



VERMONT LEAGUE OF  
CITIES AND TOWNS

# HANDBOOK FOR ELECTED AUDITORS

A COMPREHENSIVE GUIDE



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.

The VLCT Municipal Assistance Center (MAC) provides local officials with legal and technical assistance, training, and consulting services to help them carry out their statutory responsibilities and serve their citizens. MAC also publishes handbooks for all major town officers, model documents to facilitate current municipal practices, and annual surveys on municipal salaries and benefits. MAC staff have diverse backgrounds in public administration, municipal law, land use, public finance, and research methods.

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## Introduction

The Vermont League of Cities and Towns Municipal Assistance Center has prepared this Handbook for Elected Auditors as part of its series of publications for municipal officials. It is not intended to be a substitute for legal advice, but it should prove to be a valuable starting point in understanding the legal responsibilities of the elected auditor.

This handbook is designed to provide elected auditors with a quick and understandable guide to the statutory and practical requirements of their roles and responsibilities. It also seeks to provide a realistic guide to some of the practical obligations of the office in order to assist elected auditors in performing their duties in a complete and effective manner. The appendices to this handbook include checklists to assist elected auditors in performing their audits, as well as a glossary of terms. The resources for elected auditors on our Municipal Assistance Center website – including an info sheet, annual report FAQs, and a model RFP for professional services – should be used as quick references while this handbook provides more in-depth information; please use them as companions to each other. Please visit [vlct.org/municipal-assistance/municipal-topics/finance](https://vlct.org/municipal-assistance/municipal-topics/finance) for more information.

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.

Please contact VLCT's Municipal Assistance Center at 800-649-7915 or via email at [info@vlct.org](mailto:info@vlct.org) if you have suggestions for improvements or additional material you feel should be included in this handbook.

## **Chapter 1:**

# **The Importance of Auditing and Financial Management**

The job of the elected auditor is to review the accounts of local officials and report the findings directly to the taxpayers. Because this report is presented to the voters only days before town meeting, it is essential that the auditors present an easy-to-understand picture of the town's finances. 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, those officials will not be reelected.

Every year, towns must provide a financial audit report ("annual report" or "annual audit report") to the voters. Vermont's elected auditors are responsible for reviewing the accounts of their municipalities, but Vermont law offers options for towns to use professional services. Selectboards can – on their own or required by voter petition – hire a licensed public accountant to perform an annual audit as a supplement to the elected auditors' report, or voters can eliminate the elected auditor position entirely.

As municipal budgets grow and sources of revenue become more diverse, the task of auditing these financial records becomes more difficult. Some elected auditors lack any financial experience, and some may be assisted by a professional firm the selectboard has hired. Due to the complexities of municipal finances, many towns will significantly benefit from professional auditing services. Ideally, a town would have an outside audit conducted annually. However, if that is not possible, VLCT recommends that the outside audit should be conducted at least every three years. Whether the selectboard chooses to hire these services on its own or is required to by its voters, understanding the essential aspects of audit services and communicating those effectively to its licensed public accountant are critical components of a successful audit.



## Chapter 2: Legal Authority of Elected Auditors

### A. STATUTORY AUTHORITY

According to the Vermont Statutes, the elected auditors must “examine and adjust the accounts of all town 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 elected auditors must prepare and publish an audit report that reviews the accounts of the town treasurer, selectboard, tax collector, and other town 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.

### B. CONTENTS OF THE AUDITORS’ 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. 24 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.” This statute specifically requires the auditors’ report to contain the following:

1. Detailed statement of the financial condition of the town for the fiscal year. This is often accomplished with a balance sheet.
2. Summary of receipts and expenditures classified by budget category. This can be accomplished with a statement of revenues, expenditures, and changes in fund balance.
3. List of all outstanding orders and 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 an outstanding payable or a deficit. As a practical matter, very few towns actually comply with this requirement, since if the auditors comply with the requirements of paragraph (4) herein, they necessarily comply with the intent of this provision.
4. Report of deficit, if one exists. A deficit must be reported if one exists. Twenty-four V.S.A. § 1523 defines “deficit” as “the excess of the current liabilities and liability reserves of the fund over its current assets; or, where the fund has also other resources and obligations, the excess of its obligations over its resources.” Current assets are those which are available or can be made readily available to meet the cost of operations or to pay current liabilities. Current liabilities are those liabilities which are

payable within a relatively short period of time, usually no longer than a year. Note that the deficit should be reported on the same basis of accounting on which the financial statements are reported.

5. And such other information as the selectboard decides to include or the voters shall direct (vote to include). Typically, this “other information” includes a list of all delinquent taxes owed to the town. If such a list is requested, State law requires that “individuals who are exempt from penalty, fees, and interest by virtue of 32 V.S.A. § 4609 shall not be listed or identified in any such report, provided that they notify or cause to be notified in writing the municipal or district treasurer that they should not be listed or identified.” 24 V.S.A. § 1683(a).

Twenty-four V.S.A. § 1684 also requires that the audit report contain a detailed statement showing the following:

6. The conditions of all town trust funds, with a list of the assets of the funds, including the receipts and disbursements for the preceding year.
7. Any outstanding bonds of the town with the rate of interest and the amounts.
8. Any outstanding interest bearing notes or orders of the town with the serial number, date, amount, payee, rate of interest, and total amount thereof.

As discussed in Chapter 7, the auditors may choose to include other information in their report in addition to that which is required by statute.

### **C. TOWN SCHOOL DISTRICT AUDIT**

Since July 1, 2013, elected auditors no longer serve as school district auditors. Act 129 of 2012 limited their authority and responsibilities solely to the town and eliminated the role of the elected auditors in school district finances when it amended 16 V.S.A. § 425. Current law now requires each supervisory union school district to be audited by a public accountant and for supervisory unions to employ public accountants to audit each of the member town school districts. 16 V.S.A. § 323.



### **D. LIMITS OF AUTHORITY**

It is generally understood that the legal authority of elected auditors is retrospective rather than prospective; auditors review and report on the financial transactions of the town that have already taken place. Auditors are not given authority to pay the town’s bills or collect debts on behalf of the town, nor may they amend proposed town budgets.

Although 24 V.S.A. § 1681 calls for elected auditors to examine and “adjust” the accounts of town officers, this does not mean that the auditors should make changes to the town ledgers or to the financial statements of any other town officer. Instead, the auditors should work with other town officers to identify any discrepancies or disagreements that the auditors have with those statements and, in cases where agreement cannot be reached, to report those discrepancies in the auditors’ report.

The auditors’ authority is limited to the accounts of town officers and other persons authorized by law to draw orders on the town treasurer. Therefore, the auditors have **no** legal authority to audit the accounts of outside agencies or independent entities. This includes volunteer fire associations, incorporated libraries, and social service agencies. This prohibition exists even in cases where the town provides some or even all of the funding for the agency or entity.

#### **E. JOINT AUTHORITY**

Elected auditors are given legal authority to act as a group, not as individuals. State statute dictates that “[w]hen joint authority is given to three or more, the concurrence of a majority of such number shall be sufficient and shall be required in its exercise.” 1 V.S.A. § 172. In practical terms, this means that it takes at least two of the three auditors to constitute a quorum, i.e., the minimum needed to take any official action or make a binding decision. The Vermont Supreme Court has held that the action of only one elected auditor in auditing the town’s accounts has no official significance. *St. George v. Tilley*, 87 Vt. 427 (1914).

What if there is a vacancy on the board of auditors? A vacancy does not change the underlying quorum requirements of 1 V.S.A. §172. Therefore, if a town has only two auditors and one vacancy, those two auditors must be in agreement before they may take any official action. If there is more than one vacancy, no official action can be taken by the elected auditors because the requisite quorum of two is impossible to attain. If the vacancies cannot be filled and a quorum cannot be reached in order to take an “official action,” the remaining auditor should still fulfill their statutory duties and compile and submit the report to the voters. The report should include a notation that, due to the number of vacancies on the board, the report has not been approved by a concurrence of a majority of the board of auditors as required by statute.

## Chapter 3: The Auditor's Role in Municipal Government

### A. ELECTION AND EMPLOYMENT

- 1. Election of Auditors.** Every town in Vermont must elect three auditors unless the town has voted to eliminate the office 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. As a practical matter this means that each year there is only one novice auditor, and the more experienced auditors may offer their advice and experience in training them to perform the functions of the position. The term of the elected auditor starts on the day that they are elected, regardless of whether the town's fiscal year coincides with the calendar year.



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

- 2. Incompatible Offices.** Because the elected auditor acts as a watchdog over the accounts of the other elected officials, state law prohibits the auditor and their spouse from holding certain additional town offices. This rule is meant to prevent conflicts of interest from arising.

The Vermont Statutes Annotated specifically state “[a]n auditor shall not be town clerk, town treasurer, selectboard member, first constable, collector of current or delinquent taxes, trustee of public funds, town manager, road commissioner, water commissioner, sewage system commissioner, sewage disposal commissioner, cemetery 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(a)(1). In addition to those prohibitions, 17 V.S.A. § 2647(a)(3) states that an auditor may not serve as a library trustee. These prohibitions make sense insofar as the annual town audit is designed to act as a financial control for the town, and if an auditor were faced with auditing their own accounts or the accounts of their

spouse (assuming they or the spouse is another municipal official), the audit could be compromised and create a weakness in the financial control system of the town.

3. **Vacancy in Office.** If an auditor is elected and subsequently resigns their office, dies, or becomes unable to perform their duties due to a mental condition or psychiatric disability, or removes from town, the office becomes vacant. Such vacancy must be filled “forthwith” by the selectboard. The person appointed as a replacement must be a legally qualified voter in the town. The appointment must be filed and recorded in the town clerk’s office. 24 V.S.A. §§ 961–963. A person who is appointed by the selectboard will serve until the next special or annual town meeting.

The selectboard can initiate a special town meeting for the purpose of electing someone to fill the unexpired term of the vacant position. Alternatively, the voters can compel the calling of a special town meeting by submitting a written petition signed by five percent of the voters in town. 17 V.S.A. § 2643(a). A person elected at either a special or annual town meeting would fill the unexpired term of the vacant position.

