

Locally Elected Auditors Training
Event Q&A
November 16, 2022

NOTE: Please review these Q&As in their entirety, as the MAC team may have changed or added to answers provided during the live webinar. If you have any further questions, please don't hesitate to contact us at info@vlct.org for more information.

Question: Our long-time professional auditing firm is no longer able to do our audit. We're having a difficult time finding another firm. We've RFP'd and are receiving little interest. Any thoughts?

Answer: Unless the town voted to eliminate the elected auditors, they will need to prepare and distribute the annual auditors' report whether or not they have professional help. If the position was eliminated, the selectboard can consider sending the RFP directly to firms that perform government audits, some in Vermont and some regional. A separate list of these firms will be sent with the webinar materials. You can also use the FIND A CPA database on <https://www.vtcpa.org/> to search for a licensed professional in Vermont.

Question: For distribution of the town report do you have to issue each year how the report will be distributed?

Answer: See Page 31 of the handbook. An article for such a vote would be as follows:

"Shall the town provide notice of the availability of the annual town report by [*insert method of providing notice*] at least 30 days before the annual meeting in lieu of mailing or otherwise distributing the report to the voters of the town pursuant to 24 V.S.A. § 1682?"

As indicated by the brackets above, such a vote must specify how notice of availability will be given such as by mailing postcards to all registered voters, publishing notice in the local newspaper, or providing written notice on the town's official website. The notice itself, which must be provided at least 30 days in advance of the meeting, indicates the location where the report may be viewed or obtained. Note that even if such a vote takes place, the auditors are still required to mail or distribute a copy of the report to any voter or resident of the town who requests such service.

Question: We have had some restrictions on town meeting due to COVID. Informational meetings were held on Zoom prior to the actual day of town meeting. In this case, would the requirement to have annual auditors' report mailed be 10 days before the informational meeting?

Answer: No, the date of the town's annual meeting determines when it must be mailed. The informational hearing is a separate meeting, so you would calculate the deadline to send the report from the date of the annual meeting. The statute says:

§ 1682. Report; distribution

(a)(1) The auditors shall report their findings in writing and cause the same to be mailed or otherwise distributed to the voters of the town at least ten days before the annual meeting.

Question: Do we need to get approval annually to notify residents that the report is not being mailed? We notify when it is available, it is posted on the town website, and we also mail it to anyone who requests it.

Answer: The law is somewhat unclear on this point. It could be inferred from the statute that, once the article to switch to notification is approved by the voters, it will remain in effect until a vote to return to distributing the report is approved. However, unlike other statutes, there is no language stating it is in

effect until rescinded. For that reason, and because we provide conservative advice based on a narrow reading of the law, it is best practice to include it as an article to be voted on every year until/if there is a legislative change.

Question: If the town has elected auditors and uses an outside auditing firm, do the voters need to approve the additional expense of hiring an outside firm - say every two or three years?

Answer: Yes, generally speaking, all appropriations need to be approved by the voters annually, so the money needed for hiring an outside auditing firm must be included in a proposed budget and approved by the voters.

Question: If we voted to give notification of availability of the audit report, can we notify that the report WILL be available 10 days before the town meeting? Or do we have to have it finalized 30 days before?

Answer: The notification of availability must occur at least 30 days prior to the meeting, but the report does not have to be available for voters at that time. However, at the same time the notice of availability is provided, the town auditors (or selectboard, if the town has voted to eliminate the office of the town auditor) must still deliver enough copies to the town clerk in order to comply with their responsibilities under 24 V.S.A. §§ 1173 and 1174. Practically speaking, this means the report must be finalized for purposes of meeting this requirement. The copies for the voters must be available for voters at least 10 days prior to the meeting. We have noted this apparent oversight for a future legislative fix.

Question: I've been auditing for quite some time and was startled to learn that we may have been doing some "unnecessary auditing". We have a voluntary FD and rescue squad, for examples, whose income & expenses have always been included in the town report as they receive town funds. But you're saying this may exceed our authority?

Answer: If those are not municipal departments but truly separate entities, then the elected auditors do not have a duty to audit them or a legal right to access their records. As mentioned in the webinar, the auditors reviewing the voluntary FD's financial records may be a condition of the town's appropriation to the voluntary FD. Otherwise, we suggest sticking to auditing the town's accounts.

Question: Not sure if this question is appropriate for the scope, but, if the road commissioner hires out a "company" to complete certain tasks such as hauling gravel, repair bridges, and that company subcontracts, say welders, can the town request to see the bill from the welders or the gravel that was delivered and compare it to the bill the company provided the town? The company the road commissioner is hiring out is a family company (he may even be part owner) and he bills the town but never shows what the gravel lot charges or the bill from the welding company. I think it is a matter of voters asking that the town hire those "subcontracted" positions out directly rather than allowing the family member to do so.

Answer: Strictly speaking, the law only requires the elected auditors to gather and report the financial information that is listed in 24 V.S.A. §§ 1683 and 1684. The auditors have access to the records of any town officer who can receive or disburse funds, so the auditors could see the "company's" bill but couldn't require the subcontractor to hand over their bill, presuming the subcontractor never directly billed the town. The auditors could still request (but not demand) the subcontractor's bill.

