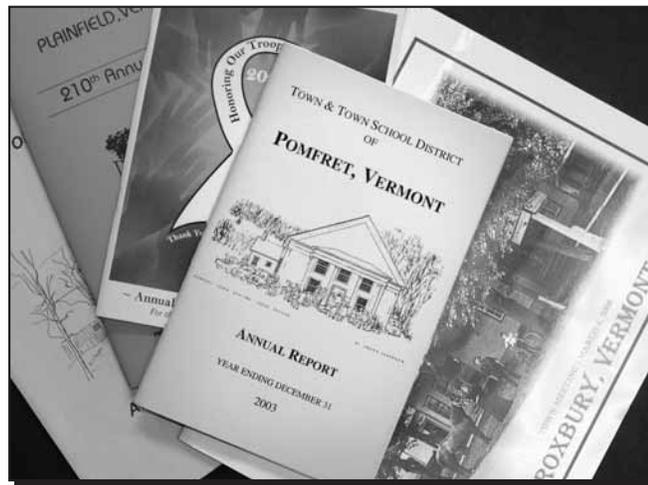


VERMONT LEAGUE OF CITIES AND TOWNS

HANDBOOK FOR LOCALLY ELECTED AUDITORS



A Comprehensive Guide
for Vermont Auditors



Serving and Strengthening Vermont Local Governments

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**HANDBOOK FOR LOCALLY
ELECTED AUDITORS**



A Comprehensive Guide
for Vermont Auditors

The Vermont League of Cities and Towns (VLCT) was founded in 1967 as a nonprofit, nonpartisan organization dedicated to serving and strengthening Vermont local government. Today, VLCT supports its member municipalities by offering them a comprehensive insurance program, representation before the state and federal governments, and an extensive educational and technical assistance program.



Founded in 2003, the **VLCT Municipal Assistance Center (MAC)** provides local officials with legal and technical assistance, consulting services, and educational workshops that increase the ability of local officials to serve their citizens. The Center also publishes handbooks for all major town officers and annual surveys on municipal salaries and benefits and current municipal practices. MAC staff have diverse backgrounds in public administration, municipal law, human resources, public finance, and planning and zoning.

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ABOUT THIS HANDBOOK

The Vermont League of Cities and Towns Municipal Assistance Center has prepared this *Handbook for Locally Elected Auditors* as part of its series of publications to assist municipal officials. It is not intended to be a substitute for the Vermont Statutes Annotated, but it should prove to be a valuable starting point.

The purpose of this handbook is to provide locally elected auditors with a quick and understandable guide to the statutory and practical requirements of the position of town auditor. Additional sources of information are provided throughout the text, and more detailed resource materials are provided in the appendices.

Reasonable efforts have been made to ensure that the information provided in this publication is accurate and complete; however, the Vermont League of Cities and Towns makes no warranty, express or implied, or any representation that such information is suitable for any particular purpose or may be relied on for any specific act, undertaking or course of conduct. In light of the ever-changing status of both statutory and case law, the Vermont League of Cities and Towns recommends that its members consult with an attorney before undertaking a specific course of action based on the material contained herein.

Finally, please do not hesitate to contact us if you have suggestions for improvements or additional material you feel should be included in this handbook.

INTRODUCTION

This handbook is designed for locally elected auditors who are faced with the sometimes daunting task of auditing the accounts of the local government. As the demands on local government have expanded, the financial pictures of municipalities have become more complex and require a greater oversight to ensure that appropriate fiscal controls are in place and to prevent misuse or mismanagement of funds.

The handbook provides an analysis of the historic purpose and the statutory requirements of the position of town auditor. It also seeks to provide a realistic guide to some of the practical obligations of the office in order to assist locally elected auditors in performing their duties in a complete and effective manner. The appendices to this handbook include checklists to assist auditors in performing their audits, as well as a glossary of terms.

CHAPTER 1

THE AUDITOR'S ROLE

The town auditor plays a vital role in preserving the democratic nature of Vermont's local government by ensuring that local officials are accountable for their expenditures of the taxpayers' money. It is the auditor's job to review the accounts of local officials and report the findings directly to the taxpayers for review. Because this report is presented only days before town meeting, the statutory scheme envisions that if the taxpayers do not like what the auditors' report indicates about how the officials have spent the taxpayers' money, the officials will be voted out of office. Thus, it is the auditor's function to present an easy-to-understand picture of the town's finances to the people of the town.

CHAPTER 2

ELIMINATION OF THE OFFICE OF AUDITOR

Under 17 V.S.A. § 2651b, a town may vote by ballot at an annual town meeting to eliminate the office of town auditor. This authority extends to all towns, whether or not they have a charter provision covering election of auditors. If the town does vote to eliminate the office of auditor, the selectboard of the town will then contract with a certified public accountant (CPA), who is licensed in Vermont, to perform an annual financial audit of all town funds. The selectboard must also provide for all other services the elected auditors previously performed, including production of the annual town report.



Section 2651b also provides that the terms of office of the auditors who are in office when the town votes to eliminate the office will expire on the 45th day after the vote, or on the date when the selectboard first contracts with a public accountant, whichever happens first.

