

INVESTIGATIVE AUDIT REPORT

POWELL-CLINCH UTILITY DISTRICT

JULY 1, 2008, THROUGH DECEMBER 31, 2009



State of Tennessee



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



STATE OF TENNESSEE

COMPTROLLER OF THE TREASURY

Justin P. Wilson

Comptroller

STATE CAPITOL

NASHVILLE, TENNESSEE 37243-9034

PHONE (615) 741-2501

October 18, 2010

Members of the Board of Commissioners
Powell-Clinch Utility District
203 First Street
Lake City, TN 37769

Gentlemen:

Presented herewith is the report on our investigative audit of selected records of the Powell-Clinch Utility District. This investigative audit focused on the period July 1, 2008, through December 31, 2009. However, when warranted, this scope was expanded.

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

Our investigative audit revealed that the former district president, Del Roberts, paid his personal credit card charges totaling at least \$79,816 with district funds. Our investigative audit further revealed that on June 23, 2009, Mr. Roberts instructed the payroll clerk to advance him his weekly payroll payment of \$1,836. Auditors also identified \$4,650 in travel advance checks payable to Mr. Roberts that were used primarily for his personal benefit. Mr. Roberts provided misleading and incomplete information to board of commissioners resulting in \$20,000 bonus. Mr. Robert incurred \$95,059 in personal expenses to the utility district. This matter has been referred to the local district attorney general.

The findings and recommendations in this report also 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
Powell-Clinch Utility District
October 18, 2010

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, appearing to read "Justin P. Wilson". The signature is fluid and cursive, with a prominent initial "J" and a long, sweeping underline.

Justin P. Wilson
Comptroller of the Treasury



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF MUNICIPAL AUDIT

Justin P. Wilson
Comptroller of the Treasury

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

October 18, 2010

Mr. Justin P. Wilson
Comptroller of the Treasury
State Capitol
Nashville, TN 37243-9034

Dear Mr. Wilson:

As part of our ongoing process of examining the records of utility districts, we have completed our investigative audit of selected records of the Powell-Clinch Utility District. This investigative audit focused on the period July 1, 2008, through December 31, 2009. However, when the audit warranted, this scope was expanded.

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

Our investigative audit revealed that the former district president, Del Roberts, paid his personal credit card charges totaling at least \$79,816 with district funds. Our investigative audit further revealed that on June 23, 2009, Mr. Roberts instructed the payroll clerk to advance him his weekly payroll payment of \$1,836. Auditors also identified \$4,650 in travel advance checks payable to Mr. Roberts that were used primarily for his personal benefit. Mr. Roberts provided misleading and incomplete information to board of commissioners resulting in \$20,000 bonus. Mr. Robert incurred \$95,059 in personal expenses to the utility district. This matter has been referred to the local district attorney general.

Mr. Justin P. Wilson
Comptroller of the Treasury
October 18, 2010

Our investigative audit also resulted in findings and recommendations related to the following:

1. Failure to establish and follow policies regarding credit cards
2. District policy violated by former district president's sale of leave
3. Commissioners received improper payment in lieu of group insurance
4. Accommodation to commissioners resulted in unnecessary travel costs
5. Natural gas bill adjustment justification not documented
6. Violation of district reimbursement of expense policy
7. Personal use of vehicle as a fringe benefit not reflected on employee's Form W-2
8. Failure to mark or identify all district vehicles
9. Lack of policy establishing reasonable expenses
10. Abuse of petty cash fund
11. Violation of employee purchase provision of handbook

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
POWELL-CLINCH UTILITY DISTRICT
FOR THE PERIOD JULY 1, 2008, THROUGH DECEMBER 31, 2009**

LEGAL ISSUES

1. **ISSUE:** **Former district president made unauthorized personal charges totaling \$79,816 on district credit card and paid for them with district funds**

Our investigative audit revealed that the former district president, Del Roberts, paid his personal credit card charges totaling at least \$79,816 with district funds. Without authority or permission from the board of commissioners, Mr. Roberts routinely charged personal purchases to credit cards issued in the name of Powell-Clinch Utility District. The credit card accounts were paid for with district funds. Many of the charges were purchases from vendors that were clearly not for a lawful district purpose, such as charges to Carnival Cruise Line, Disney World, and an oral surgeon. On a periodic basis, Mr. Roberts would identify, or direct one of his employees to attempt to identify the charges that were for his own personal benefit. However, he did not reimburse the district for these charges. Instead, for more than four years, he accumulated these charges in an “employee accounts receivable.” Our examination established that Mr. Roberts made no reasonable effort to reimburse the district for these personal charges. District records indicated his personal indebtedness to the district increased more than \$51,500 between January 2008 and January 2010. However, during that time he made payments on the balance of less than \$1,750.

