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December 11, 2019

Selectboard
Town of Shaftsbury, Vermont
P.O. Box 409
61 Buck Hill Road
Shaftsbury, Vermont 05262-0409

We have audited the financial statements of the Town of Shaftsbury, Vermont as of and for the year ended June 30, 2019 and have issued our report thereon dated December 11, 2019. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in "Government Auditing Standards", issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore material weaknesses or significant deficiencies may exist that were not identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed as follows, we identified certain deficiencies in internal control that we consider to be material weaknesses.

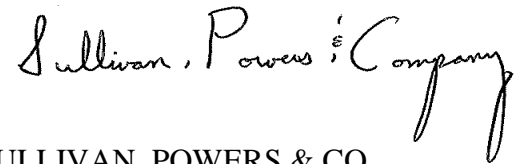
A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the Town of Shaftsbury, Vermont's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying Schedule of Deficiencies in Internal Control and Other Recommendations as items 2019-01 through 2019-04 to be material weaknesses.

We have also noted other matters during our audit as indicated in the accompanying Schedule of Deficiencies in Internal Control and Other Recommendations that are opportunities for strengthening internal control and operating efficiency. We have discussed the recommendations with the staff during the course of fieldwork and some of the recommendations may have already been implemented.

This communication is intended solely for the information and use of management, the Selectboard, and others within the Town of Shaftsbury, Vermont, and is not intended to be, and should not be, used by anyone other than these specified parties. If you would like to discuss any of the recommendations further, please feel free to contact us.

We would like to take this opportunity to thank the staff of the Town of Shaftsbury, Vermont for their assistance and cooperativeness throughout our audit. It has been a pleasure working with you.

Respectfully submitted,

A handwritten signature in cursive script that reads "Sullivan, Powers & Company". The signature is written in black ink and is positioned to the right of the typed name.

SULLIVAN, POWERS & CO.
Certified Public Accountants

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Deficiencies in Internal Control:

Material Weaknesses:

2019-01 Governmental Fixed Assets Accounting and Reporting

Criteria:

Internal controls should be in place to provide for complete and accurate recording of the Town's governmental fixed assets. Complete and accurate records are vital to the effective safeguarding of fixed assets owned by a government. They are needed to maintain individual accountability for resources, to develop the insurable value of government-owned property and equipment, and to document proof of loss for claims. In addition, fixed asset records are essential for effective long-range management planning for replacement of existing property and equipment.

Fixed asset and depreciation accounting are also necessary for the setting of the cost of individual services provided by governments. Finally, the proper reporting of fixed assets is essential for the fair presentation of a government's financial position and the results of its operations in conformity with generally accepted accounting principles (GAAP).

Condition:

The Town has not maintained a complete schedule of its governmental fixed assets at historical cost.

Cause:

Unknown

Effect:

The Town is not in compliance with Governmental Accounting Standards Board (GASB) requirements. In addition, the Town is not safeguarding its fixed assets from potential loss.

Recommendation:

We recommend that the Town implement controls to account for and record fixed assets at historical cost in accordance with generally accepted accounting principles. A property management system is accomplished by preparing a list of assets, date acquired, location, and cost. If historical cost is not available, alternative methods can be used (i.e. estimated historical cost). Once a list is established, only additions and deletions need to be entered each year.

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There are a number of ways to initiate this process. The Town needs to determine a dollar threshold individually and in the aggregate above which assets will be tracked. A complete inventory then needs to be taken. The assets then need to be valued at cost. This can be done through a review of original invoices and contracts, if available. If purchase price cannot be established, then fair market value needs to be determined and discounted using price indexes to the year of acquisition. This is an acceptable method of estimating cost and will self-correct over time as assets are replaced. Once established, periodic inventories need to be taken to verify the accuracy of the records.

2019-02 Transfer Station Revenue

Criteria:

Internal controls should be in place at the transfer station over revenue to ensure that all customers have paid, that all the cash that is received is recorded and deposited and that the Town maintains supporting documentation for the cash collected.

Condition:

The Town does not have adequate internal controls over transfer station revenues. The transfer station does not require that a receipt be given for all cash collected nor is there a sign that indicates that customers must take a receipt nor is there any procedure in place to ensure that every person has paid. Therefore, the Town cannot be sure that all of the cash collected is being handed over to them by the transfer station employees.

Cause:

Unknown.

Effect:

The Town has left itself open to the threat of misappropriation of its assets.

Recommendation:

Our primary recommendation is that the Town consider selling transfer station coupons off-site at the Town Treasurer's office and/or at local businesses. If sales take place at the transfer station, we recommend that the Town require prenumbered cash receipts to be issued to all customers. We also recommend that a sign requiring customers to take a receipt be placed where they can see it.

In addition, management should implement procedures to reconcile the receipts to the actual cash collected and to account for the sequence of the prenumbered receipts if they are used. Furthermore, the transfer station staff should periodically verify that the deposits turned over to the Town were deposited in full.

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2019-03 Reconciliation of Balance Sheet Accounts

Criteria:

Internal controls should be in place to provide for the reconciliation of all balance sheet accounts to supporting documentation on an annual basis in order to detect and correct errors in account balances.

Condition:

A number of balance sheet accounts such as cash, accounts receivable, accumulated depreciation, accounts payable, accrued payroll and benefits payable, bonds payable and deferred inflows of resources were not reconciled prior to the audit to the actual balances at year end which resulted in various adjustments to revenue and expenses.

