



COMPTROLLER'S INVESTIGATIVE REPORT

Mooresburg Utility District

February 5, 2024

Jason E. Mumpower
Comptroller of the Treasury



DIVISION OF INVESTIGATIONS



JASON E. MUMPOWER
Comptroller

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Mooresburg Utility District
Board of Commissioners
800 Old Highway 11W
Mooresburg, TN 37811

Mooresburg Utility District Board of Commissioners:

The Office of the Comptroller of the Treasury conducted an investigation of selected records of the Mooresburg Utility District, 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 3rd Judicial District, certain state legislators, and various other interested parties. A copy of the report is available for public inspection in our Office and may be viewed at <http://www.comptroller.tn.gov/ia/>.

Sincerely,

A handwritten signature in blue ink, appearing to read "Jason E. Mumpower", is written over a faint, larger version of the signature.

Jason E. Mumpower
Comptroller of the Treasury

JEM/MLC

INVESTIGATIVE REPORT

Mooresburg Utility District

The Office of the Comptroller of the Treasury investigated allegations of malfeasance related to the Mooresburg Utility District. The investigation was limited to selected records for the period July 2022 through September 2023. The results of the investigation were communicated with the Office of the District Attorney General of the 3rd Judicial District.

BACKGROUND



The Mooresburg Utility District (district) in Hawkins County provides water service to approximately 650 residents within the Mooresburg community. The district is governed by a three-person board of commissioners (board) appointed to four-year terms by the Hawkins County Mayor. The board has the responsibility to establish and maintain an adequate system of internal controls for the district. During the period reviewed, the district employed an office manager, secretary, additional office employee, and four to five field employees.

During July and August 2023, prior to the start of the investigation, the board president, board secretary, office manager, and office secretary resigned. Investigators determined that the resignations occurred at different times and for reasons not associated with the findings in this report.

