

Essex County Sheriff's Department

Financial Statements

June 30, 2008

Essex County Sheriff's Department

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Independent Auditors' Report

Steven Gadapee, Sheriff
Essex County Sheriff's Department
Guildhall, Vermont

We have audited the accompanying financial statements of the business-type activities of the Essex County Sheriff's Department of the County of Essex, Vermont, as of and for the year ended June 30, 2008, 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 Essex County Sheriff's Department of the County of Essex, Vermont, as of June 30, 2008 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 January 15, 2009 on our consideration of the Essex 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.

Essex 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.

McSoley McCoy & Co.

January 15, 2009
VT Reg. No. 92-349

Essex County Sheriff's Department
Statement of Net Assets
June 30, 2008

Assets:

Current assets

Cash (note 2)	\$ 65,924
Accounts receivable, net of an allowance of \$52,520	28,280
Prepaid insurance	<u>4,242</u>

Total current assets 98,446

Vehicles and equipment, net of accumulated depreciation (note 3) 79,955

Total assets 178,401

Liabilities:

Current liabilities

Accounts payable	1,280
Accrued payroll and payroll items	2,375
Current portion long-term debt (note 4)	<u>3,735</u>

Total current liabilities 7,390

Long-term debt - less current portion (note 4) 4,879

Total liabilities 12,269

Net assets:

Invested in capital assets, net of related debt of \$8,614	71,341
Unrestricted	<u>94,791</u>

Total net assets \$ 166,132

The accompanying notes are an integral part of these statements.

Essex County Sheriff's Department
Statement of Revenues, Expenses, and Changes in Net Assets
For the Year Ended June 30, 2008

Operating revenues:	
Charges for services	\$ 188,821
Operating grants	10,109
Miscellaneous revenues	<u>3,018</u>
Total operating revenues	<u>201,948</u>
 Operating expenses:	
Contracted services	145,636
Administration and general	14,296
Automotive services	35,707
Bad debt	52,567
Depreciation	<u>39,265</u>
Total operating expenses	<u>287,471</u>
Net operating loss	<u>(85,523)</u>
 Non-operating expenses:	
Loss on sale of equipment	846
Interest expense	<u>371</u>
Total non-operating expenses	<u>1,217</u>
Net loss	<u>(86,740)</u>
Net assets, beginning of year	<u>252,872</u>
Net assets, end of year	<u><u>\$ 166,132</u></u>

The accompanying notes are an integral part of these statements.

Essex County Sheriff's Department
Statement of Cash Flows
For the Year Ended June 30, 2008

Operating activities:

Cash received from customers	\$ 181,849
Cash received from operating grants	10,109
Cash payments to suppliers for goods and services	(79,258)
Cash payments to employees for services	<u>(117,446)</u>

Net cash used by operating activities (4,746)

Cash flows from capital and related financing activities:

Acquisition of capital assets	(23,300)
Proceeds from issuance of long-term debt	11,350
Interest paid on loans	(371)
Principal paid on long-term debt	<u>(2,736)</u>

Net cash used by capital and related financing activities (15,057)

Net decrease in cash (19,803)

Cash, beginning of year 85,727

Cash, end of year \$ 65,924

Reconciliation of operating loss to net cash used by operating activities:

Net operating loss \$ (85,523)

Adjustments to reconcile operating loss to net cash used by operating activities

Depreciation	39,265
Increase in accounts receivable	(10,080)
Increase in allowance for doubtful accounts	51,520
Decrease in prepaid insurance	1,301
Decrease in accounts payable	(434)
Decrease in accrued payroll and payroll items	<u>(795)</u>

Total adjustments 80,777

Net cash used by operating activities \$ (4,746)

The accompanying notes are an integral part of these statements.

Essex County Sheriff's Department
Notes to Financial Statements
June 30, 2008

(1) Summary of Significant Accounting Policies

The Essex County Sheriff's Department (the Department) is a governmental entity operating under Title 24 Vermont Statutes Annotated Section 290 located in the County of Essex, Vermont. Funding is provided by the State of Vermont and the County of Essex. 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.

Essex County Sheriff's Department
Notes to Financial Statements
June 30, 2008

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 receivables are due within one year. The Department has recorded an allowance of \$52,520 for uncollectible accounts at June 30, 2008. Included in the allowance is \$51,520 relating to amounts owed from the County of Essex, Vermont.

(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.

Essex County Sheriff's Department
Notes to Financial Statements
June 30, 2008

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, 2008.