4. **Elimination of the Office of Elected Auditor.** Under 17 V.S.A. § 2651b, a town may vote by ballot at an annual town meeting to eliminate the office of elected auditor. This authority extends to all towns unless they have a charter provision requiring the election of auditors. If the town does vote to eliminate the office of auditor, the selectboard of the town must then contract with a public accountant, who is licensed in Vermont, to perform an annual financial audit of all town funds. The selectboard must also provide for all other services previously performed by the elected auditors, including production and distribution of the annual auditors’ report.

A professional accountant that is hired by the selectboard after a vote to eliminate the office of elected auditor pursuant to 17 V.S.A. § 2651b essentially takes the place of the town’s elected auditors. As such, the financial “audit” performed by such accountant may be limited to (but must at least meet) the standards imposed on elected auditors in 24 V.S.A. §§ 1681 and 1683. There is no statutory requirement that an “audit” conducted pursuant to 17 V.S.A. § 2651b must be done in accordance with generally accepted governmental auditing standards. However, certified public accountants (CPAs) adhere to professional standards in order to maintain certification. As such, an audit performed by a hired CPA will likely be done according to these professional standards.

This law 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. The vote to eliminate the office of elected auditor will remain in effect until rescinded by the voters in the same manner it was approved.

As noted in Chapter 4, the law allows the selectboard to contract at any time with a public accountant, licensed in the state, to perform an annual financial audit of all funds in the town, even if the town has not voted to eliminate the position of elected auditor. 24 V.S.A. § 1690(a). The law also allows the voters to petition the selectboard to vote to employ a certified or public accountant, licensed in the state, to perform the annual audit. An “audit” conducted under 24 V.S.A. § 1690 must be done “in accordance with generally accepted governmental auditing standards.” As such, it is a more significant undertaking (and therefore more expensive) than the “audit” contemplated under 17 V.S.A. § 2651b (and explained above). The hiring of a professional accountant does not necessarily mean that the town should vote to eliminate its elected auditors. Some towns decide that there is still a valuable role to be played by the elected auditors, even when professionals are employed. See Chapter 4 for further discussion.

5. **Compensation.** A town may vote at town meeting to compensate elected auditors for their official services. When the town voters have not fixed the amount of compensation, the selectboard must fix and determine the auditors’ compensation. 24 V.S.A. §§ 932, 933. Practically speaking, the voters “fix” compensation when they vote to approve the town budget that has been prepared by the selectboard (which includes the compensation of town officers) for their approval at the annual town meeting.

The elected auditors should clearly communicate with the selectboard regarding any compensation requests or concerns they may have when the selectboard is putting the annual budget together prior to town meeting. An auditor can recover only such compensation for services as the town votes, therefore if an auditor has exceeded the compensation fixed by the voters, the auditor does not have a legal claim for services. *Senna v. Kennedy*, 68 Vt. 172 (1896). If the auditors are unhappy with the allotted compensation amount proposed in the town budget, the auditors may choose to petition the selectboard to include a stand-alone article at town meeting that fixes the compensation at a different amount. It will then be up to the voters to decide the appropriate compensation amount in a more direct manner.

6. **Employment Status.** There is a common misperception that an elected auditor is “self-employed” or is a “contractor” for the town. Neither of these is the case. An auditor is an elected official and therefore not an employee of the town. As such, auditors are exempt from minimum wage and overtime requirements. However, like other elected officials, an auditor should be treated as an employee of the town for tax and payroll purposes only.

## B. RELATIONSHIP TO OTHER OFFICIALS

1. **Independence of Office.** The *elected* auditor holds an independent office of local government. This means that, absent a charter provision to the contrary, the auditor does not answer to any other town official. See generally *Bennington v. Booth*, 101 Vt.

24 (1927) (the selectboard has no authority over clerk since they're an independent officer of the local government).

The elected auditors' independent legal authority to act derives from the State. Neither the selectboard, the town manager, or any other municipal official has the power to require the elected auditors to perform their duties in any particular way. Therefore, the auditors may set their own hours and may gather and compile their information as they see fit so long as they do not interfere with the duties of other officers and staff while doing so and perform their own duties in accordance with their statutory directives. Although an elected auditor is required to conform to all of the statutory requirements of the office, they cannot be fired from the position even if they fail to or improperly conduct the business of the office. The elected auditors are answerable to the law and to voters who may express their displeasure by declining to re-elect them to the office.

The situation is different for a licensed public accountant whom the selectboard hires after a public vote authorizing the elimination of the elected office of auditor. These types of appointed auditors may be removed by the selectboard according to either the town's personnel policy or their employment contract, if one exists.

Elected auditors may be compensated for performing their statutory responsibilities. "A town may vote to compensate any or all town officers for their official services." 24 V.S.A. § 932. Any compensation provided is fixed by the voters (or failing that, the selectboard) and managed by the selectboard. Consequently, just because the auditors have the independent authority to act does not necessarily mean that they will be compensated for work beyond which they're required to do by law. Elected auditors may attempt to perform other non-statutory duties such as auditing the town's personnel policy, lister cards, or zoning permits. These are not activities that state law either authorizes or commands them to perform and consequently are not ones for which they must be compensated. The selectboard manages the town's budget in line with the voters' expectations, so it will be up to the discretion of the selectboard whether to compensate the auditors for work performed beyond that which is required by law. Furthermore, the performance of such additional services will not excuse the elected auditors for neglecting those duties the law imposes upon them. "A State, county, town, village, fire district, or school district officer who willfully neglects to perform the duties imposed upon him or her by law, either express or implied, shall be imprisoned not more than one year or fined not more than \$1,000.00, or both." 13 V.S.A. § 3006. Elected auditors interested in providing additional services above and beyond the call of duty, and being paid for it, should seek prior authorization from the selectboard.

2. **Cooperative Arrangements.** Despite their legal independence, the work of the auditors also requires cooperation and assistance from other town officers. The elected officers of a town may voluntarily agree to work cooperatively with auditors in ways that achieve greater accountability and financial control. For instance, the treasurer may

allow the auditors to perform monthly bank reconciliations or the delinquent tax collector and auditors may work together on a monthly basis to compare receipts to entries on the receivables list.

- 3. Settling with the Auditors.** Every town officer who receives or disburses town funds must settle with the auditors at least 25 days before the annual town meeting. 24 V.S.A. § 992. (Note that this statute defines a different requirement than that stated in 24 V.S.A. § 1681 which requires the auditors to meet and examine and adjust the accounts of town officers.) In addition to the 25-day requirement, the treasurer must also settle with the auditors five days prior to each annual town meeting. 24 V.S.A. § 1578. The 25-day requirement is to ensure that all town officers settle before the end of the fiscal year and the five-day settlement requirement is likely imposed to ensure that the auditors are able to get the latest snapshot of town finances before town meeting day. In addition, it ensures that the treasurer settles with the auditors in the event that the treasurer is not reelected at town meeting. In addition to the five-day and 25-day deadlines, the treasurer must settle with the auditors any time that the selectboard requires it and when the treasurer retires from office. 24 V.S.A. § 1578.

What does it mean to “settle” an account? Unfortunately, the word “settle” is not defined in statute. VLCT believes that settling entails reviewing an account item by item and agreeing on a balance or making note of any disagreements or discrepancies. Settling does not include paying bills and collecting debts, nor does it include altering the records of the treasurer. If there is a disagreement between the auditors and treasurer about the financial records, that disagreement should be handled as per Section 5 of this chapter, which appears below.

If a town officer refuses or neglects to submit their books, accounts, vouchers, or tax bills to the auditors upon request, they are not eligible for reelection. 24 V.S.A. §§ 992, 1681. This consequence is one that can only be enforced by a court of law, as part of an action for declaratory judgment against the town officer. A court of law may also impose the criminal sanction of a \$1000 fine, a year in prison, or both for an officer’s willful neglect of duty. 13 V.S.A. § 3006.

As noted above, 24 V.S.A. § 992 requires that “all officials and other persons authorized to receive or disburse money belonging to a town shall settle their accounts with the auditors of such town.” Interestingly, this may occasionally require the auditors to settle with themselves, since 24 V.S.A. § 1581 creates limited authority for the auditors to disburse funds. That statute states “[w]hen a balance is due a treasurer, the auditors shall draw and deliver to him an order therefor on the town treasury.”

- 4. Selectboard.** Annually, on or before February 1, the selectboard must submit to the auditors the record of all orders drawn by the board showing the number, date, to whom payable, and for what purpose. 24 V.S.A. § 1622.



Although the selectboard may not generally direct the work of the elected auditors, 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.” 24 V.S.A. § 1686(a).

5. **Treasurer.** The relationship between the town treasurer and the auditors is at times of concern to those holding either office. Auditors are supposed to be an independent check on the town’s finances, but often the auditors must rely on the treasurer to explain the methods by which the finances are managed. Therefore, a good working relationship between the two offices is essential. As part of that relationship, however, the treasurer and the auditors must sometimes agree to disagree. For instance, when the auditors disagree with the treasurer’s financial statements, they should discuss their concerns with the treasurer and attempt to work out a presentation that is acceptable to both. If no agreement is reached however, the treasurer may present the statements as they see fit (e.g., in the town’s annual report). The auditors would then explain in their own written report the areas of disagreement with the treasurer’s statements.

Pursuant to 24 V.S.A. § 1571(d), the town treasurer has an independent obligation to report to the selectboard every year regarding financial management. That statute states “the town treasurer shall annually, on or before June 30, complete and provide to the selectboard a copy of the document made available by the [Vermont State] Auditor of Accounts pursuant to 32 V.S.A. § 163(11) regarding internal financial controls.” The locally elected auditors have no role in this process.

6. **Individual Responsible for the Collection of Current Taxes.** In 2014 the Legislature eliminated the stand-alone position of collector of current taxes. Under the current statutory scheme, every town must vote to have either the town treasurer or the town manager (if there is one) assume the responsibility for collecting current taxes. If there is no such vote, the responsibility for collecting current taxes falls to the town constable. 24 V.S.A. §§ 1236(10), 1529; 32 V.S.A. § 4791. Not all of the relevant state statutes have been updated to reflect the 2014 change, and as such there are still references to “the collector” of taxes.

