



**UNION COUNTY
WATCHDOG ASSOCIATION**

*Shining a Light
on Government*

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May 20, 2010

The Honorable Chairman Daniel P. Sullivan
Members, Union County Board of Chosen Freeholders
Union County Administration Building
Elizabethtown Plaza
Elizabeth, NJ 07207

Re: Permanent Auditor

Dear Chairman Daniel Sullivan and Members of the Board:

On September 25, 2009, the New Jersey Foundation for Open Government held a symposium in Trenton. The Symposium's keynote speaker was New Jersey Comptroller Matthew Boxer.

During his presentation, Mr. Boxer spoke about how some public bodies keep using the same firms to audit their books year after year. He said that this is not a good practice because "permanent" auditors become complacent when they realize that nobody—other than themselves—are going to review their work the following year. He also said that there's a tendency for "permanent" auditors to not ask too many hard questions out of fear of not being hired for the following year.

Union County has been awarding their auditing contract to Suplee, Clooney & Company for at least 13 consecutive years now. This firm has donated heavily to political campaign coffers.

A review of 2007 and prior years Audit Reports of Union County Government prepared by Suplee, Clooney and Company disclosed the following opinion qualifications expressed by the auditor and recommendations made for remediation of issues that apparently have yet to be addressed:

December 31, 2007 Audit of the Office of the Sheriff of Union County - (page 2) The auditor states "In our opinion, because the Office of the Sheriff, County of Union, prepares 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 U.S. generally accepted accounting principles, the financial position of the Office of the Sheriff, County of Union, as of December 31, 2007 and 2006."

Our Mission

The Union County Watchdog Association, Inc. is a nonpartisan, nonprofit 501(c)3 organization working on behalf of residents and taxpayers to monitor Union County government and advocate for the elimination of waste, corruption and incompetence. We believe that good government can only be achieved through a system of checks and balance - a system that includes the watchful eye of the people.

December 31, 2007 Audit of the Union County Division of Correctional Services - (page 10) the auditor's comments describe fund balance discrepancies and reconciling items carried on the bank reconciliation for more than a year. The auditors' recommendations for remediation were also made in the prior year's audit and still have not been addressed by the Division of Correctional Services. This is a concern when the auditors recommendations are not implemented, and this begs the question "why are they not being implemented?"

December 31, 2007 Audit of Union County Government - (page 57) the auditor raises similar concerns regarding records of fixed assets. The audit recommends "That a complete record of general fixed assets be maintained as required by Technical Accounting Directive No 85-2". This has been mentioned in prior years audits (2006 and 2005) in which the auditor recommended a complete physical inventory of all fixed assets and a reconciliation of this inventory to the items and amounts carried on the County's current records of these assets. Apparently this is a chronic problem that the County has failed to address (for whatever reason), but it is equally troubling that Suplec Clooney lists the same recommendations year after year yet they do not press Union County to comply with the recommendations. Conversely, if Union County management had responded with satisfactory resolution of this audit issue in preceding audits one assumes that the issue would not again be raised in the most recent audits.

Enclosed is a copy of Mr. Boxer's August 2008 report entitled "Selection and Use of Audit Firms by New Jersey Government Units." As you can see, the New Jersey Comptroller's Office has recommended that "[i]n no event should a government unit use the same audit firm for more than ten consecutive years."

Excerpts:

Familiarity fatigue. Closeness to management may compromise the independence of the auditor." The continuous relationship between the auditor and its client creates professional and sometimes personal ties that develop an increasing complicity." Through daily interaction with the organization, the auditor moves from being an "outsider looking inward" to being an "insider looking inward." In this situation the auditor may lose the requisite skepticism or may overlook important details of the auditee's financial statements during the audit because of familiarity fatigue.

Seeking the client's approval. Without a predetermined audit assignment period, there is an eagerness to keep the client's approval in the hope of the steady income flow that would result from continued retention as auditor. "If an auditing firm knows that it can remain employed by its client indefinitely, as long as it remains in management's good graces, it has a powerful incentive to approve the client's accounting decisions, even if that accounting is fraudulent." With a predetermined assignment period, the motivation to appease the client for financial reasons is less of an issue since the firm's income flow will be coming to an end regardless of the client's views of the firm. As a result, the auditor may no longer be hesitant to report on internal control weaknesses.

Accountability. With a new pair of eyes scrutinizing the organization periodically, accounting firm "A" is more likely to ensure the client is in compliance with appropriate industry standards, guidelines, and principals, because accounting firm "B" will be reviewing "A's" work after "A's" term as auditor concludes. This system ensures the work of each auditor will be reviewed by its peers. "If, for example, Arthur Andersen had known in 1996 that a

competitor firm was going to be auditing the Enron books in 1997, they may have been much less inclined to fudge and compromise."

Casinos, banks, and insurances companies (and certain of their employees) are banned from making political contributions. But oddly, not auditing firms.

Expansion of the "pay to play" law. "Government units should follow a policy of not hiring any audit firm that has made political contributions on a local or State level in the year preceding the audit engagement."

Mr. Boxer's office also recommends that government units "should procure their auditor using a competitive selection process at a minimum of every five years." My understanding is that the County presently engages in a non-competitive process and simply passes a resolution, year after year, appointing the Suplee, Clooney & Company firm.

In light of the State Comptrollers Offices' recommendations and the fact that the county routinely makes it difficult, tedious and sometimes impossible for citizens to review county spending I believe that the Board of Chosen Freeholders ought to pass a resolution that would formally adopt the New Jersey Comptroller's recommendations starting immediately. This would at the very least ensure that someone is watching Union County government spending in a way that isn't tainted with the facts that Mr. Boxer has pointed out in his report.

Thank you for your attention to this matter.

Sincerely,



Tina Renna
President

encl.

The Comptroller's report, referenced in and enclosed with my letter is on-line at http://www.state.nj.us/comptroller/news/docs/080812_report.pdf

Matthew Boxer, New Jersey's first independent state comptroller, was the keynote speaker at a symposium on open government where he presented his report "Selection and Use of Audit Firms by New Jersey Government Units" Report 2008-1. You can view the symposium on-line at <http://www.veotaq.com/player/?pid=d8735ald-b856-4682-995c-02fb0b55e163>