Nassau County
Office of the Comptroller

Limited Review of the Treasurer's Office Internal Controls Procedures

HOWARD S. WEITZMAN

Comptroller

December 31, 2009

NASSAU COUNTY
OFFICE OF THE COMPTROLLER

HOWARD S. WEITZMAN
Comptroller

Elizabeth Botwin
Chief Deputy Comptroller

Aline Khatchadourian
Deputy Comptroller for Audit and Special Projects

Moira A. LaBarbera
Counsel to the Comptroller

Carole Trottere
Director of Communications

Peter Burrows
Project Administrator

Audit Staff

Lisa S. Tsikouras
Deputy Director Field Audit

Linda Leung
Senior Project Manger

Tolulope Agosu
Field Auditor

Douglas Hutter
Field Audit Supervisor

Ellen Misita
Field Audit Supervisor

Michael Grunwald
Field Audit Supervisor

Background

The Nassau County Treasurer's Office ("Treasurer's Office") is the custodian for all Nassau County ("County") funds and has primary responsibility for the issuance of debt and the investment of excess funds. In addition, the Treasurer's Office is responsible for recording the cash received by the Treasurer's Office by approving entries made by other departments for cash received and deposited by those departments, and for disbursements made by the County, including the review and approval of entries made into the Nassau Integrated Financial System ("NIFS").

The Treasurer's Office has two major Divisions, Accounting and Tax, each reporting to a Deputy Treasurer. In addition, Investment Support and Cashier's Cage report to the Deputy Treasurer in charge of the Tax Division. The responsibilities are as follows:

- Accounting Division – maintains records of cash receipts and disbursements of the County, including maintenance of records on the issuance of debt and the schedule of upcoming debt service payments. Additional responsibilities include:
    - Handling receipt of revenues (including reconciliation of tax receivables);
    - Reviewing, approving and depositing cash receipts from other County departments;
    - Processing wire transfers;
    - Issuing checks (including manual checks);
    - Maintaining a petty cash fund in the Cashier's Cage;
    - Reconciling bank accounts;
    - Reviewing Non–Treasurer bank reconciliations; and
    - Maintaining the financial records of the Nassau County Sewer and Storm Water Finance Authority and the Nassau County Tobacco Settlement Corporation, which are component units of the County.
- Tax Division
    - The Tax Lien Sales and Records area collects current and prior years' delinquent taxes and maintains the official County tax payment records. Every February, tax liens are auctioned.
    - The Tax Certiorari area processes all real property tax petitions, judgments and small claim refunds, and ensures payments are made properly.
- Investment Support
    - The Investment Support area issues bonds and short-term notes, such as revenue anticipation notes, tax anticipation notes, and bond anticipation notes. This area is also responsible for the daily investment of short-term excess cash.
- Cashier's Cage

- The Cashier's Cage area receives incoming cash payments, prepares deposits and records these deposits in NIFS.

The Treasurer's Office also collects miscellaneous revenues for the County. These include hotel/motel tax, entertainment tax, recoveries and various other fees and miscellaneous receipts.

The Treasurer's Office recorded revenues in NIFS amounting to $43,806,722 and $53,670,103 for 2008 and 2007, respectively, as detailed below:

	Revenues	
Revenue Category	2008	2007
Investment and Interest Income	$ 13,219,351	$ 25,017,295
Late and Delinquent Tax Transactions	26,433,737	21,868,944
Recoveries	182,727	2,557,201
Entertainment Tax	2,381,478	2,435,064
Miscellaneous	800,770	941,712
Hotel/Motel Tax	788,659	849,887
Total	$ 43,806,722	$ 53,670,103

As of June 30, 2008, the Treasurer's Office maintained approximately 108 bank accounts at eight banks with cash totaling approximately $448,218,436.[1] Of the 108 bank accounts, 12 are operating accounts totaling $25,185,672 and 96 are non-operating accounts totaling $423,032,764. In April 2009, the Treasurer's Office changed operating banks from Capital One to Wachovia as the result of a Request for Proposal (RFP). The number of bank accounts increased temporarily to 132 until the accounts at the former bank could be closed.

We conducted a review of the internal controls of the Accounting Division, Investment Support and the Cashier's Cage area, from January 1, 2007 to December 31, 2008. The objective of our audit was to review internal controls surrounding cash receipts and disbursements, accounting, bank reconciliations and short-term investments. Our review of the internal controls was conducted to provide us with reasonable assurance there are adequate safeguards to protect the County's assets.

We noted that the Treasurer's Office process of issuing manual checks for its disbursements, which was in effect during the audit period of January 1, 2007 to December 31, 2008, was replaced with an electronic check system, effective August 11, 2009. Although our audit did not review the new procedures implemented with the electronic check system, we acknowledge the progress taken by the Treasurer's Office with its conversion to an automated process.

[1] Source: NIFS general ledger system.

Audit Scope, Objective and Methodology

The objective of our audit was to examine the adequacy and effectiveness of internal controls related to cash receipts and disbursements, accounting, bank reconciliations and short-term investments, in order to provide us with reasonable assurance there were adequate safeguards to protect the County's assets. We reviewed the internal controls of the Accounting Division, Investment Support and the Cashier's Cage area .The period audited was January 1, 2007 to December 31, 2008.

We reviewed County laws, regulations and ordinances, Treasurer's Office procedures, relevant supporting documentation and interviewed staff. The audit includes our examination of documents and other available evidence that would substantiate the accuracy of the information tested, including all relevant records. We believe that this audit provides a reasonable basis for the audit findings and recommendations.

Summary of Significant Audit Findings

Inadequate Segregation of Duties

The Treasurer's Office internal controls over the recording of cash receipts and disbursements, accounting and reporting, and bank reconciliations, were inadequate, primarily due to a lack of segregation of duties. Individuals with supervisory or senior staff oversight responsibilities perform key overlapping functions. Inadequate segregation of duties may result in preventable errors or misappropriation of funds not being detected.
We also found that there was no set staff hierarchy for the initiation or approval of wire transfers or for recording of cash receipts into the County's general ledger, the Nassau Integrated Financial System ("NIFS"). Wire transfer slips lacked a clear signature approval path. As such, there was no audit trail to determine accountability as to each employee's role in the process or which level of approval their initials represented.

Inadequate Managerial Oversight of Bank Reconciliation and Check Writing

There was a lack of managerial oversight in resolving bank reconciling items and check writing procedures. In addition, there was a lack of managerial oversight over the approval process of wire transfers and entries recorded into the NIFS.

Oversight of Bank Reconciling Items

The Treasurer's Office maintains a Microsoft Excel spreadsheet to monitor the monthly bank reconciliation activities. The spreadsheet we reviewed did not include 14 of the Treasurer's 108 bank accounts and did not use Excel's functionality to calculate totals that should have been agreed to NIFS. The Treasurer's Office told us that they hold monthly meetings to review the status of reconciling items; however, we found no evidence that any actions were taken to resolve reconciling items or to verify that the reconciling items were correct.

Oversight of Check Writing

We found checks were released even though there was an error in the Magnetic Ink Character Recognition (MICR) coding on the payroll checks dated December 4, 2008 and some vendor checks dated December 1, 2008. The payroll and vendor checks were visually scanned by the staff employee for the routing number and check sequence but not for the additional MICR characters, such as transit symbols.

