



OFFICE OF THE TREASURER BANK RECONCILIATION

AGREED-UPON PROCEDURES
FISCAL YEAR ENDED JUNE 30, 2022



OFFICE OF THE TREASURER BANK RECONCILIATION AGREED-UPON PROCEDURES

REPORT SUMMARY FOR FISCAL YEAR ENDED JUNE 30, 2022

BACKGROUND

The Auditor of Accounts (AOA) performed an Agreed-Upon Procedures engagement on bank reconciliations prepared by the Office of the State Treasurer (OST) for each quarter end of fiscal year (FY) 2022. OST's bank reconciliation team reconciles the collections and disbursements recorded with banks with what is recorded in the state's accounting system (First State Financials). The team ensures the total amounts are accurately recorded in both systems. OST was working on a transition from Trintech to Frontier reconciliation software in fiscal year 2022.

The OST Reconciliation and Transaction Management team was responsible for the reconciliation of Delaware's 61 cash and investment accounts in fiscal year 2022, inclusive of new bank accounts opened as part of the OST banking conversion project. As of June 30, 2022, the total balance of Delaware's Cash and Investment accounts was \$6,489,452,816.87.

AOA is authorized under 29 Del. C. §2906(b) to perform this engagement.

KEY INFORMATION AND FINDINGS

The books and records are kept in accordance with generally accepted accounting principles and are reconciled with the various bank accounts. In the performance of the agreed upon procedures, AOA observed **four out of the ten** agreed-upon procedures were **not fully in conformance** with the State of Delaware Budget and Accounting Policy Manual (BAM) as follows:

- Policy and Procedures: OST written policy and procedures including internal controls have not been updated since 2005. This discrepancy affected two separate procedures.
- Bank Account Reconciling Item Supporting Documentation: OST could not provide supporting documentation for twenty aged reconciling items over 180 days (2009-2021) that continue to be carried on the reconciliation from prior fiscal years.
- Activity by Balance Sheet (DGL046) Report Discrepancies: AOA identified several corrections and adjustments that were not performed timely (within 30 to 60 days post quarter end) by OST.

The four noted results, inconsequential to the performance of the OST in reconciling its bank statements, represent risks that need attention. While they may not directly impact the reconciliation process, they still pose potential vulnerabilities or areas for improvement in the financial management practices of OST. Addressing these risks promptly can enhance the overall effectiveness and reliability of financial reporting and internal controls.

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Abbreviations:

AOA	Office of Auditor of Accounts
BAM	Delaware Budget and Accounting Manual
FSF	First State Financials
FY	Fiscal Year
OST	Office of the State Treasurer
TRA	Treasurer's Reconciliation to Accounting

The mission of the Delaware Office of Auditor of Accounts

The Delaware State Auditor serves Delawareans by ensuring accountability in the use of taxpayer dollars to identify fraud, waste, and abuse through independent assessments of financial operations, performance management and statutory compliance of state government and to evaluate economy, efficiency, and effectiveness.

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State of Delaware
Office of Auditor of Accounts

Lydia E. York
State Auditor

Independent Accountants' Report
on Applying Agreed-Upon Procedures

The Honorable Colleen C. Davis
State Treasurer
Office of the State Treasurer
820 Silver Lake Boulevard, Suite 100
Dover, Delaware 19904

AOA has performed the procedures enumerated below on the quarterly State of Delaware bank reconciliation prepared by the Office of the State Treasurer for each quarter during the year ended June 30, 2022 (fiscal year 2022). The Office of the State Treasurer is responsible for the preparation of each State of Delaware quarterly bank reconciliation during fiscal year 2022.

The Office of the State Treasurer has agreed to and acknowledged that the procedures performed are appropriate and meet the intended purpose of Title 29 of the Delaware Code, Chapter 29 Section 2906(b). This report may not be suitable for any other purposes. The procedures performed may not address all items of interest to a user of this report and may not meet the needs of all users of this report. Users are responsible for determining whether the procedures performed are appropriate for their purposes.

The procedures and associated results are as follows:

Procedure 1: Compare the list of accounts generated from the First State Financials (FSF) *Activity by Balance Sheet Account* (DGL046) 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. Report any discrepancies.

