

# INVESTIGATIVE AUDIT REPORT

## SEVIER COUNTY UTILITY DISTRICT

NOVEMBER 1, 2007, THROUGH OCTOBER 31, 2009



## State of Tennessee



**Comptroller of the Treasury  
Department of Audit  
Division of Municipal Audit**



STATE OF TENNESSEE

C O M P T R O L L E R O F T H E T R E A S U R Y

Justin P. Wilson

Comptroller

STATE CAPITOL

NASHVILLE, TENNESSEE 37243-9034

PHONE (615) 741-2501

March 29, 2011

Members of the Board of Commissioners  
Sevier County Utility District  
P. O. Box 4398  
Sevierville, TN 37864-4398

Gentlemen:

Presented herewith is the report on our investigative audit of selected records of the Sevier County Utility District. This investigative audit focused on the period November 1, 2007, through October 31, 2009. However, when warranted, this scope was expanded.

Section 9-2-102, *Tennessee Code Annotated*, requires that the Comptroller of the Treasury prescribe a uniform system of bookkeeping designating the character of books, reports, receipts and records, and the method of keeping same, in all state, county and municipal offices, including utility districts, which handle public funds. This code section also requires that all officials adopt and use the prescribed system. The Comptroller has prescribed a minimum system of recordkeeping for utility districts, which is detailed in the *Uniform Accounting Manual for Tennessee Utility Districts* combined with Chapter 6 of *Governmental Accounting, Auditing and Financial Reporting*. The purpose of our audit was to determine the extent of the entity's compliance with certain laws and regulations, including those in the above-mentioned manuals.

Our investigative audit revealed that the former district vice-president used his position to receive a personal benefit of \$10,055 related to transactions involving the sale of a district vehicle. This matter has been referred to the local district attorney general.

The findings and recommendations in this report also relate to those conditions that we believe warrant your attention. All responses to each of the findings and recommendations are included in the report.

Members of the Board of Commissioners  
Sevier County Utility District  
March 29, 2011

Copies of this report are being forwarded to Governor Bill Haslam, the State Attorney General, the District Attorney General, certain state legislators, and various other interested parties. A copy is available for public inspection in our office.

Very truly yours,

A handwritten signature in black ink, appearing to read "Justin P. Wilson". The signature is fluid and cursive, with a prominent initial "J" and a long, sweeping underline.

Justin P. Wilson  
Comptroller of the Treasury



STATE OF TENNESSEE  
COMPTROLLER OF THE TREASURY  
DEPARTMENT OF AUDIT  
DIVISION OF MUNICIPAL AUDIT

Justin P. Wilson  
Comptroller of the Treasury

BANK OF AMERICA PLAZA  
414 UNION STREET, SUITE 1100  
NASHVILLE, TENNESSEE 37243-1402  
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Dennis F. Dycus, CPA, CFE, Director  
Division of Municipal Audit

March 29, 2011

Mr. Justin P. Wilson  
Comptroller of the Treasury  
State Capitol  
Nashville, TN 37243-9034

Dear Mr. Wilson:

As part of our ongoing process of examining the records of utility districts, we have completed our investigative audit of selected records of the Sevier County Utility District. This investigative audit focused on the period November 1, 2007, through October 31, 2009. However, when the audit warranted, this scope was expanded.

Section 9-2-102, *Tennessee Code Annotated*, requires that the Comptroller of the Treasury prescribe a uniform system of bookkeeping designating the character of books, reports, receipts and records, and the method of keeping same, in all state, county and municipal offices, including utility districts, which handle public funds. This code section also requires that all officials adopt and use the prescribed system. The Comptroller has prescribed a minimum system of recordkeeping for utility districts, which is detailed in the *Uniform Accounting Manual for Tennessee Utility Districts* combined with Chapter 6 of *Governmental Accounting, Auditing, and Financial Reporting*. The purpose of our audit was to determine the extent of the entity's compliance with certain laws and regulations, including those in the above-mentioned manuals.

Our investigative audit revealed that the former district vice-president used his position to receive a personal benefit of \$10,055 related to transactions involving the sale of a district vehicle. This matter has been referred to the local district attorney general.

Our investigative audit also resulted in findings and recommendations related to the following:

1. District employees performed work for the district president's personal benefit
2. District funds used for guided bus tour; spousal travel; lack of adequate documentation
3. Violation of district travel policy

Mr. Justin P. Wilson  
Comptroller of the Treasury  
March 29, 2011

4. Donations of district funds, inventory, and services
5. Transactions involving sporting event tickets
6. Failure to mark or identify all district vehicles
7. District commissioners received excess compensation
8. Unauthorized purchases of clothing for commissioners and employees
9. Clothing and footwear provided to employees and commissioners as a fringe benefit not reflected on employees' Form W-2
10. Failure to establish and follow policies regarding credit cards
11. Inadequate petty cash records
12. Purchases made for other than district purposes

In addition to our findings and recommendations, we are also providing management's response. If after your review, you have any questions, I will be happy to supply any additional information which you may request.

Sincerely,

A handwritten signature in black ink, appearing to read "Dennis F. Dycus". The signature is fluid and cursive, with a large, stylized initial "D" and "F".

