

# INVESTIGATIVE AUDIT REPORT

**FIRST UTILITY DISTRICT OF CARTER COUNTY  
NOVEMBER 1, 2006, THROUGH JUNE 30, 2008**



## 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

September 9, 2009

Board of Commissioners  
First Utility District of Carter County  
101 Scott Lane  
Elizabethton, TN 37643

Gentlemen:

Presented herewith is the report on our investigative audit of selected records of the First Utility District of Carter County. This investigative audit focused on the period November 1, 2006, through June 30, 2008. 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 resulted in several legal issues. These matters were referred to the local district attorney general.

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.

Board of Commissioners  
First Utility District of Carter County  
September 9, 2009

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", with a stylized flourish at the end.

Justin P. Wilson  
Comptroller of the Treasury



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

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

September 9, 2009

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 First Utility District of Carter County. This investigative audit focused on the period November 1, 2006, through June 30, 2008. 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 resulted in legal issues as noted below:

1. Manager received \$7,156 in improper payments for unearned compensatory leave
2. Manager received \$3,377 in improper payments for annual leave pay
3. Manager received \$63 in improper payment for sick leave
4. Clerk altered records to reduce her personal utility bills
5. Clerk's utility payments not deposited

These matters have been referred to the local district attorney general.

Mr. Justin P. Wilson  
Comptroller of the Treasury  
September 9, 2009

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

1. Inadequate separation of duties
2. Collections not deposited promptly and intact
3. Failure to maintain complete inventory records of high-risk, moveable equipment
4. Failure to prepare daily cash reports
5. Lack of policies resulted in apparently excessive and possibly inappropriate district expenditures
6. Personal use of vehicle as a fringe benefit not reflected on employee's Form W-2
7. Water bill adjustment authorization and justification not documented
8. Inadequate oversight over inventory
9. Failure to remit surcharge collections to Watauga River Regional Water Authority
10. Inadequate, inaccurate payroll records and failure to follow approved payroll procedures
11. Employees sold vacation leave back to the district without authority
12. Inadequate accounting for vending operations
13. Improper use of sales tax exempt status

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,



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

**INVESTIGATIVE AUDIT OF SELECTED RECORDS  
OF THE FIRST UTILITY DISTRICT OF CARTER COUNTY  
FOR THE PERIOD NOVEMBER 1, 2006, THROUGH JUNE 30, 2008**

**LEGAL ISSUES**

1. **ISSUE:**      **Manager received \$7,156 in improper payments for unearned compensatory leave**

Our investigative audit revealed that on 16 occasions, the district manager, Bill McFadden, instructed that payroll payments totaling \$7,156 be issued to himself for unearned compensatory leave. Employees were allowed to save overtime hours as compensatory leave and receive these hours as pay upon request. Mr. McFadden maintained leave records and calculated each employee's pay, including leave pay. District records revealed that between November 12, 2007, and November 24, 2008, Mr. McFadden ordered that 468 hours of compensatory leave be paid to himself when records show he had no compensatory leave. Mr. McFadden admitted that he knew he did not have the compensatory leave balances when he ordered the payments; however, he told state auditors that he needed the money.

2. **ISSUE:**      **Manager received \$3,377 in improper payments for annual leave pay**

The manager received payments totaling \$3,377 for annual leave accrued in excess of district policy. The district employee handbook states employees with 15 years of service receive four weeks of annual leave each year. According to the minutes from the September 2007 meeting, the board of commissioners decided not to advance annual leave "from this date forward" to employees with no leave balance. However, during 2007, Mr. McFadden initiated almost two weeks of annual leave pay to himself when he had no leave, and during 2008, he ordered payment to himself of over three weeks of annual leave pay when he had no annual leave. Mr. McFadden admitted that he knew he did not have the annual leave balances when he ordered the payments; however, he told state auditors that he needed the money.

