Orleans County Sheriff's Department

Financial Statements

June 30, 2006

Orleans County Sheriff's Department

June 30, 2006

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Government Auditing Standards Report:

Report on Internal Control Over Financial Reporting and Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Schedule of Findings and Questioned Costs

Independent Auditors' Report

Lance Bowen, Sheriff
Orleans County Sheriff's Department
Newport, Vermont

We have audited the accompanying financial statements of the business-type activities of the Orleans County Sheriff's Department of the County of Orleans, Vermont, as of and for the year ended June 30, 2006, as listed in the table of contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Orleans County Sheriff's Department of the County of Orleans, Vermont, as of June 30, 2006 and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2006 on our consideration of the Orleans County Sheriff's Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

Orleans County Sheriff's Department has not presented a management's discussion and analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

As discussed in note 8 to the financial statements, the Department restated the 2005 net asset balance due to the waiver of the interest and penalties from a state unemployment tax audit.

McSoley McCoy & Co.

October 19, 2006
VT Reg. No. 92-349

Orleans County Sheriff's Department
Statement of Net Assets
June 30, 2006

	2006
Assets:	
Current assets	
Cash (note 2)	$ 26,519
Accounts receivable	13,983
Other current assets	6,311
Total current assets	46,813
Vehicles and equipment, net of accumulated depreciation (note 3)	108,448
Total assets	155,261
Liabilities:	
Current liabilities	
Accounts payable	1,474
Current installments of long-term debt (note 4)	13,250
Accrued vacation	12,203
Accrued payroll and related expenses	25,464
Total current liabilities	52,391
Long-term debt - less current installments (note 4)	6,050
Total liabilities	58,441
Net assets:	
Invested in capital assets, net of related debt of $19,300	89,147
Unrestricted	7,673
Total net assets	$ 96,820

The accompanying notes are an integral part of these statements.

Orleans County Sheriff's Department
Statement of Revenues, Expenses, and Changes in Net Assets
For the Year Ended June 30, 2006

	2006
Operating Revenues:	
Charges for services	$ 398,364
Operating grants	111,482
Miscellaneous revenues	2,090
Total operating revenues	511,936
Operating Expenses:	
Contracted services	185,720
Process services	49,699
Grant services	18,751
Administration and general	150,148
Communications services	39,125
Automotive services	45,691
Depreciation	57,823
Total operating expenses	546,957
Net operating loss	(35,021)
Non-operating income (expense):	
Gain on sale of equipment	520
Interest expense	(833)
Total non-operating income (expense)	(313)
Net loss	(35,334)
Net assets, beginning of year before restatement	86,401
Prior period restatement (note 8)	45,753
Net assets, beginning of year after restatement	132,154
Net assets, end of year	$ 96,820

The accompanying notes are an integral part of these statements.

Orleans County Sheriff's Department
Statement of Cash Flows
For the Year Ended June 30, 2006

	2006
Operating activities:	
Cash received from customers	$ 437,946
Cash received from operating grants	111,482
Cash payments to suppliers for goods and services	(206,521)
Cash payments to employees for services	(278,684)
Net cash provided by operating activities	64,223
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(45,678)
Proceeds from issuance of long-term debt	12,100
Proceeds from sale of equipment	520
Interest paid on loans	(834)
Principal paid on long-term debt	(6,806)
Net cash used by capital and related financing activities	(40,698)
Net increase in cash	23,525
Cash, beginning of year	2,994
Cash, end of year	$ 26,519
Reconciliation of operating loss to net cash provided by operating activities:	
Net operating loss	$ (35,021)
Adjustments to reconcile operating loss to net cash provided by operating activities	
Depreciation	57,823
Decrease in accounts receivable	37,491
Increase in prepaid expense	(1,382)
Increase in accounts payable	1,474
Increase in accrued payroll and related items	7,856
Decrease in other liabilities	(4,018)
Total adjustments	99,244
Net cash provided by operating activities	$ 64,223
Cash consists of:	
Cash and cash equivalents	$ 11,664
Restricted cash	14,855
	$ 26,519

The accompanying notes are an integral part of these statements.

(1) Summary of Significant Accounting Policies

The Orleans County Sheriff's Department (the Department) is a governmental entity operating under Title 24 Vermont Statutes Annotated Section 290 located in the County of Orleans, Vermont. Funding is provided by the State of Vermont and the County of Orleans. Operating revenue is generated by service charges, some of which are set by state statute and others are set by the Department. Included among the duties performed by the Department are contracting to provide law enforcement services; security services; control dispatching and other centralized support services; service of lawful writs, warrants and processes; and transportation of prisoners and the mentally disabled.

