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December 7, 2015

Selectboard  
Town of East Montpelier, Vermont  
P.O. Box 157  
East Montpelier, VT 05651

We have audited the financial statements of the Town of East Montpelier, Vermont as of and for the year ended June 30, 2015 and have issued our report thereon dated December 7, 2015. 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 East Montpelier, 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 East Montpelier, Vermont's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of East Montpelier, 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, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the Town of East Montpelier, Vermont's financial statements will not be prevented, or detected and corrected, on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.


A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Deficiencies in Internal Control and Other Recommendations as Items 2015-1 and 2015-2 to be significant deficiencies.

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 East Montpelier, 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 East Montpelier, Vermont for their assistance and cooperativeness throughout our audit. It has been a pleasure working with you.

Respectfully submitted,



SULLIVAN, POWERS & CO  
Certified Public Accountants

TOWN OF EAST MONTPELIER, VERMONT  
SCHEDULE OF DEFICIENCIES IN INTERNAL  
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Deficiencies in Internal Control:

Material Weaknesses:

None noted.

Significant Deficiencies:

2015-1 Authorization of General Journal Entries

*Criteria:*

Internal controls should be in place that requires appropriate officials to authorize and review all adjustments to the books of original entry.

*Condition:*

The Town does not have a policy in place to require authorization or review of adjustments to the books of original entry.

*Cause:*

Unknown.

*Effect:*

This deficiency in the internal control structure could allow other working control policies to be circumvented.

*Recommendation:*

We recommend that the Town enact a policy that requires appropriate officials to authorize and review all general journal entries so as not to circumvent the original approval process.

2015-2 Netting Revenues and Expenditures

*Criteria:*

Internal controls should be in place to ensure that revenues are not netted with expenditures in order to conform with generally accepted accounting principles.

*Condition:*

The Town netted a paving grant with the related expenditures account during the year. This nets out the revenue and expenditures as if they did not exist and results in the understatement of both revenue and expenditures.

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*Cause:*

The Town was not aware that this practice is not in accordance with generally accepted accounting principles.

*Effect:*

This will result in understatement of revenue and expenditures.

*Recommendation:*

We recommend that the Town implement controls to ensure that revenues are not netted with expenditures.

Other Recommendations:

Investment and Banking Policy

The Town does not have a formal investment and banking policy. This policy is extremely important in establishing and maintaining cash management in accordance with Selectboard directives. This policy should include general guidance for the Treasurer in the areas of bank selection, types of investments and policies for minimizing the risk of losses.

We recommend that the Selectboard and the Treasurer work together to establish guidelines for the Treasurer in the areas of cash management and investing.

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 the Town perform a fraud risk assessment to reduce the possibility of fraudulent activities.

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.

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The Town has an accounting policy and procedures manual which does outline some control activities but does not include documentation of the internal control systems. This should provide management with an understanding of the systems related to financial reporting, and the 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 document its 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.

#### Fraud Policy

The Town does not have a fraud policy in place. A fraud policy outlines the Town's position on fraudulent activities and dishonest conduct and sets out procedures for employees to report suspected fraud or misconduct to the appropriate personnel within the Town. This policy should further outline the responsibilities of different positions within the Town in regards to reporting and investigating these claims. It should also discuss the actions that will be taken to investigate the claim and the protection that will be afforded to the person making the claim against retaliation from the accused.

We recommend that the Town implement a fraud policy.

#### Recreation Committee Fund

It is our understanding that the Recreation Committee Fund is a fund of the Town. If this is true, all assets should be under the control of the Selectboard and Treasurer. Also, expenditures would have to be approved by the Selectboard through the warrant process and all checks would be signed by the Treasurer. Currently, the Recreation Committee Fund has a cash account that is not under the control of the Town Treasurer.

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We recommend that the Town verify that the Recreation Committee Fund is a part of the Town and, if so, that the Town record all the assets and activity of Recreation Committee Fund, that the Town Treasurer have control of the cash account and that all expenditures be approved by the Selectboard.