



# OFFICE OF THE STATE TREASURER BANK RECONCILIATIONS

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AGREED-UPON PROCEDURES  
FISCAL YEAR ENDED JUNE 30, 2023



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## REPORT SUMMARY FISCAL YEAR ENDED JUNE 30, 2023

### BACKGROUND

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The Office 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) 2023. 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 continues to work on their transition from Trintech to Frontier reconciliation software with an estimated completion date no later than June 30, 2027.

The OST Reconciliation and Transaction Management team was responsible for the reconciliation of Delaware's 59 cash and investment accounts in fiscal year 2023, inclusive of new bank accounts opened as part of the OST banking conversion project. As of June 30, 2023, the total balance of Delaware's Cash and Investment accounts was \$7,351,665,311.57. AOA is authorized under 29 Del. C. §2906(b) to perform this engagement.

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### KEY INFORMATION AND FINDINGS

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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:

- During the performance of the agreed-upon procedures, it was noted that the unexpended stale check write-off balance in excess of \$100,000 were not credited to the General Fund as of June 30, FY 2023. This action does not align with the requirements specified in 29 Del. C. §2706(c), which mandates such amounts to be transferred to the General Fund at the end of the fiscal year.
- 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.
- Bank Account Reconciling Item Supporting Documentation: In vouching newly reconciled items to their supporting documentation, AOA was unable to agree the amounts of seven items to their supporting documentation.
- Policy and Procedures: OST continues to use the policies and procedures last revised August 2005 which reflect outdated reconciliation processes, bank account information, and system information. This discrepancy affected two separate procedures.

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### Abbreviations:

<b>AOA</b>	Office of Auditor of Accounts
<b>BAM</b>	Delaware Budget and Accounting Manual
<b>FSF</b>	First State Financials
<b>JPMC</b>	JPMorgan Chase
<b>FY</b>	Fiscal Year
<b>OST</b>	Office of the State Treasurer
<b>TRA</b>	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

The Office of Auditor of Accounts (AOA) has performed the procedures enumerated below on the quarterly State of Delaware bank reconciliation prepared by the Office of the State Treasurer (OST) for each quarter during the year ended June 30, 2023 (fiscal year 2023). The Office of the State Treasurer is responsible for the preparation of each State of Delaware quarterly bank reconciliation during fiscal year 2023.

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:** Request and inspect the CM001 and TR-1B forms for each state account that was opened and/or closed during the quarter under review. Next agree each account's initial and/or close-out transactions from the applicable bank statement to the transactions recorded to the respective general ledger cash account numbers/program codes (g/l accounts) in the State of Delaware's First State Financials Accounting System (FSF) report entitled "Activity by Balance Sheet Account" (DGL046).

**Result 1:** In fiscal year ending June 30, 2023, OST opened four new accounts and closed fourteen accounts. AOA received four CM-001 Opening forms for each new account opened. Of fourteen closed accounts, AOA received four TR-1B closing forms and 10 bank confirmations as support.

AOA also observed the following:

- **Quarter 2** - One Fidelity Bond account closed in December 2022 remained on the DGL046 report with a balance of \$1,374.28, through June 30, 2023. Management stated that there were correction documents needed in FSF that would show this account's ending balance as \$0.00; however, there was a delay in creating this documentation.
- **Quarters 3 & 4** – Six accounts closed in quarter 3 show a balance on the DGL046 report through June 30, 2023. Management stated that these accounts were pending closing paperwork which resulted in a balance being shown on the DGL046.

**Procedure 2:** Compare the general ledger accounts listed prior to the cash account sub-totals page of the DGL046 to the general ledger accounts that are reconciled by the OST in the "Reconciliation to Accounting" (TRA) for the applicable quarter under review.

**Result 2:** AOA compared the list of accounts generated from the DGL046 to the bank accounts reconciled by the OST and the accounts included as part of each quarter's ending cash balance in FSF cash accounts during fiscal year 2023. AOA noted the following discrepancies:

- **All Quarters** – One JP Morgan Account that was closed in April of Fiscal Year 2022 remained on the DGL046 report with a balance through March 2023. Management stated that the account was pending paperwork for a wire redemption, which was not completed until Fiscal Year 2023. The quarter 4 DGL046 shows this account's balance is \$0.00.

**Procedure 3:** Agree the ending balance of each account from the bank/investment (bank) statements to the respective "bank balance" shown in the TRA for the applicable quarter end under review. Next, agree the "accounting total" (book balance) shown in the TRA at quarter end, to the ending balance of respective g/l accounts in the DGL046.

**Result 3:** AOA agreed the ending balance of each account from the bank/investment (bank) statements to the respective "bank balance" shown in the TRA for each quarter end of fiscal Year-end 2023 without exceptions. AOA agreed the "accounting total" (book balance) shown in the TRA at each quarter end, to the ending balance of respective g/l accounts in the DGL046 without exceptions.

