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# STATE OF TENNESSEE

**SPECIAL REPORT ON THE  
LINCOLN COUNTY BOARD OF PUBLIC  
UTILITIES**

**FOR THE PERIOD JANUARY 1, 2008  
THROUGH DECEMBER 31, 2011**



**Division of Local Government Audit**



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**SPECIAL REPORT ON THE  
LINCOLN COUNTY BOARD OF PUBLIC UTILITIES  
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**STATE OF TENNESSEE  
COMPTROLLER OF THE TREASURY  
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DIVISION OF LOCAL GOVERNMENT AUDIT  
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February 28, 2013

To the Lincoln County Board of Public Utilities,  
Lincoln County Mayor, and the Lincoln County  
Board of County Commissioners  
Lincoln County, Tennessee

We received multiple allegations regarding bonuses, excessive salaries, travel expenses, credit card charges, inventory issues, and other payments at the Lincoln County Board of Public Utilities (LCBPU). While we were reviewing these matters, several thefts occurred at the utility, and we have included the details of these thefts in our report. Also, based on information received during the investigation, we expanded our procedures to include a review of water adjustments and taps given to customers and employees by the former superintendent. It should be noted that certain records of LCBPU had been shredded by a private company. During routine document shredding, the former management of LCBPU did not properly supervise the shredding of the records, and certain records necessary for our examination were shredded, thereby limiting what we could examine.

We reviewed the findings resulting from this special investigation with the Lincoln County Board of Public Utilities, the county mayor, and the district attorney general. These findings, with our recommendations and management's responses, are presented in this report.

Sincerely,

A handwritten signature in black ink, appearing to read "Jim Arnette".

Jim Arnette, Director  
Division of Local Government Audit

cc: Honorable Robert Carter, District Attorney General

**SPECIAL REPORT ON THE  
LINCOLN COUNTY BOARD OF PUBLIC UTILITIES**  
For the Period January 1, 2008 through December 31, 2011

**BACKGROUND**

We received multiple allegations regarding bonuses, excessive salaries, travel expenses, credit card charges, inventory issues, and other payments at the Lincoln County Board of Public Utilities (LCBPU). While we were reviewing these matters, several thefts occurred at the utility, and we have included the details of these thefts in our report. We noted that certain records of LCBPU had been shredded by a private company. During routine document shredding, former management of LCBPU did not properly supervise the shredding of these records, and certain records necessary for our examination were shredded, thereby limiting what we could examine. Also, based on information received during the investigation, we expanded our procedures to include a review of water adjustments and taps given to customers and employees by the former superintendent through February 14, 2012, the date of his retirement.

**LINCOLN COUNTY BOARD OF PUBLIC UTILITIES**

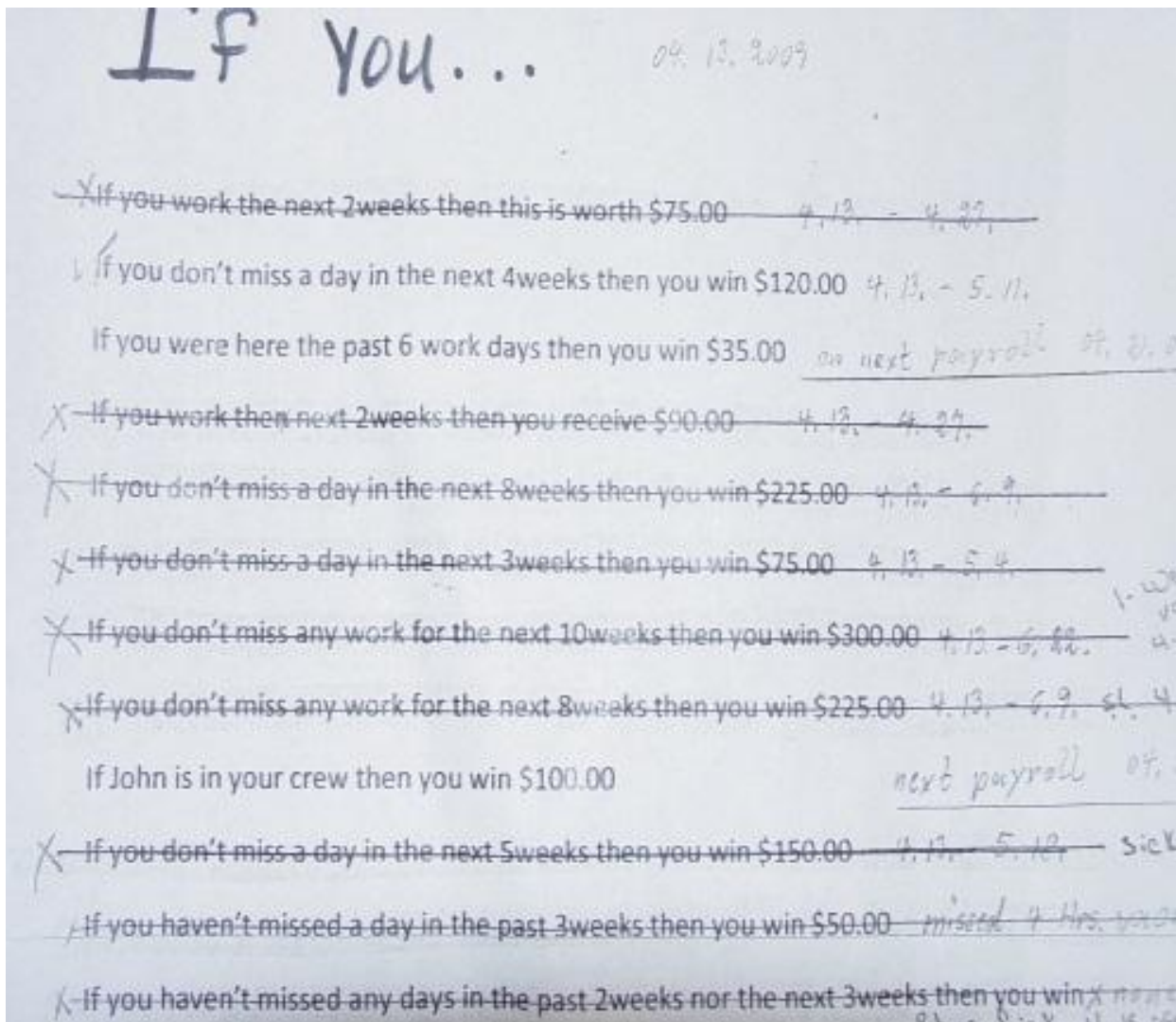
The LCBPU is a governmental entity established by Lincoln County under provisions of Section 5-16-101, *Tennessee Code Annotated*. The LCBPU evolved from the Highland Rim Utility District and was established on July 2, 1963. LCBPU sells drinking water to more than 8,800 residents and businesses in Lincoln County not served by existing municipal systems. The stated purpose of LCBPU is to provide safe drinking water for all residential, industrial, and governmental agencies, meeting all federal and state standards at the lowest possible cost with high quality, efficiency, and integrity.