Result 1: AOA compared the list of accounts generated from the DGL046 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 during fiscal year 2022. AOA noted the following discrepancies:

- ***All Quarters*** – JP Morgan account “ARPA Funds State Share” was reconciled on the Treasurer’s Reconciliation to Accounting spreadsheet (TRA) but was not added to the DGL046 report due to a lack of financial activity in the state’s accounting system. The bank account has an ending balance of zero for each quarter end of FY 2022. Management stated that new accounts will not appear on the DGL046 report until the first transaction is created and approved in FSF.
- ***Quarter 4*** – One Fidelity Bond account that closed in April 2022 remained on the DGL046 report with a balance of \$12,668,349.88 through June 30, 2022. Management stated that funds were to

be transferred to another account and then this account would be closed; however, improper paperwork was used to record the transaction in FSF. Per OST management, this error was corrected by November, 2022.

- **Quarters 3 and 4** — One Fidelity Bond Account reconciled on the Treasurer’s Reconciliation to Accounting spreadsheet (TRA) was opened in March 2022 with a bank balance of \$260,004,474.83. The account did not appear in the DGL046 report until seven months later in October 2022. Management stated that to appear on the DGL046, the account’s FSF documents had to be completed. The appearance of this account on the DGL046 report is not based on bank account activity.

Procedure 2: Compare the methods, policies, and procedures used to generate the OST quarterly reconciliation Microsoft Excel spreadsheet (TRA) to the basic internal control objectives as defined in the Delaware Budget and Accounting Manual (BAM) section 2.1.1, *Sample Internal Control Plan Elements* for accuracy and integrity. Mathematically check all excel formulas and functions within the OST quarterly reconciliation.

Result 2: AOA compared the methods, policies, and procedures used to generate the OST quarterly reconciliation Microsoft Excel spreadsheets (TRAs) to the basic internal control objectives as defined in the BAM. AOA mathematically checked all Excel formulas and functions within each OST quarterly reconciliation.

In reviewing the TRA spreadsheet controls for each quarter of FY 2022, AOA observed the following:

- **TRA Spreadsheet Change Control:** The TRA spreadsheets are stored on a shared drive that allows designated division team members to access and update the reconciliations. While OST has automated controls that address unauthorized access, management relies on verbal communication, not documented procedures, between accountants as notification of any movement of files or changes in the TRA spreadsheet.
- **TRA Control Totals:** AOA observed several subtotals excluded associated cells that had a value of zero or were blank. If a value were added to one of the blank, or zero, cells, the subtotal formula would have to be manually manipulated for each entry to be calculated correctly. This limitation did not affect the accuracy of the TRA spreadsheet.
- **Outdated Formula:** AOA observed a formula in a blank cell that did not apply to current information within the TRA. Management stated it was an old formula that was carried over from previous years and had not been deleted. This formula did not affect any other formulas or the accuracy of the TRA spreadsheet.
- **TRA Manual Calculations and Formula Calculations:** AOA observed that some entries had manual calculations and other entries used formulas and functions, making it difficult to trace cell precedents in the worksheet. This inconsistency did not affect the accuracy of the TRA spreadsheet.

Procedure 3: Agree each bank balance from the OST Excel reconciliation (TRA) for the applicable quarter to official bank statement ending in that applicable quarter (obtaining the statements for the 3 months of that quarter). Next, agree each book balance on the OST Excel reconciliation (TRA) to the FSF summary trial balance report (DGL046).

Result 3: AOA agreed all bank balances from the TRA to their corresponding bank statement balances for each quarter during the fiscal year. AOA found all book balances on the TRA agreed to the DGL046 report.

Procedure 4: Compare the cash balance per book listed in the reconciliation to the respective general ledger account balance and report the reconciliation in the following format:

<u>Bank</u>	<u>Number of Accounts</u>	<u>Bank Balance</u>	<u>Net Outstanding Items</u>	<u>Reconciled Balance</u>	<u>General Ledger Balance</u>
Bank 1	#	\$#,###	\$#,###	\$#,###	\$#,###
Bank 2	#	\$#,###	\$#,###	\$#,###	\$#,###
Bank 3	#	\$#,###	\$#,###	\$#,###	\$#,###
TOTAL		<u>\$##,###</u>	<u>\$##,###</u>	<u>\$##,###</u>	<u>\$##,###</u>

Result 4: AOA compared the cash balance listed in the reconciliation to the DGL046 without exception. Appendix A summarizes the quarterly reconciliations in the specified format.

Procedure 5: Randomly select a sample of five reconciling adjustment items greater than the significant threshold of .0015 times the total amount of the monthly general ledger cash balance (DGL046) and 5 reconciling adjustment items older than 180 days. Obtain and inspect accounting records supporting the selected reconciliation adjustments. Report any reconciling adjustment(s) for which the supporting accounting records required by the BAM are not available.