Each year, as municipal budgets grow and sources of revenue become more diverse, the task of auditing municipal financial records becomes more difficult. Presently, there is no legal requirement that locally elected auditors have any education or experience in bookkeeping or accounting. As a result, reliance upon locally elected auditors can sometimes create a false sense of municipal financial security. Accordingly, while VLCT continues to support the election of local auditors and their work, we recommend that towns that have not voted to eliminate the office of auditor obtain periodic or regular audits from a certified public accountant.

CHAPTER 3 STATUTORY AND PRACTICAL REQUIREMENTS

A. GENERALLY

- 1. Election of Auditors.** Every town in Vermont must have three auditors unless the town has voted to eliminate the office of auditor in accordance with 17 V.S.A. § 2651b. The auditors are elected for three-year terms by the voters at town meeting. The terms are staggered, so that at each annual town meeting only one auditor is elected. See 17 V.S.A. § 2646. This means that, as a practical matter, each year there is only one novice auditor, and the more experienced auditors may offer their advice and experience in training him or her to perform the functions of the position.



There is no requirement that local auditors be certified public accountants (CPAs) or professional accountants; however, it does make sense for local auditors to have a basic comfort level with income and expense statements and balance sheets. With a basic understanding of accounting procedures, the auditor should be able to present the town accounts in a clear and simple – but complete – form.

- 2. Incompatible Offices.** Because the town auditor acts as a watchdog over the accounts of the other elected officials, the statutes prohibit the auditor and his or her spouse from holding other town offices. This rule is meant to prevent conflicts of interest from arising.

The Vermont Statutes Annotated specifically state that “[a]n auditor shall not be town clerk, town treasurer, selectman, first constable, collector of current or delinquent taxes, trustee of public funds, town manager, road commissioner, water commissioner, sewage system commissioner, sewage disposal commissioner, or town district school director; nor shall a spouse of or any person assisting any of these officers in the discharge of their official duties be eligible to hold office as auditor.” 17 V.S.A. § 2647. This prohibition makes sense insofar as the annual town audit is designed to act as a financial control for the town, and if the auditor were faced with auditing his or her own accounts or the accounts of his or her spouse (assuming he or she or the spouse is another municipal official), the audit would lose its effect and would create a weakness in the financial control system of the town.

- 3. Independence of Office.** Because the auditor is an elected official and not appointed by the selectboard, the selectboard may not direct how the auditors perform their functions. However, according to 24 V.S.A. § 1686(a), upon request of the selectboard, the auditors must “examine and adjust the accounts of any town officer authorized by law to receive

money belonging to the town.” Nevertheless, in conducting the functions of his or her office, the auditor may not be directed or controlled by any other officer, including the selectboard.

If the town has voted to eliminate the office of auditor, 24 V.S.A. § 1686(b) gives authority to the accountant to perform duties under 24 V.S.A. § 1686(a).

4. Town School District Audit.

It should be noted that, according to Vermont Statutes, town auditors also serve as auditors of the town school district, unless otherwise voted. 16 V.S.A. § 425. Thus, the town auditors are generally responsible for auditing school district books. Town auditors are not responsible for the audits of incorporated school districts, union school districts, or supervisory unions, which elect or appoint their own auditors. Auditors – or the selectboard if the town has voted to eliminate the office of auditor – must, however, include a summary budget report from the supervisory union in their annual report. 24 V.S.A. § 1683(d).



B. DUTIES OF LOCALLY ELECTED AUDITORS

- 1. Statutory Requirements.** According to the Vermont Statutes, the auditors must “examine and adjust the accounts of all town and town school district officers and all other persons authorized by law to draw orders on the town treasurer,” and the auditors must “report their findings in writing and cause the same to be mailed or otherwise distributed to the legal voters of the town at least ten days before the annual meeting.” 24 V.S.A. §§ 1681, 1682(a).

The town auditors must prepare and publish an audit report that reviews the accounts of the town’s treasurer, selectboard, tax collector and other municipal officials who submit bills for expenses to the town for payment on a monthly or annual basis. This report provides taxpayers with detailed information about the town’s financial status.

- 2. Practical Requirements and Preparation Time.** The practical obligations of local auditors vary significantly from town to town, depending on whether the town employs professional auditors, and other factors. In towns where the auditors themselves do the audits of the town accounts, the auditors must expect to spend a great deal of time poring over the records of the treasurer and other officials who maintain minor accounts for the town (e.g., the library account and cemetery funds) and checking the checkbooks and bank statements for accuracy. Preparing the written audit report can also be a fairly large task, particularly if the auditors are not already experienced in preparing financial reports.

