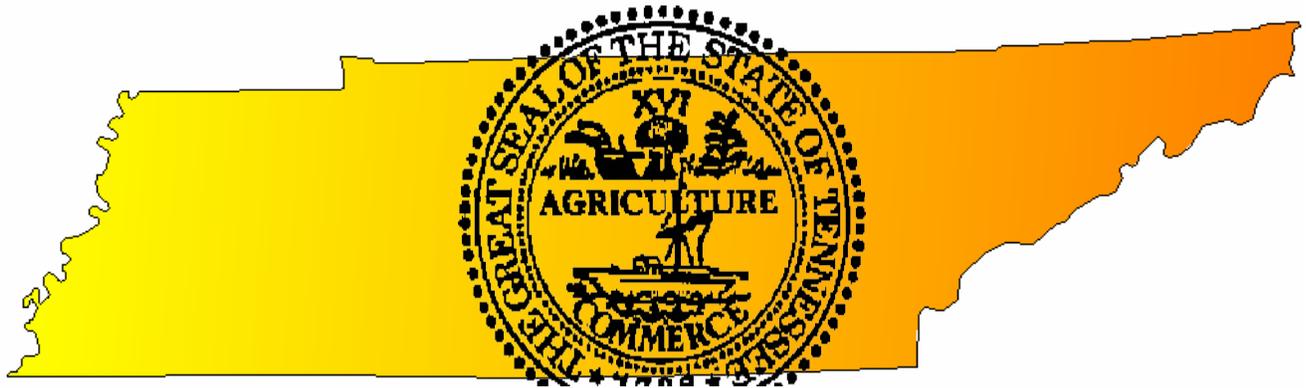


INVESTIGATIVE AUDIT REPORT

CITIZENS GAS UTILITY DISTRICT
DECEMBER 1, 2003, THROUGH APRIL 30, 2006



State of Tennessee



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



STATE OF TENNESSEE

John G. Morgan
Comptroller

C O M P T R O L L E R O F T H E T R E A S U R Y

STATE CAPITOL
NASHVILLE, TENNESSEE 37243-0260
PHONE (615) 741-2501

February 8, 2007

Board of Commissioners
Citizens Gas Utility District
P. O. Box 320
Helenwood, TN 37755

Gentlemen:

Presented herewith is the report on our investigative audit of selected records of the Citizens Gas Utility District. This investigative audit focused on the period December 1, 2003, through April 30, 2006. However, when warranted, this scope was expanded.

Section 9-2-102, *Tennessee Code Annotated*, requires that the Comptroller of the Treasury prescribe a uniform system of bookkeeping designating the character of books, reports, receipts and records, and the method of keeping same, in all state, county and municipal offices, including utility districts, which handle public funds. This code section also requires that all officials adopt and use the prescribed system. The Comptroller has prescribed a minimum system of recordkeeping for utility districts, which is detailed in the *Uniform Accounting Manual for Tennessee Utility Districts* combined with Chapter 6 of *Governmental Accounting, Auditing and Financial Reporting*. The purpose of our audit was to determine the extent of the entity's compliance with certain laws and regulations, including those in the above-mentioned manuals.

Our investigative audit revealed that during the period March 1, 2003, through March 31, 2006, a former clerk apparently charged personal purchases totaling at least \$14,313 to the district accounts. This matter was referred to the local district attorney general. On January 9, 2007, the Scott County Grand Jury indicted Johnny Grooms on one count of Theft over \$10,000. Our investigative audit also revealed several weaknesses in the district's internal control system that contributed to or could contribute to undetected misappropriations.

Board of Commissioners
Citizens Gas Utility District
February 8, 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 large initial "J" and a long horizontal stroke at the end.

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

February 8, 2007

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

Dear Mr. Morgan:

As part of our ongoing process of examining the records of utility districts, we have completed our investigative audit of selected records of the Citizens Gas Utility District. This investigative audit focused on the period December 1, 2003, through April 30, 2006. However, when the audit warranted, this scope was expanded.