Deficient Written Policies and Procedures

The Treasurer's Office policies and procedures for key business processes were written in a high-level generalized format and did not always address steps to be followed for major activities, employee responsibilities, authorization levels, limits, controls, oversight functions, or reporting responsibilities. In addition, the Deputy Treasurer for Accounting confirmed that these policies were not disseminated to employees.

Deficient Bank Reconciliations

We found that the bank reconciliation process was deficient because: the bank reconciliations were not prepared properly or timely; five of the six accounts reviewed showed unreconciled differences wherein the balance per books did not reconcile to the balance per bank; were not performed using a standardized format; and did not use correct or standardized terminologies for reconciling items. We found the June and July 2008 Court & Trust account reconciliations were not completed as of December 31, 2008; some banks accounts were left unreconciled, with the reconciliations concluding with unidentified differences labeled "unreconciled adjustments"; there were unreconciled differences of $1.3 million and $1.7 million wherein the balance per NIFS were higher than the balance per bank; and reconciling items dating back to 2005 and 2006, although the Treasurer's policy states that reconciling items should not stay open for more than three months. We also found that the Court & Trust account reconciliation for January and April 2008 listed stale-dated checks dating back to 1997.

Review of the JP Morgan Court & Trust Bank Account

The Court & Trust Account was maintained in an environment of insufficient management oversight due to the same employee being responsible for overlapping tasks. We could not determine whether manual checks issued from the account for January 2008 and April 2008 were properly authorized, approved and supported because the Treasurer's Office did not comply with our numerous requests for documentation over the course of several months.

A follow-up audit of the Court and Trust account will be performed by the Comptroller's Office within the next six months.

Interest Earned on the Bail and Court & Trust Accounts

Bail monies from court are deposited in non-interest bearing accounts and later transferred to interest bearing accounts. Interest earned on bail monies is not refunded to the person who posted the bail. The New York State Criminal Procedure Law § 520.15(1) (a) requires that bail money be deposited into an interest bearing account and the interest earned paid to the person who posted the bail.

Issuance and Inventory of Manual Checks

After completion of fieldwork in 2008, the Treasurer's Office stopped issuing manual checks. Our findings relate to the manual process that was in place during our fieldwork.

The check writing area authorized, prepared, signed and issued approximately 979 manual checks per month. Journal entries were made into NIFS to record manual check payments that were not electronically processed. The majority of payees were individuals posting bail, towns, villages and municipalities.

Some manual checks processed by the Treasurer's Office were similar to the payments currently processed through the County's Vendor Claims Section; however, the issuance of manual checks by the Treasurer's Office bypassed the Comptroller's oversight. Pursuant to the Nassau County Charter §402 the Comptroller has the authority to "audit and approve all bills, invoices, payrolls and other evidences of claims, demands, or other charges against the county, and determine the regularity, legality and correctness of the same."

The manual check log and the daily manual check summary failed to list the payee of the check. There was no evidence of managerial review of the check log. Manual checks were not sent directly to the payee, instead they were returned to the requestor to record the entry into the NIFS. Check request slips were not properly filled out, approved and supported.

At the time of our initial fieldwork, the security camera outside the locked check writing room was not operational. In addition, the manual check stock was stored in a cabinet that was not locked during business hours. We were advised that the camera became operational in January 2009.

Wire Transfers

Wire transfers were made daily to move cash from one bank account to another, and to fund disbursements and short-term investments. The supervisor or staff employee prepared a daily wire transfer Excel spreadsheet of operating[2] bank accounts, which listed

[2] A total of 12 operating bank accounts and 6 non-operating bank accounts were listed on the Excel spreadsheet of wire transfers dated October 31, 2008.

the prior day's balance, the disbursements made for the day and the wire transfer amounts made to cover the day's activity. The spreadsheet was incomplete because it did not list non-operating bank accounts affected by transfers. Instead, those transfers were listed on daily disbursement logs. Transfers could not be clearly traced from one account to another on the spreadsheet because a number of individual transfers were aggregated as one amount, without specifically identifying each transfer.

Wire transfers slips lacked sufficient documentation to support the journal entries into the NIFS.

<u>Short-term Investments</u>

The Treasurer is responsible for investing any excess monies in short-term investments. We found that there were no written procedures documenting the investment process, which would detail internal controls over deposits and investments, interest rates and other information to manage the portfolios and identify the sources of all funds being invested as required by the Nassau County Investment Policy. We noted that the meetings of the Investment Committee were not memorialized in minutes and were informed that no formal Investment Committee existed. Monthly meetings were held with the Office of Management and Budget to discuss topics that included investments.

****

The matters covered in this report have been discussed with the officials of the Treasurer's Office during this audit. On December 8, 2009, we submitted a draft report to the Treasurer with a request for comments. An Exit Conference was held on December 14 and December 15, 2009 to discuss the draft audit report. As a result of the matters discussed at the Exit Conference, the report was revised, and resubmitted to the Treasurer's Office on December 18, 2009 for comments. The District's written comments, received on December 29, 2009, and our responses to those comments, are included as an appendix to this report.

TABLE OF CONTENTS

.

Audit Finding (1):

Inadequate Segregation of Duties

The Treasurer's Office internal controls over the recording of cash receipts and disbursements, accounting and reporting, and bank reconciliations were inadequate, primarily due to a lack of segregation of duties. Individuals with supervisory or senior staff oversight responsibilities perform key overlapping functions.

An effective system of internal controls requires segregation of duties with employees specifically identified and held accountable for each step in the process. Accounting related functions should be separated so that controls cannot be circumvented. In particular, the operational tasks of handling monies and keeping accounting records should be assigned to more than one employee; this prevents one individual from controlling more than one phase of a transaction. In general, the asset custody function (cash receipts, bank deposits, investments, and petty cash custody), accounting and reconciliation functions (recording daily activity into accounting records and bank reconciliations) and transaction approval (adjustments to accounting records and review of bank reconciliations) should each be performed by a different employee. Inadequate segregation of duties may result in preventable errors or misappropriation of funds not being detected.

In our review we observed the following:

- There was no set staff hierarchy for the initiation or approval of wire transfers or for initiating the recording of cash receipts into NIFS – it appeared that these functions were performed based on differing staffing availability each day. The wire transfer slips examined had numerous employees' initials approving the document, but there was no indication which step in the process each employee approved. As such, there was no audit trail to determine accountability as to each employee's role in the process or which level of approval their initials represented. According to a written description of workflow, two supervisors and three staff within the Accounting Division were primarily responsible for wire transfers, bank reconciliations, and recording cash receipts into NIFS.
- One employee:
  - was responsible for reconciling the Court & Trust bank account The reconciliations did not contain any evidence of being signed and dated by the preparer, or any evidence of being reviewed by a supervisor;
  - maintained the manual check log for all Treasurer's bank accounts, which records check usage; and
  - processes electronic checks. and prepared manual checks from six different bank accounts [3], including the Court and Trust Account[4];

[3]A total of seven different types of manual checks are written; another employee is responsible for the preparation of manual bail refund checks.

- A senior member of the Treasurer's management team reconciled the Treasurer's Office main disbursement account. His work was not reviewed by any other employee.

Audit Recommendations:

The Treasurer's Office should:

a) ensure that incompatible functions are not performed by the same individual by identifying those functions that can be reassigned among employees and segregating duties. These reassignments should result in a separation of the responsibilities for processing checks, the preparation of bank reconciliations, the wire transfer process and the recording of cash receipts to NIFS to ensure there are adequate internal controls. If duties cannot be segregated, provide adequate supervisory review of these functions; and

b) develop wire transfer slips that clearly include an audit trail by identifying the specific level of approval indicated by each employee's initials (i.e., initiating, approving, transmitting and recording the wire transfers).

Audit Finding (2):

Inadequate Managerial Oversight of Bank Reconciliation and Check Writing Procedures

There was a lack of managerial oversight in resolving bank reconciling items and check writing procedures. We also found inadequate supervisory review over the approval of wire transfers, and recording of entries into the NIFS general ledger. Effective internal controls require the monitoring and review of procedures and activity by the supervisory staff when insufficient segregation of duties exists.

Oversight of Bank Reconciling Items

The Treasurer's Office, in response to a bank reconciliation comment by the County's external auditors in the 2006 Management Letter, stated that they "maintain a reconciling item spreadsheet which contains an explanation, supporting documentation and an action plan for correction."[5] This Microsoft Excel spreadsheet is maintained by a senior member of the Treasurer's Office management team, who is also responsible for reviewing and approving bank reconciliations. During our Exit Conference, the Treasurer's Office stated that they hold monthly meetings to review the status of reconciling items.

---

[4] At the Exit Conference held on December 14 and 15, 2009, the Treasurer's Office informed us that as of August 11, 2009, the manual check process was computerized and that manual checks are no longer issued.
[5] *County of Nassau, New York Report to Management* for the Year Ended December 31, 2006, Bank Reconciliations – Management's Response on page 3.

We reviewed the June 30, 2008 spreadsheet, which had summary information for 94 of the Treasurer's Office 108 bank accounts totaling $421,534,862.[6] Fourteen accounts were not included on the spreadsheet. The Treasurer's Office was using the spreadsheet to monitor the completion of bank reconciliations. Each bank balance and each reconciling item from the bank reconciliations (totaling approximately $53,357,486) was manually input into the spreadsheet. The Treasurer's Office was not using Excel's functionality. For example, Excel was not used to calculate totals that should have been agreed to NIFS. Our review noted there was no evidence that any actions were taken to resolve reconciling items or to verify that reconciling items were correct. (See *Audit Finding 4, Deficient Bank Reconciliations*.)

<u>Oversight of Check Writing</u>

There were no established supervisory review procedures for the oversight of checks printed electronically. As a result, payroll checks dated December 4, 2008 and some vendor checks dated December 1, 2008 were released even though they had printing errors on the Magnetic Ink Character Recognition (MICR) coding (i.e., back-slashes, asterisks and ampersands appeared). Consequently, payees could not easily cash their checks, and were instructed by the County to present a copy of a County memo to their bank in order to do so. The error was due to the print driver and printer not being reset after printing other checks. A staff employee scanned the payroll and vendor checks for the routing number and check sequence, but not for the MICR coding.

In the Treasurer's Office corrective action plan, which was verbally communicated to our auditors, the Treasurer committed to:

- placing a list of all MICR codings for the various check runs in the check writing area as a visual aid;
- ensuring supervisory approval for each batch of checks by reviewing the first and last check numbers and MICR coding; and
- revising check-writing procedures to include details that will state the actual mechanics of the check writing process.

We examined the check writing area after our December 15th Exit Conference and found that the Treasurer's Office had posted a list of all bank accounts and account numbers containing routing numbers, but no visual aid of the MICR characters, such as the MICR transit symbol, was posted.

<u>Audit Recommendations</u>:

<u>Oversight of Bank Reconciling Items</u>

The Treasurer's Office should ensure that:

a) the Microsoft Excel spreadsheet is re-configured to use the full functionality of Excel and to ensure that all reconciling items are properly identified;

[6] Balance per NIFS as of June 30, 2008.

b) reconciling items are resolved and supporting documentation is attached as evidence of management oversight; and

c) the adjusted book balance is reviewed and compared against NIFS to verify that bank to book transactions were accounted for appropriately.

Oversight of Check Writing

The Treasurer's Office should:

a) document a supervisor approval procedure for the check writing process; and

b) fully implement the corrective action plan verbally communicated to the auditors.

Audit Finding (3):

Deficient Written Policies and Procedures

Written policies and procedures are an effective internal control tool to provide guidance, accountability and reliability of accounting data and financial reporting; they are also an effective tool in ensuring continuity of business should a key employee be absent for a length of time. Policies and procedures should be approved by the Treasurer and disseminated to employees to ensure their awareness and compliance with policy.

At our Entrance Conference, held on June 17, 2008, we requested copies of written policies and procedures for key business processes. We received some written policies on July 29, 2008. The *Cash Receipts* policy was not received until December 19, 2008. We later confirmed with the Deputy Treasurer for Accounting that these policies were not disseminated to employees. The policies were written in a high-level generalized format and did not always address steps to be followed for major activities, employee responsibilities, authorization levels, limits, controls, oversight functions, or reporting responsibilities.

At the Exit Conference, the Treasurer's Office provided us with copies of its *Paybase (MDE) Manual Check Procedure* along with an update of its *Wire Transfer Policy*.

We found specific deficiencies in each of the policies provided to us prior to the end of our fieldwork (December 31, 2008) as noted below:

Opening of Bank Accounts

The Treasurer's Office *Opening of Bank Accounts* policy indicated that the Nassau County Department of Compliance ("Compliance") had a policy stating that all bank accounts are the responsibility of the Office of the Treasurer, except for non-Treasurer accounts (accounts not managed by the Treasurer's Office) which must be approved by the Compliance Department. The policy states that in order to open a non-Treasurer account, the department must follow the Department of Compliance's procedures.[7] We met with a representative of the Office of Compliance on September 9, 2008 and made numerous e-mails requests, but never received a copy of Compliance's policy.

Check Writing

The Treasurer's Office *Check Writing* policy requires checks to be visually checked for printing errors and alignment. The lack of compliance with this procedure may have contributed to checks being generated and distributed with the incorrect MICR coding. (See *Audit Finding 2 – Inadequate Managerial Oversight.*)

Funding of the Daily Warrant

The written procedures to address the business process for transferring funds between bank accounts in order to fund the daily warrant, which is the computer-generated listing for authorized payroll and vendor payments, was not specific as to who was responsible for various steps in the process. For example, the procedure states that "A file of the daily warrant is sent to the bank and checks are physically released…", but it does not indicate which unit or employee(s) are responsible for this step.

Cash Receipts

This written policy and procedure only covered the cash received in the Cashier's Cage area, not the flow of incoming receipts through the Accounting Division. Procedures for the flow of cash receipts received directly by the Treasurer's Office and the role that the accounting section has in initiating the cash receipt documents (RCTR) into NIFS were not provided.

Audit Recommendations:

The Treasurer's Office should:

a) formalize and disseminate written policies and procedures to address;

   i. significant activities describing each process in detail including due dates/times of each daily activity;

   ii. employee responsibilities and backups;

   iii. authorization levels and limits;

   iv. control procedures to ensure that assets are safeguarded;

   v. reporting responsibilities;

[7] Our office located an e-mail dated September 22, 2005, wherein the Treasurer defined a policy that required that new Non-Treasurer bank accounts must not be opened until written approval is received from the Deputy County Executive for Compliance, since the signatories are neither the Treasurer's nor the Deputy Treasurer's.

vi. performance standards; and

vii. references to other policies and supporting documents which should be attached; and

b) develop written policies and procedures that address the flow of cash receipts coming into the Treasurer's Office, such as recording the cash receipt document (RCTR) into NIFS and the reconciling of cash receipts to NIFS.

Audit Finding (4):

Deficient Bank Reconciliations

As of June 2008, the Treasurer's Office maintained approximately 108 bank accounts with eight different banks. At the time of our review, nine staff employees reconciled the bank accounts to the balances recorded in a handwritten "book of balances" [8] log and to NIFS on a monthly basis using Microsoft Excel spreadsheets. We examined the June and July 2008[9] reconciliations for six of the bank accounts, which were chosen based on the dollar volume of disbursements and activity in the accounts and previous deficiencies in the bank reconciliation process cited by the external auditors.

We acknowledge that the bank account reconciliations chosen for our examination were very complex due to the volume of activity and the number and nature of the reconciling items, as well as, for some accounts, the need to rely on other departments to provide information required to reconcile the accounts. That given, we found that the bank reconciliation process was deficient because; the bank reconciliations were not prepared properly or timely; were not performed under a proper segregation of duties; five of the six accounts reviewed did not reconcile the balance per books to the balance per bank; were not performed using a standardized format; and did not use correct or standardized terminologies. The use of standardized formats and terminologies facilitates the review process and diminishes the risk of error.

Delays in Reconciling Bank Accounts

Monthly bank reconciliations did not appear to always be performed timely or were not dated so that we could not determine when they were performed. Of the six bank accounts reviewed, four were not reconciled timely. Examples of delays include:

- the June and July 2008 Court & Trust account reconciliations had not been completed as of December 31, 2008;

[8] In October 2008, a Microsoft Access database replaced the handwritten log.

[9] The June and July 2008 bank reconciliations for the Court and Trust account had not been prepared at the time of our review; the latest month available was January 2008. We were provided with the bank statements for February and March 2008 and a reconciliation for April 2008.

- the Citibank, DSS WMS Direct account reconciliation for June 2008 was dated August 13, 2008; the reconciliation for July 2008 was dated October 3, 2008.[10]; and
- the Commerce Bank, Rec. & Parks Global Payment account reconciliation for June 2008 was dated September 10, 2008; the reconciliation for July 2008 was dated October 17, 2008.

We were unable to determine the timeliness of the Capital One, General 31 account reconciliations for June and July 2008 because they were not dated.

At the Exit Conference, the Treasurer's Office informed us that the delays in reconciling the Citibank DSS WMS Direct and the Commerce Bank, Rec. & Parks Global Payment account were due to a lack of timeliness on the part of DSS and Parks in providing it with information necessary for the completion of the reconciliations.

Bank Reconciliations Contained Mislabeled Reconciling Items

The Treasurer's Office mislabeled bank reconciling items, did not use standard terminology for reconciling items and did not use standard reconciliation templates. These deficiencies made the nature of the reconciling items unclear and may lead to errors in reconciling and detecting errors when recording transactions. For example, the term "Advance Deposits" was used interchangeably for both un-posted transactions (monies that were deposited into the bank, but not posted to NIFS) and deposits in transit (monies that were posted to NIFS but not deposited to the bank), and occasionally for other reconciling items as well. For example, the June and July 2008 bank reconciliations for the DSS WMS Direct account showed $59,006 labeled as "Advance Deposits." We determined that $41,291 actually represented deposits in transit and $17,715 did not represent a type of deposit at all, but were actually checks issued on the bank account, which did not have corresponding deposits (funding) to cover the checks issued. We confirmed with a senior supervisor that the correct use of the term "Advance Deposits" should be for monies that have been deposited, but not yet posted.

Bank Reconciliations Were Incorrectly Prepared

In order for a bank account to be reconciled to a book balance, the reconciliation must agree the balance per books to the balance per bank and all reconciling items must be specifically identified. We found that the Treasurer's Office did not always prepare proper bank reconciliations and left reconciling differences as "unidentified adjustments" without completing the reconciliation. Examples include:

- The DSS WMS Direct June 2008 account reconciliation included an "adjustment", or unreconciled difference, of $42,288. Upon review, we noted that this unreconciled difference was understated because it did not take into account

[10] Two dates were listed on the reconciliation for the WMS account due to additional work or review performed on the second date listed.

$24,281 in outstanding checks as a result of incorrectly recognizing them as stale checks. In July 2008, the unidentified adjustment was $47,507. The unidentified adjustments for a 12-month period ranged from $105,684 in October 2007 to $(17,003) in February 2008.

- The General 31 account (the main vendor disbursement account) June 2008 bank reconciliation listed an adjustment for voided checks of $12,572 as a subtraction rather than an addition to the book balance. This resulted in increasing the unreconciled difference by $(25,144) from $(494) to $(25,638). This reconciliation also contained additional amounts that were not correctly presented which impacted the unreconciled difference. The July 2008 reconciliation had an unidentified adjustment of $3,234. The unidentified adjustments for the period August 2007 through July 2008 ranged from $4,961 in March 2008 to $(18,650) in August 2007.

- The Bank of America, DSS General 37 account had unidentified adjustments of ($6,936) and ($15,869) in the June and July 2008 bank reconciliations, respectively.

- The Commerce Bank, Rec & Parks Global Payment account's June and July 2008 bank reconciliation listed miscellaneous adjustments of ($489) and $717, respectively, for which there was no supporting documentation.

We could not determine if the Court & Trust account bank reconciliation was properly prepared. We reviewed the account reconciliations for January 2008 and April 2008, by comparing the adjusted ending book balance per NIFS to the adjusted ending bank balance. The bank reconciliations were prepared using the total month ending balance from spreadsheets, which the preparer represented were received from the bank. We compared the month-end balance on the bank statements to the month-end balance in NIFS and found differences of approximately $1.3 million in January 2008 and $1.7 million in April 2008, wherein the balances per book were higher than the balances per bank. The major differences appeared to be attributed to sub-accounts posted in NIFS and included on the spreadsheets, but which were not recorded on the official bank statements. We were not provided with any additional bank confirmation to verify the balances at the end of the month to determine why the bank account balances posted to NIFS were higher than the balance per bank. We requested, but were not provided with evidence of correspondence between the Treasurer and the bank to determine what steps were taken to resolve these differences.

Reconciling Items Outstanding for Over Six Months

Certain bank reconciliations had outstanding reconciling items that were over six months old. This violated the Treasurer's Bank Reconciliation policy, which states, "reconciling items are reviewed on a monthly basis and should not remain outstanding for longer than three months". Examples included:

- The bank reconciliations for the DSS General 37 account for June 30, 2008 and July 31, 2008, showed two outstanding reconciling items totaling $126,727 each dating back to 2006.

- The DSS WMS Direct account reconciliation for June 30, 2008 and July 31, 2008, showed three reconciling items totaling $138,494, consisting of:
  - Duplicate deposits of $26,828 dated from November 2005;
  - Checks issued from October - November 2005 of $110,480 with no corresponding deposit to cover disbursements; and
  - Unrecorded interest of $1,186 credited by the bank in November 2005.

  While the Treasurer's Office resolved these items in October 2008, we note that the resolution took approximately three years.

The Treasurer's Office did not make NIFS adjustments to the General Fund (Capital One Account-1FA) to add stale dated checks back to the cash in banks balances within a reasonable time period. The June 30, 2008 bank reconciliation for the Capital One General account showed that a deposit of $103,361 made into the bank account on April 22, 2008 represented funding for stale-dated outstanding checks from May to September 2006. The deposit was not recorded in NIFS until June 18, 2008.

The Court & Trust account's January and April 2008 reconciliations contained 10 stale checks totaling $69,624; the checks had issue dates ranging from May 1997 through January 16, 2007.

The June and July 2008 reconciliations for the Parks, Recreation and Museums credit card account (used to receive payments made by customers) included reconciling items representing deposits not posted to NIFS. In one instance, we found that a deposit from May 2008 of $26,948 appeared twice, as offsetting items on the same bank reconciliation. It was added to both the balance per books as a deposit that had been received by the bank and not recorded in NIFS (and therefore added to the balance per NIFS), and the balance per bank as a deposit in transit recorded in NIFS that had not been credited by the bank (therefore added to the balance per bank). All but $3,100 of this amount should not have been a reconciling item because it had been recorded both in NIFS and by the bank. As of November 2008, $3,100 continued to be carried as reconciling items.

<u>Audit Recommendations:</u>

The Treasurer's Office should:

a) ensure that bank reconciliations are performed timely;

b) revise the bank reconciliation policy to include guidelines and procedures that include use of standard templates and uniform terminology in the preparation of bank reconciliations which should be documented and disseminated to staff;

c) perform supervisory reviews to ensure that the procedures are followed, bank accounts are fully reconciled and that all reconciling items are properly identified and followed up to resolution in a timely manner; and

d) obtain a bank confirmation of the account balance for the Court and Trust account for each month in 2008, inclusive of portfolios that are not included on the bank statement, to reconcile the actual bank balances to the NIFS balances.

Audit Finding (5):

Review of the JP Morgan Court & Trust Bank Accounts

We could not review the manual checks issued on the Court & Trust account for January 2008 and April 2008 in order to determine if all checks were authorized, approved and issued according to the Treasurer's Office check writing procedures. We were not provided with the supporting documentation for the issuance of these checks, even though we requested this documentation on numerous occasions over the course of several months. The employee in charge of reconciling this account informed us that he was too busy to comply with our request. Management was aware of the employee's lack of cooperation but did not take any actions to ensure that we received the information requested.

There is a substantial risk that errors or possible misappropriation of funds could occur and go undetected due to the lack of segregation of duties and management oversight, as the same employee was responsible for issuing the manual checks and kept the manual check log before the Treasurer stopped issuing manual checks, as well as, reconciling the Court & Trust bank account that used only manual checks for disbursements (See *Audit Finding 4 - Deficient Bank Reconciliations and Audit Finding 7-Issuance of Manual Checks*).

Audit Recommendations:

The Treasurer's Office should:

a) establish guidelines and procedures for checks issued on the Court & Trust account to ensure that all checks were properly authorized and approved;

b) segregate duties and maintain proper management oversight; and

c) maintain supporting documentation for each check in a manner that enables management to provide proper oversight.

Given the failure to provide supporting documentation when requested, a follow-up audit will be performed by the Comptroller's Office of the Court & Trust account within the next six months. As such, the Treasurer's Office should compile all the supporting documentation for this account from the audit period forward, and make it available for our review.

Audit Finding (6):

Interest Earned on the Bail and Court & Trust Accounts

Accounting for Bail Interest

Monies received from the courts for bail deposits are initially deposited in a non-interest bearing account (Capital One). Periodically, funds are transferred from the original account to an interest bearing account (Citibank 1EA) and the revenue earned is transferred to and recorded by the Treasurer's Office as interest income to be retained by the County in the Treasurer's General Fund investment income account (Citibank 1EE). Based on the opinion of the County Attorney, this interest does not belong to the County. New York State law requires the County to pay interest on refunded bail. The State Comptroller has explicitly held[11] that bail funds collected pursuant to Criminal Procedure Law (CPL) § 520.15(1) (a) is "money paid into court" and therefore subject to regulations requiring deposit in an interest-bearing account, and the interest must be paid to the person who posted the bail.

We were informed by the Treasurer that the interest earned for 2008 was approximately $250,000 however, we could only identify $221,544 of Cash Surety interest income.

Court & Trust bank accounts

We reviewed the Treasurer's Office two interest bearing Court & Trust bank accounts, J.P Morgan Chase and Citibank (closed in May 2008), for 2008 and 2007 and found that interest earnings were not posted in a timely manner.

- As of April 2009, no interest income for 2008 had been recorded to the J.P. Morgan Chase account in NIFS. Interest income for the first two quarters of 2007 was not recorded in NIFS until October 2007 while the third and fourth quarters were not posted until January 2008.

- Interest income for the first two quarters of 2007 was not recorded in NIFS until October 2007, while the third and fourth quarters were not posted until January 2008. Interest income earned in the Citibank account for January 2008 to May 2008, was posted in May 2008 in NIFS, prior to the closing of the bank account.

[11] Opinions of State Comptroller 91-33, September 4, 1991.

Audit Recommendations:

The Treasurer's Office should:

a) deposit bail monies received in an interest bearing account upon receipt;

b) by use of an Excel spreadsheet, prorate interest earned on the funds in this account to each individual depositing bail money and pay the interest upon return of the bail money;

c) post interest earned to NIFS on a timely basis; and

d) record the interest earned on the bail money as a liability.

Audit Finding (7):

Issuance and Inventory of Manual Checks

After completion of our fieldwork in 2008, the Treasurer's Office stopped issuing manual checks and converted to a computerized check production system. These findings relate to the Treasurer's previous system of issuing checks. However, the recommendations made as a result of these findings are still relevant to the new process.

The Treasurer's Office issued an average of 979 manual checks per month in 2008. Manual checks are issued for emergencies, tax lien redemption, court and trust, payroll replacement, mortgage tax, school tax and bail. Some manual checks processed by the Treasurer's Office are similar to the payments currently reviewed and approved before payment by the Comptroller's Office: when the Treasurer issues these manual checks it bypasses the internal controls established by the Comptroller's Vendor Claims review procedures.

During our review of the manual checks process, we found that:

- a manual check log, which only accounts for the numerical order of checks, kept by the Treasurer's Office did not include the payee and amount for checks issued. In addition, the daily manual check summary produced by the manual check-signing machine lists check numbers issued for the day but fails to list the payee. As a result, the only way to determine who the payee was on a check is from the cancelled check itself;
- there was no evidence that the check log was reviewed by management to ensure that it was properly maintained and that all checks were accounted for;
- check request slips were not filed with their supporting documentation;
- check request slips were not always properly filled out and approved;
- manual checks were returned to the requestor and not sent directly to the payee; and

- all manual checks are approved by a supervisor, and are then returned to the staff employee who made the request so that they may prepare the entry to record the manual check payment into NIFS. Returning checks to anyone other than the intended payee represents a weakness in internal controls, which heightens the risk that the funds may be subject to misappropriation.

We reviewed supporting documentation for 48 manual "M", "F" and Emergency manual checks totaling $896,948 written during June and July 2008.[12] Our review disclosed the following ten exceptions:

- check request slips for four manual checks were missing a second authorizing signature on the check request slip;
- check request slips for two manual checks to transfer funds to other accounts were missing the recipient account numbers;
- check request slips for two manual checks were missing the account number to which the money was being transferred to and also lacked valid supporting documentation;
- a check request slip for one manual check issued was missing a second authorizing signature on the check request slip, as well as the account number to which the funds were being transferred; and
- a check request for one manual check had an incorrect check number on the check request slip.

On October 30, 2008, we requested supporting documentation for all manual checks written in June and July of 2008 and we received the final supporting information on January 22, 2009. We also made a later request for the January and April 2008 manual check support for the Court & Trust bank account, which we did not receive.

We also found that at time of our audit, the Treasurer's Office did not maintain adequate control over its inventory of unused checks:

- Payroll and vendor checks were printed in a separate room from the general office space. At the time of the audit, the security camera in the check writing area, which had been installed as a deterrent to possible theft, had not been hooked up and was not functioning. In January 2009, we were informed that a security camera was now operating.

- The inventory of unused manual checks was kept in a cabinet outside the check writing area. The cabinet was not locked during office hours, and consequently, access was not limited to check custodians. There were no set limits on the

[12] "M" manual checks are primarily used for various purposes, since the related bank information is encoded on the check at the time of issuance. "F" manual checks are primarily used for fund transfers not done by wire.

supply of manual checks that were kept in the cabinet. Certain bank accounts had up to a year's supply of manual checks in the cabinet.

Since the completion of fieldwork, the Treasurer's Office has replaced the process of issuing manual checks with a computerized process. All checks are now printed on a laser printer and as a result, there is no longer an inventory of unused checks. We have not reviewed the internal controls surrounding the new process.

Audit Recommendations:

The Treasurer's Office should:

a) ensure that all check requests have the proper approval signatures and check request slips include bank account numbers and have all supporting documentation attached;

b) ensure that all checks are send directly to the payee; and

c) work with the Comptroller's Office to determine which manual checks could be issued through the County's Vendor Claims Department, with a goal of minimizing the number of manual checks issued. Those checks that must be issued manually should be released only after the Comptroller's Office review, pursuant to the Nassau County Charter §402 which states that the Comptroller has the authority to "audit and approve all bills, invoices, payrolls and other evidences of claims, demands, or other charges against the county, and determine the regularity, legality and correctness of the same."

Audit Finding (8):

Wire Transfers

We found deficiencies with the Treasurer's Office internal controls over wire transfers (internal and external), including the maintenance of wire transfer spreadsheet records. The Treasurer's Office has not established a threshold for approval or bank limits on wire transfers.

Wire transfers are made on a daily basis to move cash within (internal) or between (external) the eight banks and approximately 108 bank accounts, in order to fund disbursements and short-term investments. The supervisor, or a staff accountant, prepares a daily wire transfer Excel spreadsheet that includes 12 operating bank accounts, which lists the prior day's balance, the disbursements made for the day, and the wire transfer amounts made to cover the day's activity. This spreadsheet is maintained as a summary record of wire transfers each day; however, the record is incomplete because it is the Treasurer's Office practice not to list non-operating bank account wire transfers on the Excel spreadsheet. Instead, they are recorded on a daily disbursement log maintained on an Excel spreadsheet (as of November 2008, it was maintained on an Access database file). In addition, the spreadsheet aggregated a number of individual transfers in and out as one total amount, without specific identification of each transfer. For example:

- We examined one internal wire transfer of $100,000 where a notation on a signed transfer slip referring to the daily spreadsheet was given as support to cover a bank overdraft. The spreadsheet did not clearly identify this specific transaction since the amount was aggregated with other transfers under a column labeled "Trans" (transfers);
- A transfer slip for a transfer of $2,675,000 from a non-operating account (1CJ) to an operating account to cover a bank overdraft referred to the daily spreadsheet as support. Our review of the spreadsheet determined that the specific (transfer in) transaction could not be clearly identified, since the amount was part of the aggregate amount listed under the column labeled "Trans." We note that the supervisor initiating this transaction also has responsibility for reconciling this non-operating account.

As a result, the audit trail was difficult to follow because both sides of each transfer (transfer in and transfer out) could not be identified on the Excel spreadsheet with certainty.

<u>Wire Transfer Process</u>

Our review of the wire transfer process disclosed the following:

- The Treasurer's Office Investment Support area reviews and signs off on the daily wire transfer spreadsheet to indicate its approval of wire transfers for the day. Upon this approval, the supervisor or a staff accountant begins the actual transfer process. We were advised that the Investment Support area maintains a separate spreadsheet to verify these wire transfers; however, we found only a handwritten document of transfer amounts, which is discarded after a month. There was no evidence that the handwritten document was reconciled back to the daily wire transfer spreadsheet.

- On July 20, 2007, a wire transfer of $70,000 was made to a vendor based upon approvals of the Treasurer and the County Attorney's Office, rather than being processed as a vendor claim. This action circumvented the Treasurer's normal claims control process for issuing a wire transfer to a vendor and bypassed the Comptroller's oversight. *(See Audit Finding 7 – Issuance of Manual Checks.)*

<u>Internal and External Wire Transfers</u>

We reviewed 28 internal wire transfers, totaling $447,604,090 that were processed on October 31, 2008 and found the following:

- nine transactions, totaling $4,033,964, where there was no evidence of approved transfer slips. The Treasurer's Office provided us with NIFS Production System RIMS Detail Documents containing employees' initials as evidence of approval. However, the document is produced after the transfers are made and therefore the initials cannot be considered approval to make the transfers.

- 20 transactions, totaling $81,004,090, where the transfer slips did not show a clear approval path listing the date and initials of the employees authorized to initiate, approve, transmit and record the wire transfers.

We also reviewed four external wire transfers, totaling $54,370,960, processed on October 31, 2008 and found they did not show a clear approval path listing the date and initials of the employees' initiating, approving, transmitting and recording the wire transfers.

<u>Wire Transfer Spreadsheet</u>

We examined the wire transfer spreadsheet for October 31, 2008 and found the following:

- the account numbers and NIFS identifying number for eight banks were not always included on all the daily wire transfer spreadsheets; and

- the daily wire transfer spreadsheet included two Excel formula errors on the sum total line under the column "Trans" and "Total Balance".

<u>Audit Recommendations:</u>

The Treasurer's Office should take steps to ensure that:

a) the bank account number and NIFS identifier are listed on the wire transfer spreadsheet;

b) the amounts of, and reasons for, each transfer are posted to and described in separate columns on the spreadsheet (e.g. transfer of excess funds);

c) an appropriate level of management review and approval of the wire transfer spreadsheet is established to ensure the accuracy of the amounts being transferred and minimize error from occurring;

d) wire transfer slips are revised to enable a way to show a clear approval path listing the employees initiating, approving, transmitting and recording the wire transfers;

e) written approvals of wire transfers should take place before the transfer is made and should not be evidenced on the RIMS Detail Documents, which is produced after the transfer occurs; and

f) appropriate supporting documentation attached to wire transfer slips should be maintained.

Audit Finding (9)

Short–term Investments

The Treasurer is responsible for investing any excess monies in short-term investments. We found that there were no written procedures documenting the investment process, which would detail internal controls over deposits and investments, interest rates and other information to manage the portfolios and identify the sources of all funds being invested as required by the Nassau County Investment Policy. We noted that the meetings of the Investment Committee were not memorialized in minutes and were informed, at the December 15, 2009 Exit Conference, that no formal Investment Committee existed. Monthly meetings were held with the Office of Management and Budget to discuss topics that included investments.

The Investment Support area maintains a daily "Investment Portfolio" spreadsheet, which lists each bank account, interest rates earned, bank balances, pledged collateral amounts and the permitted (required) collateral balances. The Treasurer's Office requires that bank account balances exceeding the limits of Federal Deposit Insurance Corporation ("FDIC") insurance have securities pledged as collateral by the banks to protect the County from bank failure. However, it is the practice of the Treasurer's Office to calculate the collateral requirements without consideration to FDIC insurance. The value of the collateral is given different weights by the Treasurer's Office depending on the types of eligible securities pledged. We reviewed the daily Investment Portfolio Excel spreadsheet of October 9, 2008. This manually prepared spreadsheet shows the bank account balance, the amount of collateral required based on that balance and the amount of collateral pledged. While we found that the amounts of collateral pledged were sufficient, we found that the Treasurer's Office guidelines were not followed, miscalculations occurred in the amounts of collateral required and the amounts of collateral held were incorrectly entered. For example:

- Citibank's pledged collateral amount of $52,759,377 was incorrectly entered on the spreadsheet as $53,355,844 an overstatement of $596,487;

- Capital One's balance required a pledged collateral balance of 105% or 120%, depending on the type of collateral, however the collateral required to be pledged was based on an amount calculated at 110%; and

- City National Bank of New Jersey's pledged collateral amount of $11,394,754 was incorrectly entered on the spreadsheet as $11,536,924, an overstatement of $142,170. The permitted balance of $11,394,754 was manually entered in the spreadsheet instead being calculated using a formula to determine the collateral requirements as with the other bank accounts. The Treasurer's Office stated that it added a formula to correct this prior to the end of fieldwork.

We noted that when determining collateral requirements for balances held at the State Bank of Long Island, the Treasurer's Office considered FDIC insurance, to be included as protection in lieu of collateral. State Bank of Long Island's operating balance as of October 9, 2008, of $280,014 was listed as $180,014 on the spreadsheet, a difference representing the $100,000 FDIC coverage provided at that time.

Audit Recommendations:

The Treasurer's Office should:

a) create written procedures documenting the investment process, including internal controls, as required by the Nassau County Investment Policy;

b) comply with the Nassau County Investment Policy by constituting an Investment Committee, holding periodic meetings and keeping formal minutes, or consider revising the Investment Policy to reflect the current practices;

c) set up an electronic file for each authorized bank that contains bank investment and operating account balances for the day's activity; interest rates and collateral amounts should be listed in a file format that can be uploaded into the Treasurer's Investment Portfolio spreadsheet to monitor the daily investment activities. The uploading process would minimize errors and reduce the time it takes to generate the daily investment spreadsheet that the Treasurer uses to monitor investment activities;

d) use the functionality of Excel to calculate the pledged collateral amounts on the spreadsheet; and

e) make a policy decision on the application of FDIC insurance to collateral requirements and apply the policy on a consistent basis.

THOMAS R. SUOZZI
COUNTY EXECUTIVE

STEVEN D. CONKLING
COUNTY TREASURER

Maude Subrahmanyam
Deputy County Treasurer

Carol Khoury
Deputy County Treasurer

COUNTY OF NASSAU
OFFICE OF THE COUNTY TREASURER
240 OLD COUNTRY ROAD
MINEOLA, NEW YORK 11501-4248

December 29, 2009

Aline Khatchadourian
Deputy Comptroller for Audit and
Special Projects
Office of the Comptroller
240 Old Country Rd, 2nd Floor
Mineola, NY 11501-4248

Dear Ms. Khatchadourian:

The Office of the Treasurer (the "Treasurer") appreciates the Comptroller's Office review of the Treasurer's internal control procedures dated December 18, 2009. We have been focused over the last four years on improving the Treasurer's policies and procedures through careful evaluation of our operations, the use of automation and the implementation of best practices, which is supported by the lack of material findings in the Comptroller's Audit. We are confident that the Treasurer's policies and procedures provide reasonable assurance that the Treasurer has effective and efficient operations, complies with laws and regulations and its financial reporting is reliable, but we welcome suggestions for improvement. The Treasurer concurs with a few of the recommendations in the Comptroller's audit, but feels that the Comptroller overlooked many important procedures and controls in place at the time of the audit, and accordingly disagrees with many of the comments and recommendations contained in the audit as noted below.

<u>Response to Audit Finding (1)</u>

a) The Office of the Treasurer (the "Treasurer") strongly disagrees that there is inadequate segregation of duties over the functions of the Treasurer. As we have continually conveyed to the Comptroller's Office, the accounting staff is cross trained in all functions. On a daily basis the staff is evaluated to assure that each step in a transaction is appropriately segregated and reassigned when necessary. There is never an instance when a single employee, whether supervisory or senior staff, performs key overlapping functions. This process is clearly evidenced by certified backup documentation which accompanies each transaction, ensuring that controls are not circumvented.

b) This recommendation is unnecessary as the Treasurer's wire transfer slips have always clearly contained approval by each level of approval as evidenced by the approver's initials.

<u>Auditor’s Follow-up Response:</u>

The Treasurer’s Office response does not address our findings that:

- *its wire transfer approval process does not provide an audit trail to establish accountability and distinguish each employee’s role in the process; and*
- *there was no segregation of duties established by requiring the reconciliations performed by a senior member of the Treasurer’s management team to be reviewed and approved by a supervisor.*

We reiterate our findings and recommendations.

<u>Response to Audit Finding (2)</u>

<u>Oversight of Bank Reconciling Items:</u>

a) The Microsoft Excel spreadsheet will be reconfigured to use the full functionality of Excel.

b) The Treasurer’s process is to review and resolve reconciling items at the monthly bank reconciliation meeting. Resolution of reconciling items is attached to the documentation which accompanies each account.

c) This recommendation is unnecessary as the Treasurer’s process has always been to review the adjusted book balance and compare it against NIFS.

<u>Auditor’s Follow-up Response:</u>

We concur with corrective actions to be taken to revise the Excel spread sheet. We reiterate our findings and recommendations regarding the review and resolution of reconciling items (see Audit Finding 4 “Deficient Bank Reconciliations). We adhere to our finding that the balances on the spreadsheet, after consideration of adjusting items, did not agree to the balance per NIFS.

<u>Oversight of Check-writing:</u>

a) The Treasurer is in the process of finalizing a comprehensive policies and procedures manual. Written procedures for check-writing were available to the Comptroller throughout the audit. In addition, the Comptroller was given a copy of the written procedures for check-writing at the exit conference, along with the PayBase manual check and wire transfer procedures.

As part of the check-writing procedures, Treasurer visually spot checks the MICR coding. (Due to the volume of checks printed on a daily basis, it is not practical to visually inspect the MICR coding on every check.) Regarding the issue with payroll checks on December 4, 2008 noted above, Treasurer was not aware there was an issue with the MICR coding at the time the checks were released. As soon as Treasurer was made aware of the problem, the issue was immediately addressed with the County’s operating bank and resolved. It was at this time that employees were instructed to present a copy of the County memo to their branch in the event they encountered any problems. The issue was resolved within 24 hours.

b) The corrective action plan verbally communicated to the auditors has been fully implemented.

Auditor's Follow-up Response:

We concur with the corrective actions to be taken by the Treasurer's Office.

Response to Audit Finding (3)

a) Treasurer will finalize and disseminate written policies and procedures.

b) See a) above.

Auditor's Follow-up Response:

We concur with the corrective actions to be taken by the Treasurer's Office.

Response to Audit Finding (4)

a) Treasurer understands the importance of reconciling bank accounts in a timely manner and makes every effort to do so. Of the 100+ accounts reconciled by Treasurer on a monthly basis, there are 4 to 5 accounts that on occasion are not reconciled as quickly as we would like, due in part to issues beyond the Treasurer's control. At the exit conference, the auditors were told that the delays in the DSS and the Park's Department Accounts were due to the complexity of the transactions. Each account involves transactions which take place in a separate system: BICS in the case of DSS and Global Payments in the case of the Park's Department. In addition, due to the volume of activity in certain accounts, statements are received in hard copy and are received one week after month's end.

Auditor's Follow-up Response:

We reiterate our findings and recommendations regarding the completeness and timeliness of bank reconciliations. We acknowledge the complexity of certain reconciliations and the dependence on information from other departments, but believe the delays of up to six months in reconciling bank accounts are excessive.

We recommend that the supervisory review of bank reconciliations be evidenced by the approver dating and initialing the individual bank reconciliations.

We concur with the corrective actions to be taken by the Treasurer's Office to obtain a confirmation of the Court and Trust Account and review its reconciliation. We stand by our finding that not all portfolios were included in the bank statement.

Response to Audit Finding (5)

a) Treasurer has had established guidelines in place before and after the audit for the Court & Trust Account checks, which are issued only upon Court Order. In addition, the issuance of Court & Trust checks follows the same procedures as all manual checks. This documentation is reviewed and approved before check issuance.

b) See a) above.

c) See a) above.

Treasurer welcomes an additional audit of the Court & Trust Account. Senior Management will take all action necessary that they are made aware of.

Auditor's Follow-up Response:

We reiterate our findings and recommendations.

Response to Audit Finding (6)

a) Treasurer concurs.

b) Treasurer concurs.

c) Treasurer concurs.

d) Treasurer concurs.

Auditor's Follow-up Response:

We concur with the corrective actions to be taken and will be performing a follow-up audit. The Treasurer's Office implementation of these recommendations will be included as part of the scope of our follow-up audit of the Court and Trust Account.

Response to Audit Finding (7)

a) This recommendation is unnecessary as this procedure has always existed.

b) Treasurer ensures that all manual check disbursements are valid and that all checks are directly delivered to the payee.

c) The Treasurer does not bypass the internal controls established by the Comptroller's Vendor Claims review procedures. All types of manual checks have been vetted with the Comptroller's Office. Manual checks issued on County funds are only issued after approval by the Comptroller's Office has been confirmed. All other Manual checks are issued in instances where the Treasurer is mandated by State Law to serve as trustee for funds that do not belong to the County such as Bail Money and Court & Trust.

Auditor's Follow-up Response:

We reiterate our findings and recommendations.

Response to Audit Finding (8)

Recommendations (a-e) are unnecessary as these procedures have always existed:

a) The bank account number and NIFS bank number are required values on the wire transfer slip.

b) The detail of each transfer is included in the spreadsheet, utilizing the full functionality of Excel.

c) Transfer slips are appropriately reviewed at each level and at each step in the process.

d) Levels of approval are denoted by initials of the appropriate staff level.

e) Written approval of wire transfers prior to the transfer taking place is evidenced by the initialed wire transfer slip. The online system prohibits a wire transfer to be released by the initiator. The transfer is not released until approved by a supervisor.

f) Treasurer concurs.

<u>Auditor's Follow-up Response:</u>

We reiterate our findings and recommendations.

<u>Response to Audit Finding (9)</u>

a) This recommendation is unnecessary as the Treasurer has written procedures documenting its investment process, a copy of which has been given to the Comptroller's Office.

<u>Auditor's Follow-up Response:</u>

We reiterate our finding and recommendation.

b) The Treasurer has prepared a draft of a revised Investment Policy, which includes the elimination of an Investment Committee. The revised Investment Policy will be presented to the Legislature as soon as practical. The Treasurer invests County funds in compliance with General Municipal Law ("GML"). Currently, County funds are invested solely in demand and time deposits, which are fully collateralized as required by GML. Due to the restrictions on eligible investments under GML, the Treasurer does not believe it is necessary to have a formal Investment Committee. Although there is no formal Investment Committee, the Treasurer consistently updates the DCE for Management, Budget and Finance and OMB on the County's investments. The Treasurer distributes a daily investment report which details all of the County's investments, including the amount of deposits held at each approved bank, the current interest rate, methodology for calculating the interest rate and amount of collateral.

c) As described above, the Treasurer prepares a daily investment report in EXCEL which includes total deposits at each approved bank, current interest rate and amount of collateral. We agree that the daily investment report should be automated to the extent possible. However, this is dependent on the process used by the banks. Some of the County's banks still utilize paper based collateral reports and not electronic reports preferred by the County.

d) The daily investment report does use the functionality of EXCEL to calculate the pledged collateral amount. However, very often the County's banks will maintain excess collateral in order to be in a position to accept large deposits at the end of the day.

e) The Treasurer invests County funds in compliance with GML. Pursuant to GML, all deposits in excess of amounts covered by FDIC insurance must be fully collateralized. With the exception of State Bank of Long Island, all of the County's banks fully collateralize the County's deposits, including deposits insured by the FDIC. State Bank is the only bank that has requested to deduct the amount of deposits insured by the FDIC in calculating its required collateral. We agreed to this request since it is in compliance with GML, and would agree to the same request from any other approved bank.

<u>Auditor's Follow-up Response:</u>

We concur with the corrective actions to be taken by the Treasurer's Office to revise the Investment Committee requirement. We reiterate our recommendation that the Excel spreadsheet be revised to perform a calculation of the required collateral amounts. We also recommend that the Treasurer's Office formalize its policy regarding the application of FDIC insurance towards collateral requirements.

Sincerely,
s/ Steven Conkling/

Cc: Howard S. Weitzman, Comptroller
Elizabeth Botwin, Chief Deputy Comptroller
Thomas Stokes, Deputy County Executive
Carol Khoury, Deputy County Treasurer

Telephone: 516-571-2090
Facsimile: 516-571-1528
e-mail: nctreasurer@nassaucountyny.gov
web site: www.nassaucountyny.gov/treasurer