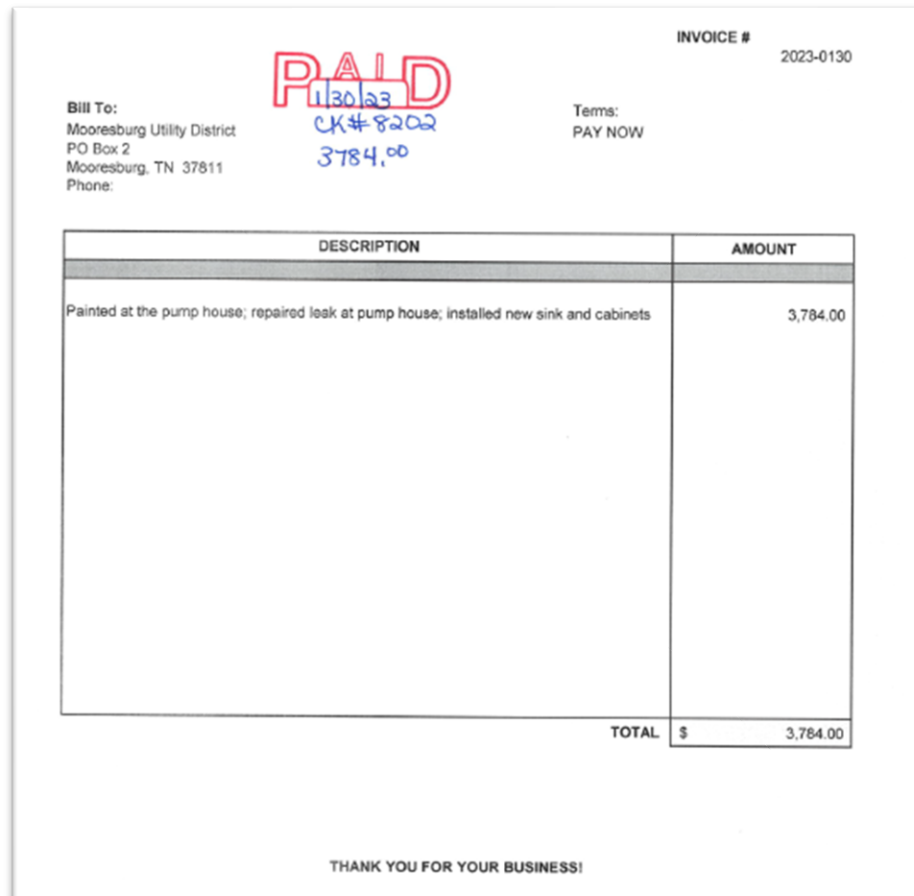
RESULTS OF INVESTIGATION

1. THE DISTRICT MADE QUESTIONABLE PAYMENTS TO A PART-TIME EMPLOYEE TOTALING AT LEAST \$26,710

For the period October 2022 through August 2023, the district routinely made questionable payments to a part-time employee as an independent contractor totaling at least \$26,710. These amounts were not paid through the district's payroll system and were in addition to the employee's regular earnings related to his district job responsibilities. Investigators were unable to determine whether the district provided the employee with Internal Revenue Service (IRS) form 1099 for the additional payments in 2022. The employee submitted invoices from his business to the district

for payments (**Refer to Exhibit 1**), but the invoices lacked sufficient detail for investigators to determine the dates and times of work performed, if work was performed during or after regular work hours, and if district payments were reasonable. According to invoices and district employees, the questionable payments to the part-time employee were for equipment and building repairs, septic repairs, electrical work, and painting for the district.

Exhibit 1



INVOICE # 2023-0130

PAID
1/30/23
CK # 8202
3784.00

Bill To:
Mooresburg Utility District
PO Box 2
Mooresburg, TN 37811
Phone:

Terms:
PAY NOW

DESCRIPTION	AMOUNT
Painted at the pump house; repaired leak at pump house; installed new sink and cabinets	3,784.00
TOTAL	\$ 3,784.00

THANK YOU FOR YOUR BUSINESS!

January 2023 invoice submitted by part-time employee for district work performed as an independent contractor

Since the payments to the employee as an independent contractor were not paid through the district’s payroll system, the payments were not subjected to income tax, Social Security, or Medicare deductions. Also, the district did not report and pay its required matching Social Security and Medicare associated with these payments. Employees should not be compensated by the district as independent contractors in addition to their regular pay. All pay to employees for work performed should be paid through the district’s payroll system to reflect their total salary properly. Also, all wages should be subjected to the proper employee payroll taxes and the district’s matching payments. Finally, the district should maintain sufficient supporting documentation for

disbursements detailing the purpose of transactions, the scope of any work performed, and authorization for payment.

The following table summarizes questionable district payments to the part-time employee, as an independent contractor, by month:

Year	Month	Amount
2022	October	\$1,500
2022	November	\$7,000
2023	January	\$4,034
2023	February	\$8,432
2023	April	\$774
2023	May	\$350
2023	August	\$4,620
	Total	<u>\$26,710</u>

2. THE DISTRICT MADE OTHER QUESTIONABLE DISBURSEMENTS TOTALING AT LEAST \$1,763

The district made other questionable disbursements totaling at least \$1,763 during the period reviewed. The disbursements included purchases for food and supplies that were not supported with itemized receipts or other documentation. Therefore, investigators could not determine whether these purchases were exclusively for the benefit of the district. The district should only make authorized disbursements for the benefit of the district and maintain adequate supporting documentation for all disbursements.

INTERNAL CONTROL AND COMPLIANCE DEFICIENCIES

The Mooresburg Utility District Internal Control Policy provides that the board has the responsibility to establish and maintain an adequate system of internal control to help ensure assets are not exposed to unauthorized access and use, transactions are properly recorded in the financial records, and financial information is reliable.

Our investigation revealed the following deficiencies in internal controls and compliance:

Deficiency 1: District management did not always sign employees' timesheets as evidence of review and approval

In some instances, district management did not sign employees' timesheets as evidence of review and approval. Management's failure to review and approve timesheet records increases the risk of improper or incorrect payroll payments.