Dennis F. Dycus, CPA, CFE, Director  
Division of Municipal Audit

**INVESTIGATIVE AUDIT OF SELECTED RECORDS OF THE  
SEVIER COUNTY UTILITY DISTRICT  
FOR THE PERIOD NOVEMBER 1, 2007, THROUGH OCTOBER 31, 2009**

**LEGAL ISSUES**

1. **ISSUE:**      **Transactions involving district vehicle**

Our investigative audit revealed that the former district vice-president used his position to receive a personal benefit of \$10,055, related to transactions involving the sale of a district vehicle. According to utility district records, in December 2009, the former district vice-president negotiated the trade of a district 2007 Chevrolet 2500 Silverado diesel pickup to a local car dealership. The “Blue Book” or NADA trade-in value of the truck at that time was \$32,175; however, the district received an allowance of only \$17,000<sup>1</sup> towards the purchase of a new vehicle. Following that transaction, Department of Revenue records indicate that the former district vice-president personally purchased the 2007 Chevrolet 2500 Silverado diesel truck from the car dealership for \$17,000. Within days, he traded the same vehicle at another local car dealership, receiving a \$27,055 trade-in allowance. Therefore, the former district vice-president received a personal benefit of \$10,055.

This matter has been referred to the local district attorney general.

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<sup>1</sup> According to the dealership’s sales manager, he used a trade publication, similar to NADA, to determine the allowance. However, auditors determined that the publication he claimed to have used valued the vehicle at \$27,700.

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## **FINDINGS AND RECOMMENDATIONS**

1. **FINDING:** District employees performed work for the district president's personal benefit

Our investigative audit revealed that in 2008, the district president directed district employees to build and install a grill island and fire pit burner at his personal residence. Although the president reimbursed the district for materials used, he did not reimburse the district for the employees' labor. When state auditors inquired about this practice, the president claimed the district would perform this service for anyone, but admitted the district did not advertise this service to district customers. The president also acknowledged this was the only grill island the district built and installed for a customer<sup>2</sup>, but that the district had built and installed fire pit burners<sup>3</sup> and pool heaters for other customers.

Section 7-82-403, *Tennessee Code Annotated*, addresses the fact that the board of commissioners should collect reasonable rates to provide for the operation and maintenance of the system. It is the board of commissioners' responsibility to ensure that district staff uses ratepayer funds prudently. Auditors could not determine a benefit to the district derived from employees performing work at the president's personal residence. In addition, since the only instance of this type work was for the president's apparent personal benefit, it creates an appearance of impropriety.

**RECOMMENDATION:**

To comply with state law, members of the board of commissioners should ensure that management utilizes district assets for the benefit of the district. Members of the board of commissioners should require that services performed by district employees are for the operation and maintenance of the district.

**MANAGEMENT'S RESPONSE:**

**Members of the Board of Commissioners:**

Response is the same as that of the president.

**President:**

I do not concur. This was not the only time work was performed for gas customers. On numerous occasions, work has been performed for customers of good standing who are adding additional gas load to their system.

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<sup>2</sup> The president is also a district customer.

<sup>3</sup> District employees fabricated and installed two fire pit burners at a hotel partially owned by one of the commissioners, but the fire pits did not operate properly and the work was redone by a contractor.



**AUDITOR’S REBUTTAL:**

**Fabricating and installing grill islands is not an advertised service of the district and multiple district employees, including the president, confirmed this was the only grill island the district had ever fabricated and installed for a customer.**

**We reiterate our finding and recommendation.**

2. **FINDING: District funds used for guided bus tour; spousal travel; lack of adequate documentation**

Our investigative audit revealed that the district paid over \$2,300 for a guided bus tour for 15 persons including district officials, their spouses, and other unidentified persons<sup>4</sup> while attending a conference in California. The district’s travel policy strictly prohibits the payment of expenses for spousal travel. In addition, district management failed to maintain adequate supporting documentation to identify exactly who the district was providing guided tours for. Section 7-82-403, *Tennessee Code Annotated*, addresses the fact that the board of commissioners should collect reasonable rates to provide for the operation and maintenance of the system. It is the board of commissioners’ responsibility to ensure that district staff uses ratepayer funds prudently and sensibly. Auditors could not determine a benefit to the district derived from funding a guided bus tour for district commissioners, employees, spouses, and unidentified guests.

**RECOMMENDATION:**

To comply with state law, members of the board of commissioners should ensure that all disbursements are for the benefit of the district. Adequate documentation of all expenditures must be maintained. Members of the board of commissioners should ensure that payment by the district for spousal travel is strictly prohibited.

**MANAGEMENT’S RESPONSE:**

**Members of the Board of Commissioners:**

We concur with the recommendation. We will review and revise our policies, as necessary, to make sure that employees understand that adequate documentation of travel expense must be obtained and maintained. We will also emphasize that spousal travel expenses must be borne by the employee.

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<sup>4</sup> The district was unable to identify all persons who participated in the bus tour.

**President:**

Response is the same as that of the board of commissioners.

3. **FINDING:** **Violation of district travel policy**

A review of district documentation revealed that district officials routinely violated the district travel policy. For instance, while attending a conference in California, district officials charged over \$20,000 in expenses, many of which violated the district travel policy.

- District records indicated that on one day, district officials charged approximately \$140 per person for two meals including beverages containing alcohol for district officials, their spouses, and other unidentified guests<sup>5</sup> totaling over \$2,100. This was in direct violation of the district's travel policy prohibiting payment of officials' spouses' travel as well as exceeding the limit of \$64 per official per day for reimbursement of meals.
- District officials charged over \$2,500 for airfare, lodging, and meals for two wives of former commissioners. This violated the policy of allowing only expenses that were "actual, ordinary and necessary in the conduct of the District business."

