

November 30, 2016

Sheriff Trevor Colby
Essex County Sheriff's Department

We have audited the financial statements of the governmental activities, the business-type activities of Essex County Sheriff's Department (the Department) for the year ended June 30, 2016. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and Government Auditing Standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information to you during our fieldwork on October 19, 2016. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Department are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the period ended June 30, 2016. We noted no transactions entered into by the Department during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no sensitive estimates used by management.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Attached is a schedule summarizing corrected misstatements of the financial statements.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 30, 2016.

Management Consultations with Other Independent Accountants

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 Department's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Department's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of management of Essex County Sheriff's Department and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,


McSoley McCoy & Co.

Essex County Sheriff's Department
Corrected Misstatements
June 30, 2016

Adjusting Journal Entries JE # 1

To adjust prior year fixed assets and accumulated depreciation

AD Office	9,299	
Equipment	17,673	
Vehicle	82,641	
AD Equipment		10,453
AD Vehicles		21,993
Prepaid Insurance		12,273
Original Cost		22,367
Original Cost		27,237
Retained Earnings		15,290

Adjusting Journal Entries JE # 2

To record revenue in correct period

Accounts Receivable	725	
ARCO		725

Adjusting Journal Entries JE # 3

To remove sold vehicle from books

AD Vehicles	11,700	
Vehicle		11,300
Gain of Asset Disposal		400

Adjusting Journal Entries JE # 4

To remove A/R aging over 90 days (COPS/ECSD)

Retained Earnings	71,086	
Accounts Receivable		71,086

Adjusting Journal Entries JE # 5

To record 2016 depreciation expense

Depreciation	27,581	
AD Equipment		11,534
AD Office		204
AD Vehicles		15,843

Essex County Sheriff's Department
Corrected Misstatements
June 30, 2016

Adjusting Journal Entries JE # 6

To capitalize fixed assets

Vehicle	13,700	
Auto Expense		13,700

Adjusting Journal Entries JE # 7

To record expense in to the correct period

Payroll Expenses	2,420	
Payroll Liabilities		2,420

Adjusting Journal Entries JE # 8

To record expense to the correct period

Auto Expense	1,504	
Accounts Payable		1,504

Adjusting Journal Entries JE # 9

To close out loan balance

Passumpsic (Dodge Charger)	42,684	
Passumpsic 2007 Chev 7019035003		38,886
Retained Earnings		3,798

Adjusting Journal Entries JE # 10

To adjust payroll liability to actual

Payroll Liabilities	33,620	
Retained Earnings		33,620

Adjusting Journal Entries JE # 11

To adjust accrued payroll liability to actual

Payroll Liabilities	5,661	
Payroll Expenses		5,661

Adjusting Journal Entries JE # 12

To remove AP over 90 days

Accounts Payable	4,849	
Retained Earnings		4,849

Essex County Sheriff's Department
Corrected Misstatements
June 30, 2016

Adjusting Journal Entries JE # 13

To record revenue in correct period

Budget Reimbursement	9,092	
Court Security	4,939	
Grants	30,720	
Retained Earnings		44,751

Essex County Sheriff's Department

Financial Statements
(With Independent Auditors' Report)

For the Year Ended June 30, 2016

Essex County Sheriff's Department

June 30, 2016

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Independent Auditors' Report

Trevor Colby, Sheriff
Essex County Sheriff's Department
Guildhall, Vermont

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Essex County Sheriff's Department (the Department) of the County of Essex, Vermont, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the table of contents.

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 *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 of 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 entity'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 entity'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 our audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2016 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.

Other Matter

Management has omitted the management discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statement in an appropriate operation, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2016, on our consideration of the Essex County Sheriff's Department of the County of Essex, Vermont'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 that 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Essex County Sheriff's Department of the County of Essex, Vermont's internal control over financial reporting and compliance.

McSoley McCoy & Co.

November 30, 2016
VT Reg. No. 92-349

Essex County Sheriff's Department
Statement of Net Position
June 30, 2016

Assets:

Current assets

Cash	\$ 212,112
Accounts receivable, net of an allowance of \$1,000	54,761
Prepaid expenses	<u>274</u>

Total current assets 267,147

Vehicles and equipment, net of accumulated depreciation 71,601

Total assets 338,748

Liabilities:

Current liabilities

Accounts payable	497
Accrued payroll and payroll items	<u>1,553</u>

Total liabilities 2,050

Net position:

Net investment in capital assets	71,601
Unrestricted	<u>265,097</u>

Total net position \$ 336,698

The accompanying notes are an integral part of this statement.

Essex County Sheriff's Department
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2016

Operating revenues:	
Charges for services	\$ 284,479
Operating grants	43,432
Miscellaneous revenues	<u>4,917</u>
Total operating revenues	<u>332,828</u>
 Operating expenses:	
Contracted services	209,396
Administration and general	39,551
Automotive services	36,549
Depreciation	<u>27,581</u>
Total operating expenses	<u>313,077</u>
Net operating income	19,751
 Non-operating income:	
Gain on sale of equipment	<u>400</u>
Net income	20,151
Net position, beginning of year	<u>316,547</u>
Net position, end of year	<u><u>\$ 336,698</u></u>

The accompanying notes are an integral part of this statement.