(a) Basis of accounting

The accompanying financial statements have been prepared using the accrual basis of accounting. The Department's revenues are recognized when they are earned, and their expenses are recognized when they are incurred. The Department applied (a) all Governmental Accounting Standards Board (GASB) pronouncements and (b) Financial Accounting Standards Board (FASB) Statements and Interpretations, APB Opinions, and Accounting Research Bulletins issued on or before November 20, 1989, except insignificant items that conflict with GASB pronouncement.

Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

When both restricted and unrestricted resources are available for use, it is the Department's policy to use restricted resources first, then unrestricted resources, as needed.

(b) Basis of presentation

The Department accounts for ongoing operations and activities using proprietary fund accounting, a method developed with the economic resources measurement focus. This focus is similar to accounting methods used in the private sector.

(c) Vehicles and equipment

Vehicles and equipment are recorded at cost with depreciation computed using the straight-line method over their estimated useful lives. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected as nonoperating activity for the period. The cost of maintenance and repairs is charged to expense as incurred; renewals and betterments over $1,000 are capitalized.

Summary of Significant Accounting Policies (continued)

Estimated useful lives by major classification are as follows:

Office furniture	5 years
Communication equipment	5-7 years
Vehicles	5 years

(d) Unrestricted net assets

Unrestricted net assets for proprietary funds represent the net assets available for future operations or distributions.

(e) Use of estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(f) Accounts receivable

Significant receivables include amounts due from state, town, and contractor contracts. These receivable are due within one year. The Department has not recorded an allowance for uncollectible accounts at June 30, 2006.

(2) Cash and Categories of Risk

There are three categories of credit risk that apply to the Department's balance:

1. Insured by the FDIC or collateralized with securities held by the Department or by the Department's agent in the Department's name.

2. Collateralized with securities held by the pledging financial institution's trust department or agent in the Department's name.

3. Uncollateralized.

Cash and Categories of Risk (continued)

The Sheriff's Department's bank balances are categorized below to give an indication of the level of risk assumed by the Department at June 30, 2006.

	Book Balance	Bank Balance
Insured deposits	$ 26,519	$ 29,405
Uninsured deposits	-	-
Cash on hand	-	-
Total cash deposits	$ 26,519	$ 29,405

(3) Vehicles and Equipment

Vehicles and equipment are summarized as of June 30, 2006 by major classifications as follows:

Vehicles	$ 177,671
Equipment	228,101
Total	405,772
Less: accumulated depreciation	297,324
Net vehicles and equipment	$ 108,448

Depreciation expense for the year ended June 30, 2006 amounted to $57,823.

(4) Long-Term Debt

Long-term debt as of June 30, 2006 consists of the following:

Note payable, Lyndonville Savings Bank, 7%, annual payments of principal and interest of $6,693, through April 10, 2008	$ 12,100
Note payable, Ford Motor Credit Co., 6%, annual payments of principal and interest of $7,618, through March 18, 2007	7,200
	19,300
Less current installments	13,250
Long-term debt, less current installments	$ 6,050

All notes are secured by vehicles.

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

Lance Bowen, Sheriff
Orleans County Sheriff's Department
Newport, Vermont

We have audited the financial statements of the business-type activities of the Orleans County Sheriff's Department of the County of Orleans, Vermont (the Department) as of and for the year ended June 30, 2006, which comprise the Orleans County Sheriff's Department's basic financial statements, and have issued our report thereon dated October 19, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller of the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Department's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements are free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We also noted certain additional matters that we have reported to the management of the Department. The other matters are described in the accompanying schedule of findings and questioned costs as items 2006-01, 2006-02, 2006-03, 2006-04, 2006-05 and 2006-06.

McSoley McCoy & Co.

October 19, 2006
VT Reg. No. 92-349

Long-term Debt (continued)

Maturities on long-term debt for the years after June 30, 2006 are as follows:

Year-ended June 30,	Principal	Interest	Total
2007	$ 13,250	$ 1,659	$ 14,909
2008	6,050	857	6,907
Total	$ 19,300	$ 2,516	$ 21,816

(5) Cost Sharing

Under Vermont law, Orleans County and the State of Vermont are required to cover certain costs of the Orleans County Sheriff's Department. Such costs include the Sheriff's salary and benefits, administrative salary and benefits, office space, certain automotive expenses and others. The amount expended by the County and State during the year ended June 30, 2006 has not been determined.

(6) Operating Grants

The Orleans County Sheriff's Department received grants from the U.S. Government and other grantors. Entitlements to the resources are generally based on compliance with terms and conditions of the grant agreements and applicable federal regulations, including the expenditures of the resources for eligible purposes. Substantially all grants are subject to financial and compliance audits by the grantors. Any disallowance as a result of these audits becomes a liability of the Department. As of June 30, 2006, management believes that no material liabilities will result from such audits.

(7) Risk Management

The Sheriff's Department is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The Sheriff's Department maintains commercial insurance coverage covering each of these risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Department. Settled claims have not materially exceeded this commercial coverage in any of the past three fiscal years.

