Report of the Vermont State Auditor

July 31, 2017

VERMONT COUNTY SHERIFFS' DEPARTMENTS

Significant Improvements Noted but Further Actions Needed to Correct Outstanding Internal Control Deficiencies

Douglas R. Hoffer
Vermont State Auditor
Rpt. No. 17-05

Mission Statement

The mission of the Auditor's Office is to hold state government accountable. This means ensuring that taxpayer funds are used effectively and efficiently, and that we foster the prevention of waste, fraud, and abuse.

DOUGLAS R. HOFFER
STATE AUDITOR

STATE OF VERMONT
OFFICE OF THE AUDITOR

July 31, 2017

Representative Maxine Grad, Chair,
House Committee on Judiciary

Senator Dick Sears, Chair,
Senate Committee on Judiciary

Representative Catherine Toll, Chair,
House Committee on Appropriations

Senator Jane Kitchel, Chair
Senate Committee on Appropriations

Dear Colleagues,

I am pleased to submit the results of the audits for each of Vermont's 14 County Sheriffs' Departments, as required by 24 VSA §290b(d). In accordance with §290b(e), each Sheriff's Department is required to be audited once every two years by a public accounting firm, with the cost of these audits shared by the State Auditor's Office, the Secretary of Administration, and the respective Sheriff's Department.

This report compiles the financial information from statements that have been audited under §290b(e), rather than unaudited financial reports submitted to the State Auditor's Office under §290b(d). Our report provides a summary of financial information and audit findings for fiscal years ending June 30, 2015 and 2016.

Overall, we report (1) a significant decrease in internal control findings from our 2015 report and (2) a 50 percent reduction in the number of repeat findings not implemented that we reported in our 2015 report.

Report	Control Deficiencies[1]	Significant Deficiencies[2]	Material Weaknesses[3]	Total Findings	Repeat Findings Not Implemented
2017	0	8	1	9	8
2015	6	19	0	25	16

These changes reflect the departments' efforts to improve their financial accounting practices and internal controls. However, one department had a material weakness in internal controls that may have resulted in a material misstatement and may again in future audits if not corrected. Our contracted auditors, McSoley McCoy & Co, reviewed internal controls over financial reporting and identified other internal control deficiencies in 3 of 14 sheriffs' departments as opposed to 9 of 14 in our 2015 report.

1 A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their functions, to prevent or detect and correct misstatements on a timely basis.
2 A *significant deficiency* is a control deficiency, or a combination of deficiencies in internal controls that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.
3 A *material weakness* is a deficiency, or combination of deficiencies, in internal control that creates a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected on a timely basis.

132 State Street ♦ Montpelier, Vermont 05633-5101
Auditor: 802.828.2281 ♦ Toll-Free in VT only: 877.290.1400 ♦ Fax: 802.828.2198
email: auditor@state.vt.us ♦ website: www.auditor.vermont.gov

This year's significant deficiencies consist of eight repeat findings from prior audits. Of these eight, two were corrected during the audit. If the remaining conditions are left unchecked, material weaknesses in internal control and modified audit opinions could be issued in future audits, as was the case this year where one department not only had a finding of material weakness but was also issued a disclaimer opinion.

In addition to reporting on the findings for the 2015 and 2016 audits, we have also incorporated the results of our recommendation follow-up for audits conducted in 2013-2014 and will continue this procedure in all future reports to alert you to findings that remain uncorrected from year to year. Tracking audit recommendations and following up on their implementation is an important step for ensuring the departments address financial reporting and internal control deficiencies in a timely manner.

This report summarizes the results from audits that were conducted on the following schedule:

For the year ended June 30, 2015:

Bennington County
Chittenden County
Orange County
Washington County
Windham County
Windsor County

For the year ended June 30, 2016:

Addison County
Caledonia County
Essex County
Franklin County
Grand Isle County
Lamoille County
Orleans County
Rutland County

The audits referenced in this report were conducted in accordance with auditing standards generally accepted in the United States of America and with *Government Auditing Standards.*[4] Each audit includes an auditor's report on the sheriff's financial statements as well as the required report on internal control and compliance including internal control findings and recommendations for corrective actions.

This report is submitted pursuant to statutory requirement, as well as a desire to keep members of the General Assembly, the executive branch, and the public informed regarding the finances of Vermont's Sheriffs' Departments.

Respectfully,

DOUG HOFFER

Douglas R. Hoffer
Vermont State Auditor

[4] Copies of individual Vermont County Sheriff's Department audit reports are available upon request.

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Introduction

The State Auditor's Office (SAO) has several statutory responsibilities related to the auditing and reporting of financial information for each of the 14 county sheriffs' departments.

According to 24 VSA §290b(e), the SAO is responsible for working with sheriffs' departments and the assistant judges to retain a certified public accountant to conduct a biennial audit of the financial systems, controls, and procedures for each sheriff's department. Accordingly, the SAO, sheriffs' departments, and assistant judges hired McSoley McCoy & Co., an independent certified public accounting firm, to perform the audits for 2015 and 2016.

The following schedule outlines the audited sheriffs' departments covered in this report. The audits were performed over a two-year period due to the volume of audits required under statute.

Audited for year ending June 30, 2015	**Audited for year ending June 30, 2016**
Bennington County	Addison County
Chittenden County	Caledonia County
Orange County	Essex County
Washington County	Franklin County
Windham County	Grand Isle County
Windsor County	Lamoille County
	Orleans County
	Rutland County

The SAO is also responsible, under 24 VSA §290b(d), for compiling and submitting a report of results of these audits every two years to the House and Senate Judiciary Committees. The objective of this report is to provide a synopsis for the committees of the results of the financial statement audits conducted by McSoley McCoy during 2015 and 2016. Our previous report, issued on June 9, 2015, included the results of the 2013 and 2014 audits of sheriffs' departments.

