

INVESTIGATIVE AUDIT REPORT

CUMBERLAND UTILITY DISTRICT

JANUARY 1, 2002, THROUGH DECEMBER 31,
2002



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

April 27, 2004

Members of the Board of Commissioners
Cumberland Utility District
P. O. Box 950
Harriman, TN 37748

Gentlemen:

Presented herewith is the report on our investigative audit of the records of the Cumberland Utility District. This examination focused on the period January 1, 2002, through December 31, 2002. However, when the examination 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*. The purpose of our examination was to determine the extent of the entity's compliance with certain laws and regulations, including those in the above-mentioned manual.

Our audit revealed that the former office manager diverted utility district cash collections for her personal benefit and concealed this by issuing a \$1,338 fraudulent district check. Also, the former office manager and a clerk used thousands of dollars in cash from district collections without authority. This matter was referred to the local district attorney general.

In February 2004, the Roane County Grand Jury indicted the former office manager and a clerk on one count each of theft over \$1,000.

Members of the Board of Commissioners
Cumberland Utility District
April 27, 2004

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,

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

SUITE 1600
JAMES K. POLK STATE OFFICE BUILDING
505 DEADERICK STREET
NASHVILLE, TENNESSEE 37243-0271
PHONE (615) 401-7871
FAX (615) 741-1551

Dennis F. Dycus, CPA, CFE, Director
Division of Municipal Audit

April 27, 2004

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

Dear Mr. Morgan:

As part of our on-going process of examining the records of utility districts, we have completed our investigative audit of the records of the Cumberland Utility District. This examination focused on the period January 1, 2002, through December 31, 2002. However, when the examination 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*. The purpose of our examination was to determine the extent of the entity's compliance with certain laws and regulations, including those in the above-mentioned manual.

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In February 2004, the Roane County Grand Jury indicted the former office manager and a clerk on one count each of theft over \$1,000.

Mr. John G. Morgan
Comptroller of the Treasury
April 27, 2004

If after your review, you have any questions, I will be happy to supply any additional information which you may request.

Sincerely,

Dennis F. Dycus, CPA, CFE, Director
Division of Municipal Audit

**INVESTIGATIVE AUDIT OF THE RECORDS OF THE
CUMBERLAND UTILITY DISTRICT
FOR THE PERIOD JANUARY 1, 2002, THROUGH DECEMBER 31, 2002**

LEGAL ISSUES

1. **ISSUE: **Fraudulent check****

The former office manager diverted utility district cash collections for her personal benefit. To conceal the diverted district collections, the former office manager prepared a \$1,338 fraudulent utility district check payable to the district. The fraudulent check was included with a bank deposit that district records indicated consisted entirely of customer collections. When the fraudulent canceled check was returned with the related bank statement, the former office manager altered the payee and the endorsement on the check, and prepared fraudulent invoices to conceal the true nature of the check. (Refer to exhibit.)

2. **ISSUE: **Employees' unauthorized use of district cash****

Over a period of approximately two years, the former office manager and a clerk used thousands of dollars in cash from district collections without authority. The clerk stated that she intended to repay the district. Our audit revealed that these employees took cash collections and replaced them with checks from subsequent collections. The cash was apparently used by the employees for their own personal benefit.

We identified various personal checks or other payments from the employees being deposited into a district bank account periodically, indicating that at various times, the employees were attempting to repay the district for the money that was taken. It appears that by the end of December 2002, the clerk had repaid all of the money she had taken.

This matter was referred to the local district attorney general. In February 2004, the Roane County Grand Jury indicted the former office manager and a clerk on one count each of theft over \$1,000.

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GLOSSARY OF STATE STATUTES

Section 39-14-103, *Tennessee Code Annotated*

Theft of property.

A person commits theft of property if, with intent to deprive the owner of property, the person knowingly obtains or exercises control over the property without the owner's effective consent.

