

Mercer County Forensic Audit

Final Report

Presented to the Mercer County Executive



Presented by Joseph A. DeLuca Advisory & Consulting Services LLC



September 1, 2023

Board Authorizations & Scope of Services



- On January 26, 2023, by Resolution No. 2023-75, the Mercer County (the “County” or the “MC”) Board of Commissioners called for a full independent forensic audit into the County’s finances.
- On February 21, 2023, by Resolution No. 2023-167, the County Board of Commissioners authorized the County Executive to execute a professional service agreement with Joseph A. DeLuca Advisory & Consulting Services LLC (“DeLuca Advisory”) for special forensic audit services for the County. The scope of services specified in the agreement were:
 - Perform an independent forensic audit of County finances and accounts to identify any attempted or actual embezzlement or misapplication of funds; and
 - Assist the County’s newly created Finance Committee in its development of a Committee Charter that will provide for comprehensive financial oversight of the Finance Department and the County’s finances.

Disclaimer

The forensic audit covered the period of January 2018 thru December 2022.

The New Jersey Office of the Attorney General (“AG”) initiated an investigation, into former MC Chief Financial Officer (“CFO”) David Miller’s (“Miller”) failure to pay payroll taxes that the County owed to the federal and state governments, and his expiration and lapsing of his licensing and certifications for the position of CFO.

On March 1, 2023, DeLuca Advisory initiated and maintained contact with the AG’s office during the course of the forensic audit, including the opportunity to review MC records in their custody.

There were matters that arose during DeLuca Advisory’s forensic audit that required additional follow-up beyond the scope of our audit, our authority, and ability to access certain key financial and business records. Those matters were referred to the AG’s office on June 28, 2023.

DeLuca Advisory devised a methodology for performing the forensic audit. Some factors considered were:

Large number of MC bank accounts and vendors;

High volume of financial transactions in the bank accounts;

Lack of County records and antiquated financial computer systems; and

Lack of knowledge and relevant experience of MC Finance Department (“FD”) staff.

Findings



The following are the Findings of the forensic audit related to the County Finance Department during Miller's tenure:

A. Financial Controls



Lack of financial controls.

Lack of segregation of duties.

Lack of timely reconciliation and management of bank accounts.

Lack of separation and transparency of accounts with client agencies.

Lack of adequate asset management, tracking, and accountability.

Lack of sufficient tracking and accountability of grants.

Findings



The following are the Findings of the forensic audit related to the County Finance Department during Miller's tenure.

B. Ethics & Conduct

Based on the review of available documents and information, there was no apparent evidence of attempted or actual embezzlement or misapplication of funds by Miller or his associates.

Difficult and inefficient working environment.

Staff complaints of workplace issues not managed in a consistent manner.

Staff's apparent lack of confidence and fear of retaliation in reporting issues.



Findings



The following are the Findings of the forensic audit related to the County Finance Department during Miller's tenure.

C. Operational & Staffing

Lack of policies, procedures, and manuals.

Lack of knowledgeable and experienced staffing related to financial positions, and filling of vacancies.

Lack of Chapter 12 Capital Funding reimbursement application through the State of New Jersey.

Lack of adherence to records management policies, including proper retention and organization of records, transparent data reporting capabilities and reporting requirements.





Forensic Audit Tasks Performed



Documents Reviewed

Third party investigative reports including NJ Office of the State Comptroller Report and Genova Burns Confidential Investigative Report

Annual County audit reports

Emails and computer records of Miller and other Finance Department staff

60 boxes of Miller's records in the custody of the AG's Office

General and Subsidiary ledgers

Financial records (i.e., vendor invoices and cancelled checks)

County bank statements

Procurement Records (i.e., vendor files and purchase orders)

Board of Commissioners' Meeting Minutes 2018 – 2022

Meetings Conducted

19 Current Finance Department staff

4 Other current County staff
including other departments' representatives

9 Former Finance Department staff
4 declined

8 Representatives from 6 County Legal and Accounting Consultants
1 declined

Former County CFO David Miller
Attempted/No response

Forensic Audit of Bank Accounts

Methodology and Sampling Criteria

For the Current Account (the operating bank account with the highest volume of transaction activity) of the County, obtained five-years worth of monthly Bank Statements and Cancelled Checks.

Obtained a listing of all existing bank accounts with the County and requested all Bank Statements for the corresponding accounts.

Utilized professional conversion software to convert PDF statements, containing over 73,000 bank transactions tied to the Current Account, into Microsoft excel files for trend analysis.
An additional 72,000 transactions were reviewed for 30 accounts across 8 financial institutions.