Included in our report is a summary of financial information from the statements of net position and statements of revenues, expenses, and changes in net position for all departments. Also included is a summary of: 1) current audit findings from the independent auditors' 2015 and 2016 reports and recommendation follow-up for 2013 and 2014 audit findings; 2) the reports on internal control over financial reporting, compliance, and other matters;

and 3) the auditors' required communication with those charged with governance. Appendix I contains detail on our scope and methodology.

Background

Sheriffs' Departments

A county sheriff's department is a governmental entity created by the Vermont Constitution and operating under the specific authority and procedures established under 24 V.S.A. Chapter 5. Sheriffs and full-time deputy sheriffs whose primary responsibility is transportation of prisoners and persons with a mental condition or psychiatric disability are paid by the State of Vermont[5] but are employees of the county. The department's support staff are considered employees of the county and are paid by the county.

The sheriffs' departments generate most of their revenue from charges for services. Sheriffs may also enter into written contracts with the State of Vermont, an Agency of the United States, one or more towns within or outside the county, or any other nongovernmental entity to provide law enforcement or other related services. Other related services may include security; control dispatching and other centralized support services; and service of lawful writs, warrants and processes.

Operating expenses are typically funded partially from county taxpayers through the general county budget and partially from a variety of department fees and service charges, some of which are set by statute and others by the county sheriff.

The fees are intended to provide resources to cover all costs of the sheriff's department, except the costs paid directly by the State and county noted above, including recovery of the cost of property and equipment used in the performance of these services.

Auditors' Reports

The *independent auditors' report*, included in the audited financial statements, provides an opinion on the extent to which the audited financial statements are presented fairly and are free of material misstatements. The

5 The salaries of Sheriffs and Deputy Sheriffs are set by statute. See 24 V.S.A § 290 and 32 V.S.A § 1182.

independent auditor’s report also reports on management’s responsibility for the financial statements, the auditor’s responsibility, and other matters.

The *report on internal control over financial reporting and on compliance and other matters* provides information about internal control deficiencies and instances of noncompliance with provisions of laws, regulations, contracts, and grants.

Statement of Auditing Standards no. 114 (The Auditor’s Communication with Those Charged with Governance) requires independent auditors performing financial statement audits to communicate certain information to those charged with governance. This information includes the auditors’ responsibilities under generally accepted auditing standards, planned scope and timing of the audit, and significant audit findings. The section on reporting of significant audit findings addresses important qualitative aspects of accounting practices, difficulties encountered during the audit, corrected and uncorrected misstatements, disagreements with management, management representations, management consultations with other independent accountant, and other issues.

Sheriffs Report $14.8 Million in Assets, $2.6 Million in Liabilities

During fiscal years 2015 and 2016 the sheriffs collectively reported $14.8 million in assets, consisting mostly of cash, accounts receivable, and fixed assets. They reported only $2.6 million in liabilities, mostly for accounts payable, accrued payroll, and notes payable, and collectively maintained reserves of $6 million (assets minus liabilities and other restricted net assets) available to be spent by the sheriffs without restriction. Also during this period, the sheriffs generated $19.1 million in revenue and incurred $18.9 million in expenses from providing services for law enforcement; security; control dispatching and other centralized support services; service of lawful writs, warrants, and processes; and transportation of prisoners and the mentally disabled.[6]

The tables on the following pages have been assembled with data from financial statement audits of each sheriff's department, according to our two-year audit plan. The statements of net position and statements of revenues, expenses, and changes in net position for the year ended June 30, 2016 have been compiled in Tables 1 and 2 for Addison, Caledonia, Essex, Franklin, Grand Isle, Lamoille, Orleans, and Rutland counties. The statements of net position and statements of revenues, expenses, and changes in net position for the year ended June 30, 2015 have been compiled in Tables 3 and 4 for Bennington, Chittenden, Orange, Washington, Windham, and Windsor counties. The notes to financial statements that accompany each audit report have not been included in our report but are an integral part of the financial statements. The notes are available upon request.

