DONOHUE, GIRONDA & DORIA
Certified Public Accountants

Matthew A. Donohue, CPA
Robert A. Gironda, CPA
Robert G. Doria, CPA (N.J. & N.Y.)
Frederick J. Tomkins, CPA, RMA

310 Broadway
Bayonne, NJ 07002
(201) 437-9000
Fax: (201) 437-1432
E-Mail: dgd@dgdcpas.com

Linda P. Kish, CPA, RMA
Tammy L. Zucca, CPA
Mark W. Bednarz, CPA, RMA

September 12, 2013

Shana Taylor, County Counsel
County of Hunterdon
Flemington, NJ

Dear Ms. Taylor:

You had asked that I provide you with a status report of our engagement with Hunterdon County.

Audit of Year Ended December 31, 2012

We have met with and worked with the auditors, Wiss & Company, in completing the audit, part of which is being presented to the governing body on September 17, 2013. The report is being split into two parts: financial audit and single audit. The single audit is being delayed because of audits of other parts of operations that are not yet available for inclusion. The two audits (Department of Public Housing and Division of Social Services) need to be incorporated into the County's single audit. In past years this has not been done. This means that prior years' financial audits have been incorrect, and the filings with the Federal Government have been incorrect.

The responsibility to correctly present the Schedule of Expenditures of Financial Assistance lies with the auditee (the County). This responsibility is found in OMB Circular A-133 (Subpart C. 300(d)). While the auditor in many situations does prepare this schedule, it is not his responsibility. This will be a finding in the 2012 single audit, as a material weakness in internal control.

The financial audit contains two findings that are classified by the auditor as material weakness in internal control. A material weakness in internal control is defined as follows:

> "When one or more of a company's internal controls, put in place to prevent significant financial statement irregularities, is considered to be ineffective. If a deficiency in an internal control is thought to be of material weakness, this means that it could lead to a material misstatement in a company's financial statements." (Investopedia-dictionary.)

In auditor's language this is as serious as a finding can be.

The two material weaknesses are found in the audit and listed as 2012-1 and 2012-2.

Finding 2012-1

I will not repeat the finding verbatim here, you should review it again while reading this letter. This finding relates to the prior year financial statements not being materially accurate. How do we define materiality? It is an auditor's concept that can be defined as follows:

> "Materiality is a concept of convention within auditing and accounting relating to the importance/significance of an amount, transaction, or discrepancy. The objective of an audit of financial statements is to enable the auditor to express an opinion whether the financial statements are prepared, in all material respects, in conformity with an identified financial reporting framework...The assessment of what is material is a matter of professional judgment."
>
> "Materiality in governmental auditing is different from materiality in private sector auditing for several reasons."
>
> "This functionally decreases materiality for state and local government financial statements by an order of magnitude compared to materiality for private company financial statements." (Wikipedia)

Finding 2012-1 states that in nine instances the prior year financial statements are misstated. It appears that there is a breakdown in both the internal accounting department and with the auditor who opined that these statements are presented fairly.

This is clearly spelled out as an "Example of Work" under the Civil Service description of Chief Financial Officer:

> "Corrects errors in financial statements." "Compiles former financial statements such as balance sheets..."

Finding 2012-2

This finding is also labeled as a material weakness in internal control. It relates specifically to a lack of internal control over the County's health benefits to current and retired employees. The auditor states that individuals are being covered that should not be and further that retirees health coverage is being billed as primary rather than as secondary to Medicare.

In conjunction with the County Administrator we are in the process of verifying coverage for both active and retired employees. We are not in a position to quantify the problem at this point but can provide some information:

- There are seven persons being covered who are deceased. (One as far back as 1996)

- There are numerous examples of incorrect coverage.

- There are persons being billed under a "self-pay" category that the County has never created and has no basis to it.

There are other anomalies that are surfacing and being tracked down with Division of Pensions. Once all of this is completed, we will quantify how much has been overpaid to Horizon. We are not in a position to say whether this can be recovered. A separate report will be made on this.

In addition to the above, which is incorporated into the 2012 audit, we noted other areas that we believe are internal control issues that need to be addressed.

Policies and Procedures

There are no written policies and procedures in the finance office. When someone is not present or leaves their position, there is no manual or other document to refer to in order to know what each employee is doing.

Cross-Training

Employees are not cross-trained in all, or at least some, of the other functions in the office. In a small office with a limited number of employees, this is very necessary. In particular with payroll, one person had the knowledge to input payroll. A second person had a very limited ability to input. However, with training over the time we have been here, that person has proven more than capable to handle the position. We have also been training a second employee in payroll as well.

Paylocity

The County entered into a contract with a new vendor, Paylocity, to process the payroll beginning January 1, 2013. It became quickly apparent that no one had a good understanding of the system or what it is capable of offering. We set up a meeting with staff from Paylocity with the County's payroll staff, the County administrator and the County counsel present. It became apparent that the system itself is not an issue. Rather the County was not utilizing the reports, edits, and checks that are available to the County. When asked, representatives of Paylocity indicated that they had a similar meeting with the finance office. However, no one made use of these checks and balances in the system.

Wire Transfers

The County had traditionally issued checks to transfer funds between its accounts, including payroll. A manual check would have to be written and rushed by hand to the bank to cover a payroll. In this day, it is most common to do this type of transaction by wire. It no longer requires the CFO to rush to the bank to make a transfer.

In situations where wire transfers are being used, there is a lack of internal control. Transfers could be made by one person without review or approval of a second person.

Certification of Funds

The purchase order form that the County is using contains no sign off by the CFO. Such a sign off is necessary and documents that funds are available before the purchase is made. This is a basic requirement of an encumbrance system.

Revenues

All revenues are being recorded manually. This is being done even though the County has purchased a software package which includes the recording of revenue that is not being utilized.

Payroll Approvals

Payrolls are not being approved at the department level. Further, there is no approval of hiring from the finance office to verify that funds are available.

We are available to discuss the above with you.

Very truly yours,

Frederick J. Tomkins, CPA, RMA