Result 5: For each Quarter, AOA selected a minimum of five reconciling adjustment items (21 total) that were greater than the quarter’s significant threshold and requested supporting documentation for those adjustments.

- **Aged Reconciling Item Supporting Documentation:** For each Quarter, AOA selected a minimum of 5 reconciling adjustment items (20 total) older than 180 days and requested supporting documentation for those adjustments. For the 20 aged items dating between 2009 to 2021, OST was unable to provide the reconciling item supporting documentation required by the BAM.
- **Current Reconciling Item Supporting Documentation:** AOA noted the following wire transfers were identified as payment vouchers in FSF and included as reconciling adjustments during the year ended June 30, 2022:
 - Zero-balance transfers to fund pension payments totaling \$33,487,697.27 during August 2021 and \$32,618,183.08 during September 2021 were recorded to the DGL046 report on October 20, 2021.
 - Zero-balance transfers to fund pension payments totaling \$31,587,374.68 during October 2021 were recorded to the DGL046 report on January 24, 2022.

OST provided accounting records supporting the reconciliation adjustment and explained the adjustments processed in the system. The transactions, manual wire transfers moved from the BNY concentration account to the JPMC concentration account, are coded in FSF as payment vouchers. The manual wires did not appear in the DGL046 report when the wire transfer occurred because of the FSF processes. FSF is configured to allow the recording of a manual outgoing wire transfer payment in one concentration account, so OST used the FSF Treasury Journal to make the manual adjustment to correct the wire transactions.

Procedure 6: Compare OST Bank reconciliation policies and procedures to requirements within the BAM. Identify any policies and procedures required by the BAM that have not been implemented by OST.

Result 6: AOA compared the OST Bank Reconciliation Procedures document to the requirements in the BAM. The procedures document used by OST for the bank reconciliation were last updated in August of 2005 and no subsequent updates have been made. As such, the procedures reflect outdated reconciliation processes, bank account information, and system information. AOA found that OST's documented procedures do not require documented authorization, review, or approval processes for the quarterly reconciliation or address spreadsheet controls. The procedures do not address management's responsibility for maintaining and communicating written policies and procedures as detailed in Delaware BAM to ensure that an effective system of internal control exists within the organization.

Procedure 7: Haphazardly¹ select a minimum of five significant wire transfers as defined in procedure 5 from each quarter's applicable bank statements, identify any transfers that did not occur within one business day and explain any discrepancies.

Result 7: AOA haphazardly selected 20 wire transfers (5 per quarter) that exceeded the threshold defined in procedure 5. AOA observed that the selected wire transfers cleared within one business day without exception.

Procedure 8: Inspect the bank statements and agree the wire transfer information from the applicable bank statements of the transactions selected for testing to the posting of the transactions in the corresponding accounts of the DGL046 report.

Result 8: AOA inspected each quarter's bank statements and agreed the wire transfer information from the sample selected to the posting of the transactions in the corresponding accounts of the DGL046 report without exception.

Procedure 9: Haphazardly select a minimum of five significant transfers per quarter from the zero-bank balance accounts and agree the net activity to the corresponding clearing in the concentration bank account.

Result 9: AOA haphazardly selected 20 significant transfers (5 per quarter) from the zero-bank balance accounts and agreed the net activity to the corresponding clearing in the concentration bank account without exception.

Procedure 10: Inspect the applicable bank statement for the quarter and agree the monthly posting of the zero balance and concentration account activity to the Activity by Balance Sheet Account (DGL046) report. Report any discrepancies.

Result 10: AOA inspected the bank statements for each quarter and agreed the monthly posting of the zero balance and concentration account activity to the Activity by Balance Sheet Account (DGL046) report without exception.

¹ Haphazard sampling is a sampling method in which the auditor does not intend to employ a systematic approach to select a sample.

AOA was engaged by the Office of the State Treasurer to perform this Agreed-Upon Procedures engagement. Our engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States. AOA was not engaged to and did not conduct an examination or review engagement, the objective of which would be the expression of an opinion or conclusion, respectively, on each of the State of Delaware fiscal year 2022 quarterly bank reconciliations. Accordingly, AOA does not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported.

AOA is required to be independent of the Office of the State Treasurer and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our agreed-upon procedures engagement.

This report, as required by statute, was provided to the Office of the Governor, Office of the Controller General, Office of the Attorney General, Office of Management and Budget, and the Department of Finance. Under 29 Del. C., §10002, this report is a matter of public record, and its distribution is not limited.

Lydia E. York
State Auditor

Dover, Delaware
May 10, 2024

STATE OF DELAWARE
OFFICE OF THE STATE TREASURER
APPENDIX A
BANK RECONCILIATION SUMMARY

Bank	Number of Accounts	Bank Balance	Net Outstanding Items	Reconciled Balance	General Ledger Balance
September 30, 2021					
Citizens	1	\$ 447,144	\$ (267,852)	\$ 179,292	\$ 179,292
Fidelity Investments	5	148,287,792	(3,756)	148,284,036	148,284,036
JPMorgan Chase	16	266,584,681	(110,181,994)	156,402,687	156,402,687
US Bank	1	1,234,161	(16,557)	1,217,604	1,217,604
BNY Mellon	2	8,930,449	62,891,238	71,821,687	71,821,687
Northern Trust	15	4,784,542,024	(4,805,891)	4,779,736,133	4,779,736,133
PNC Bank	16	2,600,485	(69,997,715)	(67,397,230)	(67,397,230)
Bank of America	1	1,167,227	2,009	1,169,236	1,169,236
Total		<u>\$ 5,213,793,963</u>	<u>\$ (122,380,518)</u>	<u>\$ 5,091,413,445</u>	<u>\$ 5,091,413,445</u>
December 31, 2021					
Citizens	1	\$ 228,822	\$ (1,009,213)	\$ (780,391)	\$ (780,391)
Fidelity Investments	5	27,844,533	1,939,678	29,784,211	29,784,211
JPMorgan Chase	16	188,306,066	(47,466,549)	140,839,517	140,839,517
US Bank	1	1,323,478	(33,329)	1,290,149	1,290,149
BNY Mellon	2	28,312,977	14,211,023	42,524,000	42,524,000
Northern Trust	15	5,248,726,620	(9,412,704)	5,239,313,916	5,239,313,916
PNC Bank	16	2,430,099	(68,529,552)	(66,099,453)	(66,099,453)
Bank of America	1	845,119	2,160	847,279	847,279
Total		<u>\$ 5,498,017,714</u>	<u>\$ (110,298,486)</u>	<u>\$ 5,387,719,228</u>	<u>\$ 5,387,719,228</u>

STATE OF DELAWARE
OFFICE OF THE STATE TREASURER
APPENDIX A
BANK RECONCILIATION SUMMARY - CONTINUED

March 31, 2022

Citizens	1	\$9,776,699	\$7,873,615	\$ 17,650,314	\$ 5,438,907
Fidelity Investments	6	287,868,876	(260,024,662)	27,844,214	(109,362,800)
JPMorgan Chase	16	224,771,022	(11,983,206)	212,787,816	271,392,879
US Bank	1	1,323,478	-	1,323,478	1,323,478
BNY Mellon	2	15,742,363	(6,428,615)	9,313,748	29,319,130
Northern Trust	15	5,399,166,592	17,986,679	5,417,153,271	5,912,296,443
PNC Bank	16	2,665,289	(69,464,168)	(66,798,879)	1,182,781
Bank of America	1	2,684,798	4,130,794	6,815,592	1,663,508
M&T Bank	1	203,812	62,510	266,322	492,486
Total		\$5,944,202,929	\$ (317,847,053)	\$ 5,626,355,876	\$ 6,113,746,812

June 30, 2022

Citizens	1	\$ 5,433,277	\$ 5,630	\$ 5,438,907	\$ 5,438,907
Fidelity Investments	5	148,850,784	(258,213,584)	(109,362,800)	(109,362,800)
JPMorgan Chase	16	386,643,863	(115,250,984)	271,392,879	271,392,879
US Bank	1	1,341,471	(17,993)	1,323,478	1,323,478
BNY Mellon	2	29,293,950	25,180	29,319,130	29,319,130
Northern Trust	15	5,913,449,556	(1,153,113)	5,912,296,443	5,912,296,443
PNC Bank	11	2,283,922	(1,101,141)	1,182,781	1,182,781
Bank of America	1	1,663,508	-	1,663,508	1,663,508
M&T Bank	1	492,486	-	492,486	492,486
Total		\$ 6,489,452,817	\$ (375,706,005)	\$ 6,113,746,812	\$ 6,113,746,812