

SPECIAL INVESTIGATION

**CARDERVIEW UTILITY DISTRICT
JULY 1, 2012, THROUGH JUNE 30, 2013**



State of Tennessee

Comptroller of the Treasury



**STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY**

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**Justin P. Wilson
Comptroller of the Treasury**

March 5, 2014

Members of the Board of Commissioners
Carderview Utility District
177 Rainbolt Street
Butler, TN 37640

Ladies and Gentlemen:

The Office of the Comptroller of the Treasury conducted a special investigation of selected records of the Carderview Utility District which focused on the period July 1, 2012, through June 30, 2013. When warranted, this scope was expanded.

Presented in this report are the findings resulting from this special investigation. Copies of this report are being forwarded to Governor Bill Haslam, 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 and may be viewed at <http://www.comptroller.tn.gov/ia/>.

Sincerely,

A handwritten signature in cursive script that reads "L. Rene Brison".

L. Rene Brison, CPA, CFE, Assistant Director
Office of the Comptroller of the Treasury

LRB/RAD

**SPECIAL INVESTIGATION OF SELECTED RECORDS OF
CARDERVIEW UTILITY DISTRICT
FOR THE PERIOD JULY 1, 2012, THROUGH JUNE 30, 2013**

SUMMARY

The Office of the Comptroller of the Treasury conducted a special investigation of selected records and operations of the Carderview Utility District. The investigation focused on the period July 1, 2012, through June 30, 2013. The special investigation revealed the following:

- District management failed to obtain required bids for some applicable purchases.
- The district manager improperly used grant funds received for emergency line extensions to partially fund the construction of the new district office building.
- District commissioners failed to provide adequate guidance for, or to ensure consistent enforcement of, the district's cutoff policy and assessment of dry tap fees.
- The district's truck was not marked or identified as a district vehicle. In addition, the district failed to properly report the value of the superintendent's personal use of this vehicle.

FINDINGS AND RECOMMENDATIONS

Presented below are the findings related to internal control and compliance deficiencies noted during the special investigation. Utility district officials have indicated they have corrected or intend to correct each of these deficiencies.

1. **FINDING: District officials failed to obtain required bids for some applicable purchases**

Carderview Utility District officials failed to obtain the required bids for some applicable purchases related to construction of the district's new office building. The district's purchasing policy requires competitive bidding for all purchases over \$1,000. The special investigation revealed that management made multiple purchases exceeding \$1,000 related to office building construction without obtaining competitive bids.

RECOMMENDATION:

To obtain the best possible price, comply with the district's purchasing policy, and avoid the appearance of impropriety, district officials should ensure that all expenditures exceeding the district's established bid limit are properly bid.

MANAGEMENT’S RESPONSE:

Members of the Board of Commissioners:

We concur. Carderview Utility has since changed its policy to obtain three bids on all purchases over the amount of \$5,000.

2. **FINDING:** Grant funds were improperly used to partially fund the construction of the district’s office building

The district manager used at least \$6,463 in emergency line extension grant funds to pay invoices related to the construction of the district’s office building. (Refer to Exhibit 1.) The grantor agency, USDA Rural Development, de-obligated the remaining unused emergency line extension grant funds but did not require the district to reimburse the improperly expended funds.



Exhibit 1

The Internal Control and Compliance Manual for Tennessee Utility Districts, page 65, requires district officials to:

Assign an individual(s) who is familiar with legal, grant, contractual, debt, and other requirements and who is independent of the purchasing and record keeping responsibilities, to review the financial reports and expenses to ensure that they comply with those requirements.

RECOMMENDATION:

To avoid possible penalties, including ineligibility for consideration of future grant funds, members of the board of commissioners should assign a qualified person to review grant-related transactions in order to ensure grant funds are used only for the purposes for which they were obtained.

MANAGEMENT’S RESPONSE:

Members of the Board of Commissioners:

We concur. We will acquire the services of an independent, qualified individual to review and oversee all grant money to ensure compliance with all legal requirements.

