Essex County Sheriff's Department

Financial Statements

For the Year Ended June 30, 2012

Essex County Sheriff's Department

For the Year Ended June 30, 2012

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McSOLEY McCOY & CO.
Certified Public Accountants and Business Advisors

Independent Auditors' Report

Trevor Colby, 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 (the Department), as of and for the for the year ended June 30, 2012, 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 Department, as of June 30, 2012 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 November 29, 2012 on our consideration of the 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.

The 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.

November 29, 2012
VT Reg. No. 92-349

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Essex County Sheriff's Department
Statement of Net Assets
June 30, 2012

Assets:		
Current assets		
Cash	$	107,671
Accounts receivable, net of an allowance of $1,000		27,288
Prepaid expenses		5,074
Total current assets		140,033
Vehicles and equipment, net of accumulated depreciation		42,318
Total assets		182,351
Liabilities:		
Current liabilities		
Accounts payable		1,140
Accrued payroll and payroll items		15,108
Current installments of long-term debt		7,300
Total liabilities		23,548
Net assets:		
Invested in capital assets, net of related debt		35,018
Unrestricted		123,785
Total net assets	$	158,803

The accompanying notes are an integral part of this statement.

Essex County Sheriff's Department
Statement of Revenues, Expenses, and Changes in Net Assets
For the Year Ended June 30, 2012

Operating revenues:		
Charges for services	$	210,691
Operating grants		4,647
Miscellaneous revenues		2,772
Total operating revenues		218,110
Operating expenses:		
Contracted services		156,136
Administration and general		11,246
Automotive services		18,370
Depreciation		13,838
Total operating expenses		199,590
Net operating income		18,520
Net assets, beginning of year		140,283
Net assets, end of year	$	158,803

The accompanying notes are an integral part of this statement.

Essex County Sheriff's Department
Statement of Cash Flows
For the Year Ended June 30, 2012

Operating activities:		
Cash received from customers	$	208,252
Cash received from operating grants		4,647
Cash payments to suppliers for goods and services		(66,848)
Cash payments to employees for services		(114,871)
Net cash provided by operating activities		31,180
Cash flows from capital and related financing activities:		
Purchases of fixed assets		(28,790)
Principal paid on long-term debt		(3,699)
Net cash used by capital and related financing activities		(32,489)
Net decrease in cash		(1,309)
Cash, beginning of year		108,980
Cash, end of year	$	107,671
Reconciliation of operating income to net cash provided by operating activities:		
Net operating income	$	18,520
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation		13,838
Increase in accounts receivable		(5,211)
Increase in prepaid expenses		(4,800)
Increase in accounts payable		1,670
Increase in accrued payroll and payroll items		7,163
Total adjustments		12,660
Net cash provided by operating activities	$	31,180

The accompanying notes are an integral part of this statement.

(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.

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 $1,000 for uncollectible accounts at June 30, 2012.

(g) Subsequent events

In accordance with ASC 855, the Department evaluated subsequent events through November 29, 2012, the date the Department's financial statements were available to be used and no events or transactions occurred.

(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 Department's bank balances are categorized below to give an indication of the level of risk assumed by the Department at June 30, 2012.

	Bank Balance	Bank Balance
Insured deposits	$ 107,671	$ 107,521
Uninsured deposits	-	-
Total cash deposits	$ 107,671	$ 107,521

(3) Vehicles and Equipment

Vehicles and equipment are summarized as of June 30, 2012 by major classifications as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Vehicles	$ 138,072	$ 2,500	$ -	$ 140,572
Equipment	160,637	26,290	-	186,927
Total vehicles and equipment	298,709	28,790	-	327,499
Less accumulated depreciation	(271,343)	(13,838)	-	(285,181)
Vehicles and equipment, net	$ 27,366	$ 14,952	$ -	$ 42,318

(4) Long-term Debt

Long-term debt as of June 30, 2012 consisted of the following:

Passumpsic Savings Bank – 2.15%, monthly payments of principal and interest of $324 due May 2014 as follows:

Beginning Balance	Increase	Decrease	Current Maturity	Ending Balance
$ 10,999	$ -	$ 3,699	$ 7,300	$ 7,300

The Department paid in full the outstanding balance on the loan subsequent to year-end.

(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, 2012 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, 2012, 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.

McSOLEY McCOY & CO.
Certified Public Accountants and Business Advisors

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

Trevor Colby, 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, 2012, which comprise the Essex County Sheriff's Department's basic financial statements, and have issued our report thereon dated November 29, 2012. 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.

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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. These significant deficiencies are described in the accompanying schedule of findings and questioned costs as items 2012-01, 2012-02, 2012-03, 2012-04, and 2012-05.

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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.

November 29, 2012
VT Reg. No. 92-349

Schedule of Findings and Questioned Costs

Internal Control – Significant Deficiencies

Findings

2012-01 Segregation of Duties

We noted a lack of segregation of duties within the cash receipt and disbursement and recordkeeping areas 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. While, the objective of internal control over cash disbursements is to obtain control over amounts disbursed at the time of disbursement and to timely record the disbursements in the accounting system. Separating these closely related functions in the cash receipts and disbursement system will improve internal control in these particular areas. The following procedures could be enacted to improve segregation of duties over cash receipts and disbursements and recordkeeping:

- The Sheriff, who is not involved in the accounting function, should open the mail, maintain the 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.

- Someone other than the check preparer and signor should mail all payments. This will ensure that all checks reach their approved designated party.

- During our audit, we also noted that the Sheriff has unlimited access to the recordkeeping function. This duty needs to be delegated to the bookkeeper only. This will prevent the Sheriff from providing other recordkeeping services to the Department.

Management Response: Management agrees with the finding and will consider these recommendations and consider other procedures to improve segregation of duties.

2012-02 Employee Manual

The Department currently does not have established procedures for an employee work week, vacation leave, sick leave, compensated holidays, and other fringe benefits. The Department should establish a policy and adhere to the approved policy.

Management Response: Management agrees with this finding and will consider drafting a written policy for the Department.

2012-03 <u>Authorization of Invoices and Time Sheets</u>

During our audit procedures, we noted instances when signatures or supporting documentation authorizing the invoices and employee time sheets were missing. We recommend that all invoices and time sheets are documented as approved to provide evidence of the financial reporting process and approval.

Management Response: Management agrees with this finding and will consider implementing and respecting the control.

2012-04 <u>Revenue Cutoff</u>

During our audit, we noted that revenue was recorded when billed instead of when the services were performed. Revenue should be recorded based on when services were performed. A reliable cutoff is critical to the accuracy and reliability of the financial statements.

We suggest that a review be performed by the Department's bookkeeper to verify that year-end cutoff is performed during the months following year-end.

Management Response: Management agrees with this finding and will consider implementing and respecting the control.

2012-05 <u>Fixed Assets</u>

During our audit we noted that the Department capitalized purchases fixed assets below the capitalization policy of $1,000.

We recommend that the Department adhere to its capitalization policy or consider formerly changing the policy.

Management Response: Management agrees with this finding and will consider implementing and respecting the control.