



**STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
FINANCIAL AND COMPLIANCE INVESTIGATIONS**

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Comptroller of the Treasury

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September 3, 2014

Board of Commissioners
Webb Creek Utility District
3625 Lindsey Mill Road
Gatlinburg, Tennessee 37738

Gentlemen:

We performed an investigation, in conjunction with the Fourth Judicial District Attorney General, of selected records of the Webb Creek Utility District for the period January 1, 2010, through April 30, 2013; however, we expanded the scope as necessary. The investigation revealed the following deficiencies:

- Questionable purchases totaled \$43,929.42 during the period examined.
- A customer's account balance was written-off by a former district manager in exchange for a firearm for personal use.
- The board of commissioners did not provide adequate oversight of the district's operations.
- Duties were not segregated adequately.
- The utility district did not have written policies concerning the collection and write-off of customer accounts.

The investigative findings and recommendations as a result of our investigation are presented below. These findings and recommendations have been reviewed with management to provide an opportunity for their response. Also, these findings and recommendations have been reviewed with the district attorney general. The utility district terminated the district manager's and the assistant district manager's employment on August 2, 2013. During interviews conducted in April 2013, the district manager and

the assistant district manager provided written statements that they used district funds for personal gain.

BACKGROUND

The Webb Creek Utility District is a public utility chartered in 1979 specifically to serve and meet the needs of its customers for safe drinking water and wastewater treatment. The district is managed by a three member board of commissioners. A district manager runs the day-to-day operations and serves as an advisor to the board. The district, which is located in Gatlinburg, currently serves less than 1,000 customers in Sevier County. The district is required to follow the *Internal Control and Compliance Manual for Tennessee Utility Districts (UD Manual)* prescribed by the Tennessee Comptroller of the Treasury.



INVESTIGATIVE FINDINGS AND RECOMMENDATIONS

FINDING 1 **QUESTIONABLE SPENDING BY DISTRICT MANAGEMENT TOTALED \$43,929.42 DURING THE PERIOD EXAMINED**

Based on our examination of accounting records, various policies and procedures, and interviews, we noted questionable purchases totaling \$43,929.42 during the period January 1, 2010, through April 30, 2013. These purchases included gifts of iPads, laptops, TVs, gift cards, plus entertainment venues, credit card charges for food, meals at restaurants, personal use of district cellular devices, and the payment of unearned leave. These questionable purchases are detailed below:

- A. During the period examined, the assistant district manager used district funds to purchase gifts for employees and at least one board member totaling \$19,320.24. These gifts included various electronic items such as laptop computers and iPads (with multi-year warranty plans for usage), as well as gift cards. We were advised that these items were purchased as Christmas gifts for all employees. These purchases were not approved by the board of commissioners; and in one instance, a board member received an iPad as a Christmas gift (see Exhibit 3). We determined from a review of the Sam's Club account activity that at least \$7,230.42 in items purchased as gifts were subsequently returned to Sam's Club, and the cash was refunded to district employees. Furthermore, district management acknowledged these gifts were given to employees, and they were aware that certain district employees subsequently returned the items for a cash refund.

In addition to the electronic items purchased as Christmas gifts, the assistant district manager purchased \$6,795 in VISA and Wal-Mart gift cards for district employees. During interviews, district employees advised that they received two gift cards each year at Christmas; one \$350 VISA gift card and one \$25 Wal-Mart gift card. The purchase of the Wal-Mart gift cards was made with the district credit card. In three instances, the assistant district manager incurred an additional \$45 in bank fees to make these gift card purchases. The purchase of these gift cards was not approved by the board of commissioners (see Exhibit 2).

The following table is a summary of unauthorized gifts to employees by calendar year:

Date of Purchase	\$350 VISA gift cards	\$25 Wal-Mart gift cards	Electronic Items	Multi-Year Warranty Service Plans	Total
10-27-10	\$ 2,115.00	\$ 150.00	\$ 3,895.00	\$ 399.80	Entertainment Notebook Laptop (6)
11-23-11	2,115.00	150.00	3,294.00	359.28	Inspiron 5110 (6)
11-26-12	2,115.00	150.00	4,158.00	419.16	iPad 4 32G (7)
Total	\$ 6,345.00	\$ 450.00	\$ 11,347.00	\$ 1,178.24	\$ 19,320.24

- B. During the period examined, the assistant district manager made monthly credit card purchases of food at a local Food City totaling \$7,964.68. Items purchased often included pastries, deli meat, chips, and candy. The assistant district manager advised us that she used district funds to purchase food for personal use. Although we noted some food items at the utility district office, we were unable to ascertain whether these purchases were business-related or personal in nature (see Exhibit 1).
- C. We noted questionable purchases totaling \$3,852.57 at Sam's Club for the period January 1, 2010, through April 30, 2013. These purchases included items such as meat products, ribbon, gift wrap, sodas, and other miscellaneous food items that we were unable to ascertain whether these purchases were business-related or personal in nature.
- D. We identified meals purchased at various restaurants with the district credit card totaling \$2,655.66. The majority of these meal purchases were at the Alamo Steakhouse (\$2,327.98). In many instances, there were no detailed receipts; therefore, we could not determine what was purchased. The district's travel policy provides for reimbursement of meals only when an employee is on overnight travel status.
- E. The assistant district manager purchased one 32" TV, two UltraBook laptop computers, and three 40" TVs at Sam's Club totaling \$3,807.68. These items could not be located at the utility district office. We were advised by the district manager that some of these items were returned for cash; however, we could not determine what, if any, items had been returned. Furthermore, upon the termination of the district manager's employment, he returned one of the 40" TVs to the district that had been purchased by the assistant district manager.