3. **FINDING: Commissioners failed to consistently enforce the district's cutoff policy and assessment of the dry tap fee**

District commissioners failed to provide adequate guidance for, or ensure consistent enforcement of, the district's cutoff policy and assessment of dry tap fees. Although district commissioners adopted a policy setting forth the conditions resulting in discontinuance of service, the policy did not establish the cutoff date for delinquent accounts. Further, the commissioners failed to include the policy on customers' bills or on customers' applications for service. Neither the commissioners nor the manager could provide a specific intended cutoff date for delinquent accounts. As a result, delinquent customers were disconnected from district services at the discretion of the manager. The investigation revealed the manager ordered some customers with delinquent accounts to be disconnected while allowing the continuation of service for other such customers, including family members.

Comptroller investigators also discovered that district officials were not consistent in the application of the requirements related to the assessment of the dry tap fee. The district manager assessed and billed properties in subdivisions or developments the related monthly fee but did not assess or collect the dry tap fee on other properties, including property she owned. As a result, the district failed to collect approximately \$1,600 per year from 13 dry taps not located in a subdivision or development.

The *Internal Control and Compliance Manual for Tennessee Utility Districts* requires district officials to comply with all policies and ensure the policies are consistently applied. Page 43, Section 9, requires district officials to ensure that

if accounts remain unpaid on the district's cutoff date, service is discontinued in compliance with the district's written policy. (The cutoff policy should be adopted by the governing body, recorded in the minutes, and included in the district's policy manual.)

RECOMMENDATION:

To comply with state regulations, to make sure that all customers are treated fairly, and to avoid the appearance of impropriety and favoritism, members of the board of commissioners should ensure the approved cutoff policy includes a clear grace period, after which, service is consistently discontinued for all delinquent customers. Board members should also ensure that the manager assesses dry tap fees uniformly to all applicable customers.

MANAGEMENT’S RESPONSE:

Members of the Board of Commissioners:

We concur. Carderview has revamped its policy to ensure clear and concise deadlines and procedures on dry tap fees and cutoff policies. Board members will ensure proper enforcement of these policies.

4. **FINDING:** **District officials failed to identify a district truck as a district vehicle and failed to properly report personal use of that vehicle**

District officials did not mark or identify the district-owned truck as a district vehicle and failed to properly report the value of the superintendent’s personal use of this vehicle. The district truck had no markings to identify it as a district vehicle. (Refer to Exhibit 2.)



Exhibit 2

In fact, the manager purchased a commercial license plate for the vehicle at a significantly higher cost than a government license available for only \$4. (Refer to Exhibit 3.) Comptroller investigators also



Exhibit 3

discovered that although the former district superintendent¹ admitted he used the district’s pickup truck for personal purposes, including hauling firewood and produce, he did not maintain mileage logs documenting the amount of personal use. The manager failed to properly report this fringe benefit on the superintendent’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. IRS Publication 15-B includes information for valuing the fringe benefit.

¹ The district superintendent resigned immediately before the start of this investigation. He is the husband of the former district manager, who resigned before the release of this report.

The *Internal Control and Compliance Manual for Tennessee Utility Districts*, Page 55, Section 1, states that district officials should

require that all capital assets be identified (tagged or marked), and recorded immediately following the purchase of such items. Vehicles and equipment (backhoes, mowers, etc.) should have the district's name or seal clearly displayed.

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

It is the board of commissioners' responsibility to ensure that district employees use ratepayer funds prudently. Investigators could not determine a benefit to the district derived from an employee using a district vehicle for personal purposes.

RECOMMENDATION:

To discourage vehicle use that does not benefit the district, all district vehicles should be clearly and permanently marked to identify them as district property. In addition, a comprehensive vehicle use policy should be adopted to formalize the use of district vehicles. District commissioners should ensure that a mileage log for all vehicles is maintained and reviewed. Commissioners should also ensure that the manager accurately and properly reports all employees' compensation, including the calculated value of personal use of a district vehicle, on IRS Form W-2.

MANAGEMENT'S RESPONSE:

Members of the Board of Commissioners:

We concur. We have employed a new manager and operator who will be in charge of utility vehicles. He will be keeping a mileage log and understands that the vehicle is strictly for utility use. He is also acquiring the materials to properly mark the utility vehicle so as to further discourage improper use.