



COOKEVILLE BOAT DOCK ROAD UTILITY DISTRICT

Special Investigation
April 7, 2016

Justin P. Wilson, Comptroller





**STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY**

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Justin P. Wilson

Comptroller of the Treasury

April 7, 2016

Members of the Board of Commissioners
Cookeville Boat Dock Road Utility District
1591 West Cemetery Road
Cookeville, TN 38506

Commissioners:

The Office of the Comptroller of the Treasury conducted a special investigation of selected records of the Cookeville Boat Dock Road Utility District, and the results are presented herein.

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 black ink, appearing to read "Justin P. Wilson".

Comptroller of the Treasury

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SPECIAL INVESTIGATION

Cookeville Boat Dock Road Utility District

The Office of the Comptroller of the Treasury conducted a special investigation of the Cookeville Boat Dock Road Utility District (the district). The investigation focused primarily on transactions related to operation maintenance and distribution services.

INVESTIGATIVE RESULTS

For many years, the district, which provides water service to over 2,700 customers, has paid an outside vendor to provide all labor, equipment, and supplies needed to operate and maintain the district's distribution system. Payments for these operation maintenance and distribution services totaled over \$280,000 for the year ended December 31, 2015. Our investigation revealed significant deficiencies in the district's financial processes related to these transactions. These financial process deficiencies included:

1. **District officials failed to provide adequate oversight and inspections and failed to maintain adequate documentation to show that payments made to the maintenance provider were for necessary and legitimate work that benefited the district's customers**

District officials failed to verify that all district funds paid to the maintenance provider were for work that was necessary or that had been performed. In fact, since over half of the work invoiced by the maintenance provider was initiated either by the maintenance provider or by customer calls directly to the provider, utility district officials were apparently unaware of most of the maintenance/repair work performed on its behalf until the invoice was received.

Investigators discovered that district officials regularly authorized payments to the maintenance provider without verifying that the invoiced work was actually performed, without confirming that the direct requests were legitimate, and/or without substantiating that the problem was corrected. In addition, district officials assigned responsibility for reviewing maintenance invoices to office personnel. By their own admission, these staff members were not technically qualified to review the invoices to verify that the charges were necessary and reasonable as they related to labor hours, equipment use and hours, and materials used.

2. **District officials had no formalized agreement with the maintenance provider related to labor, equipment, and materials**

For more than 20 years, from 1993 through the end of 2015, the district employed a maintenance provider but had no written agreement specifying the rights and obligations of either the district or the provider. Based on conversations with district commissioners, during much of this time, amounts to be charged for specific services were not negotiated but were determined solely by the maintenance provider. Because the district did not seek bids or input from any other vendors for this service, district officials were unable to determine objectively that charges were reasonable and cost beneficial.

In January 2016, the district entered into a contract with the maintenance provider. This contract was prepared by the maintenance provider, again with no negotiations regarding rates to be charged. In fact, the only negotiation appeared to be regarding the duration of the contract itself – one year versus three years. Again, the district did not seek bids or input from any other vendors for this service. Therefore, even though the district entered into a written agreement, district officials had insufficient knowledge and data to determine if the rates set forth in the agreement were reasonable and cost beneficial.

3. **District officials authorized inefficient and questionable practices regarding service disconnections**

When the district commissioners determined that the status of a delinquent customer account warranted the disconnection of water service, district officials directed the maintenance provider to remove meters rather than simply turning the meters off and locking them. When the customer paid the delinquent account balance and any related fees, district personnel directed the maintenance provider to reinstall the meter. In addition to being inefficient, this practice increases the risk of damage to water system equipment. Additionally, based on district records reflecting customer fees charged and on the related invoices from the maintenance provider, the district incurred a financial loss of over \$30 each time the maintenance provider removed and reinstated a customer's meter.

4. **District officials failed to enforce the district's cutoff policy consistently**

District commissioners did not ensure that delinquent accounts were disconnected in accordance with the district's cutoff policy. District records showed that although numerous accounts were delinquent in excess of 30 days, and often in excess of 60 days, these customers were still receiving water service from the district. Additionally, investigators noted at least one account that was delinquent and not paid in full from December 2009 until it was disconnected in December 2015. At that time, the customer owed over \$1,300 to the district.

5. **District officials failed to prepare and maintain adequate inventory records accounting for gravel obtained and used by the district's maintenance provider**

District officials failed to ensure that the district received the benefit of all gravel for which it paid. During the period January 1, 2015, through January 30, 2016, the maintenance provider invoiced the district for 1,768 tons of gravel purportedly stockpiled or used for the district. A review of a load ticket report provided by the gravel vendor revealed that the maintenance provider only purchased 757 tons of gravel for use on district projects. The maintenance provider stated that he sometimes obtained gravel from other job sites or from his company stockpile.

Investigators observed that district gravel stockpiles were not secured. Also, invoices from the maintenance provider did not indicate the source and amount of gravel used for each job performed. Additionally, although Comptroller investigators measured and calculated the amount of gravel stockpiled at the end of this period, neither the district nor the maintenance provider retained adequate, reliable, or accurate documentation of the quantity of gravel on hand at the beginning of the period or obtained from other job sites. As a result, investigators were unable to determine if the district was invoiced the proper amount for gravel.

6. **District officials did not advertise, accept, and review bids for some new construction projects**

While district officials did advertise, accept, and review bids for some projects such as fence painting and office remodeling, they did not do so for other applicable projects. The district's maintenance provider performed work on various new construction projects for which the district did not follow the proper bidding requirements. District officials claimed that in some instances, this occurred due to the immediate nature of the work performed.

Based on a review of available documentation, this work was often not properly identified and was simply invoiced as "new construction" or as "additional work not covered under maintenance contract." Investigators were able to identify some relevant projects including the installation of fire hydrants and the installation of a drain line for a master meter pit.

7. **The district president accepted a gift from the former maintenance provider**

The district president participated in a costly fishing trip paid in part by the district's former maintenance provider. According to the president, as well as the owner of the district's former maintenance provider, they were friends prior to the president joining

the district as a commissioner and they remain friends now. The president stated that in a prior year, he and others had taken the former provider on a fishing trip. Additionally, the president has performed electrical work for the former maintenance provider.

It should be noted that the former maintenance provider sold his company to one of his employees. The new owner changed the name of the company, but remained the district's maintenance provider. The former owner currently works for the new owner as a field supervisor and consultant.

District officials indicated that they intended to correct each of these deficiencies.