**RECOMMENDATION:**

To help ensure that all district funds are used only for costs necessary to the purposes for which the district exists, members of the board of commissioners should adhere to and enforce district policies. Members of the board of commissioners should ensure that their travel policy is followed and should strictly forbid payments for spousal travel.

**MANAGEMENT'S RESPONSE:**

**Members of the Board of Commissioners:**

While we concur with the recommendation, we point out that the conference included presentations on the outlook at the FERC, market transparency, energy futures market, natural gas vehicles, operations and safety, gas supply, and LIHEAP that are important in the operation of a natural gas system.

The cost of the conference was under the total budgeted amount as approved in budget documents. The expense in question happened in 2008 and is the only day the travel allowance was exceeded. Alcohol was mistakenly included on the meal receipt by the restaurant. The utility, as a matter of policy, **does not** reimburse for alcoholic beverages. The travel policy referred to in the report was adopted in 1995 and has not been adjusted

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<sup>5</sup> The district was unable to identify all persons who participated in the meals.

for inflation since that time. The utility is in the process of revising its travel policy, with regard to travel and meal expenses.

**President:**

Response is the same as that of the board of commissioners.

**AUDITOR'S CLARIFICATION:**

**Management's response asserts that the board approved the cost of the conference in the budget. However, the board's budget approval does not negate their duty and obligation to abide by and enforce the travel policies the board itself established.**

**Auditors found that the examples cited in the finding were not the only instances of policy violation. (Refer to Exhibits 1 and 2.) It should be noted that in both these cases, the district did not maintain adequate documentation to determine the true nature of the costs paid with district funds. Therefore, state auditors were required to contact the vendors to obtain adequate supporting documentation. In addition, district records did not identify who partook in these events and for what district purpose they served.**

**The district's current policy relies upon IRS meal reimbursement rates which are revised at least yearly. If the board revises the travel policy, it should consider including provisions that will hold employees personally liable when they abuse district policies.**

4. **FINDING: Donations of district funds, inventory, and services**

The district frequently donated money, appliances, and the services of district employees and equipment to various organizations and institutions. For example:

- The district donated \$5,000 to the Educational Foundation of the Sevier County School System and over \$25,000 to the Robert F. Thomas Foundation.
- The district donated grills to a local church and to Dollywood. Fire pits with values of up to \$750 were donated to the Mountain Hope Good Shepherd Clinic.
- District personnel used district equipment during working hours to perform work<sup>6</sup> at an athletic field at Carson-Newman University in Jefferson County and at an athletic field at Seymour High School in Sevier County.

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<sup>6</sup> The work was not related to the SCUD gas system.

According to Attorney General's Opinion 03-17, promotional efforts by public utilities could be considered a legitimate district expense if there were a likelihood that the expenditures would ultimately benefit the customers of the district by increasing system efficiency and lowering utility rates. However, other than that type of deliberate and measured promotional effort, the district has no statutory authority to make donations to any organization. Auditors could not identify a benefit to the district derived from donating money, appliances, and the services of district employees and district equipment to various public and private organizations and institutions.

In addition, the employees were performing work outside the scope of their governmental and proprietary functions<sup>7</sup>. Therefore, the government tort liability act did not provide protection to the district in the event one of the employees was injured, someone else was injured, or damages occurred as a result of the work performed by the Sevier County Utility District (SCUD) employees.

**RECOMMENDATION:**

Members of the board of commissioners should ensure that all disbursements are for the benefit of the district. To avoid tort liability exposure, district employees should only perform services within the scope of their governmental and proprietary functions.

**MANAGEMENT'S RESPONSE:**

**Members of the Board of Commissioners:**

We do not concur. Section 7-82-304 (a)(12)(A) and (B) provide that utility districts can make donations to economic and community organizations. The donation to the Robert F. Thomas Foundation was to assist in the funding and construction of the LeConte Medical Center. Specifically, the funds were for the purpose of defraying the cost of natural gas equipment. The utility prepared a rate of return analysis which justified the investment. Actual consumption data since the opening of the medical center has verified the financial feasibility of the investment. Also because of our community efforts, we have added to our system a conversion of 163 rooftop natural gas units and five natural gas water heaters from three different schools totaling 28,418 annual therms. At another school, we have added two boys and one girl's dormitory and a gymnasium totaling 14,495 therms. It is difficult to measure the impact of every promotional effort made by the utility. The success of some efforts is relatively easy to measure. It is not so easy to measure the impact of other promotional activities. However, all promotional activities are meant to benefit the customers of the district.

**President:**

Response is the same as that of the board of commissioners.

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<sup>7</sup> *Tennessee Code Annotated*, Section 29-20-201 General rule of immunity from suit, subsection (a).

**AUDITOR’S REBUTTAL:**

The board of commissioners’ and president’s response refers to Section 7-82-304 (12)(A), *Tennessee Code Annotated*, which states the district has the power to “[p]rovide funding to chambers of commerce and economic and community organizations.” The Robert F. Thomas Foundation’s stated objective is to provide substantial financial support to LeConte Medical Center. However, the Robert F. Thomas Foundation is a not-for-profit, charitable organization. The district can make donations to the Robert F. Thomas Foundation only pursuant to Section 7-82-304 (b)(1), *Tennessee Code Annotated*, which states, “In addition to the authority granted under otherwise applicable law, a utility district created under the provisions of this chapter, or any private act of the general assembly, upon the adoption of a resolution by its board of commissioners, has the power to accept and distribute voluntary contributions for bona fide charitable purposes pursuant to programs approved by the board of commissioners, which programs may include, but shall not be limited to, programs in which utility bills are rounded up to the next dollar when such contribution is shown as a separate line on the utility bill.” We noted the district does not have a voluntary contribution program and despite this, the district made numerous donations to many other organizations and groups. (Refer to Exhibits 3 and 4.) Absent a voluntary contribution program for funding these donations, the district is in effect performing fundraising activities on behalf of various organizations with funds provided by ratepayers for gas service.