CHAPTER 4 CONDUCTING AN AUDIT

A. AUDIT PREPARATIONS

- 1. Auditors' Meeting.** The Vermont Statutes set out basic requirements for when town auditors must hold their meetings. Twenty-four V.S.A. § 1681 states that town auditors “shall meet at least 25 days before each annual town meeting.” Although statutory language sets the outside date by which the town auditors must meet and begin to conduct their audit, most town auditors, considering the number of records to be audited, should begin their work in January or earlier (for towns that have a calendar year rather than a fiscal year) to enable them to conduct a thorough audit that can be completed by the statutory deadline. In fact, depending on whether your town employs professional auditors, the town auditors should meet on a year-round basis in order to ensure that the statutory deadlines can be met. Some auditors do the monthly bank reconciliations for the treasurer in order to create an effective financial control in the town. (Otherwise, it is the treasurer who both issues checks and then reconciles the bank book.)

Auditors have found that the auditing process is not conducive to a committee approach. Thus, not all auditing activities occur during a formal meeting. Rather, it is common for auditors to formally meet two or three times – the first to divide up particular tasks, and the second and third times to review and formally adopt their final report.

- 2. Notice of Meetings.** Public notice of the formal town auditors' meeting must be given at least ten days in advance of such a meeting. 24 V.S.A. § 1681. Proper notice requires “posting” or “publication” of the meeting.

Posting means having written notice placed in public view, giving the time, date and location of the auditors' meeting. This notice must be posted in or near the town clerk's office and in at least two other public places in town. *Publication* means printing in any newspaper serving the area the time, date and location of the auditors' meeting. The purpose of the meeting – i.e., what will be discussed – must also be included in the posted and published notice of the meeting.

If a meeting must be continued to a later date, it can be done without additional notice so long as the decision to continue is made during the warned meeting.

- 3. Open Meeting Requirements.** The “open meeting” statutes, 1 V.S.A. §§ 310-314, apply to the formal meetings of the town auditors. This means that the auditors' meetings must be open to the public, minutes of the meeting must be taken and a chair appointed. In addition, all formal actions (e.g., appointing a chair and adopting the audit report) must be taken in open session. Finally, the public has the right to know when and where the meeting will be held, and generally what will be discussed.

Many auditors do much of their work in informal work sessions. These are not considered “meetings” of the auditors and it is thus unnecessary to formally warn them as meetings or

open them to the public. However, it is important to note that no official “action” may be taken at a work session, for actions may only be taken at a duly warned meeting.

To ensure that the public is aware that you will be doing much of your work using informal work sessions that will not be separately warned as meetings, it is a good idea to formally adopt this as your practice at your initial meeting. At this meeting it also makes sense to explicitly set out in your minutes the particular tasks that are being delegated and the name of the individual or individuals who have agreed to be responsible for each particular task. This serves a dual purpose of allowing the public to know who is responsible for a particular issue or task, and it also keeps the auditors accountable for the tasks to which they have committed themselves.

- 4. Quorum Requirements.** An action of only one auditor in auditing the town’s accounts has no official significance. *St. George v. Tilley*, 87 Vt. 427, 89 Atl. 474 (1914). One V.S.A. § 172 requires a majority of the three official auditors to be present for a meeting to take place, and requires a majority of the auditors to concur in order to take binding action. Thus, unless a majority of the town auditors participate in the auditing and preparing of the audit report for the town, such report may have no official significance. This is true even if there are one or more vacancies in the position of auditor. If a town has two auditors and one vacancy, the two auditors must concur in order to take any official action. If there is more than one vacancy in the position of auditor for a particular town, no official action can be taken by the auditors because the requisite majority is impossible to attain.
- 5. Information Gathering.** In order to conduct an audit and prepare an audit report, the auditors must gather a significant amount of information about the town finances. The auditor must pore over the books, accounts, vouchers and bills of all the officers in the town who receive or disburse money in the name of the town.

The auditor’s job requires the assistance of other town officers insofar as the auditor must be provided access to the officers’ records and accounts. The statutes recognize that free access to these records and accounts is necessary for the auditors to perform their function; thus, the statutes provide a penalty for any officer who does not comply with the auditors’ requests for documents. (“Such officer who willfully refuses or neglects to submit his books, accounts, vouchers or tax bills to the auditors upon request, or to furnish all necessary information in relation thereto, shall be ineligible to reelection for the year ensuing and be subject to the penalties otherwise prescribed by law.” 24 V.S.A. § 1686(c).)

In addition to poring over the records of the various town officials, the auditor must gather information about the investments, deposits and obligations of the town. Thus, Vermont Statutes require banks, trust companies and other creditors to annually (on or before January 5, or at some other date, as requested by the chair of the board of auditors, to conform with the fiscal year of the municipality) send to the chair of the board of auditors written notice of the indebtedness of the town. 24 V.S.A. § 1687. This notice must state “the amount of such orders, or other evidence of indebtedness, and the balance due thereon ...”

Banks or trust companies having on deposit funds of the municipality must make a similar report to the auditors (on or before January 5, or at some other date, as requested by the chair of the board of auditors, to conform with the fiscal year of the municipality). This report must state the balance on deposit to the credit of the municipality. 24 V.S.A. § 1688.

A bank, trust company or individual who fails to send the requested information by the required date(s) is subject to a fine. (However, the fine is minimal – not less than \$10.00 nor more than \$25.00.) 24 V.S.A. § 1689.

