STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DIVISION OF INVESTIGATIONS

Justin P. Wilson
Comptroller of the Treasury

JAMES K. POLK STATE OFFICE BUILDING, SUITE 1600
505 DEADERICK STREET
NASHVILLE, TENNESSEE 37243-1402
PHONE (615) 401-7907
FAX (615) 532-4499

February 7, 2013

Members of the Board of Commissioners
Northeast Henry County Utility District
11 Rice Road
Springville, TN 38256

Board of Commissioners:

The Comptroller's Division of Investigations conducted an investigative audit of selected records and operations of the Northeast Henry County Utility District. The investigation focused on the period July 1, 2010, through June 30, 2011; however, when warranted, this scope was expanded. The investigative audit revealed the following:

- The district manager failed to obtain required state approval and permits prior to extending the water distribution lines.
- The district manager failed to comply with the approved water line extension policy, resulting in incorrect billings.
- District personnel and equipment were used to install water line trenches on private property, indirectly benefiting a district commissioner.
- District commissioners failed to authorize a comprehensive purchasing policy.
- District commissioners failed to provide adequate oversight of water line extensions.

INVESTIGATIVE FINDINGS

1. **FINDING:** **Required state approval and permits not obtained**

Our investigative audit revealed that the district installed one booster pump and four extensions[1] to the water distribution system without obtaining the required approval and permits from the Division of Water Supply of the Tennessee Department of Environment and Conservation. Section 68-221-706, *Tennessee Code Annotated*, states in part, "No new construction shall be done nor shall any change be made in any public water system

[1]The extensions totaled 2,530 feet.

until the plans for such new construction or change have been submitted and approved by the department." Section 68-221-713, *Tennessee Code Annotated*, identifies violations of this requirement as a Class C misdemeanor and provides for the assessment of civil penalties for violations of this requirement.

2. **FINDING:** **Manager did not comply with district's extension policy**

The district manager failed to comply with the district's extension policy when billing for all of the extensions mentioned above. As a result, three customers were billed a total of more than $1,380 in excess of authorized amounts, and one customer was billed more than $1,300 less than the authorized amount.

3. **FINDING:** **Installation work by district indirectly benefited commissioner**

Our investigative audit also revealed that after installing three meters for a new customer, district personnel used district equipment to dig three trenches[2] for water service lines on that customer's private property. While digging these trenches, the district employees accidently cut the customer's underground sewer line and repaired the damage at an additional expense to the district. Prior to the installation of the meters, the customer hired one of the district's commissioners, a local contractor, to connect the meters to the respective houses. Excavation of the trenches by district employees spared the commissioner the time and expense of performing this work before installing the water lines. It should be noted that the commissioner included this cost in his project bid price to the customer and the customer paid that original bid price.

Section 7-82-403, *Tennessee Code Annotated*, requires the board of commissioners to collect reasonable rates to provide for the operation and maintenance of the system. It is the board of commissioners' responsibility to ensure that district staff uses ratepayer funds prudently. Auditors could not determine a benefit to the district derived from employees performing work on private property. In addition, since this work resulted in a commissioner's apparent personal benefit, it creates an appearance of impropriety.

INTERNAL CONTROL AND COMPLIANCE DEFICIENCIES

While performing the investigative audit, additional internal control and compliance deficiencies came to our attention:

- The district had not adopted a comprehensive purchasing policy[3], as required by Section 7-82-801, *Tennessee Code Annotated*.

[2]The trenches totaled 323 feet.
[3]The district board adopted a purchasing policy on October 31, 2011, subsequent to the initiation of the investigation.

- The district's board of commissioners did not provide adequate oversight to ensure required approvals and permits from the Tennessee Department of Environment and Conservation were obtained prior to construction of line extensions.

Management should take immediate steps to correct these deficiencies. If you have any questions concerning the above matter, please contact me.

Sincerely,

L. Rene Brison

L. Rene Brison, CPA, CFE, Assistant Director
Division of Investigations

LRB/RAD

xc: Division of Water Supply
State Attorney General