Section 9-2-102, *Tennessee Code Annotated*, requires that the Comptroller of the Treasury prescribe a uniform system of bookkeeping designating the character of books, reports, receipts and records, and the method of keeping same, in all state, county and municipal offices, including utility districts, which handle public funds. This code section also requires that all officials adopt and use the prescribed system. The Comptroller has prescribed a minimum system of recordkeeping for utility districts, which is detailed in the *Uniform Accounting Manual for Tennessee Utility Districts* combined with Chapter 6 of *Governmental Accounting, Auditing, and Financial Reporting*. The purpose of our audit was to determine the extent of the entity's compliance with certain laws and regulations, including those in the above-mentioned manuals.

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Mr. John G. Morgan
Comptroller of the Treasury
February 8, 2006

In addition to our findings and recommendations, we are also providing management's response. 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 THE RECORDS OF THE
CITIZENS GAS UTILITY DISTRICT
FOR THE PERIOD DECEMBER 1, 2003, THROUGH APRIL 30, 2006**

LEGAL ISSUES

1. **ISSUE: Purchases for personal benefit of former employee**

Our investigative audit revealed that, during the period March 1, 2003 through March 31, 2006, a former clerk apparently charged items totaling at least \$14,313 to district accounts that did not appear to be for a legitimate district purpose and which could not be located on district property. The general manager told auditors that the clerk had no authority to make personal purchases at district expense. The items he purchased using district funds included digital cameras, iPods, video games and Wal-Mart gift cards. It appears that he may have subsequently sold some of these items on an internet auction site. Auditors were able to verify that the former clerk apparently charged personal shipping charges for shipping items he had sold on E-bay to the district United Parcel Service account.

2. **ISSUE: Falsification and destruction of government records**

In some instances, the former clerk apparently concealed his scheme from management by altering invoices and creating fictitious entries in the district's records. In addition, certain original documents that related to these purchases were apparently removed from district files and were unavailable for audit.

This matter was referred to the local district attorney general. On January 9, 2007, the Scott County Grand Jury indicted Johnny Grooms on one count of Theft over \$10,000.

Our investigative audit also revealed several weaknesses in the district's internal control system that contributed to or could contribute to undetected misappropriations.

1. Lack of separation of duties

This scheme was discovered when another employee was temporarily assigned to review and record district purchases. This employee detected what appeared to be a relatively minor inappropriate purchase from Wal-Mart and alerted management.

The subsequent investigation revealed that the former clerk had apparently been making inappropriate purchases on district accounts since at least March 2003. He was able to perpetrate this scheme for 37 months without detection due to a total lack of separation of duties. Prior to the discovery of the unauthorized purchases, the former clerk had complete control over certain purchasing functions. He was authorized to order items, retrieve items from the vendor, and review and record the transaction. The *Uniform Accounting Manual for Tennessee Utility Districts*, Section 2-6, states:

Ideally, the same individual should not be responsible for authorizing transactions, recording transactions, and maintaining custody of assets. Establish work flow so that an employee's work is automatically verified by another employee working independently. Such procedures will help to eliminate errors in accounting records and limit the possibility of fraud.

2. Lack of updated fixed asset records

District personnel did not maintain an updated inventory of high-risk assets. As a result, certain items, including digital cameras, were purchased and apparently not put into district service. The district did not maintain a detailed list, including property location and serial and model number, of high-risk property. In addition, personnel did not perform a periodic physical inventory of the property. The *Uniform Accounting Manual for Tennessee Utility Districts*, Section 8-7, requires that equipment be inventoried at least annually to ensure that it is available and being used and maintained properly.

3. Employees charged personal shipments on district account

The district appeared to have no policies and procedures specifically addressing the appropriateness and cost of certain disbursements not directly related to district operations. Our audit revealed that district personnel were apparently allowed to ship personal or nondistrict items at district expense on the district's United Parcel Service account.

Commissioners must ensure that all district expenditures are for a valid district purpose and are for costs necessary to the purposes for which the district exists.

Subsequent to the discovery of this apparent misappropriation, management installed additional internal controls to reduce the risk of subsequent misappropriation.