Essex County Sheriff's Department

Financial Statements

For the Seven Months Ended January 31, 2007

Essex County Sheriff's Department

For the Seven Months Ended January 31, 2007

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Independent Auditors' Report

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

We have audited the accompanying financial statements of the business-type activities of the Essex County Sheriff's Department of the County of Essex, Vermont, as of and for the seven months ended January 31, 2007, as listed in the table of contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Essex County Sheriff's Department of the County of Essex, Vermont, as of January 31, 2007 and the respective changes in financial position and cash flows for the seven months then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 24, 2007 on our consideration of the Essex County Sheriff's Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

Essex County Sheriff's Department has not presented a management's discussion and analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

As discussed in note 7 to the financial statements, a certain error resulting in the understatement of revenue as of June 30, 2006, was discovered by management of Essex County Sheriff's Department during the current year. Accordingly, an adjustment has been made to the net assets as of June 30, 2006 to correct the error.

McSoley McCoy & Co.

April 24, 2007
VT Reg. No. 92-349

Essex County Sheriff's Department
Statement of Net Assets
January 31, 2007

		2007
Assets:		
Current assets		
Cash (note 2)	$	58,976
Accounts receivable, net of an allowance of $1,000		70,119
Prepaid insurance		9,835
Total current assets		138,930
Vehicles and equipment, net of accumulated depreciation (note 3)		115,203
Total assets		254,133
Liabilities:		
Current liabilities		
Accounts payable		3,515
Accrued payroll and payroll items		3,959
Total liabilities		7,474
Net assets:		
Invested in capital assets		115,203
Unrestricted		131,456
Total net assets	$	246,659

The accompanying notes are an integral part of these statements.

Essex County Sheriff's Department
Statement of Revenues, Expenses, and Changes in Net Assets
For the Seven Months Ended January 31, 2007

		2007
Operating Revenues:		
Charges for services	$	113,851
Operating grants		60,671
Miscellaneous revenues		2,141
Total operating revenues		176,663
Operating Expenses:		
Contracted services		167,347
Administration and general		15,417
Automotive services		18,066
Depreciation		30,904
Total operating expenses		231,734
Net operating loss		(55,071)
Non-operating income (expense):		
Gain on sale of equipment		681
Total non-operating income (expenses)		681
Net loss		(54,390)
Net assets, beginning of period before restatement		280,224
Prior year restatement (note 7)		20,825
Net assets, beginning of period after restatement		301,049
Net assets, end of period	$	246,659

The accompanying notes are an integral part of these statements.

Essex County Sheriff's Department
Statement of Cash Flows
For the Seven Months Ended January 31, 2007

	2007
Operating activities:	
Cash received from customers	$ 91,713
Cash received from operating grants	82,283
Cash payments to suppliers for goods and services	(49,707)
Cash payments to employees for services	(156,543)
Net cash used by operating activities	(32,254)
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(18,431)
Proceeds from sale of equipment	4,100
Net cash used by capital and related financing activities	(14,331)
Net decrease in cash	(46,585)
Cash, beginning of period	105,561
Cash, end of period	$ 58,976
Reconciliation of operating loss to net cash used by operating activities:	
Net operating loss	$ (55,071)
Adjustments to reconcile operating loss to net cash used by operating activities	
Depreciation	30,904
Increase in accounts receivable	(2,666)
Decrease in prepaid insurance	1,142
Increase in accounts payable	850
Decrease in accrued payroll and payroll items	(7,413)
Total adjustments	22,817
Net cash used by operating activities	$ (32,254)

The accompanying notes are an integral part of these statements.

(1) Summary of Significant Accounting Policies

The Essex County Sheriff's Department (the Department) is a governmental entity operating under Title 24 Vermont Statutes Annotated Section 290 located in the County of Essex, Vermont. Funding is provided by the State of Vermont and the County of Essex. Operating revenue is generated by service charges, some of which are set by state statute and others are set by the Department. Included among the duties performed by the Department are contracting to provide law enforcement services; security services; control dispatching and other centralized support services; service of lawful writs, warrants and processes; and transportation of prisoners and the mentally disabled.

(a) Basis of accounting

The accompanying financial statements have been prepared using the accrual basis of accounting. The Department's revenues are recognized when they are earned, and their expenses are recognized when they are incurred. The Department applied (a) all Governmental Accounting Standards Board (GASB) pronouncements and (b) Financial Accounting Standards Board (FASB) Statements and Interpretations, APB Opinions, and Accounting Research Bulletins issued on or before November 20, 1989, except insignificant items that conflict with GASB pronouncement.

Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

When both restricted and unrestricted resources are available for use, it is the Department's policy to use restricted resources first, then unrestricted resources, as needed.

(b) Basis of presentation

The Department accounts for ongoing operations and activities using proprietary fund accounting, a method developed with the economic resources measurement focus. This focus is similar to accounting methods used in the private sector.

(c) Vehicles and equipment

Vehicles and equipment are recorded at cost with depreciation computed using the straight-line method over their estimated useful lives. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected as nonoperating activity for the period. The cost of maintenance and repairs is charged to expense as incurred; renewals and betterments over $1,000 are capitalized.

Summary of Significant Accounting Policies (continued)

Estimated useful lives by major classification are as follows:

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

(d) Unrestricted net assets

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

(e) Use of estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(f) Accounts receivable

Significant receivables include amounts due from state, town, and contractor contracts. These receivable are due within one year. The Department has recorded an allowance of $1,000 for uncollectible accounts at January 31, 2007.

(2) Cash and Categories of Risk

There are three categories of credit risk that apply to the Department's balance:

1. Insured by the FDIC or collateralized with securities held by the Department or by the Department's agent in the Department's name.

2. Collateralized with securities held by the pledging financial institution's trust department or agent in the Department's name.

3. Uncollateralized.

Cash and Categories of Risk (continued)

The Sheriff's Department's bank balances are categorized below to give an indication of the level of risk assumed by the Department at January 31, 2007.

	Book Balance	Bank Balance
Insured deposits	$ 58,976	$ 68,241
Uninsured deposits	-	-
Cash on hand	-	-
Total cash deposits	$ 58,976	$ 68,241

(3) Vehicles and Equipment

Vehicles and equipment are summarized as of January 31, 2007 by major classifications as follows:

Vehicles	$ 131,324
Equipment	159,659
Total	290,983
Less: accumulated depreciation	175,780
Net vehicles and equipment	$ 115,203

Depreciation expense for the seven months ended January 31, 2007 amounted to $30,697.

(4) Cost Sharing

Under Vermont law, Essex County and the State of Vermont are required to cover certain costs of the Essex County Sheriff's Department. Such costs include the Sheriff's salary and benefits, administrative salary and benefits, office space, certain automotive expenses and others. The amount expended by the County and State during the seven months ended January 31, 2007 has not been determined.

(5) Operating Grants

The Essex County Sheriff's Department received grants from the U.S. Government and other grantors. Entitlements to the resources are generally based on compliance with terms and conditions of the grant agreements and applicable federal regulations, including the expenditures of the resources for eligible purposes. Substantially all grants are subject to financial and compliance audits by the grantors. Any disallowance as a result of these audits becomes a liability of the Department. As of January 31, 2007, management believes that a matching fund grant will not be met. The grant requires the Department to repay grant amounts that exceed matched amounts. The Department believes that it is reasonably possible that this action could result in a liability to the Department and estimates that liability between $0 and $47,000. In accordance with Financial Accounting Standard Board Statement #5, management has not accrued a liability in the accompanying financial statements.

(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) Prior Period Restatement

At June 30, 2006, the Department failed to record an additional June 30, 2006 receivable. The Department has restated the previously issued June 30, 2006 financial statements to reflect the effects with an increase in beginning net assets in the amount of $20,825.

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

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

We have audited the financial statements of the business-type activities of the Essex County Sheriff's Department of the County of Essex, Vermont (the Department) as of and for the seven months ended January 31, 2007, which comprise the Essex County Sheriff's Department's basic financial statements, and have issued our report thereon dated April 24, 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly we do not express an opinion on the effectiveness of the Department's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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 assigned functions, to prevent or detect misstatements in a timely manner. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Department's ability to record, process, summarize, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a likelihood that a misstatement of the Department's financial statements that is more than inconsequential will not be prevented or detected by the Department's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting. The significant deficiencies are described in the accompanying schedule of findings and questioned costs as 2007-01, 2007-02, and 2007-03.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above we consider items 2007-01 and 2007-02 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. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and question costs as items 2007-04 and 2007-05.

