



**STATE OF DELAWARE  
OFFICE OF THE STATE TREASURER  
BANK RECONCILIATIONS**

Independent Accountants' Report on Applying Agreed-Upon Procedures

Quarters ended March 31, 2011 and June 30, 2011

**STATE OF DELAWARE  
OFFICE OF THE STATE TREASURER  
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 Office of the State Treasurer and the Office of Auditor of Accounts, State of Delaware, solely to assist you in evaluating the bank reconciliations of the Office of the State Treasurer as of and for the quarters ended March 31, 2011 and June 30, 2011. The Office of the State Treasurer'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 Office of the State Treasurer and the accounts included as part of each quarter's ending cash balance in FSF cash accounts 11000, 11001, 11002, 11005, 11006, 11007, 11010, 11011, 11012, 11023, 11024, and 11025 and found them in agreement.
- Obtained the Office of the State Treasurer reconciliation of bank balances to FSF for each quarter, and performed the following:
  - For the March and June 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 March and June reconciliations, obtained explanations and examined supporting documentation for reconciling items over \$4,100,000, including the subsequent clearing of these reconciling items in the following months. No exceptions were noted. For the quarter ended March 31, 2011, the reconciliation shows total outstanding deposits of \$47,216,384. However, the detailed listing of outstanding deposits included in the FSF Outstanding Deposits Report (DAR008O) as of March 31, 2011 totaled \$48,163,647, a variance of \$947,263 from the amount of total outstanding deposits included in the reconciliation. See finding AUP 2011-03.
  - Recalculated the March and June reconciliations for mathematical accuracy. No exceptions were noted.
  - For the March and June reconciliations, compared the types and amounts of reconciling items over \$4,100,000 for nonrecurring items. No items were noted that were both over \$4,100,000 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. No exceptions were noted.
- Obtained and reviewed the Office of the State Treasurer'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 the State Treasurer performed its reconciliations for the months ended March 31, 2011 and June 30, 2011. 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 \$4,100,000 for the March and June 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 March 30, 2011:	1/4/11	\$	1,903,840
	1/25/11		416,382
	2/14/11		5,007,808
	3/21/11		13,348
	3/31/11		2,069

	<u>Wire date</u>		<u>Amount</u>
Quarter ended June 30, 2011:	4/13/11	\$	59,340
	5/3/11		5,049,958
	5/18/11		15,216,324
	6/20/11		224,515
	6/30/11		1,001,987

- Obtained the Office of the State Treasurer's General Account Reconciliation for the quarters ended March 31, 2011 and June 30, 2011, 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 Office of the State Treasurer, 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.

We did not examine the State's response to our finding located in the *Schedule of Findings*, and accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Office of the State Treasurer 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

November 15, 2011

**STATE OF DELAWARE  
OFFICE OF THE STATE TREASURER  
BANK RECONCILIATIONS**

Schedule of Findings

Quarters ended March 31, 2011 and June 30, 2011

**Findings and Recommendations for the Quarters ended March 31, 2011 and June 30, 2011**

***2011 AUP-03. Outstanding Deposits***

***Condition***

The State provided a system report, FSF Outstanding Deposits report (DAR008O), as a detailed listing of outstanding deposits as of March 31, 2011. The outstanding deposits as of March 31, 2011 per the quarter-end reconciliation totaled \$47,216,384. The detailed listing of outstanding deposits included in the FSF Outstanding Deposits Report (DAR008O) as of March 31, 2011 totaled \$48,163,647, a variance of \$947,263 from the amount included in the reconciliation.

***Cause***

We were unable to obtain a detailed listing of outstanding deposits that reconciled to the amount of outstanding deposits per the quarter-end reconciliations.

***Effect***

Without a complete detailed listing of outstanding deposits, it is not possible to verify that all outstanding deposits on the reconciliation are 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***

The cause of the variance has been identified and moving forward a process has been created to reconcile the variances to the quarterly reconciliation reports.

**STATE OF DELAWARE  
OFFICE OF THE STATE TREASURER  
BANK RECONCILIATIONS**

Schedule of Status of Prior Findings

Quarters ended September 30, 2010 and December 31, 2010

**2011 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 \$4,100,000.

***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 ensure that proper identification of outstanding deposits can be performed in order to properly reconcile its accounts.

***Status***

**Partially Corrected.** First State Financials and the Office of the State Treasurer 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. However, total outstanding deposits per the DAR008O report do not agree to the total outstanding deposits per the monthly reconciliations. See finding 2011 AUP-03.

**2011 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.

***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 Office of the State Treasurer by excluding the accounts referenced above.

***Status***

**Fully Corrected.** The Division of Accounting has modified the query to correct the reporting issue on the Monthly Financial Report.

**STATE OF DELAWARE  
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General Account Cash Reconciliation

March 31, 2011

Balance per Citizens Bank	\$ 4,720,137
Balance per Mellon Bank	26,088,868
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Bank balance at March 31, 2011	30,809,005
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Additions:	
Investments managed by Morgan Bank, account number 830752	349,030,279
Investments managed by Wilmington Trust, account number 830754	386,361,308
Investments managed by Wachovia Bank, account number 830751	346,857,841
Receivables from various sources	151,069
Deposits in transit	1,005,565
Balance at Bank of New York Mellon, account number 353608 and 830753	193,442,237
Fidelity Government Obligation Bonds 1998A	97,012,016
Balance at Wilmington Trust, DELGIP, account number 830755	2,931
Wilmington Trust Land and Water Conservation Trust Fund #1 account number 830758	74,229,995
Balance at Bank of America, Division of Corp. State Lockbox, account number 2001800374	2,927,582
Balance at Wilmington Trust, Morgan Greenfield Intermediate, account number 830759	426,147,614
Balance at Bank of America, Labor Lockbox	45,281
Balance at Bank of America, Credit Cards, account number 00446706-4630	(20)
Balance at PNC Bank, Concentration, account number 516000279	20,062,597
Balance at PNC Bank, DMR Special Services, account number 56-94003988	4,503
US Bank – Bonds #107954000	302,283
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Subtotal	1,897,583,081
	<hr/>
Deductions:	
Outstanding zero-balance accounts (ZBAs) – outstanding checks	54,600,733
Payable for bank errors	177
Payable to Mellon 07/98	10,069
Payable to PNC Bank miscellaneous adjustments	76,241
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Subtotal	54,687,220
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Balance per State Treasurer's books, adjusted, March 31, 2011	\$ 1,873,704,866
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See accompanying independent accountants' report on applying agreed-upon procedures.

**STATE OF DELAWARE  
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General Account Cash Reconciliation

June 30, 2011

Balance per Citizens Bank	\$	3,408,054
Balance per Mellon Bank		25,090,182
		<hr/>
Bank balance at June 30, 2011		28,498,236
		<hr/>
Additions:		
Investments managed by Morgan Bank, account number 830752		349,625,076
Investments managed by Wilmington Trust, account number 830754		740,032,160
Investments managed by Wachovia Bank, account number 830751		347,346,615
Receivables from various sources		142,822
Deposits in transit		475,372
Balance at Bank of New York Mellon, account number 353608 and 830753		193,996,132
Fidelity Government Obligation Bonds 1998A		50,714,049
Balance at Wilmington Trust, DELGIP, account number 830755		2,931
Wilmington Trust Land and Water Conservation Trust Fund #1 account number 830758		74,682,442
Balance at Bank of America, Division of Corp. State Lockbox, account number 2001800374		1,313,709
Balance at Wilmington Trust, Morgan Greenfield Intermediate, account number 830759		428,240,263
Balance at Bank of America, Labor Lockbox		350,386
Balance at PNC Bank, Concentration, account number 516000279		20,077,554
Balance at PNC Bank, DMR Special Services, account number 56-94003988		3,795
US Bank – Bonds #107954000		306,388
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Subtotal		2,207,309,694
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Deductions:		
Outstanding ZBAs – outstanding checks		33,349,097
Payable for bank errors		10,069
Payable to PNC Bank miscellaneous adjustments		78,418
		<hr/>
Subtotal		33,437,584
		<hr/>
Balance per State Treasurer's books, adjusted, June 30, 2011	\$	<u><u>2,202,370,346</u></u>

