers for their approval.

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**MANAGEMENT'S RESPONSE TO THE FINDINGS – INTERIM DIRECTOR OF SCHOOLS LOUISE HOLLOWAY**

As interim director of schools for the Fayette County Board of Education in response to the investigative findings and recommendations for the period July 1, 2007 through December 15, 2009, this is to confirm that the Fayette County Board of Education acknowledges the findings of the local government audit team and its investigators. In an effort to address the deficiencies detailed in the special report, the following procedures have been initiated for compliance in this matter:

1. Contact has been made with insurance vendors (Tennessee Risk Management Trust and Tennessee School Board Association) to determine the availability of insurance coverage related to the recovery of all sums adjudged improperly paid by the food service supervisor to Alliance Pest

Control, Environmental Technologies, and Arnett Montague, Sr., and in addition thereto, the recovery of all payments made to cafeteria workers based upon improperly altered time sheets.

2. Contact has been made with the local school board attorney to investigate and initiate recovery proceedings for any portion of the above referenced sums which are not covered by applicable contracts of insurance.
  3. Purchasing procedures are being handled as recommended in your report. The director of schools is reviewing and signing all purchase orders. Invoices are reviewed and attached to warrants. Warrants are generated by the Food Service Department at this time. Beginning with the 2010-11 school year and beyond, the director of schools is recommending to the Board of Education that the Food Service Department's purchasing process and warrants be issued through the Business Office as all other departments of the Fayette County Schools.
  4. Adjustments to time and attendance sheets by cafeteria workers shall be documented and communicated to the cafeteria managers for their approval.
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On March 22, 2010, Ms. Joyce Owen, Mr. Arnett Montague, Sr., and Ms. Jerlene Jones were indicted by the Fayette County Grand Jury on the following charges:

Arnett Montague, Sr. (Count 1,5,6,7)  
Anita Joyce Owen (Count 1,2,4,8)  
Jerlene Jones (Count 3,4)

Indictment for:

1. Theft (\$60,000 or more)
2. Theft (\$10,000 - \$60,000)
3. Theft (\$10,000 - \$60,000)
4. Theft (\$10,000 - \$60,000)
5. Impersonation of a licensed professional
6. Pest control activities without license
7. Violation of business charter requirement
8. Official misconduct

On March 24, 2010, Ms. Joyce Owen resigned from the Fayette County School Department.