Applied Sampling Criteria (examples)

- One-time or Low Volume of High Dollar Amounts
- Issuance of Duplicate Check #'s
- Amounts right under thresholds (i.e., \$999, \$9,999)
- Suspicious transactions
- Auditor's Judgment

Based on the results of the sampling criteria, **344** transactions were examined across all accounts. Such transactions included:

- Incoming/ Outgoing Wire Transfers
- Checks
- Deposits/ Withdrawals

Examination of transactions included review of supporting documentation, including:

- Direct Payment Vouchers ("DPV's")
- Purchase Orders
- Vendor Files
- Cancelled Checks
- Wire Transfers

For all bank accounts under review, sent an Information Request letter to 9 financial institutions with which the County has a relationship, inquiring on the bank account signatories, beneficiaries, account status, and other information.

Forensic Audit of Bank Accounts/Findings

Bank Account Transactions Examined

Current Account *Operating account*

Average bank account transactions per year were 14,628, or approximately 60 transactions per workday. Total transactions were 73,141.

The 244 sampled transactions from the Current Account consisted of 197 checks and 47 wire transactions.

Of the 197 check transactions sampled, 107, or 54.3%, had no supporting documentation. 7 of the sampled transactions, or 3.5%, were not fully supported. The remaining 83, or 42.1%, were properly supported.

Examples of transactions with no supporting documentation, included but were not limited to, vendors, poll/election workers, payroll deductions, and Medicare reimbursements.

All of the 47 sampled wire transactions, valued at more than \$137M, had no supporting documentation. The Finance Department staff were unable to provide such documentation.

Other Accounts

45 Accounts Across 9 financial institutions

One of nine banks responded to Information Request letters. The one responding bank noted that, as of July 2023, Miller was still listed as the Authorized Signatory for two accounts with balances of over \$3M, as of December 31, 2022.

Of the 100 sampled transactions tested of the other accounts, 100 of them were wire transactions, which were also unsupported by any documentation. The Finance Department staff were unable to provide such documentation.

There were 122 monthly bank statements across 29 accounts. The Finance Department staff were unable to provide such documentation.



Forensic Audit Procurement & Vendor Reviews

Methodology and Sampling Criteria

- Obtained list of 26,726 County vendors from the County's financial management database.
- Applied Sampling Criteria to analyze, including, but not limited to:
 - Duplicate vendors
 - Use of a P.O. Box as their address
 - Vendors with keywords pertaining to Miller
 - Vendors in proximity of Miller's home
 - Auditor's judgement
- Identified 34 vendors for examination and review of supporting documentation for each vendor.

Findings

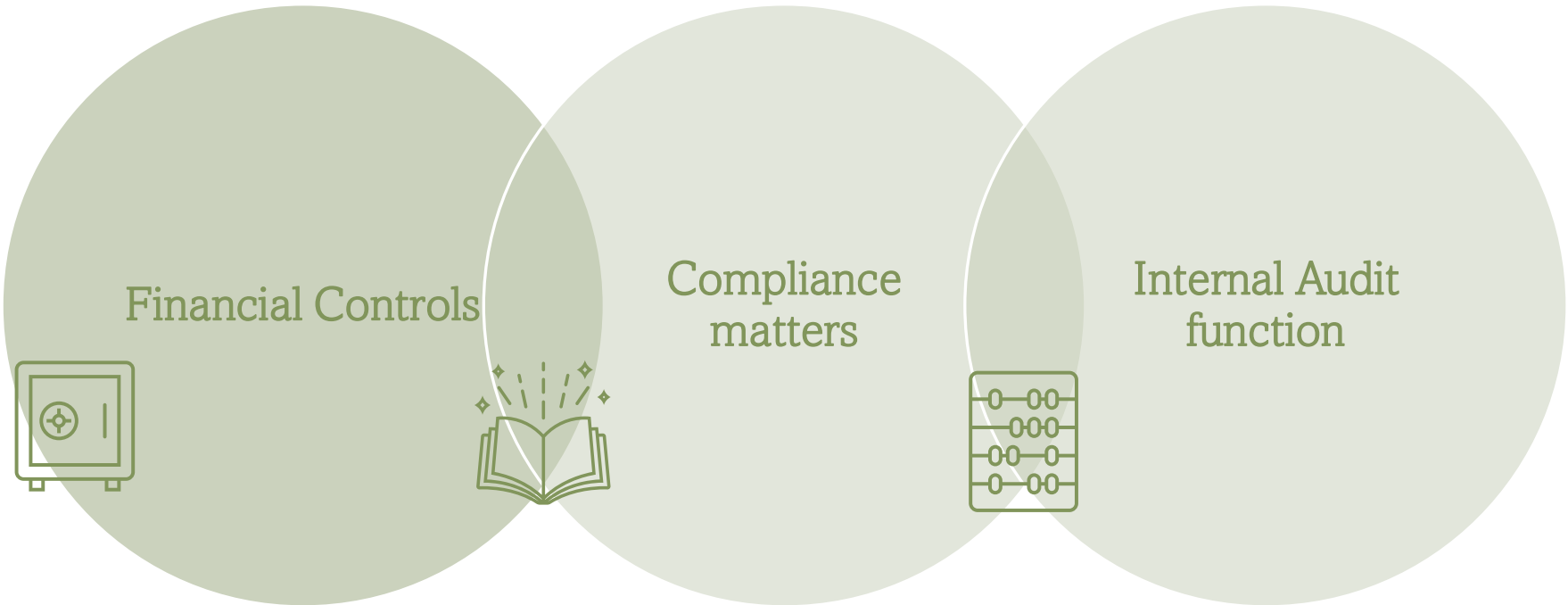
- 23 of the reviewed vendors, or 67.6%, had no transactions during the audit period and 18 were still listed as "Active."
- Lack of uniform data input policies and practices were used in creating the vendor profiles, creating inconsistent data input methods.
- Based on the review of available documents and information, no apparent evidence of attempted or actual embezzlement or misapplication of funds.