6. Digesting the Financial Information. Strictly speaking, it is the auditor’s duty to simply gather and report the financial information of the town. Although the auditor is not required to go beyond his or her strict statutory duties, there are significant benefits to be gained by towns when local auditors consider the audit function to also include the following:

- a. To determine whether the financial statements accurately present the financial condition of the town and town school district.
- b. To determine the propriety, legality and mathematical accuracy of the financial transactions.
- c. To determine whether all financial transactions have been properly recorded.
- d. To determine if public officials who are responsible for the town’s financial resources are upholding their duties in a responsible manner.
- e. To identify areas for possible improvements in accounting practices and procedures.

Although the functions listed above expand upon the statutory duties of the town auditor, they do not go beyond what is generally considered to be within the scope of a financial audit. A comprehensive audit by a certified public accountant as recommended above can significantly benefit towns and school districts by disclosing weaknesses in the town’s financial control system, by helping to expose fraud or abuse and by presenting an accurate report of the town’s financial condition to the voters.

B. AUDIT PROCESS

There are four basic steps that should be followed by locally elected auditors in their audits of towns and town school districts: understand the accounting procedures and controls being used in the town; evaluate the accounting system; test the accounting system; and prepare an audit report.

1. **Understanding the Accounting Methods.** The first step, understanding the town's accounting procedures and controls, is simply a matter of requesting that the town treasurer explain his or her system of accounting. If the town has a procedures manual, the task of understanding the accounting procedures and controls is easier for the auditor.

A procedures manual is an outline of the town's accounting and financial management system. If such a manual does not exist in the town, the auditors can work to produce one, or they can complete an internal control questionnaire (see Appendix A) for use in their audit that contains much of the information contained in a procedures manual.

2. **Evaluating the System.** After gaining an understanding of the accounting procedures, the auditors must evaluate the system. This will tell the auditors where they must concentrate their audit efforts. An internal control review is a helpful tool for evaluating the system.

- a. **Internal Control.** An internal control system includes those measures that safeguard the town's assets, check the accuracy and reliability of the accounting system, promote the efficient operation of the town government, and encourage adherence to municipal policies and ordinances and to applicable state and federal laws. An internal control questionnaire is attached as Appendix A to this guide. The basic principles of internal control have been developed by professional accountants and have been used in business and government accounting for many years. Each municipality should have an internal control system to help assure the dependability of the municipality's financial record keeping and reporting.

- b. **Survey of Internal Control.** An internal control survey can indicate whether there is "separation of accountability and custodianship." "Separation of accountability and custodianship" is the principle that officials or employees of a municipality (or other business/organization) who have responsibility for keeping records of the municipality's finances should not have custody of its assets. Thus, the same person should not handle bank deposits or keep cash books and also receive bank statements or make bank reconciliations. In addition, the same individual should not disburse payment and also confirm receipt of or authorize payment (sign selectboard's order) for merchandise.

Additionally, internal control systems suggest that protective records and devices should be used to protect town assets. This may include using a mechanical check protector and one-write safeguard system, obtaining adequate insurance coverage, keeping minimum amounts of cash on hand, keeping cash in a vault, having adequate cash controls, and backing up all computer data – especially documents such as the grand list, the delinquent tax list, etc. – with off-site storage of the backup disks, tapes or other

electronic storage media. (*Cash* refers to all items that are acceptable for deposit in a bank, such as paper money, coins, checks, money orders, etc.)

Cash controls include cash handling separated from recording of cash transactions, cash receipts deposited daily to a bank, all major disbursements made by check, and petty cash handled through a fixed amount account. For example, a petty cash account of \$50.00 would always have cash on hand plus vouchers equal to \$50.00.

- c. **Evaluate Weaknesses in Internal Control.** The town auditors, as part of evaluating the internal controls, should look at all weaknesses in the system. One weakness exists as a result of statutory design. Vermont Statutes provide the town treasurer with the authority to keep records and to have access to assets. 24 V.S.A. § 1571. Therefore, by definition, there exists a “weakness” in internal control in most Vermont communities. This weakness will not necessarily result in actual fraud. However, the existence of such a weakness means that if there is fraud, it may be more easily concealed. To correct this inherent weakness in many towns the town treasurer agrees to have the auditors reconcile the monthly bank statements for the town.



When towns do not have the resources to correct their internal control problems, additional audit tests can help to compensate for the weaknesses. Town auditors can also ask certain questions that will help in evaluating the town’s accounting system and in detecting weaknesses in internal control. A sample internal control questionnaire is provided in Appendix A of this guide. Completion of the questionnaire is a task that needs to be done one time only unless there are major changes in the accounting system or office procedures. A completed questionnaire serves two functions: it points out weaknesses in internal control and it documents the town’s accounting system.

If local auditors find a serious weakness in internal control, two actions are recommended:

- **Cash proof.** This test involves checking all deposits recorded on the bank statement against those recorded in the books, and checking all withdrawals (checks) from the bank statement against those recorded in the books. This test should be done for a minimum period of one month.
- **Bank statement reconciliation.** Bank statements should be opened and reconciled by someone other than the treasurer.