Town auditors are required by 24 V.S.A. § 1681 to examine “the account that the treasurer is required to keep with the collector [and] the tax accounts of the collector.” At the end of the term of a collector of taxes, or if a collector dies, is placed under guardianship, or “removes from” the town, they must deliver to the treasurer all tax bills that remain uncollected in whole or in part. Such tax bills must be audited and reissued to the succeeding collector of taxes. 32 V.S.A. § 4671.

7. **Collector of Delinquent Taxes.** Collectors of delinquent taxes are required to keep a receipt book or other “permanent record” of all delinquent tax payments. 32 V.S.A. § 5137. On or before February 5 of every year, the delinquent tax collector must deliver

these records to the auditors who shall “audit the books forthwith and after the completion of audit shall return such books to such collector.” 32 V.S.A. § 5137.

In addition, collectors of delinquent taxes are required annually, on or before January 15, to make a list of delinquent taxpayers as of December 31 of the previous year, showing the amounts due and the years in which such taxes were due. This list must be certified by the collector and delivered to the treasurer and the auditors. 32 V.S.A. §§ 5162, 5163. The auditors must verify the list and, if it is correct, must certify the list.

At the end of the term of a collector of taxes, or if a collector dies, is placed under guardianship, or “removes from” the town, they must deliver to the treasurer all tax bills that remain uncollected in whole or in part. Such tax bills must be audited and reissued to the succeeding collector of taxes. 32 V.S.A. § 4671.

8. **Cemetery Commissioners.** When a town votes to place its public burial grounds under the care of a board of cemetery commissioners, that board becomes vested with the sole authority to spend cemetery funds. 18 V.S.A. § 5373. Just as with the selectboard, however, the board of cemetery commissioners must issue orders or warrants unto the town treasurer for the release of cemetery funds. As such, on or before February 1 of every year, the board of cemetery commissioners must submit to the auditors the record of all orders drawn by the board showing the number, date, to whom payable, and for what purpose. 24 V.S.A. § 1622.
9. **Library Trustees.** If the town votes to create a town public library pursuant to 22 V.S.A. § 141, the trustees of that library have the authority to sign orders for the use of library funds without the involvement of the selectboard. 22 V.S.A. § 143. Just as with the selectboard, however, the board of library trustees must issue orders or warrants to the town treasurer for the release of library funds. As such, on or before February 1 of every year, the board of library trustees must submit to the auditors the record of all orders drawn by the board showing the number, date, to whom payable, and for what purpose. 24 V.S.A. § 1622. Note that the elected auditors have no role to play in the finances of an independent library.
10. **Trustees of Public Funds.** Although there is no statute that specifically requires the trustees to provide information to the auditors, 24 V.S.A. § 1684 requires that the auditors include information in their report regarding all trust funds in which the town is interested with a list of the assets of such funds including an account of receipts and disbursements for the preceding year.
11. **Water and Sewer Commissioners.** Although there is no statute that specifically requires the water commissioners and sewer commissioners to provide information to the auditors, 24 V.S.A. § 992 requires that “all officials and other persons authorized to receive or disburse money belonging to a town shall settle their accounts with the auditors of such town.” As such, on or before February 1 of every year, the water

commissioners and sewer commissioners must submit to the auditors the record of all orders drawn by the commissioners showing the number, date, to whom payable, and for what purpose. 24 V.S.A. § 1622.

12. **Listers.** There is generally only a loose connection between auditors and listers and the grand list. Since the listers are not “authorized by law to receive or disburse money belonging to the town” pursuant to 24 V.S.A. § 1681, the work of the listers does not technically fall within the purview of the auditors and the listers are not legally required to report to or settle with the auditors. However, the grand list is the basis for all tax revenues, and the listers determine the taxable value of property. As such, even though it is not part of their basic statutory responsibilities, some consider it necessary for the auditors to review the work of the listers to the extent of tracking the collection of taxes, starting with a check on the grand list itself. For instance, the auditors may want to:

- Check totals on lister cards with amounts entered on the grand list;
- Trace from building permits and land transfer records to make sure any resulting changes are reflected in the grand list;
- Recalculate individual levies; and
- Do a total tax revenue calculation by taking the total grand list amount multiplied by the approved tax rate.

Auditors may also want to trace any delinquent tax listed as a receivable back to the grand list. This can be done by following the records from grand list to tax bills; tax bills to receipts; receipts to warrants; and warrants to delinquent tax receivables.

**Note that any review that is conducted by the auditors should be limited to reconciling the grand list values with the collection and billing of taxes and should not include a review of valuation methods, land schedules, etc.**

As with other elected officials, the auditors cannot demand that the listers do their job in any particular way, and vice versa. At most, the auditors may make recommendations regarding areas where the listers can improve upon their internal controls where there are gaps or deficiencies. State law provides for limited ways in which the work of the listers may be reviewed and challenged, and the elected auditors have no role in these processes. For instance, statutes give the right to individual taxpayers to grieve their tax assessments pursuant to 32 V.S.A. § 4111; to appeal to the board of civil authority pursuant to 32 V.S.A. §§ 4404, 4424; and to appeal to the State Appraiser or Superior Court pursuant to 32 V.S.A. § 4461. In addition, the State Tax Department provides an external check on the listing function through the State’s annual Equalization Study and calculation of the Common Level of Appraisal (CLA). The CLA is a measure of how consistent the town’s valuations are within the town and in comparison to other towns. When there is significant inconsistency, the CLA drops, and the State may mandate a town-wide reappraisal.

### **C. RELATIONSHIP WITH NON-GOVERNMENTAL ENTITIES**

The elected auditors are not authorized to audit outside agencies such as incorporated libraries and volunteer fire agencies, even when those agencies receive town funds pursuant to a vote at an annual or special town meeting. The only exception to this rule is when the auditors are specifically asked by the selectboard and the particular agency has agreed to such review, for instance as a condition of the town's financial contribution.

## Chapter 4: Working with Professional Auditors

A comprehensive audit by a professional or certified public accountant (CPA) can significantly benefit a town 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. While VLCT continues to support the election of auditors and their work, we recommend that every town obtain periodic or regular audits from a professional accountant. Ideally, a town would have a professional audit conducted annually. However, if that is not possible, VLCT recommends that a professional audit should be conducted at least every three years.

### A. LEGAL AUTHORITY

1. **Legal authority to hire.** The law allows the selectboard to contract at any time with a professional accountant, licensed in the state, to perform a one-time annual financial audit of all funds in the town. 24 V.S.A. § 1690(a). Five percent of the legal voters may also petition the selectboard in writing to vote to employ a certified or public accountant licensed in the state to perform one annual audit. An article for such a vote must be in substantially the following form as outlined in 24 V.S.A. § 1690(a):

*“To see if the [city, town, or village] will vote to instruct the [legislative body] to employ a certified public accountant or public accountant licensed in this State, to perform an annual financial audit of all funds of the [city, town, or village].”*

Unless the town has voted to eliminate the office of elected auditor pursuant to 17 V.S.A. § 2651b, the hiring of a professional accountant will not relieve the town of its obligation to elect auditors, and in turn, will not relieve the elected auditors of their statutory responsibilities to review and report on the town's financial condition. 24 V.S.A. § 1691.

2. **Legal mandate to hire.** As stated in Chapter 3, in the event that a town votes pursuant to 17 V.S.A. § 2651b to eliminate the office of elected auditor, the selectboard of the town must contract with a professional accountant, who is licensed in Vermont, to perform an annual financial audit of all town funds. The law also provides that the selectboard must provide for all other services previously performed by the elected auditors, including production and distribution of the annual auditors' report.

### B. REQUIREMENTS FOR PROFESSIONAL AUDITS

Audits performed by a licensed public accountant hired pursuant to 24 V.S.A. § 1690(a) must be conducted in accordance with generally accepted government auditing standards. There are no such standards for elected auditors. The work of the professional accountant is done to ensure

that the financial statements fairly and accurately represent the financial condition of the town and follow the appropriate government accounting standards as defined by the Governmental Accounting Standards Board (GASB).

Among other requirements, licensed public accountants must issue a report on internal control over financial reporting that must be provided to recipients of the financial statements. When there are material weaknesses or significant deficiencies found in the internal control over financial reporting or the professional accountant's opinion is qualified, adverse, or disclaimed, these additional steps are required of the professional accountant and the selectboard pursuant to 24 V.S.A. § 1690(b):

- (1) the public accountant shall present the findings or opinion to the legislative body of the town and explain those material weaknesses or significant deficiencies or their opinion at a meeting duly warned for the purpose;
- (2) after the audit report is delivered to the legislative body of a municipality, the notice for the next meeting of the legislative body shall also notify the voters of the availability of the audit report and the accompanying report on internal control over financial reporting;
- (3) the next published annual report of the town shall include a summary of material weaknesses or significant deficiencies found in the internal controls over financial reporting or a statement that the audit report sets forth an opinion that is qualified, adverse, or disclaimed; and
- (4) the legislative body shall post the audit report and accompanying report on internal control over financial reporting on the municipality's website, if the municipality has a website.

The requirements listed above only apply to licensed public accountants that are hired by the town and do not apply to the work of the elected auditors.

### **C. USING THE PROFESSIONAL AUDIT REPORT TO COMPILE THE ELECTED AUDITORS' REPORT**

As stated above, unless the town has voted to eliminate the office of elected auditor pursuant to 17 V.S.A. § 2651b, the hiring of a professional accountant will not relieve the elected auditors of their statutory responsibilities. 24 V.S.A. § 1691. However, it is rarely necessary for the elected auditors to duplicate the work of the professional accountants. Instead, the elected auditors can use the results of the professional audit in formulating their audit report to the town voters.

In some towns, the elected auditors are able to assist the professional accountants by collecting and presenting relevant information at the beginning of the audit process. The elected auditors in these towns often speak with the professional accountants prior to beginning the audit and again as they review or have questions or comments about the professional audit report. Elected auditors might also provide a valuable service to the selectboard and citizens by helping

to interpret and understand the results of the professional audit and helping to resolve issues or implement recommendations.

Table 1 is a guide for use by elected auditors who wish to use the results of the professional audit in formulating their audit report.