Our investigative audit revealed questionable efforts that Mr. Roberts made to improperly reduce his unauthorized indebtedness to the district. Mr. Roberts:

- asked his accounting staff to remove over \$17,000 of his debt without providing any documentation. He told state auditors that, at the time, he wasn’t convinced that this portion was his debt. However, Mr. Roberts conceded to state auditors that he had since become satisfied that this debt was his.
- sold approximately \$20,000 worth of accumulated sick leave to repay a portion of his debt. However, this was in violation of district policy and the transaction was later reversed. (Refer to Finding 2.)

Minutes of meetings of the board of commissioners revealed that Mr. Roberts also requested and received permission from the board of commissioners for a one-time bonus of \$20,000 specifically to reduce his debt (Refer to Legal Issue 4.)

Our independent review of district credit card records revealed that Mr. Roberts' made additional personal charges which he had failed to properly acknowledge. Mr. Roberts acknowledged to state auditors that he had used the district credit card to make personal purchases.¹ He also acknowledged that he had made these personal charges without the board's permission or knowledge. Mr. Roberts stated that he wanted to pay all the money back as he was able to.

District records also established that, prior to December 2005, Mr. Roberts had already accumulated \$8,880 in debt to the district. Finally, state auditors identified other personal purchases totaling \$3,558, that Mr. Roberts admitted were for his personal benefit but that the district had paid for.

2. **ISSUE: Former district president directed an extra paycheck to himself**

Our investigative audit revealed that on June 23, 2009, Mr. Roberts instructed the payroll clerk to advance him his weekly payroll payment of \$1,836. He told the payroll clerk that he would simply skip his next payroll payment to make up for it. However, when the following payday arrived, he instructed the payroll clerk to pay him again as usual. As a result, Mr. Roberts received an extra paycheck that he was not authorized to receive.

3. **ISSUE: Former district president received improper travel advance for personal benefit**

Auditors identified a \$1,500 travel advance check payable to Mr. Roberts that was used primarily for his personal benefit. The check request form signed by Mr. Roberts indicated the money was for a "travel advance." However, there was no documentation indicating these funds were used for expenses for a district trip or for any other district related expense. Mr. Roberts acknowledged to state auditors that all but about \$100 of that advance was used for his own personal purposes. He also acknowledged that two other travel advance checks he received totaling \$3,250, were not used for district travel, but rather for his own personal benefit.

4. **ISSUE: Former district president provided misleading and incomplete information to board of commissioners resulting in \$20,000 bonus**

Minutes of the meetings of the board of commissioners revealed that in December 2009, when Mr. Roberts was instructed by the district's contract auditor to get board approval for his employee account receivable, he provided misleading and incomplete information

¹ Subsequent to the interview with state auditors, Mr. Roberts executed a promissory note with the district, promising to repay \$80,462 by June 30, 2010.

to the board of commissioners. According to the minutes of the January 28, 2010, meeting, as well as the recollections of the individual board members, Mr. Roberts' explanation for this debt was that it consisted primarily of travel expenses for his wife² over the years while she performed tasks for various natural gas associations. Mr. Roberts also informed the board that the personal debt totaled about \$31,000. However, district records contradict Mr. Roberts' claim. Our analysis of district records revealed that the majority of Mr. Roberts' personal charges had nothing to do with his wife's travel, and based on district records³ at the time of the meeting with the board, the balance of his unauthorized personal charges was actually almost \$70,000. Based on these two unsupported statements, the board of commissioners voted to give Mr. Roberts a one-time \$20,000 bonus to apply against his balance.⁴ Mr. Roberts acknowledged to state auditors that he had not revealed the complete circumstances to the commissioners because he was embarrassed.

