

# **COMPTROLLER'S INVESTIGATIVE REPORT**

# South Fork Utility District

January 23, 2024

Jason E. Mumpower Comptroller of the Treasury



**DIVISION OF INVESTIGATIONS** 



JASON E. MUMPOWER Comptroller

January 23, 2024

South Fork Utility District Board of Commissioners 2800 Highway 421 #5 Bristol, TN 37620

South Fork Utility District Management:

The Office of the Comptroller of the Treasury conducted an investigation of selected records of the South Fork 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 2<sup>nd</sup> 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 <u>http://www.comptroller.tn.gov/ia/</u>.

Sincerely,

Jason E. Mumpower Comptroller of the Treasury

JEM/MLC



# **INVESTIGATIVE REPORT**

### **South Fork Utility District**

The Office of the Comptroller of the Treasury investigated allegations of malfeasance related to the South Fork Utility District. The investigation was initiated after investigators received additional allegations following the release of a separate South Fork Utility District report on April 7, 2022. The new investigation was limited to selected records for the period August 1, 2020, through December 6, 2022. The results of the investigation were communicated with the Office of the District Attorney General of the 2<sup>nd</sup> Judicial District.



### BACKGROUND

The South Fork Utility District (SFUD) in Bristol, Tennessee, was created in August 2020 by the merger of the Holston Utility District and the South Bristol-Weaver Pike Utility District. The SFUD provides water service to approximately 3,400 customers in Sullivan County. The SFUD is governed by a five-person board of commissioners who are appointed to four-year terms by the Sullivan County Mayor. The SFUD's daily operations are managed by the district manager.

On April 7, 2022, the Office of the Comptroller of the Treasury issued a SFUD Investigative Report detailing numerous potential conflicts of interest involving the former district manager, questionable transactions, and deficiencies for the period May 2018 through June 2021 (see the April 7, 2022, report here). After the report was issued, four of the five board members resigned. On December 6, 2022, the SFUD district manager referenced in the April 2022 investigative report resigned.

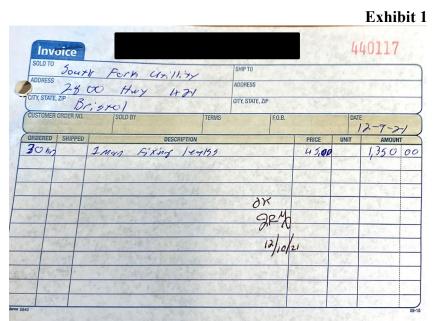
#### **RESULTS OF INVESTIGATION**

# • THE SFUD MADE QUESTIONABLE PAYMENTS TO AN EMPLOYEE'S BUSINESS TOTALING AT LEAST \$148,277.50

For the period August 4, 2020, through April 15, 2022, the SFUD made payments to a SFUD employee's business totaling at least \$148,277.50. According to the employee, he started the business at the recommendation of former SFUD officials with the sole purpose of employing his father to work as a heavy machinery contractor for the SFUD. The employee stated that his business's only income was payments for SFUD work performed by his father, and all payments



received from the SFUD were given to his father as compensation. The SFUD provided an IRS Form 1099 to the employee for calendar years 2020 through 2022. Investigators question why the employee's father was not hired as a SFUD employee or directly by the SFUD as a contractor. Investigators found invoices for most payments from the SFUD to the employee's business, but the invoices lacked sufficient detail to determine the scope of work performed or what individuals performed the work (**Refer to Exhibit 1**).



Employee's business invoice for the December 2021 SFUD payment of \$1,350. The invoice contains insufficient information to determine the scope of the work performed or what individuals performed the work.

Since the payments to the employee's business were not paid through the SFUD's payroll system, the payments were not subjected to income tax, social security, or Medicare deductions. Also, the SFUD did not report and pay its required matching social security and Medicare associated with these payments. Full-time employees should not be compensated by the SFUD as independent contractors in addition to their regular pay. All pay to employees for work performed should be paid through the SFUD's payroll system to reflect their total salary properly. Also, all wages should be subjected to the proper employee payroll taxes and the SFUD's matching payments. Finally, the SFUD should maintain sufficient supporting documentation for disbursements detailing the purpose of transactions, the scope of any work performed, and authorization for payment.

The table below summarizes the SFUD payments to the employee's business for 2020-2022:



SFUD Payments to Employee's Business		
Year	Total Payments	
2020	\$	59,797.50
2021	\$	67,645.00
2022	\$	20,835.00
	<u>\$</u>	148,277.50

SFUD officials indicated they have corrected or intend to correct this investigative finding.