- F. The assistant district manager and district manager purchased gift cards with the district credit card totaling \$2,025 during the period. The district could not provide detail as to who received 60 of those gift cards totaling \$1,575.
- G. Several credit card purchases did not include supporting documentation or the supporting documentation was not complete (receipts not itemized). In one instance, a charge of \$646.88 to BBJ Group Sales made on May 23, 2011, was not properly supported with a detailed receipt as to what was purchased. The vendor, identified as an entertainment venue, was contacted and confirmed it was for the purchase of variety show tickets in either Gatlinburg or Pigeon Forge. The current district manager as well as district employees did not recall any reason for a purchase to be made at an entertainment venue.
- H. Three district employees and three board members received daily meal allowances totaling \$969. The employees and board members were not on overnight travel status when they received this benefit. The approved travel policy only provides for reimbursement of meals when district personnel are traveling overnight on behalf of the district.
- I. District funds totaling \$1,919.52 were spent for the personal use of three 4G mobile broadband devices for the assistant district manager and the district manager. These devices appear to have been authorized by the assistant district manager. The devices were returned to the district when the district manager's and assistant district manager's employment was terminated.
- J. The district manager received payment of an additional 43 hours (\$1,218.19) in personal leave. The district's personnel policy provides each employee will receive one personal day per month without carryover. The manager had used all of his personal time earned; however, he was paid as if he had a balance of 43 hours. In addition, we noted time sheets were not always signed by employees or approved by a supervisor. Sound business practice dictates that employees should sign their time sheets as verification that the time reported is correct. If supervisors do not review and approve employee time sheets, it increases the risk that time will be reported and paid incorrectly.

The questionable purchases are summarized in the following table:

Description		Amount
A.	Gift Purchases	\$ 19,320.24
B.	Food Purchases	7,964.68
C.	Other Questionable Purchases	3,852.57
D.	Meals Purchased	2,655.66
E.	Missing Electronic Equipment	3,807.68
F.	Unaccounted for Gift Cards	1,575.00
G.	Entertainment Purchases	646.88
H.	Unauthorized Meal Allowance	969.00
I.	Personal Use of Cell Phones	1,919.52
J.	Unearned Leave Paid	1,218.19
Total		\$ 43,929.42

RECOMMENDATION

Management should review the questionable purchases to determine the validity of the purchase and seek restitution for any non-business related purchase. The office should maintain adequate documentation to support all purchases. Supervisors should review and approve all employee time sheets.

MANAGEMENT'S RESPONSE – BOARD OF COMMISSIONERS

(A. through G., and I.)

The board of commissioners and the current district manager plan to review questionable purchases with investigative auditors and seek restitution from responsible individuals for non-business related purchases. The district management's knowledge of gifts to employees, which were returned for cash, consisted of the former district manager and former assistant district manager. The board of commissioners, as administered on a day-to-day basis by the district manager, has instituted strict supervision over the use of the district's credit card for any purchases, has implemented changes in internal controls over district financial transactions, and for the presentation, including board approval, of bank account statements, credit card statements, and adjustments of customer accounts at monthly board meetings. It is important to note that when the board of commissioners became aware of questionable conduct, the utility audit firm was notified and the same led to further investigation and the findings in this report.

(H.)

The board of commissioners and district manager will work with the investigative auditors to determine the amount of daily meal payments/reimbursements, which were paid to district employees and commissioners contrary to the district travel policy, and will seek restitution from affected individuals.

(J.)

The board of commissioners and the district manager will review the questionable payment with the affected employee and seek restitution of any payments, which were made

contrary to personnel policies. The board of commissioners will revise personnel policies, as necessary, to make sure time sheets are prepared and signed by each employee and approved by the district manager.

