

Windham County Sheriff's Department

Financial Statements

For the Period from July 1, 2005 to June 26, 2006

Windham County Sheriff's Department

For the Period from July 1, 2005 to June 26, 2006

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Independent Auditors' Report

Richard Guthrie, Sheriff  
Windham County Sheriff's Department  
Windham, Vermont

We were engaged to audit the accompanying financial statements of the business-type activities of the Windham County Sheriff's Department of the County of Windham, Vermont, for the period from July 1, 2005 to June 26, 2006, as listed in the table of contents. These financial statements are the responsibility of the Department's management.

As described in note 7, the former Sheriff of the Windham County Sheriff's Department made numerous improper purchases of a personal nature and caused improper services to be provided to herself and her family that were paid for by the department. The exact amount of misappropriated funds is uncertain. The misappropriation of Department funds was the result of internal controls that were not designed to provide reasonable assurance that resources were applied economically and efficiently; expended in accordance with applicable laws, regulations, contracts and grants; and were necessary and reasonable. These actions constitute abuse under *Government Auditing Standards*. As a result the Department's records do not permit the application of auditing procedures to the financial statements taken as a whole.

Since the Department incurred and engaged in improper expenditures and activities and since we were unable to apply other auditing procedures to satisfy ourselves about the financial statements taken as a whole due to ineffective internal controls, as discussed in the preceding paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial statements referred to in the first paragraph.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 4, 2007 on our consideration of the Windham County Sheriff's Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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.

Windham 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 4, 2007  
VT Reg. No. 92-349

Windham County Sheriff's Department  
Statement of Net Assets  
June 26, 2006

**Assets:**

Current assets	
Cash (note 2)	\$ 15,006
Due from former Sheriff, net of allowance for uncollectible accounts of \$55,130 (note 7)	-
Accounts receivable	32,235
Due from other governments	52,382
Prepaid expenses	<u>24,632</u>
Total current assets	124,255
Vehicles and equipment, net of accumulated depreciation (note 3)	<u>150,713</u>
Total assets	<u>274,968</u>

**Liabilities:**

Current Liabilities	
Accounts payable	96,103
Accrued payroll and payroll taxes	<u>34,602</u>
Total liabilities	<u>130,705</u>

**Net assets:**

Invested in capital assets, net of related debt \$0	150,713
Unrestricted	<u>(6,450)</u>
Total net assets	<u>\$ 144,263</u>

The accompanying notes are an integral part of these statements.

Windham County Sheriff's Department  
Statement of Revenues, Expenses, and Changes in Net Assets  
For the Period from July 1, 2005 to June 26, 2006

**Operating Revenues:**

Charges for services	\$ 448,869
Operating grants	243,428
Civil process	63,770
Transportation	208,193
County reimbursements	190,951
Miscellaneous revenues	<u>20,445</u>

Total operating revenues 1,175,656

**Operating Expenses:**

Contracted services	659,036
Process services	15,531
Administration and general	186,431
Communications services	158,198
Automotive services	123,481
Miscellaneous expenses	22,369
Depreciation	<u>103,720</u>

Total operating expenses 1,268,766

Net operating loss (93,110)

**Non-operating Revenues (Expenses):**

Gain on sale of equipment	4,031
Interest income	273
Interest expense	<u>(1,359)</u>
Total non-operating revenues (expenses)	<u>2,945</u>

Net loss before extraordinary item (90,165)

Extraordinary items - misappropriation of assets (note 7) (9,732)

Net loss after extraordinary item (99,897)

Net assets, beginning of year 244,160

Net assets, end of year \$ 144,263

The accompanying notes are an integral part of these statements.

Windham County Sheriff's Department  
Statement of Cash Flows  
For the Period from July 1, 2005 to June 26, 2006

**Operating activities:**

Cash received from customers	\$ 982,553
Cash received from grants	243,428
Cash payments to suppliers for goods and services	(425,961)
Cash payments to employees for services	<u>(716,844)</u>

Net cash provided by operating activities 83,176

**Cash flows from capital and related financing activities:**

Decrease in due from former sheriff	6,006
Increase in allowance due from former sheriff	(9,732)
Acquisition of capital assets	(76,325)
Proceeds from sale of equipment	4,032
Interest paid	<u>(1,359)</u>

Net cash used by capital and related financing activities (77,378)

**Cash flows from investing activities:**

Interest earned	<u>273</u>
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Net cash provided by investing activities 273

Net increase in cash 6,071

Cash, beginning of year 8,935

Cash, end of year \$ 15,006

**Reconciliation of operating loss to net cash provided by operating activities:**

Net operating loss \$ (93,110)

Adjustments to reconcile operating loss to net cash provided by operating activities:

Depreciation	103,720
Decrease in accounts receivable	46,836
Decrease in due from other governments	3,489
Decrease in prepaid expenses	706
Increase in accounts payable	28,060
Decrease in accrued payroll and payroll taxes	<u>(6,525)</u>

Total adjustments 176,286

Net cash provided by operating activities \$ 83,176

The accompanying notes are an integral part of these statements.