3. **ISSUE:**      **Manager received \$63 in improper payment for sick leave**

The manager received payment for sick leave in excess of district policy totaling \$63. During 2008, he ordered over three hours of sick pay to himself when he had no sick leave. In addition, the employee handbook states sick leave benefits are for the employee "in times of illness" and can be "used to offset the loss of wages when sick." However,

during 2008, the manager was paid for 10 hours of sick leave when he missed no work and had actually recorded and was paid for over 50 hours for the week.

Manager's improper pay	Amount
Improper compensatory leave pay	\$ 7,156
Improper vacation leave pay	3,377
Improper sick leave pay	63
Total excess compensation	<u>\$10,596</u>

4. **ISSUE:**      **Clerk altered records to reduce her personal utility bills**

On 20 occasions between July 2003 and February 2008, district clerk Teresa Metcalf neither assessed nor paid the necessary late fees for her personal utility account. The late fees she avoided totaled \$500. She was responsible for manually assessing late fees for all customer accounts. In 2006, Ms. Metcalf used her computer access to alter her personal meter reading and reduce the water usage by 20,900 gallons on her own account. She was the clerk responsible for editing and correcting meter readings or data input errors in the computerized billing system. This alteration reduced her utility bill by \$43.89. The following month the correct meter reading was calculated and corresponding amount due, including the \$43.89, was paid.

5. **ISSUE:**      **Clerk's utility payments not deposited**

During the period November 2005 to December 2007, auditors could not determine from district records that six of Ms. Metcalf's payments totaling \$211 were ever deposited into a district bank account. Ms. Metcalf was responsible for posting payments to accounts, including her own, and preparing deposit slips.

Clerk's Misconduct	Amount
Unpaid late fees	\$500
Undeposited collections	211
Total	<u>\$711</u>

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

**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 39-14-114 (a)(1)(B), *Tennessee Code Annotated*, states:

**Forgery.** (a) A person commits an offense who forges a writing with intent to defraud or harm another.

(1) “Forge” means to:

(B) Make false entries in books or records. . . .

Section 39-16-402, (a)(4)(5), *Tennessee Code Annotated*, states:

**Official misconduct.** (a) A public servant commits an offense who, with intent to obtain a benefit or to harm another, intentionally or knowingly:

(4) Violates a law relating to the public servant’s office or employment; or

(5) Receives any benefit not otherwise authorized by law.

These matters have been referred to the local district attorney general.

## **FINDINGS AND RECOMMENDATIONS**

1. **FINDING:**    **Inadequate separation of duties**

Management failed to adequately separate employees' responsibilities. One employee maintained leave records, calculated weekly pay, and initiated creation of pay checks with no oversight. The *Uniform Accounting Manual for Tennessee Utility Districts*, Section 2-6, requires that an internal control system designed to minimize errors, fraud and waste be installed, including safeguards to prevent abuse of district property. It states:

Ideally, the same individual should not be responsible for authorizing transactions, recording transactions, and maintaining custody of assets. Establish work flow so that an employee's work is automatically verified by another employee working independently. Such procedures will help to eliminate errors in accounting records and limit the possibility of fraud.

**RECOMMENDATION:**

To decrease the risk of undetected errors and irregularities, management should review employees' responsibilities to ensure that no employee has control over a complete transaction. When necessary, management should assume additional oversight duties.

**MANAGEMENT'S RESPONSE:**

**Commissioner Ritchie:**

I concur. I feel the people in some areas are not qualified to handle their position. Commissioners are not given the authority to hire new employees.

**Commissioners Hodge and Colbough:**

We concur. The commissioners will require the management to review the duties of each employee to ensure that no employee has control over a complete transaction.

**Manager:**

I concur. Finding 1 has been resolved. I will follow the board of commissioners' response.