Recommendations

- **Ensure that only active, authorized vendors remain in the database and disable vendors that are inactive for a pre-determined time period.**
- **Periodically perform a thorough review of the vendor database to eliminate inactive and duplicate vendors.**
- **Only reactivate a vendor with proper supporting documentation and after proper due diligence.**
- **Maintain a retrievable record of deactivated vendors.**
- **Replace antiquated database and software with modern financial management system.**

Areas of Recommended Actions for Mercer County

Based on the forensic audit findings pertaining to



Recommendations for Mercer County



Financial Controls

Based on the forensic audit findings pertaining to the Finance Department Financial Controls, it is recommended that the County take the following actions:

Draft a policy and procedure for each major function to ensure there is proper segregation of duties and financial controls

Maintain supporting documentation related to wire transfers including the amount, date, purpose, approvals, bank name, account number, and account name.

Create an organizational structure with clear lines of authority and reporting to leadership and stakeholders.

Perform a staffing study and create a job description for each required position.

Ensure there is sufficient staffing so that all required functions are accomplished timely, properly and with transparency.

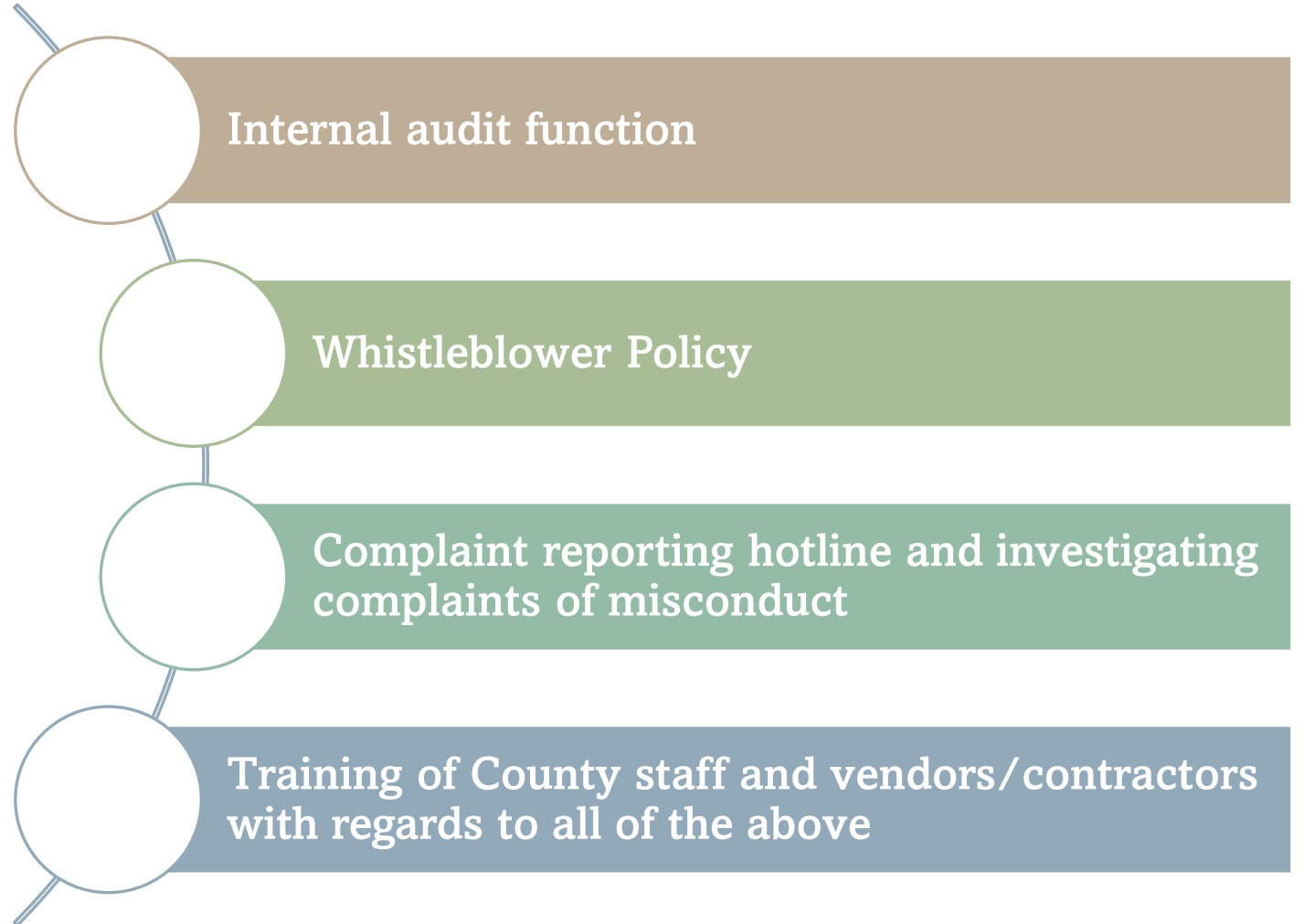
Assign individuals as backups to each position to ensure all functions can be accomplished during absences or other vacancies.