6 Some of the service charges are set by statute and others are set by contract with the State.

Table 1: Summary of Fiscal year 2016 Audited Statements of Net Position

For the year ended June 30, 2016	*Addison*	*Caledonia*	*Essex*	*Franklin*	*Grand Isle*	*Lamoille*	*Orleans*	*Rutland*	*TOTAL*
Assets									
Cash and cash equivalents	$258,691	$342,907	$212,112	$92,749	$136,458	$998,475	$108,892	$74,051	$2,224,335
Accounts receivable	114,959	119,467	54,761	97,711	90,282	116,773	15,312	292,102	901,367
Prepaid expenses	5,579	24,606	274	21,119	9,616	26,026	-	-	87,220
Other current assets	10,539	-	-	-	-	-	9,076	-	19,615
Construction in progress	-	-	-	-	-	252,240	-	-	252,240
Fixed Assets, Net of Accumulated Depreciation	345,300	202,303	71,601	357,278	233,652	1,527,207	147,653	718,262	3,603,256
Restricted assets	80	-	-	-	1,550	213,981	244,048	165,896	625,555
Total Assets	735,148	689,283	338,748	568,857	471,558	3,134,702	524,981	1,250,311	$7,713,588
Liabilities									
Accounts payable	5,189	2,436	497	24,464	18,804	10,448	9,632	108,796	180,266
Accrued payroll and payroll items	37,815	24,457	1,553	48,911	7,259	186,176	33,125	114,098	453,394
Other current liabilities	-	-	-	-	50,080	-	7,572	975	58,627
Current portion of long-term debt	-	-	-	37,325	27,784	12,205	-	38,846	116,160
Long-term debt - less current portion	-	-	-	61,408	46,021	8,162	-	297,770	413,361
Annuities due to employees	-	-	-	-	-	-	-	165,896	165,896
Total Liabilities	43,004	26,893	2,050	172,108	149,948	216,991	50,329	726,381	1,387,704
Deferred Inflow of Resources									
Uncharged contract services	-	-	-	42,050	-	40,405	-	-	82,455
Net Position									
Invested in capital assets	345,300	202,303	71,601	258,545	159,847	1,759,080	147,653	381,646	3,325,975
Restricted assets	346,764	-	265,097	-	1,550	213,981	244,048	-	1,071,440
Unrestricted	80	460,087	-	96,154	160,213	904,245	82,951	142,284	1,846,014
Total Net Position	692,144	662,390	336,698	354,699	321,610	2,877,306	474,652	523,930	6,243,429
Total Liabilities and Net Position	$735,148	$689,283	$338,748	$568,857	$471,558	$3,134,702	$524,981	$1,250,311	$7,713,588

Table 2: Summary of Fiscal Year 2016 Audited Statements of Revenue, Expenses, and Changes in Net Position

For the year ended June 30, 2016	*Addison*	*Caledonia*	*Essex*	*Franklin*	*Grand Isle*	*Lamoille*	*Orleans*	*Rutland*	*TOTAL*
Operating Revenues:									
Charges for services	$672,243	$591,338	$284,479	$1,021,415	$482,960	$2,792,281	$780,427	$1,438,627	$8,063,770
Jail revenues	-	-	-	-	-	-	-	-	-
Transport services	13,937	17,446	-	-	-	-	-	-	31,383
Process services	44,178	50,969	-	-	-	-	-	-	95,147
Operating grants	-	27,895	43,432	314,642	108,253	45,933	20,252	136,060	696,467
County support[7]	76,187	-	-	160,698	12,977	109,813	2,243	163,690	525,608
Property Seizure Revenues	-	-	-	-	-	-	-	-	-
Miscellaneous revenues	26,603	75,066	4,917	7,873	9,232	35,092	13,343	7,323	179,449
Total operating revenues	833,148	762,714	332,828	1,504,628	613,422	2,983,119	816,265	1,745,700	9,591,824
Operating Expenses:									
Contracted services	409,520	471,598	209,396	809,113	337,507	775,859	276,758	1,088,325	4,378,076
Process services	3,408	10,034	-	184,600	3,693	19,223	71,316	14,150	306,424
Transportation services	-	-	-	-	-	26,676	11,639	-	38,315
Grant expenditures	-	4,943	-	-	106,171	77,437	12,378	56,399	257,328
Administration and general	254,318	225,343	39,551	341,136	37,886	619,289	275,898	252,406	2,045,827
Jail services	7,228	-	-	-	-	-	-	-	7,228
Communications services	-	10,083	-	-	-	1,136,858	55,889	186,718	1,389,548
Automotive services	63,466	41,927	36,549	103,275	38,327	95,385	45,033	73,710	497,672
Depreciation	104,570	62,583	27,581	86,639	61,028	268,771	101,936	128,561	841,669
Miscellaneous	-	-	-	-	-	-	-	-	-
Total Operating Expenses	842,510	826,511	313,077	1,524,763	584,612	3,019,498	850,847	1,800,269	9,762,087
Net operating income (loss)	(9,362)	(63,797)	19,751	(20,135)	28,810	(36,379)	(34,582)	(54,569)	(170,263)

7 The amount of county support stated in operating revenues cannot be compared among the sheriffs' departments. Some departments state the revenue as a net figure, others report the gross amount. Even the gross amounts are not comparable across departments because some county support may be in a non-monetary form (e.g., provision of office equipment and utilities). See 24 V.S.A. §73

For the year ended June 30, 2016	*Addison*	*Caledonia*	*Essex*	*Franklin*	*Grand Isle*	*Lamoille*	*Orleans*	*Rutland*	*TOTAL*
Non-operating Income (Expenses):									
Gain (loss) on sale of equipment	500	3,301	400	2,020	2,749	104	3,443	4,264	16,781
Interest income	70	-	-	-	55	2,113	195	19	2,452
Interest expense	-	-	-	(7,294)	(3,221)	-	(242)	(19,673)	(30,430)
Total Non-Operating Income (expenses)	570	3,301	400	(5,274)	(417)	2,217	3,396	(15,390)	(11,197)
Capital contributions from grants	8,000	-	-	-	-	-	-	82,787	90,787
Net Income (loss)	(792)	(60,496)	20,151	(25,409)	28,393	(34,162)	(31,186)	12,828	(90,673)
Net assets, beginning of year	692,936	722,886	316,547	380,108	293,217	2,911,468	505,838	511,102	6,334,102
Prior Period Adjustment	-	-	-	-	-	-	-	-	-
Net Assets, end of year	$692,144	$662,390	$336,698	$354,699	$321,610	$2,877,306	$474,652	$523,930	6,243,429