2. **FINDING:** Collections not deposited promptly and intact

Our investigative audit revealed that some collections were not deposited until more than 30 days after collection and not all collections were deposited intact (in the form and amount in which they were collected). In addition, district employees used cash collections to pay for postage and other miscellaneous purchases, apparently treating the collections as petty cash. Also, district employees did not balance their cash drawers on a daily basis and did not leave a predetermined change amount in the drawers. Finally, district employees borrowed and apparently later repaid cash from the collections to make personal purchases. The *Uniform Accounting Manual for Tennessee Utility Districts*, Section 3-1, states, "Receipts should be deposited promptly and intact..." and "leave only the predetermined amount in the change fund." In addition, Section 5-3 describes procedures for managing a petty cash fund.

**RECOMMENDATION:**

To help prevent the misuse, manipulation, or loss of collections, management should ensure that all collections are deposited intact within three working days into an official district bank account. Also, management should ensure that cash drawers are balanced on a daily basis and only the predetermined change amounts are left in the drawers. Finally, management should ensure that collections are not used for personal or miscellaneous purchases.

**MANAGEMENT'S RESPONSE:**

**Commissioner Ritchie:**

I concur. I have repeatedly requested that deposits be made on a daily basis or no more than three days. We have written management up for this action.

**Commissioners Hodge and Colbough:**

We concur. The commissioners will require management to implement systems to ensure that collections are deposited intact within three working days into an official district bank account; that all cash drawers are balanced daily; and that collections are never used for personal or miscellaneous purchases.

**Manager:**

I concur. All deposits are being made within the three-day period. Deposits are usually made on a daily basis. Collections are not being used for purchases. Cash drawers are balanced daily. I will follow the board of commissioners' response.

3. **FINDING:** **Failure to maintain complete inventory records of high-risk, moveable equipment**

Members of the board of commissioners did not ensure that complete inventory records of high-risk, moveable equipment such as mowers, utility trailers, and computers were maintained. In addition, many of these pieces of equipment were not marked or tagged to identify them as district property. Generally accepted accounting principles require that records for equipment be maintained. The records should include a brief description, model number, serial number, purchase price, and location of equipment. In addition, all equipment should be identified (tagged or marked) as belonging to the district. The *Uniform Accounting Manual for Tennessee Utility Districts*, Section 8-7, requires that equipment be inventoried at least annually to ensure that it is available and being used and maintained properly.

**RECOMMENDATION:**

To maintain adequate control over and properly account for individual high-risk, moveable equipment, members of the board of commissioners should require updated records of all such property. At least once a year, the commissioners should ensure that a physical inventory of all high-risk, moveable equipment be performed, documented, and reconciled to the records. All discrepancies should be explained. To discourage nondistrict use, all district equipment should be clearly marked to identify them as district property.

**MANAGEMENT'S RESPONSE:**

**Commissioner Ritchie:**

I concur. The first thing I requested when elected was a list of the inventory and that it be kept properly.

**Commissioners Hodge and Colbough:**

We concur. The commissioners will require updated records for all moveable equipment and an annual inventory of said moveable equipment shall be performed, documented and reconciled to the records. The commissioners will require that all district equipment be clearly marked to identify the same as district property.

**Manager:**

I concur. I will see that all recommendations listed are enforced. I will also follow the board of commissioners' response.

4. **FINDING:**    **Failure to prepare daily cash reports**

District personnel did not summarize all collections on a daily cash summary report to ensure that all collections were properly accounted for and deposited into a district bank account. The *Uniform Accounting Manual for Tennessee Utility Districts*, Section 3-1, states:

The cashier should summarize all cash receipts by source on a daily cash summary report, clearly indicating the amount to be deposited, the amount retained for change, and the amount of cash over or short. Each report should be dated and the date should be recorded on the corresponding deposit slips. The cashier should sign the daily cash summary report.

**RECOMMENDATION:**

To better account for collections, each day the cashier should prepare a detailed report of daily collections and the source of those collections. To help document that all collections are deposited intact, the totals of each daily collection report, corresponding prenumbered receipts, and related bank deposit should agree. The cashier should sign and date the report.

