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Members of the Board of Commissioners
Oak Ridge Utility District
120 South Jefferson Street
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Members of the Board of Commissioners:

We have completed our investigative audit of selected records of the Oak Ridge Utility District. The audit focused on specific complaints received by our office. However, when warranted we expanded the scope.

General Manager's acquisition of used district equipment

Documents indicated that the Oak Ridge Utility District general manager's acquisition of a piece of equipment previously owned by the district created the appearance of conflict between his public and personal interests. According to the district's mechanic, the district's 1989 Case 1835C Skid Steer sustained a cracked cylinder head in December 2007. The mechanic determined that a new cylinder head would cost about \$3,000. Based on this information and the relative age of the machine, on January 23, 2008, the general manager recommended, and members of the board of commissioners approved, the purchase of a replacement skid steer. According to the district's mechanic, at some point prior to the purchase of a new skid steer, he found out that the damaged cylinder head could be repaired (instead of replaced) at a substantially lower cost. On January 30, 2008, the general manager signed the purchase order agreeing to buy a new skid steer from a Knoxville vendor. The vendor offered, and the general manager agreed to, a trade-in allowance of \$1,000 for the district's damaged skid steer. The next day, January 31, 2008, the general manager purchased the damaged skid steer from the vendor for the same price, \$1,000, plus tax. The machine remained at the district.

The general manager reported at least certain aspects of this transaction to members of the board of commissioners about four weeks after the transaction on February 27, 2008. According to the minutes of that meeting, members of the board of commissioners apparently determined that the purchase of the skid steer by the general manager had been "at arm's length" and they had no objection to the arrangement.

However, our investigative audit revealed that the general manager violated several district practices during his acquisition and repair of the district's used skid steer. In addition, auditors determined that the skid steer transactions either provided a personal gain or gave the appearance of providing a personal gain to the general manager.

Auditors determined that

- The general manager was responsible for authorizing the trade in of the used skid steer. The general manager told state auditors he knew the offered trade-in allowance of \$1,000 was unreasonably low¹. Auditors found the vendor had been prepared and willing to sell the new skid steer to the district without taking the old machine as trade in. However, the general manager approved the trade instead of reconsidering the arrangement and removing the used skid steer from the transaction, even after learning of the inexpensive repair option.
- The skid steer never left district property between the time it was traded to the vendor and the time the general manager purchased it. In addition, the skid steer continued to remain on district property for at least another month during the time the damaged part was repaired² in a Knoxville shop and then reassembled by the Oak Ridge Utility District mechanic.
- The vendor's salesman told state auditors he intended to sell the used machine as scrap. He also stated that normally, when his company takes a machine in trade that is not completely assembled but they plan to sell as scrap, they do not ask for it to be reassembled. However, he told auditors that, according to the handwriting on the invoice, he had included as a condition to the trade that the district reassemble the machine. The only one to benefit from reassembling³ the used skid steer was the general manager.
- When the district's mechanic reassembled the machine in the district's shop, he did not simply reconstruct the parts as they were when the vendor acquired the machine on January 30, 2008. Instead, he waited until late February or early March 2008 in order to install the remanufactured and repaired parts, as well as other new parts,

¹ Research by the district's operations manager and controller in July 2011 revealed that the average price on an online auction site for a functioning model was about \$7,000.

² The repair of the cylinder head, as well as the new gasket set and head bolts, were paid for personally by the general manager.

³ The district's mechanic estimated he spent 20 hours reassembling the machine, which cost the district approximately \$320 in wages, not including other payroll and overhead costs.

provided by the general manager. The only one to benefit from reassembling new and remanufactured parts into the used skid steer was the general manager.

- After the general manager purchased the machine, district employees made other repairs to it in the district's shop, apparently after working hours. In addition, district oil, an oil filter, and welding rods were used to repair and reassemble the machine. According to the general manager, the district's practice had been to prohibit working on personal vehicles or property in the district's shop and to prohibit taking district supplies for personal use. However, he acknowledged that for the repair of the skid steer, he had violated both those rules⁴.

Members of the board of commissioners should prohibit transactions that either provide a personal gain or give the appearance of providing a personal gain to the public official overseeing the transaction. In addition, members of the board of commissioners should ensure that all employees, including upper management, follow the accepted practices, rules, or policies of the district.

Mediterranean cruise

Our investigative audit determined that in 2007, the district paid for a three-day trip to Rome, Italy for two district employees and their spouses at a cost of \$2,964 to rate payers. This three-day trip preceded a Mediterranean cruise conducted in conjunction with the East Tennessee Natural Gas Homebuilder's program⁵, an organized promotional effort co-sponsored by Spectra Energy, the district's natural gas pipeline vendor. The district's share of the Mediterranean cruise was \$26,919, \$5,982 of which was on behalf of the two employees and their spouses⁶.

Government officials are placed in a position of public trust. They should be held accountable for any abuse of that trust. We recommend that members of the board of commissioners promptly take all necessary action to secure repayment of district-paid expenses from district employees for the 2007 three-day trip to Rome. In addition, regarding the Mediterranean Cruise, members of the board of commissioners should attempt to identify and

⁴ The general manager issued a check to the district dated September 30, 2011, for \$100 to reimburse the district for any supplies that may have been used on his skid steer in February or March 2008.

⁵This office issued a letter (<http://www.comptroller1.state.tn.us/Repository/MA/Investigative/oakridgeudcostaricatrip.pdf>), dated October 25, 2010, addressing the district's participation in a Homebuilder's Trip to Costa Rica.

⁶ According to district records, the cost of the cruise was \$2,991 per person. The district paid one half of the total expense; therefore, the cost to district rate payers for each employee and employee spouse was \$1,495.50.

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seek reimbursement for all district funds used to pay 1) travel expenses for the spouses of employees, and/or 2) any other nondistrict expenses for employees.

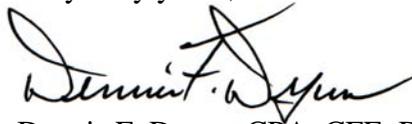
XM radio for general manager's district vehicle

Our investigative audit revealed that in July 2009, the district paid for the general manager's subscription to XM Satellite Radio at a cost to rate payers of \$463. In 2008, the district purchased a new Chevrolet Tahoe for the general manager's use at a cost of \$38,820. The district's minimum bid specifications included the Z71 off-road package and the LT3 equipment package, which included leather seats, a premium sound system, and heated driver and passenger front seats. The district's minimum specifications also explicitly included XM Satellite Radio.

It is the responsibility of the members of board of commissioners to ensure that district staff uses ratepayer funds prudently and sensibly. It is difficult to determine a benefit to the district derived from providing an entertainment subscription for the district's general manager.

If you have any further questions regarding these matters, please contact me.

Very truly yours,



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

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