Cause:

Unknown.

Effect:

The Town's account balances were not completely reconciled which resulted in various adjustments to revenue and expenses.

Recommendation:

We recommend that all balance sheet accounts be reconciled to supporting documentation at least monthly in order to detect and correct errors.

2019-04 Property Tax Reconciliation

Criteria:

Internal controls should be in place to ensure property taxes have been reconciled to the general ledger at year-end.

Condition:

The Town did not have controls in place to ensure property taxes were reconciled to the general ledger at year-end.

Cause:

Unknown.

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Effect:

The Town's property tax account balances were not completely reconciled which resulted in various adjustments to correct account balances.

Recommendation:

We recommend that the Town implement controls to ensure property taxes are reconciled to the general ledger at year-end.

Other Recommendations:

Fraud Risk Assessment

The Town has not performed a fraud risk assessment. A fraud risk assessment is important because it identifies the Town's vulnerabilities to fraudulent activities and whether those vulnerabilities could result in material misstatement of the financial statements. The fraud risk assessment would also identify processes, controls, and other procedures used to mitigate the identified fraud risks.

We recommend that the Town perform a fraud risk assessment reduce the possibility of fraudulent activities.

Implementation of GASB 34

The Town's financial statements do not fully comply with accounting principles generally accepted in the United States of America.

Compliance requires the following information to be included:

- . Management's discussion and analysis.
- . Government-wide financial statements.
- . Fund financial statements.
- . Notes to financial statements.
- . Required supplemental information, if applicable.
- . Fixed assets and depreciation.

We recommend that the Town present government-wide financial statements to comply with accounting principles generally accepted in the United States of America.

Volunteer Stipend Payments

The Town currently pays volunteer stipends for work performed. It is our understanding that these payments should be paid as payroll.

We recommend that the Town verify that they must pay volunteer stipends through payroll.

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Documentation of Internal Control System

A solid understanding of internal control is essential. An organization must continually assess their internal control systems to ensure accurate financial reporting and compliance with laws and regulations. As part of this process, management should formally document its control systems. This should provide management with an understanding of the systems related to financial reporting, the documentation of controls over relevant assertions related to all significant accounts, disclosures in the financial statements, antifraud programs and controls over selection and application of accounting policies.

We recommend that the Town perform a complete evaluation and documentation of the internal control process. This should break out the internal control process into the following five areas:

1. Control Environment – Sets the tone of an organization and is the foundation for all other components.
2. Risk Assessment – The identification and analysis of relevant risks to achieve its objectives forming a basis for how risks should be managed.
3. Control Activities – The policies and procedures that help ensure management directives are carried out.
4. Information and Communication – The identification, capture and exchange of information in a form and timeframe that enables people to carry out their responsibilities.
5. Monitoring – The process that assesses the quality of internal control performance over time.

Accounting and Procedures Manual

The Town is in the process of creating an accounting and procedures manual but it has not been completed. This manual should define duties and responsibilities for current personnel so as to prevent or reduce misunderstandings, errors, inefficient or wasted effort, duplicated or omitted procedures, and other situations that can result in inaccurate or untimely accounting records. It will also help to ensure that all similar transactions are treated consistently, that accounting principles used are proper, and that records are produced in the form desired by management. A good accounting manual should aid in the training of new employees and possibly allow for delegation to other employees.

We recommend that the Town complete this document for all accounting procedures as soon as possible. Each individual should document their duties and how to perform them. The manual should include examples of forms with descriptions of their use. Once developed, only changes in procedures or forms will require changes in the manual.

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We believe this time will be more than offset by time saved later in training and supervising accounting personnel. Also, in the process of the comprehensive review of existing accounting procedures for the purpose of developing the manual, management might discover procedures that can be eliminated or improved to make the system more efficient and effective.

We also recommend that the Town make sure that there are no jobs related to accounting and finance that only one person knows how to perform. The procedures manual would also be useful in determining whether this situation exists.

Cash Accounts

The Town has four cash accounts that are listed under their federal identification number with the bank but are controlled by the Shaftsbury Fire Company.

We recommend that the Town determine who should have control of the accounts and include them in their accounting records, if appropriate. If these are not Town accounts, they should not be under the Town's I.D. number.

Incomplete Accounting System

Each fund is a separate accounting entity and should employ a general ledger to summarize operating activity during the year and record corresponding increases or decreases in the individual asset and liability account balances. The general ledger is a primary control device in any double entry accounting system. If properly and regularly maintained, the account balances will facilitate prompt and complete financial reporting at the end of any operating period. The individual accounts, particularly the asset and liability accounts, will provide control for reconciliation with other data from internal or external sources. The Trustee of Public Funds Funds are currently not under general ledger control.

We recommend that the Town maintain these funds in their general ledger separately and implement reconciliation procedures for all key accounts on a regular basis.

Budgeting for the Municipal Portion of Property Taxes

The Town budgets an amount for the municipal portion of property taxes that come from the State of Vermont. The municipal portion of property taxes is already included in current taxes when the Town does the initial billing. This leads to an over-estimation of other revenue due to property taxes being counted twice.

We recommend that the Town revise their budgeting process to reflect a more accurate picture of tax revenue.

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Education Billing Fee Retained

The Town does not budget for the school tax administration fee. This fee is for the collection and remittance of school taxes and is not part of the Town's property tax budget.

We recommend that the Town budget for the school tax administration fee retained annually.