Recommendations for Mercer County



Compliance Matters

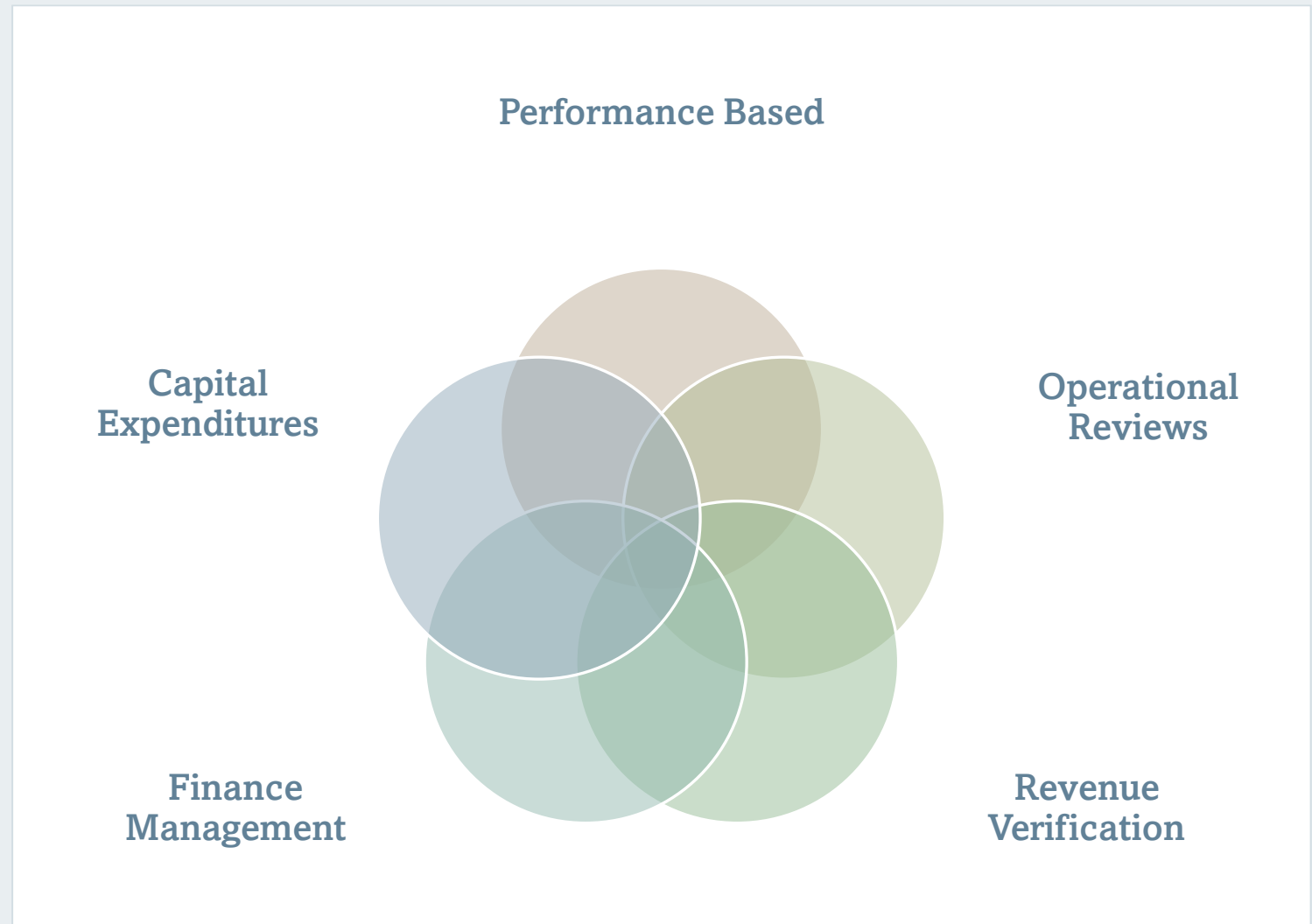
Create the position of Chief Compliance Officer, reporting directly to the County Executive, and with reporting responsibilities to the Finance Committee. This position would be responsible for managing:



