

Essex County Sheriff's Department

Financial Statements
(With Independent Auditors' Report)

For the Year Ended June 30, 2022

Essex County Sheriff's Department
Financial Statements
June 30, 2022

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Independent Auditors' Report

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

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the business-type activities of the Essex County Sheriff's Department (the "Department") as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Department as of June 30, 2022, and the respective changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Department and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter

Governmental Accounting Standards Board (GASB) 68 requires employers to present extensive note disclosures and other required supplementary information, including disclosing descriptive information about the types of benefits provided, how contributions to the pension plan are determined, and assumptions and methods used to calculate the liability. As discussed in Note 8, the Department participates in the Vermont Municipal Employees' Retirement Plan. The Department has not determined the impact of adopting GASB 68. Our opinion is not modified in respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Department's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Department's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.



South Burlington, Vermont
January 30, 2023
VT Reg. No. 92-349

Essex County Sheriff's Department

Statement of Net Position

June 30, 2022

Assets:

Current assets

Cash and cash equivalents	\$ 234,506
Accounts receivable, net of an allowance of \$1,000	<u>45,785</u>

Total current assets	280,291
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Vehicles and equipment, net of accumulated depreciation	<u>42,869</u>
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Total assets	<u>323,160</u>
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Liabilities:

Current liabilities

Accounts payable	2,533
Accrued expenses	<u>1,270</u>

Total liabilities	<u>3,803</u>
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Net position:

Net investment in capital assets	42,869
Unrestricted	<u>276,488</u>

Total net position	<u>\$ 319,357</u>
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See accompanying notes to the financial statements.

Essex County Sheriff's Department
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2022

Operating revenues:	
Charges for services	\$ 321,332
Operating grants	15,026
Miscellaneous revenues	<u>5,048</u>
Total operating revenues	<u>341,406</u>
 Operating expenses:	
Contracted services	254,013
Administration and general	18,718
Automotive services	20,033
Depreciation	<u>12,600</u>
Total operating expenses	<u>305,364</u>
Net operating income	36,042
 Non-operating income:	
Other income	<u>2,900</u>
Net income	38,942
Net position, beginning of year	<u>280,415</u>
Net position, end of year	<u><u>\$ 319,357</u></u>

See accompanying notes to the financial statements.

Essex County Sheriff's Department
Statement of Cash Flows
For the Year Ended June 30, 2022

Operating activities:	
Cash received from customers	\$ 324,778
Cash received from operating grants	15,026
Cash payments to suppliers for goods and services	(106,755)
Cash payments to employees for services	<u>(190,283)</u>
Net cash provided by operating activities	<u>42,766</u>
Cash flows from capital and financing activities:	
Purchases of vehicles	<u>(40,000)</u>
Net increase in cash and cash equivalent	2,766
Cash and cash equivalents, beginning of year	<u>231,740</u>
Cash and cash equivalents, end of year	<u><u>\$ 234,506</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Net operating income	<u>\$ 36,042</u>
Adjustments to reconcile net income to net cash provided by operating activities	
Depreciation	12,600
Increase in accounts receivable	(4,502)
Decrease in accounts payable	(854)
Decrease in accrued expenses	<u>(520)</u>
Total adjustments	<u>6,724</u>
Net cash provided by operating activities	<u><u>\$ 42,766</u></u>

See accompanying notes to the financial statements.

Essex County Sheriff's Department

Notes to Financial Statements

June 30, 2022

(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 deposit to be cash equivalents.

Essex County Sheriff's Department

Notes to Financial Statements

June 30, 2022

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 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, 2022.

(h) Subsequent events

The Department evaluated subsequent events through January 30, 2023, the date the Department's financial statements were available to be used.

(2) Cash and Categories of Risk

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

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

Essex County Sheriff's Department

Notes to Financial Statements

June 30, 2022

Cash and Categories of Risk (continued)

The Department's bank balances are categorized below to give an indication of the level of risk assumed by the Department at June 30, 2022.

	<u>Book Balance</u>	<u>Bank Balance</u>
Insured deposits	\$ 234,017	\$ 237,525
Cash on hand	489	-
Uninsured deposits	<u>-</u>	<u>-</u>
Total cash deposits	<u>\$ 234,506</u>	<u>\$ 205,003</u>

(3) Vehicles and Equipment

Vehicles and equipment are summarized as of June 30, 2022 by major classifications as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Vehicles	\$ 217,401	\$ 40,000	\$ -	\$ 257,401
Equipment	<u>112,418</u>	<u>-</u>	<u>-</u>	<u>112,418</u>
Total vehicles and equipment	329,819	40,000	-	369,819
Less accumulated depreciation	<u>(314,350)</u>	<u>(12,600)</u>	<u>-</u>	<u>(326,950)</u>
Vehicles and equipment, net	<u>\$ 15,469</u>	<u>\$ 27,400</u>	<u>\$ -</u>	<u>\$ 42,869</u>

(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, 2022 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 June 30, 2022, management believes that no material liabilities will result from such audits.

Essex County Sheriff's Department

Notes to Financial Statements

June 30, 2022

(6) Risk Management

The 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 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) Related Party Transactions

The Department utilizes the services of a company that is owned by the Sheriff's cousin. During the year ended June 30, 2022, the Department incurred expenses totaling \$3,314 for repairs and maintenance. As of June 30, 2022, there were no amounts outstanding. Management believes these transactions are at arm's length.

One of the Department's deputy holds the treasurer position with the County of Essex (the "County"). The County provides funds to the Department based on expense reimbursement requests submitted.

