

# **INVESTIGATIVE AUDIT REPORT**

## **SNEEDVILLE UTILITY DISTRICT**

**JULY 1, 2010, THROUGH SEPTEMBER 30, 2011**



# **State of Tennessee**

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



**STATE OF TENNESSEE  
COMPTROLLER OF THE TREASURY  
DIVISION OF INVESTIGATIONS**

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March 13, 2013

Members of the Board of Commissioners  
Sneedville Utility District  
P. O. Box 255  
Sneedville, TN 37869

Gentlemen:

The Division of Investigations conducted an investigative audit of selected records of the Sneedville Utility District which focused on the period July 1, 2010, through September 30, 2011. However, when warranted, this scope was expanded.

Presented in this report are the findings resulting from this investigative audit. Copies of this report are being forwarded to Governor Bill Haslam, 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 and may be viewed at <http://www.comptroller.tn.gov/ia/>.

Sincerely,

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

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**INVESTIGATIVE AUDIT OF SELECTED RECORDS OF THE  
SNEEDVILLE UTILITY DISTRICT  
FOR THE PERIOD JULY 1, 2010, THROUGH SEPTEMBER 30, 2011**

**CASE SUMMARY**

The Comptroller's Division of Investigations performed an investigative audit of selected records of the Sneedville Utility District. The investigation focused primarily on the period July 1, 2010, through September 30, 2011; however, when warranted, the scope was expanded. The investigation revealed the following:

- Former Sneedville Utility District manager Connie Mitchell misappropriated district cash totaling at least \$7,445.
- The former manager used district funds to pay premiums totaling \$19,563 for unauthorized health insurance coverage for herself and family members.
- District officials failed to require and ensure discontinuance of water service for certain select customers with delinquent accounts.
- Officials did not ensure that cash collections were deposited promptly and intact, that daily collections reports were prepared, and that some district obligations were paid in a timely manner.
- The board of commissioners failed to provide adequate oversight of the former manager's time and attendance, and failed to authorize a policy for district-provided cell phones.

**INVESTIGATIVE FINDINGS**

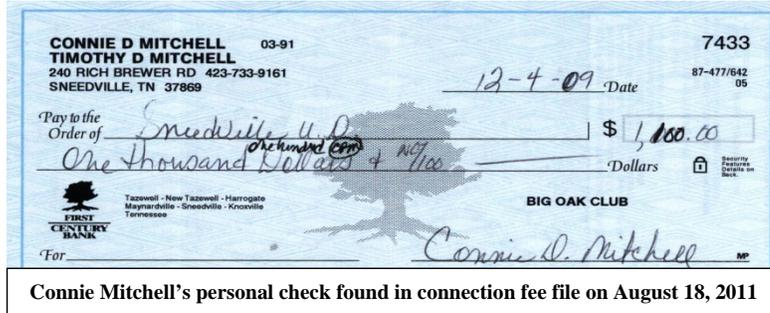
A schedule summarizing the misappropriation by the former manager, and the investigative findings resulting from this audit, are shown below. These matters were referred to the local district attorney general. In February 2013, the Hancock County Grand Jury indicted the former Sneedville Utility District manager, Connie Mitchell, on one count of theft over \$1,000.

**Summary Schedule of Amounts Misappropriated by Former Manager**

Method	Amount
Collections taken by former manager documented with "IOUs" or personal checks she never transacted	\$ 1,980
Recorded collections not deposited or accounted for	3,750
Shortage in cash drawer	1,715
Premiums for unauthorized insurance coverage	<u>19,563</u>
Total	<u>\$27,008</u>

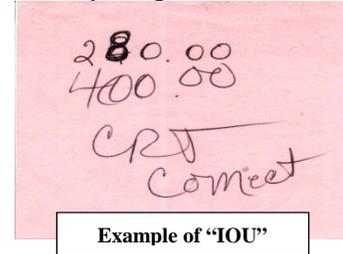
1. **FINDING:** Former manager misappropriated \$1,980 by removing district cash collections for her personal benefit in exchange for IOUs and personal checks she never transacted

