



County of Salem

2017 AUDIT RESULTS

FOR THE YEAR ENDED DECEMBER 31, 2017

THIS REPORT IS INTENDED SOLELY FOR THE INFORMATION AND USE OF THE GOVERNING BODY AND MANAGEMENT AND IS NOT INTENDED TO BE AND SHOULD NOT BE USED BY ANYONE OTHER THAN THESE SPECIFIED PARTIES.



Contents

- Executive Summary.
- Financial Schedules.
- GASB Update.
- Appendices:
 - Required Communications.

Executive Summary

Audit Status:

- Substantially complete.
- Unmodified opinion – New Jersey Regulatory Basis

Open Items:

- Subsequent event update
- Management representation letter

Areas of Audit Emphasis

Area	Audit Risk	Audit Procedure
Cash	Existence, Valuation and Rights and Obligations	Confirmation, Reconciliation, and Recalculation
Accounts Receivables and Deferred Revenue	Existence, Valuation and Rights and Obligations	Estimation Process, Analytics and Review of Subsequent Receipts
Investments	Existence, Valuation and Classification	Confirmation, Market Value Testing and Fair Value
Accounts Payable, Accrued Expenses and Expenses	Completeness, Existence, Valuation and Rights and Obligations	Recalculation and Cutoff Testing
Pension and Post-Retirement Obligations	Completeness, Valuation and Rights and Obligations	Confirmation and Recalculation

Areas of Audit Emphasis

Area	Audit Risk	Audit Procedure
Long Term Debt and Interest Expense	Completeness, Existence, Valuation, Rights and Obligations and Classification	Confirmation and Recalculation
Net Assets	Existence, Valuation and Classification	Recalculation
Capital Assets	Existence and Valuation	Review, Analytics and Compliance with local public contracts and laws
Outside Offices	Completeness, Existence, Valuation, Rights and Obligations and Classification	Sample Selection and Testing of Receipts, Disbursements and Applicable Compliance Requirements
Compliance with Local Finance Notices	Noncompliance with Required Laws and Regulations	Sample Selection of Various Transaction Cycles for Compliance
Financial Statement Close Process	Material Misstatement of Financial Statements	Internal Control Inquiry, Observation and Re-performance

Significant Accounting Estimates

- There were no significant changes in management's accounting estimates. Appendix A contains summary information about the significant accounting estimates used by management.

Corrected and Uncorrected Misstatements

- Corrected misstatements:
 - There were three audit adjustments made to the original trial balance.
- Uncorrected misstatements:
 - There were no unrecorded audit adjustments.

Independent Auditors' Report on the Financial Statements

- Auditors' Opinion:
 - Unmodified opinion on the financial statements.
 - Reports on year ended December 31, 2017.
 - Unmodified opinion on the supplementary information.

Reporting Required by GAS

- Three findings noted regarding Internal control over financial reporting and Noncompliance with laws, regulations, contracts and grant agreements.
 - 2017-001 - instances of inadequate recordkeeping and internal control were noted in the following areas:
 - Certain year-end bank accounts were not reconciled timely or correctly.
 - Year-end adjusting entries between Current and Trust Fund accounts were not properly or timely recorded.
 - Seven purchase orders and/or checks issued for insurance claims and other payments were not managed through normal County policies and procedures. Required supporting documentation as well as signatures indicating review and approval by department heads, vendors, and/or Freeholder Board members were missing.
 - 2017-002 - Over-expenditures of grant and appropriation reserves in the amounts of \$7,693 and \$37,464, respectively, were noted at year end.
 - 2017-003 - Several instances of noncompliance were noted in the following areas:
 - Capital improvement ordinance 2011-04 was charged for purposes other than those approved by the Freeholder Board.
 - Change orders exceeding 20% of the original contract were not properly advertised in accordance with State of New Jersey, Department of Community Affairs, Division of Local Government Services and Local Public Contracts Law.
 - A bid was rejected due to all responsible bids exceeding the allowable and appropriated budget. Supporting documentation was not available for audit in order to determine if bids actually exceeded the allowable budget.
 - Transfer of available Trust Fund balances to the Current Fund was completed without proper Freeholder Board resolution.
 - Required GASB 45 actuarial valuation was not completed timely.