Windham County Sheriff's Department  
Notes to Financial Statements  
For the Period from July 1, 2005 to June 26, 2006

(1) Summary of Significant Accounting Policies

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

As described in note 7, the former Sheriff of the Department misappropriated at least \$61,776 of Department assets between 2003 and 2006.

(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. Principle operating revenues for proprietary funds are charges to customers for sales or services. Principle 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.

Windham County Sheriff's Department  
Notes to Financial Statements  
For the Period from July 1, 2005 to June 26, 2006

Summary of Significant Accounting Policies (continued)

Estimated useful lives by major classification are as follows:

Office furniture	7 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 no allowance for uncollectible accounts at June 26, 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.



Windham County Sheriff's Department  
Notes to Financial Statements  
For the Period from July 1, 2005 to June 26, 2006

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 26, 2006.

	Book Balance	Bank Balance
Insured deposits	\$ 15,006	\$ 19,564
Uninsured deposits	-	-
Total cash deposits	\$ 15,006	\$ 19,564

(3) Vehicles and Equipment

Vehicles and equipment are summarized as of June 26, 2006 by major classifications as follows:

Vehicles	\$ 568,627
Office equipment	110,081
Communication equipment	273,584
Patrol equipment	71,553
Total	1,023,845
Less: accumulated depreciation	873,132
Net vehicles and equipment	\$ 150,713

Depreciation expense for the period from July 1, 2005 to June 26, 2006 amounted to \$103,720.

(4) Cost Sharing

Under Vermont law, Windham County and the State of Vermont are required to cover certain costs of the Windham 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 26, 2006 has not been determined.

(5) Operating Grants

The Windham 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. The conditions described in note 7 resulted in billing and reporting irregularities regarding its operating grants.

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(6) 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.

(7) Misappropriation of Department Assets

From 2003 through 2006 the former Sheriff improperly made numerous purchases of a personal nature and improperly caused services to be provided to herself and her family that were paid for by the Department. These transactions are considered abuse as defined by *Government Auditing Standards*. Such abuse was caused by internal controls that were not designed to provide reasonable assurance that resources were applied economically and efficiently; expended in accordance with applicable laws, regulations, contracts and grants; and were necessary and reasonable.

In addition the Department did not comply with the requirements of Title 24 Vermont Statutes Annotated Section 290 regarding adherence to the Uniform Accounting Manual for County Sheriff Departments, which outlines fundamental financial management practices.

The report of the Vermont State Auditor, dated April 11, 2006, identified \$61,776 as unsupported or personal financial transactions. Total amounts repaid by the former Sheriff amounted to \$6,646. Management has reserved the entire amount due from the former Sheriff up to the amounts repaid, leaving a \$55,130 balance due from former sheriff. Amounts written off for the period from July 1, 2005 to June 26, 2006 in the amount of \$9,732 have been recorded as an extraordinary item in the amount of \$9,732 on the accompanying financial statements.

The amounts identified above were the results of the Vermont State Auditor's investigation. Actual amounts abused are uncertain and the effects on the accompanying financial statements have not been determined.

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

Richard Guthrie, Sheriff  
Windham County Sheriff's Department  
Windham, Vermont

We were engaged to audit the financial statements of the business-type activities of the Windham County Sheriff's Department of the County of Windham, Vermont (the Department) for the period from July 1, 2005 and June 26, 2006, which comprise the Windham County Sheriff's Department's basic financial statements, and have issued our report thereon dated January 4, 2007. 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. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment could adversely affect the Department's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2006-01 and 2006-02.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We consider the items listed as reportable conditions 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.



January 4, 2007  
VT Reg. No. 92-349

Windham County Sheriff's Department  
Schedule of Findings and Questioned Costs  
For the Period from July 1, 2005 to June 26, 2006

Internal Control – Material Weaknesses

Findings

2006-01 Management Override

In our opinion the financial problems experienced by the Windham County Sheriff's Department during the past three years were caused primarily by management override of internal controls. While the system of internal controls and the accounting system both have had serious flaws that need to be corrected, the Department had managed to generate approximately \$565,000 of cash reserves as of the year ended June 30, 2002. That balance diminished to approximately \$225,000 for the year ended June 30, 2003 and was fully depleted as of June 30, 2004. The deterioration of the Department's financial condition was impacted by continuous override of the purchasing controls by the Sheriff in place at the time, including checks written without supporting documentation or substantiation, personal use of Department cell phone, and personal travel and meal expenses paid with Department funds.

While there is always a risk of management override in a small organization such as the Department, there are steps that an organization can take to mitigate the risk. Among them are:

- Adoption of a whistleblower policy that establishes procedures for reporting irregularities and protects employees who report inappropriate behavior of the superiors from retribution.
- Inclusion in the accounting process of independent contractors whose financial independence is not tied to employment at the Department. For example, the Department should consider hiring an independent bookkeeper to assist in the month end closing procedures.
- Requiring the Sheriff and the Office Manager to certify the correctness of the audited financial statements. While both currently are required to sign the management representation letter, the contents of that letter are cumbersome and often difficult for a non-accountant to understand. A certification could be worded more simply and could provide an opportunity to report unauthorized transactions.

2006-02 Financial Reporting

Meaningful financial reports are the end product of any sound accounting system. They are a crucial tool in assisting management to 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.