

# INVESTIGATIVE AUDIT REPORT

**SURGOINSVILLE UTILITY DISTRICT  
JANUARY 1, 2007, THROUGH DECEMBER 31, 2007**



## State of Tennessee



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



STATE OF TENNESSEE

COMPTROLLER OF THE TREASURY

John G. Morgan

Comptroller

STATE CAPITOL

NASHVILLE, TENNESSEE 37243-0260

PHONE (615) 741-2501

October 9, 2008

Members of the Board of Commissioners  
Surgoinville Utility District  
1724 Main Street  
Surgoinville, TN 37873

Gentlemen:

Presented herewith is the report on our investigative audit of selected records of the Surgoinville Utility District. This investigative audit focused on the period January 1, 2007, through December 31, 2007. 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 during the period April 1, 1998, through October 31, 2003, Commissioner Hanes Cooper received payments from the district in excess of his lawful compensation totaling \$30,310. During the period January 1, 2004, through December 31, 2007, apparently in an effort to conceal continued unlawful payments totaling \$35,215, Mr. Cooper devised and directed a scheme by which fraudulent payroll payments were made to his daughter so that she could pass the proceeds on to Mr. Cooper.

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

Members of the Board of Commissioners  
Surgoinville Utility District  
October 9, 2008

The findings and recommendations in this report also relate to those conditions that we believe warrant your attention.

Copies of this report are being forwarded to Governor Phil Bredesen, 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 that reads "John G. Morgan". The signature is written in a cursive style with a long, sweeping underline.

John G. Morgan  
Comptroller of the Treasury



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

John G. Morgan  
Comptroller of the Treasury

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

October 9, 2008

Mr. John G. Morgan  
Comptroller of the Treasury  
State Capitol  
Nashville, TN 37243-0260

Dear Mr. Morgan:

As part of our ongoing process of examining the records of utility districts, we have completed our investigative audit of selected records of the Surgoinsville Utility District. This investigative audit focused on the period January 1, 2007, through December 31, 2007. 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 during the period April 1, 1998, through October 31, 2003, Commissioner Hanes Cooper received payments from the district in excess of his lawful compensation totaling \$30,310. During the period January 1, 2004, through December 31, 2007, apparently in an effort to conceal continued unlawful payments totaling \$35,215, Mr. Cooper devised and directed a scheme by which fraudulent payroll payments were made to his daughter so that she could pass the proceeds on to Mr. Cooper.

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

Mr. John G. Morgan  
Comptroller of the Treasury  
October 9, 2008

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

1. Sale of goods for private benefit
2. Inadequate separation of duties
3. Failure to prepare daily cash summary reports
4. Deposits not made promptly
5. Deposit slips not itemized

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 initial "D" and "F".

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

**INVESTIGATIVE AUDIT OF SELECTED RECORDS  
OF THE SURGOINSVILLE UTILITY DISTRICT  
FOR THE PERIOD JANUARY 1, 2007, THROUGH DECEMBER 31, 2007**

**LEGAL ISSUE**

1. **ISSUE:      Apparent misappropriation by commissioner Hanes Cooper and clerk Robin Hoffman**

Our investigative audit revealed that during the period April 1, 1998, through October 31, 2003, Commissioner Hanes Cooper received payments from the district in excess of his lawful compensation totaling \$30,310. Mr. Cooper apparently provided labor to the utility district. However, state law limits the compensation of utility district commissioners. It provides that utility district commissioners may only be paid for attendance at monthly board meetings<sup>1</sup> and sets the maximum amount that they may be paid. Mr. Cooper received his authorized per meeting fee. However, he also received unlawful compensation totaling \$30,310 during that period.

Sometime late in 2003, a customer of the utility district apparently questioned district personnel regarding Mr. Cooper's excess compensation. Subsequent to the customer's inquiries, Mr. Cooper apparently directed that future payments be made to his daughter, Robin Hoffman. Our investigative audit revealed that during the period January 1, 2004, through December 31, 2007, payments to Ms. Hoffman totaled \$35,215. Although auditors found timesheets signed by Ms. Hoffman to support these payments, our investigative audit revealed that Ms. Hoffman only worked at the utility district on rare occasions, certainly not with the frequency indicated by her monthly timesheets. In addition, other district records seemed to contradict Ms. Hoffman's timesheets. Auditors also determined that time records from another government agency that Ms. Hoffman worked for contradicted hours claimed on her utility district timesheets. Finally, the investigative audit revealed that Ms. Hoffman endorsed the backs of district checks issued to her, cashing most and turning others over to her father for his endorsement and deposit, or to be cashed by him.