Financial Schedules

- Current Fund
 - Statement of Assets, Liabilities, Reserves and Fund Balance
 - Statement of Revenues, Expenditures and Changes in Fund Balance
- Trust Funds
 - Statement of Assets, Liabilities, and Reserves
- Capital Fund
 - Statement of Assets, Liabilities, Reserves and Fund Balance

Current Fund – Statement of Assets, Liabilities, Reserves and Fund Balance

Assets	Ref.	2017	2016
Current Fund			
Cash	A-4	\$ 9,478,792	\$ 4,861,527
		<u>9,478,792</u>	<u>4,861,527</u>
Receivables with Full Reserves:			
Taxes Receivable	A-5	61,326	42,938
Revenue Accounts Receivable	A-8	-	1,591,950
Due from Grant Fund	A-9	784,298	125,565
Due from Trust Fund	A-9	288	2
Due from Open Space Trust Fund	A-9	12,700	-
Mortgages Receivable	A-10	410,621	435,714
Refund Receivable	A-4	-	-
Total Receivables with Full Reserves		<u>1,269,232</u>	<u>2,196,169</u>
Deferred Charges:			
Overexpenditure of Appropriation Reserves	A-7	37,465	402,438
Total Deferred Charges		<u>37,465</u>	<u>402,438</u>
Total Current Fund		<u>10,785,489</u>	<u>7,460,134</u>
<u>Federal and State Grant Fund</u>			
Overexpenditure of Grants Appropriated	A-7	7,693	-
Grants Receivable	A-14	34,331,335	28,083,949
Total Federal and State Grant Fund		<u>34,339,028</u>	<u>28,083,949</u>
		<u>\$ 45,124,517</u>	<u>\$ 35,544,083</u>

Current Fund – Statement of Assets, Liabilities, Reserves and Fund Balance (Continued)

Liabilities, Reserves and Fund Balance	Ref.	2017	2016
Current Fund			
Appropriation Reserves	A-3	\$ 3,332,453	\$ 1,640,304
Reserve for Encumbrances	A-3	1,314,331	867,009
Due to Capital Fund	A-9	-	-
Accounts Payable	A-11	-	10,928
Reserve for Reconstruction of Various County Roads	A-13	128,803	128,803
Transportation OOA Program	A-13	4,468	4,468
Reserve for Payment of Debt	A-13	46,906	72,738
Reserve for Repair and Reconstruction of Roads Bridges and Railroads	A-13	246,557	246,557
		5,073,518	2,970,807
Reserve for Receivables		1,269,232	2,196,169
Fund Balance	A-1	4,442,739	2,293,158
Total Current Fund		10,785,489	7,460,134
<u>Federal and State Grant Fund</u>			
Due to Current Fund	A-9	784,298	125,565
Due to Capital Fund	A-15	-	3,037,923
Reserve for Encumbrances	A-15	8,323,843	3,782,191
Reserve for Appropriated Grants	A-15	25,200,683	21,138,270
Reserve for Unappropriated Grants	A-16	30,204	-
Total Federal and State Grant Fund		34,339,028	28,083,949
		\$ 45,124,517	\$ 35,544,083

Current Fund – Statement of Revenues, Expenditures and Changes in Fund Balance

	Ref.	2017	2016
Revenue and Other Income Realized			
Fund Balance Utilized	A-2	\$ 1,890,173	\$ 3,365,558
Miscellaneous Revenue Anticipated	A-2	36,023,332	30,748,086
Receipts from Current Taxes	A-5	55,718,512	52,933,660
Non-Budget Revenues	A-2	1,205,193	360,267
Other Credits to Income:			
Cancellation of Budget Appropriations	A-3	3,582,362	-
Cancellation of Grants	A-9	153,912	193,090
Interfunds Returned	A-9	-	961,280
Mortgage Receivable	A-10	25,093	102,299
Unexpended Balance of Appropriation Reserves	A-12	1,022,847	387,033
Refunds Receivable	A-4	-	18,551
Total Income		99,621,424	89,069,824

Current Fund – Statement of Revenues, Expenditures and Changes in Fund Balance (Continued)

Expenditures:			
Budget Appropriations:			
Operations:			
Salaries and Wages	A-3	30,958,502	30,039,397
Other Expenses	A-3	50,681,136	44,757,226
Capital Improvements	A-3	-	200,000
Debt Service	A-3	5,505,747	5,297,067
Deferred Charges and Statutory Expenditures	A-3	7,738,605	7,828,437
Judgments	A-3	125,500	14,761
Overexpenditure of Appropriation Reserves	A-7	45,158	402,438
Interfunds Advanced		423,336	-
Cancellation of Grants Receivable		148,844	-
Total Expenditures		<u>95,626,828</u>	<u>88,539,326</u>
Excess in Revenues		3,994,596	530,498
Adjustments to Income before Fund Balance:			
Expenditures Included Above Which are by Statute Deferred			
Charges to the Budget of the Succeeding Years:			
Overexpenditure of Appropriation Reserves	A-7	<u>45,158</u>	<u>402,438</u>
Statutory Excess to Fund Balance		4,039,754	932,936
Fund Balance - January 1	A	<u>2,293,158</u>	<u>4,725,780</u>
		6,332,912	5,658,716
Decreased by:			
Utilized as Anticipated Revenue	A-1	1,890,173	3,365,558
Fund Balance - December 31	A	<u>\$ 4,442,739</u>	<u>\$ 2,293,158</u>