Table 3: Summary of Fiscal Year 2015 Audited Statements of Net Position

For the year ended June 30, 2015	*Bennington*	*Chittenden*	*Orange*	*Washington*	*Windham*	*Windsor*	*TOTAL*
Assets							
Cash and cash equivalents	$144,521	$1,519,939	$22,832	$824,172	$135,054	$1,092,536	$3,739,054
Accounts receivable	93,926	131,382	150,137	155,962	89,390	134,138	754,935
Due from other governments	-	-	-	-	30,277	59,662	89,939
Prepaid expenses	28,085	12,997	-	12,247	21,701	23,939	98,969
Other current assets	-	-	-	-	-	-	-
Fixed assets, net of accumulated depreciation	636,025	533,222	373,009	124,408	324,781	298,355	2,289,800
Restricted assets	-	-	5,179	-	129,766	-	134,945
Total Assets	902,557	2,197,540	551,157	1,116,789	730,969	1,608,630	$7,107,642
Liabilities							
Accounts payable	16,447	14,722	78,229	14,235	48,219	11,748	183,600
Accrued payroll and payroll items	28,454	65,496	35,584	24,722	85,744	40,313	280,313
Other current liabilities	-	-	-	7,865	129,766	-	137,631
Current portion of long-term debt	48,759	-	148,235	-	-	-	196,994
Long-term debt - less current portion	386,334	-	36,071	-	-	-	422,405
Annuities due to employees	-	-	-	-	-	-	-
Total Liabilities	479,994	80,218	298,119	46,822	263,729	52,061	1,220,943
Net Position							
Invested in capital assets	200,932	533,222	188,703	124,408	324,781	298,355	1,670,401
Restricted cash	-	-	5,179	-	-	-	5,179
Unrestricted	221,631	1,584,100	59,156	945,559	142,459	1,258,214	4,211,119
Total Net Position	422,563	2,117,322	253,038	1,069,967	467,240	1,556,569	5,886,699
Total Liabilities and Net Position	$902,557	$2,197,540	$551,157	$1,116,789	$730,969	$1,608,630	$7,107,642

Table 4: Summary of Fiscal Year 2015 Statements of Revenues, Expenses, and Changes in Net Position

For the year ended June 30, 2015	*Bennington*	*Chittenden*	*Orange*	*Washington*	*Windham*	*Windsor*	*TOTAL*
Operating Revenues:							
Charges for services	$1,237,174	$1,515,674	$746,500	$733,776	$1,510,064	$1,265,508	$7,008,696
Jail revenues	-	-	1,520	4,015	-	-	5,535
Transport services	-	-	-	94,702	181,849	53,578	330,129
Process services	-	-	-	156,664	78,229	171,429	406,322
Operating grants	86,853	179,756	296,105	52,663	181,325	55,404	852,106
County Support[8,9]	23,402	-	99,319	498,221	-	115,808	736,750
Property Seizure revenues	-	53,853	-	-	-	-	53,853
Miscellaneous revenues	12,105	11,213	8,477	56,212	4,943	6,460	99,410
Total Operating Revenues	1,359,534	1,760,496	1,151,921	1,596,253	1,956,410	1,668,187	9,492,801
Operating Expenses							
Contracted services	801,064	667,081	297,483	891,858	1,092,028	592,851	4,342,365
Process services	-	142,427	23,851	59,131	55,768	50,278	331,455
Transportation services	1,470	93,342	16,648	-	-	20,309	131,769
Grant expenditures	-	-	63,615	-	76,467	11,448	151,530
Administration and general	231,276	539,816	574,894	323,529	188,636	560,592	2,418,743
Jail services	-	-	973	4,015	-	-	4,988

8 Bennington's financial statement inaccurately categorized $219,437 as "accrued payroll and payroll items." The SAO confirmed with the auditor that this amount was county support expended, which should have been classified to the appropriate expense accounts or netted against country revenue. Therefore, SAO netted the $219,437 expenditures against the county support revenue of $242,839 which resulted in an ending balance of $23,402 for year ending June 30, 2015.

9 The amount of county support stated in operating revenues cannot be compared among the sheriffs' departments. Some departments state the revenue as a net figure, others report the gross amount. Even the gross amounts are not comparable across departments because some county support may be in a non-monetary form (e.g., provision of office equipment and utilities).

Communication expenses	31,133	-	26,397	37,366	196,869	19,687	311,452
Automotive services	134,435	133,363	94,793	93,935	135,300	86,223	678,049
Miscellaneous	250	-	2,563	-	3,205	-	6,018
Depreciation	117,707	175,886	157,198	56,245	93,582	136,359	736,977
Total operating expenses	1,317,335	1,751,915	1,258,415	1,466,079	1,841,855	1,477,747	9,113,346
Net operating income (loss)	42,199	8,581	(106,494)	130,174	114,555	190,440	379,455

For the year ended June 30, 2015	***Bennington***	***Chittenden***	***Orange***	***Washington***	***Windham***	***Windsor***	***TOTAL***
Non-Operating Income (Expenses)							
Gain (loss) on sale of equipment	(1,091)	2,400	-	5,300	12,767	(4,318)	15,058
Interest income	37	10,485	-	1,780	410	859	13,571
Interest expense	(26,580)	-	(2,563)	(68)	(2,687)	-	(31,898)
Total Non-Operating Income (expenses)	(27,634)	12,885	(2,563)	7,012	10,490	(3,459)	(3,269)
Capital contributions from grants	-	-	-	-	-	-	-
Net Income (loss)	14,565	21,466	(109,057)	137,186	125,045	186,981	376,186
Net assets, beginning of year	407,998	1,869,025	362,095	932,781	342,195	1,369,588	5,283,682
Prior year adjustment	-	226,831	-	-	-	-	226,831
Net Assets, end of year	$422,563	$2,117,322	$253,038	$1,069,967	$467,240	$1,556,569	$5,886,699

Auditors Issue Unmodified Opinions and One Disclaimer; Significant Internal Control Deficiencies Remain Uncorrected

We summarized the results of the audit findings reported in the independent auditors' reports; the report on internal control over financial reporting and on compliance and other matters; and in the auditors' required communication with those charged with governance.