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

**STATE OF DELAWARE  
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Proof of Cash Reconciliation

Three months ended March 31, 2011

Balance per State Treasurer's books, January 1, 2011	\$ 1,844,280,589
Additions:	
Deposits to cash receipts journal	2,022,944,252
Transportation trust fund deposits	86,795,640
Receivables for bank errors	38,804
Receivables for CM Forgery Credits	1,751
Outstanding cash receipts	(44,645,206)
Division of Mental Retardation transfer	(243,743)
Outstanding checks – prior months	162,468,111
Subtotal	<u>2,227,359,609</u>
Deductions:	
Deposits to cash receipts journal – prior months	4,028,887
Transfer for principal and interest on bonds	122,700,000
Transfer from Mellon Bank for payroll and pension direct deposit	387,715,539
Transfer from Mellon Bank to Mercantile Bank for pensions	30,301,264
Transfer from Mellon – Wells Fargo-DCPA	21,940
Transfer from Mellon – Aetna Healthcare	6,038,865
Transfer from Mellon – TTF	1,205,519
Transfer from Mellon – National Data Services	17,261
Transfer from Mellon – Unemployment Ins Acct	14,605
Transfer from Mellon – Jeffery Zhuang-China	10,135
Transfer from Mellon – Def Comp	7,887,841
Transfer from Mellon – TSA Plan	4,642,689
Transfer from Mellon – Saul Ewing LLP	1,184,700
Transfer from Mellon – IFTA	108
Transfer from Mellon – Wells Fargo	44,903
Transfer from Mellon – Medicaid	13,722,450
Transfer from Mellon Bank for SSI	345,019
Transfer from PNC Bank for bank fees, State Personnel Office	114
Transfer from PNC Bank for bonds	27,834,028
Transfer for federal income tax, FICA, and Medicare	107,331,197
ACH transfers	914,563,117
Transfer for cleared ZBAs	389,761,158
Transfer for outstanding ZBAs	178,563,993
Subtotal	<u>2,197,935,332</u>
Balance per State Treasurer's books, adjusted, March 31, 2011	<u>\$ 1,873,704,866</u>

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

**STATE OF DELAWARE  
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Proof of Cash Reconciliation

Three months ended June 30, 2011

Balance per State Treasurer's books, April 1, 2011	\$ 1,873,704,866
Additions:	
Deposits to cash receipts journal	2,151,221,326
Transportation trust fund deposits	132,368,918
Receivables for bank errors	65,867
Receivables for CM Forgery Credits	878
Outstanding cash receipts	(43,135,736)
Division of Mental Retardation transfer	(708)
Outstanding checks – prior months	250,687,924
Subtotal	<u>2,491,208,469</u>
Deductions:	
Deposits to cash receipts journal – prior months	3,238,794
Transfer for principal and interest on bonds	13,925,000
Transfer from Mellon Bank for payroll and pension direct deposit	386,431,456
Transfer from Mellon Bank to Mercantile Bank for pensions	70,315,922
Transfer from Mellon – Child Support	271,634
Transfer from Mellon – Aetna Healthcare	6,956,004
Transfer from Mellon – TTF	6,892,151
Transfer from Mellon – China International Travel Service	9,821
Transfer from Mellon – Mil Folhas Servicos-Brazil	942
Transfer from Mellon – Expertise Revisao De Textos SS LTDA-Brazil	4,980
Transfer from Mellon – Fabio Yukio Yamada	6,500
Transfer from Mellon – Banco Santander SA-Brazil	7,360
Transfer from Mellon – Jeffery Zhuang-China	8,790
Transfer from Mellon – Def Comp	7,872,249
Transfer from Mellon – TSA Plan	4,681,185
Transfer from Mellon – Trades Services Operations	22,187
Transfer from Mellon – Orion Health	6,000
Transfer from Mellon – IFTA	416
Transfer from Mellon – Kent County Charter School	372,018
Transfer from Mellon – Providence Creek Academy	122,512
Transfer from Mellon – Instituto De Cultura-Costa Rica	13,829
Transfer from Mellon – Medicaid	3,140,509
Transfer from Mellon – Wells Fargo	21,940
Transfer from Mellon – Wells Fargo – Trust-DCPA	22,963
Transfer from Mellon – Wells Fargo – De College Prep	22,963
Transfer from Mellon – SSI	286,000
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	111,185,487
ACH transfers	890,574,627
Transfer for cleared ZBAs	411,801,736
Transfer for outstanding ZBAs	229,436,288
Subtotal	<u>2,162,542,989</u>
Balance per State Treasurer's books, adjusted June 30, 2011	<u>\$ 2,202,370,346</u>

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