**Procedure 4:** Compare the outflow transactions listed as reconciling items for each account in the TRA for the previous quarter ended, to those shown in the TRA for the quarter ended under review. Vouch new reconciling items to the source documents maintained by the OST in accordance with Section 2.6 of the State of Delaware Budget and Accounting Policy Manual (BAM) and 29 Del. C. §6504. Next, trace the outflow transactions from the source documents to the applicable bank statements.

**Result 4:** AOA compared the outflow transactions listed as reconciling items for each account in the TRA for each quarter ended, to those shown in the TRA for the quarter ended under review. For the year under review, AOA identified the following:

***Quarter 1:*** Out of 12 new reconciling items tested:

- 8 items were vouched to source documents without exception.
- For 4 items, the supporting documentation did not agree to the amount of the reconciling items.
- 3 transactions were traced to the bank statements without exception.
- 8 transactions could not be traced to the bank statement due to their nature. These transactions include outstanding deposits, stale-dated checks, bank errors, and other transactions that have not been cleared by the bank, and therefore will not show on the bank statement.
- 1 transaction (Item 5) was not traced to the bank statement. The transaction (a Forgery Reimbursement for \$853.50) appeared in the DGL046 and had supporting documentation with OST, but did not appear in the bank account for the months examined by AOA, and is being carried as a reconciling item.

***Quarter 2:*** Out of 16 new reconciling items tested:

- 14 items were vouched to source documents without exception.
- For 2 items, the supporting documentation did not agree to the amount of the reconciling items.
- 4 transactions were traced to the bank statements without exception.
- 12 transactions could not be traced to the bank statement due to their nature. These transactions include outstanding deposits, stale-dated checks, bank errors, and other transactions that have not been cleared by the bank, and therefore will not show on the bank statement.

***Quarter 3:*** Out of 9 new reconciling items tested:

- 9 items were vouched to source documents without exception.
- 6 transactions were traced to the bank statements without exception.
- 3 transactions could not be traced to the bank statement due to their nature. These transactions include outstanding deposits, stale-dated checks, bank errors, and other transactions that have not been cleared by the bank, and therefore will not show on the bank statement.

***Quarter 4:*** Out of 3 new reconciling items tested:

- 2 items were vouched to source documents without exception.
- For 1 item, the supporting documentation did not agree to the amount of the reconciling item.
- 1 transaction was traced to the bank statements without exception.
- 2 transactions could not be traced to the bank statement due to their nature. These transactions include outstanding deposits, stale-dated checks, bank errors, and other transactions that have not been cleared by the bank, and therefore will not show on the bank statement.

**Procedure 5:** Compare the inflow transactions listed as reconciling items for each account in the TRA for the previous quarter ended, to those shown in the TRA for the quarter ended under review. Vouch new reconciling items to the source documents maintained by the OST in accordance with Section 2.6 of the BAM and 29 Del. C. §6504. Next, trace the inflow transactions from the source documents to the applicable bank statements.

**Result 5:**

***Quarter 1:*** Out of 31 new reconciling items tested:

- 30 items were vouched to source documents without exception.
- For 1 item, the supporting documentation did not agree to the amount of the reconciling item.
- 8 transactions were traced to the bank statements without exception.
- 23 transactions could not be traced to the bank statement due to their nature. These transactions include outstanding deposits, stale-dated checks, bank errors, and other transactions that have not been cleared by the bank, and therefore will not show on the bank statement.

**Quarter 2:** Out of 23 new reconciling items tested:

- 22 items were vouched to source documents without exception.
- For 1 item, the supporting documentation did not agree to the amount of the reconciling item.
- 5 transactions were traced to the bank statements without exception.
- 17 transactions could not be traced to the bank statement due to their nature. These transactions include outstanding deposits, stale-dated checks, bank errors, and other transactions that have not been cleared by the bank, and therefore will not show on the bank statement.

**Quarter 3:** Out of 11 new reconciling items tested:

- 11 items were vouched to source documents without exception.
- 8 transactions were traced to the bank statements without exception.
- 3 transactions could not be traced to the bank statement due to their nature. These transactions include outstanding deposits, stale-dated checks, bank errors, and other transactions that have not been cleared by the bank, and therefore will not show on the bank statement.

**Quarter 4:** Out of 9 new reconciling items tested:

- 9 items were vouched to source documents without exception.
- 2 transactions were traced to the bank statements without exception.
- 7 transactions could not be traced to the bank statement due to their nature. These transactions include outstanding deposits, stale-dated checks, bank errors, and other transactions that have not been cleared by the bank, and therefore will not show on the bank statement.