Overall, the sheriffs' departments' basic financial statements[10] were presented fairly and received unmodified or favorable audit opinions, except for Orange County, which received a disclaimer opinion.[11]

Significant transactions were recognized in the proper periods for all sheriffs' departments except for Chittenden County, which had a prior period adjustment that required a restatement to their 2014 financial statements. We also found the sheriffs' departments omitted the required management's discussion and analysis (MD&A) section that should accompany the basic financial statements.

There were no instances of noncompliance with laws and regulations identified. The auditors noted the financial statement disclosures were neutral, consistent, and clear. Moreover, except for Orange County, McSoley McCoy did not report any difficulties or disagreements with management during the audit.

Unmodified Opinions and One Disclaimer Issued by Independent Auditors

McSoley McCoy conducted audits of all 14 county sheriffs' departments during the 2015-2016 period. All counties except Orange County received an unmodified audit opinion, that is, their basic financial statements present fairly in all material respects and are in accordance with generally accepted accounting principles. In the case of Orange County, the auditors found several accounts, including cash accounts, accounts receivables, net assets and various liability accounts, whose actual year-end balances and activity throughout the 2015 fiscal year were not properly recorded or reconciled. Therefore, the auditors temporarily withdrew from the engagement while the

[10] The basic financial statements include the statement of net position; statements of revenues, expenses, and changes in net position; statement of cash flows; and the notes to the financial statements.

[11] According to the AICPA, "the auditor should disclaim an opinion when the auditor is unable to obtain sufficient appropriate audit evidence on which to base their opinion, and the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive." AU-C §705.10

department engaged an outside bookkeeper to reconcile the Statement of Net Position. This involved significant cleanup that was recorded in the Statement of Changes in Net Position.

Even with these efforts, the auditors could not obtain sufficient appropriate audit evidence during their audit procedures about the classification and amounts comprising the opening net position as of July 1, 2014. The significant aspects of the Statement of Net Position at that date, including classifications and amounts, materially affect the determination of the results of operations and cash flows for the year ended June 30, 2015, and the consistency of application of accounting principles between July 1, 2014 and June 30, 2015. As a result, the auditors issued a Disclaimer of Opinion on changes in net position, cash flows and consistency and an unmodified opinion on the Statement of Net Position.

The auditors' prior findings of significant deficiencies in Orange County highlighted problems with revenue and expense recognition and capitalization of assets, which had remained uncorrected since 2011 and may have directly contributed to the disclaimer opinion.

Table 5 below summarizes the audit opinions from the independent auditors' reports.

Table 5: Audit Opinions

	Audit Report Date	Opinion Expressed
FY2013		
Bennington	December 18, 2015	Unmodified
Chittenden	December 18, 2015	Unmodified
Orange	December 5, 2015	Disclaimer
Washington	December 18, 2015	Unmodified
Windham	December 18, 2015	Unmodified
Windsor	December 7, 2015	Unmodified
FY2014		
Addison	December 5, 2016	Unmodified
Caledonia	September 15, 2016	Unmodified
Essex	November 30, 2016	Unmodified
Franklin	October 28, 2016	Unmodified
Grand Isle	October 17, 2016	Unmodified
Lamoille	November 1, 2016	Unmodified
Orleans	December 5, 2016	Unmodified
Rutland	December 9, 2016	Unmodified

Recommendation Follow-up on Significant Deficiencies from 2013-2014

As an additional procedure, we reviewed outstanding findings from prior audits to determine if corrective actions were taken by the sheriffs' departments. As shown in Table 6 below, all prior department findings have been resolved except for Bennington, Essex, Orange, and Windham.

Table 6: Status of 2017 Audit Recommendation Follow-up

Sheriff's Department	Prior Findings Not Implemented	Uncorrected Since[12]	Type of Finding	Current Status[13]
Bennington	1	2013	Segregation of Duties	Partially Implemented
Essex	3	2010 2012 2012	Segregation of Duties Authorization of Invoices/Time Sheets Revenue Recognition	Not Implemented Not Implemented Not Implemented
Orange	3	2011 2011 2012	Capitalization of Assets Revenue and Expense Recognition Supporting Documentation	Not Implemented Not Implemented Not Implemented
Windham	2	2011 2011	Capitalization of Assets Revenue and Expense Recognition	Not Implemented Not Implemented
TOTAL	**9**			

We identified eight significant deficiencies in internal controls over financial reporting that have not been implemented, with one of the eight remaining uncorrected since 2010. The deficiencies for the outstanding findings that have not been implemented include lack of segregation of duties and supporting documentation, inadequate revenue cutoff procedures, lack of approval of invoices and timesheets, and lack of adherence to asset capitalization policies.

The sheriffs' departments have made substantial progress in resolving prior audit findings. We noted 16 outstanding findings in our 2015 compilation report, which has been reduced to 8 and represents a 50 percent decrease in the number of outstanding findings reported this year. However, these

[12] The SAO went back only as far as the 2010 auditors' reports to identify the outstanding findings from prior audits.