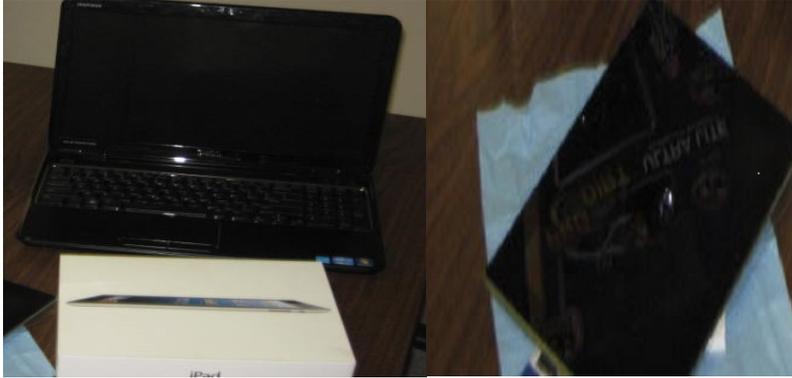
Exhibit 1



Exhibit 2



Exhibit 3



**FINDING 2 A CUSTOMER'S ACCOUNT BALANCE WAS WRITTEN-OFF BY
A FORMER DISTRICT MANAGER IN EXCHANGE FOR A
FIREARM FOR PERSONAL USE**

Our investigation revealed that in September 2013, a former district manager wrote-off the balance of a customer's account totaling \$149.88. We were advised that the district manager had an agreement with the customer to pay two months of his utility charges in exchange for a .38 caliber revolver. The district manager subsequently reversed the write-off and wrote a personal check to the district in January 2014, after the district's board of commissioners became aware of the transaction. The board of commissioners subsequently demoted the district manager from his position as district manager; however, he remains an employee of the utility district.

RECOMMENDATION

Customer accounts should only be written-off in compliance with a board of commissioners approved write-off policy.

MANAGEMENT'S RESPONSE – BOARD OF COMMISSIONERS

The board of commissioners has adopted a policy of approving customer account write-offs at each monthly board meeting.

**FINDING 3 THE BOARD OF COMMISSIONERS DID NOT PROVIDE
ADEQUATE OVERSIGHT OF THE DISTRICT'S OPERATIONS**

The district's board of commissioners did not provide adequate oversight of the district's operations and did not establish internal controls to ensure accountability of district funds. The minutes of the board did not reflect any discussion related to employee gifts, and other major spending related to food purchases, employee and board member meal reimbursements, miscellaneous credit card purchases, cellular device usage by employees, and the payment of unearned leave. The lack of oversight by the board of commissioners

directly contributed to the failure to properly account for district funds.

RECOMMENDATION

The board of commissioners should provide proper oversight of the district's operations and the establishment of adequate internal controls to ensure the district complies with applicable laws, rules, and regulations. Minutes of board meetings should adequately document the business conducted by the board.

MANAGEMENT'S RESPONSE – BOARD OF COMMISSIONERS

The board of commissioners has established procedures for internal controls consistent with the *Internal Control and Compliance Manual for Tennessee Utility Districts* prescribed by the Tennessee Comptroller of the Treasury. Board meeting minutes are adequately prepared and reflect board approval for applicable expenditures.

FINDING 4 **DUTIES WERE NOT SEGREGATED ADEQUATELY**

Duties were not segregated adequately. The assistant district manager was responsible for collecting and receipting funds, maintaining the accounting records, and preparing and making deposits. The assistant district manager was also responsible for purchasing and writing all checks as well as co-signing the checks with a board member. Internal controls should be designed to give reasonable assurance of the reliability of financial reporting and of the effectiveness and efficiency of operations. This deficiency is the result of a lack of board oversight.

RECOMMENDATION

Management should segregate duties to the extent possible using available resources. The board of commissioners and management should continually monitor and review internal control procedures.

MANAGEMENT'S RESPONSE – BOARD OF COMMISSIONERS

The board of commissioners has segregated duties to the extent possible with available personnel resources. The board of commissioners has made changes to the list of authorized signatures on the district's bank account, checks and fund transfer transactions, and for credit card transactions. The board of commissioners, as administered on a day-to-day basis by the district manager, has instituted new procedures for the segregation of duties in the day-to-day handling of district funds, posting of customer account information, making bank deposits, and for the presentation, including board approval, of bank account statements, credit card statements, and adjustments of customer accounts at monthly board meetings. The board of commissioners monitors and reviews internal control procedures with employees and encourages participation at utility industry seminars for continuing education on the latest available information.

FINDING 5

THE UTILITY DISTRICT DID NOT HAVE WRITTEN POLICIES CONCERNING THE COLLECTION AND WRITE-OFF OF CUSTOMER ACCOUNTS

The utility district did not have written policies concerning the collection and write-off of customer accounts. Sound business practice dictates that written policies concerning customer accounts should be adopted. This deficiency is the result of the lack of management oversight. Without formal policies for the collection and write-off of customer accounts, employees have no guidance for consistent and uniform treatment of customers.

RECOMMENDATION

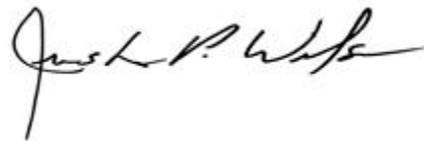
The utility district should develop written policies concerning the collection and write-off of customer accounts and present these policies to the board of commissioners for its consideration.

MANAGEMENT'S RESPONSE – BOARD OF COMMISSIONERS

The board of commissioners has adopted a written policy for collection and adjustments to customer accounts.

If you have any questions concerning the above, please contact this office.

Sincerely,



Justin P. Wilson
Comptroller of the Treasury

JPW/kbh