



VOLUNTEER ENERGY COOPERATIVE

Comptroller's Investigative Report
November 28, 2018

Justin P. Wilson, Comptroller





JUSTIN P. WILSON
Comptroller

JASON E. MUMPOWER
Chief of Staff

November 28, 2018

Members of the Board of Directors
Volunteer Energy Cooperative
P. O. Box 1183
Decatur, TN 37322

Gentlemen:

The Office of the Comptroller of the Treasury, in cooperation with the Tennessee Bureau of Investigation, conducted an investigation of selected records of the Volunteer Energy Cooperative, 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 of the Ninth Judicial District, 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 that reads "Justin P. Wilson".

Justin P. Wilson
Comptroller of the Treasury

JPW/RAD

INVESTIGATIVE REPORT

VOLUNTEER ENERGY COOPERATIVE

The Office of the Comptroller of the Treasury, in cooperation with the Tennessee Bureau of Investigation, investigated allegations of malfeasance related to Volunteer Energy Cooperative (VEC). The Comptroller's Office initiated the investigation at the request of the District Attorney General of the Ninth Judicial District after officials with VEC reported questionable transactions in the VEC bank records.

BACKGROUND

VEC is an electric cooperative, formed in 1935 and serves more than 96,000 members in all or part of 17 Tennessee counties. VEC is governed by a board of directors consisting of 12 members representing the 17 counties served. VEC's corporate office is located in Decatur, Tennessee.

INVESTIGATIVE RESULTS

- **Former VEC Accountant Jason Kittle misappropriated VEC funds totaling at least \$994,981**

During the period June 2011 through December 2017, VEC Accountant Jason Kittle misappropriated VEC funds totaling at least \$994,981. Mr. Kittle employed at least three schemes to misappropriate VEC funds for his personal use without the permission or knowledge of VEC administrative officials or board members.

- ***Fraudulent payments to personal bank account totaling at least \$735,318***
Mr. Kittle misappropriated VEC funds totaling at least \$735,318 for his personal use by making at least 242 unauthorized and undue payments from a VEC account to his personal bank account during the period June 2011 through June 2016.

These fraudulent payments were shown on Mr. Kittle's personal bank statements as payments from VEC. [Refer to Exhibit 1.] Prior to May 2016, these payments were netted with other transactions on the VEC bank statements. In May 2016, however, a system update resulted in the fraudulent payment amounts being listed individually on the VEC statements. [Refer to Exhibit 2 for example.] Mr. Kittle ended this scheme in June 2016 and began using another misappropriation scheme in August 2016.

Exhibit 1

DEPOSITS AND OTHER CREDITS			
DATE.....	AMOUNT.	TRANSACTION	DESCRIPTION
05/09	7,000.00	ACH CREDIT	0 VOLUNTEER ENERGY PAYMENT
05/12	1,000.00	ACH CREDIT	0 VOLUNTEER ELECTR PAYROLL
05/19	5,000.00	ACH CREDIT	0 VOLUNTEER ENERGY PAYMENT
05/26	1,000.00	ACH CREDIT	0 VOLUNTEER ELECTR PAYROLL
05/27	2,000.00	ACH CREDIT	0 VOLUNTEER ENERGY PAYMENT
06/01	2,000.00	ACH CREDIT	0 VOLUNTEER ENERGY PAYMENT
06/06	1,000.00	USAA FUNDS TRANSFER CR	
06/06	15.00	ATM SURCHARGE REBATE	
06/06	0.02	INTEREST PAID	

Excerpt from Jason Kittle's personal bank statement dated June 6, 2016, shows four fraudulent payments totaling \$16,000 which Mr. Kittle directed from a VEC bank account to his personal bank account.

Exhibit 2

VOLUNTEER ENERGY COOPERATIVE P. O. BOX 277 DECATUR TN 37322		Date 5/31/16 Account Number [REDACTED] Enclosures	Page 20
COMMERCIAL INTEREST CHECKING [REDACTED]		(Continued)	
Checks and Withdrawals			
Date	Description		Amount
5/05	Return Volunteer Energy [REDACTED] 05/05/16 ID #- [REDACTED] TRACE #- [REDACTED]		323.69
5/06	Return Volunteer Energy [REDACTED] 05/06/16 ID #- [REDACTED] TRACE #- [REDACTED]		880.23
5/09	CHARGEBACK MERCHANT BNKCD [REDACTED] 05/09/16 ID #- [REDACTED] TRACE #- [REDACTED]		60.00
5/09	Return Volunteer Energy [REDACTED] 05/09/16 ID #- [REDACTED] TRACE #- [REDACTED]		286.66
5/09	1stPrnts Volunteer Energy [REDACTED] 05/09/16 ID #- [REDACTED] TRACE #- [REDACTED]		7,000.00