LCBPU is governed by a five-member Board of Commissioners appointed by the Lincoln County Commission with a rotating three-year staggered term, and commissioners serve with pay. The Board of Commissioners employs a superintendent who is responsible for the day-to-day operations of the water system, including hiring employees. LCBPU is responsible for generating its own revenue and servicing its own debt. LCBPU has the authority to acquire assets in the name of Lincoln County. The LCBPU must have its budget approved by the Lincoln County Commission, and the Lincoln County Commission must approve all bonds issued by LCBPU. LCBPU is a component unit of Lincoln County, Tennessee, for external financial statement reporting.

**FINDING 12.01      **THE LINCOLN COUNTY BOARD OF PUBLIC UTILITIES PAID UNAPPROVED BONUSES TOTALING \$293,779.22****

It is the practice of the Lincoln County Board of Public Utilities (LCBPU) to pay bonuses to its employees; however, there is no written policy in place regarding the payment of bonuses. Employees of the LCBPU were paid various bonuses from January 1, 2008 through December 31, 2011, totaling \$338,604.22, of which \$293,779.22 had not been approved by the board. The bonuses were primarily paid at Easter, 4<sup>th</sup> of July, Thanksgiving, and Christmas. The method the former superintendent used for paying holiday bonuses included random “if you” scenarios, handing out marbles or Easter eggs

with redeemable “prizes” inside, and employee drawings. Some employees were given bonuses almost weekly while other employees received bonuses less frequently. Many of these bonuses were authorized by a hand written note placed on the employee’s timesheet by the former superintendent and identified as overtime pay, but no overtime was indicated or shown on the employee’s time sheet by the employee. One bonus was identified by a hand written note placed on the employee’s timesheet by the former superintendent and identified as payment for “adultery watch.” This activity included one employee monitoring another while both were on the job. Other bonus payments authorized by the former superintendent were for employees who reported water thefts personally to the former superintendent (already in the job description of the employee(s)), and/or reviewed locations at the river for water intake sites.



Bonuses given for “If You” drawings.

# EASTER 2008 DRAWING

3 PAST YEAR EGGS	\$40.00 EACH =	\$120.00
2 PAST YEAR NOTES	\$15.00 EACH =	\$30.00
2008 EGG	\$12.00 =	\$12.00
<b>TOTAL</b>		<b>\$162.00</b>
1 PAST YEAR EGG	\$40.00 EACH =	\$40.00
1 PAST YEAR NOTE	\$15.00 EACH =	\$15.00
2008 EGG	\$13.00 =	\$13.00
2008 EGG	\$80.00 =	\$80.00
<b>TOTAL</b>		<b>\$148.00</b>
2008 EGG	\$100.00	\$100.00
2008 EGG	\$15.00	\$15.00
<b>TOTAL</b>		<b>\$115.00</b>
2 PAST YEAR EGGS	\$40.00 EACH =	\$80.00
2 PAST YEAR NOTES	\$15.00 EACH =	\$30.00
2008 EGG	\$50.00	\$50.00
2008 EGG	\$100.00	\$100.00
<b>TOTAL</b>		<b>\$260.00</b>
6 PAST YEAR EGGS	\$40.00 EACH =	\$240.00
2 PAST YEAR NOTES	\$15.00 EACH =	\$30.00
2008 EGG	\$90.00	\$90.00
2008 EGG	\$85.00	\$85.00
<b>TOTAL</b>		<b>\$445.00</b>
4 PAST YEAR EGGS	\$40.00 EACH =	\$160.00
2008 EGG	\$5.00	\$5.00
<b>TOTAL</b>		<b>\$165.00</b>
5 PAST YEAR EGGS	\$40.00 EACH =	\$200.00
4 PAST YEAR NOTES	\$15.00 EACH =	\$60.00
2008 EGG	\$6.00	\$6.00
2008 EGG	\$160.00	\$160.00
<b>TOTAL</b>		<b>\$426.00</b>
3 PAST YEAR EGGS	\$40.00 EACH =	\$120.00
2 PAST YEAR NOTES	\$15.00 EACH =	\$30.00
2008 EGG	\$160.00	\$160.00
<b>TOTAL</b>		<b>\$310.00</b>

