

Chittenden County Sheriff's Department

Financial Statements
(With Independent Auditors' Report)

June 30, 2019

Chittenden County Sheriff's Department

June 30, 2019

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Independent Auditors' Report

Kevin McLaughlin, Sheriff
Chittenden County Sheriff's Department
South Burlington, Vermont

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Chittenden County Sheriff's Department (the "Department"), as of and for the year ended June 30, 2019, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 the *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Department's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Unmodified 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, 2019, and the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Governmental Accounting Standards Board (GASB) 68 requires employers to present extensive note disclosures and other required supplementary information, including disclosing descriptive information about the types of benefits provided, how contributions to the pension plan are determined, and assumptions and methods used to calculate the liability. As discussed in Note 7, the Department participants in the Vermont Municipal Employees' Retirement System. The Department has not determined the impact of adopting GASB 68. Our opinion is not modified in respect to this matter.

A handwritten signature in blue ink that reads "McSoley McCoy & Co." in a cursive script.

South Burlington, Vermont
January 22, 2020
VT Reg. No. 92-349

Chittenden County Sheriff's Department

Statement of Net Position

June 30, 2019

Assets:

Current assets

Cash	\$	1,057,599
Accounts receivable		216,022
Prepaid expenses		<u>23,425</u>

Total current assets 1,297,046

Vehicles and equipment, net of accumulated depreciation 303,236

Total assets 1,600,282

Liabilities:

Current liabilities

Accounts payable		91,354
Accrued payroll and payroll items		<u>60,360</u>

Total current liabilities 151,714

Net position:

Unrestricted		1,145,332
Investment in capital assets		<u>303,236</u>

Total net position \$ 1,448,568

See accompanying notes to the statements.

Chittenden County Sheriff's Department
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2019

Operating revenues:	
Charges for services	\$ 1,203,586
Operating grants	270,228
Property seizure revenues	22,366
Miscellaneous revenues	<u>22,634</u>
 Total operating revenues	 <u>1,518,814</u>
 Operating expenses:	
Contracted services	558,319
Process services	136,698
Transportation services	33,579
Administration and general	636,147
Automotive services	162,243
Depreciation	<u>122,967</u>
 Total operating expenses	 <u>1,649,953</u>
 Net operating loss	 <u>(131,139)</u>
 Non-operating income:	
Interest income	<u>13,946</u>
 Net loss	 (117,193)
 Net position, beginning of year	 <u>1,565,761</u>
 Net position, end of year	 <u><u>\$ 1,448,568</u></u>

See accompanying notes to the statements.

Chittenden County Sheriff's Department

Statement of Cash Flows

For the Year Ended June 30, 2019

Cash flows from operating activities:

Cash received from customers	\$ 1,186,882
Cash received from operating grants	270,228
Cash payments to suppliers for goods and services	(409,439)
Cash payments to employees for services	<u>(1,070,404)</u>

Net cash used by operating activities (22,733)

Cash flows from capital and related financing activities:

Interest income	13,946
Acquisition of capital assets	(162,487)
Disposal of capital assets	<u>1,872</u>

Net cash used by capital and related financing activities (146,669)

Net decrease in cash (169,402)

Cash, beginning of year 1,227,001

Cash, end of year \$ 1,057,599

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

Net operating loss \$ (131,139)

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

Depreciation	122,967
Changes in:	
Accounts receivable	(61,704)
Prepaid expenses	(10,428)
Accounts payable	48,253
Accrued payroll and payroll items	<u>9,318</u>

Total adjustments 108,406

Net cash used by operating activities \$ (22,733)

See accompanying notes to the statements.

Chittenden County Sheriff's Department

Notes to the Financial Statements

June 30, 2019

(1) Summary of Significant Accounting Policies

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

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) Cash and cash equivalents

For the purpose of reporting cash flows, all highly liquid investments with a maturity of three months or less are considered to be cash equivalents. In addition, the Department considers all certificates of deposit to be cash equivalents.

(d) 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.

Estimated useful lives by major classification are as follows:

Office furniture	5-7 years
Communication equipment	5-10 years
Vehicles	5 years

Chittenden County Sheriff's Department

Notes to the Financial Statements

June 30, 2019

Summary of Significant Accounting Policies (continued)

(e) Unrestricted net assets

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

(f) 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.

(g) Accounts receivable

Significant receivables include amounts due from state, town, and contractor contracts. These receivables are due within one year. The Department has not recorded an allowance for uncollectible accounts at June 30, 2019, as all amounts are deemed collectible.

(h) Subsequent events

The Department evaluated subsequent events through January 22, 2020, the date the Department's financial statements were available to be used.

(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.

The Department's bank balances are categorized below to give an indication of the level of risk assumed by the Department at June 30, 2019.