Management failed to address using district employees for nondistrict services at Carson-Newman University and other places. That type of activity not only lacks statutory authority, but also exposes the district to unknown and potentially unlimited liability.

We reiterate our finding and recommendation.

5. **FINDING:** Transactions involving sporting event tickets

District funds and assets were exchanged for tickets to professional sporting events. These exchanges were not documented and the value of the items exchanged was not calculated to determine the value or benefit to the district. For example:

- District employees delivered and installed a gas grill to the personal residence of a vendor employee<sup>8</sup> located in Knox County<sup>9</sup>. In exchange for the grill, delivery, and

<sup>8</sup> The employee worked for East Tennessee Natural Gas - Spectra Energy, SCUD’s pipeline vendor.

<sup>9</sup> District employees were working outside the scope of their governmental and proprietary functions, and therefore, again exposed the district to tort liability, as noted in Finding 4.

installation, the district received \$500 worth of Tennessee Titans football tickets. According to district management, the tickets were given to employees, but the district was unable to identify which employees received the tickets.

- The district paid \$750 at a Tennessee Gas Association (TGA) silent auction for eight Tennessee Titans football tickets. According to district management, the tickets were given to district employees, but the district was unable to identify which employees received the tickets.

Section 7-82-403, *Tennessee Code Annotated*, addresses the fact that board of commissioners should collect reasonable rates to provide for the operation and maintenance of the system. It is the board of commissioners' responsibility to ensure that district staff uses ratepayer funds prudently and sensibly. However, it is difficult to determine a benefit to the district derived from purchasing or exchanging assets for tickets to a professional sporting event.

**RECOMMENDATION:**

Members of the board of commissioners should ensure that all assets are expended for the benefit of the district.

**MANAGEMENT'S RESPONSE:**

**Members of the Board of Commissioners:**

We concur with the recommendation. However, SCUD had a damaged gas grill that could not be sold. This grill was given to an individual, who in turn donated over \$500 worth of Tennessee Titan tickets to the district to give to employees. The district funds spent with TGA's silent auction are used by TGA to fund scholarships across the state for gas system employees' children. Children of the district employees are eligible and in fact have received one such scholarship. Tennessee Gas Association is a voluntary, not-for-profit corporation whose principal objective is to support the growth of the natural gas industry in the State of Tennessee by enhancing the overall performance, safety, competitiveness and public awareness of its members and their products and services. TGA is a 501(c)(6) nonprofit corporation.

We believe that supporting our professional organizations and our employees is a prudent and sensible use of district funds.

**President:**

Response is the same as that of the board of commissioners.

6. **FINDING:**    **Failure to mark or identify all district vehicles**

Members of the board of commissioners did not ensure that all assets were permanently marked or tagged to identify them as district property, including several passenger vehicles. The *Uniform Accounting Manual for Tennessee Utility Districts*, Section 8-2, requires that each fixed asset be identified (tagged or marked) as belonging to the utility district. Clearly marking vehicles as district property reduces the risk that district employees will use them for other than utility business.

**RECOMMENDATION:**

To discourage nondistrict use, all district vehicles and construction equipment should be clearly and permanently marked to identify them as district property.

**MANAGEMENT’S RESPONSE:**

**Members of the Board of Commissioners:**

We concur with the recommendation. The finding implies that there are several assets that are not marked or tagged as district property. We understand that there are only five assets that are not marked or tagged. In any event, all equipment will be identified pursuant to the *Uniform Accounting Manual for Tennessee Utility Districts*.

**President:**

Response is the same as that of the board of commissioners.

**AUDITOR’S CLARIFICATION:**

**In using the term clearly identified (tagged or marked), we recommend that each piece of equipment owned by the district, especially mobile equipment such as backhoes and automobiles, be prominently identified as being owned by the district. For example, all automobiles and backhoes should have a permanently affixed seal displayed in a prominent manner identifying the equipment as being owned by the district. In addition, all automobiles should have government tags, rather than vanity plates such as those currently on the president’s GMC Denali.**

7. **FINDING:**    **District commissioners received excess compensation**

District commissioners were paid the maximum statutory amount per board meeting. However, the commissioners also received \$500 gift cards at Christmas. The value of these gift cards, which are a fringe benefit according to the Internal Revenue Service,

appeared to constitute excess compensation in violation of state law. Section 7-82-308, *Tennessee Code Annotated*, states:

The members of the board shall serve without compensation for their services, except that by resolution duly adopted by the board of commissioners, each commissioner may receive per diem payments for not more than twelve (12) meetings of the board of commissioners in any calendar year ... Commissioners in those districts that are not financially distressed utility districts as defined in § 7-82-703 that distribute and sell natural gas are thereby authorized, upon resolution duly adopted by the board of commissioners, to receive not more than five hundred dollars (\$500) per diem payments in the manner provided in this part.

**RECOMMENDATION:**

In order to remedy the commissioners acting beyond their statutory authority, the utility district should seek reimbursement for the improper compensation. To comply with state law, members of the board of commissioners should not request or receive any payments or fringe benefits from the district in excess of allowable compensation.

**MANAGEMENT'S RESPONSE:**

**Members of the Board of Commissioners:**

We do not concur. The gift cards were given and received as a gift. However, to remove any false impression, the commissioners have reimbursed the utility for these gifts.

