

# INVESTIGATIVE AUDIT REPORT

**CORDELL HULL UTILITY DISTRICT  
JANUARY 1, 2006, THROUGH MARCH 31, 2007**



## State of Tennessee



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



STATE OF TENNESSEE

COMPTROLLER OF THE TREASURY

John G. Morgan

Comptroller

STATE CAPITOL

NASHVILLE, TENNESSEE 37243-0260

PHONE (615) 741-2501

April 8, 2008

Members of the Board of Commissioners  
Cordell Hull Utility District  
P. O. Box 317  
Carthage, TN 37030

Commissioners:

Presented herewith is the report on our investigative audit of selected records of the Cordell Hull Utility District. This investigative audit focused on the period January 1, 2006, through March 31, 2007. However, when warranted, this scope was expanded. This investigative audit was initiated at the request of the district's board of commissioners.

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.

The findings and recommendations in this report relate to those conditions that we believe warrant your attention. All responses to each of the findings and recommendations are included in the report.

Members of the Board of Commissioners  
Cordell Hull Utility District  
April 8, 2008

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 long horizontal flourish 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

April 8, 2008

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 Cordell Hull Utility District. This investigative audit focused on the period January 1, 2006, through March 31, 2007. However, when the audit warranted, this scope was expanded. This investigative audit was initiated at the request of the district's board of commissioners.

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 resulted in findings and recommendations related to the following:

1. Unexplained difference between recorded tap fee collections and disbursements for installing the taps
2. Lack of policies and oversight of district disbursements
3. Inadequate supporting documentation
4. Premiums from district vendor

Mr. John G. Morgan  
Comptroller of the Treasury  
April 8, 2008

5. No receipt issued for some collections; receipt amount was not always the full amount collected
6. No documented purchasing policy
7. No documented travel policy; lack of oversight of mileage reimbursement claims
8. No documented policy pertaining to employee leave
9. Deposit slips not itemized
10. Inadequate documentation of job duties and compensation

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 SELECTED RECORDS OF THE  
CORDELL HULL UTILITY DISTRICT  
FOR THE PERIOD JANUARY 1, 2006, THROUGH MARCH 31, 2007**

This investigative audit was initiated based on a request from the members of the board of commissioners. They asked auditors to investigate specific areas of concern. Board members were advised that, once the investigative audit process was initiated, it would be independent and objective. They were also told that auditors would not allow the scope of inquiries to be limited and would base their conclusions on all available evidence.

This report addresses and confirms several of the board's initial concerns. In addition, the report addresses other serious internal control weaknesses. Since one of the primary responsibilities of the board of commissioners is to safeguard utility district assets, we encourage board members to take seriously the weaknesses addressed in this report. However, in their responses, the board of commissioners not only consistently contradict their own prior statements, but also make claims inconsistent with utility district records. Therefore, if commissioners believe they are unable to rely on the conclusions of the investigative audit they requested, as their responses suggest, they should immediately take steps to otherwise resolve their own allegations in order to fulfill their responsibility to safeguard district assets. It is also vitally important that members of the board of commissioners are able to perceive these deficiencies as serious problems so that they are motivated to take appropriate corrective action.

It should also be noted that each board member was advised that, as they formulated their responses, should they have any questions related to the findings in this report, they should contact the auditors for further explanation or clarification. Unfortunately, board members failed to take advantage of this opportunity, but instead responded without first attempting to understand the scope and extent of the deficiencies.

**FINDINGS AND RECOMMENDATIONS**

1. **FINDING:** Unexplained difference between recorded tap fee collections and disbursements for installing the taps

Between January 2006 and March 2007, according to canceled checks, Cordell Hull Utility District's full-time maintenance worker was paid \$1,500 for new water taps over the amount supported by customer receipts in the business office. This condition existed due to inadequate controls over collections and disbursements.

As detailed in Finding 3, Cordell Hull Utility District issued many checks without adequate documentation. The maintenance worker's invoices lacked sufficient details to determine which new customer had paid for each water tap.

As stated in Finding 5, the district personnel failed to issue receipts for all collections – this included tap fee collections.

A third factor that enabled this situation is a lack of documented procedures for new connections. Section 2-6 of the *Uniform Accounting Manual for Tennessee Utility Districts* requires written guidelines to minimize errors, fraud and waste. This section states:

Written guidelines should include instructions to personnel for authorizing, reviewing, and record keeping as a means of providing control and protecting the district's assets. Such guidelines should be readily available/accessible to all personnel.

**RECOMMENDATION:**

To ensure that all new connections are recorded in the district's books and to ensure that all new connections have made the required payment, members of the board of commissioners should institute a system of controls over tap fees, including written instructions and requirements for documentation.

**MANAGEMENT'S RESPONSE:**

**Members of the Board of Commissioners:**

The commissioners cannot concur with the finding related to a discrepancy in the amount of tap requests and fees paid. The Rules and Regulations of the district require each new customer to sign a Water Service Contract. Upon investigation, the commissioners did not discover any amounts paid with no corresponding tap actually installed based on the interviews with the contractor.

When a customer requests that a tap be installed, he or she pays the required fee and a receipt is provided to the customer. The district office then provides an oral instruction to the contractor for the new tap location to avoid delay and the tap request and fee are entered on the district's books. The contractor then returns a report/invoice indicating the name of the customer corresponding to the tap installed.

The report/invoice is then compared with the requests logged in the books and a check is issued for payment. CHUD also now uses a work order to further document the request.

The findings do not contain a listing of which checks were issued without adequate documentation or which customers failed to receive a receipt. In many instances, customers request that their personal check serve as the receipt.

**AUDITOR'S REBUTTAL:**

We reiterate our finding that we were unable to reconcile disbursements for installing new water taps during calendar year 2006 to documented collections paid by customers for those taps. Due to shortcomings in the quality of records prepared and retained, our analysis consisted of comparing the amount expected to have been disbursed for new taps based on the corresponding collections to documented actual disbursements. (Refer to Exhibit 1).

We also reiterate our result—a difference of \$1,500 or five taps at \$300 apiece. As detailed in footnote 1 to Exhibit 1, the cashier did not always issue a receipt upon collecting a customer's water tap fee. In their response, the commissioners speculated that this might have been per customers' requests. However, the *Uniform Accounting Manual for Tennessee Utility Districts* does not allow this exception. The utility district must issue a receipt for each collection. Unless a receipt is issued every time cash is received, the board cannot be certain that the cashier has deposited ALL collections.

The board's response also asserts that the maintenance contractor's invoices provide enough detail to determine each customer for whom he installed a tap. The boxed region of Exhibit 2 shows an invoice that provides neither the names nor the addresses of the customers for whom he purportedly installed water taps. Unless the invoices actually include the kinds of useful information described by the commissioners in their response, they cannot ensure that the district has not been billed for work that was not performed.

2. **FINDING:** Lack of policies and oversight of district disbursements

Our examination of disbursements made by Cordell Hull Utility District revealed that district funds were used for purposes that did not appear to be directly related to district operations. The district paid the full cost of satellite television at the business office for more than one year. In addition, telephone records indicated that Cordell Hull Utility District employees and contract employees made what appeared to be personal long distance calls on lines for which the district paid. In addition, the district paid for a contract employee's cellular telephone service. Documentation for that payment often consisted of only the remittance advice and sometimes no portion of the provider's bill was on file. As a result, the board had no opportunity to exert any oversight over the phone's use, despite the board paying the entire bill during most months.

The district apparently had no policies and procedures addressing the appropriateness of disbursements not directly related to district operations. Section 7-82-403, *Tennessee*

*Code Annotated*, addresses the board's responsibility to establish reasonable rates to provide for operation and maintenance of the system.

**RECOMMENDATION:**

To help ensure that all district expenditures are for a valid district purpose and are for costs pertinent to the purposes for which the district exists, members of the board of commissioners should consider adopting policies addressing the appropriateness of expenditures such as those described in this finding.