[13] Current status signifies to what degree the departments adopted the auditors' recommendations during the 2015-2016 audit periods.

remaining weaknesses in internal controls continue to threaten the security of their assets and accuracy of financial reporting. If these deficiencies remain uncorrected they expose the departments to risk of improper payments and financial misstatements and could result in future material weaknesses and modified auditors' opinions, as was the case this year where one department not only had a finding of material weakness but was also issued a disclaimer opinion.

Prior Period Adjustment Required for One Sheriff's Department

During 2015, the Chittenden County Sheriff's Department determined that $134,912 of fixed asset purchases in 2014 should have been capitalized. The department also determined that $91,919 of revenue recorded in July of 2015 related to June of the prior fiscal year. Therefore, the auditors made a prior period restatement to the 2014 financial statements, resulting in an increase in net position and net assets of $226,831 as of June 30, 2014.

As we noted in our 2015 report, problems with revenue recognition and capitalization of assets were findings for this department that have remained uncorrected since 2011 and directly resulted in this prior period adjustment.

Sheriffs Omit Required Management Discussion and Analysis

All 14 sheriffs' departments omitted the management discussion and analysis (MD&A) that accounting principles and the Government Accounting Standards Board requires to supplement the basic financial statements. The MD&A is an essential part of financial reporting for communicating managers' insights; increasing the understandability of the financial statements; and providing clear information about operations, service levels, successes, challenges, and the future. The auditors' opinion on the basic financial statements is not affected by this missing information, but without the MD&A, readers of the financial statements may not have sufficient information to fully understand the operational and financial condition of the sheriffs' departments.

Beginning on the next page is a summary of internal control findings for the 2015-2016 audits for each sheriff's department.

SUMMARY OF INTERNAL CONTROL FINDINGS

Addison County

Profile	Donald M. Keeler, Jr., Sheriff Addison County Sheriff's Department 35 Court Street Middlebury, VT 05753 Audit Period: For year ended June 30, 2016
Overview	No control deficiencies, significant deficiencies, or material weaknesses identified.

Bennington County

Profile	Chad D. Schmidt, Sheriff Bennington County Sheriff's Department 811 U.S. Route 7 South P.O. Box 4207 Bennington, VT 05201 Audit Period: For year ended June 30, 2015
Overview	Two significant deficiencies identified

Significant Deficiency 2015-01	Capitalization of Assets
Finding	The Department has a policy of capitalizing assets greater than $1,000 through December 31, 2014. We noted that the department was not capitalizing assets consistently with this policy. In addition, capital assets that are purchased with grant funds or received through other sources should also be considered as a capital asset with the corresponding revenue recorded, as applicable.
Recommendation	We recommend that the Department adhere to their capitalization policy or re-consider the appropriateness of their policy.
Management's Response:	Management agrees with this finding and in fact during 2015 the Department increased their capitalization policy to $5,000 which will result in more consistent accounting of assets.
SAO's Evaluation	We concur with the Department's corrective action.

Significant Deficiency 2015-02	Segregation of Duties
Finding	During 2015, the Sheriff had full access to QuickBooks, accounting software. Therefore, the Sheriff could record journal entries and make other transactions within QuickBooks.
Recommendation	None
Management's Response	Prior to the conclusion of the audit, the Department implemented a new policy requiring the Department's outside CPA's approval of any changes made in QuickBooks by the Sheriff.
SAO's Evaluation	We concur with the Department's corrective action to obtain outside CPA's approval of any changes made in QuickBooks by the Sheriff. However, this does not address the fact that the Sheriff continues to have full access to QuickBooks. As the executive officer, the Sheriff's financial responsibilities should be limited to reviewing financial transactions, not recording them. This function should be segregated and performed by the department's accounting personnel. Therefore, the department should only grant read-only access to the Sheriff.

Caledonia County

Profile

Dean R. Shatney, Sheriff
Caledonia Sheriff's Department
1126 Main Street, Suite 2
St. Johnsbury, VT 05819
Audit Period: For year ended June 30, 2016

Overview

No control deficiencies, significant deficiencies, or material weaknesses identified.

Chittenden County

Profile	Kevin M. McLaughlin, Sheriff Chittenden County Sheriff's Department P.O. Box 1426 70 Ethan Allen Drive South Burlington, VT 05403 Audit Period: For year ended June 30, 2015
Overview	No control deficiencies, significant deficiencies, or material weaknesses identified.

Essex County

Profile	Trevor Colby, Sheriff Essex County Sheriff's Department 91 Courthouse Drive Guildhall, VT 05905 Audit Period: For year ended June 30, 2016
Overview	Four significant deficiencies identified.

Significant Deficiency 2016-01	Segregation of Duties
Finding	Due to the small size of the Department, there is a lack of segregation of duties within the cash receipts and disbursement and recordkeeping areas.
Recommendations	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. (1) 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. (2) Someone other than the check preparer and signor should mail all payments. This will ensure that all checks reach their approved designated party.

Management's Response	The department is not able to segregate duties due to the limited personnel. There are only two staff involved in the financial functions of the office: The Sheriff, who is the only authorized signor, and the Administrative Coordinator, who is employed by the county to manage the financial recordkeeping functions for the Sheriff's Department.
SAO's Evaluation	This finding has remained uncorrected since 2010 and should be corrected. We understand this is a small department with limited personnel. However, at a minimum, secondary reviews of the cash receipts and disbursement system could be performed by another support staff or the deputy sheriff. Management's failure to initiate corrective actions exposes the department to risk of loss of assets and financial misstatements. The current weaknesses in the department's segregation of duties over cash receipts significantly increases the risk that erroneous or fraudulent transactions could occur. Effective segregation of duties is designed to prevent the possibility that a single person could be responsible for critical functions in such a way that errors or misappropriations could occur and not be detected in a timely manner, in the normal course of business processes.[14] Although segregation of duties alone will not adequately ensure that only authorized activities occur, inadequate segregation of duties increases the risk of improper payments.