Table 1:

Information required to be included in the elected auditors report, as per 24 V.S.A. §§ 1683, 1684	Where it may be found within the report of the professional accountant
A detailed statement of the financial condition of such town for its fiscal year	Balance sheet
Summary of receipts and expenditures classified by budget category	Statement of revenues, expenditures, and changes in fund balance
List of all outstanding payables which are more than 30 days past due	This will not be found in the professional audit report, but the Treasurer should have a schedule of payables prepared that ties out to the total payables shown in the liability section of the professional audit’s balance sheet
Report of deficit, if one exists	Balance sheet
The conditions of all town trust funds, with a list of the assets of the funds, including the receipts and disbursements for the preceding year	Information is found in the financial reports, specifically: (a) information regarding non-expendable trust funds under “permanent” government funds and (b) information regarding expendable trust funds under “fiduciary funds”
Any outstanding bonds of the town with the rate of interest and the amounts	In the back of the audit in a section called “Notes to the financial statements”
Any outstanding interest bearing notes or orders of the town with the serial number, date, amount, payee, rate of interest, and total amount thereof	In the back of the audit in a section called “Notes to the financial statements”

## Chapter 5: Auditors' Meetings

### A. TIMING

The law sets a deadline by which the elected auditors must meet every year. Twenty-four V.S.A. § 1681 states that elected auditors “shall meet at least 25 days before each annual town meeting.” (In addition to the 25-day requirement, the treasurer must also settle with the auditors five days prior to each annual town meeting. [24 V.S.A. § 1578](#).) However, most elected auditors have found that it is impractical to wait until such date to begin their work. Some auditors start their work in January or earlier (for towns that operate on a calendar year rather than a fiscal year budget) to enable them to conduct a thorough audit that can be completed before town meeting day. In fact, depending on whether the town employs professional auditors, the elected auditors may want to meet on a year-round basis in order to ensure that the statutory deadlines are met. In some towns, auditors are involved throughout the year with bank reconciliation or other tasks, as allowed by town officers who are legally responsible for those tasks.

The statutes governing elected auditors are written as if the auditors only meet once before town meeting day and perform all of their auditing activities in a formal meeting. In reality, most elected auditors have found that it is not possible to get all of the work of the auditing process done at one official meeting. Rather, it is common for the elected auditors to perform most of their work individually or in small groups and then to meet formally only a few times. Section C of this chapter provides an explanation of why such a practice is acceptable under Vermont’s Open Meeting Law.

For those boards of auditors that choose to do most of their work individually, the board may use a format such as the following:

1. Shortly after Town Meeting Day, the three elected auditors hold their initial (organizational) meeting to divide tasks to be completed by individual auditors.
2. Throughout the year, each elected auditor works independently on their individual tasks, outside of warned meetings.
3. All three elected auditors meet at a final (official, warned) meeting or meetings to review their work and formally adopt the auditors’ report.

If the board of auditors decides to proceed in a manner such as that described above, it should formally announce this practice at its organizational meeting. This way the public will be aware that much of the auditors’ work will be done individually and not in official, public meetings. At the organizational meeting it also makes sense to explicitly set out in the meeting minutes the particular tasks that are being delegated to individual auditors and the name of the 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 keeping the auditors accountable for the tasks to which they are assigned.

## **B. QUORUM**

State law gives legal authority to the board of auditors, rather than to any individual auditor acting alone. Therefore, the action of one individual elected auditor has no official significance. One V.S.A. § 172 requires a majority (“quorum”) of the three elected auditors to be present for there to be an official meeting of the board. That same statute requires that at least two of the elected auditors must be in agreement before the auditors can take any official action or make any binding decision. This rule applies even if there is a vacancy on the board of auditors. If there is more than one vacancy on the board of auditors, no official meeting may take place because it is impossible to attain a quorum. See Chapter 2, Section E for further discussion.

## **C. THE OPEN MEETING LAW**

Vermont’s Open Meeting Law applies to all “public bodies,” of a town, which includes the board of auditors. 1 V.S.A. § 310. However, there is an exception to the law that allows the auditors to conduct some of their work outside the context of a duly warned open meeting and specific notice requirements for auditor meetings, as described below. In all other instances, the auditors must adhere to the requirements of the Open Meeting Law, including publicly announcing meetings, creating and posting agendas, allowing public participation, and creating and posting minutes. Comprehensive information about the Open Meeting Law can be found at [vlct.org/municipal-assistance/municipal-topics/vermonts-open-meeting-law](http://vlct.org/municipal-assistance/municipal-topics/vermonts-open-meeting-law).

**Exceptions to the Open Meeting Law.** The Open Meeting Law does not apply to “[r]outine, day-to-day administrative matters that do not require action by the public body.” 1 V.S.A. § 312(g). Although not further defined in statute, “routine administrative matters” would seem to include activities such as reviewing financial statements and collecting information from other town officers. Actions and discussions that fall within 1 V.S.A. § 312(g) are not “meetings” under the Open Meeting Law, even if two or more the elected auditors are present or participating. Therefore, if the elected auditors choose not to do their work individually, they may legally work in groups of two or three to conduct these activities and may do so outside of a publicly warned meeting.

Be aware that not all of the auditors’ activities will fall under this exception to the Open Meeting Law. The exception only applies to matters that “do not require action by the public body.” 1 V.S.A. § 312(g). As such, the exception does not apply to official actions that the auditors are required to take by statute. Examples of such official actions include adoption of the audit report and the meeting to “examine and adjust the accounts of all town officers” that is required by 24 V.S.A. § 1681. These official actions may only be taken within the context of a duly warned open meeting that meets all of the requirements of the Open Meeting Law.

If the town has voted to eliminate the office of elected auditor and has hired a public accountant, the public accountant is not subject to the Open Meeting Law.

1. **Notice Requirements.** The legal requirements for noticing an auditors' meeting will vary, depending on the type of meeting being held.

a. **Notice for the 25-day Meeting.** As stated above, 24 V.S.A. § 1681 is written as if the auditors only meet one time, and that such meeting takes place 25 days before town meeting. Public notice of that meeting must be given at least ten days in advance of such a meeting by either "posting" or "publication" of the meeting. The law does not define "posting" or "publication," but those words likely carry the following meanings:

- **Posting** means having written notice placed in public view, giving the time, date, location, and purpose 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 the time, date, location, and purpose of the auditors' meeting in any newspaper serving the area.

Although not specifically stated in 24 V.S.A. § 1681, the auditors should treat this and all of their meetings as being subject to Vermont's Open Meeting Law and create and post an agenda and written minutes for that meeting.

b. **Notice for Other Meetings.** Since the auditors of most towns meet more than the one time contemplated by 24 V.S.A. § 1681, they should treat these other meetings as being subject to all of the requirements of the Open Meeting Law, including the requirements for noticing "regular" or "special" meetings in accordance with the requirements in 1 V.S.A. § 312(c). "Regular" meetings are those that occur at a regularly occurring date and time, according to a schedule that has been set by the board. "Special" meetings are those that occur outside of the board's regular schedule.

If the board of auditors wishes to set a regular schedule, they may vote by resolution at a meeting of the board to set the day, time, and place of all regular meetings for the ensuing year. For example, the auditors may choose to hold regular monthly meetings on the first Tuesday of each month at 7pm at the town hall. Although not legally required to do so, the auditors may choose to post notice of this schedule in a public place like the clerk's office. An agenda must be created and posted at least 48 hours in advance of each of these "regular" meetings. 1 V.S.A. § 312(d).

If the auditors do not create a regular meeting schedule, then all of their meetings should be considered "special" meetings under the Open Meeting Law.

The law requires, at least 24 hours in advance of each special meeting, that the time, place, and purpose of the meeting must be:

- posted in or near the town clerk’s office and in at least two other public places in town;
- given to all board members either orally or in writing;
- given to an editor, publisher, or news director of a newspaper or radio or television station serving the area (regardless of whether they publish or broadcast it); and
- given to any person that requests notification of special meetings.

1 V.S.A. §§ 310(4), 312(c)(2). If a meeting must be continued to a later date, there is no need to post notice of that later date so long as the decision to continue is properly made before the first meeting is adjourned by publicly announcing the new time and date.

2. **Agendas.** The Open Meeting Law requires that the board of auditors create and post an agenda for every regular and special meeting. Such agenda may be combined with the notice for the meeting. Agendas must be posted at least 48 hours in advance of a regular meeting and 24 hours in advance of a special meeting in the following ways:

- physically posted in or near the town office;
- physically posted in at least two other public places in town that have been designated for posting;
- posted electronically to a website, if one exists, that is maintained or has been designated as the official website. 1 V.S.A. § 312(d); and
- made available to a person prior to the meeting upon specific request.

3. **Minutes.** The Open Meeting Law requires that the board of auditors take minutes at every one of their meetings. Minutes must give a true indication of the business of the meeting, which may require supplementing the following statutorily required elements:

- the members present;
- active participants;
- motions, proposals, and resolutions made, offered, and considered, and what disposition is made of the same;
- the result of any votes taken; and
- a record of individual votes if a roll call is taken. 1 V.S.A. § 312(b)(1).

Five calendar days after the meeting, minutes must be available for inspection and copying; and must be posted to a website, if one exists, that is maintained or has been designated as the official website. 1 V.S.A. § 312(b)(2).

## Chapter 6: The Audit Process

A sample elected auditors' annual report checklist is attached as Appendix A 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 their audit. A completed audit checklist documents the auditors' work for that year. As with any document or record created or received by the auditors, the checklist is a public record that must be retained as per the direction of the Vermont State Archives and Records Division.

<b>There are five basic steps that should be followed by elected auditors in their town audits. Each of these steps is explained in this chapter.</b>
<b>(1) Gather information.</b>
<b>(2) Gain an understanding of the system (the accounting procedures and controls being used in the town).</b>
<b>(3) Evaluate the system.</b>
<b>(4) Test the system.</b>
<b>(5) Prepare an audit report.</b>

The practical obligations of elected auditors vary significantly from town to town, depending on the complexity of the town's finances, whether the town employs professional auditors, and other factors. In towns where elected auditors do the audits of the town accounts without the assistance of a hired professional auditor, the elected auditors should expect to spend a great deal of time poring over the records of the treasurer and other officials and inspecting the town's checkbooks and bank statements for accuracy. Preparing the written audit report can also be a fairly large task, particularly if the auditors are newly elected and inexperienced in preparing financial reports.