The investigative audit revealed that beginning at least in December 2009 and continuing through August 2011, the former manager, Connie Mitchell, without authority, placed



personal checks or other “IOUs” in the district’s connection fee file, removing an equal amount of cash for her personal use. Ms. Mitchell’s personal checks, some of which were dated more than a year prior, were not

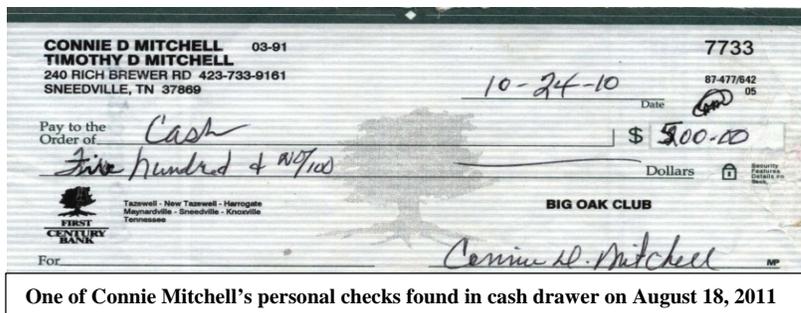
deposited into the district’s bank account, but remained in the cash drawer until they were discovered by Comptroller investigators. Ms. Mitchell told Comptroller investigators that she had been experiencing financial trouble and was just borrowing district funds. She acknowledged that she did not have the ability to repay those funds.



2. **FINDING:** Former manager misappropriated water meter deposits and service fees totaling at least \$3,750

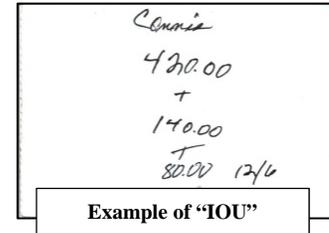
Comptroller investigators determined that at least \$3,750 in receipted water meter deposits and water service fees were never deposited into a district bank account and could not be accounted for. The investigation revealed that these missing collections were removed by former manager Connie Mitchell for her personal benefit. Meter deposits and service fees were collected continually during the year. At the instruction of the former manager, the cashier held the cash amounts on hand for long periods of time before depositing them into the district’s bank account.

3. **FINDING:** Former manager misappropriated \$1,715 cash received from customers for water bills



A surprise cash count performed by Comptroller investigators revealed a \$1,715 cash shortage in the district’s cash drawer. Comptroller investigators found that, similar to the scheme outlined in

Investigative Finding 1, former manager Connie Mitchell, placed personal checks or other “IOUs” in the district’s cash drawer, removing an equal amount of cash for her personal use<sup>1</sup>.



4. **FINDING:** Former manager issued district checks to pay premiums totaling \$19,563 for unauthorized health insurance coverage

Our investigative audit revealed that the former manager issued district checks to pay premiums totaling \$19,563 for unauthorized health insurance coverage for herself and family members. The district’s board of commissioners approved single coverage health insurance for district employees in September 2006. Comptroller investigators found that beginning in August 2008, the former manager upgraded her coverage to either “employee and spouse” or “family” coverage which continued until her insurance coverage was terminated in November 2011. The difference between the cost of the premiums for the coverage the former manager received and the coverage authorized by the district’s board of commissioners was \$19,563.

### **INTERNAL CONTROL AND COMPLIANCE DEFICIENCIES FINDINGS AND RECOMMENDATIONS**

Presented below are the findings and recommendations related to internal control and compliance deficiencies noted during the investigative audit that we believe warrant the attention of Sneedville Utility District officials. In the accompanying responses, management has indicated they have corrected or intend to correct each of these deficiencies.

1. **FINDING:** Failure to adequately segregate duties

District officials failed to ensure that employee responsibilities were adequately segregated; instead they allowed the former manager access and control over all aspects of financial transactions. The *Internal Control and Compliance Manual for Tennessee Utility Districts*, page 4, requires that an internal control system designed to minimize errors, fraud, and waste be established, including safeguards to prevent abuse of district property. It states:

... separate duties of employees so that no one person has control over a complete transaction from beginning to end. Work flow should be established so that one employee’s work is automatically verified by another employee working independently. When possible, different persons should be responsible for the authorization, recordkeeping (posting), custodial (cash and materials handling), and review procedures, to prevent manipulation of records and minimize the possibility of collusion.