(8) Retirement Plan

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

VMERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Retirement System Division of the Vermont State Treasurer's Office issues a publicly available financial report that includes financial statements and required supplementary information for VMERS. That report may be obtained by writing to Retirement System Division, Vermont State Treasurer's Office, 133 State Street, Montpelier, Vermont 05602.

Plan members (Department employees) are required to contribute 10.25% of their annual covered compensation and the Department is required to contribute at an actuarially determined rate. The current rate is 7.5% of annual covered payroll. The contribution requirements of plan members and the Department are established and may be amended by the Retirement Board, Vermont Municipal Employees Retirement System.

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

Contributions made to VMERS by the Department for the year ended June 30, 2022 amounted to \$10,892.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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 (the "Department"), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements, and have issued our report thereon dated January 30, 2023.

Internal Control over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a material weakness and deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2022-001 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2022-002, 2022-003, and 2022-004 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Purpose of this Report

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



South Burlington, Vermont
January 30, 2023
VT Reg. No. 92-349

Essex County Sheriff's Department
Schedule of Findings and Questioned Costs
June 30, 2022

Finding 2022-001: Accounting Function

Condition:

The Department's accounting is not operating effectively to produce financial statements in accordance with U.S. GAAP. During our audit, we proposed several adjusting journal entries. The magnitude and scope of these adjustments, primarily the impact of those related to vehicles and equipment, make it difficult to produce timely and accurate internal financial information on which management can rely. We also believe it hinders management to properly perform its financial role and properly operate the Department. It also increases the Department's exposure to fraud and irregularities.

Recommendation:

We recommend the Department place more emphasis on the importance of the accounting function and accuracy of financial reporting, especially with accruals, revenue and fixed assets. We recommend all staff involved with the accounting function receive formal training.

Finding 2022-002: Lack of Supporting Documentation and Proper Review and Approval of Disbursements

Condition:

The Department does not properly maintain records to support transactions, such as acquisition and disposal of assets, which increases the risks associated with incorrectly recorded transactions. Additionally, we noted instances where disbursements and personnel timesheets were not properly documented as reviewed and approved by the Sheriff.

Recommendation:

We recommend the Department establish procedures to retain documentation relevant to the financial statements and adhere to their policy regarding the proper approval of disbursements and timesheets.

Finding 2022-003: Stale Items in Accounts Receivable and Accounts Payable Aging and Cash Reconciliations

Condition:

During our test work, we noted that the accounts receivable aged listing included balances with a related credit, adjustments recorded during prior years or incorrectly applied to customers accounts. Additionally, the accounts payable listing included balances with a related debit. The accounts receivable and accounts payable aged listings are a useful tool to monitor the aging of invoices/payables. However, maintaining balances with inaccurate information does not aid the Department to make efficient financial decisions in a timely manner. Additionally, one cash reconciliation included reconciling items that were stale.

Recommendation:

We recommend the Department establish procedures to periodically review corresponding reports to ensure they properly reconcile to the financial statements.

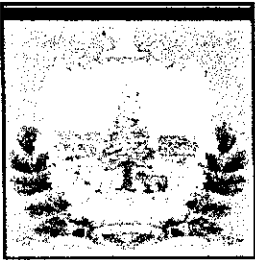
Finding 2022-004: Lack of Segregation of Duties**Condition:**

Due to the small size of the Department, there is a lack of segregation of duties within the cash receipts, disbursements and recordkeeping areas.

Recommendation:

We recommend the Department separate these closely related functions to improve internal control in these particular areas. The following procedures could be enacted to improve segregation of duties over cash receipts, 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.
- Payments and use of accounts should be restricted to the authorized signer or a second approval should be required for this type of transactions to avoid potential misappropriation of the Department’s assets.



ESSEX COUNTY SHERIFF'S DEPT.

STATE OF VERMONT

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Essex County Sheriff's Department
Management's Corrective Action Plan
For the Year Ended June 30, 2022

2022-001: Accounting Function

Our past practice had been to not make adjusting Journal entries outside of the audit period. While working with a consultant we learned that regularly conducting the entries is an acceptable practice. We also learned that the prior entries suggested by the auditors when booked were not adjusted out and that skewed our record. We improved our record keeping functions of period closing. All transactions are recorded. There is no challenge in understanding financial position or assets. Our auditors maintain our depreciation schedule and provide journal entries to adjust the balance. Several items this year were adjustments to sale of vehicles and their appropriate recording. We hope to add the capitalization schedule to quick books.

2022-002: Lack of Supporting Documentation and Proper review and Approval of Disbursements

The department will disagree with the auditors finding. With a small department the Sheriff is the only person authorized to sign checks and thereby approves expenditures in payroll at the time he signs the check. There is no need to sign to approve the payroll and also sign the checks. Also the asset issues have been addressed and two minor adjustments were made for prior years not the 2022 period. The comments above also refer to the same issue.

2022-003: Stale items in Accounts Receivable and Accounts Payable Aging and Cash Reconciliations

The department in the past two years has been proactively reviewing AR and AP accounts. This is an area impacted by prior coding challenges including the JE's from the prior year audit. There is not an issue with the existing review. This response is the same as last year. However the stale information is an ongoing issue with balancing the books due to previous audit entries more than stale information that is occurring because of a lack of oversight. The department will check with quickbooks.

2020-004: Lack of Segregation of Duties

These audit findings are unrealistic for small departments. There are no intended changes. The Sheriff has called the State Auditors' office to request a letter go out to Auditors with guidance addressing the unique circumstances of small departments. See prior audit remarks for the last 10 years.

02/06/2023