



**STATE OF DELAWARE
DELAWARE STATE TREASURY
BANK RECONCILIATIONS**

Independent Accountants' Report on Applying Agreed-Upon Procedures

Quarters Ended September 30, 2010 and December 31, 2010

**STATE OF DELAWARE
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BANK RECONCILIATIONS**

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Independent Accountants' Report on Applying Agreed-Upon Procedures

Mr. R. Thomas Wagner Jr.
State Auditor
Office of Auditor of Accounts
State of Delaware:

We have performed the procedures enumerated below, which were agreed to by the Delaware State Treasury and the Office of Auditor of Accounts, State of Delaware, solely to assist you in evaluating the bank reconciliations of the Office of State Treasurer as of and for the quarters ended September 30, 2010 and December 31, 2010. The Delaware State Treasury's management is responsible for the State of Delaware's (State) bank reconciliations. The agreed-upon procedures engagement was performed in accordance with *Government Auditing Standards*, issued by the Controller General of the United States, and the attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Our procedures and findings were as follows:

- Compared the list of accounts generated from the First State Financials (FSF) to the bank accounts reconciled by the Delaware State Treasury and the accounts included as part of each quarter's ending cash balance in cash account 1001 on FSF and found them in agreement.
- Obtained the Delaware State Treasury reconciliation of bank balances to FSF for each quarter, and performed the following:
 - For the September and December reconciliations, agreed each bank balance to the actual bank statements, and also agreed each book balance to the FSF summary trial balance report. No exceptions were noted.
 - For the September and December reconciliations, the State could not provide a detailed listing of outstanding deposits. Accordingly, we were unable to obtain explanations and examine supporting documentation for outstanding deposits over \$3,400,000. See the attached Schedule of Findings, AUP-01, for recommendations.
 - Recalculated the September and December reconciliations for mathematical accuracy. No exceptions were noted.
 - For the September and December reconciliations, compared the types and amounts of reconciling items over \$3,400,000 for nonrecurring items. No items were noted that were both over \$3,400,000 and nonrecurring.
 - Agreed each quarter's ending cash balance to the Monthly Financial Report submitted by the Secretary of Finance to the Governor and members of the General Assembly. We noted the following exception: the Monthly Financial Report submitted by the Secretary of Finance to the Governor and members of the General Assembly to reflect revenues, expenditures, and



operating information on the General Fund improperly included accounts 11003 (Cash WTC TTF), 11004 (Cash NSF Account), and 11009 (Cash ZBA Account) and was, therefore, overstated from the Treasurer's ending cash balance by the amounts in these accounts. These accounts amounted to \$63,173,341 and \$70,057,929 for September and December, respectively.

- Obtained and reviewed the Delaware State Treasury's bank reconciliation policies and procedures dated February 28, 2000, in order to determine if these policies and procedures were applied when the Office of State Treasurer performed its reconciliations for the months ended September 30, 2010 and December 31, 2010. We noted that the 2000 policy document was still in effect for the reconciliation process to FSF; there were no material changes to the reconciliation process. No deviation from written policy was noted.
- Obtained the Wire Transfer Log for each quarter and performed the following procedures:
 - Selected transfers for amounts in excess of \$3,400,000 for the September and December quarters and agreed the transfer information to the applicable month's bank statements, ensuring both sides of the transfer actually occurred within one business day. No exceptions were noted.
 - Agreed the transfer activity selected to the appropriate postings in the accounts on the FSF summary trial balance report. No exceptions were noted.
 - Haphazardly selected the following five transfers per quarter from the zero-balance bank accounts and agreed the net activity to the corresponding clearing in the concentration bank account. In addition, agreed the monthly posting of the zero balance and concentration account activity to the FSF summary trial balance report. No exceptions were noted.