<sup>1</sup> Comptroller investigators found untransacted personal checks and “IOUs” from Ms. Mitchell totaling \$1,638 in the district’s cash drawer, leaving an unexplained shortage of \$77.

**RECOMMENDATION:**

To help prevent errors and reduce the risk of fraud, waste, and abuse, management should ensure that no employee has complete control of a transaction from beginning to end.

**MANAGEMENT'S RESPONSE:**

**Members of the Board of Commissioners:**

We concur. Effective December 5, 2011, controls were put in place to ensure adequate segregation of duties. The person who writes checks no longer signs checks. Two signatures, a commissioner and a different office staff member, are required on each check. This staff member also opens the bank statements and reviews canceled checks and other transactions prior to reconciliation.

2. **FINDING: Failure to equitably enforce cutoff policy**

Comptroller investigators found that several district customers were allowed to carry large, overdue balances, including one residential customer whose account had accumulated a balance of almost \$2,000 over a 46-month period. Some of the customers were relatives of district officials and employees. Although district staff could not locate a board-approved cutoff policy, the district included the following statement on all customers' bills: "If bill remains unpaid after the 15<sup>th</sup> of the following month, service will be discontinued without further notice."

The *Internal Control and Compliance Manual for Tennessee Utility Districts*, page 43, requires district officials to ensure that

... if accounts remain unpaid on the district's cutoff date, service is discontinued in compliance with the district's written policy. (The cutoff policy should be adopted by the governing body, recorded in the minutes, and included in the district's policy manual.)

**RECOMMENDATION:**

To ensure that the district is compensated for all service provided, district officials should insist that the system's cutoff policy is strictly and consistently enforced.

**MANAGEMENT'S RESPONSE:**

**Members of the Board of Commissioners:**

We concur. Bills of all related parties have been paid in full. At this time, cutoff notices are sent to customers whose bills are two months or more in arrears. If a customer agrees to pay the current month's bill plus \$20 on the arrears, their service will not be discontinued as long as the customer complies with their agreement with the district. At

their next board meeting, the board of commissioners will update their policy that is stated on the customers' bills so that the district's cutoff policy is strictly and consistently enforced.

**Manager:**

Response is the same as that of the board of commissioners.

3. **FINDING: Collections not deposited promptly and intact**

Our investigative audit revealed that some collections were not deposited until more than 30 days after collection and not all collections were deposited intact (in the form and amount in which they were collected). In addition, district employees cashed personal checks through the district's cash drawer. The *Internal Control and Compliance Manual for Tennessee Utility Districts*, page 32, states that "District officials should ensure that ... collections are deposited intact. Intact means that collections are deposited in the form and amount in which they are collected. All money must be deposited in the next deposit. No collections should be withheld from the deposit for any reason."

**RECOMMENDATION:**

To help prevent the misuse, manipulation, or loss of collections, management should ensure that all collections are deposited intact within three working days into an official district bank account. Also, management should prohibit employees, officials, or customers from cashing checks through the district's cash drawer.

**MANAGEMENT'S RESPONSE:**

**Members of the Board of Commissioners:**

We concur. Since November 2011, all collections are deposited intact within three working days into the official Sneedville Utility District bank account. No one is allowed to cash checks through the district's cash drawer.

**Manager:**

Response is the same as that of the board of commissioners.

4. **FINDING: Failure to prepare daily collection reports**

District personnel did not summarize all collections on a daily collection report to ensure that the collections were properly accounted for and deposited into a district bank account. The *Internal Control and Compliance Manual for Tennessee Utility Districts*, page 40, states that

each day the cashier summarizes all collections by source and fund (in multi-fund districts) on a daily collection report, clearly indicating the amount to be deposited, the amount retained for change, and the amount of cash over or short. Each report should be dated, and the date should be recorded on the corresponding deposit slip. The total on the corresponding deposit slip as well as the total of all applicable prenumbered receipts should agree with the total collections recorded on the daily collection report. The cashier should write the receipts numbers applicable to each collection source on the daily collection report and sign the report.