**Procedure 6:** Inspect the bank statements for the State's concentration account with JPMorgan Chase Bank for the quarter under review and judgmentally select a sample of transfers to and from state accounts reconciled by OST. Next, agree transfer information from the applicable bank statements to the transactions recorded to the corresponding general ledger accounts in the DGL046.

**Result 6:** 32 wires were judgmentally selected for testing for all of fiscal year 2023. All wires were executed within one business day without exception. Bank statements were inspected to agree wire transfer information for our selected sample. All transfers were found to be recorded properly without exception.

**Procedure 7:** Judgmentally select two of the state's zero balance accounts (ZBAs) with JPMorgan Chase Bank and confirm that the accounts' activity for each quarter of Fiscal year 2023, as shown in the applicable bank statements, were recorded to the corresponding general ledger accounts of the DGL046.

**Result 7:** AOA judgmentally selected the State of Delaware's (State's) "Vendor Payments ACH Account" and "Vendor Payments Checking Account" with JPMorgan Chase Bank (JPMC) and confirmed that the ZBAs' activity for each quarter of fiscal year (FY) 2023, as shown in the applicable bank statements, were recorded to the corresponding general ledger accounts of the DGL046, with the exception of the following:



**Vendor Payments ACH Account:**

- **Quarter 1** – Transfers from the State's "OST Concentration Account" to the State's "Vendor Payments ACH Account" with JPMC to fund vendor payments totaled \$461,304,432.01 in August 2022, with \$138,317,675.83 and \$322,986,756.18 being recorded to the corresponding general ledger account of the DGL046 in August 2022 and September 2022, respectively.
- **Quarter 4** – Transfers from the State's "OST Concentration Account" to the State's "Vendor Payments ACH Account" with JPMC to fund vendor payments, less deposits/credits to the ZBA account that were swept back daily, as applicable into the concentration account totaling \$448,414,676.10 in May 2023 were recorded to the DGL046 report in June 2023.
- **All Quarters** – Account variances related to ACH returns credited to the State's "Vendor Payments ACH Account" that were not recorded in the same period to the corresponding general ledger account of the DGL046 were observed at each quarter end of FY 2023. A total of \$14,534.09 in ACH payments to vendors were returned to the State's ZBA in FY 2023 but were not recorded to the DGL046 as of quarter ended June 30, 2023.

**Vendor Payments Checking Account:**

- **Quarter 4:**
  - Transfers from the State's "OST Concentration Account" to the State's "Vendor Payments Checking Account" with JPMC to fund vendor payments, less deposits/credits to the ZBA account that were swept back daily, as applicable into the concentration account totaling \$52,377,125.34 in May 2023 were recorded to the DGL046 report in June 2023.
  - As of quarter ended June 30, 2023, AOA identified a variance of \$342,094.23 which was attributable to stale dated checks that were not written off as of fiscal year-end. A stale check write-off for the amount was not credited to a limited purpose, special fund appropriation maintained and utilized by the OST to process stale-check reissues; further, the true unexpended stale check write-off balance in excess of \$100,000 was not credited to the General Fund on June 30 of FY 2023 in accordance with 29 Del. C. §2706(c).

AOA observed that the State adopts a strict policy, ensuring all transactions align precisely with the calendar month, while FSF provides a bit more flexibility by extending the cut-off into the following month. This difference leads to variations in reporting accuracy and reconciliation practices. OST manages the expectations that transactions evident in ZBA balances are processed in FSF in the various general ledger accounts as timely as possible. AOA engaged

with OST management regarding long-standing reconciling items, and OST is continuing to implement process enhancements to address and resolve the issue.

**Procedure 8:** Compare the methods, policies, and procedures used to generate the TRA to the basic internal control objectives as defined in Section 2.1.1 of the BAM. Mathematically check all excel formulas and functions within the OST quarterly reconciliation.

**Result 8:** 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. Management utilizes verbal communication as well as supervisory sign-offs to ensure that the TRA spreadsheets are completed accurately and timely.
- **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 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.

**Procedure 9:** Compare the OST's bank reconciliation policies and procedures to the BAM. Identify any policies and procedures required by the BAM that have not been implemented by the OST.

**Result 9:** OST continues to use the policies and procedures last revised August 2005 which reflect outdated reconciliation processes, bank account information, and system information. These policies and procedures do not require documented authorization, review, or approval processes for the quarterly reconciliation or address spreadsheet controls. OST did provide AOA with an additional job-aid; however, it does 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.

Management stated *"The Office of the State Treasurer has been working diligently over the last two fiscal years on revising the OST reconciliation policies and procedures as they relate to*

*revised software (Frontier) and updated processes.... It is the goal of the RTM team to ensure that all OST reconciliation policies and procedures are drafted, review, and final approved no later than June 30, 2025"*

### **Concluding Remarks**

The Office of Auditor of Accounts 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. We were 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 2023 quarterly bank reconciliations. Accordingly, we do 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.

We are 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 5, 2025