**MANAGEMENT'S RESPONSE:**

**Members of the Board of Commissioners:**

The commissioners do not concur with this finding as no funds were authorized except for expenditures directly related to district business. The finding first raises the concern that a satellite television service was furnished for the office. In initially considering this issue, the commissioners believed television service would benefit the district to provide office personnel with weather and local news information that could potentially disturb water service. Often times, the office manager was present for extended periods alone with no outside information source. The television served as a means for immediate information related to weather conditions and news reports. The television service has long since been discontinued when it was discovered that the use had expanded beyond what was initially approved.

The district did maintain an emergency telephone line for its customers. For immediate service, the telephone line rang in at a private residence. This practice was done to better serve the customers in times of emergency or discontinuance of water service. The telephone bill came directly to the district office. Before allowing the bank draft, the telephone bill was examined for any outgoing/nondistrict related calls. The district did not pay for such calls, The board maintained oversight of this expense through this practice. The emergency line is no longer located at a private residence.

It is further necessary for certain employees and contractors, as they work in a number of locations, to be available by cellular phone. Once again, the district requires that a bill be presented to ensure there are no unauthorized charges.

**AUDITOR'S REBUTTAL:**

The board's written response indicates that satellite television was intended to provide weather and local news that could potentially impact district service. This statement is inconsistent with interviews auditors conducted with board members when those board members initially requested the investigative audit. Before fieldwork commenced, the board indicated that the television was for the office worker to watch as she worked. The chief concern they expressed to auditors was about a possible agreement to divide the monthly cost of the service between Cordell Hull Utility District and the former employee. We found no record of this agreement and no mention of satellite television in the minutes of board meetings. During fieldwork, auditors noted that the television was usually tuned to sitcom reruns and daytime dramas. Neither auditor recalled the former office worker watching news or weather. We restate our finding that the board did not document any policies relating to the use of the television at the business office. Without a policy restricting the television's use to programming that has a legitimate business purpose, we do not find that the money spent by the utility district for this service benefitted the ratepayers in any way.

We found no indication that the board approved or communicated any policy regarding personal use of district telephones. Prior to the commencement of audit procedures, certain district employees and commissioners made the Division of Municipal Audit aware of numerous, apparently personal, long distance calls from the business office. Auditors found records that supported this contention (Exhibit 3). Auditors also discovered multiple long distance calls (refer to Exhibit 4) from the emergency line at a private residence, some of which did not appear to be related to the district's business. This telephone was purportedly intended for urgent, inbound calls only. The complete bills for both telephones were paid with district funds. Auditors found no record of any employee reimbursing the district for personal long distance calls made from any telephone for which the district paid.

Throughout the period examined, we found no complete cell phone bills, only photocopies of some months' remittance advice. (Refer to Exhibits 5 and 6.) As a result, records were insufficient for board members to fulfill their oversight responsibility and ensure that district funds were used only for district purposes.

We reiterate that the district made multiple disbursements for which it lacks adequate supporting documentation. We restate that the board did not document its intentions regarding personal use of district telephones and satellite television. We recommend that the board of commissioners fulfill their oversight responsibilities and adopt policies addressing these questionable expenditures.

3. **FINDING: Inadequate supporting documentation**

Utility district files did not contain adequate supporting documentation for all district purchases. Lack of proper documentation resulted in the district paying a cellular phone bill twice. The *Uniform Accounting Manual for Tennessee Utility Districts*, Section 5-2, outlines procedures for an adequate cash disbursements system. These procedures include approving invoices for payment, dating and canceling invoices to avoid duplicate payment, and filing invoices and other supporting documentation numerically by check number.

**RECOMMENDATION:**

To ensure valid disbursements that benefit the district's customers, members of the board of commissioners should require adequate supporting documentation. These documents should be retained as set forth in the *Manual*.

**MANAGEMENT'S RESPONSE:**

**Members of the Board of Commissioners:**

Based on the information provided, the board cannot concur with this finding as it is not indicated which cell phone bill had been paid twice. Once the findings were made known, the present office manager conducted a search during the time period in question and did not discover a duplicate payment for which an appropriate credit could be sought. All payments to be made require an invoice and the check number is recorded to ensure that no such duplicate payments occur. The board of commissioners has always required appropriate documentation and billings before issuing a check.

**AUDITOR'S REBUTTAL:**

We reiterate our finding that records in the business office were inadequate to support multiple disbursements. Exhibits 2, 5, and 6 are examples of problematic documents. Exhibit 7 shows the instance of one month's cell phone bill being paid twice. The amount of the bill is included on the maintenance person's semi-monthly invoice, which the district paid. Later, the district paid check number 4850 directly to the vendor (located on the July 2005 bank statement). The cell phone bill itself was not present in the district's business records. In other words, support for check 4850 was nonexistent.

4. **FINDING: Premiums from district vendor**

Invoices on file at the business office of Cordell Hull Utility District indicated district personnel received premiums from one vendor. In June 2005, the vendor, a company that

sells office supplies, shipped a luggage set to the district office. In February 2007, the same vendor sent an MP3 player to the district office. Auditors did not observe these items at the district's offices. When employees or officials receive gifts from vendors, it increases the risk that purchasing decisions will not be made based on the district's needs and interest.

Section 8-17-103, *Tennessee Code Annotated*, requires that utility districts adopt ethical standards before July 2007. Section 8-17-105 states that utility districts that do not adopt their own ethical standards shall abide by those set by the county in which the majority of its customers reside.

Section 4 of the *Code of Ethics, Smith County, Tennessee*, states:

An official or employee ... may not accept, directly or indirectly, any gift, money, gratuity, or other consideration or favor of any kind from anyone other than the utility:

- (1) For the performance of an act, or refraining from performance of an act, that he would be expected to perform, or refrain from performing, in the regular course of his duties.

**RECOMMENDATION:**

To avoid the possibility of actual or apparent undue influence, the board should make its employees aware of the provisions of the county's adopted code of ethics. This includes prohibiting employees from accepting gifts from vendors.

**MANAGEMENT'S RESPONSE:**

**Members of the Board of Commissioners:**

The board can neither concur nor not concur with this finding. No commissioners or any available employee questioned has possession of any such items referenced and no individual saw these items at the district office or in the possession of district personnel. The commissioners have no information that any such items were actually received or if, in fact, they were returned.

The board has adopted the Tennessee Association for Utility District's model of ethical standards. This resolution was adopted and discussed by the district's counsel at an open meeting attended by all employees. All employees are now aware of any applicable ethical standards. A copy of that resolution has been attached.

**AUDITOR'S REBUTTAL:**

We reiterate the finding and recommendation. The board of commissioners does have evidence that premiums were awarded by a vendor. Invoices on file at the district office clearly indicate that an office supply and equipment vendor shipped a three-piece luggage set and an MP3 player to the district. (Refer to Exhibits 8 and 9.) According to a company representative, these were not automatic shipments; the person placing the order must affirm that he or she wants the premiums. Regardless of the present location of the premiums listed on the invoice, it is troubling that a district employee's purchasing decisions could be influenced by the availability of free gifts. It is also troubling that the board of commissioners apparently has decided to ignore evidence of this practice.

We acknowledge that subsequent to our audit, the board has adopted an ethics policy that prohibits the practice. (Refer to Exhibit 10.)

5. **FINDING:** No receipt issued for some collections; receipt amount was not always the full amount collected

Prenumbered receipts were not issued for all district collections. In some instances, prenumbered receipts were issued, but not for the full amount collected. The *Uniform Accounting Manual for Tennessee Utility Districts*, Section 3-1 states:

Prenumbered receipt documents for each revenue source should be issued with required accounting for all unused or spoiled receipts. Collections from customers evidenced by stubs from utility bills need not require an additional receipt.

**RECOMMENDATION:**

To ensure accountability, district personnel should issue prenumbered receipts for the full amount of all collections that require one.

**MANAGEMENT'S RESPONSE:**

**Members of the Board of Commissioners:**

The district cannot concur with this finding. The findings and recommendations do not provide a listing of the dates were collections were made without a corresponding receipt or which receipts do not represent the full amount collected.