3. **Testing the System.** The auditors should test the system based on their evaluation and the audit program they design. Transactional tests, which are completed on a sample basis, determine if the procedures are being followed accurately. Validation procedures are those

tests that verify account balances. If the test of the system reveals any outstanding debts, auditors should set up their audit procedures in order to determine the reason for the outstanding debt.

- a. **Audit Checklist.** A sample audit checklist is attached as Appendix B of this handbook. Checklists are useful tools for auditors because they serve as reminders of the various tasks that are important to complete when conducting an audit. The list of tests that should be conducted on this checklist may seem overwhelming. It is important to remember that not every test must be completed every year. As an example, the inventory of general fixed assets need only be completed once every few years. The auditors may decide to rotate the emphasis of their audits from year to year.
- b. **Documentation of the Audit Process.** A completed audit checklist serves as a good record of the auditors' work for that year. In addition, it is strongly recommended that the auditors retain their working papers for a minimum of three years. Should any questions arise, these papers are excellent documentation of how the auditors conducted their audit.
- c. **Additional Tests for the Accrual System.** The audit checklist included in Appendix B is designed for towns using either the cash or accrual system. However, auditors in towns using the accrual system may want to do some additional tests. Such additional tests can include:
 - Confirm accounts receivable.
 - Review receipts subsequent to year-end for unrecorded accounts receivable.
 - Review disbursements subsequent to year-end for unrecorded accounts payable.
 - Correspond list of accounts payable to invoices to determine inclusion in proper year. (The received date of goods or the date services were performed – not the invoice date – determines when an expense takes place.)
 - Correspond payroll tax liabilities to quarterly payroll tax returns.
 - Recalculate accrued wages based on work week and date paid.

4. Reporting the Findings. The final step is to report your audit findings by preparing an audit report and by making it available to the voters. The process of preparing an audit report and its contents are outlined and discussed below.

C. AUDIT REPORT

1. Contents of Report. After completing a review of the town's books and financial statements, the auditors must prepare an audit report. The contents of the audit report must comply with the requirements of Vermont Statutes. Twenty-four V.S.A. § 1683 provides that "[t]he report shall show a detailed statement of the financial condition of such town and school district for their fiscal year ..." This statute specifically requires the auditors' report to contain the following:

- a. Detailed statement of financial condition of such town and school district for the fiscal year (balance sheet).

- b. Summary of receipts and expenditures classified by budget category.
- c. List of all outstanding payables which are more than 30 days past due. (The purpose of this is to ensure that, in towns using cash basis accounting, no bills are being held in order to hide a deficit. As a practical matter, very few towns actually comply with this requirement, since if the auditors comply with the requirements of paragraph (d) herein, they necessarily comply with the intent of this provision.)
- d. Report of deficit, if any. (See 24 V.S.A. § 1523 for a definition of “deficit.”) Note that all towns, even those that otherwise operate on a cash basis, must report their deficit using the accrual method.
- e. Statement of the condition of all trust funds including a list of assets of such funds and the account of receipts and disbursements for the previous year.
- f. Statement showing what bonds of the town or town school district are outstanding, including rate and amount thereof.
- g. Statement showing what interest bearing notes or orders of the town or town school district are outstanding with the serial number, date, amount, payee, rate of interest for each, and the total amount thereof.

Twenty four V.S.A. 1684 also provides that the audit report must contain a detailed statement showing the following:

- a. The condition of all town trust funds, with a list of the assets of the funds, including the receipts and disbursements for the preceeding year.
- b. Any outstanding bonds of the town or town school district with the rate of interest and the amounts.
- c. Any outstanding interest bearing notes or orders of the town or town school district, with the serial number, date, amount, payee, rate of interest and total amount thereof.

2. Additions to the Report. In addition to the information above, which is required by Vermont Statutes, many local auditors include in their reports a simple spreadsheet for the town and a similar spreadsheet for the school that shows the major accounts for the previous three to four years, along with the proposed budget for the following year. These documents should also include information about the changes in population and school enrollment over the years covered by the report. This gives the townspeople information which can assist them in evaluating the current year’s budget in light of past years’ experience.

Some local auditors represent in the audit report that “the audit was done in compliance with generally accepted auditing standards” or that “the report was prepared using generally accepted accounting principles.” This is not ordinarily advisable because, if the local auditors

are not trained CPAs, such statements are generally false and misleading and could lead to liability problems for the auditors and for the town.

3. Outline of Report. Auditors may want to use the following outline when preparing their report:

- **Scope.** List the books and financial statements that were audited.
- **Authority.** Note the authority (from Vermont Statutes) under which the audit was conducted.
- **Exceptions and Modifications.** List any exceptions that you as auditors may have with the treasurer's presentation of the financial statements. If there are exceptions, also list the changes that you would make to the financial statements.
- **Recommendations.** List any recommendations for improving the town's accounting and financial management system.