The amount of time necessary to complete the process will vary depending on the size of the town and whether professional auditors are employed. For example, an elected auditor shared that it takes him and his two fellow board members about 25 hours each (75 hours in total) to conduct the audit and prepare the report. Since this auditor works in a town which also employs professional accountants, it is likely that the process would take considerably more time for auditors who work without the benefit of professional assistance.

## A. INFORMATION GATHERING

In order to prepare the town audit report, the elected auditors must gather a significant amount of information about the town's finances. The auditors must pore over the accounting records of the town including the books, accounts, vouchers, and bills of all the officers in the town who receive or disburse money in the name of the town.

1. **Financial Documents.** The work of the elected auditors requires the assistance of other town officers insofar as the auditors must be provided access to those officers' records and accounts. Certain town officers are required by law to provide reports to the auditors on or before a certain date every year. Those are listed in Chapter 3 and in the Elected Auditors' Annual Report Checklist which appears as Appendix A. 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 mechanism by which the auditors can formally demand records and a penalty for any officer who does not comply with the auditors' demand. Specifically, 24 V.S.A. § 1686(c) allows the auditors or public accountant to send a "written request" to any town officer authorized by law to receive or disburse money belonging to the town for that officer's "books, accounts, vouchers, tax bills" or other "necessary information in relation thereto." Such request must be signed by the legislative body and sent by certified mail. If, after at least five business days following receipt of such request, an officer willfully refuses or neglects to submit such materials or information, that officer shall be ineligible for reelection the next year. In addition, such officer shall be personally liable to the town penalty of \$100 per day until that officer submits the requested materials or information to the auditors. Both penalties would have to be imposed by a court of law.

In addition to examining the records of the various town officials, the auditors 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 town) 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 deposit funds of the town 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 town). This report must state the balance on deposit to the credit of the town. 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 of not less than \$10.00 nor more than \$25.00. 24 V.S.A. § 1689.

2. **Other Documents.** In addition to the above, the auditors may find it helpful to review the audit report from the previous year as well as the minutes from selectboard meetings, annual town meeting, and any special town meetings. Review of the minutes should be limited to decisions that affect revenues and expenditures.
3. **Informal Interviews.** The auditors may find it helpful to interview town officials to gain relevant information such as changes in operations since the last audit and external factors that may have impacted the town's finances. Such town officials may also have suggestions for how to improve the town's financial systems and processes.

## B. UNDERSTANDING THE SYSTEM

Below are suggestions for how elected auditors can help to understand their town's system of accounting and financial controls:

1. **Identify the Basis of Accounting.** The auditors should first identify the basis of accounting that is being used by the treasurer since that basis will impact the time that various financial transactions are recorded. The four types are described below:
  - **Cash basis:** A method of accounting in which revenues are recorded only when cash is received and expenditures are recorded only when payment is made. Since payments for goods and services can be delayed to the next fiscal year, cash on hand can result in an inaccurate picture of the financial condition of the town.
  - **Modified cash basis:** The modified cash basis is similar to the cash basis of accounting but also includes such items as interfund receivables and payables, marketable investments and CDs, and liabilities for cash held on behalf of others (such as payroll withholdings not yet remitted).
  - **Accrual basis:** A method of accounting in which revenues are recorded when measurable and earned, and expenses are recognized when goods or services are used, regardless of when cash is received or paid. As far as professional accountants and auditors are concerned, the accrual basis is the generally accepted basis of accounting for enterprise (e.g., utility) funds.
  - **Modified accrual basis:** A method of accounting that combines elements of both accrual and cash basis accounting. Under the modified accrual method, revenues such as taxes are recognized when they are measurable and available to pay expenditures of the current period, and expenditures are recognized when the goods or services are received. As far as professional accountants and auditors are concerned, the modified accrual basis is the generally accepted basis of accounting for all governmental funds.

2. **Become Familiar with the Concept of Internal Controls.** Internal controls for finance are systems and processes that are designed to ensure that the financial statements of an organization accurately present the operating results and financial position of that organization. In the municipal context, internal controls help to assure that public funds are administered and expended in compliance with applicable statutes and regulations; that funds are used for purposes for which they were authorized and intended; and that there is accurate reporting regarding the use of those funds. The basic principles of internal control are routinely used in business and government accounting. Though not required by law, it is considered best practice for each town to have an internal control system to help assure the dependability of the town's financial record keeping and reporting. The selectboard has the authority to formally adopt a system of internal controls for town finances. Once adopted, the elected auditors can check to see whether the system is being followed. The elected auditors may recommend that the selectboard adopt internal controls if it has not done so.

One of the primary goals of internal controls is to create a separation of accountability and custodianship, i.e., to assure that town officials or employees who have responsibility for keeping records of the town's finances are not also the same individuals who have custody of its assets. In the accounting world, the principle of separation of accountability and custodianship dictates that a person who handles bank deposits or keeps cash books should not 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. See Chapter 8 for further recommendations regarding internal controls.

3. **Understand the Processes Followed by Town Officials.** Assuming there is time and opportunity, the auditors may want to interview various town officials and/or employees in order to become familiar with the town's processes for activities such as:
  - collection and documentation of non-tax revenue (such as state aid payments, grant revenue, and licensing and other fees);
  - assessment, billing, and collection of taxes;
  - adjustments to the grand list and changes in tax bills (based on decisions of the town's Board of Civil Authority and Board of Abatement);
  - collection and accounting for delinquent taxes;
  - billing and collection of accounts receivable;
  - authorizing purchases and payment of accounts payable; and
  - maintenance of the general ledger.

### **C. EVALUATE THE SYSTEM**

After gaining an understanding of the town's financial and accounting procedures, the auditors should evaluate the efficacy of those procedures. Some of the methods for doing so are listed below.

1. **Identify Whether Internal Controls Have Been Adopted.** The elected auditors should research whether the independently elected officers of the town who have control over town finances have adopted any internal financial controls (written policies or procedures that control the financial transactions of the town). VLCT’s recommendations about such controls are explained in Chapter 8. The auditors may want to compare the recommendations in that chapter to the actual practices of the various town officials who have legal responsibility for the town’s finances. By interviewing town officers and reviewing financial records, the auditors may gain an understanding of whether the town is following best practices regarding its finances. However, the elected auditors may only make recommendations regarding such controls since their position does not provide them with any role in adopting or imposing financial controls for the town. Please refer to MAC’s [Internal Controls Checklist for Municipalities](#) for more information.

The auditors should note that the town treasurer has an independent obligation to report on internal controls pursuant to 24 V.S.A. § 1571(d), which states that the town treasurer “shall annually, on or before June 30, complete and provide to the selectboard a copy of the document made available by the Auditor of Accounts pursuant to 32 V.S.A. § 163(11) regarding internal financial controls.” Elected auditors have no role in this process.

2. **Evaluate Weaknesses in Internal Control.** The elected auditors, as part of evaluating the internal controls, may 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. This is contrary to the principle of separation of accountability and custodianship, documented in Section B of this Chapter. As such, there is an inevitable weakness in internal controls 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. In many towns the town treasurer agrees to have another town official (sometimes an elected auditor) reconcile the monthly bank statements for the town as an effort to address this inherent weakness.

#### **D. TEST THE SYSTEM**

When a town does not have the resources to address the weaknesses in internal controls, additional audit tests can help to compensate for those weaknesses. Elected auditors can also ask certain questions that will help in evaluating the town’s accounting system and in detecting weaknesses in internal controls.

The auditors may want to perform transactional tests or valuation procedures to test the town's internal controls. Transactional tests, which are completed on a sample basis, determine if the procedures are being followed accurately. Valuation 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. The following tools are recommended for testing the system:

- **Perform a cash proof.** This test involves checking all deposits recorded on the bank statement against those recorded in the books (accounting records) and checking all withdrawals (checks) from the bank statement against those recorded in the books to ensure they were accurately recorded. This test should be done for a minimum period of one month.
- **Test purchase orders.** Follow a purchase order from approval to payment to ensure that the appropriate processes were followed and the payment made is accurate.

**Additional Tests for the Accrual System.** The audit checklist included in Appendix A 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 may include:

- Confirming accounts receivable to ensure the balances are accurate;
- Reviewing receipts subsequent to year-end for unrecorded accounts receivable;
- Reviewing disbursements subsequent to year-end for unrecorded accounts payable;
- Comparing the list of accounts payable to invoices to determine inclusion in the proper year. (The date goods were received or services were performed determines when an expense takes place, not the invoice date);
- Comparing payroll tax liabilities to quarterly payroll tax returns to ensure accuracy; and
- Recalculating accrued wages based on work week and date paid to ensure they were accurately booked at year-end.

## **E. PREPARE THE AUDIT REPORT – INCLUDE FINDINGS AND RECOMENDATIONS**

The final step is to report the audit findings by preparing an audit report and making it available to the voters. The process of preparing an audit report and the necessary contents for such report are outlined and discussed in Chapter 7. The auditors may also include in their report any recommendations they have to reduce risk, improve accountability, and increase efficiency of the town's financial systems. As noted above, elected town officers are legally independent from one another, so the auditors cannot dictate what must be done by other town officers or employees. At most, the auditors can make recommendations about which internal controls are lacking and whether additional controls should be put in place.

## Chapter 7: The Audit Report

### A. CONTENTS OF THE REPORT

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.” This statute specifically requires the auditors’ report to contain the following:

1. Detailed statement of the financial condition of the town for the fiscal year (this is often accomplished with a balance sheet).
2. Summary of receipts and expenditures classified by budget category.
3. 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 an outstanding payable or a deficit. As a practical matter, very few towns actually comply with this requirement, since if the auditors comply with the requirements of paragraph (4) below, they necessarily comply with the intent of this provision.)
4. Report of deficit, if one exists. A deficit in either the general fund or highway fund should be reported individually and not in combination. Twenty-four V.S.A. § 1523 defines “deficit” as “the excess of the current liabilities and liability reserves of the fund over its current assets; or, where the fund has also other resources and obligations, the excess of its obligations over its resources.” Current assets are those that are available to meet the cost of operations. Current liabilities are those liabilities that are payable within a relatively short period of time. Note that all towns, even those that otherwise operate on a cash basis, must report their deficit(s) using the accrual method.
5. Such other information as the selectboard or voters shall direct. Typically, this “other information” includes a list of all delinquent taxes owed to the town. If such a list is requested, State law requires that active duty military personnel who are exempt from penalty, fees, and interest by virtue of 32 V.S.A. § 4609 “shall not be listed or identified in any such report, provided that they notify or cause to be notified in writing the municipal or district treasurer that they should not be listed or identified.” 24 V.S.A. § 1683(a).