Previously, each customer should have received a prenumbered receipt unless they asked that their personal check serve as a receipt.

**AUDITOR'S REBUTTAL:**

We reiterate our finding that no receipt was issued for certain collections. Footnote 1 to Exhibit 1 details amounts and dates where money collected for tap fees was deposited that lacked a corresponding receipt. The purpose of the issuance of prenumbered receipts is to provide documentation in district records of all district collections. It is irrelevant what recordkeeping or documentation requirements a customer may have. It is the board of commissioners' responsibility to ensure that utility district records are adequate and it is troubling that their responses indicate a lack of comprehension of this responsibility.

Regarding receipts issued for less than the full amount, during a cash count on 4/24/2007, auditors accounted for a receipt written for \$24.95. However, the former secretary said that the correct amount was \$44.95—it included a \$20.00 fee for a returned check. The computerized account records confirmed that she had written the receipt for less than the amount collected. On at least one other occasion (6/22/2006 or 6/23/2006), a similar transaction was recorded for less than the full amount. Unless receipts reflect the full amount received, the board cannot ensure that the cashier is depositing all collections received.

6. **FINDING:** No documented purchasing policy

Members of the board of commissioners apparently had never approved a comprehensive, written purchasing policy. As a result, the district may not have made purchases at the best price and in the manner most advantageous to Cordell Hull Utility District.

The *Uniform Accounting Manual for Tennessee Utility Districts*, Section 5-1, requires the district's board of commissioners to adopt a written purchasing policy in accordance with Section 7-82-801, *Tennessee Code Annotated*. The policy should designate persons authorized to make purchases, require the use of prenumbered purchase orders, outline procedures for emergency and small-item purchases without prior approval, and require competitive bids for purchases over a stated amount.

**RECOMMENDATION:**

To ensure that the district can make purchases at the lowest price, in the manner that best suits it, and to comply with applicable state law, members of the board of commissioners should adopt a suitable comprehensive purchasing policy.

**MANAGEMENT’S RESPONSE:**

**Members of the Board of Commissioners:**

The district cannot concur with this finding. The district adopted a purchasing policy as the same has been attached hereto. Furthermore, any purchases by the district are controlled by statute, *Tennessee Code Annotated* § 7-82-802 et seq.

**AUDITOR’S REBUTTAL:**

**It appears that the utility district is now in compliance with the *Uniform Accounting Manual for Tennessee Utility Districts*, Section 5-1, by adopting a purchasing policy subsequent to the completion of our audit. (Refer to Exhibit 11.) However, the assertion that the district was in compliance with *TCA 7-82-801 et seq.* prior to the adoption of this policy is contradicted by the statute itself. Section 7-82-802 requires that “[t]he purchasing policy shall be adopted by the board of commissioners of the district, and upon adoption shall be implemented and adhered to by the district. The policy shall provide for uniform procedures for the same or substantially similar purchases and shall be applied on a consistent basis to all purchases of the district.”**

7. **FINDING:** No documented travel policy; lack of oversight of mileage reimbursement claims

Although the board of commissioners of Cordell Hull Utility District had not adopted a travel policy, the district reimbursed an employee and a contract worker for mileage. There was no indication that the board verified the accuracy and appropriateness of mileage reimbursement requests before issuing checks for that purpose.

The district reimbursed an employee for routine trips from the district office to the bank and post office. However, the number of miles claimed per trip appeared to be more than double the actual round trip distance between the district office and those locations. In addition, auditors found that these vicinity mileage reimbursements were claimed and paid even on days that the employee did not work.

Auditors also discovered that, beginning in August 2006, mileage reimbursement was paid to a contract employee. However, there is no record in the minutes that the board discussed and approved this practice.

*Tennessee Code Annotated*, Section 7-82-309 (a)(6)(E), requires that

All utility district travel and expense reimbursement policies, and any amendments to the policies, shall be filed with the office of the comptroller of the treasury or the comptroller of the treasury's

designee. Such policies and amendments are not subject to approval of, but shall not be effective until filed with, the office of the comptroller of the treasury.

Section 7-82-309 (a)(6)(C), *Tennessee Code Annotated*, specifies:

In such utility district, it is the duty of the board of commissioners to prescribe forms on which expenses shall be reported. The board of commissioners may designate such responsibility to the chief administrative officer of the district. It is the duty of the board of commissioners, or its designee, to examine such expense report to determine if all expenses so listed as reimbursable are legally reimbursable expenditures within the schedule as determined by the utility district board of commissioners, and, if such listed expenses are reimbursable, then forward the expense report to the proper disbursing officer for payment.

**RECOMMENDATION:**

To ensure that travel-related disbursements benefit the utility district's customers and to comply with state law, members of the board of commissioners should adopt an acceptable travel policy and file it with the comptroller of the treasury. The board or their designee should review all expense claims for accuracy and compliance with that travel policy before making any related disbursements.

**MANAGEMENT'S RESPONSE:**

**Members of the Board of Commissioners:**

The district cannot concur with this finding as to a lack of oversight of mileage reimbursement. All mileage was paid pursuant to IRS regulations and designated amounts and only for district business. The district does concur that no such policy has been filed with the Comptroller. The district is amending its policies to set forth appropriate standards for reimbursement of mileage.

**AUDITOR'S REBUTTAL:**

We emphasize that *Tennessee Code Annotated* §7-82-309(a)(6)(E) states: "... Such policies and amendments ... shall not be effective until filed with, the office of the comptroller of the treasury." Until the board complies with that requirement, it has not documented that ANY travel expenses are eligible to be reimbursed using district funds.

Prior to the initiation of audit procedures, certain board members expressed their concerns that a district employee was being reimbursed for mileage on days that she did not work. The board members requested that our audit team give close attention to that possibility. Our examination of time and mileage reimbursement records, a calendar maintained by the former office employee, and certain invoices supports the board's assertion. (Refer to Exhibit 12.) However, the board's response to our finding disputes its own contention that a problem existed in this area. It is also troubling that the board of commissioners contends that reimbursing an employee for mileage on days that the employee is not working is a legitimate district expense.

8. **FINDING:** No documented policy pertaining to employee leave

Cordell Hull Utility District time sheets and paychecks indicated that one employee received compensation for time that she did not work. In some instances, a replacement employee was also paid to work on those days. In other instances, the employee was paid even though it appeared the district offices were closed. Auditors were unable to locate any written board-approved leave policy or board-approved district holidays. In addition, district files contained no records of employee vacation time earned or used.

According to the *Uniform Accounting Manual for Tennessee Utility Districts*, Section 6-1:

4. [The board should] adopt an employee leave policy. Fill out and maintain an employee leave record for each employee. List paid and unpaid absences for sick leave or injury, vacation, jury duty, unusual holidays, date and reason for termination, and forwarding address.

5. At year end, summarize all accumulated vacation/sick leave earned but not used. Compute the salary cost of this leave and record as a liability for uncompensated absences.

**RECOMMENDATION:**

To ensure that employees are paid for hours worked, and receive board-approved leave and holidays, members of the board of commissioners should adopt a written comprehensive leave policy. In addition, a comprehensive policy would communicate the board's expectations to employees and help limit the risk of employee abuse of paid time off.

**MANAGEMENT'S RESPONSE:****Members of the Board of Commissioners:**

The board of commissioners cannot concur with this finding. It is not clear from the findings and recommendations on what date an employee received payment for time that he or she did not work. The commissioners are, therefore, unable to verify whether the employee was present or not. In addition, the employment for the office manager is based on an hourly rate. There was no earned vacation time or paid holiday policies at the time period in question. Any other employee leave for holidays and days for which the office remained closed are contained within the minutes of the board of commissioners.