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

April 24, 2007
VT Reg. No. 92-349

Essex County Sheriff's Department
Schedule of Findings and Questioned Costs
For the Seven Months Ended January 31, 2007

Internal Control – Material Weaknesses

Findings

2007-01 Financial Management

During the seven month period ended January 31, 2007, the Department reported a net loss of $54,390. During that same period, the Department's cash balances declined from $105,561 to $58,976, a decrease of almost 50%. We believe that the losses and decrease in cash flow were exacerbated by the following factors

- Year-end bonuses were granted to employees by the outgoing Sheriff totaling $24,500. The bonuses are discussed more fully in Finding 2007-02.
- Expenses for which the Department was entitled to be reimbursed by the County were not billed for over seven months. The amount of these expenses exceeded $50,000.
- Financial reports, which would have alerted Management to the situation were not produced and reviewed by responsible officials during the period.

A significant portion of Department revenue is non-recurring; therefore it is imperative that the Department safeguard its cash balances for years when its revenue unexpectedly declines. In addition, the Department has a responsibility for good stewardship of the funds it receives from the public.

2007-02 Supporting Documents for Payroll Bonuses

As discussed at finding 2007-01, the outgoing Sheriff granted bonuses to employees of the Department. The bonuses, which totaled $24,500, represented 16% of total wages for the seven-month period ended January 31, 2007. During that seven-month period, the Department incurred a loss of $54,390. We noted no instances in recent years that any bonuses were granted to employees; even in years where the Department reported a profit. We also noted no documentation in employee personnel files that supported these bonuses. In two instances, employees were granted bonuses in excess of the total wages paid to them for the entire calendar year of 2006.

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

State statute requires Assistant Judges to sign all checks issued by the Department between the time any new Sheriff is elected and the time he or she is sworn into office. This statute was implemented to prevent misuse of funds by an outgoing Sheriff. Although the procedure was followed, and the Essex County Assistant Judges signed these bonus checks, we noted no documentation that would support the decision by the judges to approve these expenditures by signing the bonus checks.

The outgoing Sheriff and Assistant Judges defended the payment of bonuses as justified compensation for services rendered over the employees' tenure with the Department. The outgoing Sheriff maintained that bonuses were based on length of service and hours worked.

Internal Control – Material Weaknesses

Findings

Supporting Documents for Payroll Bonuses (continued)

We understand the desire of the outgoing Sheriff to reward Department employees prior to his departure. If the funds used to pay the bonuses had been private funds as opposed to the Sheriff Department's public monies we would have agreed with his decision. However we believe that the payment of unprecedented bonuses to employees with public funds in a period when the Department incurred a significant loss is inappropriate. The payment of bonuses give the appearance of misuse of Department funds.

We recommend that the Department adopt a policy requiring documentation for granting bonuses to its employees. That documentation should be maintained in each employees personnel file. Payment of bonuses during years when the Department incurs losses should be made only in extraordinary circumstances.

Internal Control – Significant Deficiency

Findings

2007-03 Revenue and Expense Recognition

Generally accepted accounting principles require the recognition of revenue and expenses in the period in which the revenue is earned, and expenses were incurred. Proper cutoff of revenue and expenses is crucial to accurately reflect results of operations. It was noted during our audit that revenue and expenses recorded subsequent to January 31, 2007 were incurred prior to January 31, 2007 requiring audit adjustments.

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

Essex County Sheriff's Department
Schedule of Findings and Questioned Costs
For the Seven Months Ended January 31, 2007

Internal Control – Noncompliance

Findings

2007-04 Written Contracts

The State of Vermont Uniform Accounting Manual for the County Sheriff Departments require contracts with towns to provide law enforcement to be in writing containing several required provisions. During our audit we noted that contracts to provide law enforcement services were not obtained in accordance with the State of Vermont Uniform Accounting Manual.

We recommend the Department obtain written contracts. These contracts should be sequentially numbered and a log be maintained for all contracts.

2007-05 Grant Management

The Department entered into a federal grant program several years ago. The grant requires the Department to equally match the funds received under the Grant. As of January 31, 2007 the amount of grant money received exceeded matching funds by $47,000. The grant agreement expires in 2008 and the new Sheriff believes the matching funds at the Grant's expiration will not be sufficient to cover amount received resulting in a potential liability for the Department.

We recommend the Department perform a more careful monitoring of all agreements entered into and minimize the exposure to the Department for noncompliance