Recommendations for Mercer County

Internal Audit Function

Create an Internal Audit function, reporting to the Chief Compliance Officer, that would be responsible for performing annual audit plans based on a risk assessment. These duties would be performed in conjunction with the County's executive management, departments, outside auditors, other appropriate stakeholders, and with input from the Commissioners. The types of audits could include:



Recommended Next Steps

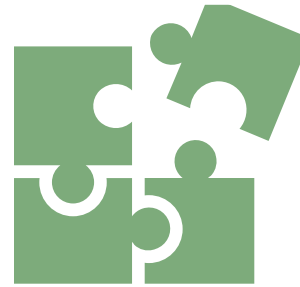
DeLuca Advisory recommends these future actions to complete forensic audit steps that could not be completed within the time frame of the forensic audit.



Follow up with remaining 8 banks to Complete the Information Requests of bank accounts that DeLuca Advisory commenced and follow up as needed.



Review for any questionable transactions in all bank statements of MC Bank accounts with Miller listed as signatory after his departure.



Obtain all missing bank statements for all MC Bank accounts for the period of 2018 – 2022 and review for any questionable transactions.

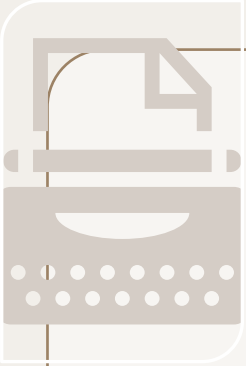


Follow up with NJ Attorney General's Office regarding its ongoing investigation.



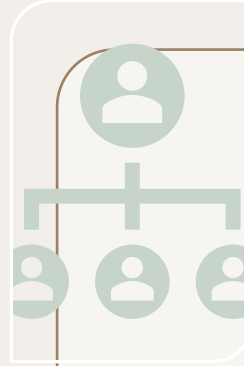
Perform a follow-up review to ensure DeLuca Advisory's recommendations are implemented.

Finance Committee Charter

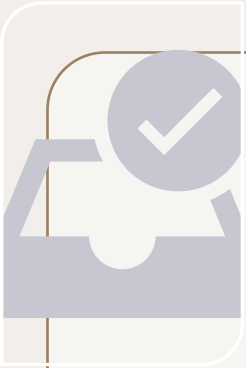


DeLuca Advisory created a draft Finance Committee Charter that documents and describes the following key factors relating to the Committee:

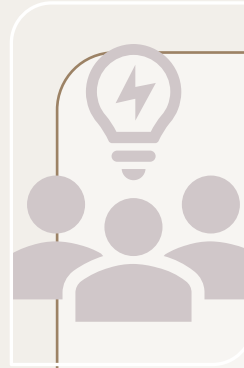
- Function
- Membership
- Authority
- Meetings and Reports
- Powers and Responsibilities



The core purpose and value of the Finance Committee is to provide oversight and accountability over the County's financial operations, functions, and provide guidance and recommendations to promote the County's financial condition.



Draft Charter was submitted to the Chief of Staff and County Administrator on July 19, 2023, and will be utilized to formulate the Committee's final Charter.



DeLuca Advisory is available to assist the County with the finalization and implementation of the Charter, and other Committee responsibilities, as needed.

Thank you!
Presented by:



DeLuca

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