	<u>Wire date</u>	<u>Amount</u>
Quarter ended September 31, 2010:	9/1/10	\$ 44,397
	9/7/10	2,808,427
	9/13/10	20,997
	9/20/10	43,077
	9/27/10	97,949

	<u>Wire date</u>	<u>Amount</u>
Quarter ended December 31, 2010:	12/1/10	\$ 14,932,722
	12/7/10	1,849,405
	12/13/10	40,044
	12/20/10	3,103
	12/27/10	379,062

- Obtained the Delaware State Treasury's General Account Reconciliation for the quarters ended September 30, 2010 and December 31, 2010, summarized each quarter's reconciliations into the form of Exhibit A attached, and performed the following procedures:
 - Agreed the bank account information to the corresponding bank statements. No exceptions were noted.
 - Agreed the ending book balance to the ending balance as reported in Exhibit B and to the quarter-end reconciliations. No exceptions were noted.



- Obtained the monthly rollforward of cash activity from the Delaware State Treasury, summarized the quarterly activity and obtained the “Proof of Cash Reconciliation” in the form of Exhibit B attached, and performed the following procedure:
 - Agreed the beginning balances to the prior month’s ending balances and agreed the ending balances to the monthly reconciliations. No exceptions were noted.

We were not engaged to, and did not, conduct an examination, the objective of which would be the expression of an opinion on the specified bank reconciliations. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Delaware State Treasury and the Office of Auditor of Accounts, State of Delaware, and is not intended to be, and should not be, used by anyone other than these specified parties. However, under 29 Del.C., Section 10002(d), this report is a public record and its distribution is not limited. This report, as required by statute, was provided to the Governor, Controller General, Attorney General, Office of Management and Budget, and Department of Finance.

KPMG LLP

August 24, 2011

**STATE OF DELAWARE
DELAWARE STATE TREASURY
BANK RECONCILIATIONS**

Schedule of Findings

Quarters ended September 30, 2010 and December 31, 2010

Current-Quarter Findings and Recommendations

AUP-01. Outstanding Deposits

Condition

The State could not provide a detailed listing of outstanding deposits for the September and December reconciliations. Accordingly, we were unable to obtain explanations and examine supporting documentation for outstanding deposits over \$3,400,000.

Cause

We were unable to obtain a report from the First State Financial system (FSF) that provided a detailed listing of outstanding deposits.

Effect

Without a detailed listing of outstanding deposits, it was not possible to verify that outstanding deposits on the reconciliation were accurate or valid.

Recommendation

In order to properly reconcile amounts from the accounting records to the bank balances, outstanding deposits must be identifiable. As such, we recommend that the State ensures that proper identification of outstanding deposits can be performed in order to properly reconcile its accounts.

Views of Responsible Officials

First State Financials and the Delaware State Treasury have developed a report containing a detailed list of outstanding deposits. This report (DAR008o) was placed into production March 2011 and is part of the daily processing schedule.

AUP-02. Monthly Financial Report

Condition

The Monthly Financial Report submitted by the Secretary of Finance to the Governor and members of the General Assembly to reflect revenues, expenditures, and operating information on the General Fund improperly included accounts 11003 (Cash WTC TTF), 11004 (Cash NSF Account), and 11009 (Cash ZBA Account) and was, therefore, overstated from the Treasurer's ending cash balance by the amounts in these accounts. These accounts amounted to \$63,173,341 and \$70,057,929 for September and December, respectively.

Cause

The FSF system query used in the preparation of the Monthly Financial Reports did not properly exclude these accounts.

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Schedule of Findings

Quarters ended September 30, 2010 and December 31, 2010

Effect

For each quarter, we noted that the Treasurer's ending cash balance properly agreed to the FSF summary trial balance report and, therefore, was not impacted by the error in the Monthly Financial Reports.

Recommendation

We recommend that the process to compile the Monthly Financial Reports be revised to ensure that amounts in the Monthly Financial Reports agree to those reported by the Delaware State Treasury by excluding the accounts referenced above.

Views of Responsible Officials

The Division of Accounting was notified that the query provided by First State Financials was incorrect. They have modified the query to correct the reporting issue on the Monthly Financial Report.

