



COMPTROLLER'S INVESTIGATIVE REPORT

Phases, Inc.

November 8, 2021

Jason E. Mumpower
Comptroller of the Treasury



DIVISION OF INVESTIGATIONS



JASON E. MUMPOWER
Comptroller

November 8, 2021

Tennessee Department of Mental Health and Substance Abuse Services
Commissioner Marie Williams
500 Deadrick Street
Nashville, TN 37243

Commissioner Williams:

The Office of the Comptroller of the Treasury conducted an investigation of selected records of Phases, Inc., and the results are presented herein.

Copies of this report are being forwarded to Governor Bill Lee, the State Attorney General, the District Attorney General of the 20th Judicial District, certain state legislators, and various other interested parties. A copy of the report is available for public inspection in our Office and may be viewed at <http://www.comptroller.tn.gov/ia/>.

Sincerely,

A handwritten signature in blue ink, appearing to read "Jason E. Mumpower", with a long horizontal line extending to the right.

Jason E. Mumpower
Comptroller of the Treasury

JEM/MLC

INVESTIGATIVE REPORT

PHASES, INC.

The Office of the Comptroller of the Treasury investigated allegations of malfeasance related to Phases, Inc. The investigation was initiated after officials with the Tennessee Department of Mental Health and Substance Abuse Services (MHSAS) reported questionable actions by Phases, Inc.'s former director. The investigation was limited to selected records for the 2017 and 2018 MHSAS Addiction Recovery Program grants received by Phases, Inc. The results of the investigation were communicated with the Office of the District Attorney General of the 20th Judicial District.

BACKGROUND

Phases, Inc. was a non-profit organization located in Nashville, Tennessee that offered transitional housing and support for women in recovery from drug and alcohol addiction. Phases, Inc. was founded in the 1990s, but its governance and management changed hands in 2017. At that time, Phases, Inc.'s founder retired, and a former client, Julia Armstrong, took over its operations and finances. As a recipient of grant funds to support addiction recovery services, Phases, Inc. was subject to site visits from MHSAS. MHSAS personnel attempted to schedule a site visit in 2018, but they discovered that Phases, Inc.'s phone had been disconnected, its location had been vacated, and no records of any services could be located.



RESULTS OF INVESTIGATION


1. PHASES, INC. DIRECTOR JULIA ARMSTRONG MISAPPROPRIATED MHSAS GRANT FUNDS TOTALING AT LEAST \$6,260

Between April 28, 2017, and June 1, 2018, Phases, Inc. Director Julia Armstrong made at least 135 entries into MHSAS's grant software claiming reimbursement for services that Phases, Inc. did not provide. Investigators concluded that neither Armstrong nor Phases, Inc. could have provided the services that Armstrong claimed in those entries because five of the clients supposedly served were incarcerated during some or all of the dates she entered into the software as having served them. For example, in April 2018, Phases, Inc. claimed to serve a client while the client was incarcerated (**Refer to Exhibit 1**).

Exhibit 1

Agency Name	Payor Group	Unique Client Number	Service Start Date
Phases, Inc.	ARP	[REDACTED] 0496	[REDACTED]
			4/27/2018
			4/25/2018
			4/23/2018
			4/20/2018
			4/18/2018
			4/17/2018
			4/16/2018
			4/15/2018
			4/12/2018
			4/11/2018
			4/10/2018
			4/9/2018
			4/8/2018
			4/6/2018
4/4/2018			
4/3/2018			
4/2/2018			

Dates in April 2018 Phases, Inc. Client ***0496 was supposedly served by Phases, Inc. per Armstrong's entries.**



Confinements						
Booking ID	Confinement Date	Confinement Time	Confinement Reason	Release Date	Release Time	Release Reason
[REDACTED]	09/29/2017	15:06	5	12/20/2018	17:56	10

Phases, Inc. Client***0496's incarceration history in a Tennessee county's jail from September 2017 to December 2018.**

Example of Armstrong claiming to have served a client who was actually incarcerated at the time and could not have been served by Phases, Inc.

Summary of Misappropriation via False Entries Made by Armstrong from 2017-2018	Number of False Entries	Amount
Client *****0496	118	\$3,070
Client *****8163	6	910
Client *****7003	5	305
Client *****0888	3	700
Client *****0836	3	<u>1,275</u>
Entries for services not performed	135	\$6,260

2. ARMSTRONG SIGNED A CONTRACT WITH MHSAS CONTAINING INFORMATION SHE KNEW TO BE MATERIALLY FALSE

The final grant contract between MHSAS and Phases, Inc. was signed by Armstrong in June 2017 for the following year. That document listed a different person as Phases, Inc.’s director than the prior year’s contract did, and that person was not Armstrong. Investigators located that person and determined that she was a former client of Phases, Inc. who had not had any affiliation with Phases, Inc. in several years. She did not give Armstrong permission to use her name on the grant contract or on any other documents. Armstrong was aware of this materially incorrect information when she signed the grant contract, and it gave the appearance that there was additional oversight at Phases, Inc. besides just Armstrong. In fact, Armstrong was the only person in control at Phases, Inc., and there was no additional oversight.