Question: If we find something that is costing the town money, is it our duty to bring it up and investigate?

Answer: No, identifying potential waste or overspending is not an official auditor duty. Your role is to create and distribute the audit report, and the contents are listed in statute as the webinar covered and appear on page 28 of the handbook. You could mention the concern to the selectboard if you come across something, but the annual auditors' report is not meant to issue an opinion on whether the auditors believe the selectboard's spending is reasonable, etc.

Question: We have quite a few funds in our town that appear to have been created, but nothing has ever been done with them, except say collect \$.02 interest every month. I have asked every town official what the funds are for, and more often than not, no one knows. Can we ask that fund be closed and combined with an account that is being used?

Answer: Generally, the auditor doesn't have authority to change town accounts and the selectboard (or whoever controls that fund) would need to determine the source and and purpose if these funds must continue to exist. You can note it to the selectboard (or town officer(s) who control it), but it is their decision on how to manage the accounts.

Question: When reviewing reconciled bank statements, is there an acceptable amount, i.e. \$10, when an adjustment needs to be made (meaning the "books" and bank statement didn't match)?

Answer: Each town and/or audit team must decide what is material for their specific situation. Materiality refers to the relative size of an amount. Professional auditors issue an opinion on the overall financial statements. An unqualified opinion (a clean opinion) means that the financial statements are free from material misstatement. A material misstatement in the overall financial statements would be an error significant enough to render the financial statements unreliable for decision makers. On a smaller scale, materiality could be framed in a similar way. Is a \$10 adjustment to the bank statement large enough in relation to the total cash balance to make the financial information unreliable? A variance of \$10 on a total of \$20 would certainly be material but a variance of \$10 on a total of \$20,000,000 is not. Additionally, a variance of approximately \$10 every month may be considered material because of its frequency, whereas a onetime variance of \$10 might not. Professional judgment is required to determine where in between the two extremes materiality lies.

Question: We are three new auditors to our town. Are we supposed to be auditing by fiscal year or March to March (which I think is what has been the process).

Answer: See page 28 of the handbook. The contents of the audit report must comply with the requirements of Vermont law. Twenty-four V.S.A. § 1683 provides that "[t]he report shall show a detailed statement of the financial condition of such town for its fiscal year."

Question: Is there a defined fiscal year for towns or does each town choose their own? The town has been auditing by calendar year (Jan-Dec).

Answer: The statutory default fiscal year follows the calendar year (Jan. 1-Dec. 31), but a municipality may vote at a duly warned special or annual town meeting to change it to some other timeframe (e.g. July 1-June 30). You will need to check to see whether your town has voted to change its fiscal year. If it has not, then it will be Jan. 1-Dec. 31.

Question: Can you expand a bit on the "Due To, Due From?"

Answer: At its most basic, the balance in a "Due to/Due from" account on the balance sheet is the dollar value of cash belonging to that fund that is held in another fund. Vermont municipalities have historically had separate checking accounts and associated check stock for different funds. For example, one account for the General Fund and one account for the Highway Fund. When a General Fund expense was incurred, a check was written out of the General Fund checking account. When a Highway Fund expense was incurred, a check was written out of the Highway Fund. This adds a layer of unnecessary complexity. Cash can be consolidated into one account (usually in the General Fund) to streamline the purchasing process. The cash balance that belongs to each fund is still tracked in the fund accounting system. For towns using NEMRC, there are automatic "due to/due from" entries made in the system. In other governmental accounting systems these interfund entries may be automatic or manual. Governments use fund accounting. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein. In practice, this results in a built in mechanism to track balances between funds even if cash is consolidated in one place.

Let's take an example. Say cash is consolidated in the General Fund and the Highway Fund needs to pay an invoice for \$100. The journal entries to record that transaction are:

Debit Highway Fund Expense for \$100 (expenditure account)
 Credit Highway Fund Due to other funds \$100 (liability account)
Debit General Fund Due from other funds \$100 (asset account)
 Credit General Fund Cash \$100 (asset account)

The effect of this transaction is to reduce the combined cash, to show that the Highway Fund owes \$100 to the General Fund, and to record the expense against the budget in the Highway Account. As with many of the more nuanced transactions in governmental accounting, we recommend discussing the process with the treasurer or finance staff as part of understanding the financial picture of the town.

Question: Is that "Due To" fund something you can see in QuickBooks?

Answer: We don't have QuickBooks expertise. We'd recommend reaching out to QuickBooks training classes or seeking assistance from a treasurer who has QuickBooks knowledge, possibly from the Vermont Municipal Clerks and Treasurers Association: <https://www.vmcta.org>

Question: Our town has the books audited professionally each year. What tasks do you recommend besides creating the report?

Answer: Nothing – the professional auditors are going to test the accounts and prepare basic financial statements to professional standards. The one required piece of the report that you will need to add is the list of accounts payable more than 30 days past due as that will not be included in the financial statements.