(8) Prior Period Restatement

In 1998 a State of Vermont unemployment tax audit discovered unpaid state unemployment tax. Interest and penalties on the unpaid tax amounted to $45,753. In accordance with a 1998 agreement reached between the former Sheriff and the Department of Employment and Training, the State of Vermont agreed to waive the interest and penalties. The Department incorrectly recorded a liability for the interest and penalties in addition to the principle amounts. The financial statements have been restated to correct the recorded liability with an increase to the 2005 net asset balance in the amount of $45,753.

Internal Control – Other Matters

Findings

2006-01 Purchases Using a Department Credit Card

During our audit, we noted that purchases using the Department credit card lacked sufficient supporting documentation substantiating the validity of the expense.

Credit card purchases should be subject to a higher level of scrutiny than other expenditures because the approvals and controls that normal purchases are subject to, such as purchase orders, are difficult to apply to credit card purchases. Effective controls over credit card purchases must be applied after the purchase is made rather than prior to the purchase.

We believe the lack of controls over credit card purchases may expose the Department to criticism from external sources. The following elements should be present to validate credit card expenditures:

(1) The amount of each separate expenditure.
(2) The date the expenditure took place.
(3) The name, address or location and the type of expenditure (i.e. dinner).
(4) The reason for expenditure, or the nature of the Department benefit derived or expected to be derived, and the nature of any business discussion or activity that took place.
(5) The occupation or other information about the person or persons entertained including name, title, or other designation sufficient to establish the business relationship to the Department.

We recommend that the Department adopt an unambiguous policy covering purchases using a Department credit card. If Department personnel fail to adhere to the policy, consideration should be given to discontinue all credit card purchases and adopt a reimbursement policy.

Management Response: Management agrees with this finding. Effective immediately the department will implement the recommended actions.

2006-02 Segregation of Duties – Cash Disbursements

The State of Vermont Uniform Accounting Manual for County Sheriff Departments requires the segregation of certain duties within a system of internal control. Duties requiring segregation include that a responsible official approve all disbursements. We noted some invoices were missing such approval during the year ended June 30, 2006. All disbursements should be noted as reviewed and approved before disbursements are made.

Management Response: Management agrees with this finding. The Sheriff or his backup will indicate their review and approval on all invoices.

Orleans County Sheriff's Department
Schedule of Findings and Questioned Costs
June 30, 2006

Internal Control – Other Matters

Findings

2006-03 Capitalization Policy

In accordance with the Department's capitalization policy, expenditures for assets of $1,000 or greater are capitalized and depreciated over the useful life. During the 2006 audit we noted several instances in which expenditures totaling less than $1,000 were capitalized. The Department should reevaluate the appropriateness of the threshold for capitalization and adequately communicate the policy and perform a review of capitalized assets to ensure compliance.

Management Response: Management agrees with this finding. Effective immediately the Department will ensure that only expenditures greater than $1,000 with a useful life of more than one year be considered for a capital addition.

2006-04 Vehicles and Equipment

The Department's asset records at June 30, 2006 did not include fully depreciated assets that are still in service, thus understating the value of gross vehicles and equipment and accumulated depreciation. Many small organizations use their depreciation schedule as their fixed asset register as well as a tool to calculate depreciation. In order to do so, however, the schedules must be kept current, and periodic of physical inventories must be taken of the fixed assets from the depreciation schedules.

We recommend that the Department bring their depreciation schedules current, and begin a schedule of periodic inventories.

Management Response: Management agrees with this finding. Effective immediately the Department will perform a physical inventory of fixed assets and update their depreciation schedule to include fully depreciated assets still in service.

2006-05 Financial Reporting

Meaningful financial reports are the final product of any sound accounting system. They are a crucial tool in assisting management make sound budgeting, financial, and operational decisions. Currently, the Department does not produce any periodic financial reports. The Department's current accounting system has the capabilities to produce a full set of financial statements that can assist the Sheriff in managing the Department. We recommend that the Department institute a written month end closing routine that culminates with the office manager reviewing the financial statements with the Sheriff and other Department management personnel.

Management Response: Management agrees with this finding. Effective immediately the Sheriff and the Office Manager will review current financial statements regularly.

Orleans County Sheriff's Department
Schedule of Findings and Questioned Costs
June 30, 2006

Internal Control – Other Matters

Findings

2006-06 Payroll

In accordance with the Uniform Accounting Manual for the County Sheriff Departments, employees should receive their pay within 6 days after the end of a payroll period. During our audit, we noted payroll was processed later than that deadline. We recommend the Department change its policy for processing payroll to comply with the State of Vermont.

Management Response: Management agrees with this finding. The Department will review its current payroll cycle and implement the necessary changes to comply with the State of Vermont.