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MEMORANDUM

TO: Senate Minority Office

FROM: Senior Fiscal Analyst

DATE: February 2, 2018

SUBJECT: Information Concerning 2002 Mercer County Audit

This is written in response to your request for information on certain findings reported by Mercadien, P.C., (Mercadien) in the "Calendar Year 2002 Financial Statements and Supplemental Data" for Mercer County and for additional newspaper articles regarding the audit.

The Annual Audit

The Local Fiscal Affairs Law, N.J.S.A.40A:5-1 et seq. requires all municipalities and counties (local units) to have an annual audit of its books, accounts, and financial transactions completed within six months after the close of its fiscal year. The audit is required to be completed by a registered municipal accountant (RMA) or by qualified employees of the Division of Local Government Services (DLGS). The RMA is required to review and report on the financial activity of any board, body, officer, or commission supported and maintained wholly or in part by funds appropriated by a local unit. Funds appropriated to all municipal departments are also audited by the RMA. The audit also verifies all cash and bank balances at the end of the local unit's fiscal year.

State regulations (N.J.A.C.5:30-6.1) require the audit to be conducted in accordance with the Requirements of Audit and Accounting promulgated by the DLGS. When appropriate and

applicable, the registered municipal accountant may also utilize the Generally Accepted Auditing Standards promulgated by the American Institute of Certified Public Accountants, and accounting standards promulgated by State and federal agencies, such as the New Jersey Office Management and Budget (OMB) and the U.S. Government Accountability Office. For example, federal OMB Circular A-133 sets for the standards for the audit of states, local governments, and non-profit organizations expending federal funds.

The RMA is required to file the original audit report and recommendations with either the clerk of the board of chosen freeholders (for a county) or the municipal clerk and with the DLGS. State regulations also require a copy of the audit to be delivered to each member of the local unit's governing body (board of chosen freeholders or municipal council). The governing body is required to certify to the Local Finance Board that all members of the governing body have personally reviewed, at a minimum, the sections of the annual audit entitled: General Comments, Recommendations, Auditor's Opinions, and Single Audit Findings. The certification is required to be adopted and executed by the governing body no later than 45 days after receipt of the annual audit (see N.J.A.C.5:30-5.6). A synopsis of the audit and any recommendations from the RMA are to be prepared and published at least once in the official newspaper of the local unit.

A local unit is also required to prepare a "Corrective Action Plan" to address each finding and recommendation in the annual audit report. The Corrective Action Plan is required to be filed with the Local Finance Board within 60 days after the filing of the audit report with the governing body. A Corrective Action Plan is prepared by the local unit's chief financial officer with the assistance of other officials affected by the audit recommendations and approved by the governing body. The local unit may also explain why it does not agree with an audit finding or believes that corrective action is not necessary. Any corrective action cited in the plan must be initiated within 6 months after receipt of the audit report.

Mercadien's Comments

In the audit "Findings and Recommendations" Mercadien also stated that the financial statements prepared by Mercer County fairly presented "...the financial position of the funds of the County of Mercer, State of New Jersey, as of December 31, 2002 and the results of operations of such funds for the year ended in conformity with the basis of accounting described in the notes to the financial statements." Note B of the Notes to the Financial Statements contains a "Summary of Significant Accounting Policies."

Mercadien's audit reported that there was an unlocated difference in the General Capital Fund Ledger of approximately \$475,000 as of December 31, 2002. Mercadien indicated that it was unable to reconcile the reported balances of grants awarded to Mercer County by the Federal Aviation Administration (FAA) and the New Jersey Department of Transportation (NJDOT). The audit also noted that Mercer County had not established a general fixed asset accounting system as required by Technical Advisory Directive No. 2, issued by the Division of Local Government Services in the Department of Community Affairs (DCA).