4. Inconsistency Between Audit Report and Accounts. The treasurer is responsible for the town's accounting system. A part of this accounting system is the preparation of financial statements. 24 V.S.A. § 1571. It is always possible that the auditors' report will disagree with the town and school district treasurer's financial statements.

If there is disagreement between the treasurer's statements and the auditors' report, the auditors should present to the treasurer the areas of discrepancy and attempt to correct the treasurer's statements. Professional auditors do not adjust accounts, but simply examine them for errors. The local town auditor, on the other hand, by statutory authority, has the right to adjust accounts. 24 V.S.A. § 1681. However, as a general policy, it is wise for the auditors to accept the treasurer's financial statements and to simply note exceptions or disagreements in their written report.

5. Distribution of the Report. After the auditors' report is completed it must be distributed to the voters of the town.

The method of distribution of the auditors' report is outlined in 24 V.S.A. § 1682(a). The statute provides that the report must be in writing and must be mailed or otherwise distributed to the legal voters of the town at least ten days before the annual town meeting. A town may also vote to provide notice of the auditor's report in lieu of mailing or distributing the report itself. If the town so votes, it must specify how notice of availability will be given. The notice of availability must be provided at least 30 days before the annual meeting. Upon request, the auditors must mail or distribute a copy of the report to a voter or resident of the town. 24 V.S.A. § 1682(a).

If the town has voted to eliminate the office of auditor, the findings of the CPA employed in accordance with 17 V.S.A. § 2651b shall be mailed or otherwise distributed by the

selectboard in the same manner that findings are required to be distributed by auditors. 24 V.S.A. § 1682(b).

The statute makes it the auditors' responsibility to distribute the report to the qualified voters of the town, and to provide sufficient copies of the report to the town clerk so that the clerk may fulfill his or her responsibility under 24 V.S.A. § 1173 to distribute copies of the report to various listed state officials and the state library. 24 V.S.A. § 1682. In addition, all surplus copies of the report must be given to the town clerk before the first Tuesday in March (Town Meeting Day).

As a practical matter, however, the audit report is generally only one part of an annual report which includes the warned articles for town meeting as well as reports from the other officials of the town. Consequently, in order to fulfill their statutory obligation to distribute the audit report, the auditors must be sure that it is included in the town report by the administrator, or the official who is charged with putting together the annual town report. Note that in some towns, it is the auditors' responsibility to put together and distribute the annual report for the town.

- 6. Adoption and Legal Effect of Report.** The audit report is formally adopted at town meeting as part of the routine adoption of the annual report. Because the audit report indicates areas of municipal indebtedness, the courts have considered the issue of whether, by adopting the audit report, the voters have admitted to a particular financial liability. The Vermont Supreme Court has stated that votes to "accept and adopt" the town auditors' report are not an admission of liability by a town in any particular matter. *Prescott v. Vershire*, 63 Vt. 517, 22 Atl. 655 (1891). Thus, no promise to pay or willingness to remain liable on the part of the town can be implied from the town auditors' report.



CHAPTER 5 CONCLUSION

Locally elected auditors play a vital role in municipal government. Although the office of auditor is not often a visible position, the auditors' report is very visible, and should form the foundation for the electorate's decision about the proposed budget and whether to reelect the various municipal officials charged with spending and managing the taxpayers' money. Accordingly, it is vital that locally elected auditors take their statutory obligations seriously and conduct thorough and complete audits of the town's accounts. It is our hope that this handbook provides the information necessary to assist auditors in fulfilling this function.

Appendix A INTERNAL CONTROL QUESTIONNAIRE

Town of _____

Date _____

NOTE: A "NO" answer denotes a weakness which must be fully explained.

<u>General</u>	<u>Yes</u>	<u>No</u>	<u>N/A</u>	<u>Remarks</u>
1. Are officials' and employees' duties reasonably fixed as to responsibilities?	___	___	___	_____
2. Is the town in compliance with state statutes covering incompatible offices?	___	___	___	_____
3. Is a procedures or policy manual in place?	___	___	___	_____
4. Is insurance coverage reviewed periodically by qualified individuals to determine adequacy?	___	___	___	_____
5. Does the comprehensive liability policy include liability coverage for all officials and employees?	___	___	___	_____
6. Is a budget system (including monthly or quarterly budget reports) used for watching income and expenses?	___	___	___	_____
7. Are cash projections made?	___	___	___	_____
8. Are all employees/officials who handle town funds covered by surety and/or performance bonds?	___	___	___	_____
<u>Financial Records</u>				
1. Are detailed cash receipts journals maintained?	___	___	___	_____
2. Are detailed cash disbursements journals maintained?	___	___	___	_____
3. Are selectboard records (if separate records other than orders are kept) reconciled with treasurer's records monthly?	___	___	___	_____
4. Are accounting records kept up to date and balanced monthly?	___	___	___	_____
5. Is a chart of accounts used?	___	___	___	_____
6. Are records properly guarded from fire, theft and manipulation?	___	___	___	_____

