

## **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 director of schools is quoted directly 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 04.01      **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 and determine the historical value of its capital assets and the related depreciation of these assets. However, the School Department did not have documentation on file to support the historical value 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 and the Hawkins County School Department’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.

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**OFFICE OF DIRECTOR OF SCHOOLS**

**FINDING 04.02**      **DEFICIENCIES WERE NOTED IN BUDGETING PRACTICES**  
(Internal Control – Reportable Condition Under Government Auditing Standards)

Estimates of the beginning fund balance exceeded the actual fund balance in the General Purpose School Fund by \$801,086 and in the Central Cafeteria Fund by \$96,399. Overestimating the beginning fund balance could result in appropriations exceeding available funding.

**RECOMMENDATION**

School Department officials should monitor and amend the budget whenever it becomes apparent that the estimate of beginning fund balance varies significantly from actual amounts.

**MANAGEMENT’S RESPONSE – DIRECTOR OF SCHOOLS**

The County Commission had discussed in their June meeting passing a resolution to adopt the previous year’s (2002-2003) budget as the 2003-2004 budget for each department. Because we would not be able to operate properly and create the need to do numerous budget amendments, we compiled a budget before the books were closed and recorded an estimate for the fund balance. This caused the fund balance to be over-estimated and we failed to realize and correct the estimation throughout the 2003-2004 fiscal year.

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**OTHER FINDINGS AND RECOMMENDATIONS**

**FINDING 04.03**      **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.

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**FINDING 04.04      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.