



# CITY OF CLEVELAND UTILITIES

**Comptroller's Investigative Report**  
January 22, 2019

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**Justin P. Wilson, Comptroller**





JUSTIN P. WILSON  
*Comptroller*

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*Chief of Staff*

January 22, 2019

Utility Board Members  
City of Cleveland Utilities  
2450 Guthrie Avenue NW  
Cleveland, TN 37311

Ladies and Gentlemen:

The Office of the Comptroller of the Treasury conducted an investigation of selected records of the City of Cleveland Utilities, 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 10th 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

## CITY OF CLEVELAND UTILITIES

The Office of the Comptroller of the Treasury, in conjunction with the Cleveland Police Department and the Tennessee Bureau of Investigation, investigated allegations of malfeasance related to the City of Cleveland Utilities (utilities). The investigation was initiated after utilities officials identified and reported questionable purchases.

### INVESTIGATIVE RESULTS

- **Former information technology clerk misappropriated utilities funds totaling at least \$5,415**

During the period September 2017 through April 2018, former information technology clerk (clerk) misappropriated utilities funds totaling at least \$5,415. The clerk used several methods to perpetrate and conceal her misappropriation. Because clerk's duties included requisitioning, purchasing, and receiving items for the information technology department, she was able to continue her fraudulent purchasing scheme without prompt detection. The clerk's employment with the City of Cleveland Utilities was terminated on May 2, 2018.

#### Personal purchases totaling at least \$5,415

The clerk used utilities funds totaling at least \$5,415 to purchase at least 92 items including women's purses, travel bags, and wallets, as well as earphones, headphones, wireless speakers, woodworking tools, and other items for her personal use. (Refer to Exhibits 1 through 4 below for examples.)

#### Exhibit 1

Baggallini Gold Provence Crossbody Travel Purse, Flame Print



#### Exhibit 2

Cynthia Rowley Phone Wallet



**Exhibit 3**

Large Utility Tote Bag with Handles -  
Beach Picnic Basket/Organizer



**Exhibit 4**

Philips Bluetooth Headphones



Deceptive description on purchasing documents

The clerk frequently falsified utilities purchasing documents by providing false or deceptive descriptions of, and fabricated purposes for, the items she bought for personal use, effectively concealing her fraudulent purchasing scheme. For example, she described the purse shown in **Exhibit 1** as a “Baggallini Gold Tablet Case,” and the picnic basket shown in **Exhibit 3** as a “Large Utility Tote.”

Improper sales tax avoidance

The clerk improperly utilized the utilities’ tax-exempt status when she made personal purchases using the utilities’ accounts and funds. As a result, the clerk was not charged and did not pay applicable sales taxes on items purchased for her personal benefit.

Property kept at the clerk’s home

When confronted by utilities management concerning these purchases, the clerk acknowledged purchasing items for her personal use. She further disclosed that she had some of the items at her home. The clerk subsequently returned to the utilities offices approximately 38 of the personal items valued at \$2,407, which she had fraudulently purchased using utilities funds.

• **Failure by management to adequately scrutinize purchases**

Utilities officials failed to adequately scrutinize purchase requisitions and purchase orders to determine that items ordered were suitable for utilities use and that the quantity and frequency of the orders were appropriate. In addition to the instances previously noted, investigators identified other purchases which, although the items were in stock and available for utilities purposes, the quantity or nature of the items did not appear to serve a utilities purpose. For instance, the utilities had 56 cell phone cases valued at \$1,540 in stock, including leather cases, and cases in a variety of colors and styles. Some of the cases were for cell phone models that the utilities either did not issue or no longer had in stock. The utilities also purchased wireless earphones costing as much as \$159 per set. Although the individual cost of these types of

purchases was not significant, the purchases did not appear reasonable or necessary for the efficient operation of the government.

- **Acceptance of personal property in trade**

In at least one instance, utilities officials allowed an employee to trade personal property for utilities property. The investigation revealed that an employee traded a used personal computer to the utilities in exchange for utilities property held in inventory. This employee calculated and reported the quantity and value of the utilities inventory items included in the trade. Due to the utilities lack of inventory control and inventory records, as noted in the **Additional Issues** section below, utilities officials could not independently verify the property the individual actually removed from inventory.

Government officials hold a position of public trust and therefore must strive to hold themselves and their employees to the highest standards. Although this transaction was approved by the employee's supervisor, a transaction between the utilities and one of its employees could create the appearance that the transaction was not necessary for the operation of the utilities, but rather as an accommodation to the employee. In addition, the removal of utilities property from inventory for personal use increases the risk of fraud, waste, or abuse. Allowing this type of exchange, regardless if it was specifically prohibited by statute, regulation, or policy, could potentially result in or create the appearance that the utilities used resources for private interests or that the utilities impeded government efficiency.

These matters were referred to the local district attorney general.

## **ADDITIONAL ISSUES**

Our investigation revealed deficiencies in financial processes that contributed to the clerk's ability to perpetrate her misappropriation without prompt detection. These financial process deficiencies included:

- Utilities officials failed to separate incompatible financial duties or provide increased oversight when appropriate. The clerk was permitted to initiate the request for a purchase, order the item, receive the item, and approve the related invoice for payment.
- Utilities officials failed to properly account for high-risk movable assets, including computers and other electronic devices. When these items were purchased as stock inventory, they were not accounted for and recorded in an inventory record. In addition, officials did not adequately document or account for property issued to employees.

- Utilities officials failed to use purchase orders/authorizations properly. Purchase orders/authorizations, which documented the employees' authorization to make purchases, were occasionally signed and approved by management after a purchase had been made.

City of Cleveland Utilities officials indicated that they have corrected or intend to correct these deficiencies.