**MANAGEMENT’S RESPONSE:**

**Commissioner Ritchie:**

I concur. I have addressed this issue several times and have been accused of “micro-managing” by another commissioner.

**Commissioners Hodge and Colbough:**

We concur. The commissioners will require the cashiers to prepare a detailed report of daily collections and source of those collections. Each report shall be reconciled with the corresponding prenumbered receipts, and the related bank deposit. Each shall sign and date the report every day.

**Manager:**

I concur. A report is being generated and I will also follow the board of commissioners’ response.

5. **FINDING: Lack of policies resulted in apparently excessive and possibly inappropriate district expenditures**

Members of the board of commissioners have not officially adopted a comprehensive written purchasing policy. As a result, the district paid for items that did not appear to be directly related to district operations. These items included over \$2,000 for Christmas related purchases in 2006 and various over-the-counter medications and candy in 2007. 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. The *Uniform Accounting Manual for Tennessee Utility Districts*, Section 5-1, requires that the district should adopt a written purchasing policy in accordance with Section 7-82-801, *Tennessee Code Annotated*, which includes designating persons authorized to make purchases, requiring use of prenumbered purchase orders, outlining procedures for emergency and small-item purchases without prior approval, and requiring competitive bids for purchases over a stated amount.

**RECOMMENDATION:**

To ensure that the district purchases items at the best price and in the most advantageous manner, members of the board of commissioners should adopt and adhere to a written comprehensive purchasing policy.

**MANAGEMENT'S RESPONSE:**

**Commissioner Ritchie:**

I concur. I have requested that a purchase order be issued on all purchases – but again, I am only one commissioner.

**Commissioners Hodge and Colbough:**

We concur. The commissioners shall adopt and adhere to a written comprehensive purchasing policy.

**Manager:**

I concur. I will follow the written purchasing policy the board adopts. Also, I will respond to their response.

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

The manager used a district-owned vehicle to commute to and from work. However, this fringe benefit was not properly reported on the manager's Form W-2. Furthermore, 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:**

The 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 use of district vehicles.

**MANAGEMENT'S RESPONSE:**

**Commissioner Ritchie:**

I concur. I was the first to address this issue. I talked with a commissioner at the time Mr. McFadden was hired and Mr. McFadden was living in Mountain City, Tennessee, at that time. The former commissioner reports he was to move to our area within two years – until this date he still resides in Mountain City. No document can be found where he was to use the company vehicle to drive back and forth to work (70 miles round trip daily).

**Commissioners Hodge and Colbough:**

We concur. The commissioners shall require that all employees' compensation is accurately and properly reported on each respective IRS Form W-2 and shall adopt a comprehensive vehicle use policy to formalize the use of district vehicles.

**Manager:**

I concur. The utility vehicle I drive had the fringe benefit on my 2008 W-2. It was over \$2,000. If the other vehicles fell within the IRS rule, the employees that drive them home when on call will have this fringe benefit reflected on their W-2s.

7. **FINDING: Water bill adjustment authorization and justification not documented**

Our investigative audit revealed that adjustments were granted to customers by the clerk, the office manager, and the manager. Although it appeared that some adjustments were routinely approved by the board of commissioners, other adjustments were never brought before the board for their consideration. 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:**

**Commissioner Ritchie:**

I concur. The only way we can know of this being done is if a customer complains of a specific incident. For instance, if a "friend" comes to the office and an adjustment is made without our knowledge, we have no way of knowing it. This is why we should only hire responsible and honest people.

**Commissioners Hodge and Colbough:**

We concur. The commissioners shall require that all adjustments be reviewed and approved by the board and that calculation and approval of adjustments shall be properly documented.

**Manager:**

I concur. All adjustments to water bills shall be approved by the board of commissioners.