Source	Amount
Unauthorized personal charges paid by district	\$79,816.00
Other prior debt	8,880.00
Improper travel advances used for personal use	4,650.00
Other unauthorized personal purchases	3,558.00
Unauthorized extra payroll check	1,836.00
Deductions	<u>(3,681.00)</u>
Total	<u>\$95,059.00</u>

² By district policy, expenses incurred by an employee's spouse were not an eligible district expense. In addition, the state attorney general has opined that such charges are illegal.

³ The district's record of Mr. Roberts' debt was primarily based on what he acknowledged owing the district. There had not been any independent or critical review of Mr. Roberts' charges at that time.

⁴ The board rescinded this bonus after discovering that Mr. Roberts had not disclosed to them all the facts related to his debt to the district.

FINDINGS AND RECOMMENDATIONS

1. **FINDING:** **Failure to establish and follow policies regarding credit cards**

The board of commissioners failed to establish policies or monitor activity related to credit cards issued in the district's name. The *Uniform Accounting Manual for Tennessee Utility Districts*, Section 2-6, 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.

We noted numerous deficiencies in internal controls and procedures related to district credit cards:

- a) District officials had not adopted guidelines on what type of transactions were permissible for charge on the district credit card. Cash advances should be prohibited.
- b) There was no thorough oversight or review of credit card charges to substantiate the appropriateness of purchases by any official who had supervisor responsibilities over the president. As noted in Legal Issue 1, there were numerous credit card charges that were clearly not for a valid district purpose and would have been regarded as suspicious even after a cursory review.
- c) There was no effort by district officials to ensure that they monitored all credit cards issued in the name of the district. Our investigative audit also revealed that a majority of charges for all of the district's credit cards had no detailed invoices on file at the district's office. For instance, management routinely charged meals in Anderson County on the district cards. However, there was no documentation explaining why the meals were necessary or who they were for. As a result, records were insufficient to determine if the district received the benefit of numerous purchases.

RECOMMENDATION:

To ensure only authorized, permissible charges are made on district credit cards, district officials should formulate clear, comprehensive credit card policies and procedures.

MANAGEMENT'S RESPONSE:

Members of the Board of Commissioners:

We concur. A revised policy entitled "Credit Card Use Procedure and Payment" was adopted April 29, 2010. A copy was provided to the comptroller's office on May 12, 2010.

2. **FINDING: District policy violated by former district president's sale of leave**

The former district president violated district policy related to sale of leave. The former district president sold 160 hours of his vacation leave back to the district in one year. However, the district policy only allows an employee to sell 80 hours of vacation leave per year. Page 5 of the *Powell-Clinch Utility District Policies and Procedures Handbook*, states, "At the option of the company and the employee, the Company will offer to buy ... two weeks vacation (80 hours) from employees with ten or more years of service."

As noted in Legal Issue 1, the district president also attempted to sell \$20,009 in sick leave and apply that against his personal debt to the district. However, the *Powell-Clinch Utility District Policies and Procedures Handbook* permitted payment to employees for unused sick leave only upon retirement⁵. The former district president corrected this violation when he was advised that it defied district policy.

RECOMMENDATION:

To ensure that policies are adhered to, the board of commissioners should review and approve any and all sale of leave.

MANAGEMENT'S RESPONSE:

Members of the Board of Commissioners:

We concur. Vacation policy will be further revised to require board review and approval of all sales of unused vacation.

3. **FINDING: Commissioners received improper payment in lieu of group insurance**

The members of the board of commissioners received improper payments in lieu of group life insurance totaling \$4,028 each in calendar year 2009.

Section 7-82-308, *Tennessee Code Annotated*, states that

group medical insurance coverage and group life insurance coverage as may be provided other employees, or payment of premiums for an equivalent or similar group medical coverage and group life insurance coverage that a commissioner may be participating in ... provided, that such payment of such medical coverage and group life insurance coverage does not exceed the per person cost of the district's group medical insurance coverage and group life insurance coverage for its employees.

⁵ Payment for unused sick leave upon retirement has years of service and total accumulation restrictions. In addition, the employee is paid either 35% or 50% of their sick leave balance, depending on their years of service.

Attorney General's Opinion No. 99-133 states:

[T]he statute does not allow the district to pay a commissioner compensation in lieu of an insurance premium, nor authorize a commissioner to receive such payments. Accordingly, it is our opinion that the district has been making unauthorized payments to the commissioner.