Appendix A INTERNAL CONTROL QUESTIONNAIRE

	<u>Yes</u>	<u>No</u>	<u>N/A</u>	<u>Remarks</u>
<u>Cash Receipts</u>				
1. Is receipt of currency adequately controlled until deposited or remitted to the treasurer?	___	___	___	_____
2. Have safeguards been provided to prevent officials or employees from cashing checks payable to the town?	___	___	___	_____
3. Are all monies received by the town turned over intact daily to the person who makes bank deposits?	___	___	___	_____
4. Are funds received over the counter controlled by counter receipts?	___	___	___	_____
<u>Purchasing</u>				
1. Are selectboard orders:				
• Required for all purchases?	___	___	___	_____
• Signed by a majority of the board?	___	___	___	_____
2. Are purchasing, receiving, and disbursing functions entirely separate?	___	___	___	_____
3. Are there adequate procedures for controlling the receiving of all goods and services purchased?	___	___	___	_____
4. Are materials and supplies inspected for condition and counted when received?	___	___	___	_____
5. Does the processing of invoices for payment include a mathematical check of footings, extensions, and discounts?	___	___	___	_____
<u>Cash Disbursements</u>				
1. Are all cash disbursements, except petty cash items, made by check?	___	___	___	_____
2. Are prenumbered checks used?	___	___	___	_____
3. Is a controlled, mechanical check protector used?	___	___	___	_____
4. Are all investments, except trust funds, approved by the selectboard?	___	___	___	_____
5. Is petty cash handled through a fixed amount account?	___	___	___	_____

Appendix A INTERNAL CONTROL QUESTIONNAIRE

	<u>Yes</u>	<u>No</u>	<u>N/A</u>	<u>Remarks</u>
<u>Payroll</u>				
1. Are personnel records (including wages, salaries and deductions) maintained for all employees?	___	___	___	_____
2. Are salary and wage rates formally approved in the selectboard's minutes?	___	___	___	_____
3. Are methods of accumulating time and recording absences satisfactory?	___	___	___	_____
4. Are payroll deductions properly approved and controlled?	___	___	___	_____
5. Are withholding taxes remitted properly?	___	___	___	_____
<u>Property and Equipment</u>				
1. Are schedules of fixed assets maintained?	___	___	___	_____
2. Are periodic inventories taken and compared with the schedules of fixed assets?	___	___	___	_____
<u>Notes and Investments</u>				
1. Are schedules maintained of all borrowing and investing activities?	___	___	___	_____
<u>Grand List and Tax Records</u>				
1. Is a system used (ideally a tax map) to be certain that all taxable property is included in the grand list?	___	___	___	_____
2. Does the delinquent tax collector turn all receipts over to the treasurer so that the collector's fees can be entered into the town's books as wages?	___	___	___	_____
3. Does the town have adequate follow-up policies with delinquent taxpayers?	___	___	___	_____
4. Does someone other than the tax collector (delinquent and current) reconcile taxes?	___	___	___	_____
<u>Enterprise Funds</u> (water, sewer, etc.)				
1. Do accounting practices for enterprise funds follow guidelines listed above for all other town funds?	___	___	___	_____
2. Is the follow-up on delinquent accounts adequate?	___	___	___	_____

Appendix B
AUDIT CHECKLIST

Town _____

Period Covered _____

GENERAL PROCEDURES

Date & Initials

1. Read prior year's audit notes. _____
2. Read minutes of town's annual/special meetings; trace budget to minutes of meeting(s) to determine proper authorization. _____
3. Read minutes of selectboard's meetings to check for items which affect town's financial condition:
 - a. Salary rates and changes.
 - b. Ordinances and resolutions adopted.
 - c. Approval of tax anticipation borrowing.
 - d. Transfers or loans between funds.
 - e. Grant applications.
 - f. Sale and purchase of major equipment.
 - g. Discussion of contingent liabilities – e.g., lawsuits._____
4. Examine and schedule surety bonds for town officials; determine adequacy of coverage; prepare conclusion. _____
5. Send letters to area banks for confirmation of account and loan balances. _____

Petty Cash

1. Count petty cash fund. _____
2. Reconcile to amount authorized for fund. _____
3. Test a sample of reimbursements to petty cash fund. _____

Cash Receipts Journal

1. Test accuracy – foot, cross foot. _____
2. Trace totals to ledger or to financial statement. _____
3. Agree to supporting documentation – remittance advices, bills, etc. _____
4. Trace to postings in subsidiary ledgers, e.g., grand list, water receipts cards or ledger, etc. _____
5. Trace deposits to bank statements. _____
6. Agree all large state and federal revenues to the confirmation letter to make sure that the money has been received and recorded by the town. _____

Appendix B
AUDIT CHECKLIST

Date & Initials

Grand List

1. Check totals on listers cards with amount entered on grand list. _____
2. Trace from building permits and land transfer records to make sure any resulting changes are reflected in the grand list. _____
3. Recalculate individual tax levies. _____
4. Check math accuracy. Do a total calculation: total of grand list \times approved rate. _____

General Fixed Assets

1. Complete an inventory for general fixed assets. _____
2. Prepare a list of general fixed assets to be included in town report (or request that such a list be prepared). _____