Bonuses given for Easter egg prizes.

Lincoln County Board of Public Utilities **WEEKLY TIME SHEET**

NAME OF EMPLOYEE: [REDACTED] FOR WEEK: 01.08 2008

Employee Name: [REDACTED]

DEPARTMENT: [REDACTED]

DAY OF WEEK	MORNING		AFTERNOON		OVERTIME		FOR OFFICE USE ONLY	
	IN	OUT	IN	OUT	IN	OUT	REGULAR HOURS	OVERTIME HOURS
WEDNESDAY	8:00			5:00			8	
THURSDAY	8:00			5:00			8	
FRIDAY	8:00			5:00			8	
SATURDAY								
SUNDAY								
MONDAY	8:00			5:00			8	
TUESDAY	8:00			5:00			8	
<b>TOTALS</b>							40	14.5

No Person Permitted To Work Overtime Without Special Authorization

This time sheet must be personally filled out and signed by employee

Superintendent Signature: [REDACTED]

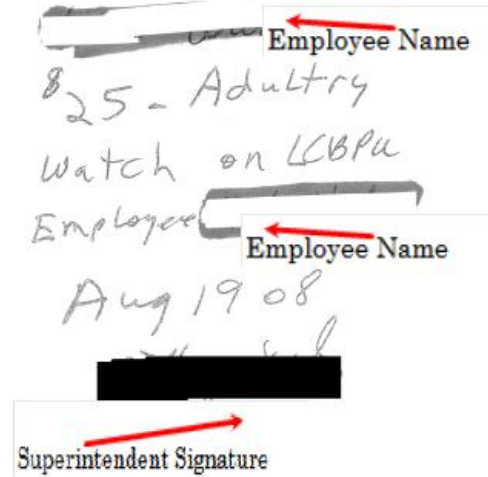
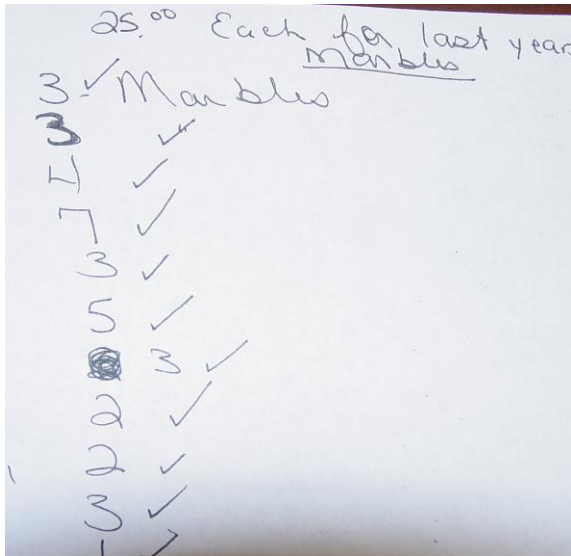
Employee Signature: [REDACTED]

Employee Name: [REDACTED]

14 1/2 hrs O.T.  
Jan 8 08

Superintendent Signature: [REDACTED]

Employee timesheet presented showing no overtime worked and former superintendent attached note authorizing a bonus disguised as overtime.



Marble handouts by former superintendent that included bonuses and note authorizing pay for one employee watching the conduct of another employee.

During discussions with the former superintendent and with two former chairmen of the LCBPU, they indicated that they understood that all bonuses should be approved by the board. However, as noted in this finding, the majority of the bonuses were not approved by the board. The difference in what the board approved and what the former superintendent paid to selected employees totaled \$293,779.22.

The following table summarizes the bonus payments:

Time Period	Board Approved Christmas Bonuses	Bonuses Not Approved by Board	Total Bonuses
1-1-08 to 6-30-08	\$ 0.00	\$ 34,672.05	\$ 34,672.05
FYE 2009	10,500.00	92,553.80	103,053.80
FYE 2010	10,325.00	78,260.63	88,585.63
FYE 2011	12,200.00	86,779.24	98,979.24
7/1/11 to 12/31/11	11,800.00	1,513.50	13,313.50
<b>Total</b>	<b>\$ 44,825.00</b>	<b>\$ 293,779.22</b>	<b>\$ 338,604.22</b>

## RECOMMENDATION

The LCBPU should have a written policy regarding the payment of bonuses. Only bonuses approved by the board should be paid to employees. The board should review and monitor all compensation to employees including bonuses.