**RECOMMENDATION:**

To better account for collections, each day the cashier should prepare a detailed report of daily collections indicating the source of those collections. To help document that all collections are deposited intact, the totals of each daily collection report, corresponding prenumbered receipts, and related bank deposit should agree. The cashier should sign and date the report.

**MANAGEMENT'S RESPONSE:**

**Members of the Board of Commissioners:**

We concur. Since November 2011, a detailed report of daily collections has been prepared and kept on file. This report is signed and dated by the cashier.

**Manager:**

Response is the same as that of the board of commissioners.

5. **FINDING: Lack of policy or controls over district cell phones**

Our investigative audit revealed that the district paid for a cell phone that was not used for district purposes. The former manager added a cell phone to the district's plan in December 2008. Comptroller investigators were unable to determine that this phone served a legitimate district purpose. The cost to the district was approximately \$10 per month, or about \$340 from December 2008 through September 2011. The board of commissioners had not adopted a comprehensive, written cell phone policy. The *Internal Control and Compliance Manual for Tennessee Utility Districts*, page 56, requires district officials to establish policies regarding personal use of district property, including cell phones.

**RECOMMENDATION:**

Members of the board of commissioners should adopt a comprehensive, written cell phone policy, including consideration of which employees require a cell phone to perform their job duties.

**MANAGEMENT'S RESPONSE:**

**Members of the Board of Commissioners:**

Since December 2011, the district does not provide cell phones for any employees. This policy will be adopted at the next board meeting.

**Manager:**

Response is the same as that of the board of commissioners.

6. **FINDING: Questionable time reporting**

Our investigative audit raised questions about the accuracy of the time sheets prepared by the former manager. Comptroller investigators visited the district office unannounced on four separate mornings. On each visit, the former manager did not arrive at the office until late morning or early afternoon. She reported on her time sheet and was paid for a full day's work for each of those days. The *Internal Control and Compliance Manual for Tennessee Utility Districts*, page 52, requires that time cards or honor system time sheets, approved by a supervisor<sup>2</sup>, be maintained for all employees.

**RECOMMENDATION:**

Members of the board of commissioners should ensure that the payroll payments of the manager are based on accurate and complete time reporting. To fulfill the role as supervisor, the board of commissioners should make reasonable efforts to confirm payroll reporting by periodically visiting the district office unannounced, calling the office, or making inquiries with employees.

**MANAGEMENT'S RESPONSE:**

**Members of the Board of Commissioners:**

We concur. The manager in question was relieved of her duties in November 2011. Since that time, all employees are subject to the same time reporting requirements to ensure accurate and complete payroll payments. The board of commissioners will confirm that these requirements are being followed.

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<sup>2</sup> The board of commissioners serves the role of supervisor of the manager.

**Manager:**

Response is the same as that of the board of commissioners.

7. **FINDING:** **Delinquent payroll and state revenue taxes**

Our investigative audit found that the district was delinquent in the payment of both federal withholding tax to the United States Treasury, and state sales tax to the Tennessee Department of Revenue. The *Internal Control and Compliance Manual for Tennessee Utility Districts*, page 48, requires that district officials ensure timely payment of invoices and obligations to avoid penalties.

**RECOMMENDATION:**

Members of the board of commissioners should ensure that tax liabilities are calculated properly and paid in a timely manner.

**MANAGEMENT'S RESPONSE:**

**Members of the Board of Commissioners:**

We concur. As of December 19, 2011, all delinquent sales taxes were paid in full. As of January 12, 2012, all delinquent payroll taxes were paid in full. Both sales and payroll taxes are calculated properly and paid in a timely manner. The board of commissioners reviews these payments on a monthly basis.

**Manager:**

Response is the same as that of the board of commissioners.