Significant Deficiency 2016-02	Employee Manual
Finding	The department currently does not have established procedures for an employee work week, vacation leave, sick leave, compensated holidays, and other fringe benefits.
Recommendation	The department should establish a policy and adhere to the approved policy.
Management's Response	The department has had established procedures for work weeks, leave, holidays, and pay periods since 2012. During 2016, the department created an Employee Manual to have these procedures in writing.
SAO's Evaluation	We concur with the department's corrective action.

[14] *Internal Control Standards: A Guide for Managers* (Department of Finance & Management).

Significant Deficiency 2016-03	Authorization of Invoices and Timesheets
Finding	During our audit procedures, we noted instances when signatures or supporting documentation authorizing the invoices and employee time sheets were missing.
Recommendation	We recommend that all invoices and time sheets are documented as approved to provide evidence of the financial reporting process and approval.
Management's Response	Based upon the small size of the office, the Sheriff is aware of and approves the shifts personnel work. The Sheriff sets the schedule. The Sheriff also does the purchasing for the department. Approval of time worked and purchasing is made at the time the Sheriff signs the check. The Sheriff feels the function of approving the expenditure and then signing the check is a redundant process, which is unnecessary. The paychecks include hourly detail at the time the Sheriff reviews and signs the check. A typical payroll only consists of 5-7 checks.
SAO's Evaluation	This finding has remained uncorrected since 2012 and should be corrected. Management's failure to initiate corrective actions exposes the department to risk of loss of assets and financial misstatements. Management should clearly document its approval requirements and ensure that employees obtain approvals in all situations where management has decided they are necessary.[15] Without a strong approval and verification process over payroll and expenditures, the department runs the risk that certain payments may not be for legitimate business purposes and improper payments could be made.

Significant Deficiency 2016-04	Revenue Cutoff
Finding	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.
Recommendation	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.

[15] *Internal Control Standards: A Guide for Managers* (Department of Finance & Management).

Management's Response	The department concurs with this finding. The Office Administrator will continue to improve the recognition of revenue.
SAO's Evaluation	We concur with the department's corrective action.

Franklin County

Profile

Robert W. Norris, Sheriff
Franklin County Sheriff's Department
P.O. Box 367
387 Lake Road
St. Albans, VT 05478
Audit Period: For year ended June 30, 2016

Overview

No control deficiencies, significant deficiencies, or material deficiencies identified.

Grand Isle County

Profile

Ray Allen, Sheriff
Grand Isle Sheriff's Department
P.O. Box 168
3677 U.S. Route 2
North Hero, VT 05474
Audit Period: For year ended June 30, 2016

Overview

No control deficiencies, significant deficiencies, or material weaknesses identified.

Lamoille County

Profile	Roger Marcoux, Sheriff Lamoille County Sheriff's Department P.O. Box 96 162 Commonwealth Avenue Hyde Park, VT 05655 Audit Period: For year ended June 30, 2016
Overview	No control deficiencies, significant deficiencies, or material weaknesses identified.

Orange County

Profile	William Bohnyak, Sheriff Orange County Sheriff's Department RR 1, Box 30G 11 VT Rt. 113 Chelsea, VT 05038 Audit Period: For year ended June 30, 2015
Overview	One material weakness identified.

Material Weakness 2015-01	Accounting Function
Finding	During our audit, we noted several accounts including cash accounts, accounts receivable, net assets, and various liability accounts whose actual year-end balances and activity throughout the year was not properly recorded or reconciled. Upon expressing our concern to the department, we temporarily withdrew from the engagement while the Department engaged an outside bookkeeper to reconcile the Statement of Net Position. This resulted in significant clean up that was recorded through the Statement of Changes in Net Position. Due to these circumstances, we could not obtain sufficient appropriate audit evidence during our audit procedures about the classifications and amounts comprising the opening net position as of July 1, 2014. The significant aspects of the Statement of Net Position at that date, including classifications and amounts, materially affect the determination of the results of

	operations and cash flows for the year ended June 30, 2015, and the consistency of application of accounting principles between July 1, 2014 and June 30, 2015.
Recommendation	Comprehensive financial information is fundamental to any organization for making sound economic decisions and demonstrating accountability and stewardship. In addition, reliable financial information is necessary to provide useful information with which to manage an organization. To provide accurate financial information, not only at the end of the year but throughout, financial statements should be reviewed and reconciled monthly. This will provide the department with useful financial information throughout the year, reduce work at year-end, and could provide an early indication of potential errors or problems within the department. We recommend that the Department engage a qualified professional to assume the accounting function to increase accuracy, accountability and reduce the risk or fraud, such as management override.
Management's Response	Management has accepted the general accounting procedures that has taken place over the last year and will continue to maintain the changes. Our plan is to have an outside bookkeeper work on a monthly basis to make sure all accounting practices are followed and to train our bookkeeper with any new or updated changes. As I stated months ago, transparency and integrity of our books are paramount.
SAO's Evaluation	We concur with management's corrective action, which should ensure that the department financials are accurately maintained throughout the fiscal year.