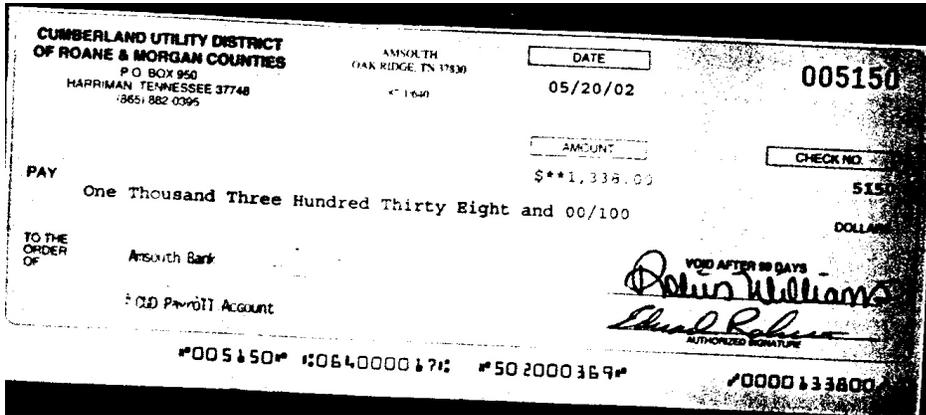
Section 39-14-105, *Tennessee Code Annotated*

Grading of theft.

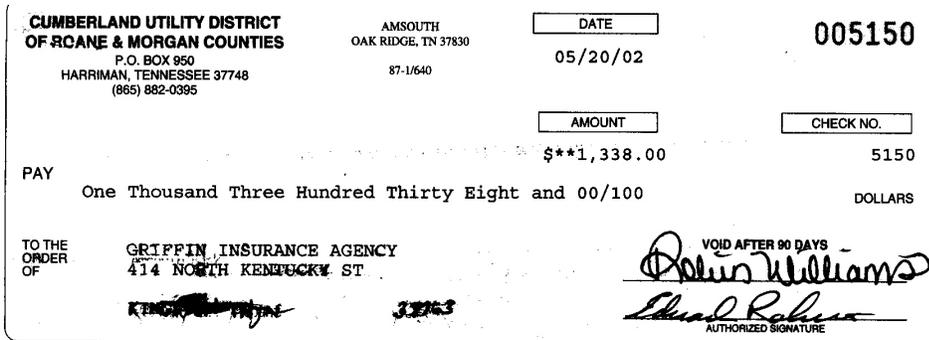
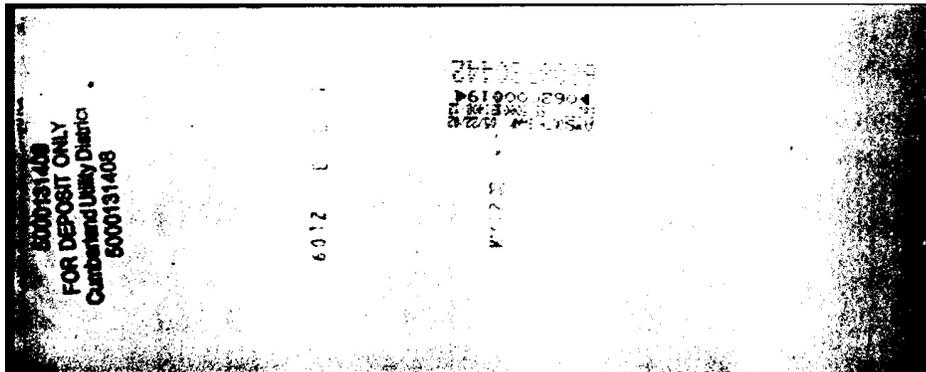
Theft of property or services is . . .

(3) A Class D felony if the value of the property or services obtained is one thousand dollars (\$1,000) or more but less than ten thousand dollars (\$10,000). . . .

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Unaltered check--copy received from bank



Altered check in district's files