Reconciliation of Capital Fund Accounts

In Note L (Contingencies and Commitments: Accounts Receivable -- General Capital Fund) of the Notes to the Financial Statements, Mercer County recorded \$74,380,032 of accounts

receivable as financing sources for authorized capital projects. That same amount was also reported in Schedule C (Capital Fund Statement of Assets, Liabilities, and Fund Balance as of December 31, 2002) as Federal and State Grants Receivable. Included in that amount are grants totaling \$11,402,684 from the FAA and \$21,911,512 from the NJDOT. According to Schedule C-3A, "General Capital Fund Schedule of Accounts Receivable U.S.F.A.A. Share of Cost" it appears that the FAA grant funds supported capital improvements at Mercer County Airport. In the "Independent Auditor's Report" section of the Financial Statements, Mercadien noted that Mercer County was unable to reconcile FAA accounts receivable as reported in the financial statements to specific projects approved by the FAA. Accordingly, Mercadien was unable to confirm the FAA accounts receivable. Mercadien was also unable to perform alternative procedures to reconcile the reported balance of FAA and NJDOT accounts receivable. The Financial Statements do not provide any additional information regarding the NJDOT grant or why Mercer County was unable to reconcile the FAA and DOT accounts receivable.

Fixed Assets Accounting

Technical Advisory Directive No. 2, now codified at N.J.A.C.5:30-5.6, requires all local units (e.g., counties and municipalities) to have and maintain a fixed assets accounting and reporting system. The fixed assets accounting and reporting system allows municipalities to establish and maintain a physical inventory of fixed assets of nonexpendable, tangible property and to place a value on all fixed assets either constructed by the local unit or acquired through a purchase, grant, or gift. The fixed assets accounting and reporting system is also required to contain a subsidiary ledger of detailed property records which allows a local unit to keep track of the addition, retirement, and transfer of fixed assets and provides property management standards for fixed assets. Local units are required to provide a "Statement of General Fixed Assets."

I have found newspaper articles from 2004-2008 regarding Mercer County audits for the years 2002-2007. On March 12, 2003 the *Trenton Times* reported that Mercer County had not complied with State regulations regarding a fixed assets inventory. According to the then-County Administrator John Ricci, Mercer County decided not to maintain a fixed assets inventory because it would have cost at least \$125,000 and there was no "great benefit" to doing it. Mr. Ricci also noted that Mercer County did monitor its equipment and that the failure to maintain a fixed assets inventory was noted in previous county audits.

On April 15, 2004, the *Trenton Times* reported on the capital fund discrepancies reported in the 2002 Mercer County Financial Statements. The article also noted that the audit was originally due by June 2003 but was delayed due to problems resolving the capital budget. With regard to the grants from the FAA and the NJDOT, then-Mercer County spokeswoman Mary Caffrey stated, "Those two grants were awarded, but we have to track whether the work was done or whether the grant actually came in." According to Ms. Caffrey, the Mercer County Treasurer's Office was working "...to resolve the two major accounting problems, but that it would likely take more than a year to straighten out all of the county's financial woes. We have to resolve the record keeping of the capital fund." The article did not provide detail regarding the \$475,000 difference in revenues and expenditures in the General Capital Fund. The audit also found that Mercer County did not "establish a list of its properties and other assets as required by state law." The *Trenton Times* article noted that the Mercer County Treasurer was going to establish a fixed assets inventory but that it would take over a year to finish it.

On May 28, 2004, the *Trenton Times* reported that the Mercer County Board of Chosen Freeholders postponed a vote to adopt the calendar year 2005 county budget. The article noted that officials from the DCA had asked "technical" questions about the proposed budget. According to Ms. Caffery, the DCA questions covered county financial practices that were also noted in the 2002 county audit. The article did not provide any further detail regarding the State's inquiries. Research did not reveal any information regarding how Mercer County resolved the capital fund discrepancies reported in 2002.

News articles from 2007 and 2008 report that Mercer County's independent auditors issued fewer audit findings in 2006 and 2007. According to a 2007, *Trenton Times* article, the Mercer County audit for 2006, also performed by Mercadien, indicated that the county resolved general capital fund issues noted in the 2005 county audit. Mercer County has installed a fixed assets accounting system. The *Pennington Post* reported that Mercer County resolved four additional findings noted in the 2004 Mercer County audit. In 2008 the *Trenton Times* reported that Mercadien issued two "minor findings" in the 2007 Mercer County audit. According to the 2008 *Times* article, the audit noted that Mercer County did not update its fixed assets inventory on an annual basis and that the county should "...clear its books of old authorizations for expected grant money that never arrived, and for spending on capital improvement projects that did not proceed."