**AUDITOR'S REBUTTAL:**

**We reiterate that the board did not document policies related to holiday and vacation pay for the district's employees. Although the board's response states that it does not concur with this finding, the board says, "There were no earned vacation time or paid holiday policies at the time period in question."**

**Prior to the commencement of audit work, certain members of the board of commissioners requested examination of an employee's paid time off. Our analysis of time records, a calendar maintained by the former office employee, and certain invoices indicated that this employee apparently was paid for 92.0 unworked hours during 2006, not including federal or state holidays. (Refer to Exhibit 13.) Despite the lack of applicable written policies, the board paid the former employee holiday pay and for every hour that she claimed to be due during the period examined.**

**Board meeting minutes from 2005 and 2006 included the adoption of procedures for substitution for the regular office worker, but no record of any type of paid time off for that worker. Except for a decision to open for business on Veteran's Day 2006 (11/11/2006), the minutes lack any record of decisions to close for holidays.**

9. **FINDING: Deposit slips not itemized**

District personnel did not list all checks on deposit slips or an attached list, as required by the *Uniform Accounting Manual for Tennessee Utility Districts*, Section 3-1.

**RECOMMENDATION:**

To decrease the risk of loss or theft of utility district money and to document that every collection has been deposited intact, each deposit slip should be itemized, including a separate entry for each check.

**MANAGEMENT'S RESPONSE:**

**Members of the Board of Commissioners:**

The board cannot concur with this finding. The accounting program utilized by the district prints a report as to the amounts received for a bank deposit. Upon reviewing the records for the relevant time period in question, it was apparent that these reports were run and attached to each deposit slip. There is no indication in the findings and recommendations indicating which particular checks or the dates of the checks were not listed on a particular deposit slip.

**AUDITOR'S REBUTTAL:**

To clarify, itemized deposit slips are required to include both the name on the check and the amount of the check for each check in a deposit. The printout that the board refers to, used in lieu of an itemized deposit slip, lists payments by account. The list is sufficient when the name on a check matches the name on the single account being paid. However, the former office employee failed to document instances where the name on a check was different from the name on the water account and instances where a single check paid for more than one water bill. As a result, auditors were required to perform additional tests, at additional cost to the district, in order to determine if the cashiers deposited all of the money in the amount and form in which it was collected.

10. **FINDING: Inadequate documentation of job duties and compensation**

One district employee received a salary, but was also paid additional amounts for performing several other job-related tasks. Interviews with the employee and with the individual board members indicated that the basis for this individual's compensation had evolved and expanded over time. However, the district's records did not document all of the changes and there was no approved contract on file. Therefore, the available records

were inadequate for determining the accuracy and appropriateness of the individual's pay, with respect to board policy.

Section 7-82-309, *Tennessee Code Annotated*, states:

(a) The board of commissioners of any district has the power and authority to: ...

(7) Appoint and fix the salaries and duties of such officers, experts, agents and employees as it deems necessary, hold office during the pleasure of the board and upon such terms and conditions as the board may require....

The *Uniform Accounting Manual for Tennessee Utility Districts*, Section 10-1, requires that the board:

Maintain complete minutes of actions taken by the commissioners including:

- a. copies of by-laws and all resolutions adopted,
- b. copies of the budget,
- c. schedules of personnel appointments, salary rates and changes....

Section 11-3 recommends that contracts be retained six years after the applicable transaction.

**RECOMMENDATION:**

To ensure that all payroll and other expenditures benefit the district and to ensure that employees are fairly compensated, the board should fully document job descriptions, duties, and rates of pay. To document the district's agreements with individuals providing services to the district, the commissioners should execute written contracts. Copies of the contracts should be maintained in district files and should specify services to be performed and authorized reimbursement rates for travel-related expenses.

**MANAGEMENT'S RESPONSE:**

**Members of the Board of Commissioners:**

The commissioners cannot absolutely concur with this finding. Initially, prior to this report, all commissioners were not interviewed and the commissioners were not present when any district employees were interviewed. The commissioners would not be in a position to comment on statements not made in their presence.

In addition, a certain employee does perform certain tasks as part of his employment. Those tasks including maintaining of the pumps; daily maintenance of tank sites and the tanks; inventorying supplies and pipe; on-call service; maintenance of valve locations; valve cycling; maintenance of regulators; cross-connection inspections; maintaining leak records for the state; maintaining licensure status; supervision of tank cleaning, and inspection of water liens. The district must also contract with certain individual for meter reading, meter locking, installation of taps, and roadway bores.

The board of commissioners does maintain complete minutes of its actions taken and such is available for review pursuant to policy and is made available for the annual audit. The district through its board of commissioners undergoes a mandated annual audit. The audit is presented for review and any corrective actions have been implemented. No expenses have ever been authorized that did not directly relate to the conduct of the district's affairs or comply with applicable law. The district, as with any employer, takes every available precaution to ensure that its employees act in an appropriate and lawful manner.

The Cordell Hull Utility District had previously adopted Rules and Regulations and is currently in the process of reconsidering all its policies to account for the recommendations contained in your February 25, 2008, report and changes in any applicable law. The district is willing to work with your department to ensure that any perceived problems are appropriately addressed.

**AUDITOR'S REBUTTAL:**

**We reiterate our finding that Cordell Hull Utility District has not provided adequate documentation of the employee in question's compensation. When the audit team requested the relevant documents, we received only what appears to be the first page of the minutes of the October 9, 2001, board meeting.<sup>1</sup> Interviews with the board members indicated only partial understanding of the basis for his pay. We also reiterate that we found no approved contract between CHUD and the worker in question.**

---

<sup>1</sup>The document appears to have been faxed. The header bears the date April 17, 2007, and indicates that it came from Bellar and Winkler at 615-735-1138. There are no copies of minutes of board meetings at Cordell Hull Utility District's business office. To obtain complete copies of 2005 and 2006 minutes, the former office employee had to obtain them from Bellar and Winkler.

**EXHIBITS**

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## Exhibit 1

## Comparison of Tap Fees Collected to Billing for Tap Installations

## Per Office Records

	Month	Quantity
	March 2006	3
	April 2006	2
	May 2006	2
	June 2006	3
	July 2006	4
	August 2006	2
	September 2006	
	October 2006	1
	November 2006	1
	December 2006	
Total tap fees per office records <sup>1</sup>		<u>18</u>
Billing rate per tap		\$ 300.00
Expected tap fee disbursements		<u>\$5,400.00</u>

<sup>1</sup>On two occasions, the cashier apparently failed to issue receipts to new customers who paid for water taps (both were recorded in accounting records and deposited). 6/23/2006 deposit slip lists one check for \$1275.00 for which no receipt existed in the business office. Similarly, there was no receipt for a \$1250.00 check listed on a deposit slip dated 8/22/2006.

## Per Maintenance Worker's Billing

		Quantity (Amount Billed ÷ \$300)	Amount Billed
First half	March 2006	2	\$ 600.00
Second half	March 2006	1	300.00
First half	April 2006 <sup>2</sup>	4	1,200.00
Second half	April 2006	1	300.00
	May 2006	2	600.00
First half	June 2006	1	300.00
Second half	June 2006	4	1,200.00
First half	July 2006	1	300.00
Second half	July 2006	2	600.00
First half	August 2006	1	300.00
Second half	August 2006	2	600.00
	October 2006	1	300.00
	November 2006	1	300.00
		<u>23</u>	<u>\$6,900.00</u>

<sup>2</sup>The invoice (refer to Exhibit 2) includes a single line item "meter and road bore \$1,200.00". The only combination of tap fees (\$300) and road bores (\$350) that yields \$1200 is 4 taps + 0 bores. The invoice did not include customer names or locations.



Exhibit 3

Long Distance Numbers on CHUD Phones at Business Office:  
615-735-9112 and 615-735-1936

Source: Telephone bills, Google, InfoSpace

Number Dialed	ID
2704875	[REDACTED] Inc Optometry/Optician Tompkinsville, KY
3059443	ABC Distributing-Online and catalog gift sales
3106010	Beverly Hills, CA unlisted
3133011	Lincoln Park, MI unlisted
3172231	Indianapolis, IN unlisted
3172234	Indianapolis, IN unlisted
3172734	Indianapolis, IN unlisted
3525847	Brooksville, FL wireless
3526362	Eustis, FL unlisted
3527879	[REDACTED] E Spring Lake Blvd, Fruitland Park, FL 34731
3866841	Interlachen, FL unlisted
3866849	Interlachen, FL-4 residential matches on reverse lookup
4049862	Atlanta, GA unlisted
4237464	McElhaney Nursery, Athens, TN
4239204	Athens, TN wireless
5122638	Austin, TX unlisted
6182628	[REDACTED], Mt. Carmel, IL 62863
6605412	Maryville, MO wireless
7144842	Cypress, CA unlisted
7244436	[REDACTED] Leland Grove Rd, Gibsonia, PA 15044
7314156	Huntington, TN cell no.
7315864	[REDACTED] Pardue Rd, Hollow Rock, TN 38342
7319865	Dollar Savings Resale-Huntington, TN (listed under furniture)
7324943	Metuchen, NJ unlisted
7327527	[REDACTED] Hamilton Blvd, Piscataway, NJ 08854
8433970	Conway, SC unlisted
8433973	Conway, SC unlisted
8472955	LTD Commodities telephone order department
8472956	LTD Commodities telephone order department
8655229	Knoxville unlisted
8706350	West Memphis, AR
9017675	Memphis unlisted
9042137	[REDACTED] W shores Rd, Orange Park, FL 32003
9042690	Orange Park, FL unlisted
9513601	[REDACTED] Dunwood St, Riverside, CA 92509
9549035	Ft. Lauderdale, FL unlisted
9549035	Ft. Lauderdale, FL unlisted
9016066	Memphis wireless
7542241	Ft. Lauderdale, FL wireless

Note: Due to privacy concerns, this exhibit includes partial telephone numbers. In addition, some information relating to residential and medical phone numbers has been redacted.

Long Distance Numbers from CHUD Phone in private residence  
(615) 774-3517

Source: Telephone bill, Google, InfoSpace

Number Dialed	ID
3059446	ABC Distributing-Online and catalog gift sales
3059446	ABC Distributing-Online and catalog gift sales
3059490	ABC Distributing-Online and catalog gift sales
3523031	Ocala or Bushnell, FL
4234781	Wingate Inn-Cleveland, TN
6152486	International Fire Protection-Nashville
6153226	Vanderbilt University Department of Medicine- [REDACTED]
6153272	A 1 Communications Company
6153473	Nashville
6154436	Wilson Bank & Trust-Lebanon
6154440	[REDACTED] DDS-Lebanon
6154442	Mitchell Manor-Lebanon
6154446	Dr. [REDACTED]-Lebanon
6154447	[REDACTED] DDS-Lebanon
6154448	University Medical Center-Lebanon
6154490	Lebanon Lanes
6154490	[REDACTED] DDS-Orthodontist
6154492	[REDACTED] Bluegrass Pkwy, Lebanon
6154495	Middle Tennessee [REDACTED] Medicine
6154496	[REDACTED] University Medical Center Lebanon
6154538	[REDACTED] DDS-Lebanon
6154742	Nashville
6154772	Nashville
6154895	Carthage
6154896	Carthage
6155165	Nashville
6158262	[REDACTED] Academy-Hendersonville
6158305	Nashville
6158492	Murfreesboro
6158837	ICF BUILDERS & CONSULTANTS-Nashville
6159456	Nashville
7053274	[REDACTED]-President Ontario (Canada) Seaplane Association
9188106	Tulsa, OK
9312682	H&H Furniture
9315200	Wal-Mart Cookeville
9315281	[REDACTED] United Karate Std-Cookeville
9315207	Tennessee Meter & Supply-Cookeville
9315289	Hollywood Portraits-Cookeville
9316784	Granville, TN
9318237	Mid-State Construction-Livingston
9318362	Albert R Dicus-CHUD's CPA
9722942	[REDACTED] Rolling Hills Dr (number possibly s/b [REDACTED]), Frisco, TX 75035

Note: Due to privacy concerns, this exhibit includes partial telephone numbers. In addition, some information relating to residential and medical phone numbers has been redacted.

Exhibit 5

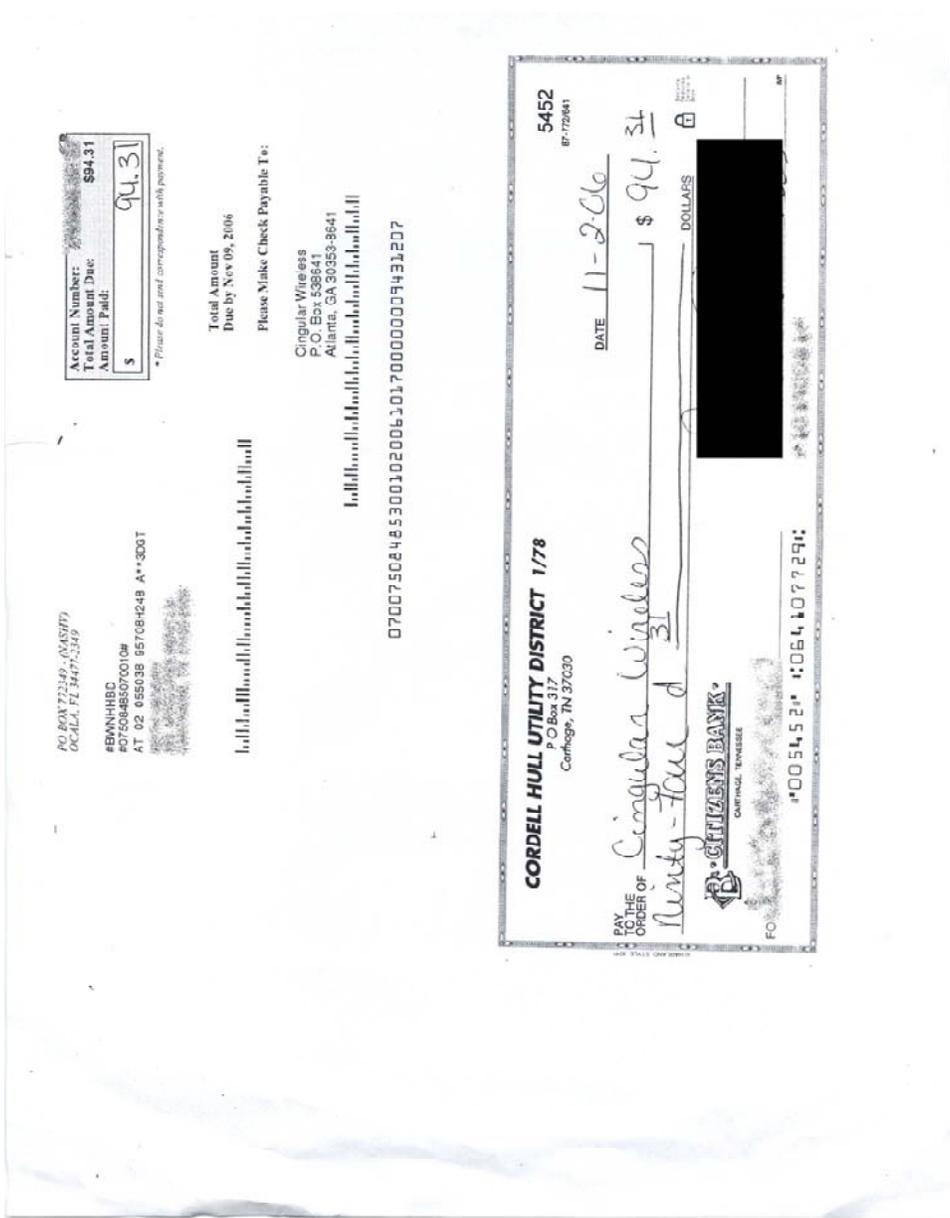
**Cingular Wireless Disbursements**

Source: Invoice files, bank statements

<u>Date</u>	<u>Check #</u>	<u>Payee</u>	<u>Check Amount</u>	<u>Description/Notes</u>	<u>Supporting Documentation</u>
1/2/2006	5080	Cingular Wireless	\$ 63.51	Act # [REDACTED]	Remittance Advice w/o Detail
1/26/2006	5115	Cingular Wireless	\$ 63.51	Act # [REDACTED]	
3/2/2006	5156	Cingular Wireless	\$ 65.25	Act # [REDACTED]	
4/3/2006	5189	Cingular Wireless	\$ 63.51	Act# [REDACTED]	
5/1/2006	5225	Cingular Wireless	\$ 64.87	Act # [REDACTED]	
6/1/2006	5261	Cingular Wireless	\$ 64.76	Act # [REDACTED]	
10/2/2006	5409	Cingular Wireless	\$ 81.55	Act # [REDACTED]	
11/2/2006	5452	Cingular Wireless	\$ 94.31	Act.# [REDACTED]	
12/1/2006	5483	Cingular Wireless	\$ 83.32	Act.# [REDACTED]	
1/2/2007	5520	Cingular Wireless	\$ 89.37	Act.# [REDACTED]	
2/1/2007	5559	Cingular Wireless	\$ 81.62	Act. # [REDACTED]	
3/1/2007	5594	Cingular Wireless	\$ 83.28	Act. # [REDACTED]	
			<u>\$898.86</u>		
			F		

Note: CHUD paid 100% of the cost of a land line at [REDACTED] house as well as paying the full cost of this cellular phone.

Note: Due to privacy concerns, names and/or account numbers have been redacted.



Note: Due to privacy concerns, names and/or account numbers have been redacted.

Exhibit 7

One check paid directly to wireless vendor, also paid as part of maintenance person's invoice.

CARTHAGE, TN. 37030  
Home Phone 615-774- [REDACTED]

CELL PHONE BILL \$65.41

BILLING DATE: JUNE 1-15-05  
ACCOUNT ID:  
PREVIOUS BALANCE:

ACCOUNT ACTIVITY				
DATE	INVOICE NO.	DETAILS	CHARGES	PAYMENT
JUNE 1-15-05		LOCK [REDACTED]	\$15.00	
		RE-READ METER PATTERSON LN	\$15.00	
		REQUESTED BY OWNER		
		FINAL READING ON [REDACTED] RENT	\$15.00	
		DOT MEETING 3 HRS.	\$135.00	
		METER LITTLE CREEK	\$300.00	
		ROAD BORE	\$350.00	
		CELL PHONE BILL	\$65.41	
		LOCK [REDACTED]	\$15.00	
		FINAL READING FOR W. [REDACTED]	\$15.00	
		LOCK C. [REDACTED]	\$15.00	
		FINAL READING [REDACTED]	\$15.00	
		METER BEASLEY HOLLOW	\$300.00	
		ROAD BORE	\$350.00	
		SERVICE REPAIR	\$135.00	
		LOCK [REDACTED]	\$15.00	
<b>Totals:</b>			<b>\$1,755.41</b>	<b>\$0.00</b>
			<b>Please pay this amount:</b>	<b>\$1,755.41</b>

The maintenance worker received the full amount of his invoice—including the cell phone bill.

CORDELL HULL UTILITY DISTRICT 178 4850  
P.O. BOX 317  
CARTHAGE, TN 37030

DATE 6-30-05 48-770941

PAY TO THE ORDER OF Cingular Wireless \$ 65.41  
Sixty-five & 41/100 DOLLARS

**CITIZENS BANK**

FOR Act# [REDACTED]

#004850# ⑆064107729⑆ [REDACTED] ⑆0000006541⑆

4850 07/07/05 \$65.41

Note: Due to privacy concerns, names and/or account numbers have been redacted.



**INVOICE**

P.O. BOX 94081 PALATINE, IL 60094-4081  
 CUSTOMER SERVICE 1-800-789-8965  
 SEE REVERSE FOR LOCATION INFORMATION  
 TIN 36-2952904

ACCOUNT NO. 03604378	INVOICE NO. 7901083	INVOICE DATE 06/14/05
10910	TERMS-NET 30**	5

SHIP TO

SOLD TO CORDELL HULL UTILITY DISTRICT PO BOX 317 CARTHAGE TN 37030-0317	CORDELL HULL UTILITY DISTRICT 3 FOUR WAY INN LN CARTHAGE TN 37030
--	---

C	V	CUSTOMER ORDER NO.	QUILL ORDER NO.	DATE ORDERED	DATE SHIPPED	CTNS	WEIGHT	SHIPPED VIA
1	N	041-GP41A	5777691	06/14/05	06/14/05	2	33	UPS-ATLA NIT CT

STOCK NUMBER	DESCRIPTION	COLOR	F/P	QUANTITY SHIPPED	UNIT	PRICE	EXTENSION
041 7-30842	QUILL LEGAL STD STORAGE BOX		P	1.0CT		64.680	64.68
901 83700	DO-IT YOURSELF CUBICLE SIGN		P	1.0EA		16.990	16.99
041 IND50008-T	CUSTOMIZED LINE DATER						

\*THE ITEM ABOVE WILL BE SHIPPED AND BILLED SEPARATELY\*

999 5972234 3 PIECE TRAVEL SET GREEN P 1.0EA \*NO CHARGE\*

**PAID**

CK. NO. 4837

DATE 6-17-05

MDSE TOTAL	TAX	SMALL ORD PROC CHG	FREIGHT	INVOICE TOTAL	PAYMENTS APPLIED	CREDITS APPLIED	PAYABLE IN U.S. DOLLARS	AMOUNT DUE
81.67	7.96		FREE	89.63				89.63

\*\*CUSTOMER IS RESPONSIBLE FOR COLLECTION FEES, COURT COSTS AND REASONABLE ATTORNEY FEES TO COLLECT UNPAID ACCOUNTS\*\*

Exhibit 9



**INVOICE**

P.O. BOX 94081 PALATINE, IL 60094-4081  
 CUSTOMER SERVICE 1-800-789-8865  
 SEE REVERSE FOR LOCATION INFORMATION  
 TIN 36-2952904

ACCOUNT NO. 03604378	INVOICE NO. 4856703	INVOICE DATE 02/22/07
30351	TERMS-NET 30**	5

SHIP TO

S O L I D T O  CORDELL HULL UTILITY DISTRICT PO BOX 317 CARTHAGE TN 37030-0317	CORDELL HULL UTILITY DISTRICT 3 FOUR WAY INN LN CARTHAGE TN 37030
--	---

C Y	CUSTOMER ORDER NO.	QUILL ORDER NO.	DATE ORDERED	DATE SHIPPED	CTNS	WEIGHT	SHIPPED VIA
1 N	HARRISMELANIE	7015981	02/22/07	02/22/07	1	32	UPS-ATLA NIT CT

STOCK NUMBER	DESCRIPTION	COLOR	F/P	QUANTITY SHIPPED	UNIT	PRICE	EXTENSION
999 MPG11	MATIC GRIP MECHANICAL PENCIL	ASSTD	P	1.00Z		6.490	6.49
999 7-11510	QB PRESSBOARD BNDR, 9-1/2X11"	RED	P	2.0PK		12.450	24.90
045 117-2-I	CASH RECEIPT BOOK, 3UP DUP						
*THE ITEM ABOVE WILL BE SHIPPED AND BILLED SEPARATELY*							
901 7-11217	QUILL RIB F/PANA/OLIVETTI CORR BLACK P		P	2.0EA		5.990	11.98
999 720700	QB MULTI-PURPOSE PAPER 20#	WHITE	P	5.0PK		4.900	24.50
999 27279	QUILL SALES ADS		P	1.0EA		*NO CHARGE*	*
999 MPC888M	COBY 1GB MP3 PLAYER		P	1.0EA		*NO CHARGE*	*

\*\*\*\*\*

**\*\*BUYING OFFICE SUPPLIES IS JUST ONE SMALL PART OF YOUR DAY. \***

**\*\*GET IT DONE FAST AT WWW.QUILL.COM. VISIT OUR NEW \***

**\*\*SELF-SERVICE CENTER AND MANAGE YOUR ACCOUNT ONLINE. \***

\*\*\*\*\*

**PAID**

CL NO. 5585

DATE 2-26-07

MOSE TOTAL	TAX	SMALL ORD PROC CHG	FREIGHT	INVOICE TOTAL	PAYMENTS APPLIED	CREDITS/REBATES APPLIED	PAYABLE IN U.S. DOLLARS	AMOUNT DUE
77.82	7.59		FREE	85.41				85.41

\*\*CUSTOMER IS RESPONSIBLE FOR COLLECTION FEES, COURT COSTS AND REASONABLE ATTORNEY FEES TO COLLECT UNPAID ACCOUNTS\*\*

1- BC Mechanical pencils.  
 type- Ribbon

M

**RESOLUTION**

Whereas, Section 3 of Public Chapter No. 405 of the Tennessee Public Acts provides that a utility district has the power to adopt ethical standards for its officials and employees;

Whereas, Section 3 of Public Chapter No. 405 of the Tennessee Public Acts directed the Tennessee Association of Utility Districts (TAUD) to prepare a model of ethical standards for the employees of utility districts and of water, wastewater and gas authorities in Tennessee and to submit such model of ethical standards to the Utility Management Review Board (UMRB) for its approval;

Whereas, a utility district or water, wastewater or gas authority cannot adopt the TAUD model of ethical standards until the TAUD model is approved by the UMRB;

Whereas, the UMRB approved the TAUD model of ethical standards by Order dated August 2, 2007; and

Whereas, the Cordell Hull Utility District desires to adopt the TAUD model of ethical standards approved by the UMRB for the officials and employees of the Cordell Hull Utility District.

**Wherefore, Premises Considered, Be It Hereby Resolved by the Board of Directors** that Cordell Hull Utility District adopts the TAUD model of ethical standards for officials and employees of utility districts and water, wastewater and gas authorities as the ethical standards for the officials and employees of Cordell Hull Utility District effective immediately and that the President of the Board is directed to write a letter to the Tennessee Ethics Commission to inform the Commission that the Cordell Hull Utility District has adopted the TAUD model of ethical standards and shall enclose a copy of this Resolution with such letter showing the date of the

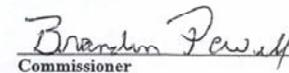
Exhibit 10-Page 2

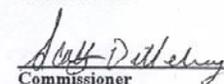
Page 2

adoption of the TAUD model of ethical standards. Attached to this Resolution are the ethical standards adopted for Cordell Hull Utility District using the TAUD model of ethical standards.

Dated this 17 day of Jan., 2008.

  
\_\_\_\_\_  
Commissioner

  
\_\_\_\_\_  
Commissioner

  
\_\_\_\_\_  
Commissioner

**CODE OF ETHICS  
CORDELL HULL UTILITY DISTRICT**

**Section 1. Definitions.**

- (1) "Board of Commissioners" means the governing board of a utility district.
- (2) "Officials and employees" means and includes any official, whether elected or appointed, officer, employee or servant (whether compensated or not) of the utility district.
- (3) For the purpose of the disclosure of personal interests in accordance with this Code of Ethics, "personal interest" means a financial interest of the official or employee, or a financial interest of the official's or employee's spouse or child living in the same household, in the matter to be voted upon, regulated, supervised, or otherwise acted upon in an official capacity.

**Section 2. Disclosure of personal interest in voting matters.** An official or employee with the responsibility to vote on a measure shall disclose during the meeting at which the vote takes place, before the vote and to be included in the minutes, any personal interest that affects or that would lead a reasonable person to infer that it affects the official's or employee's vote on the measure. In addition, the official or employee may, to the extent allowed by law, recuse himself or herself from voting on the measure.

**Section 3. Disclosure of personal interest in non-voting matters.** An official or employee who must exercise discretion relative to any matter other than casting a vote and who has a personal interest in the matter that affects or that would lead a reasonable person to infer that it affects the exercise of the discretion shall disclose, before the exercise of the discretion when possible, the interest on the attached disclosure form and file the disclosure form with the Board of Commissioners. In addition, the official or employee may, to the extent allowed by law, recuse himself or herself from the exercise of discretion in the matter.

**Section 4. Acceptance of gifts and other things of value.** An official or employee, or an official's or employee's spouse or child living in the same household, may not accept, directly or indirectly, any gift, money, gratuity, or other consideration or favor of any kind from anyone other than the utility:

- (1) For the performance of an act, or refraining from performance of an act, that he would be expected to perform, or refrain from performing, in the regular course of his duties; or
- (2) That a reasonable person would understand was intended to influence the vote, official action or judgment of the official or employee in executing utility business.

**Section 5. Ethics Complaints.** Questions and complaints regarding violations of this Code of Ethics or of any violation of state law governing ethical conduct should be directed to the President of the Board of Commissioners of the utility district. If a question or complaint involves the President of the utility district's Board, the question or complaint should be directed to the Secretary of the Board of Commissioners. Complaints shall be in writing and signed by the person lodging the complaint and shall set forth in reasonable detail the facts upon which the complaint is based.

The President or Secretary of the Board of Commissioners shall direct the utility district's retained attorney to investigate any credible complaint against an official or employee charging any violation of this Code of Ethics and may request a legal opinion or recommendation for action. The utility district's attorney may request the Board of Commissioners to hire another attorney to conduct the investigation or to give a legal opinion or recommendation when he or she has or will have a conflict of interest on a particular complaint. The investigating attorney shall report the results of his or her investigation and any legal opinion or recommendation requested to the utility district's Board of Commissioners. If a member of the Board of Commissioners is the subject of a complaint, such member shall recuse himself or herself from all proceedings involving such a complaint. The Board of Commissioners may:

- (1) in the case of a member of the Board of Commissioners, publicly censure such member if the Board of Commissioners finds such action warranted;
- (2) in the case of a member of the Board of Commissioners, report the complaint and actions taken by the Board to the Utility Management Review Board;
- (3) in the case of an employee, refer the matter to the official responsible for supervision of the employee for possible disciplinary action if the official finds discipline warranted; or
- (4) in a case involving possible violation of state statutes, refer the matter to the district attorney for possible ouster or criminal prosecution.

The interpretation of reasonable person in the circumstances shall be used in interpreting and enforcing this Code of Ethics. When a violation of this Code of Ethics constitutes a violation of a utility district's personnel policy, the violation shall be dealt with as a violation of the personnel policy rather than as a violation of this Code of Ethics.

**Section 6. Applicable State Laws.** In addition to the ethical principles set out in this Code of Ethics, state laws also provide a framework for the ethical behavior of utility district officials and employees in the performance of their duties. Officials and employees should familiarize themselves with the state laws applicable to their office or position and the performance of their duties. To the extent that an issue is addressed by state law (law of general application, public law of local application, local option law, or private act), the provisions of that state law, to the extent they are more restrictive, shall control. Following is a brief summary

of selected state laws concerning ethics for utility district officers and employees. For the full text of these statutes, see the Tennessee Code Annotated (T.C.A.) sections indicated.

Campaign finance—T.C.A. Title 2, Chapter 10. Part One (campaign financial disclosure) requires candidates for public office to disclose contributions and contributors to their campaigns. Part Three (campaign contribution limits) limits the total amount of campaign contributions a candidate may receive from an individual and sets limits on the amount a candidate may receive in cash.

Conflict of interest—T.C.A. §12-4-101 is the general conflict of interest statute that applies in all counties. It prohibits anyone who votes for, lets out, or in any manner supervises any work or contract from having a direct financial interest in that contract, purchase or work, and it requires disclosures of indirect financial interests by public acknowledgement.

Conflict of interest disclosure statements—T.C.A. §8-50-501 and the following sections require candidates and appointees to local public offices who are elected to file a disclosure statement with the state ethics commission listing major sources of income, investments, lobbying activities, professional services provided, bankruptcies, certain loans, and other information, and to keep these statements up to date.

Honoraria—T.C.A. §2-10-116 prohibits elected officials from accepting an honorarium (including money or anything of value, but not including reimbursement for actual expenses) for an appearance, speech, or article in their official capacity.