Twenty-four V.S.A. § 1684 also requires that the audit report contain a detailed statement showing the following:

6. The conditions of all town trust funds, with a list of the assets of the funds, including the receipts and disbursements for the preceding year.
7. Any outstanding bonds of the town with the rate of interest and the amounts.
8. Any outstanding interest bearing notes or orders of the town with their serial number, date, amount, payee, rate of interest, and total amount.

## **B. ADDITIONS TO THE REPORT**

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. Although the auditors are not required to go beyond this duty, there are significant benefits to be gained when the selectboard and other independently elected officials agree to have the elected auditors also engage in the following efforts:

- Review whether the financial statements accurately present the financial condition of the town;
- Review the propriety, legality, and mathematical accuracy of the financial transactions;
- Review whether all financial transactions have been properly recorded; and
- Identify areas for possible improvements in accounting practices and procedures.

Although the functions listed above are an expansion of the statutory duties of the elected auditors, they do not go beyond what is generally considered to be within the scope of a financial audit.

In addition to the information which is required by Vermont law, many elected auditors include in their reports a simple spreadsheet for the town that shows the major accounts for the previous three to four years, and the proposed budget for the following year along with corresponding percentage increases and decreases. This gives the townspeople the information needed to evaluate the current year's budget in light of past years' experience.

Some elected 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." Unless the elected auditors are also licensed professional accountants, these statements are generally false and misleading and could lead to liability problems for the auditors and the town. Only professional accountants and CPAs have the training and expertise to utilize these standards and principles.

## **C. OUTLINE OF THE REPORT**

Elected auditors may want to use the following outline when preparing the report:

**Introduction.** Identify the work that was performed. For instance:

“We have audited the accompanying financial statements of the *[insert Town/Village/City of \_\_\_\_]* as of and for the year ended on \_\_\_\_\_ *[insert end date for fiscal year]*. These financial statements are the responsibility of those *[insert town/village/city]* officers authorized by law to draw orders and keep accounts. Our responsibility is to express an opinion on these financial statements based on our audit.”

**Authority.** State that the audit was conducted pursuant to the authority granted to the elected auditors in 24 V.S.A. §§ 1683 and 1684. For instance:

“We conducted our audit in accordance with 24 V.S.A. §§ 1683 and 1684, which, among other things, require that we examine and adjust the accounts of all town officers and all other persons authorized by law to draw orders on the town treasurer.”

**Objectives.** State the objectives of the process. For instance:

“Our objectives were to validate the correctness of town accounts, detect errors or misstatements in these accounts, and verify the financial condition and results of operations of the Town as of and for the year ended on \_\_\_\_\_ *[insert end date for fiscal year]*.”

**Scope and Methodology.** Explain how the work was conducted and list the documents and financial statements that were reviewed. For instance:

“To accomplish these objectives, we obtained an understanding of the financial operations of the Town, including internal controls over financial transactions. We interviewed town officials and reviewed the Town's accounting system, cash handling procedures, and segregation of duties.

To verify the existence and year-end balance of cash accounts, we confirmed the year-end balance with the financial institutions used by the Town. In addition, we performed a cash proof for all accounts with activity that was greater than \$*[insert amount]*\_\_\_\_\_.

To verify the amount of delinquent taxes at year end, we performed a reconciliation of taxes billed, and penalty and interest billed and collected.

To verify the amount of accounts receivable at year-end, we performed a review of payments made sixty days subsequent to year-end to detect unrecorded payables.”

**Statutorily Required Materials.** The report must contain at least the information required by 24 V.S.A. §§ 1683 and 1684 and listed in Section B of Chapter 2.

**Summary of Recommendations.** The auditors may use their report to list any recommendations for improving the accuracy and reliability of the town's accounting and

financial management system such as the adoption of financial policies or the separation of financial functions. In making these recommendations, the auditors should keep in mind that the treasurer has sole responsibility for the town's accounting system, including the preparation of financial statements. 24 V.S.A. §1571. And although the auditors may sometimes disagree with these statements, the auditors should leave the treasurer's financial statements as they were prepared and simply note any disagreements. This is the same approach that is taken by professional auditors who do not adjust their clients' accounts, but simply examine them for errors. If there are any such disagreements (sometimes referred to as "exceptions") with the treasurer's presentation of the town's finances, the auditors (whether elected or professional) should merely list those in the auditors' report. As a matter of courtesy, however, the auditors should present these areas of discrepancy to the treasurer and attempt to resolve the discrepancies in the treasurer's statements before the report is issued.

#### **D. DISTRIBUTION OF THE REPORT**

The method of distribution of the auditors' report is outlined in 24 V.S.A. § 1682. The statute provides that the report must be in writing and must be mailed or otherwise distributed to the legal voters of the town. This is usually done by either (1) sending printed copies of the report by US mail or (2) having printed copies of the report hand delivered to all voters of the town.

If a town wishes to make the report available by a method other than mailing or distributing to all the voters of the town, there must be a public vote pursuant to 24 V.S.A. § 1682(a)(2) to provide "notice of availability" of the auditor's report in lieu of mailing or distributing the report itself. 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. 24 V.S.A. § 1682(a).

The statute makes it the auditors' responsibility to both distribute the report to the qualified voters of the town and provide sufficient copies of the report to the town clerk so that the clerk may fulfill their responsibility under 24 V.S.A. § 1173 to distribute copies of the report to each library in the municipality and to the Vermont State Archives and Records Administration. 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, the audit report is often only one part of a town's annual report, which may also include 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 may include the audit report in the town report (with the permission of the official who is charged with putting together the annual town report). In some towns, the auditors have voluntarily taken on the responsibility of compiling and distributing the entire annual report for the town, while other towns rely on the voluntary or paid services of other town officials or employees.

If the town has voted to eliminate the office of elected auditor in accordance with 17 V.S.A. § 2651b, the selectboard bears the responsibility of mailing or otherwise distributing the findings of the professional accountant that has been employed by the town. 24 V.S.A. § 1682(b).

#### **E. ADOPTION AND LEGAL EFFECT OF THE REPORT**

Though not required by law, the audit report in some towns is formally adopted at town meeting. Because the audit report indicates areas of 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 elected auditors’ report are not an admission of liability by a town in any particular matter. *Prescott v. Vershire*, 63 Vt. 517 (1891). Thus, no promise to pay or willingness to remain liable on the part of the town can be implied from the elected auditors’ report.

## Chapter 8: Best Practices in Municipal Financial Management

### A. INTRODUCTION

State law gives very little guidance regarding the practicalities of municipal financial management. As such, many towns look to financial management and accounting standards that have been developed by financial organizations and professional accountants to guide their practices. Authority to adopt financial policies mainly rests with the legislative body and, in some cases, the elected treasurer. As stated in the preceding chapters, the elected auditors may make recommendations to town officials regarding the way municipal finances are managed and reported. These recommendations may include specific policies and procedures by which the town processes, records, and reports its financial transactions.

Elected auditors often target their recommendations to address any weaknesses that they have identified in the internal financial controls of the town (see Chapter 6 for a discussion of internal controls). The auditors' recommendations may also be based on best practices in municipal financial management. Section D of this chapter provides an overview of VLCT's recommendations for best practices in municipal financial management. More information is also available in VLCT's Model Financial Policies online at [vlct.org/municipal-assistance/municipal-topics/finance](https://vlct.org/municipal-assistance/municipal-topics/finance).

### B. FINANCIAL POLICIES

The adoption of written financial policies can have a number of benefits for Vermont municipalities.

**Education.** In Vermont, most elected and appointed municipal officials have no background or expertise in government finance. Nevertheless, these officials may be responsible for the administration of municipal budgets comprising hundreds of thousands or even millions of dollars. Written financial policies can help inform officials, regardless of their educational or professional background, of good financial practice, making it more likely that these good practices will be implemented and followed.

**Prevention and Resolution of Conflicts.** Financial policies may help prevent and resolve conflicts in local government. The responsibilities of Vermont's municipal officers frequently overlap, and clear lines of authority can be hard to identify. As a result, the administration of Vermont local government can seem complex, even in the smallest town. The key to effectively navigating this complexity is effective communication and cooperation among local officials. Financial policies can clarify both the responsibilities of local officials and lines of authority. The process of adopting written financial policies can also afford local officials the opportunity to engage in communication and develop common financial goals for their municipalities. Active

participation in the process makes it more likely that all the parties involved in making financial decisions will abide by a common set of rules.

**Continuity and Efficiency.** Financial policies can provide continuity and efficiency in the town’s financial operations. Selectboard members and other municipal officers often serve relatively short terms, and new officers may not be experienced in dealing with financial issues. Financial policies can eliminate the need to reinvent responses to recurring situations, thereby increasing efficiency by standardizing operations and retaining institutional knowledge built up over the years.

**Guidance.** Financial policies can fill some of the gaps in Vermont’s rudimentary municipal finance laws. Vermont is a “Dillon’s Rule” state, meaning that our municipalities have only those powers specifically delegated to them by the Legislature and such additional functions as may be necessary to exercise those authorities. For this reason, municipal officials often turn to Vermont law for guidance when questions arise. Unfortunately, Vermont’s municipal finance statutes have not kept pace with modern financial practices and often fail to provide local officials adequate guidance on the finance issues they commonly face. Well-crafted local financial policies can overcome some of these shortcomings in Vermont’s municipal finance laws.

**Transparency and Confidence.** The adoption of financial policies can foster confidence in local government by increasing transparency, accountability, and consistency in municipal decision making. The policies can help local officials make more informed decisions about providing services, acquiring and managing capital assets, safeguarding a town’s resources, and promoting financial stewardship, all of which may result in a more stable tax rate.

### **C. RESPONSIBILITY FOR ADOPTING FINANCIAL POLICIES**

As discussed in Chapter 3, the elected treasurer, tax collector, and selectboard members are all legally independent officers and, therefore, the auditors may not insist that any of those officials adopt or follow any particular policy or procedure regarding financial management. Nor do elected auditors have any authority over municipal employees such as hired bookkeepers or finance managers. However, elected auditors may make recommendations and even offer their own services to assist other town officers and employees with financial management tasks such as the reconciliation of bank statements.