**AUDITOR'S REBUTTAL:**

The IRS recognizes only holiday gifts with a low fair market value as nontaxable and by any estimation \$500 does not qualify as a low fair market value. The IRS also expressly identifies cash equivalents such as gift certificates and gift cards among examples that qualify as taxable fringe benefits. Other gifts could also be considered compensation, such as the \$1,699 steaks purchased as gifts for the members of the board of commissioners, the district's president, and the district's attorney in 2009. (Refer to Exhibit 5.)

We reiterate our finding and recommendation.



8. **FINDING: Unauthorized purchases of clothing for commissioners and employees**

Management allowed district nonmaintenance employees to charge purchases of personal clothing and footwear to district credit cards and reimbursed other employees for purchases of personal clothing and footwear. However, the Sevier County Utility District *Personnel Policies and Procedures Manual* only allowed the district to provide uniforms for maintenance employees. Our review revealed that the district disbursed a total of over \$10,000 each year for nonmaintenance employees' clothing and footwear purchases with some employees receiving up to \$1,000 each year<sup>10</sup>. There was no uniformity in the clothing and footwear purchased and it varied in color and style. In addition, a total of \$2,500 was budgeted each year for the commissioners' clothing allowance, but documentation was insufficient to determine how much was disbursed for this purpose.

**RECOMMENDATION:**

Members of the board of commissioners should ensure that management adheres to and enforces the policies they develop and adopt.

**MANAGEMENT'S RESPONSE:**

**Members of the Board of Commissioners:**

We do concur with the recommendation. We do not concur that the expenditure was not authorized. The district does not have a formal policy. However, the board has formally approved this expense for the past 15+ years. Nonetheless, a policy will be developed.

**President:**

Response is the same as that of the board of commissioners.

**AUDITOR'S REBUTTAL:**

**The only approval was in district budget documents. (Refer to Exhibit 6.) The district's policies does not provide for nonmaintenance employees or commissioners to receive a clothing allowance.**

**We reiterate our finding and recommendation.**

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<sup>10</sup> The president received \$1,000, vice presidents received \$750, and other nonmaintenance employees received \$500.

9. **FINDING:** **Clothing and footwear provided to employees and commissioners as a fringe benefit not reflected on employees' Form W-2**

The fringe benefits of district-provided clothing and footwear to nonmaintenance employees, including commissioners, were not properly reported on the employees' Form W-2. The Internal Revenue Service (IRS) considers clothing that is not specifically required as a condition of employment and is not worn or adaptable to general usage as ordinary clothing use to be taxable. IRS *Publication 15-B* includes information for valuing the fringe benefit.

**RECOMMENDATION:**

Members of the board of commissioners should require that all employees' compensation is accurately and properly reported on IRS Form W-2.

**MANAGEMENT'S RESPONSE:**

**Members of the Board of Commissioners:**

We concur with the recommendations. The utility expects the employees to maintain a professional appearance; therefore, it has a clothing allowance for nonmaintenance employees and will start including the appropriate amounts on their Form W-2 in 2011. Traditionally, commissioners only receive a de minimis amount of clothing for advertising the district.

**President:**

Response is the same as that of the board of commissioners.

**AUDITOR'S CLARIFICATION:**

**The board's approved budget included a clothing allowance of over \$800 for each of the three commissioners. (Refer to Exhibit 6.) The IRS does not specify a dollar threshold for benefits to qualify as de minimis, but has given advice at least once that a \$100 benefit does not qualify.**

10. **FINDING:** **Failure to establish and follow policies regarding credit cards**

Members of the board of commissioners failed to establish policies or monitor activity related to credit cards issued in the district's name. The *Uniform Accounting Manual for Tennessee Utility Districts*, Section 2-6, states:

Written guidelines should include instructions to personnel for authorizing, reviewing, and record keeping as a means of providing control and protecting the district's assets. Such guidelines should be readily available/accessible to all personnel.

District officials had not adopted guidelines on what type of transactions were permissible for charge on the district's credit cards.

**RECOMMENDATION:**

To ensure only authorized, permissible charges are made on district credit cards, members of the board of commissioners should formulate clear, comprehensive credit card policies and procedures.

**MANAGEMENT'S RESPONSE:**

**Members of the Board of Commissioners:**

We concur with the recommendation. While the district has procedures, practices, and forms in place for credit card use, it does not have a formal policy. A policy will be developed and adopted by the board.

11. **FINDING: Inadequate petty cash records**

Utility district files did not contain adequate supporting documentation for some district petty cash purchases. In addition, petty cash records that were located indicated that petty cash was used for door prizes at conferences, travel expense reimbursements, and travel advances. The *Uniform Accounting Manual for Tennessee Utility Districts*, Section 5-3, outlines procedures for a petty cash fund. These procedures identify the types of purchases allowed for petty cash and maintaining documentation for any money received.

**RECOMMENDATION:**

To ensure appropriate, legitimate petty cash disbursements that benefit the district's customers, members of the board of commissioners should ensure petty cash is used for appropriate purchases and should require that adequate supporting documentation is retained in the district's files. Someone other than the petty cash custodian should inspect and approve the invoice or receipt for each disbursement. Employees should sign for any money obtained from the petty cash fund.

**MANAGEMENT’S RESPONSE:**

**Members of the Board of Commissioners:**

We concur with the recommendation. The district has procedures, practices, and forms in place for petty cash disbursements. To supplement these records, a formal policy will be developed and adopted by the board.