RECOMMENDATION:

In order to remedy the commissioners acting beyond their statutory authority, the utility district should seek reimbursement for the improper payments in lieu of insurance.

MANAGEMENT'S RESPONSE:

Members of the Board of Commissioners:

We do not concur. The attorney general's opinion does not carry the force of law. The partial section of the statute quoted above omits the beginning phrase, "In addition." With this added and when read in its entirety, the statute appears to authorize the payments in question.

To require direct payments from the district to its group carrier or for up to three other carriers for equivalent or similar coverage for the commissioners creates the following problems:

If a group insurance carrier will not accept the commissioners for coverage because they do not meet that carriers' definition of "employee" who must work a minimum number of hours per week for a district (as most carriers require), fewer carriers can bid and, accordingly, the annual bidding process for group coverage of the district's employees will be adversely impacted.

The relative advanced ages of the three commissioners would negatively affect the cost of coverage quoted by those few carriers who would allow the definition of "employee" to be met.

The different carriers providing equivalent or similar group coverage for the individual commissioners do not accept the administrative complication of partial payments, nor should the district itself be required to do so.

In light of these factors and so long as the commissioners are paying premiums for an equivalent or similar group medical and life insurance coverage, the intent of the statute is met.

AUDITOR'S REBUTTAL TO MEMBERS OF THE BOARD OF COMMISSIONERS' RESPONSE:

Utility districts have only those powers defined by state statutes. Powell-Clinch Utility District cannot create powers simply because it is convenient for the board of commissioners. We could find no statute that allowed utility districts to pay commissioners cash instead of paying an insurance premium. Therefore, Powell-Clinch Utility District has no legal basis to pay cash to the commissioners in lieu of paying a health insurance premium. Section 7-82-308, *Tennessee Code Annotated*, does expressly limit compensation of each Powell-Clinch Utility District commissioner.

“The members of the board shall serve without compensation for their services, except that by resolution duly adopted by the board of commissioners, each commissioner may receive per diem payments for not more than twelve (12) meetings of the board of commissioners in any calendar year, ... Commissioners in those districts that are not financially distressed utility districts as defined in 7-82-703 that distribute and sell natural gas are thereby authorized, upon resolution duly adopted by the board of commissioners, to receive not more than five hundred dollars (\$500) per diem payments in the manner provided in this part.”

Each Powell-Clinch Utility District commissioner already received the maximum per diem of \$500 per month. Therefore, any additional payments made to commissioners, including payments in lieu of insurance premiums, would increase their compensation over the amount allowed by statute. Incidentally, the attorney general's opinion, although neither statutory law nor case law, is considered authoritative and persuasive. Failure to observe this advice may place each individual commissioner in a position where he is intentionally receiving a benefit that he is not authorized to receive.

We reiterate our finding and recommendation.

4. **FINDING:** Accommodation to commissioners resulted in unnecessary travel costs

Our review of travel and expense reimbursements revealed that in 2008, two commissioners were reimbursed for unnecessary increased transportation cost of almost \$4,000. The commissioners were attending a conference in California. Instead of purchasing airline tickets, they each separately drove to the conference. They each filed for and were paid a per mile reimbursement that exceeded the cost of a roundtrip airline ticket by approximately \$2,000 each. In addition, both commissioners were also reimbursed for the additional hotel and meal costs associated with driving the roughly 5,000 miles as opposed to flying. The district's policy allows reimbursement of expenses

to commissioners only for actual, ordinary and **necessary** expenses deemed to be related to district business.

RECOMMENDATION:

To best serve district rate payers, the board of commissioners should develop and adopt revisions to their travel policy that consider the most economical and efficient use of district funds.

MANAGEMENT'S RESPONSE:

Members of the Board of Commissioners:

We concur. Our reimbursement procedure will be revised to require consideration of alternative transportation.

5. **FINDING: Natural gas bill adjustment justification not documented**

Our investigative audit revealed that in September 2009, a \$6,790 adjustment was granted to a customer on the instructions of the former district president. However, there was no documentation establishing this as a permissible reduction in the customer's bill. The district had a policy allowing adjustments to customers' bills if their meter malfunctioned. However, there was no evidence this adjustment was made pursuant to a malfunctioning meter. Two months later, in November 2009, the district received a \$1,100 donation designated to assist delinquent customers. However, the former district president ordered that the entire donation be applied to this same customer who had previously received the \$6,790 adjustment, creating a credit balance in that account. The *Uniform Accounting Manual for Tennessee Utility Districts*, Section 4-1, states, "All adjustments to customers' bills should be approved by the board of commissioners."

