



## COMPTROLLER'S INVESTIGATIVE REPORT

# Walden's Ridge Utility District of Hamilton County, Tennessee

*November 20, 2019*

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



**DIVISION OF INVESTIGATIONS**



JUSTIN P. WILSON  
*Comptroller*

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*Deputy Comptroller*

November 20, 2019

Walden's Ridge Utility District Board  
3900 Taft Highway  
Signal Mountain, TN 37377

Board Members:

The Office of the Comptroller of the Treasury conducted an investigation of selected records of the Walden's Ridge Utility District of Hamilton County, Tennessee, and the results are presented herein.

Copies of this report are being forwarded to Governor Bill Lee, the State Attorney General, the District Attorney General of the 11<sup>th</sup> 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/MLC

# INVESTIGATIVE REPORT

## WALDEN'S RIDGE UTILITY DISTRICT OF HAMILTON COUNTY, TENNESSEE

The Office of the Comptroller of the Treasury investigated allegations of malfeasance related to the Walden's Ridge Utility District of Hamilton County, Tennessee (WRUD). The investigation was initiated after WRUD officials identified and reported questionable receipts and missing funds by a Customer Service Representative (clerk). The results of the investigation were communicated with the Office of the District Attorney General of the 11th Judicial District.

### BACKGROUND



WRUD is in Hamilton County, Tennessee, and provides water to the Town of Walden, a portion of the Town of Signal Mountain, and certain rural areas in Hamilton and Sequatchie counties. As of November 23, 2015, WRUD also manages the operational and maintenance activities of the Lone Oak Utility District (LOUD), which includes collecting utility payments for LOUD.

## RESULTS OF INVESTIGATION

- **A CLERK MISAPPROPRIATED AT LEAST \$418.53 IN DAILY CASH COLLECTIONS**

A clerk misappropriated at least \$418.53 in daily cash collections during the period October 18, 2017 (her earliest receipt date maintained by WRUD), through September 6, 2018 (the date of her employment termination). WRUD officials began to examine records related to the clerk's collections after several customers received delinquency notices, even though they had made timely cash payments. When they examined the records, WRUD officials found other discrepancies including missing and altered receipts in the clerk's receipt books. WRUD issues a standard type of receipt book to its clerks which is to be used to record cash collections. Each book has an original top copy which the clerk completes manually, and the information is simultaneously recorded on a carbon copy beneath the original. According to standard business practice, after the receipt is completed, the clerk tears out the original, hands it to the customer, and the carbon copy is retained in the clerk's receipt book.

When WRUD officials confronted the clerk on September 6, 2018, she admitted to withholding cash collections for her personal use, and her employment was immediately terminated. The clerk told investigators she primarily perpetrated this scheme by taking cash from a payment drop box or when customers failed to request a receipt after payment. Since receipts were not prepared for most of these transactions, investigators could not verify the completeness of the reported misappropriation.

The misappropriation included both WRUD and LOUD cash collections. The following table summarizes the misappropriations by utility district and by category:

Misappropriation by Utility District and Category					
Utility District	Category				Total
	A	B	C	D	
WRUD	\$ 234.21	\$ -	\$ 61.21	\$ -	\$ 295.42
LOUD	-	65.00	-	58.11	123.11
Total Misappropriation	<u>\$ 234.21</u>	<u>\$ 65.00</u>	<u>\$ 61.21</u>	<u>\$ 58.11</u>	<u>\$ 418.53</u>

- A. The clerk did not write a receipt for the transaction and misappropriated the collection.
- B. The clerk altered the receipt to reflect an amount less than what she collected, only deposited the lesser altered amount, and kept the remainder for her personal use.
- C. The clerk removed the official receipt copy from her receipt book and misappropriated the related collection.



- D. The clerk maintained the official receipt in her receipt book but did not deposit the collection.

While still employed at WRUD, the clerk repaid \$95.11 of the misappropriation using her personal credit card. On March 8, 2019, the clerk's parents paid \$363.42 toward the misappropriated funds calculated by investigators; however, their payment exceeded the \$418.53 by \$40.

## INTERNAL CONTROL DEFICIENCIES

Our investigation revealed deficiencies in internal control, some of which contributed to the clerk's ability to perpetrate her misappropriation without prompt detection. These deficiencies include:

### **Deficiency 1: In Most Instances, the Clerk Gave Customers the Carbon Copy of the Receipt Instead of the Original Top Copy**

WRUD assigns separate receipt books to each clerk to be used for cash collections. In most instances, the clerk retained the original receipt (top copy) attached in the receipt book instead of keeping the carbon copy in the receipt book and giving the customer the original top copy. This practice made it difficult to determine if the original receipt reflected the actual amount collected from the customer.

### **Deficiency 2: WRUD's Daily Reconciliation Process Had Several Weaknesses**

WRUD's daily reconciliation process had the following weaknesses that allowed the misappropriation to go undetected:

- The clerk counted and reconciled her cash the following business day instead of the end of each business day.
- During the daily reconciliation process, WRUD officials failed to timely: (1) detect and investigate altered receipts, (2) did not detect that some receipts were missing from the receipt books, and (3) did not detect that certain receipts found in the receipt books had not been deposited.

### **Deficiency 3: WRUD Does Not Have a Formal Written Policy for Writing-off Uncollectible Accounts**

WRUD does not have a formal written policy approved by its Board for writing-off uncollectible accounts. Instead, write-offs were reviewed and authorized only by the general manager. The lack of a formal written policy and allowing sole write-off authorization by one individual instead of the Board increases the risk of fraud and misappropriation.

WRUD officials indicated that they have corrected or will correct these deficiencies.