

PART II, FINDINGS RELATING TO THE FINANCIAL STATEMENTS

Findings and recommendations as a result of our examination are presented below. We reviewed these findings and recommendations with management to provide an opportunity for their response. Officials offered oral responses to the findings and recommendations; however, we did not include these oral responses in this report.

HANCOCK COUNTY AND THE HANCOCK COUNTY SCHOOL DEPARTMENT

FINDING 04.01 **GOVERNMENT-WIDE FINANCIAL STATEMENTS WERE NOT PRESENTED IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES**
(Material Noncompliance Under Government Auditing Standards)

Hancock County and the Hancock County School Department did not identify and determine the historical value of their capital assets and the related depreciation amounts of these assets. Therefore, Hancock County and the Hancock 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, Hancock County’s and the Hancock 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 governments 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. Hancock County’s and the Hancock County School Department’s financial statements are presented in compliance with these requirements.

RECOMMENDATION

Hancock County and the Hancock 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 historical cost of their 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.

OFFICE OF COUNTY MAYOR

FINDING 04.02 **A FORMAL PURCHASE ORDER SYSTEM HAD NOT BEEN ESTABLISHED**

(Internal Control – Reportable Condition Under Government Auditing Standards)

The County Mayor’s Office had not established a formal purchase order system. Purchase orders are necessary to control who has purchasing authority for the county and to document purchasing commitments.

RECOMMENDATION

The office should establish a formal purchase order system to improve internal controls over the purchasing process and to document purchasing commitments.

FINDING 04.03 **DEFICIENCIES WERE NOTED IN HANCOCK COUNTY’S BID PROCUREMENT PROCEDURES**

(Internal Control – Reportable Condition Under Government Auditing Standards)

We noted the following purchasing deficiencies:

- A. Hancock County had not developed procedures to ensure that bids were solicited for all required purchases. Likewise, procedures had not been developed to ensure that bids received and awarded were forwarded to the County Mayor’s Office to support payment of the invoice. Also, bid tabulation forms were not used, and there were no standard procedures regarding the awarding of bids. Currently, bids are solicited and awarded by the various department heads and officials, and in most instances, the documentation relating to the bid procurement is maintained by these individuals.

- B. During the year, deficiencies were noted in the purchase of heaters for the recreation department and two vans for the transportation department. Section 5-14-204, Tennessee Code Annotated, provides for all purchases exceeding \$5,000 to be made after public advertisement and solicitation of competitive bids. While the heaters for the recreation department were bid, two of the bids, including the low bid selected, were submitted after the advertised cutoff date. In addition, the county did not advertise for two vans purchased for the transportation department; instead, price quotes were requested. Furthermore, detailed specifications were not developed for these vans, and as a result, the vendors quoted very different vehicles.

RECOMMENDATION

Hancock County officials should develop written procedures for soliciting and awarding bids that include details relating to the solicitation, advertisement, documentation, award, and approval of bid. All bids documents should be filed in the County Mayor's Office to support payment of invoices. In addition, competitive bids should be solicited through newspaper advertisement for applicable purchases, and bids should not be accepted after the advertised cutoff date.

OFFICE OF DIRECTOR OF SCHOOLS

FINDING 04.04

THE SCHOOL DEPARTMENT DID NOT DOCUMENT COMPLIANCE WITH THE DAVIS-BACON ACT

(Material Weakness in Internal Control and Material Noncompliance Under OMB Circular A-133)

The School Department did not document its compliance with the Davis-Bacon Act for a renovation project totaling \$143,052 that was funded by a federal School Renovation Grant. Additionally, the School Department's contract with a vendor for the renovation project, which involved labor and materials to renovate schools, did not contain a clause indicating that the contractor would be required to comply with the provisions of the Davis-Bacon Act. Federal regulations require that contractors and subcontractors pay prevailing wages on any construction contract that exceeds \$2,000 and is financed either wholly or partially by federal funds. As a result of the School Department's failure to document its compliance with the Davis-Bacon Act and failure to include the provisions of the Davis-Bacon Act as a part of the school renovation contract, we were unable to determine that the contractors and subcontractors paid their employees prevailing wage rates on this construction project.

RECOMMENDATION

The School Department should implement procedures to comply with provisions of the Davis-Bacon Act by including prevailing wage rate clauses in all future federally funded construction contracts and by monitoring and reviewing contractors' and subcontractors' payrolls for compliance with prevailing wage rate requirements.

OFFICE OF CIRCUIT AND GENERAL SESSIONS COURTS CLERK

FINDING 04.05 UNIDENTIFIED AMOUNTS FROM THE FORMER CIRCUIT AND GENERAL SESSIONS COURTS CLERK WERE NOT REMITTED TO THE STATE AS UNCLAIMED PROPERTY
(Material Noncompliance Under Government Auditing Standards)

The clerk did not remit unidentified funds to the state Treasurer's Office. Section 66-29-110, Tennessee Code Annotated (TCA), provides that any funds held by the courts for one year and unclaimed by the owner are considered abandoned. Section 66-29-113, TCA, further requires these funds to be reported and paid to the state Treasurer's Office. At June 30, 2004, the clerk held unidentified funds of \$58,613 and \$42,828 in Circuit and General Sessions Courts, respectively, that were carried forward from the former clerk.

RECOMMENDATION

Any funds the clerk is unable to identify or any unclaimed funds that the clerk has held for one year or more should be reported and paid to the state Treasurer's Office in compliance with state statutes.

OTHER FINDINGS AND RECOMMENDATIONS

FINDING 04.06 A SYSTEM OF CENTRAL ACCOUNTING, BUDGETING, AND PURCHASING WAS NOT ADOPTED
(Internal Control – Reportable Condition Under Government Auditing Standards)

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

RECOMMENDATION

Hancock 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, budgeting, and purchasing covering all county departments.

FINDING 04.07

DUTIES WERE NOT SEGREGATED ADEQUATELY IN THE OFFICES OF TRUSTEE, COUNTY CLERK, CIRCUIT AND GENERAL SESSIONS COURTS CLERK, CLERK AND MASTER, REGISTER, AND SHERIFF

(Internal Control – Reportable Condition Under Government Auditing Standards)

Duties were not segregated adequately among officials and employees in the Offices of Trustee, County Clerk, Circuit and General Sessions Courts Clerk, Clerk and Master, Register, and Sheriff. Officials and employees responsible for maintaining the accounting records in these offices 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.