## MANAGEMENT'S RESPONSE

Management agrees. There is now a written policy regarding the payment of bonuses to be only with board approval.

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## FINDING 12.02      **THE LINCOLN COUNTY BOARD OF PUBLIC UTILITIES INCLUDED BONUS EARNINGS OF EMPLOYEES WITH REGULAR PAY TO THE TENNESSEE CONSOLIDATED RETIREMENT SYSTEM**

Effective October 1, 2001, Lincoln County Board of Public Utilities (LCBPU) employees became members of the Political Subdivision Pension Plan, an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS).

LCBPU employees were paid approved and non-approved bonuses that were included in their earnable compensation reported to TCRS. *Tennessee Code Annotated*, Section 8-34-101(14), defines earnable compensation as the compensation payable to a member for services rendered to an employer. Earnable compensation can include bonuses as long as certain conditions are met. These conditions are:

1. Payment is authorized by resolution legally adopted and approved by the chief governing body of the entity;
2. The resolution provides the payment shall be included as earnable compensation for retirement purposes; and
3. The payment is not made for the purpose of increasing a member's retirement benefit or inducing a member to retire.

The \$293,779.22 in non-approved bonuses noted in Finding 12.01 and paid to the employees at LCBPU does not appear to meet the conditions for earnable compensation; therefore, should not have been reported to TCRS. It should also be noted that some of the "bonuses" significantly increased certain employee's salaries and their five year average salary. A person's high five-year average salary is one of the prime factors in determining the amount of a person's retirement and LCBPU's liability for that retirement. This finding has been forwarded to the TCRS.



## RECOMMENDATION

Lincoln County Board of Public Utilities should follow Tennessee Consolidated Retirement System guidelines when computing wages of employees for reporting purposes. Any discrepancies should be reported to state Treasury Department, Tennessee Consolidated Retirement System.

## MANAGEMENT'S RESPONSE

Management agrees. LCBPU follows Tennessee Consolidated Retirement System guidelines when computing and reporting employee wages and will report any discrepancies.

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## FINDING 12.03      **BOARD MEMBERS WERE OVERPAID \$12,375.90 FOR BOARD MEETINGS, ATTENDING WORK SESSIONS, AND ROAD TRIPS**

*Tennessee Code Annotated*, Section 5-16-103, authorizes compensation for the utility's board members. We noted the following related to board member compensation. At the September 6, 1990 board meeting, the board authorized compensation of \$75 per meeting or work session attended for each board member. At the June 3, 2010 board meeting, board member compensation was increased to \$125 per monthly board meeting and/or work session. At the August 12, 2011 board meeting, board members were authorized additional compensation of \$75 for "road trips" taken with the former superintendent. These "road trips" consisted of the former superintendent and a board member(s) inspecting, reviewing, and/or discussing water line extensions in the county. In addition, the board member(s) and the former superintendent would have lunch during these trips (See Finding 12.04).

The Lincoln County Board of Public Utilities paid board members more than the authorized amount. If a board member was to receive \$75, they paid the board member \$81.22 so their net pay would be \$75 after payroll deductions. If a board member was to receive \$125, they paid the board member \$172.78 so their net pay would be \$125 after payroll deductions. Payroll deductions are a part of compensation; therefore, the board members received payments in excess of authorized amounts. We determined that this method of payment resulted in board members being overpaid \$12,375.90 for the period examined.

In October 2011, the board authorized two board members to take responsibility for signing the checks of the utility. This activity also included travelling to the utility's local banks to update signature cards. No extra pay was authorized by the board for these activities. We noted extra payments were made to a board member for performing these duties and identified as a "road trip." The extra pay is included in the above amounts.

## RECOMMENDATION

Board members should not be paid for any amounts exceeding amounts authorized.

MANAGEMENT'S RESPONSE

Management agrees. Board members will not be paid more than approved and authorized.