Trust Funds – State of Assets, Liabilities and Reserves

	Ref.	December 31,	
		2017	2016
<u>ASSETS</u>			
Trust Other Funds:			
Cash - Treasurer	B-4	\$ 2,092,521	\$ 2,032,819
		<u>2,092,521</u>	<u>2,032,819</u>
Open Space and Farmland Preservation Trust:			
Cash - Treasurer	B-4	3,531,855	3,786,433
Investments	B-4	446,301	497,651
Taxes Receivable	B-5	4,336	847
		<u>3,982,492</u>	<u>4,284,931</u>
 Total Trust Funds		<u>\$ 6,075,013</u>	<u>\$ 6,317,750</u>

Trust Funds – State of Assets, Liabilities and Reserves (Continued)

LIABILITIES AND RESERVES

Trust Other Funds:

Reserve for:

Accumulated Absences Trust	B-6	208,068	150,240
Commodities Resale Program	B-6	35,881	16,407
County Auction	B-6	3,553	3,553
County Clerk	B-6	110,758	251,432
Engineering Escrow	B-6	28,173	26,672
Environmental Enforcement	B-6	384,137	376,746
First Responder Dinner	B-6	130	130
Hospitalization	B-6	1	2
Housing Revitalization	B-6	72,365	72,192
Motor Vehicle Fines	B-6	333,659	174,403
Net Payroll Account	B-6	504	-
Parvin Bequest	B-6	-	55,829
Payroll Agency	B-6	328,762	282,870
Performance Bond - Woods Laurel Hills	B-6	3,375	3,375
Prosecutor's Office:			
Asset Maintenance Account	B-6	2,270	6,145
Auto Law Enforcement Trust Account	B-6	7,007	6,490
County Law Enforcement Trust Account	B-6	75,161	72,015
Federal County Law Enforcement Trust Account	B-6	68,712	65,192
Municipal Law Enforcement Trust Account	B-6	37,851	32,251
Seized Assets Trust Account	B-6	28,064	15,567

Trust Funds – State of Assets, Liabilities and Reserves (Continued)

Road Opening Deposits	B-6	17,698	16,198
SCAPG - Nutrition Program	B-6	1,324	16,121
SCAPG - Parvin	B-6	2,490	55,426
Self Insurance	B-6	45,519	1,446
Sheriff's Office	B-6	44,920	38,267
Surrogate Fees	B-6	71,375	72,569
Tax Appeals Filing Fees	B-6	35,377	27,706
Unemployment Claims	B-6	44	44
Veterans Donation	B-6	14,892	6,953
Weights & Measures	B-6	119,263	106,092
Workers' Compensation	B-6	10,899	80,484
		<u>2,092,233</u>	<u>2,032,817</u>
Trust Due to Current Fund	B-8	288	2
		<u>2,092,521</u>	<u>2,032,819</u>
Open Space and Farmland Preservation Trust			
Reserve for Future Use	B-7	3,982,493	4,284,931
Open Space Trust Due to Current Fund	B-9	12,700	2
		<u>3,995,192</u>	<u>4,284,933</u>
Total Trust Funds		<u>\$ 6,075,013</u>	<u>\$ 6,317,750</u>

Capital Fund – Statement of Assets, Liabilities, Reserves and Fund Balance

	Ref.	December 31,	
		2017	2016
<u>ASSETS</u>			
Cash	C-2, C-3	\$ 4,883,663	\$ 2,957,645
Dam Restoration Loan Receivable		1,300,000	1,300,000
Grants Receivable	C-4A	3,000,000	3,037,923
Deferred Charges to Future Taxation:			
Funded	C-5	34,134,000	35,234,000
Unfunded	C-6	8,445,364	7,960,364
		<u>\$ 51,763,027</u>	<u>\$ 50,489,932</u>
<u>LIABILITIES, RESERVES AND FUND BALANCE</u>			
Accrued Interest on Bond Sale	C-13	\$ 158,547	\$ 227,952
Reserve for County Aid Program		4,713	4,713
Improvement Authorizations:			
Funded	C-7	7,143,730	4,913,415
Unfunded	C-7	1,074,380	274,380
Serial Bonds Payable	C-8	30,834,000	33,934,000
Bond Anticipation Notes Payable	C-9	7,645,000	7,960,000
Dam Restoration Loan Payable	C-10	1,300,000	1,300,000
Contracts Payable	C-11	1,489,968	1,829,548
Capital Improvement Fund	C-12	3,937	3,937
General Capital Fund	C-1	108,752	41,987
		<u>\$ 49,763,027</u>	<u>\$ 50,489,932</u>

There were Bonds and Notes authorized, but not issued in the amount of \$800,364 for the year ended December 31, 2017 and \$364 for December 31, 2016 (C-14).