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General Account Cash Reconciliation

September 30, 2010

Balance per Citizens Bank	\$ 2,809,176
Balance per Mellon Bank	<u>10,801,186</u>
Bank balance at September 30, 2010	13,610,362
Additions:	
Investments managed by Morgan Bank, account number 830752	299,027,684
Investments managed by Wilmington Trust, account number 830754	286,594,470
Investments managed by Wachovia Bank, account number 830751	291,006,661
Receivables from various sources	145,245
Deposits in transit	494,404
Balance at Bank of New York Mellon, account number 353608 and 830753	152,631,048
Fidelity Government Obligation Bonds 1998A	2,547,148
Balance at Wilmington Trust, DELGIP, account number 830755	142,452,741
Wilmington Trust Land and Water Conservation Trust Fund #1 account number 830758	73,531,053
Balance at Bank of America, Division of Corp. State Lockbox, account number 2001800374	1,441,953
Balance at Wilmington Trust, Morgan Grenfield Intermediate, account number 830759	323,033,427
Balance at Bank of America, Labor Lockbox	479,971
Balance at Bank of America, Credit Cards, account number 00446706-4630	—
Balance at PNC Bank, Concentration, account number 56-9401099-3	14,643,456
Balance at PNC Bank, DMR Special Services, account number 56-94003988	3,767
US Bank – Bonds #107954000	<u>226,665</u>
Subtotal	<u>1,601,870,055</u>
Deductions:	
Outstanding zero-balance accounts (ZBAs) – outstanding checks	71,745,058
Payable for bank errors	92
Payable to Mellon 07/98	10,069
Payable to PNC Bank miscellaneous adjustments	76,241
Payable to Vendor ACH	<u>2,243,810</u>
Subtotal	<u>74,075,270</u>
Balance per State Treasurer's books, adjusted, September 30, 2010	<u><u>\$ 1,527,794,785</u></u>

See accompanying independent accountants' report on applying agreed-upon procedures.

**STATE OF DELAWARE
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General Account Cash Reconciliation

December 31, 2010

Balance per Citizens Bank	\$ 402,605
Balance per Mellon Bank	5,004,513
	5,407,118
Bank balance at December 31, 2010	5,407,118
Additions:	
Investments managed by Morgan Bank, account number 830752	339,565,509
Investments managed by Wilmington Trust, account number 830754	220,998,247
Investments managed by Wachovia Bank, account number 830751	336,565,726
Receivables from various sources	150,700
Deposits in transit	547,941
Balance at Bank of New York Mellon, account number 353608 and 830753	193,175,949
Fidelity Government Obligation Bonds 1998A	138,204,772
Balance at Wilmington Trust, DELGIP, account number 830755	181,007,146
Wilmington Trust Land and Water Conservation Trust Fund #1 account number 830758	74,281,169
Balance at Bank of America, Division of Corp. State Lockbox, account number 2001800374	90,110
Balance at Wilmington Trust, Morgan Grenfield Intermediate, account number 830759	375,193,655
Balance at Bank of America, Labor Lockbox	500
Balance at Bank of America, Credit Cards, account number 00446706-4630	(25)
Balance at PNC Bank, Concentration, account number 56-9401099-3	17,132,794
Balance at PNC Bank, DMR Special Services, account number 56-94003988	248,247
US Bank – Bonds #107954000	302,283
	1,877,464,723
Subtotal	1,877,464,723
Deductions:	
Outstanding ZBAs – outstanding checks	38,504,850
Payable for bank errors	90
Payable to Mellon 07/98	10,069
Payable to PNC Bank miscellaneous adjustments	76,241
	38,591,250
Subtotal	38,591,250
Balance per State Treasurer’s books, adjusted, December 31, 2010	\$ 1,844,280,591

See accompanying independent accountants’ report on applying agreed-upon procedures.

**STATE OF DELAWARE
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Proof of Cash Reconciliation

Three months ended September 30, 2010

Balance per State Treasurer’s books, July 1, 2010	\$ <u>1,836,001,139</u>
Additions:	
Deposits to cash receipts journal	1,468,091,687
Transportation trust fund deposits	60,101,688
Receivables for bank errors	2,548
Receivables for CM Forgery Credits	2,391
Outstanding cash receipts	66,008,697
Division of Mental Retardation transfer	1,637
Outstanding checks – prior months	<u>240,141,036</u>
Subtotal	<u>1,834,349,684</u>
Deductions:	
Deposits to cash receipts journal – prior months	19,575,992
Transfer for principal and interest on bonds	178,525,000
Transfer from Mellon Bank for payroll and pension direct deposit	419,282,359
Transfer from Mellon Bank to Mercantile Bank for pensions	28,711,525
Transfer from Mellon Bank for Blue Cross Blue Shield	10,061,530
Transfer from Mellon Bank for Aetna Healthcare	5,836,283
Transfer from Mellon Bank for TSA Plan	5,793,829
Transfer from Mellon Bank for DE Cafeteria Plan	261,532
Transfer from Mellon Bank for Child Care	2,834,845
Transfer from Mellon Bank for Def Comp	9,115,115
Transfer from Mellon Bank for Horizon	500,250
Transfer from Mellon Bank for IFTA	502
Transfer from Mellon Bank for Transportation	14,100,000
Transfer from Mellon Bank for Claymore Senior Center	132,749
Transfer from Mellon Bank for Medicaid	20,691,325
Transfer from Mellon Bank for JP Morgan Supercard	11,961,558
Transfer from Mellon Bank for SSI	93,057
Transfer from PNC Bank for bank fees, State Personnel Office	111
Transfer from PNC Bank for bonds	27,223,065
Transfer for federal income tax, FICA, and Medicare	125,997,466
ACH transfers	763,848,419
Transfer for cleared ZBAs	287,255,331
Transfer for outstanding ZBAs	<u>210,754,195</u>
Subtotal	<u>2,142,556,038</u>
Balance per State Treasurer’s books, adjusted, September 30, 2010	<u><u>\$ 1,527,794,785</u></u>

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**STATE OF DELAWARE
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Proof of Cash Reconciliation

Three months ended December 31, 2010

Balance per State Treasurer’s books, October 1, 2010	\$ <u>1,527,794,785</u>
Additions:	
Deposits to cash receipts journal	2,086,697,490
Transportation trust fund deposits	94,744,072
Receivables for bank errors	1,572
Receivables for CM Forgery Credits	1,028
Outstanding cash receipts	326,186,848
Division of Mental Retardation transfer	244,480
Outstanding checks – prior months	<u>261,445,204</u>
Subtotal	<u>2,769,320,694</u>
Deductions:	
Deposits to cash receipts journal – credit card payments booked in transit	13,382
Deposits to cash receipts journal – prior months	279,809,275
Transfer for principal and interest on bonds	—
Transfer from Mellon Bank for payroll and pension direct deposit	430,547,235
Transfer from Mellon Bank to Mercantile Bank for pensions	60,468,603
Transfer from Mellon Bank for Blue Cross Blue Shield	1,609,042
Transfer from Mellon Bank for Aetna Healthcare	7,178,120
Transfer from Mellon Bank for TSA Plan	5,211,393
Transfer from Mellon Bank for DE Cafeteria Plan	—
Transfer from Mellon Bank for Child Care	—
Transfer from Mellon Bank for Def Comp	8,218,266
Transfer from Mellon Bank for Horizon	4,381
Transfer from Mellon Bank for IFTA	188
Transfer from Mellon Bank for Transportation	1,317,825
Transfer from Mellon Bank for Claymore Senior Center	1,139,473
Transfer from Mellon Bank for Medicaid	2,907,555
Transfer from Mellon Bank for JP Morgan Supercard	124,648
Transfer from Mellon Bank for SSI	190,004
Transfer from PNC Bank for bank fees, State Personnel Office	111
Transfer from PNC Bank for bonds	14,890,615
Transfer for federal income tax, FICA, and Medicare	133,852,063
ACH transfers	882,741,450
Transfer for cleared ZBAs	394,406,263
Transfer for outstanding ZBAs	<u>228,204,996</u>
Subtotal	<u>2,452,834,888</u>
Balance per State Treasurer’s books, adjusted December 31, 2010	<u><u>\$ 1,844,280,591</u></u>

See accompanying independent accountants’ report on applying agreed-upon procedures.