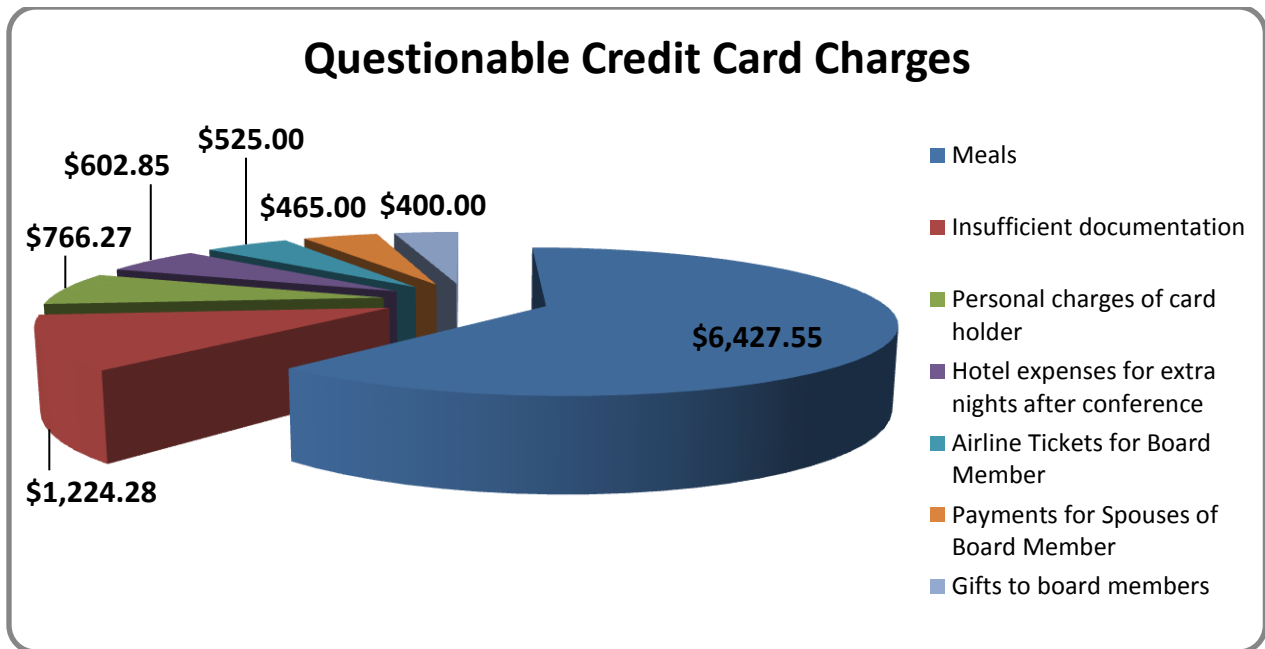
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FINDING 12.04      **THE LINCOLN COUNTY BOARD OF PUBLIC UTILITIES PAID QUESTIONABLE CREDIT CARD CHARGES OF \$10,410.95**

The Lincoln County Board of Public Utilities (LCBPU) had two credit cards for various purchases by the former superintendent and the former office manager; however, the LCBPU had not adopted formal policies and procedures governing credit card usage. In addition, there was no oversight for credit card use as long as a receipt was obtained. Without a formal policy and supervisory review, employees have no limitations placed on their use of credit cards, which could result in theft and/or abuse.

We reviewed the total charges of both credit cards and noted the following questionable expenses:

<u>Credit Card Charge</u>	<u>Amount</u>
Employee meals (not on travel status)	\$ 5,140.28
Meals for board members and guests unrelated to official business	1,109.92
Christmas cards/other cards of former superintendent	689.77
Movie tickets - former office manager	76.50
Hotel expenses - extra nights after conference	602.85
Meal for two at Stockyard Restaurant	177.35
Insufficient documentation	1,224.28
Redeemable airline tickets for board member; not used for LCBPU business	525.00
Redeemable airline tickets for board member's spouse (board member paid back \$300); not used for LCBPU purposes	225.00
Spouse meals at conference	240.00
Gift certificates for board members	<u>400.00</u>
Total questionable charges	<u>\$ 10,410.95</u>



**RECOMMENDATION**

The Lincoln County Board of Public Utilities should adopt formal policies and procedures for the use of credit cards. These policies and procedures should establish acceptable uses and proper approval and reviews to avoid abuse and misuse of LCBPU rate payer funds. Questionable credit card charges considered by management that are not for LCBPU purposes should be recovered by the utility.

**MANAGEMENT'S RESPONSE**

Management agrees. LCBPU has implemented a policy for credit card usages. Invoices are reconciled bi-weekly.

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**FINDING 12.05      THE LINCOLN COUNTY BOARD OF PUBLIC UTILITIES PAID \$1,415.41 IN QUESTIONABLE TRAVEL REIMBURSEMENTS TO BOARD MEMBERS AND EMPLOYEES**

The Lincoln County Board of Public Utilities (LCBPU) had not adopted formal policies and procedures governing travel reimbursements for employees and board members. The utility paid the employees and board members actual costs for meals and lodging. Even though the utility's independent auditor advised the board and the board's former supervisor that alcohol purchases and expenses paid on behalf of spouses should not be paid, reimbursements were still made for these expenses. Without a formal travel policy, employees and board members do not have limitations or expectations of propriety placed on their lodging, meals, or other travel expenses. This lack of guidance leads to abuse and misuse of LCBPU rate payer funds.

We reviewed travel expenditures paid to board members and employees totaling \$4,216.84 and determined that \$1,415.41 is questionable. Meals listed in the table included purchases of alcohol. The breakdown of these questionable charges is as follows;

Meals for employees and board members not on travel status	\$ 555.24
Meals for spouses of employees and board members	755.56
Insufficient documentation	<u>104.61</u>
Total questioned costs	<u>\$ 1,415.41</u>

RECOMMENDATION

The Lincoln County Board of Public Utilities (LCBPU) should adopt formal policies and procedures for the payment of business related travel expenses. These policies and procedures should establish reasonableness, rates and limits, and reimbursement amounts for mileage, lodging, meals, and other travel expenses to avoid abuse and misuse of LCBPU rate payer funds. Questionable charges considered by management that are not for LCBPU purposes should be recovered by the utility.