RECOMMENDATION:

To ensure accountability for all billings and so that all customers are treated fairly, members of the board of commissioners should ensure that only legitimate adjustments to customer bills are granted. All adjustments should be reviewed and approved by the board. Calculation and approval of adjustments should be properly documented and maintained.

MANAGEMENT'S RESPONSE:

Members of the Board of Commissioners:

We concur. The policy will be revised to require board review and approval of all bill adjustments in excess of \$100.

President:

Response is the same as that of the board of commissioners.

6. **FINDING:** **Violation of district reimbursement of expense policy**

A review of district documentation revealed that district officials routinely violated the district expense reimbursement policy:

- Officials routinely violated the policy limit of \$30 per official per day for reimbursement of meals. For example, district records indicated that, in August 2009, district officials charged a \$980 meal on the district credit card. In August 2008, district officials charged individual meals of \$769 and \$939 on successive days.
- Officials routinely violated the policy of allowing only expenses that were “actual, ordinary and necessary expenses deemed related to the conduct of the District business.” As noted in Finding 1, documentation of expenses was often not available to allow any reasonable determination that expenses paid for with district funds were necessary to the conduct of the district’s business.
- Officials failed to require proper filing of expense reports. The reimbursement of expense policy requires that “All expenses must be documented and itemized on an expense report with applicable receipts....”
- Officials failed to require an accounting of travel advances. The reimbursement of expense policy requires that “Documentation of [travel advance] expenses must be submitted to the President....” Our review indicated that for at least five travel advances of over \$1,000 each, there was no documentation that those funds were used for district purposes.

RECOMMENDATION:

To help ensure that all district funds are used only for costs necessary to the purposes for which the district exists, district officials should adhere to and enforce district policies.

MANAGEMENT’S RESPONSE:

Members of the Board of Commissioners:

We concur. The reimbursement policy has been revised on April 29, 2010, and a copy of which was heretofore forwarded to the comptroller’s office on May 12, 2010.

President:

Response is the same as that of the board of commissioners.

7. **FINDING: Personal use of vehicle as a fringe benefit not reflected on employee's Form W-2**

The former district president told state auditors that on at least two occasions, he drove his district truck to Florida while on vacation. In addition, district management used district-owned vehicles to commute to and from work. However, these fringe benefits were not properly reported on the employee's Form W-2. The district had no written personnel policy specifically prohibiting personal use of a district vehicle. The Internal Revenue Service (IRS) considers use of an employer-provided vehicle to be taxable as personal use of the vehicle unless personnel policies specifically prohibit such use. If a policy strictly prohibits personal use of an employer-provided vehicle, and the employee has a bona fide noncompensatory business reason for commuting in the district vehicle, then only a commuting value need be included as a fringe benefit. IRS *Publication 15-B* includes information for valuing the fringe benefit.

RECOMMENDATION:

Members of the board of commissioners should require that all employees' compensation is accurately and properly reported on IRS Form W-2. In addition, they should adopt a comprehensive vehicle use policy to formalize the allowable operation of district vehicles.

MANAGEMENT'S RESPONSE:

Members of the Board of Commissioners:

We concur. The vehicle use policy will be in accordance with IRS guidelines.

President:

Response is the same as that of the board of commissioners.

8. **FINDING: Failure to mark or identify all district vehicles**

Members of the board of commissioners did not ensure that all assets were permanently marked or tagged to identify them as district property, including several passenger vehicles. The *Uniform Accounting Manual for Tennessee Utility Districts*, Section 8-2, requires that each fixed asset be identified (tagged or marked) as belonging to the utility

district. Clearly marking vehicles as district property reduces the risk that district employees will use them for other than utility business.

RECOMMENDATION:

To discourage nondistrict use, all district vehicles and construction equipment should be clearly and permanently marked to identify them as district property.

MANAGEMENT'S RESPONSE:

Members of the Board of Commissioners:

We concur. All company vehicles have been permanently marked or tagged with the company logo.