Although elected officials are legally independent, their responsibilities frequently overlap. In many instances, several boards or officers may be involved in a particular financial transaction or function. In that case, VLCT recommends that the applicable policy or procedure should be adopted jointly by the boards or officers involved. For example, the law provides that money received by the treasurer on behalf of the town may be invested and reinvested by the treasurer with the approval of the selectboard. Accordingly, a town’s investment policy should be jointly crafted and adopted by the treasurer and selectboard. On the other hand, the purchase of goods and services is the sole responsibility of the selectboard, and that body



would adopt a purchasing policy addressing such things as prior authorization of certain purchases and bidding requirements.

Municipal officers are not required to follow any special procedure when adopting a financial policy, except that a policy adopted by a town board (e.g., selectboard or board of auditors) may only be adopted by a majority of board members at a meeting held in accordance with Vermont's Open Meeting Law. Note that only municipal officers can adopt municipal policies; there is no permissive referendum process by which the voters may impose a municipal policy. That being said, a drafting process that invites participation and buy-in from stakeholders – including other municipal officers, employees, and staff – is more likely to result in an effective and useful document. Involving these individuals in the drafting phase of the policy will also ensure that the policy is reasonable and realistic in terms of the staff resources needed for compliance.

After initial adoption, local officials should annually review the town's financial policies to ensure that each policy remains current. This may involve minor edits or major revisions resulting from economic or legislative changes. Remember, a policy adopted by one board or officer can be rejected or modified by the next officer or board. Annual review will help ensure that all of the officials subject to the policy agree with its terms.

#### **D. BEST PRACTICES IN MUNICIPAL FINANCIAL MANAGEMENT**

The following are VLCT's recommendations for best practices in municipal financial management. These are not specifically required by law.

1. **General.** The selectboard should take steps to reduce the opportunity to commit fraud by:
  - Making sure that all town officers and employees who handle municipal funds are properly bonded or covered by liability insurance;
  - Encouraging elected officials who are involved in handling and reporting financial transactions to obtain education and training in proper financial management;
  - Ensuring that there is proper supervision and review of employees who are involved in handling and reporting financial transactions;
  - Making sure that the selectboard receives regular financial reporting from other town officers and employees;
  - Encouraging annual vacations for all town officers and employees involved in handling and reporting financial transactions;
  - Periodically contracting with a professional accounting firm to conduct an independent audit of town finances; and
  - Adopting written financial policies.
  
2. **Financial Reporting and Financial Records.** The town treasurer should establish and maintain adequate systems and processes for accounting and reporting which allow for

recording financial transactions in a manner that is accurate, easily retrievable for analysis, and allows for the generation of timely financial reports.

To the extent possible, the treasurer should endeavor to carry out the accounting principle of the separation of accountability and custodianship. This principle dictates that a person who handles bank deposits or keeps checkbooks should not also receive bank statements or make bank reconciliations. It also dictates that the same individual should not disburse payment and also confirm receipt of or authorize payment (sign selectboard's order) for merchandise. Specifically, the treasurer may want to have bank reconciliations performed by someone who is not involved in the receipt or disbursement process. The treasurer may also want to take steps to safeguard accounting records and see that all financial recording documents are pre-numbered and all forms are accounted for.

The selectboard and treasurer should establish and maintain adequate systems and processes to ensure that financial data is secure. This includes:

- Limiting access to financial records to those who require specific access,
- Requiring the use of passwords to protect all financial information and having those passwords changed on a regular basis, and
- Backing up computer records regularly and storing backup copies off site.

3. **Accounts Receivable and Collections.** The treasurer and all other officials involved with the collection of taxes and other revenue should establish and maintain adequate processes for handling cash and dealing with collections such as the following:

a. **Handling Cash.** ("Cash" includes all items that are acceptable for deposit in a bank, such as paper money, coins, checks, and money orders).

- System-generated receipts are mandatory,
- Checks and other written instruments such as money orders are restrictively endorsed upon receipt ("for deposit only by the town of \_\_\_\_"),
- Cash receipts are prenumbered and are recorded in the accounting system in a timely manner, and
- Cash receipts are deposited daily to a financial institution or retained in a secure location until they may be deposited.

b. **Dealing with Collections.**

- Invoices for all departments are forwarded to the treasurer or the finance office for processing;
- Lists of outstanding amounts due (receivables) are regularly prepared;
- Statements are sent regularly to all customers;
- Billing, collection, and posting are performed by different individuals; and

- Interest and penalties are charged on all overdue accounts as provided by law.

It should be noted that a policy adopted by an independently elected officer such as a treasurer or delinquent tax collector will apply only to that officer and to their appointed assistant(s). Therefore, if there are other appointed officials or employees who receive cash on behalf of the town, the selectboard should also adopt a policy that requires the elements articulated above.

4. **Purchasing and Disbursements.** The treasurer and selectboard should establish and maintain adequate processes for purchasing assets and disbursing town funds that ensure adequate approval and oversight. These may include the following:
- Proper preparation and signing of selectboard orders for all purchases,
  - Disbursements done exclusively by check or direct deposit,
  - Checks are pre-numbered and used consecutively,
  - Unused checks are controlled and adequately protected from misuse or theft and voided checks are accounted for,
  - Checks are prepared by someone other than the signer,
  - Procedures are used to detect fictitious vendors and duplicate payment of invoices (requiring W-9 forms and check tax identification numbers), and
  - Retention of petty cash funds (when needed) in the vault and handling of petty cash on an imprest system. An imprest system requires that the general ledger account “Petty Cash” will remain dormant at a set amount. Petty cash balances should be reconciled and verified regularly by someone other than the custodian. For example, if the petty cash custodian is entrusted with a locking bag containing \$50 of currency and coins, then the Petty Cash account will always report a debit balance of \$50. This \$50 is the “imprest balance.” As long as \$50 is adequate for the town’s small disbursements, then the general ledger account Petty Cash will never have an entry again. Under the imprest system, the petty cash custodian should always have a combination of coins, currency, and petty cash receipts equal to \$50, the imprest amount.

Most importantly, and in addition to the above, the selectboard should adopt a written purchasing policy that specifies the process by which purchases are made, whether purchase orders are required, how invoices are approved, and which individuals have authorization to make purchases on behalf of the town. See VLCT’s Model Purchasing Policy Template and Guidance: [vlct.org/resource/model-purchasing-policy-template-and-guidance](http://vlct.org/resource/model-purchasing-policy-template-and-guidance).

5. **Payroll.** The treasurer and any other official involved with administration of payroll should establish and maintain an adequate payroll process that ensures accuracy and oversight. This may include the following:

- Personnel files are maintained for all employees and include hiring and compensation information and authorization for all deductions,
  - All payroll changes are authorized by someone who does not process payroll,
  - Direct deposit is used for payment of net pay (where authorized by law),
  - Fees paid to elected officials are disclosed in the accounting records and reported to the Internal Revenue Service,
  - Payroll withholdings are reconciled to payroll reports and remitted promptly, and
  - Leave policies are adopted and the accumulation and use of leave time are properly documented.
6. **Grand List.** The selectboard should establish and maintain adequate systems and processes to ensure that the elected listers (or hired assessor) receive accurate and timely information that affects the grand list. This includes:
- Timely communication from the municipal zoning administrator regarding municipal zoning permits,
  - Timely communication from the town clerk regarding decisions of the board of civil authority that affect tax assessments, and
  - Timely communication from the clerk regarding decisions from the State Tax Department or Superior Court that affect tax assessments.
7. **Tax Records and Receipts.** Officials involved with the collection of current and delinquent taxes should establish and maintain adequate systems and processes to ensure that:
- Changes to values are maintained and reconciled on a regular basis;
  - Decisions of the Board of Tax Abatement regarding the abatement of taxes, interest, and penalty are communicated on a timely basis;
  - System-generated receipts are mandatory and, for delinquent taxes, provided in triplicate;
  - Checks and other written instruments such as money orders are restrictively endorsed upon receipt (“for deposit only by the Town of \_\_\_”);
  - Cash receipts are recorded in the accounting system in a timely manner;
  - Cash receipts are deposited daily to a financial institution or retained in a secure location until they may be deposited;
  - Reconciliation of tax receivables with tax receipts and tax adjustments is done monthly by someone other than the tax collector; and
  - A policy regarding delinquent tax collection is adopted, and delinquencies are pursued in a timely manner.
8. **Property and Equipment.** The selectboard should establish and maintain adequate systems and processes to ensure that schedules (lists) of property and equipment are accurate and that inventory is secure. This includes:
- Preparation and regular revision of capital asset schedules,

- Maintenance of proper security for assets and inventory, and
- Assuring adequate insurance coverage for assets and inventory.



## Appendix A: Auditors' Annual Report Checklist

Please refer to Chapter 6 for more details and information about the auditing process and to Chapter 7 for more details about the statutory requirements of the audit report.

**NOTE:** Statutorily required items are shaded in the chart below.

### 1. Prepare: Gather Information

<input checked="" type="checkbox"/>	ITEM	SOURCE
<input type="checkbox"/>	Prior year's annual audit report	Clerk
<input type="checkbox"/>	Annual town meeting or special town meeting minutes	Clerk
<input type="checkbox"/>	Legislative body meeting minutes (if financial decisions were made)	Selectboard
<input type="checkbox"/>	Financial statements 24 V.S.A. §§ 992, 1578	Treasurer
<input type="checkbox"/>	Record of orders 24 V.S.A. § 1622 (including the number, date, to whom payable, and purpose)	Selectboard
<input type="checkbox"/>	Financial policies adopted by the legislative body	Selectboard
<input type="checkbox"/>	Record of all current tax payments	Tax Collector
<input type="checkbox"/>	Receipt book or other record of all delinquent tax payments 32 V.S.A. § 5137	DTC
<input type="checkbox"/>	List of delinquent taxpayers 32 V.S.A. §§ 5162, 5163 (including amounts due and the years in which taxes were due)	DTC
<input type="checkbox"/>	Cemetery commission record or orders 24 V.S.A. § 992 <sup>1</sup> (including number, date, to whom payable, and purpose)	Cemetery Commission
<input type="checkbox"/>	Library trustee record of orders 24 V.S.A. § 992 <sup>2</sup> (showing the number, date, to whom payable, and purpose)	Library Trustees
<input type="checkbox"/>	Record of trusts 24 V.S.A. § 1684 <sup>3</sup> (including asset lists, account of receipts, and preceding year disbursements)	Trustees of Public Funds
<input type="checkbox"/>	Notice of indebtedness 24 V.S.A. § 1687 (showing amount and the balance due as of December 31)	All Sources <sup>4</sup>
<input type="checkbox"/>	Notice of deposits 24 V.S.A. § 1688 (stating balance on deposit December 31)	All Sources <sup>5</sup>
<input type="checkbox"/>	Lister cards, land transfer records, building permits, decisions of BCA regarding tax assessments, and decisions of BOA regarding tax abatements	Various officials

<sup>1</sup> Although there is no statute that specifically requires the commissioners/trustees to provide this information to the auditors, 24 V.S.A. § 992 requires all town officers who receive or disburse town funds to settle with the auditors.