MANAGEMENT’S RESPONSE

Management agrees. In the spring of 2012, LCBPU has adopted Tennessee Association of Utility District policies on travel, which is based on Internal Revenue Service per diem.

FINDING 12.06      **THE LINCOLN COUNTY BOARD OF PUBLIC UTILITIES GAVE UNAUTHORIZED WATER ADJUSTMENTS TO VOLUNTEER FIREMEN TOTALING \$3,895**

The Lincoln County Board of Public Utilities (LCBPU) hosts a dinner for the volunteer firemen of Lincoln County in November to create goodwill with the fire departments. During the dinner, LCBPU compiled a list of attendees, and these individuals received an adjustment of \$25 or \$35 on their personal water utility bill. If the individual does not have an account with LCBPU, such as individuals residing in Petersburg, a check was sent to their water utility on their behalf.

Dinners for Volunteer Firemen

<u>Year</u>	<u>Number in Attendance</u>	<u>Amount of Adjustment</u>
2008	31	\$ 775
2009	43	1,145
2010	48	1,200
2011	31	<u>775</u>
Total		<u>\$ 3,895</u>

2009 Volunteer Firemen Dinner

\$25.00 To all Volunteer Firemen

***\$35.00 To the Station with the most in Attendance***

Park City	4
Elora	2
Mulberry	3
Flintville	1
Boonshill	0
<b>Blanche</b>	<b>7</b>
Petersburg	6
Belleville	3
Vann Town	2
Delrose	5
Molino	5
Central	5
Total	43

The minutes of the LCBPU board meetings were reviewed for 2008, 2009, 2010, and 2011, and it appears that only the November 2011 dinner was approved by the board. In total, \$3,895 was given to volunteer firemen in water adjustments or as payments. According to the Adjustments to Bills/Leak Adjustments policy adopted by the LCBPU on July 1, 1993, no customer shall be treated in a way that compromises the interest of other customers. These water adjustments appear to violate board policy.

RECOMMENDATION

The LCBPU board should review its policy regarding providing dinners to create goodwill and determine its cost benefit. Water adjustments should be approved by the board prior to being awarded and should adhere to the water adjustment policy set by the board.

## MANAGEMENT'S RESPONSE

Management agrees. LCBPU no longer provides dinner or water adjustments to create goodwill.

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### FINDING 12.07      **THE FORMER SUPERINTENDENT OF THE LINCOLN COUNTY BOARD OF PUBLIC UTILITIES VIOLATED THE WATER ADJUSTMENT POLICY BY GIVING QUESTIONABLE ADJUSTMENTS OF \$5,523.12**

The Lincoln County Board of Public Utilities (LCBPU) has established procedures and written guidance on making adjustments to customer water bills. The computer system automatically calculates the amount of the adjustment allowed, and generally reduces the amount. The Adjustments to Bills/Leak Adjustments policy adopted by the LCBPU on July 1, 1993, provides that no customer shall be treated in a way that compromises the interest of other customers. Due to the lack of adequate documentation maintained in the adjustment folders for the prior years, we were unable to ascertain the validity of the adjustments made in the years 2008-2011.

We reviewed all of the adjustments made by the former superintendent up to the date of his retirement on February 14, 2012. There were seven adjustments totaling \$2,973.12 to customer water bills that did not go through the normal computerized process. These were manually adjusted by the former superintendent. Three of the adjustments were made with no application on file, and no reason was given other than instructions on a hand written note signed by the former superintendent. We also noted five customers were charged less than the normal fee of \$1,200 for water taps. When the documentation was reviewed, three orders were originally marked as if the water meter was being relocated, and this was not a new service. Upon further investigation, it was determined that these were new taps and services being obtained. LCBPU lost revenue of \$2,550 for the taps put in and work performed. These six adjustments were individually greater than \$500 and were not approved by the board. There was no documentation to justify why the fees were not collected. The LCBPU written policy provides that any adjustment greater than \$500 shall go before the board prior to being made. One adjustment was made for a leaking commode. Board policy states that adjustments will not be made for "routine dripping faucets, leaking commodes..." Therefore, the former superintendent gave questionable water bill adjustments of \$5,523.12 (\$2,973.12 plus \$2,550).

P2 case Refuse  
 mr [redacted]  
 water bill to \$80.  
 19-0090-01 [redacted]  
 [redacted]

Superintendent Signature  
 April 6 2011  
 done  
 309.07 04.06.11  
 80.00 [redacted]  
 229.07  
 209.20  
 19.87  
 229.07

1-10112  
 additional  
 amt  
 adj- per  
 [redacted]

936.64  
 88.98  
 1,025.62  
 Total amount of reduction

Authorization by the former superintendent for adjustments of customer water bills.

RECOMMENDATION

Water adjustments should be approved by the board prior to being awarded and should adhere to the water adjustment policy set by the board. Taps for new services should be paid in accordance with board policy.

MANAGEMENT'S RESPONSE

Management agrees. LCBPU follows the written policy for computer calculated water adjustments. No adjustment over \$500 will be adjusted without board approval.