President:

Response is the same as that of the board of commissioners.

9. **FINDING: Lack of policy establishing reasonable expenses**

Our investigative audit revealed that the restaurant charges alone for the 2008 and 2009 district Christmas party were \$8,748 and \$9,010, respectively. The district appeared to have no policies and procedures specifically addressing the appropriateness and cost of disbursements not directly related to district operations. Section 7-82-403, *Tennessee Code Annotated*, addresses the fact that board of commissioners should collect reasonable rates to provide for the operation and maintenance of the system. It is the board of commissioners' responsibility to ensure that district staff use ratepayer funds prudently and sensibly.

RECOMMENDATION:

To help ensure that all district expenditures are for a valid district purpose and are for costs necessary to the purposes for which the district exists, district officials should consider establishing policies addressing the appropriateness of disbursements such as the meals listed above.

MANAGEMENT'S RESPONSE:

Members of the Board of Commissioners:

We do not concur. Many successful companies have a Christmas party for their employees for morale purposes. The cost cited for the Christmas party amounts to five

one hundredths of one percent of the annual revenue for the district and therefore, has no effect on the customer's rates.

President:

Response is the same as that of the board of commissioners.

AUDITOR'S REBUTTAL TO MEMBERS OF THE BOARD OF COMMISSIONERS' RESPONSE:

The board of commissioners failed to respond to the finding, which recommended that they create a policy related to nonoperational expenses, such as Christmas parties. The board of commissioners have a duty to operate the district for the benefit of the district's customers. To fulfill that responsibility, the board must set policies to ensure that expenses, especially nonoperational expenses, are reasonable. For the 2009 Christmas meal, the district spent roughly \$60 per attendee, which included district employees and their spouses or guests. In addition, the district paid \$3,725 for gift cards, which were apparently given to the employees and their guests and amounted to an additional \$25 per attendee. The Comptroller's Office does not find that \$85 per person is a prudent or reasonable amount for a local government's party. However, if the board has determined that it is reasonable for their customers to pay over \$12,700 for the annual Christmas party, then they should create a policy expressing that judgment.

We reiterate our finding and recommendation.

10. **FINDING:** Abuse of petty cash fund

A surprise cash count by state auditors on March 9, 2010, established that the district's petty cash fund was used to cash employees' personal checks. The cash count also revealed a \$210 personal check from the former district president that was dated March 16, 2009, indicating the check had remained untransacted for almost a full year.⁶ Auditors also found an "IOU" from another employee. The *Uniform Accounting Manual for Tennessee Utility Districts*, Section 5-3, outlines procedures for a petty cash fund. "Under no conditions should the petty cash fund ... be used to cash personal checks...."

⁶There was purportedly documentation for \$150 of this amount. Mr. Roberts reimbursed the district \$60 after discussion with state auditors.

RECOMMENDATION:

To ensure appropriate, legitimate petty cash disbursements that benefit the district's customers, members of the board of commissioners should prohibit employees from cashing personal checks through the petty cash fund. In addition, the petty cash fund should not be used to make loans to employees.

MANAGEMENT'S RESPONSE:

Members of the Board of Commissioners:

We concur. A policy concerning petty cash was adopted April 29, 2010. A copy was provided to the comptroller's office on May 12, 2010.

President:

Response is the same as that of the board of commissioners.

11. **FINDING: Violation of employee purchase provision of handbook**

Management allowed district employees to purchase ineligible items through a district employee purchasing program. Page 11 of the *Powell-Clinch Utility District Policies and Procedures Handbook*, under Employee Purchases, states, "Regular full-time employees are allowed to purchase certain appliances from the District at wholesale or discount prices through the payroll deduction system.... employees have one year (52 weeks) to pay off the purchases...." However, our review revealed that employees purchased ineligible items, such as a washing machine, riding lawn mower, and HVAC condenser.

RECOMMENDATION:

Members of the board of commissioners should ensure that management adheres to and enforces the policies they develop and adopt.

MANAGEMENT'S RESPONSE:

Members of the Board of Commissioners:

We concur. A revision of the employee purchase policy was adopted April 29, 2010. A copy of the revised policy was sent to the comptroller's office on May 12, 2010.

President:

Response is the same as that of the board of commissioners.