3. INVESTIGATORS IDENTIFIED QUESTIONABLE DISBURSEMENTS FROM PHASES, INC.’S ACCOUNT OF AT LEAST \$4,645

Investigators identified over 100 questionable disbursements of Phases, Inc.’s funds totaling at least \$4,645.85 from the time that Armstrong took over Phases, Inc.’s operations and finances until its bank account was closed. Those included cash withdrawals and purchases made at liquor stores, lottery stores, tobacco stores, restaurants, car washes, and retail stores. Many purchases were observed as having been made in Kentucky and Florida. Armstrong was the only person known to have had control over the account after she assumed control of Phases, Inc. (Refer to Exhibit 2).

Exhibit 2

04/19	12.21	CHECK CARD PURCHASE TR DATE 04/17 NASHVILLE DAILY SPIRIT NASHVILLE TN
04/19	9.82	CHECK CARD PURCHASE TR DATE 04/18 UBER TRIP CW6S2 8005928996 CA
04/19	3.00	CHECK CARD PURCHASE TR DATE 04/18 UBER TRIP CW6S2 8005928996 CA
04/19	14.21	CHECK CARD PURCHASE TR DATE 04/18 UBER TRIP KOU6Q 8005928996 CA
04/19	63.00	ATM CASH WITHDRAWAL TR DATE 04/18 LOTTO LAND -131698 FRANKLIN KYP131698
04/19	20.01	CHECK CARD PURCHASE TR DATE 04/18 BP#8490252I-65 BP QPS FRANKLIN KY
04/19	114.62	POINT OF SALE DEBIT TR DATE 04/19 PUBLIX SUPER M NASHVILLE TNP1116105
04/19	3.00	ATM CASH WITHDRAWAL FEE
04/20	8.61	CHECK CARD PURCHASE TR DATE 04/18 MCDONALD'S F10050 NASHVILLE TN
04/20	10.00	CHECK CARD PURCHASE TR DATE 04/19 MISTER CAR WASH #84QPS NASHVILLE TN

Portion of Phases, Inc.’s April 2018 bank statement showing a purchase at a liquor store in Nashville and a cash withdrawal at a lottery store in Kentucky

Phases, Inc. was administratively dissolved by the Tennessee Secretary of State in April 2018. Its bank account was administratively closed with an overdrawn balance in December 2018. As of the release date of this report, Phases, Inc. has not resumed operations. While Armstrong was required

to maintain certain records for five years per the 2018 grant contract that she signed with MHSAS, no such records could be located, and she did not respond to investigators' attempts to speak with her.

On October 28, 2021, the Davidson County Grand Jury indicted Julia Armstrong on one count of Forgery of \$10,000 or more but less than \$60,000, one count of Theft of \$2,500 or more but less than \$10,000, and one count of Computer Theft by Fraud of \$2,500 or more but less than \$10,000.

The charges and allegations contained in the indictment are merely accusations of criminal conduct, and not evidence. The defendant is presumed innocent unless and until proven guilty beyond a reasonable doubt and convicted through due process of law.

[Phases Inc. Investigative Exhibit](#)

INTERNAL CONTROL AND COMPLIANCE DEFICIENCIES

The investigation revealed deficiencies in internal controls and compliance, some of which enabled Armstrong to perpetuate her scheme without prompt detection. These deficiencies included:

Deficiency 1: MHSAS officials failed to identify mutually exclusive claims in its grant software system

MHSAS's grant tracking software, the Tennessee Web Information Technology System (TN-WITS) assigned each client served an identifying number for users like Phases, Inc. to use when claiming services for reimbursement. On at least 10 occasions in 2018, Phases, Inc. was paid for services it supposedly provided to a client who was incarcerated. On those 10 occasions, the client was actually being served at a county jail by another grant recipient that had a contract to provide addiction recovery services to incarcerated persons. Records from both the jail and the contracted provider affirm that the client was served at the jail on those dates. Incarcerated persons are physically unable to be served by entities outside of their place of incarceration. MHSAS reimbursed both Phases, Inc. and the other provider for services claimed on the same date. MHSAS should take steps to flag and review instances of potentially mutually exclusive conflicts between its grant recipients.

Deficiency 2: MHSAS officials failed to verify changes in Phases, Inc.'s leadership that were listed in a grant contract

The final grant contract between MHSAS and Phases, Inc. contained a change for the listed director of Phases, Inc. The person who had long been listed in that role was no longer listed, and also was not the signer on the grant contract. Investigators determined that the name listed as the director was false, and that Armstrong was the only person with oversight over Phases, Inc.'s operations and finances. MHSAS should take steps to verify changes in significant positions in management and governance at its grant recipients to ensure that adequate oversight is in place when changes occur.

MHSAS officials indicated that they have corrected or will correct these deficiencies.