8. **FINDING: Inadequate oversight over inventory**

Our investigative audit revealed that there was inadequate oversight over district inventories of materials. Our reconciliation of material purchases to the computerized inventory records identified over \$12,000 of materials that were not properly recorded when purchased. In addition, a limited reconciliation of items on hand to items recorded in the computerized inventory records identified 42 meters with a total value of over \$1,400 that management could not account for. The *Uniform Accounting Manual for Tennessee Utility Districts*, Chapter 7, outlines the requirements for accounting for inventory items. The manual requires that management safeguard inventory items and control the purchase and issue of materials.

**RECOMMENDATION:**

To adequately secure and account for inventory, members of the board of commissioners should ensure that all purchases and usage of materials and supplies is recorded. An

annual physical count must be performed, documented, and reconciled to inventory records. Discrepancies should be investigated and explained.

**MANAGEMENT’S RESPONSE:**

**Commissioner Ritchie:**

I concur. I have requested an inventory of supplies since I have been elected – but again “micro-managing” was brought up. One commissioner told the office manager to not let me sign any checks; therefore, I had no way of knowing what was being spent.

**Commissioners Hodge and Colbough:**

We concur. The commissioners shall require that all purchases and usage of materials and supplies be recorded and that an annual physical count be performed, documented, and reconciled to inventory records. Commissioners shall require all discrepancies be investigated.

**Manager:**

I concur. Inventory has been corrected. One employee has the sole responsibility to keep up with the inventory. He keeps it locked up and when needed, fills out an inventory form.

9. **FINDING: Failure to remit surcharge collections to Watauga River Regional Water Authority**

The district did not remit all surcharge collections to Watauga River Regional Water Authority [Authority] as required by public act. The district was a member district of the Authority. The district collected a surcharge fee from its customers that was to be remitted to the Authority. However, district records indicate that from October 2006 to June 2008 the district collected over \$45,000 of surcharges that were not remitted to the Authority.

**RECOMMENDATION:**

To comply with applicable public acts, the board should ensure that surcharge collections owed are remitted to appropriate parties. Surcharges or other fees due another entity should not be used to subsidize district operations.

**MANAGEMENT'S RESPONSE:**

**Commissioner Ritchie:**

I concur. On February 23, 2009, it was brought to our attention that we owed the WRRWA \$24,000+. I questioned the office manager and she said she did not know if we owed it or not but she would check to see if a check had been written or cashed in that amount and she could find no record.

**Commissioners Hodge and Colbough:**

We concur. The commissioners shall remit any remaining funds owed to Watauga River Regional Water Authority directly to the authority.

**Manager:**

I concur. We will do what the board of commissioner informs us to do. We will follow their response.

10. **FINDING: Inadequate, inaccurate payroll records and failure to follow approved payroll procedures**

Auditors noted that payroll records prepared and maintained by the manager were not accurate or complete. Hours were inaccurately calculated which resulted in employees being underpaid and overpaid. Overtime hours were not supported by adequate documentation; consequently, the auditors could not verify whether overtime hours were actually worked. Overtime hours were often recorded in the accounting system as regular hours; as a result, the board could not easily determine the amounts paid as overtime. In addition, approved payroll procedures were not followed:

- Employees earned overtime working weekends at the filter plant rather than taking one day off during the week to offset these hours
- Employees were allowed to carry over vacation leave from year to year without approval by the board
- Leave was advanced to employees with no leave balance.

**RECOMMENDATION:**

To fulfill their fiduciary duty and protect the assets of the organization, members of the board of commissioners of the district should ensure payroll records are adequate, accurate, and should enforce payroll procedures.

**MANAGEMENT'S RESPONSE:**

**Commissioner Ritchie:**

I concur. I have questioned the O/T wages on different employees but never seemed to get a satisfactory answer. I questioned why one employee drew more in O/T wages than all other employees combined. I have asked to see payroll records and have always been given some reason that they are not available.

**Commissioners Hodge and Colbough:**

We concur. The commissioners shall ensure payroll records are adequate, accurate, and shall enforce payroll procedures.