Cash Disbursements Journal

1. Test accuracy. _____
2. Choose sample of disbursements; trace to invoices.
(Account for all check numbers before choosing a sample.) _____
3. Agree to cancelled checks. _____
4. Agree to signed board orders. _____
5. Check to any other required approval (e.g., department head, manager). _____
6. Check account distribution. _____

Payroll Journal

1. Trace rate of pay for authorization. _____
2. Recalculate gross pay. _____
3. Check account distribution. _____
4. Agree to cancelled checks. _____
5. Agree to signed board order. _____
6. Agree to other authorization if required. _____
7. Check to be certain that withholdings are being done properly and *remitted*. _____

Appendix B
AUDIT CHECKLIST

Date & Initials

Cash

1. Review reconciliation: agree “balance per banks” to statement or confirmation. _____
2. Review reconciliation: agree “balance per books” to ledger or checkbook balance. _____
3. Verify deposits in transit and outstanding checks to deposits and checks clearing with the next statement. _____
4. If serious weakness in internal control, consider cash proof: agreeing bank activity to book activity for one month, several months or one year. _____
5. Complete a transfer test (all transfers recorded in same year). _____
6. Check savings and CD activity; verify reasonableness of interest income. _____

Delinquent Taxes Receivable

1. Foot list. _____
2. Trace to grand list. _____
3. Confirm with taxpayers directly (can be done on sample basis). _____
4. Review reconciliation: beginning balance plus delinquent bills sent to collector minus receipts minus abatements equals ending balance. Verify all elements of the calculation. _____
5. Compare delinquent tax receipts each month to entries in the delinquent tax receivable list. _____

Other Accounts Receivable

1. Trace to bills. _____
2. Check subsequent receipts. _____
3. If material, confirm with debtors. _____

Accounts Payable

1. Agree to bills. _____
2. Review subsequent disbursements. _____
3. Confirm balances with known vendors. _____

Appendix B
AUDIT CHECKLIST

Date & Initials

Trust Funds

- 1. Make sure that they are complying with trust agreements. _____
- 2. Check investments; examine securities. _____

Financial Statements

- 1. Trace numbers to ledger or journal totals. _____
- 2. Check to be certain that all required statements are presented. _____
- 3. Check math. _____
- 4. Complete an analytical review. Compare revenues and expenditures to budget. Get explanations for variances. Analyze accounts with unusual balances. _____
- 5. Make sure that any required disclosures are presented in report, e.g.:
 - a. Basis of accounting.
 - b. Any lawsuits, etc.
 - c. Anything that might affect the financial future of the town. _____

Miscellaneous Procedures

- 1. Verify the amounts paid to the school. _____
- 2. Agree all interfund payables/receivables. _____

Remarks/Comments on Procedures:

Audit completed by:

Date:

Appendix C

TERMS

Confirm. Contact (usually by mail) person or company owing money to the town to verify amount.

Cross Foot. Add cross column totals to check arithmetic.

Financial Statements. Financial statements for towns include:

Balance Sheet (can also be called **Statement of Financial Condition**). Listing of all assets, liabilities, and fund balances.

Statement of Cash Receipts and Disbursements. Should be compared with budget. This comparison may be done in a combined or separate report. In accrual system, this is called **Statement of Revenues, Expenditures and Changes in Fund Balance**.

Foot. Add down columns to check arithmetic.

General Fixed Assets. Long-term assets, including land, buildings and equipment.

Journal. A record of original entry. Used to record consecutive entries of a certain class of event (e.g., cash receipts journal, cash disbursements journal, payroll journal, general journal). You may use different titles for these records in your town.

Ledger. A group of accounts in which are recorded monthly, from all of the journals, the financial transactions of a governmental unit or other organization, usually in summary form.

Sample. A portion of a group of related transactions chosen to test the accuracy, propriety, or other characteristics of the entire group. Should be a representative sample that covers the year and the various types of transactions performed in the accounting system.

Schedule. A detailed list in orderly form (e.g., schedule of surety bond coverage, schedule of general fixed assets, list of delinquent taxpayers, schedule of certificates of deposit and tax anticipation notes).

Transfer Test. A test of transfers between funds or bank accounts near the year-end to make sure that they are recorded in the same period in both funds or accounts.

Trust Fund. A fund of resources (usually money) received and held by a town as trustee to be used according to the conditions of the trust.

Appendix D

RESOURCES

1. *VLCT Resource Library*, www.vlct.org, an online library of articles and resources for municipal officials.
2. *Brief Overview of Selected Vermont Town Offices*, Vermont League of Cities and Towns, 1998.
3. *Handbook for Vermont Town Officers*, Vermont League of Cities and Towns, 1999.
4. *Handbook for Vermont Selectboards*, Vermont League of Cities and Towns, 2007.
5. *The Vermont Statutes Annotated (V.S.A.)*, Titles 1, 16, 17 and 24.
6. *Vermont Reports*, Volumes 87 and 63. (These volumes contain the Supreme Court cases cited in the text.)

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