<sup>2</sup> Only in towns with a municipal library. Although there is no statute that specifically requires the trustees to provide this information to the auditors, 24 V.S.A. § 992 requires all town officers who receive or disburse town funds to settle with the auditors.

<sup>3</sup> Although there is no statute that specifically requires the trustees to provide this information to the auditors, 24 V.S.A. § 1684 requires that the auditors include this information in their annual report.

<sup>4</sup> Any bank, trust company, or individual in the state holding orders or other evidence of indebtedness

<sup>5</sup> Any bank or trust company in the state having on deposit funds of the town

## 2. Prepare: Organize

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- Schedule and notice first auditors' meeting.
- Divide tasks to be completed by individual auditors at a meeting.
- Gather documents and information from town officials (see part 1, above).

## 3. Review: Financial Transactions and Accounting Practices

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- Review minutes from annual town meeting and any special town meeting. Trace budget to minutes of meeting(s) to determine proper authorization for expenditures and borrowing.
- Review minutes from selectboard meetings to identify authorization for transfers between funds, sale and purchase of equipment, compensation for municipality's officials, and for any other transactions that may impact the budget or financial statements.
- Review record of all orders drawn by the selectboard. Trace authorization for expenditures from the orders to the original supporting documents.
- Review financial policies that have been adopted by the selectboard and other town officials. Determine whether adopted policies are being followed.

## 4. Interviews: [Treasurer/Bookkeeper]

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- Become familiar with the accounting methods and bookkeeping processes used by the municipality.
- Get information about the way cash receipts are handled and petty cash is dealt with.
- Learn how the municipality handles accounts receivable.
- Learn how the municipality handles accounts payable and how checks are issued.
- Learn how bank statements are handled and accounts are reconciled.

## 5. Review: Financial Statements [Treasurer/Bookkeeper]

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- Check math!
- Trace numbers to ledger or journals.
- Compare revenues and expenditures to budget and to prior year. Obtain explanations for significant variances.
- Review reconciliation: agree "balance per banks" to statement or confirmation.
- Review reconciliation: agree "balance per books" to ledger account balance.



- Verify deposits in transit and outstanding checks to deposits and checks clearing with the next statement.
- If serious weakness in internal controls, consider cash proof: agreeing bank activity to book activity for one month, several months, or one year.
- Complete a transfer test (all transfers recorded in same year).
- Review notice of deposits stating balance on deposit to the credit of the municipality on December 31.
- Check savings and CD activity; verify reasonableness of interest income.
- Verify capital assets and inventory totals in the financial statements by reviewing schedules.

## **6. Review: Cash Receipts Journal, Cash Disbursements [Treasurer/Bookkeeper]**

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- Determine whether supporting material accurately documents bills, remittance advances, etc.
- Trace deposits to bank statements.
- Choose sample of disbursements and trace to invoices.
- Account for all checks; agree to cancelled checks; agree to signed board orders; check for any other required approval (e.g., department head); check account distribution.
- Count petty cash fund.
- Reconcile amount authorized for fund.
- Test a sample of reimbursements to petty cash fund.

## **7. Review: Payroll [Treasurer/Bookkeeper]**

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- Trace rate of pay to authorization and recalculate gross pay.
- Check account distribution; agree to cancelled checks.
- Check for approval by selectboard (approval of board orders); check for any other required approval (e.g., department head).
- Check to be certain that withholdings are being done properly and are being remitted to appropriate agency.

## **8. Review: Accounts Payable & Accounts Receivable [Treasurer/Bookkeeper]**

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- Trace both payables and receivables to supporting documentation.
- Check subsequent receipts.
- If receivables include material amounts, confirm with debtors.
- Review subsequent disbursements.
- Review records from any bank, trust company, or individual in the State holding orders or other evidence of indebtedness.
- Agree to bills.
- Confirm material balances with known vendors.

Present above items (sections 5-8) to the treasurer. Review any areas of discrepancy between auditors' calculations and treasurer's calculations, and attempt to resolve.

## **9. Review: Tax Assessment Process [Town Clerk]**

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- Trace from grand list to tax bills.
- Trace from building permits and land transfer record to make sure any resulting changes are reflected in grand list.
- Trace from Board of Civil Authority decisions to grand list to make sure any resulting changes in assessment value are recorded in grand list and reflected in tax bills.

## **10. Review: Tax Collection Process**

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- Trace tax bills to grand list.
- Review record of all current tax payments.
- Verify that tax abatements made by the Board of Abatement are recorded properly.

## **11. Review: Delinquent Tax Collection Process [Delinquent Tax Collector]**

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- Trace warrants from treasurer to tax collector.
- Review receipt book or other record of all delinquent tax payments.
- Compare delinquent tax receipts each month to entries in delinquent tax receivable list.
- Review list of delinquent taxpayers as of December 31, showing the amounts due and the years in which such taxes were due.

- Review reconciliation: beginning balance plus delinquent bills sent to collector minus receipts minus abatements equals ending balance. Verify all elements of calculation.
- Trace from Board of Abatement decisions to records of delinquent tax collector to make sure that decisions are reflected in records.

## 12. Review: Other Financial Records & Internal Financial Controls

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- Review records of cemetery commission (if applicable).  
*Review record of all orders drawn by the cemetery commission showing the number, date, to whom payable, and for what purpose.*
- Review records of library trustees (if applicable).  
*Review record of all orders drawn by the library trustees showing the number, date, to whom payable, and for what purpose.*
- Review records of trustees of public funds.  
*Review record of all trust funds in which the municipality is interested with a list of the assets of such funds including an account of receipts and disbursements for the preceding year.*
- Identify and evaluate internal financial controls.
- Evaluate weaknesses in internal control.

## Report Contents Checklist

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- Authority
- Objectives
- Description of audit scope and methodology
- Detailed statement of the financial condition of the municipality for its fiscal year
- Classified summary of receipts and expenditures
- List of all outstanding orders and payables more than 30 days past due
- Deficit, if any, pursuant to 24 V.S.A. § 1523
- Condition of all trust funds with a list of the fund assets, including an account of receipts and disbursements for the preceding year
- List of outstanding bonds with the rate of interest and the amount
- List of outstanding interest-bearing notes or orders with the serial numbers, dates, amounts, payees, and rates of interest
- Other information requested by the governance board or directed by the voters
- Summary of findings

- Recommendations (regarding reporting, internal controls, etc.) that should be put in place

## **Finalize & Distribute Report**

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- Call meeting of all auditors to formally adopt the auditors' report. *Must occur at least 25 days before day of municipality meeting. 24 V.S.A. § 1681.*
- See that report is mailed or otherwise distributed to all voters pursuant to 24 V.S.A. § 1682.

## Appendix B: Terms

**Accrual basis** - A method of accounting in which revenues are recorded when measurable and earned, and expenses are recognized when a good or service is used, regardless of when cash is received or paid. The Governmental Accounting Standards Board (GASB) prescribes accrual basis for enterprise funds, fiduciary funds, and the government-wide financial statements. This standard is followed by professional accountants and auditors. **The modified accrual basis** combines elements of both accrual and cash basis accounting. Under a modified method, revenues such as taxes are recognized when they are measurable and available to pay expenditures of the current period, and expenditures are recognized when the goods or services are received. The Governmental Accounting Standards Board (GASB) prescribes modified accrual basis for all governmental funds.

**Adjusting journal entry** - An entry made to correct an account or to book other transactions to the general ledger, usually at the end of a period (month or quarter). An example of an adjusting journal entry would be a reclassification of an expense that was incorrectly coded when the payment was initially booked.

**Balance sheet** - Listing of all assets, liabilities, and fund balances.

**Capital assets** - Long-term assets, including land, buildings, and equipment.

**Cash basis** - A method of accounting in which revenues are recorded only when cash is received and expenditures are recorded only when payment is made. Since payments for goods and services can be delayed to the next fiscal year, cash on hand can result in an inaccurate picture of the financial condition of the town. **The modified cash basis** is similar to the cash basis of accounting but also includes such items as interfund receivables and payables, marketable investments and CDs, and liabilities for cash held on behalf of others (such as payroll withholdings not yet remitted).

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

**Current assets** - Assets which are available or can be made readily available to meet the cost of operations or to pay current liabilities.

**Current liabilities** - Liabilities which are payable within a relatively short period of time, usually no longer than a year.

**Deficit** - The excess of the current liabilities and liability reserves of the fund over its current assets; or, where the fund has also other resources and obligations, the excess of its obligations over its resources.

**Financial statements.** Financial statements for towns include:

**Balance sheet.** 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.

**Generally accepted accounting principles (GAAP)** - Uniform minimum standards adopted by many state and local governments for financial recording and reporting; established by the accounting profession through the Governmental Accounting Standards Board (GASB). There is no law in Vermont that requires local governments to use or adopt GAAP.

**Internal controls** - Systems and process that are designed to ensure that the financial statements of an organization accurately present the operating results and financial position of that organization.

**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). Different titles may be used for these records.

**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.

**Quorum** - The minimum number of members of a board required to take official action or make a legally binding decision.

**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.

**Settle** - Going over an account item by item and either agreeing on a balance or making note of any disagreements or discrepancies.

**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.

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