Deficiency 2: The board and district management failed to properly oversee district operations, which contributed to multiple purchasing deficiencies

Investigators noted the following purchasing deficiencies resulting from a lack of board and district management oversight:

- District management did not require or retain adequate supporting documentation for some disbursements. Investigators could not determine whether these disbursements were for the benefit of the district. Management should require and maintain adequate supporting documentation for all disbursements, such as invoices or receipts, so that they can verify the payments as proper and reasonable.
- The board did not authorize written policies for uniform purchases during the period reviewed. In some instances, district management paid for boots for employees ranging from \$150 to \$180. The lack of a uniform policy increases the risk that uniform purchases exceed a permitted limit, do not comply with IRS fringe benefit regulations, and do not meet required safety standards.
- In some instances, district management paid credit card bills late during the period reviewed, resulting in the payment of avoidable fees and interest totaling at least \$1,406. District management should pay credit card bills on time to avoid unnecessary interest, fees, and penalty charges.
- The board did not authorize written policies for the use of credit cards during the period reviewed. The board should provide written guidance identifying employees authorized to use credit cards, the types of purchases for which credit cards can be used, and internal controls safeguarding credit cards and related purchases.
- District management did not obtain at least three quotes for several purchases of goods/services during the period reviewed. District policy requires at least three quotes for certain disbursements ranging from \$1,000 to \$5,000, as well as individual board approval for any single purchase of goods/services that exceeds \$1,500. District management was unable to provide adequate documentation of quotes obtained and board approval for these applicable disbursements. District management should obtain quotes in compliance with district policy to ensure the best use of district funds and proper board authorization.
- In some instances, district management pre-signed checks prior to their preparation and issuance. Checks should never be pre-signed and should contain two signatures to provide a degree of control for disbursements by indicating that both signers agree that the payment is proper and reasonable.
- District management did not issue purchase orders for some purchases. District policy provides that a properly completed and approved purchase order should be required prior to payment for all expenses and purchases, except routine expenses and purchases.

Deficiency 3: District management did not reconcile bank statements with the general ledger monthly

District management did not reconcile bank statements with the general ledger monthly. Sound business practices dictate that management should reconcile bank statements to the general ledger at least monthly. The failure to reconcile bank statements with the general ledger increases the risk that errors or misappropriations will not be detected in a timely manner.

Deficiency 4: District management did not issue official consecutively prenumbered receipts for some collections

In some instances, district management did not issue official consecutively prenumbered receipts for collections. Tenn. Code Ann. § 9-2-104 requires official consecutively prenumbered receipts to be issued for all collections. Without official consecutively prenumbered receipts, investigators were unable to determine if all funds had been accounted for properly. The practice of not issuing official consecutively prenumbered receipts weakens internal controls over collections and increases the risk of fraud and misappropriation.

Deficiency 5: District management failed to pay 941 payroll taxes and file IRS forms timely, resulting in unnecessary interest and penalties totaling at least \$1,634

The IRS requires employers to file Form 941 (Quarterly Federal Tax Returns) to report federal income taxes, Social Security tax, and Medicare tax deducted from employee's paychecks as well as the employer's part of Social Security and Medicare tax. In addition, the IRS requires employers to pay Form 941 payroll taxes to the IRS within a certain time frame after each payroll. For the period reviewed, district management did not consistently pay 941 payroll taxes and file related IRS forms timely, resulting in the district paying the IRS unnecessary interest and penalties totaling at least \$1,634. District management should pay 941 payroll taxes and file related IRS forms timely to ensure IRS compliance and avoid unnecessary interest and penalties.

Deficiency 6: The board failed to review all adjustments to customer accounts

In some instances, the board failed to review adjustments to customer accounts to ensure appropriateness and documented support. District policy requires board approval for certain customer account adjustments, but not all adjustments. During the period reviewed, district employees had the authority to make certain adjustments to customer accounts without board oversight or approval. The district's computerized accounting system provides a report of account adjustments performed by employees, and this report is available for review; however, the board did not review this report during the investigative period. The board should periodically review and approve all adjustments to customer accounts to reduce the risk of errors or misappropriations going undetected.

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