**Manager:**

I concur. The manager calculates the time cards. The office manager does the payroll and keeps a record of vacation and sick time on the computer. On the other findings, we will following the board of commissioners' response.

11. **FINDING: Employees sold vacation leave back to the district without authority**

During the period November 1, 2007, through July 28, 2008, district employees sold a total of 560 hours of vacation leave back to the district at a total cost of \$6,658. However, there was no provision in the district's personnel policy allowing for the sale of vacation leave. In addition, budgeted payroll amounts could be exceeded when vacation leave is purchased from employees.

**RECOMMENDATION:**

To prevent abuse, avoid misunderstandings, and to prevent exceeding the payroll budget, district officials should ensure that district guidelines are followed. They should forbid any disbursement that is not permitted by district policy.

**MANAGEMENT'S RESPONSE:**

**Commissioner Ritchie:**

I concur. No knowledge of this.

**Commissioners Hodge and Colbough:**

We concur. The commissioners shall ensure that district guidelines are followed with respect to purchasing vacation from employees and shall forbid any disbursement that is not permitted by district policy.

**Manager:**

I concur. Employees will not be allowed to sell vacation time back to the utility. I will follow the board of commissioners' response.

12. **FINDING: Inadequate accounting for vending operations**

Members of the board of commissioners did not require district personnel to adequately account for vending operations. District personnel did not maintain records concerning collections, inventory, or profits related to vending operations.

Attorney General's Opinion Number U89-134 states:

It is the opinion of this office that ... revenues derived from such operations [vending] are public funds and revenues of the local governmental entity which owns and operates the building in which such operations are conducted. Such revenues should be handled in the same manner as other revenues of the local governmental entity.

The *Uniform Accounting Manual for Tennessee Utility Districts*, Section 3-1, states "Occasional sales of materials and supplies should be recorded and controlled like other revenue."

**RECOMMENDATION:**

To provide adequate accountability for vending collections and inventory, the board should require that

- a. Adequate records are kept of vending items purchased, received, and sold;
- b. Inventory is safeguarded and stored in a secure area;
- c. Collections are counted and recorded by two people before being turned over for deposit, and the count is recorded by the persons counting;
- d. A periodic vending profit analysis report is completed by a designated employee to determine if expected collections are being deposited; and

e. Any variance from expected collections is investigated.

**MANAGEMENT'S RESPONSE:**

**Commissioner Ritchie:**

I concur. I was given the impression the vending machines did not belong to First Utility District. However, I later found out snacks were being purchased by First Utility District to go into the vending machines, but no money was returned to us.

**Commissioners Hodge and Colbough:**

We concur. The commissioners shall require records to be kept of vending items purchased, received, and sold; ensure inventory is safeguarded and stored in a secure area; require collections to be counted by two persons and properly recorded; require a periodic vending profit analysis report; and require any variance from expected collections to be investigated.

**Manager:**

I concur. It will be corrected. A vendor has been called by me. He will install a machine and will be solely responsible. If enough is sold, the district will get a commission check which will be deposited into the utility account.

13. **FINDING: Improper use of sales tax exempt status**

A district employee used the district's sales tax exempt status to avoid paying sales tax on parts he installed for the Elizabethton City School System. Section 67-6-209, *Tennessee Code Annotated*, places the liability for the payment of sales tax for materials used in new construction on the contractor unless the tax was paid at the time the materials were purchased.

**RECOMMENDATION:**

District officials should prohibit employees or anyone else from using the district's sales tax exemption for nondistrict purchases.

**MANAGEMENT'S RESPONSE:**

**Commissioner Ritchie:**

I concur. Again, only responsible and honest people should be hired because we have no way of knowing what is being done when we are not there.

**Commissioners Hodge and Colbough:**

We concur. The commissioners shall prohibit employees or anyone else from using the district's sales tax exemption for nondistrict purchases.

**Manager:**

I concur. This has been corrected. No one will be allowed to use the utility's tax exempt status.