GASB Update

- Recently issued standards
 - GASB Statement No. 75, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*

GASB Statement No. 75

- **GASB Statement No. 75, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans:***
 - Establishes new accounting and financial reporting requirements for other postemployment benefit (OPEB) plans provided by state and local governments to its employees and for governments that finance OPEB for employees of other governments.
 - Record a liability for the OPEB based on specific criteria.
 - Record expense based on changes in the components of the net OPEB liability.
 - Requires more extensive note disclosures and required supplementary information.
 - Effective for fiscal years beginning after June 15, 2017. Earlier application is encouraged.

Our Compass

Core Values

Mercadien pledges to be accountable and guided by these core values that we use as our compass. Core values are the essential and enduring principles that are integral to our success. These values form the foundation of our work, how we interact with one another, and which strategies we employ to accomplish our efforts. We define leadership as embracing these core values and having the courage to act on them on behalf of our families, our firm, ourselves, our clients, colleagues and community.

- **Integrity** – conducting our affairs honestly and ethically and doing what’s right, regardless of the cost or consequence.
- **Excellence** – striving to be the best in everything we do, being a part of something special, and enabling ourselves and others to reach the highest potential.
- **Responsibility** – being accountable for the success, development and improvement of our families, our firm, ourselves, our clients, colleagues and community.
- **Creativity** – embracing change and continually seeking out and developing innovative ways to serve our families, our firm, ourselves, our clients, colleagues and community, recognizing that failure is an integral part of success.
- **Respect** – appreciating, understanding and supporting ourselves and others, our colleagues, our clients and community.

Contact Information

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Appendix A

- Required Auditor Communications

Required Communications

Area	Comments
Our Responsibility with Regard to the Financial Statement Audit	Our responsibility under auditing standards generally accepted in the United States of America (“GAAS”); <i>Government Auditing Standards</i> Issued by the Comptroller General of the United States (“GAS”); and requirements of audit prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey as described in our engagement letter dated February 10, 2017.
Overview of the Planned Scope and Timing	We have issued a separate communication regarding the planned scope and timing of our audit and have discussed with you our identification of, and planned audit response to, significant risks of material misstatement.

Accounting Policies and Practices

Area	Comments
Preferability of Accounting Policies and Practices	Under generally accepted accounting principles, in certain circumstances, management may select among alternative accounting practices. In our view, in such circumstances management has selected the preferable accounting practice.
Adoption or Change in Accounting Policies	Management has the ultimate responsibility for the appropriateness of the accounting policies used by the County. No significant new accounting policies adopted nor changes in existing significant accounting policies.

Accounting Policies and Practices

Area	Comments
Significant or Unusual Transactions	No significant or unusual transactions or significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.
Management's Judgments and Accounting Estimates	Summary information about the process used by management in formulating particularly sensitive accounting estimates and about our conclusions regarding the reasonableness of those estimates follows.

Significant Accounting Estimates

Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgment. The process used by management encompasses their knowledge and experience about past and current events and certain assumptions about future events. You may wish to monitor throughout the year the process used to compute and record these accounting estimates reflected in the financial statements.

- The following are significant accounting estimates made inherent to the financial statements in which management's estimation process appears appropriate:
 - Accumulated Sick and Vacation Time – only recorded in the footnote disclosures.
 - Net Pension Liability – only recorded in the footnote disclosures.

Other Required Communications

Area	Comments
Disagreements with Management	We encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit, or significant disclosures to be included in the financial statements.
Consultations with Other Accountants	We are not aware of any consultations management had with other accountants about accounting or auditing matters.
Significant Issues Discussed with Management	No significant issues arising from the audit were discussed with or the subject of correspondence with management.
Significant Difficulties Encountered in Performing the Audit	We did not encounter any significant difficulties in dealing with management during the audit.

Other Required Communications

Area	Comments
Letter Communicating Material Weaknesses in Internal Control over Financial Reporting	<p>Two material weaknesses in Internal Control over Financial Reporting noted at findings 2017-001 and 2017-002.</p> <p>One instance of material noncompliance noted at finding 2017-003.</p>
Certain Written Communications Between Management and Our Firm	<p>Copies of certain written communications between our firm and the management of the entity, including the representation letter provided to us by management, are attached as Appendix B.</p>