Exhibit 3

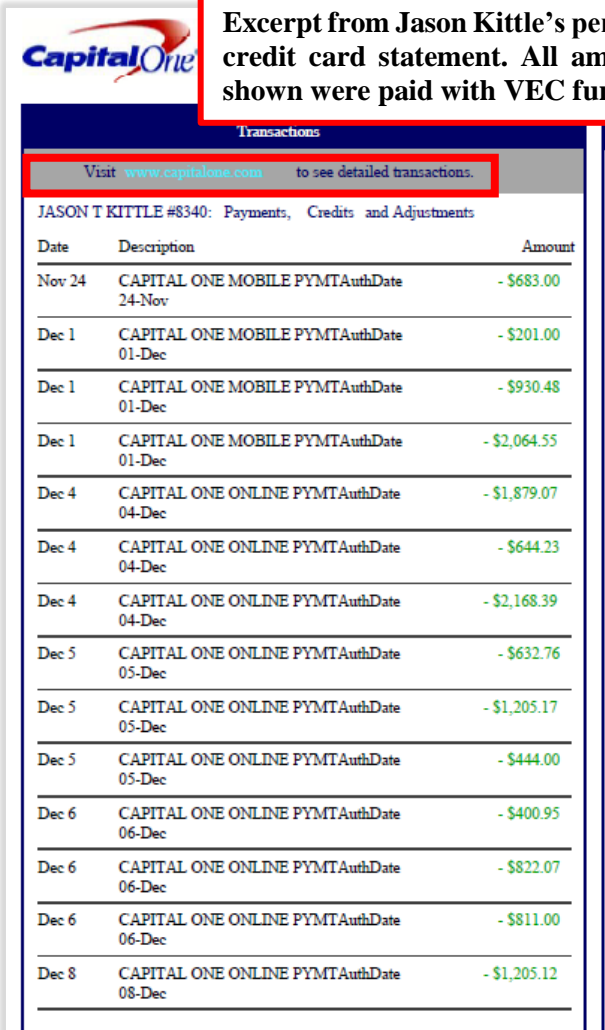
- ***Fraudulent payments to personal credit card account totaling at least \$229,293***

Mr. Kittle misappropriated VEC funds totaling at least \$229,293 for his personal use by making at least 204 unauthorized and undue VEC payments to a personal credit card account during the period August 2016 through December 2017. For example, Mr. Kittle used VEC funds to make all 14 payments to his credit card account shown in **Exhibit 3**. Mr. Kittle started this scheme after payments to his personal bank account were reflected individually on the VEC bank statements, as noted previously. Charges on this personal account were not related to VEC operations, but rather were charges for personal expenses.

- ***Fraudulent payments totaling at least \$30,368 to credit card in family member's name***

Mr. Kittle misappropriated VEC funds totaling at least \$30,368 by making at least 48 unauthorized and undue VEC payments to a credit card account in the name of a family member during the period August 2016 through November 2017. Charges on this personal account were not related to VEC operations, but rather were charges for personal expenses.

Excerpt from Jason Kittle's personal credit card statement. All amounts shown were paid with VEC funds.



Transactions		
Visit www.capitalone.com to see detailed transactions.		
JASON T KITTLE #8340: Payments, Credits and Adjustments		
Date	Description	Amount
Nov 24	CAPITAL ONE MOBILE PYMTAuthDate 24-Nov	-\$683.00
Dec 1	CAPITAL ONE MOBILE PYMTAuthDate 01-Dec	-\$201.00
Dec 1	CAPITAL ONE MOBILE PYMTAuthDate 01-Dec	-\$930.48
Dec 1	CAPITAL ONE MOBILE PYMTAuthDate 01-Dec	-\$2,064.55
Dec 4	CAPITAL ONE ONLINE PYMTAuthDate 04-Dec	-\$1,879.07
Dec 4	CAPITAL ONE ONLINE PYMTAuthDate 04-Dec	-\$644.23
Dec 4	CAPITAL ONE ONLINE PYMTAuthDate 04-Dec	-\$2,168.39
Dec 5	CAPITAL ONE ONLINE PYMTAuthDate 05-Dec	-\$632.76
Dec 5	CAPITAL ONE ONLINE PYMTAuthDate 05-Dec	-\$1,205.17
Dec 5	CAPITAL ONE ONLINE PYMTAuthDate 05-Dec	-\$444.00
Dec 6	CAPITAL ONE ONLINE PYMTAuthDate 06-Dec	-\$400.95
Dec 6	CAPITAL ONE ONLINE PYMTAuthDate 06-Dec	-\$822.07
Dec 6	CAPITAL ONE ONLINE PYMTAuthDate 06-Dec	-\$811.00
Dec 8	CAPITAL ONE ONLINE PYMTAuthDate 08-Dec	-\$1,205.12

Mr. Kittle effectively concealed his misappropriation by falsely recording the fraudulent transactions in VEC's accounting system as online payment fees, returns, or similar transactions. Due to the nature of the misappropriation schemes and method of concealment, and because Mr. Kittle managed and reconciled the statements of the affected VEC bank account, the misappropriation remained undetected for years.

Mr. Kittle admitted to VEC officials that payments were made to his personal credit card account from the VEC bank account. VEC terminated Mr. Kittle's employment effective January 2, 2018.

Summary of Misappropriation by Former VEC Accountant Jason Kittle

Scheme	Amount
Fraudulent VEC payments to personal bank account	\$735,318.79
Fraudulent VEC payments to personal credit card account	229,293.61
Fraudulent VEC payments to credit card account in family member's name	<u>30,368.92</u>
Total	<u>\$994,981.32</u>

This matter was referred to the district attorney general for the Ninth Judicial District. In November 2018, former VEC Accountant Jason Kittle was indicted on one count of Theft over \$250,000.

ADDITIONAL ISSUES

Our investigation revealed a deficiency in VEC's financial processes that contributed to the former accountant's ability to perpetrate his misappropriation without prompt detection. This financial process deficiency is set forth below:

- VEC officials failed to separate incompatible financial duties and to provide increased oversight when appropriate. The former accountant recorded financial information, made online payments, and reconciled the bank statements without adequate oversight. VEC officials failed to review the online payment details that the former accountant entered into the accounting system to make payments to his personal bank account. These details were not reflected on related bank statements, which allowed the scheme to remain undetected for more than six years.

VEC officials indicated that they have corrected this deficiency.