	Book Balance	Bank Balance
Insured deposits	\$ 65,924	\$ 81,438
Uninsured deposits	-	-
Cash on hand	-	-
Total cash deposits	\$ 65,924	\$ 81,438

(3) Vehicles and Equipment

Vehicles and equipment are summarized as of June 30, 2008 by major classifications as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Vehicles	\$ 131,324	\$ 22,000	\$ (34,249)	\$ 119,075
Equipment	159,659	1,350	-	161,009
Total vehicles and equipment	290,983	23,350	(34,249)	280,084
Less accumulated depreciation	(194,217)	(39,265)	33,353	(200,129)
Vehicles and equipment, net	\$ 96,766	\$ (15,915)	\$ (896)	\$ 79,955

(4) Long-Term Debt

Long-term debt as of June 30, 2008 consists of a note payable to Passumpsic Savings Bank, 4.90% due September 11, 2010 as follows:

	Beginning Balance	Increases	Decreases	Current Maturities	Ending Balance
	\$ -	\$ 11,350	\$ (2,736)	\$ (3,735)	\$ 4,879

Essex County Sheriff's Department
Notes to Financial Statements
June 30, 2008

Long-Term Debt (continued)

Maturities on long-term debt for the years after June 30, 2008 are as follows:

<u>Year ended</u> <u>June 30,</u>		
2009	\$	3,735
2010		3,922
2011		<u>957</u>
Total	\$	<u>8,614</u>

(5) Cost Sharing

Under Vermont law, Essex County and the State of Vermont are required to cover certain costs of the Essex 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, 2008 has not been determined.

(6) Operating Grants

The Essex 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, 2008, 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) Contingency

The Sheriff's Department has been named as a defendant in a lawsuit seeking unspecified damages. The Department has engaged legal counsel and the ultimate outcome is unknown. Any potential liability should be adequately covered by insurance.



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

Steven Gadapee, Sheriff
Essex County Sheriff's Department
Guildhall, Vermont

We have audited the financial statements of the business-type activities of the Essex County Sheriff's Department of the County of Essex, Vermont (the Department) as of and for the year ended June 30, 2008, which comprise the Essex County Sheriff's Department's basic financial statements, and have issued our report thereon dated January 15, 2009. 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. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Department's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Department's financial statements that is more than inconsequential will not be prevented or detected by the Department's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Department's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control that we consider to be control deficiencies, which is of a lesser magnitude than a significant deficiency. These control deficiencies are described in the accompanying schedule of findings and questioned costs as items 2008-01, 2008-02, 2008-03, 2008-04 and 2008-05.



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*.

This communication is intended solely for the information and use of the Department and is not intended to be and should not be used by anyone other than these specified parties.

McSoley McCoy & Co.

January 15, 2009
VT Reg. No. 92-349

Essex County Sheriff's Department
Schedule of Findings and Questioned Costs
June 30, 2008

Internal Control – Control Deficiencies

Findings

2008-01 Segregation of Duties

We noted that there was a lack of segregation of duties within the cash receipts area due to the small size of the department. The objective of internal control over cash receipts is to obtain control over amounts received at the time of receipt and to timely record the receipts in the accounting system. Separating these closely related functions in the cash receipts system will result in much greater internal control in this particular area. To achieve this control, certain duties involving receipts should be handled by different members of the Department. The following procedures could be enacted to improve segregation of duties over cash receipts:

- The Sheriff, who is not involved in the accounting function, should open the mail, make a control list of all receipts, and restrictively endorse all items received as “for deposit only”. This would prevent any unauthorized endorsement should the checks be misplaced or lost before being deposited. This process would also allow the Sheriff to review the bank statement prior to the reconciliation process.
- The Sheriff should then go to another employee for further processing and deposit to the bank on a timely basis.
- Periodically, the Sheriff should compare the deposit slips to the list of receipts to ensure that all funds reflected on the receipts were properly recorded and deposited.

Management Response: The Sheriff has begun to open all mail. A separate ledger is maintained for all checks received; the Sheriff verifies all checks listed and verifies all deposit slips.

2008-02 Sheriff Approval

The Uniform Accounting Manual for the County Sheriff's Departments and a basic tenet of any internal control system requires that a responsible official approve all expenses and disbursements. This approval process shall include written documentation that the Sheriff authorized amounts to be paid.

We noted several instances of the absence of the Sheriff's approval on invoices and timesheets. All cash disbursements and timesheets should be noted as reviewed and approved prior to processing.

Management Response: The Sheriff has begun approving all timesheets and cash disbursements.

2008-03 Revenue and Expense Recognition

Generally accepted accounting principles requires that revenue and expenses be recognized when revenue is earned or becomes realizable and when expenses are incurred. During our audit we noted that revenue and expenses for several services performed and received before year-end were recorded in the wrong fiscal year.

We recommend that management implement procedures to ensure all revenue and expenses be recognized in the proper period.

Management Response: The department has begun reviewing services billed and expenses incurred more carefully to ensure proper recognition to the applicable period.

2008-04 Invoices

The Department's invoices do not instruct payments to be made payable to Essex County Sheriff's Department. To ensure proper receipt of funds and prevent misappropriation of assets, the Department should make the necessary changes to their invoices.

Management Response: The Department has made the necessary changes, all invoices instruct payments to be made payable to Essex County Sheriff's Department.

2008-05 Capital Purchases

The Department currently does not have established procedures for capital asset purchases over \$10,000. The Uniform Accounting Manual for the County Sheriff's Departments requires a written procedure be maintained. The Department should establish and adhere to the policy.

Management Response: The Department is in the process of developing procedures for capital asset purchases.