Crimes involving public officials—T.C.A. § 39-16-101 and the following sections prohibit bribery, soliciting unlawful compensation, and buying and selling in regard to offices.

Official misconduct—T.C.A. §39-16-402 applies to public servants and candidates for office and prohibits unauthorized exercise of official power, acting in an official capacity exceeding the servant's power, refusal to perform a duty imposed by law, violating a law relating to the servant's office or employment, and receiving a benefit not provided by law.

Official oppression—T.C.A. §29-16-403 prohibits abuse of power by a public servant.

Bribery for votes—T.C.A. §§2-19-121, 2-19-126, and 2-19-127 prohibit bribery of voters in elections.

Misuse of official information—T.C.A. §39-16-404 prohibits a public servant from attaining a benefit or aiding another person in attaining a benefit from information which was obtained in an official capacity and is not available to the public.

Ouster law—T.C.A. §8-47-101 sets out conduct that is punishable by ouster from office, including misconduct in office and neglect of duty.

Exhibit 10-Page 6

Personnel not to benefit from water service agreements - T.C.A. § 7-82-310 prohibits utility district commissioners and employees from receiving money or other goods or services of value for the installation of water service within the utility district or the sale of materials to be installed within the utility district

**PURCHASING POLICY**

Pursuant to Tennessee Code Annotated Title 7, Chapter 82, Part 8, (TCA 7-82-801, et. seq.) the CORDELL HULL UTILITY DISTRICT of SMITH COUNTY, TENNESSEE (The District) adopts the following purchasing policy:

**A. COMPETITIVE BIDDING REQUIRED**

Competitive bidding is required for all purchases, leases, and lease-purchases (hereinafter collectively, referred to as purchases) by the District except as set forth in paragraph B.

**B. EXCEPTIONS**

The following purchases are excepted from the District's competitive bidding requirements unless otherwise caused to be included by the Board of Commissioners:

- (1) Purchase of items or groups of items less than \$10,000.00,
- (2) Contracts to provide a continuous work force through independent contractors for the maintenance, installation, and repair of the systems or for items sold at retail by the District,
- (3) Purchase of goods or services for which there is a single source of supply,
- (4) Purchases for immediate delivery in actual emergencies arising from unforeseen causes,
- (5) Purchase of real property,
- (6) Purchases from any federal, state, or local government unit or agency, or nonprofit corporation, or
- (7) Purchases in the open market, including fuel and fuel product purchases, and
- (8) Purchases of items for resale.

**C. COMPETITIVE BIDDING PROCEDURES**

When a purchase requires competitive bidding under this policy, the procedures set forth in this paragraph must be followed:

- (1) Before a request for bid is made to any vendor, the request for bid must be approved by the President.

Exhibit 11-Page 2

- (2) A request for bid may be made either by telephone or in writing. The request for bid should include sufficient information to permit a vendor to prepare a bid for the anticipated purchase.
- (3) The District will obtain at least three bids from vendors on the District's vendor list whenever possible. Bids may be made by telephone with a written confirmation or by submission of a written bid at the discretion of the President.
- (4) When the District makes a request for bid, the District will inform the vendors of the date the written confirmation of bid or written bid must be submitted. All written confirmation of bids may be mailed or hand delivered to the District's office.
- (5) The District will make its decision on which bid to accept after the bid submission deadline. Any bids submitted after the deadline may be rejected by the District.
- (6) The product or service will be purchased from the lowest qualified and responsible bidder. In determining who is the lowest qualified and responsible bidder, the District may consider the following factor's in addition to the price quoted:
  - (a) Apparent ability to perform
  - (b) quality
  - (c) purpose or use
  - (d) discount for prompt payment
  - (e) freight
  - (f) delivery date
  - (g) past performance
  - (h) other pertinent factors

The district is not obligated to purchase a product or service from the bidder with the lowest price when the factors outlined in this paragraph warrant an award to one other than the bidder with the lowest prices.

- (7) When the District accepts a bid, the District will notify the vendor in writing of its acceptance. When the District contemplates entering into a written contract with a vendor, acceptance of the bid will be consummated by the execution of the written contract.
- (8) The District may require vendors to submit a bid bond with their bids. A bid bond must be issued by a surety company licensed to do business in the State of Tennessee. Bid bonds submitted by unsuccessful vendors will be returned upon award to contract. Personal checks are not acceptable in the place of bid bonds; however, bank cashier's checks will be accepted.

- (9) The District may require vendors to submit a performance bond. A performance bond must be issued by a surety company licensed to do business in the State of Tennessee. When required, the amount will be stated. Performance bonds must be filed with the District within ten (10) working days after the receipt of request for bid. Personal checks are not acceptable in the place of performance bonds; however, bank cashier's checks will be accepted. An irrevocable letter of credit or a certificate of deposit from a state or national bank or a state or federal savings and loan association having its principal office in Tennessee held by the District may be accepted in lieu of a performance bond subject to approval of the terms and conditions of said irrevocable letter of credit or certificate of deposit.

D. VENDOR LIST

The District will use as its vendor list the vendor list of the Tennessee Association of Utility Districts (TAUD) contained in the TAUD Official Purchasing Guide.

E. COMPLIANCE

- (1) When the purchase of a product requires competitive bidding under these procedures, the District shall create a file for this purchase transaction.
- (2) All writings required by this policy shall be placed in this file including any written request for bids, written confirmation of bids, and written bids.
- (3) When the District makes a request for bid by telephone, the District will submit a notation in the file which states the bid deadline.
- (4) When the District accepts a bid by entering into a written contract, the written contract or a copy thereof shall be placed in the file.
- (5) If a bid is awarded to someone other than the lowest bidder, the president shall include a memo in the file stating the reason the winning vendor was selected.

F. OPEN MARKET PURCHASES

Open market purchases include any purchase of a product or service which is customarily purchased by the public from retail establishments subject to competition.

Exhibit 11-Page 4

- (a) When the District makes an open market purchase for any product other than fuel and fuel products, the President will either issue a check for the purchase or authorize the purchase from the District's petty cash fund. In either event, the purchase will be recorded in the District's purchase journal and will be assigned a purchase order number.
  - (b) All purchases of fuel and fuel products will be made from a service station or other supplier selected by the Board of Commissioners for use by the District. Each District employee who obtains fuel and fuel products for this vendor will sign a charge slip for the product purchased. The District will pay the vendor monthly for fuel and fuel products purchased the month before as evidenced by charge slips sent to the District's business office.
- G. All purchases made by the District except those authorized from the petty cash fund will be recorded in a purchase journal and assigned a purchase order number. All petty cash disbursements will be evidenced by proper receipts.

Office Employee: Mileage Reimbursed on Days not Worked

Federal and State Holidays:

		Mileage	
		Reimbursement	
Date		Received	
2/20/2006	\$	7.28	
4/14/2006		7.28	
5/29/2006		7.28	
			<u>21.83</u>

Other Days not Worked

1/13/2006	\$	7.28	
4/1/2006		7.28	
4/7/2006		7.28	
4/15/2006		7.28	
4/29/2006		7.28	
5/5/2006		7.28	
5/13/2006		7.28	
5/27/2006		7.28	
7/1/2006		7.28	
7/3/2006		7.28	
8/18/2006		6.68	
8/26/2006		6.68	
1 11/11/2006		6.68	
11/24/2006		6.68	
			<u>99.45</u>
			<u>\$121.28</u>

1-Although 11/11/2006 is a holiday, the employee's time sheet indicated that the office was open and that a substitute worked.

Exhibit 13

Office Employee: Paid Days not Worked, Excluding Federal and State  
Holidays

Date	Hours
1/13/2006	8.0
4/1/2006	4.0
4/7/2006	8.0
4/15/2006	4.0
4/29/2006	4.0
5/5/2006	8.0
5/13/2006	8.0
5/27/2006	4.0
7/1/2006	4.0
7/3/2006	8.0
8/18/2006	8.0
8/19/2006	4.0
8/26/2006	4.0
11/24/2006	8.0
11/25/2006	4.0
12/23/2006	4.0
	<u>92.0</u>