Essex County Sheriff's Department
Statement of Cash Flows
For the Year Ended June 30, 2016

Operating activities:	
Cash received from customers	\$ 255,051
Cash received from operating grants	74,152
Cash payments to suppliers for goods and services	(124,909)
Cash payments to employees for services	<u>(174,928)</u>
Net cash provided by operating activities	<u>29,366</u>
Cash flows from capital and financing activities:	
Purchases of fixed assets	<u>(24,587)</u>
Net increase in cash	4,779
Cash, beginning of year	<u>207,333</u>
Cash, end of year	<u><u>\$ 212,112</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Net operating income	<u>\$ 19,751</u>
Adjustments to reconcile operating income to net cash used by operating activities	
Depreciation	27,581
Increase in accounts receivable	(3,625)
Decrease in accounts payable	(9,201)
Decrease in accrued payroll and payroll items	<u>(5,140)</u>
Total adjustments	<u>9,615</u>
Net cash provided by operating activities	<u><u>\$ 29,366</u></u>

The accompanying notes are an integral part of this statement.

Essex County Sheriff's Department
Notes to Financial Statements
June 30, 2016

(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.

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) 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.

(d) 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 deposits to be cash equivalents.

Essex County Sheriff's Department
Notes to Financial Statements
June 30, 2016

Summary of Significant Accounting Policies (continued)

(e) 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 \$5,000 are capitalized.

Estimated useful lives by major classification are as follows:

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

(f) Net position

Net position represents the difference between assets and liabilities. Net investment in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances on any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Department or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Unrestricted net position for proprietary funds represents the net position available for future operations or distributions.

(g) Accounts receivable

Significant receivables include amounts due from state, town, and contractor contracts. These receivables are due within one year. The Department has recorded an allowance of \$1,000 for uncollectible accounts at June 30, 2016.

(h) Subsequent events

The Department evaluated subsequent events through November 30, 2016, the date the Department's financial statements were available to be used and no events or transactions occurred.

(2) Cash and Categories of Risk

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

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

Essex County Sheriff's Department
Notes to Financial Statements
June 30, 2016

Cash and Categories of Risk (continued)

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, 2016.

	Book Balance	Bank Balance
Insured deposits	\$ 212,112	\$ 211,794
Uninsured deposits	-	-
Total cash deposits	\$ 212,112	\$ 211,794

(3) Capital Assets

Vehicles and equipment are summarized as of June 30, 2016 by major classifications as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Vehicles	\$ 188,168	\$ 18,700	\$ (11,300)	\$ 195,568
Equipment	194,772	5,887	-	200,659
Total vehicles and equipment	382,940	24,587	(11,300)	396,227
Less accumulated depreciation	(308,345)	(27,581)	11,300	(324,626)
Vehicles and equipment, net	\$ 74,595	\$ (2,994)	\$ -	\$ 71,601

(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 year ended June 30, 2016 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.

Essex County Sheriff's Department
Notes to Financial Statements
June 30, 2016

Operating Grants (continued)

Any disallowance as a result of these audits becomes a liability of the Department. As of June 30, 2016, 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.

Independent Auditors' 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*

Trevor Colby, Sheriff
Essex County Sheriff's Department
Guildhall, 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 Essex County Sheriff's Department of the County of Essex, Vermont (the Department) as of and for the year ended June 30, 2016, and the related notes to the financial statements, and have issued our report thereon dated November 30, 2016.

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 Department's internal control.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings that we consider to be significant deficiencies: 2016-01, 2016-02, 2016-03, and 2016-04.

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Essex 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. The Department's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no 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.



November 30, 2016

Essex County Sheriff's Department
SCHEDULE OF FINDINGS
June 30, 2016

Internal Control – Significant Deficiencies

Findings:

2016-01 Segregation of Duties

Due to the small size of the Department, there is a lack of segregation of duties within the cash receipt and disbursement and recordkeeping areas. Separating these closely related functions will improve internal control in these particular areas. The following procedures could be enacted to improve segregation of duties over cash receipts and disbursements and recordkeeping:

- The Sheriff, who is not involved in the accounting function, should open the mail, maintain the list of all receipts, and restrictively endorse all items received as “for deposit only”. This would prevent any unauthorized endorsement should the checks be misplaced or lost before being deposited. This process would also allow the Sheriff to review the bank statement prior to the reconciliation process.
- Someone other than the check preparer and signor should mail all payments. This will ensure that all checks reach their approved designated party.

Management 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.

2016-02 Employee Manual

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

Management Response:

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.

2016-03 Authorization of Invoices and Time Sheets

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

Essex County Sheriff's Department
SCHEDULE OF FINDINGS
June 30, 2016

Management 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.

2016-04 Revenue Cutoff

During our audit, we noted that revenue was recorded when billed instead of when the services were performed. A reliable cutoff is critical to the accuracy and reliability of the financial statements. We suggest a review be performed by the Department's bookkeeper to verify that year-end cutoff is performed during the months following year-end.

Management Response:

The Department concurs with this finding. The Office Administrator will continue to improve the recognition of revenue.