**President:**

Response is the same as that of the board of commissioners.

12. **FINDING: Purchases made for other than district purposes**

Our investigative audit revealed that the district made purchases that did not appear to be for a lawful district purpose. District money was used to provide XM satellite radio, an entertainment medium, for the district’s GMC Denali vehicle used exclusively by the district’s president. Section 7-82-403, *Tennessee Code Annotated*, addresses the fact that board of commissioners should collect reasonable rates to provide for the operation and maintenance of the system. It is the board of commissioners’ responsibility to ensure that district staff uses ratepayer funds prudently and sensibly. However, it is difficult to determine a benefit to the district derived from providing an entertainment subscription for the district’s president.

**RECOMMENDATION:**

To decrease the risk of misappropriation or abuse, fulfill their fiduciary duty to district customers, and comply with state law, members of the board of commissioners should prohibit any expenditure of district money that is not for a lawful district purpose.

**MANAGEMENT’S RESPONSE:**

**Members of the Board of Commissioners:**

Response is the same as that of the president.

**President:**

I concur. I was not aware this charge was paid by the utility. Now that I am aware, the utility has been reimbursed.

**AUDITOR'S CLARIFICATION:**

We found that district files contained a statement from XM Satellite Radio dated December 31, 2007, that the district president had initialed, apparently signifying his approval. (Refer to Exhibit 8.)

**EXHIBITS**

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Exhibit 1

This was the only supporting documentation located in district files by state auditors.

This detailed invoice was obtained from the vendor by state auditors.



**4 guests**

			Total	203.48
Tbl 53/1	Chk 5069	Gst 0	=====	
53 BALLARD				
1016939 Roberts	W5-Dining Left		Tbl 53/1	Chk 5069
CE:1016939	CC: 1 TC: 1		53 BALLARD	
Trn 9015	May19'08 05:59PM		1016939 Roberts	W4-Svc Bar Right
-----			CE:1016939	CC: 1 TC: 1
AlaCarte			Trn 8951	May19'08 06:59PM
1 HOT/COLD	0.00		-----	
1 Crab Chowder	8.00		AlaCarte	
1 Ruths Chop Salad	7.25		Date:	May19'08 06:59PM
1 Lettuce Wedge	7.00		Card Type:	Amex
Bleu Cheese			Acct #:	XXXXXXXXXXXX3005
1 Lettuce Wedge	7.00		Trans Key:	AFE000709609945
Bleu Cheese			Exp Date:	XX/XX
Subtotal	29.25		Auth Code:	596276
Tax	2.71		Check:	5069
Total	31.96		Table:	53/1
-----			Check ID:	53 BALLARD
Tbl 53/1	Chk 5069	Gst 4	Server:	1016939 Curtiss
53 BALLARD			Subtotal:	203.48
1016939 Roberts	W5-Dining Left		=====	
CE:1016939	CC: 1 TC: 1		Tbl 53/1	Chk 5069
Trn 9016	May19'08 06:00PM		53 BALLARD	
-----			1016939 Roberts	W4-Svc Bar Right
AlaCarte			CE:1016939	CC: 1 TC: 1
1 Petite Filet	31.00		Trn 8952	May19'08 07:00PM
Medium Well			-----	
1 Ln Mixed Grill	30.00		AlaCarte	
Medium Rare			Subtotal	186.25
1 Swordfish	35.00		Tax	17.23
1 Petite Filet	31.00		Total	203.48
Medium Rare			=====	
Subtotal	156.25		Tbl 53/1	Chk 5069
Tax	14.45		53 BALLARD	
Total	170.70		1016939 Roberts	W6-Dining Right
-----			CE:1016939	CC: 1 TC: 1
Tbl 53/1	Chk 5069	Gst 4	Trn 7462	May19'08 07:11PM
53 BALLARD			-----	
1016939 Roberts	W5-Dining Left		AlaCarte	
CE:1016939	CC: 1 TC: 1		Amex Tip	40.00
Trn 9017	May19'08 06:00PM		XXXXXXXXXXXX	
-----			Amex	243.48
AlaCarte			Subtotal	186.25
1 ADD ON !!	0.00		Tax	17.23
1 Mashed Potatoes	7.50		SvcChg/Grat	40.00
For Table			Payment	243.48
1 Spinach Creamed	7.50		=====	
For Table			--*--	
1 Lyonnaise Pots	7.50		<b>Total: \$243.48</b>	
For Table				
Subtotal	178.75			
Tax	16.53			
Total	195.28			
-----				
Tbl 53/1	Chk 5069	Gst 4		
53 BALLARD				
1016939 Roberts	W6-Dining Right			
CE:1016939	CC: 1 TC: 1			
Trn 7453	May19'08 06:21PM			
-----				
AlaCarte				
1 !! ADD ON !!	0.00			
1 Mashed Potatoes	7.50			
Subtotal	186.25			
Tax	17.23			

Note: Due to privacy concerns, account numbers were redacted.



**This was the only supporting documentation located in district files by state auditors.**

*Dinner*  
*W. I. I. S.*

Tequila Rain  
3 Lansdowne Street  
Boston, MA 02215  
(617) 437-0300

Date: Jul 07 '08 11:32PM  
Card Type: AMEX  
Acct #: XXXXXXXXXX [REDACTED]  
Trans Key: EIE000683119945  
Exp Date: XX/XX  
Auth Code: 171236  
Check: 9932  
Check ID: BALLARD/MATT  
Server: 1016 UPPER3

Subtotal: 80.50

TIP 15.00

TOTAL 95.50

SIGNATURE *[Signature]*

I AGREE TO PAY THE ABOVE TOTAL ACCORDING TO MY CARD ISSUER AGREEMENT!