It appears that in order to conceal the continued unlawful payments, Mr. Cooper devised and directed a scheme by which fraudulent payroll payments were made to his daughter so that she could pass the proceeds on to Mr. Cooper.

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<sup>1</sup> State law does also provide for reimbursement for certain out-of-pocket expenses, such as travel.

Total excess compensation to Hanes Cooper:

|  |                 |
|--|-----------------|
| Labor payments directly to Hanes Cooper              | \$30,310        |
| Labor payments to Hanes Cooper through Robin Hoffman | <u>35,215</u>   |
| Total labor payments to Hanes Cooper                 | <u>\$65,525</u> |

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

## **FINDINGS AND RECOMMENDATIONS**

1. **FINDING: Sale of goods for private benefit**

Our investigative audit revealed that an employee of the utility district was displaying various goods in the lobby of the utility district offices and selling them for her personal benefit. Use of utility district property, particularly during working hours, for the display and sale of goods for private benefit is a violation of the fiduciary duty of public servants and could be interpreted as use of public office for personal gain.

**RECOMMENDATION:**

To fulfill their fiduciary duty and prevent the use of public property for personal gain, all such items available for private sale should be removed from utility district property immediately and the board should prohibit the display and sale of goods for personal benefit in the future.

2. **FINDING: Inadequate separation of duties**

We noted that the district employs only one full-time office worker, who is responsible for collecting, depositing, disbursing, and recording transactions. The *Uniform Accounting Manual for Tennessee Utility Districts*, Section 1-2, Procedure 1, states that commissioners should require reconciliation of all bank statements and canceled checks by someone other than the person writing or recording the checks or handling cash. Section 2-6, Procedure 2, states:

[T]he same individual should not be responsible for authorizing transactions, recording transactions, and maintaining custody of assets. Establish work flow so that an employee's work is automatically verified by another employee working independently. Such procedures will help to eliminate errors in accounting records and limit the possibility of fraud.

**RECOMMENDATION:**

To decrease the risk of undetected errors and irregularities, the board should review employee responsibilities to ensure that no employee has control over a complete transaction. When necessary, management should assume additional oversight duties.

3. **FINDING: Failure to prepare daily cash summary reports**

District personnel did not summarize all collections on a daily cash summary report to ensure that all collections were properly accounted for and deposited into a district bank account. The *Uniform Accounting Manual for Tennessee Utility Districts*, Section 3-1, Procedure 4, states:

The cashier should summarize all cash receipts by source on a daily cash summary report, clearly indicating the amount to be deposited, the amount retained for change, and the amount of cash over or short. Each report should be dated and the date should be recorded on the corresponding deposit slips. The cashier should sign the daily cash summary report.

**RECOMMENDATION:**

To better account for collections, each day utility district personnel should prepare a detailed report of that day's total collections and the source of those collections. To help document that all collections are deposited intact, the totals of each daily cash summary report, corresponding prenumbered receipts, and related bank deposit should agree. The employee responsible for preparation of the daily cash summary report should sign and date the report.

4. **FINDING: Deposits not made promptly**

Our audit revealed that collections were not always deposited promptly. The district's records indicated that some collections were not deposited until more than three days after being received by district personnel. The *Uniform Accounting Manual for Tennessee Utility Districts*, Section 3-1, requires prompt and intact deposit of collections.

**RECOMMENDATION:**

To minimize the risk of loss or misuse of district funds, all collections should be deposited promptly.

5. **FINDING: Deposit slips not itemized**

District personnel did not list each check included in deposits on the applicable deposit slips. Instead, adding machine tapes totaling individual check collections were stapled to

the backs of carbon copies of the deposit slips. The *Uniform Accounting Manual for Tennessee Utility Districts*, Section 3-1, requires that deposit slips be itemized.

**RECOMMENDATION:**

To decrease the risk of loss or misuse of district funds, and to document that all collections are deposited intact, the board should require that deposit slips be itemized and that each check be listed separately, including the names of individuals making payment.