Orleans County

Profile — Kirk J. Martin, Sheriff
Orleans County Sheriff's Department
P.O. Box 355
255 Main Street
Newport, VT 05855
Audit Period: For year ended June 30, 2016

Overview — No control deficiencies, significant deficiencies, or material weaknesses identified.

Rutland County

Profile — Stephen P. Benard, Sheriff
Rutland County Sheriff's Department
P.O. Box 303
88 Grove Street
Rutland, VT 05701
Audit Period: For year ended June 30, 2016

Overview — No control deficiencies, significant deficiencies, or material weaknesses identified.

Washington County

Profile — W. Samuel Hill, Sheriff
Washington County Sheriff's Department
10 Elm Street
P.O. Box 678
Montpelier, VT 05601
Audit Period: For year ended June 30, 2015

Overview — No control deficiencies, significant deficiencies, or material weaknesses identified.

Windham County

<u>Profile</u>

Keith D. Clark, Sheriff
Windham County Sheriff's Department
P.O. Box 266, 11 Jail Street
Newfane, VT 05345
Audit Period: For year ended June 30, 2015

<u>Overview</u>

Two significant deficiencies identified.

Significant Deficiency 2015-01	Revenue and Expense Recognition
Finding	The accrual basis of accounting requires that revenue and expenses be recognized when revenue is earned or becomes realizable and when expenses are incurred. During our audit w e noted that revenue and expenses for several services performed and received were recorded to the wrong fiscal year.
Recommendation	We recommend that management implement procedures to ensure all revenue and expenses be recognized to the proper period. This should include reviewing invoices to determine that charges are billed for the same period the service was rendered, reviewing invoices to determine if there are prepaid amounts for coverage after year end, and reviewing invoices that are received after year end to ensure they are recorded to the proper period.
Management's Response	Management agrees that reporting revenue and expenses to the appropriate time period is prudent and proper. The WCSO does attempt to properly account for revenue and expenses. From time to time due to the complexities and variations of the type of services provided there is a need to make journal adjustments in order to document the finances of the agency. Management can only respond to this finding in general as it is not aware of the specifics of the findings of the audit.
SAO's Evaluation	This finding has remained uncorrected since 2011 and should be corrected. Proper revenue and expense cutoff procedures are the foundation to a strong financial reporting process, and without them the department has an increased risk of materially misstating its financial statements. If this finding remains in the next audit it could result in a material weakness in internal controls and a modified audit opinion.

Significant Deficiency 2015-02	Capitalization of Assets
Finding	The Department has a policy of capitalizing assets greater than $1,000. We noted that several disbursements had been recorded as expenses rather than capital assets. In addition, capital assets that are purchased with grant funds or received through other sources should also be considered as a capital asset with the corresponding revenue recorded, as applicable.
Recommendation	We recommend that the Department adhere to its capitalization policy or consider updating the policy.
Management's Response	Management agrees with this finding and will develop and implement procedures that will enhance what is already being done to recognize capital purchases. Furthermore, management of WCSO will review and update its "Accounting Policies and Practices" policy to account for currently accepted practices.
SAO's Evaluation	This finding has remained uncorrected since 2011 and should be corrected. SAO concurs with the department's corrective action to develop and implement procedures to ensure assets are properly capitalized.

Windsor County

Profile	D. Michael Chamberlain, Sheriff Windsor County Sheriff's Department P.O. Box 478 62 Pleasant Street Woodstock, VT 05091 Audit Period: For year ended June 30, 2015
Overview	No control deficiencies, significant deficiencies, or material weaknesses identified.

Other Matters Reported by the Auditors

McSoley McCoy performed tests of the sheriffs' departments' compliance with certain provisions of laws, regulations, contracts, and grant agreements. The results of their tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

In addition, the auditors are required to communicate with those charged with governance on other important audit subject matter including qualitative aspects of accounting practices, difficulties and disagreements encountered during the audit, corrected and uncorrected misstatements and management consultations with other independent accountants. The auditors reported no significant findings related to these areas except for the difficulties encountered during the Orange County Sheriff's Department's audit.

The auditors included an attached schedule summarizing fiscal year-end audit adjustments to the financial statements for all departments except Windsor, where the auditors did not detect any misstatements as a result of their audit procedures. Only one department, Windham, had an uncorrected misstatement related to setting up a bad debt reserve for a company they were providing transport for that had declared bankruptcy during the audit. The department felt strongly they would collect the $13,094. Since it was immaterial to the audit, the auditors passed on the adjustment. To the auditors' knowledge, management did not make any consultations with other independent accountants.[16]

16 In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the departments' financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consultant accountant to check with the auditors to determine that the consultant has all the relevant facts.

Appendix I

Scope and Methodology

The financial statement audits of the fourteen county sheriff departments were conducted in accordance with generally accepted government auditing standards (GAGAS), issued by the comptroller general of the United States. These standards require auditors to plan and perform the audit to obtain sufficient evidence to provide reasonable assurance about whether the financial statements of the various departments 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. An unqualified audit opinion represents the auditor's opinion that all accounting rules were consistently applied and that the department's financial reports fairly portray the financial condition of the department.

In planning and performing the audit, McSoley McCoy considered the sheriffs' departments' internal controls over financial reporting in order to determine its audit procedures for the purpose of expressing their opinion on the financial statements and not to provide an opinion on the effectiveness of the departments' internal control over financial reporting.

As part of obtaining reasonable assurance about whether the departments' financial statements are free from material misstatements, the auditors performed tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements.