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February 3, 2010

Mr. Steven Conkling
Nassau County Treasurer
Office of the County Treasurer

Subject: Review of Treasurer's Office Cash Management, Bank Reconciliation, and Resident Student Tuition Reimbursement Invoicing Practices

Dear Steve:

A limited review of the Nassau County Treasurer's Office cash management, resident student tuition reimbursement invoicing, and bank reconciliation practices found the following;

- approximately \$50,000 per year in additional interest income may be earned as a result of migrating from a daily payables policy. This is a joint Treasurer's Office and Comptroller's Office responsibility;
- the interest rates obtained by the Treasurer's Office appear to be higher than market short-term investment rates;
- the potential to earn additional interest income by investing in longer-term investments as cash flow allows;
- \$5.3 million resulting from uncollected receivables from cities and towns for 2008 and 2009, that could have been used for maximizing cash flow;
- large number of bank accounts maintained by the Treasurer's Office (over 130 accounts) further complicate effective cash management; and
- bank reconciliations not performed on a timely basis may expose the County to significant risk.

We performed a limited review of documentation received from the Treasurer's Office; the documentation included the monthly average cash balances and average yields earned for 2009, the 2009 cash flow analysis, and the January 15, 2010 Investment Portfolio. The average cash balances schedule

and the January 15, 2010 Investment Portfolio confirmed what you had previously indicated to us, that the County has an average of \$400 million to \$800 million on a daily basis available in its bank accounts for investment.

We reviewed the average yields earned for 2009 and compared these to 2009 interest rates obtained from the Federal Reserve's website for other short-term investments, such as the Fed Funds Rate, Treasury Bills and 1-month Certificate of Deposits. Based on this review, it appears that the Treasurer's Office is successful in obtaining better rates than the benchmarks we reviewed.

We were unable to determine the correlation between the 2009 monthly average cash balances and the cash balances appearing in the 2009 cash flow analysis. As a result, the Treasurer's Office may have funds available for longer-term investment than are currently undertaken. In order to optimally invest excess funds, we believe that the Treasurer's Office should work with the Comptroller's Accounting Department to refine methodologies for cash flow analysis. We recommend that the Treasurer's Office investigate the possibility of investing a portion of the funds available in longer-term investments.


We also suggest that consideration be given to paying non-emergency vendor checks only three or four times per month, rather than on a daily basis as is currently done, to maximize our interest revenues. Based on an analysis performed by our office, using the data contained in the Treasurer's Office 2009 cash flow analysis, we believe that average funds available for investment could be increased by \$5 to \$6 million, resulting in additional interest income of approximately \$50,000 per year. The Comptroller's Vendors Claims department will implement such a payables plan.

As recommended in the Limited Review of the Treasurer's Office Internal Control Procedures audit report issued on December 31, 2009, we also believe that cash management could be streamlined if the number of bank accounts, currently over 100, were reduced to a more manageable level. This would also reduce the resources necessary to reconcile the bank accounts monthly, and lessen the numerous reconciling items that remain outstanding for extended periods of time.

With fewer bank reconciliations, more focus could be placed on ensuring the timely invoicing of towns and cities for the chargeback of the costs associated with County residents who attend community colleges outside of Nassau County. This would provide the County with additional capital to invest. For example, \$1.5 million in 2008 charge-backs were not billed until April 2009 (and as of the date of this letter, \$1.2 million has not yet been received), and \$3.8 million in 2009 charge-backs were only billed in January 2010. Had those funds been invoiced and received in the respective years, the County would have had use of the capital and reduced the need for borrowings.

Implementation of the audit report's recommendations, specifically with respect to the timely performance of bank reconciliations and the resolution of reconciling items, would substantially reduce the risk to the County.

Very truly yours,



Aline Khatchadourian

cc: Rob Walker, Chief Deputy County Executive
Tim Sullivan, Deputy County Executive for Management, Budget, and Finance