



NORTHEAST KNOX UTILITY DISTRICT

Comptroller's Investigative Report
December 17, 2018

Justin P. Wilson, Comptroller





JUSTIN P. WILSON
Comptroller

JASON E. MUMPOWER
Chief of Staff

December 17, 2018

Board of Commissioners
Northeast Knox Utility District
7214 Washington Pike
Corryton, TN 37721

Gentlemen:

The Office of the Comptroller of the Treasury conducted an investigation of selected records of the Northeast Knox 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 of the 6th 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

NORTHEAST KNOX UTILITY DISTRICT

The Office of the Comptroller of the Treasury investigated allegations of malfeasance related to the Northeast Knox Utility District (district). The Comptroller's Office initiated the investigation after the district's auditor reported that district officials had discovered unusual adjustments to customer accounts.

INVESTIGATIVE RESULTS

- **Former customer service representative Sonya Sherrow misappropriated district collections totaling at least \$8,507**

During the period January 1, 2017, through August 7, 2017, former district customer service representative Sonya Sherrow misappropriated district collections totaling at least \$8,507. Sherrow employed two schemes to perpetrate her misappropriation of district funds as discussed below.

Fictitious Adjustments

Sherrow effectively concealed her misappropriation of district collections totaling at least \$6,346 by improperly recording those payment transactions as adjustments to the customers' accounts. This mischaracterization of collections as adjustments allowed her to divert district cash collections for her own benefit without prompt detection. Sherrow perpetrated her fictitious adjustment scheme without the knowledge or approval of the affected customers and district personnel. [Refer to Exhibit 1.]

Fictitious customer adjustment form prepared and posted by Sherrow. The customer advised investigators that he paid his bill and did not receive an adjustment.

Customer Account Adjustment		DATE _____																																			
Account Number: [REDACTED]		Account Name: _____																																			
Adjustment Type:		Reason for Adjustment:																																			
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Adjustment Amount(s): (circle +) to add an amount to the account or (circle -) remove an amount from the account																																					
Month _____	Month _____	Month _____																																			
Gallons +/- _____	+/- _____	+/- _____ = +/- _____																																			
Water +/- <u>5595</u>	+/- _____	+/- _____ = +/- _____																																			
Tax +/- <u>467</u>	+/- _____	+/- _____ = +/- _____																																			
Penalty +/- _____	+/- _____	+/- _____ = +/- _____																																			
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Total +/- _____	+/- _____	+/- _____ = +/- _____																																			
Comments: _____ _____ _____ _____																																					
Submitted By _____		Entered by _____																																			

Exhibit 1

Lapping Scheme

Sherrow misappropriated additional district collections totaling at least \$2,161 for her personal benefit. Sherrow employed a lapping scheme to effectively conceal this additional misappropriation, continually replacing collections she diverted for her personal use with collections received from other customers on subsequent days. Our analysis of bank records and district records revealed that Sherrow did not apply some customer payments to the correct account of the paying customer. Instead, she often falsely recorded payments in the accounts of customers whose payments she had previously diverted for her personal use or had otherwise manipulated.

Subsequent to her August 7, 2017, resignation, Sherrow delivered to the district over 100 money orders totaling \$2,161.26 to pay the outstanding customer account balances resulting from her lapping scheme. Sherrow used the mail and the district drop box to deliver these money orders purchased from various vendors apparently in an attempt to continue her concealment of this ongoing scheme.

Summary of Misappropriation by Sonya Sherrow

Misappropriation Scheme	Amount
Fictitious Adjustments	\$ 6,346
Lapping Scheme	<u>2,161</u>
Total	<u>\$ 8,507</u>

These matters were referred to the local district attorney general. In August 2018, Sonya Sherrow was indicted on one count of Theft over \$2,500, two counts of Forgery, one count of Official Misconduct and one count of Money Laundering.

ADDITIONAL ISSUES

Our investigation revealed deficiencies in financial processes, some of which contributed to the former customer service representative's ability to perpetrate her misappropriation without prompt detection. These financial process deficiencies included:

- District officials failed to separate duties adequately. Customer service representatives collected and recorded customer payments and also recorded penalties and adjustments in customer accounts. Employees whose responsibilities include collecting and recording customer payments should not have the authority or ability to adjust customer bills.
- District officials failed to develop a written policy for adjustments. As a result, district officials could not ensure that district personnel were issuing customer adjustments objectively and consistently.

- District officials failed to review and ensure all adjustments were appropriate and to ensure that adequate documentation for each adjustment was required, recorded, and retained. District personnel granted leak adjustments without requiring documentation from customers confirming that a leak had occurred or had been fixed. In addition, customer service representatives had the authority to complete handwritten adjustment forms and to record the adjustments in customer accounts without any oversight or approval. No one reviewed the handwritten adjustment forms to ensure they were adequately and properly completed. District officials failed to verify that all adjustments were justified and properly calculated.

- District officials failed to ensure that collections were deposited intact. Collections were not deposited in the form (cash or check) and amount in which they were collected. The former customer service representative, as noted previously, failed to turn over all district collections for deposit, diverting some district funds for her personal benefit. Additionally, the district replenished petty cash funds by using customer collections to cash district checks.

District officials indicated that they have corrected or intend to correct these deficiencies.