

PART II, FINDINGS RELATING TO THE FINANCIAL STATEMENTS

Findings and recommendations as a result of our examination are presented below. We have reviewed these findings and recommendations with management to provide an opportunity for their response. The written response of the county executive is paraphrased in this report. Other officials offered oral responses to certain findings and recommendations; however, these oral responses have not been included in this report.

HAWKINS COUNTY AND HAWKINS COUNTY SCHOOL DEPARTMENT

FINDING 03.01 **GOVERNMENT-WIDE FINANCIAL STATEMENTS WERE NOT PRESENTED IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES**
(Material Noncompliance Under Government Auditing Standards)

Hawkins County did not identify and determine the historical value of its capital assets and the related depreciation amounts of these assets. The Hawkins County School Department did identify its capital assets and assigned historical cost values and the related depreciation of these assets. However, the School Department did not have documentation on file to support the historical cost values used.

Therefore, Hawkins County and the Hawkins County School Department were unable to provide the information necessary to prepare government-wide financial statements for all of their activities, as required by Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments. GASB is the standard-setting body for accounting principles that state and local governments are required to follow. As a result of this omission, Hawkins County’s and the Hawkins County School Department’s financial statements are not presented in accordance with generally accepted accounting principles; thus, we have issued adverse opinions on their financial statements.

The Office of the Comptroller of the Treasury, State of Tennessee, requires counties that do not implement GASB Statement 34 to issue a financial report in compliance with Financial Reporting Standards for County Governments, Component Units of County Governments, and Special School Districts That Do Not Implement Governmental Accounting Standards Board Statement 34, established by the Comptroller of the Treasury. Hawkins County’s financial statements are presented in compliance with these requirements.

RECOMMENDATION

Hawkins County and the Hawkins County School Department should present government-wide financial statements in conformity with generally accepted accounting principles, and should compile and maintain records that properly account for their capital assets. These records should document the historical costs of capital assets and the related depreciation amounts of these assets. This information is necessary to present the financial statements in accordance with generally accepted accounting principles.

MANAGEMENT'S RESPONSE – COUNTY EXECUTIVE

This office is currently loading fixed assets information into software provided by our computer vendor, and it is our goal to be in compliance with GASB Statement No. 34 by June 30, 2004.

OTHER FINDINGS AND RECOMMENDATIONS

FINDING 03.02 **DUTIES WERE NOT SEGREGATED ADEQUATELY IN THE OFFICES OF CLERK AND MASTER AND SHERIFF**
(Internal Control – Reportable Condition Under Government Auditing Standards)

Duties were not segregated adequately among officials and employees in the Offices of Clerk and Master and Sheriff. Officials and employees responsible for maintaining the accounting records were also involved in receipting, depositing, and/or disbursing funds. We realize that due to limited resources and personnel, management may not be able to properly segregate duties among employees. However, our professional standards require that we bring this matter to the reader's attention in this report.

FINDING 03.03 **A SYSTEM OF CENTRAL ACCOUNTING AND BUDGETING HAD NOT BEEN ADOPTED**
(Internal Control – Reportable Condition Under Government Auditing Standards)

Hawkins County officials had not adopted a central system of accounting and budgeting. Establishing a central system would significantly improve controls over the accounting and budgeting processes.

RECOMMENDATION

County officials should consider adopting either the County Financial Management System of 1981 or a private act which would provide for a system of central accounting and budgeting covering all county departments.