I have attached the relevant news articles and pages from the 2002 Mercer County Financial Statements and Supplemental Data to this memorandum. I hope you find this information helpful and responsive to your request. Please contact the OLS Local Government Section at (609) 984-3875 if you have any questions.

COUNTY OF MERCER
NEW JERSEY

FINANCIAL STATEMENTS AND
SUPPLEMENTAL DATA

YEAR ENDED DECEMBER 31, 2002



MERCADIEN, P.C.

CERTIFIED PUBLIC ACCOUNTANTS
(FORMERLY DRUKER, RAHL & FEIN)

A Mercadien Group Company

INDEPENDENT AUDITORS' REPORT

The Honorable County Executive and Members
Of the Board of Chosen Freeholders
State of New Jersey

We have audited the accompanying financial statements of the various funds of the County of Mercer, State of New Jersey as of and for the year ended December 31, 2002, as listed in the table of contents. These financial statements are the responsibility of the County of Mercer, State of New Jersey, management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following two paragraphs, we conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the audit requirements prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note L, the County had recorded the amount of \$74,380,032 as accounts receivable for financing sources for capital projects authorized. Included within this total are grants authorized by the Federal Aviation Administration (\$11,402,684) and the New Jersey Department of Transportation (\$21,911,512). Due to an inability on the part of management to reconcile Federal Aviation Administration accounts receivable as reported in the financial statements to specific projects approved by the Federal Aviation Administration, we were unable to confirm these accounts receivable. We were unable to perform alternative procedures to satisfy ourselves concerning the reported balance of Federal Aviation Administration and New Jersey Department of Transportation accounts receivable. In addition, there was an unlocated difference in the General Capital Fund Ledger at December 31, 2002 amounting to approximately \$475,000.

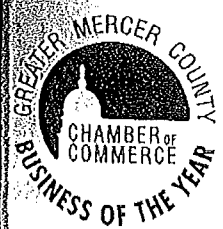
As described in Note A, the County prepares its financial statements on a basis of accounting prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey, which is a comprehensive basis of accounting other than generally accepted accounting principles. These prescribed principles are designed primarily for determining compliance with legal provisions and budgetary restrictions as a means of reporting on the stewardship of public officials with respect to public funds. Accordingly, the accompanying financial statements are not intended to present financial position and results of operations in accordance with generally accepted accounting principles.

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INDEPENDENT AUDITORS' REPORT - (CONTINUED)

In our opinion, because of the County of Mercer, State of New Jersey's policy to prepare its financial statements on the basis of accounting discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the various funds of the County of Mercer, State of New Jersey, as of December 31, 2002 or the results of its operations or cash flows for the year then ended.

However, in our opinion, except for the omission of the statement of general fixed assets, and except for the effects on the financial statements, of the matters referred to in the third paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the various funds of the County of Mercer, State of New Jersey as of December 31, 2002 and the results of operations of such funds for the year then ended in conformity with the basis of accounting described in the notes to the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2003 on our consideration of the County of Mercer internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the County taken as a whole. The accompanying supplemental information presented in the "Supplemental Schedules" section is presented as additional analytical data for purposes of complying with the requirements set forth by the Division of Local Government Services and is not a required part of the basic financial statements. Also, the accompanying schedule of expenditures of federal and state awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and State of New Jersey's OMB Circular Letter 98-07. Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid, and is not a required part of the general purpose financial statements of the County of Mercer, New Jersey. The supplementary data, has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects, in relation to the financial statements taken as a whole, on the basis of accounting described in the notes to the financial statements.

The statistical section on pages 131 to 136 is not a required part of the financial statements but is supplementary information required by the State of New Jersey. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.



Eugene J. Elias, CPA
Registered Municipal Accountant
License No. 505



MERCADIEN, P.C., CPAs

Hamilton, New Jersey
December 11, 2003