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Members of the Board of Commissioners
Natural Gas Utility District of Hawkins County
P.O. Box 667
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Commissioners:

We have completed our investigative audit of selected records of the Natural Gas Utility District of Hawkins County (Hawkins County Gas Utility). The investigation was initiated after our office became aware of the district's participation in a 2009 promotional trip to Central America. The audit focused on that trip. However, when warranted we expanded the scope.

Our investigative audit determined that the district improperly spent \$17,682 to send nine district officials, employees, spouses, or other guests¹ on a 2009 trip to an exotic all-inclusive resort in the Central American country of Costa Rica. The trip was in conjunction with the East Tennessee Natural Gas Homebuilder's program, an organized promotional effort co-sponsored by Spectra Energy, the district's natural gas pipeline vendor.

The stated purpose of the builder's program was to encourage local builders and developers to install natural gas appliances in new construction which would, in turn, increase total customers served as well as per customer consumption. Participating builders earned points for each natural gas appliance they installed. Builders who earned a certain level of points were eligible for a trip for themselves and a guest. The trip was both a reward for past performance as well as an incentive to builders to add natural gas appliances to future projects.

The district employees and officials who participated apparently were not required to earn their trip; they were selected by district management. There were virtually no organized events that required either the district employees' attendance or participation. District officials were not clear on how district employees' and spouses' participation in the trip increased either the reward to builders for installing gas appliances, or the incentive for builders to install gas appliances in future projects.

Our investigative audit revealed that the district paid a total of \$53,047 for a portion of the trip cost for 27 travelers, which included not only district employees and their spouses/guests

¹ The guests included a videographer and his spouse.

but also the qualifying builders and their guests. The overall cost of the trip was shared more or less evenly between Natural Gas Utility District of Hawkins County and Spectra Energy. The per person cost of each trip, including airfare, was roughly \$3,575. However, since Spectra paid for a portion of the costs for employees and their guests, the per person cost to the district for the employees and their guests was approximately \$1,965.² Spectra contributed the balance on the trip for each district employee and guest who attended.

Our investigative audit identified four specific areas of concern:

- **Use of public funds for Costa Rica trip for public officials**

The board of commissioners have a duty to operate the district for the benefit of the district's customers. Promotional efforts by public utilities could be considered a legitimate district expense if there were a likelihood that the expenditures would ultimately benefit the customers of the district by increasing system efficiency and lowering utility rates. However, it is difficult to determine a benefit to district customers derived from funding an extravagant trip to Costa Rica for district employees.

- **Use of public funds for Costa Rica trip for spouse or guest of public officials**

It is difficult to determine a benefit to district customers derived from funding a trip to Costa Rica for the spouses or other guests of district employees. The district's own travel policy strictly prohibits expenditure of government funds for this purpose.

- **Public officials not taking leave time for Costa Rica trip**

The trip was to an all-inclusive resort. There were virtually no organized professional events. Based on the descriptions by some of those attending, and a video produced for the district, the trip was essentially a vacation. However, our review revealed that the district employees did not use vacation leave while on this Costa Rica trip.

- **Public officials accepting gifts from vendor**

Since a portion of the cost of the trips for the employees and their spouses was paid by a district vendor, consideration should have been given to the district's ethics policy. The Natural Gas Utility District of Hawkins County *Code of Ethics* Section 4, states:

² This is a per trip cost based on the 27 travelers identified by district staff. The district actually committed to and paid for 30 trips, which would have made the per trip cost for the district of \$1,768.

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

We also learned that the utility district paid a portion of the cost of a Hawaiian cruise in 2005 and a Mediterranean cruise in 2007 for district employees and their guests. Both of these trips were also in conjunction with the Homebuilder's program.

Government officials are placed in a position of public trust. They should be held accountable for any abuse of that trust. We recommend the board of commissioners promptly take all necessary action to secure repayment of district paid expenses from district employees for the 2009 Costa Rica trip.

This matter has been referred to the local district attorney. If you have any questions concerning the above matter, please contact me.

Very truly yours,



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

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