	<u>Book Balance</u>	<u>Bank Balance</u>
Insured deposits	\$1,033,402	\$1,059,381
Uninsured funds	22,834	22,834
Undeposited funds	<u>1,363</u>	<u>-</u>
Total cash deposits	<u>\$1,057,599</u>	<u>\$ 1,082,215</u>

Chittenden County Sheriff's Department

Notes to the Financial Statements

June 30, 2019

(3) Vehicles and Equipment

Vehicles and equipment are summarized as of June 30, 2019 by major classifications as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Vehicles	\$ 602,477	\$ 146,320	\$ (50,765)	\$ 698,032
Equipment	<u>781,086</u>	<u>16,167</u>	<u>(1,872)</u>	<u>795,381</u>
Total vehicles and equipment	1,383,563	162,487	(52,637)	1,493,413
Less accumulated depreciation	<u>(1,117,975)</u>	<u>(122,967)</u>	<u>50,765</u>	<u>(1,190,177)</u>
Vehicles and equipment, net	<u>\$ 265,588</u>	<u>\$ 39,520</u>	<u>\$ (1,872)</u>	<u>\$ 303,236</u>

(4) Cost Sharing

Under Vermont law, Chittenden County and the State of Vermont are required to cover certain costs of the Chittenden 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, 2019 has not been determined.

(5) Operating Grants

The Chittenden 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, 2019, management believes that no material liabilities will result from such audits.

(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) Retirement Plan

The Department participates in the Vermont Municipal Employees Retirement System (VMERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Vermont.

Chittenden County Sheriff's Department

Notes to the Financial Statements

June 30, 2019

Retirement Plan (continued)

Plan members (Department employees) are required to contribute 10.0% of their annual covered compensation and the Department is required to contribute at an actuarially determined rate. The current rate is 7.25% of annual covered payroll. The contribution requirements of plan members and the Department are established and may be amended by the Retirement Board, Vermont Municipal Employees Retirement System.

GASB 68 requires employers to present extensive note disclosures and other required supplementary information, including disclosing descriptive information about the types of benefits provided, how contributions to the pension plan are determined, and assumptions and methods used to calculate the liability. The Department has not determined the impact of adopting GASB 68.

Contributions made to VMERS by the Department for the year ended June 30, 2019 amounted to \$37,891.

(8) Prior Period Adjustment

During the year ended June 30, 2019, management determined that the Department overstated expenses in 2018 due to fixed assets purchased that were not capitalized. An adjustment has been made to the accompanying financial statements to increase fixed assets and net position by \$9,416 as of July 1, 2018.

INDEPENDENT AUDITOR'S 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*

Kevin McLaughlin, Sheriff
Chittenden County Sheriff's Department
South Burlington, Vermont

We have audited, in accordance with the 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, the financial statements of the business-type activities of the Chittenden County Sheriff's Department (the "Department"), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements, and have issued our report thereon dated January 22, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Department's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control.

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 material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a material weakness and a deficiency that we consider to be a significant deficiency.

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 consider the deficiency described in the accompanying schedule of findings and questioned cost as item 2019-001 to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings and questioned cost as item 2019-002 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements are free from material misstatement, 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*.

The Chittenden County Sheriff's Department's Response to Findings

The Department's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Department's response was not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



January 22, 2020
South Burlington, Vermont
VT Reg. No. 92-349

Chittenden County Sheriff's Department
Schedule of Findings and Questioned Costs
June 30, 2019

Finding 2019-001: Proper Approval

Condition:

During our test work, it was noted that several disbursements were not properly approved by the Sheriff.

Recommendation:

We recommend the Department adhere to their policy regarding the proper approval of disbursements.

Finding 2019-002: Financial Reporting

Condition:

During our audit, we proposed several adjusting journal entries, many of which were from prior year that were not made. It was also noted that several invoices for services rendered near year-end were not recorded in the proper period. The magnitude and scope of these adjustments makes it difficult to produce timely and accurate internal financial information on which management can rely. We also believe it hinders management to properly perform its financial role and properly operate the Department. It also increases the Department's exposure to fraud and irregularities.

Recommendation:

We recommend the Department place more emphasis on the importance of the accounting function and accuracy of financial reporting, especially with prepaids, accruals, revenue cutoff and fixed assets. Specific to revenue cutoff, we recommend the Department implement a system to ensure revenue is recorded in the proper period, especially at year end. This would involve making journal entries at the beginning and end of each fiscal year.

Management's Views and Corrective Action Plan:

Management's views and corrective action plan is included at the end of this report.

CHITTENDEN COUNTY SHERIFF'S OFFICE



STATE OF VERMONT
KEVIN M. MCLAUGHLIN, SHERIFF
P.O. BOX 1426
BURLINGTON, VT 05402

Chittenden County Sheriff's Department
Management's Corrective Action Plan
For the Year Ended June 30, 2019

2019-001: Proper Approval

The Department will implement controls to ensure approval is obtained prior to processing transactions.

2019-002: Financial Reporting

The Department will implement a system to ensure all prepaids, accruals, revenue cutoff, and fixed asset additions and disposals are properly recorded in the accounting function.