FINDING 12.08      **THE FORMER SUPERINTENDENT OF THE LINCOLN COUNTY BOARD OF PUBLIC UTILITIES GAVE QUESTIONABLE WATER BILL ADJUSTMENTS AND TAP FEE ADJUSTMENTS OF \$3,652.23 TO EMPLOYEES AND BOARD MEMBERS**

The Lincoln County Board of Public Utilities (LCBPU) has established policies to allow employees to purchase water taps for cost. However, it was noted that several taps were received by employees, where employees were not charged consistently and did not pay the full cost of the tap. One employee received three taps at no cost. As a result of employees not paying these costs, the taps were in effect given away and charged to LCBPU and their ratepayers. This was not approved by the board, but was authorized by the former superintendent. The tap fees that were given to employees and not authorized by the board totaled \$2,485.49.

It was also noted that several board members received multiple water bill adjustments without proper documentation or adequate justification. Three current board members received adjustments to their water bills totaling \$1,166.74 without proper documentation. This is in violation of established procedures and written guidance on making adjustments to customer water bills. The computer system automatically calculates the amount of the adjustment allowed. The Adjustments to Bills/Leak Adjustments policy adopted by the LCBPU on July 1, 1993, provides that no customer shall be treated in a way that compromises the interest of other customers. It is the stated policy of the LCBPU to have each customer pay a fair share for his utility usage, as well as the equipment in place to provide that usage.

### RECOMMENDATION

All water bill adjustments should follow the policy approved by the board and should be appropriately documented. Charges for taps received by employees or board members should be consistent, and employees or board members should pay the appropriate costs to recover expenses. All outstanding charges for employee taps should be recovered.

### MANAGEMENT'S RESPONSE

Management agrees. LCBPU discontinued discount on taps and materials for employees and Board Members as of March 1, 2012.

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### FINDING 12.09      **THE LINCOLN COUNTY BOARD OF PUBLIC UTILITIES HAS INADEQUATE CONTROLS OVER SUPPLIES AND INVENTORY**

Lincoln County Board of Public Utilities (LCBPU) houses supplies and most equipment in an off-site building. Invoices from supplies purchased are placed into the inventory system to increase the inventory available. When work is performed, a work ticket is created, and the inventory items are listed on the work ticket. The clerk then inputs the items used into the inventory system, decreasing the inventory available. The inventory system is supposed to be updated weekly; however, the clerk was not maintaining the inventory currently. The loss of assets and other weaknesses existed due to a lack of management oversight and control. We noted the following:

- A. A Case 2007 580M backhoe loader valued at \$40,965 was stolen from a work-site between December 31, 2011 and January 4, 2012. It is the policy of the utility for large equipment to be left at a work-site overnight and on weekends. When employees returned to work at the site on January 4, 2012, the backhoe was missing. The theft was reported to the Lincoln County Sheriff's Department, and a theft report was filed. An insurance claim was filed with the utility's carrier, and LCBPU was reimbursed the value of the backhoe less a \$2,500 deductible.
- B. On April 2, 2012, the LCBPU filed a theft report with the Lincoln County Sheriff's Department for 42 Sensus SR11 water meters valued at \$2,100. After these water meters were discovered missing, an inventory count was performed of all items. This count determined that six boxes with six meters



per box of curb stops valued at \$995.20 were also missing. The total value of the missing/stolen items is \$3,095.20 (\$2,100 plus \$995.20).

- C. Physical access to the LCBPU storage and inventory building was not controlled. Department employees informed us that a gate had been erected to control access to the facility, but the gate was not locked after normal operating hours. The building itself has three garage-type bay doors and a regular door. During the day, the gate is open, the doors are unlocked, and the bay doors may be left up with no one in attendance.
- D. Since inventory records were not updated timely or adequately, some items were on the list twice, but with differing numbers. Generally accepted accounting principles require accountability for all consumable assets. Private contractors were allowed to “borrow” inventory when needed, and no records were maintained to track the borrowing. The failure to maintain adequate records of assets and inventory weakens controls over assets and increases the risk of inventory loss.
- E. The department did not file a fraud reporting form with the Comptroller of the Treasury when the suspected thefts were discovered. *Tennessee Code Annotated*, Section 8-4-501, provides that a public official with knowledge based upon available information that reasonably causes the official to believe that a theft or any other act of unlawful taking of public money, property, or services has occurred shall report the information within five working days to the Comptroller of the Treasury.

### RECOMMENDATION

County officials should take steps to recover the losses noted. Physical access to the storage and inventory building should be controlled. The office should currently maintain inventory records documenting the receipt, usage, and storage of parts and equipment. Furthermore, personnel independent of maintaining the inventory should periodically verify these records. Any suspected fraud should be promptly reported to the Comptroller’s Office.

### MANAGEMENT’S RESPONSE

Management agrees. LCBPU has secured inventory property with six foot fence outside with locking gate and alarm system. The inside inventory building is secured with a seven foot fence. The building stays locked when no one is on the premises.