*APGA*  
*TC*

**This detailed invoice was obtained from the vendor by state auditors.**

Tequila Rain  
3 Lansdowne Street  
Boston, MA 02215  
(617) 437-0300

1016 UPPER3

Chk 9932 BALLARD/MATT Gst 0  
Jul07'08 10:29PM

3 GOLDSCHLAGER	21.00
1 JAGERMEISTER	7.25
1 KETEL ONE	7.50
4 COORS LIGHT	20.00
2 LI ICED TEA	18.00
1 VODKA	6.75
CHARGE TIP	15.00
XXXXXXXXXX [REDACTED]	
AMEX	95.50

LIQUOR	60.50
BTL BEER	20.00
SERVICE CHRG	15.00
PAYMENT	95.50

-----1016 Check Closed-----  
-----Jul07'08 11:33PM-----

LIQUOR	60.50
BTL BEER	20.00
SERVICE CHRG	15.00
PAYMENT	95.50

-----1016 Check Closed-----  
-----Jul07'08 11:33PM-----

**Note: Due to privacy concerns, account numbers were redacted.**

Supporting documentation from district files.

SMOKY MOUNTAIN AREA RESCUE MINISTRIES

Presents

THE SECOND ANNUAL  
MIKE HAMILTON A HOST OF VOLUNTEERS  
GOLF TOURNAMENT

WHEN: APRIL 16, 2008

WHERE: EAGLE'S LANDING GOLF COURSE  
SEVIERVILLE, TN

LUNCH: 11:30 A.M.

TEE TIME: 1:00 P.M.

- \*Registration and lunch at 11:30 a.m. (lunch provided by Damon's Restaurant)
- \*Shotgun start at 1:00 P.M.
- \*Cost \$100.00 per player/\$400.00 per team ✓
- \*Format: 4-Player Scramble
- \*PRIZES ON EVERY HOLE
- \*Prizes for each player on winning teams
- \*Hole-in-One: Win A New Car (2008 GMC Acadia provided by Larry Hill Pontiac/GMC)
- \*Trophy for winning church team (all players must be from the same church)
- \*Excellent Door Prizes
- \*Signage provided by Darrell Huffaker dba Solar Protection, Inc.
- \*Make checks payable to Smoky Mountain Area Rescue Ministries
- \*Mail entry form and check to:
  - DICK WELLONS
  - P.O. BOX 5968
  - SEVIERVILLE, TN 37864
- \*For more information call Smoky Mountain Area Rescue Ministries at (865) 908-3153

*Mail check*

\*\*\*\*\*

ENTRY FORM

Name: Matt Ballard - Sevier County Utility District  
 Address: P.O. Box 4398  
 City: Sevierville State: TN Zip: 37864  
 Home Phone: \_\_\_\_\_ Work Phone: 453-3272

Please list your team players. If none are listed or provided prior to tournament start, you may be placed on a team by the tournament officials.

(1) SCUD (2) Keith Whaley  
 (3) Billy Carroll (4) Matt Ballard  
 Name of church (if entering a church team) \_\_\_\_\_

SMOKY MOUNTAIN AREA RESCUE MINISTRIES is a 501(c)3 nonprofit organization, Federal Tax # 72-1580050. Please consult your tax advisor for appropriate deduction.

**PAID**

**RECEIVED**  
APR - 8 2008  
\$400.00

Supporting documentation from district files.

SEYMOUR COMMUNITY CHRISTIAN SCHOOL



P.O. Box 849, 994 S. Old Sevierville Pike  
Seymour, TN 37865  
Phone: (865) 577-5500 Fax: (865) 577-2646

The mission of SCCS is to provide an excellent, Bible based education and guide students to Christ-centered living

SCCSD  
FAX: 428-5055

To Whom It May Concern:

This year Seymour Community Christian School is celebrating 30 years of providing an excellent Bible-based education and guiding students to Christ-centered living (Col.3:23). We service students from Sevier, Knox, and Blount counties.

Each year SCCS holds a Harvest Festival, which is one of our main fundraisers. Would you support our school with a donation for this event?

If you can, please let us know by contacting the school at the above number/address.

Sincerely,

Angie Johnson  
School Secretary

PAID

attention: Matt  
As per phone conversation verifying donation  
to be sent. Thankyou so much.  
Beverly Sparks

MB  
750. ✓


RECEIVED  
SEP 5 2008  
# 1457 ds

August P. Koster, III, Pastor  
Patrick M. Koster, Administrator  
Approved and accredited by the State Department of Education and the Tennessee Association of Christian Schools

Exhibit 5

Supporting documentation obtained from vendor by state auditors.

Aug. 31. 2010 2:02PM No. 5161 P. 1



**HALPERNS'**  
PURVEYORS OF STEAK & SEAFOOD  
Phone: 404-767-9229  
866-659-6090  
Fax: 404-767-2611

**REMIT:** Halperns' Steak & Seafood  
c/o Fidelity Bank  
PO Box 105579  
Atlanta, GA 30348  
A/R: 404-255-1969

**INVOICE**  
**562537**  
Date: 12/15/2009

<b>S H I P T O</b>	<b>COUNTER SALE</b> 4685 WELCOME ALL ROAD ATLANTA, GA 30349 Phone: (404) 767-9229	<b>B I L L T O</b>	<b>COUNTER SALE</b> 4685 WELCOME ALL ROAD ATLANTA, GA 30349 039800				
<b>ROUTE - DELIVERY</b>		<b>SALESPERSON</b>		<b>CUSTOMER PO</b>		<b>ORDERED BY</b>	
FE 12/15/2009							
<b>TERMS: CASH</b>				<b>INVOICE DUE DATE: 12/15/2009</b>			
SEVIER COUNTY UTILITY DISTRICT ATTN: ALISON WAGLEY SEE SALATHIA FOR VISA INFO							
ORD	SHP	U/M	Item / Size / Description	Wgt/Qty Shipped	Price	Extension	
5	5	CS	40-00011 8 OZ BARREL FILETS 6/CS USDA PRIME TENDERLOIN	5.00	\$150.00	\$750.00	
5	5	CS	40-00035 22 OZ USDA PRIME COWBOYS 4/CS BEEF RIBEYE BONE IN PRIME	5.00	\$150.00	\$750.00	
5	5	EA	99-00060 FEDERAL EXPRESS	5.00	\$39.99	\$199.95	
		Weights: 5.00					

**Auditor's clarification:** Each of the district's three commissioners received one of each item on this invoice. The remaining items were given to the district president, Matt Ballard, and the district's attorney.

**Budget documentation from district files.**

**SEVIER COUNTY UTILITY DISTRICT  
FISCAL YEAR 2007-2008  
UNIFORMS**

39 Employees - Aramark (\$410.00 x 52 wks)	\$	21,320
39 Employees - Boots (\$75.00 x 39)		2,925
19 Employee - (\$500.00 x 19)		9,500
1 Employee - (\$1000.00 x 1)		1,000
3 Employees - (\$750.00 x 3)		2,250
1 Parttime Employee - (75% of \$500.00)		375
Sales Tax Paid		1,800
Commissioners		2,500
Parttime Employees (T-Shirts)		<u>700</u>
<b>Total Natural Uniform Allowance:</b>	<b>\$</b>	<b><u><u>42,370</u></u></b>
<b>Proposed Budget Amount:</b>	<b>\$</b>	<b><u><u>42,500</u></u></b>

**\$2,500 estimated expense for commissioners' uniforms approved in 2009-2010 budget.**

Exhibit 7

Supporting documentation from district files.

10/20/08

Cash

JGA Fall Management Conference

Dodd Prize \$200

4 - \$25

2 - \$20

Ok per Matt

PAID

OCT 20 2008

AS 10/20/08

Supporting documentation from district files.

**YOUR XM SATELLITE RADIO TRIAL IS ABOUT TO EXPIRE.**

STATEMENT DATE	TRIAL PERIOD EXPIRES
December 31, 2007	January 27, 2008

SEVIER COUNTY UTILITDISTRICT  
PO Box 4398  
Sevierville, TN 37864-4398

If you would like to continue your XM service, please submit payment with the form below, call 1-800-547-8118, or go to [xmtestdrive.com/tunein](http://xmtestdrive.com/tunein). XM Radio Online is included with your subscription. Refer to the enclosed brochure for more details.

**CURRENT XM ACCOUNT SUMMARY**

Current XM Subscription Package..... 3-Month Trial  
Expiration Date..... January 27, 2008  
Radio ID..... 4X67W0C8  
VIN..... 1GKFK66868J136938

*1-17-08 Called to renew approx. 1/30*

BILLING CYCLE	MONTHLY RATE	TOTAL SAVINGS*	PACKAGE AMOUNT†
Monthly	\$12.95	—	\$12.95
3-Month	\$12.95	—	\$38.85
1-Year	\$11.87	\$12.95	\$142.45
2-Year	\$11.33	\$38.85	\$271.95
3-Year	\$9.99	\$106.56	\$359.64

*1-31 V1597*

**Payment Terms**  
If you choose not to continue your XM service, no payment is required. Monthly subscription sold separately after trial period ends. Other fees and taxes, including a one-time activation fee, may apply. These and other terms and conditions are provided in more detail at [xmradio.com](http://xmradio.com) and in the XM Subscriber Welcome Kit, which will be mailed to you after first subscription payment is received. Please see reverse for additional payment terms.

To continue your XM service, please submit payment with form below, call 1-800-547-8118, or go to [xmtestdrive.com/tunein](http://xmtestdrive.com/tunein).

**RESPOND BY:** 1/12/2008

**BILLING CYCLE SAVINGS TOTAL DUE\***

Monthly \$12.95  
 3-Month \$38.85  
 1-Year \$11.87 \$12.95 \$142.45  
 2-Year \$11.33 \$38.85 \$271.95  
 3-Year \$9.99 \$106.56 \$359.64

**PAYMENT METHOD:**  
 Please charge my credit card below for payment plan selected at left.  
 Please charge my debit card below for payment plan selected at left.

**ACCOUNTS:** 4X67W0C8  
2008 GMC Denali  
OTCDM2INVSREM

**UPDATE MY XM LISTENER INFORMATION ON THE REVERSE SIDE OF THIS FORM.**

BILLING CYCLE	MONTHLY RATE	TOTAL SAVINGS*	PACKAGE AMOUNT†
Monthly	\$12.95	—	\$12.95
3-Month	\$12.95	—	\$38.85
1-Year	\$11.87	\$12.95	\$142.45
2-Year	\$11.33	\$38.85	\$271.95
3-Year	\$9.99	\$106.56	\$359.64

*1-31 V1597*

**District president Matt Ballard's initials indicating his selection of an entertainment package and his approval of the purchase.**