

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 responses of the director of schools and circuit and general sessions courts clerk are 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.

HICKMAN COUNTY AND HICKMAN 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)

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

RECOMMENDATION

Hickman County and the Hickman 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 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.

MANAGEMENTS RESPONSE – DIRECTOR OF SCHOOLS

The school system has made an extensive effort to comply with this requirement. The school system is not responsible for issuing government-wide financial statements.

REBUTTAL

The School Department is responsible for preparing government-wide financial statements of all of its activities, as required by GASB Statement No. 34. Because of the omission of these required statements, we have issued an adverse opinion on the School Department's financial statements.

OFFICE OF FINANCE DIRECTOR

FINDING 04.02 **THE OFFICE HAD DEFICIENCIES IN BUDGET OPERATIONS (Noncompliance Under Government Auditing Standards)**

The Adequate Facilities/Development Tax Fund was not budgeted. Section 5-9-401, Tennessee Code Annotated, states that "all funds ... including, but not limited to ... taxes, county aid funds, federal funds, and fines, which are to be used in the operation and respective programs of the various departments, commissions, institutions, boards, offices and agencies of county governments shall be appropriated to such use by the county legislative bodies."

RECOMMENDATION

The Adequate Facilities/Development Tax Fund (Special Revenue Fund) should be budgeted by the County Commission.

FINDING 04.03 **THE OFFICE HAD DEFICIENCIES IN PURCHASING PROCEDURES (Internal Control – Reportable Condition Under Government Auditing Standards)**

Our examination of purchasing procedures revealed the following deficiencies:

- A. The office did not issue purchase orders for some applicable purchases. Purchases orders are necessary to control who has purchasing authority for the office and to document purchasing commitments.
- B. In some instances, documentation that goods had been received or services had been rendered was not maintained. However, our audit indicated that these goods had been received and services had been rendered.

RECOMMENDATION

The office should ensure that purchase orders are issued for all applicable purchases. Documentation should be obtained to confirm that goods have been received or services have been rendered before invoices are paid.

OFFICE OF DIRECTOR OF SCHOOLS

FINDING 04.04

FUNDS COLLECTED FOR HICKMAN COUNTY HIGH SCHOOL WERE NOT ACCOUNTED FOR PROPERLY, AND PUBLIC FUNDS WERE USED TO RETIRE A PERSONAL LOAN

(Material Noncompliance Under Government Auditing Standards)

In August 2004, a local bank contacted the principal at Hickman County High School about an overdrawn school checking account. Upon the bank's notification, the principal contacted the director of schools of the possibility of an unauthorized account. The director of schools immediately notified the Division of County Audit, and we discovered the following circumstances surrounding the bank account in question.

In February 1998, a teacher at Hickman County High School obtained a personal loan for \$19,000, and without school officials' knowledge, he opened a checking account in the name of Hickman County High School under his name as originator, purportedly for the purchase of equipment and supplies for his classroom. This unapproved account was the teacher's personal, off-the-books activity fund and was not audited, as required by Section 49-2-211, Tennessee Code Annotated (TCA). Deposits to the checking account included the above-noted loan, contributions from the public, and proceeds from the sale of video productions. From the period February 1998 through July 2004, deposits (\$33,352) and disbursements (\$33,030) that should have been processed through Hickman County High School's official activity fund accounting system were processed through the teacher's checking account.

On April 20, 1998, \$16,245 was paid from the checking account to the Hickman County High School activity fund, and the funds were used to pay a vendor for equipment. Competitive bids were not solicited for this equipment, as required by Section 49-2-203, TCA. In December 1998, the original invoices from the April 1998 payment were photocopied, the photocopies were altered and resubmitted to the Hickman County High School activity fund, and the vendor was paid again. The high school's activity fund was reimbursed for this overpayment by the School Department's General Purpose School Fund. In January 1999, the vendor sent a refund check of \$16,245 to Hickman County High School. It appears that this refund check was taken directly to the bank and applied

against the personal loan; thus, public funds were used to retire the personal loan. The teacher's employment with the School Department was terminated in August 2004. This finding has been reviewed with the district attorney general.

RECOMMENDATION

All employees of the School Department should be informed that the director of schools is the only person authorized to obtain institutional accounts for the department. Officials at Hickman County High School should improve internal control procedures and ensure that all funds solicited by and/or for the school flow through the high school's activity funds. As required by state statute, all purchases expected to exceed \$5,000 should be competitively bid, and all school funds should be audited annually. The activities of any teacher who sells products and solicits donations in the name of the school should be monitored closely to ensure proper accounting.

MANAGEMENT'S RESPONSE – CURRENT DIRECTOR OF SCHOOLS DR. JERRY NASH

The director of schools met with all administrative staff and school bookkeepers to review institutional accounting requirements for internal control, instituted a new administrative policy regarding the opening of school accounts, and notified all banks in the county regarding present and future school accounts. In addition, the director will inform each employee about procedures of handling school accounts and the collection of school funds. Principals, assistant principals, and bookkeepers will meet with school auditors to formulate a new internal control policy which will provide checks and balances to prevent such an occurrence from happening again. Finally, all administrative staff will be required to attend annual mandatory in-service training regarding the Internal School Accounting Manual beginning with the 2004-05 school year.

MANAGEMENT'S RESPONSE – TEACHER

I opened the bank account in question, and the funds contained were administered by me. The loan was made to me, and I was responsible for the debt. School Department officials communicated with the vendor and paid the loan off with school funds.

OFFICE OF CIRCUIT AND GENERAL SESSIONS COURTS CLERK

FINDING 04.05 EXECUTION DOCKET TRIAL BALANCES DID NOT RECONCILE WITH CASH JOURNAL ACCOUNTS (Noncompliance Under Government Auditing Standards)

At June 30, 2004, the circuit and general sessions courts clerk had prepared trial balances of execution docket cause balances, as required by Section 18-2-103, Tennessee Code Annotated (TCA). However, these trial balances did not reconcile with cash journal

accounts by \$4,603 and \$946, respectively. We were unable to determine if the clerk had complied with provisions of the Unclaimed Property Act, Section 66-29-101, TCA. This statute provides that any funds held by the court 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 State Treasurer's Office.

RECOMMENDATION

Execution docket trial balances should be reconciled with cash journal accounts. Any funds held by the court for one year and unclaimed by the owner are considered abandoned and should be reported and paid to the State Treasurer's Office in compliance with state statutes.

MANAGEMENT'S RESPONSE – CIRCUIT AND GENERAL SESSIONS COURTS CLERK

We have reconciled the general sessions court docket trial balance as of July 31, 2004. The circuit court docket trial balance is being researched in depth to correct the problem.

OTHER FINDING AND RECOMMENDATION

FINDING 04.06 **DUTIES WERE NOT SEGREGATED ADEQUATELY IN THE AMBULANCE SERVICE, SOLID WASTE DEPARTMENT, AND THE OFFICES OF TRUSTEE AND CLERK AND MASTER**
(Internal Control – Reportable Condition Under Government Auditing Standards)

Duties were not segregated adequately among the officials and employees in the Ambulance Service, Solid Waste Department, and the Offices of Trustee and Clerk and Master. Employees responsible for maintaining accounting records were also involved in receipting, depositing, and/or disbursing funds.

RECOMMENDATION

To strengthen internal controls over operations, officials in these departments and offices should segregate duties adequately among employees.