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**FINDING 12.10      ADEQUATE LEAVE RECORDS WERE NOT MAINTAINED ON THE FORMER SUPERINTENDENT, AND LEAVE POLICIES WERE NOT FOLLOWED**

Records were not maintained to document the leave taken by the utility's former superintendent. The former superintendent did not submit time sheets, and no leave balances related to his usage were on file. Because the former superintendent did not document his hours, his leave balances could not be determined. Prior to his retirement, he submitted a memo showing his sick leave usage back to the year 2000 and only indicated 6.5 days, and the general time of year. His usage had not been adjusted in those years for the leave taken until February 8, 2012. We also noted he did not claim the sick leave used during December 2008, due to an illness when he was out for a week. In addition, we could not confirm his sick leave balance that he submitted to the Tennessee Consolidated Retirement System when he retired.

The former superintendent was paid a total of 150 hours vacation, 120 hours for the prior year balance (\$4,825.44) and 30 hours accumulated for the current year (\$1,206.36), for a total of \$6,031.80. Due to the lack of documentation on file, we could not reconcile the amount paid on his final check to any of his leave records on file.

**RECOMMENDATION**

Time and attendance records should be on file for all employees. All leave should be adequately documented on a current basis in compliance with adopted policies.

**MANAGEMENT'S RESPONSE**

Management agrees. LCBPU has implemented a program/policy whereby all employees time and attendance is correctly documented and entered into the payroll computer system after being approved by the superintendent.

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**FINDING 12.11      PROPERTY OF THE LINCOLN COUNTY BOARD OF PUBLIC UTILITIES WAS BEING STORED ON PRIVATE PROPERTY, AND A TROLLING MOTOR HAS NOT BEEN RETURNED**

In September 2008, the former superintendent, using the Lincoln County Board of Public Utilities (LCBPU) credit card, purchased a boat, an outboard motor, and life jackets for \$2,459.90 to review potential intake sites and to study the aquatic life in the river. He later purchased a trolling motor for \$349.98 in September 2009. On February 1, 2012, when we asked to see the boat, we were told by the former superintendent that due to the wet fields and rainy weather, he was unable to take us to the boat. He stated that the boat was stored on property owned by himself and his brother. The boat was tagged and registered to LCBPU, and the boat's drain plug was stored in the former superintendent's LCBPU truck.

On February 14, 2012, when the former superintendent left employment of LCBPU, the boat was still in his possession. Employees had to retrieve the boat on April 26, 2012, even

though, per the severance agreement signed by former superintendent, all items, inventory, and equipment belonging to LCBPU would be returned when he left on February 14, 2012. We also noted that the trolling motor was not attached to the boat and could not be retrieved. The trolling motor has not been returned as of February 14, 2013.



Boat purchased by LCBPU.

#### RECOMMENDATION

Property such as the boat, motor, and equipment belonging to LCBPU should be stored on LCBPU property. LCBPU should take steps to retrieve the trolling motor.

#### MANAGEMENT'S RESPONSE

Management agrees. LCBPU property has been secured with inventory (see 12.09). The trolling motor was missing prior to new management and has now been reported to the Sheriff's Department.

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#### FINDING 12.12      **A MEMBER OF THE UTILITY BOARD VIOLATED THE CONFLICT OF INTEREST STATUTE AND CONTRACTED WITH A CITIZEN FOR WORK PAID FOR BY THE UTILITY**

The Lincoln County Board of Public Utilities (LCBPU) reimbursed a resident for 800 feet of fence that had been damaged during waterline construction. The board approved the reimbursement on October 6, 2011, and paperwork was subsequently drawn up to pay \$3 per foot for the fence. The former board chairman of the utility went to the utility office on October 13, 2011 and had the contract price increased to \$3.50 per foot. On November 3, 2011, the matter was brought before the board and approved. It was not disclosed at any time during the board meetings that the former board chairman was the contractor who would be building the fence for the resident.

LCBPU has not adopted a conflict of interest policy; however, according to the Utility Management Review Board; the utility will continue to be governed by the ethical standards adopted by the County Commission for county officials and employees in the county in which the utility has the greatest number of customers. Therefore, the Lincoln

County Personnel Policies and Guidelines Manual, revised November 2007, Chapter 13, Pecuniary Interests are addressed as follows:

No officer or employee of the county shall have any financial interests in the profits of any contract, service, or other work performed by the county, nor shall they personally profit directly or indirectly from such contracts. No officer or employee shall accept any free or preferred services, benefits, or concessions from any person or company. Any official or employee who violates the provisions of this section shall be guilty of misconduct in his/her service. Violation of this section shall be grounds for dismissal.

RECOMMENDATION

Officials should review these payments and resolve the conflict of interest.

MANAGEMENT'S RESPONSE

Management agrees. This could be cause for dismissal from the Board of LCBPU.

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FINDING 12.13      **LINCOLN COUNTY BOARD OF PUBLIC UTILITIES HAS NOT UTILIZED LINCOLN COUNTY'S CENTRAL PURCHASING AUTHORITY**

The Lincoln County Board of Public Utilities does not utilize Lincoln County's Finance Department for their purchases, as required by *Tennessee Code Annotated*, Section 5-16-105, (d)(6), which states "Where the county has a central purchasing authority, purchases made for the purpose herein contemplated shall be through such authority."

RECOMMENDATION

Lincoln County Board of Public Utilities should utilize Lincoln County's Finance Department for their purchases.

MANAGEMENT'S RESPONSE

Management agrees. Plans are to utilize the Lincoln County Finance Department for purchases.