

**Nassau County
Office of the Comptroller
Field Audit Bureau**



**Nassau County Comptroller's Office
Limited Review of the Treasurer's Office
Internal Control Procedures for the Issuance of Manual
Checks**

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OFFICE OF THE COMPTROLLER

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EXECUTIVE SUMMARY

Background

The Treasurer has custodial responsibility for Nassau County funds or funds in which the county has an interest, and is responsible for the county's banking relationships.

The Treasurer's Office is divided into four units (1) Debt and Investments, (2) Tax Sale and Records, (3) Tax Certiorari and (4) Accounting. This audit focuses on the Accounting unit and its subunits, the Check Writing Unit and the Cashier.

The Accounting unit consists of one supervisor and 12 staff members. Its primary responsibility is to perform bank reconciliations, transfer funds to cover disbursements and enter required journal entries into the accounting system. It also processes cash receipts and prepares manual check requests.

The Check Writing Unit, consisting of two staff members, maintains custody of all unused manual check stock. The Check Writing Unit prints all system-generated checks, affixes the Treasurer's signature, and seals and distributes them.

The Cashier Unit consists of two cashiers. It handles incoming cash, prepares deposits and records these deposits in the Nassau Integrated Financial System ("NIFS"), which serves as the county's general ledger system.

As of November 29, 2004, the county maintained 112 bank accounts through relationships with eight banks.

Banking and cash management activities included:

- issuing Nassau county debt and investing excess available funds;
- processing incoming cash, including preparing bank deposit slips and recording cash receipts, such as tax receipts, bail receipts, and court ordered escrow deposits, in the accounting system;
- printing, signing and distributing the county's payroll, vendor and other special "warrant" checks [Note: A warrant is the payment file produced by NIFS];
- managing the internal movement of cash by wire transfer between bank accounts to fund disbursements;
- maintaining receipt and disbursement documentation in support of cash activity and bank balances;
- collecting current and prior year delinquent taxes, and official county tax records; and
- processing payments in accordance with judicial orders and judgments.

In addition, each month, the Treasurer's Office prepares approximately 800 – 1000 manual checks—that is, checks generated outside of the payment module in NIFS. Manual check payments are not subject to independent audit prior to their issuance. The manual check is prepared using manual check stock and check writing equipment and then signed using a signature plate or stamp. The payment is recorded in NIFS using a journal entry and is not routed through the electronic approval path. The majority of the

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manual checks are payments to third parties and government agencies to refund taxes, bail, escrow, and other court settlement awards. In addition, “emergency” manual checks are prepared to expedite NIFS payments scheduled to be generated on a warrant. The emergency manual check replaces the warrant check and the warrant check is held from warrant, endorsed by the Treasurer and re-deposited.

Of the 112 bank accounts, 10 are used to issue manual checks. The Check Writing Unit is responsible for preparing approximately 25% of the manual checks. The other 75% are manual checks to refund or forfeit bail, and they are prepared by the bail accountant in the Accounting unit.

Objective, Scope and Methodology

The auditors used the November 2000 “Study of Cash Internal Control Practices for Local Governments in New York State” (the “Study”), issued by the New York State Comptroller, Division of Municipal Affairs, as a reference to help assess the adequacy of the Treasurer’s manual check internal controls and procedures. The Study delineates minimal internal controls that municipal managers must develop, implement, and monitor to provide reasonable assurance to taxpayers that assets are protected. Based on this Study, the Auditors determined that policies and procedures for the issuance of manual checks should minimally ensure that:

- employees who handle money are adequately bonded;
- accounting records are complete, accurate and timely;
- bank accounts are properly reconciled on a monthly basis;
- employees who record financial entries in the accounting system should be segregated from employees who have access to cash or checks, as well as from employees who perform reconciliations. Individual accountability should be established and maintained;
- adequate computer controls exist;
- unused check stock and check signing devices are properly restricted and safeguarded; and
- the internal control system is monitored through periodic crosschecks of the work performed and the audit of records.

In addition, the auditors conducted the limited internal control review in accordance with generally accepted government auditing standards. The methodology utilized included: reviewing policies and procedures; interviewing personnel to gain an understanding of the procedures performed and the delegation of roles and responsibilities; observing processes; and inspecting documents and records. Detail substantive testing was not performed. The scope of the review included the months of October and November 2004.

Using these limited procedures, we identified weaknesses and have developed recommendations to assist in improving the internal controls and procedures over manual checks.

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Summary of Significant Findings

The Treasurer's Office authorizes, prepares, signs and issues 800 – 1000 manual checks each month. The majority of these checks are payments to third parties, towns, villages and municipalities. These payments are similar to payments currently processed through the Vendor Claims Section of the Comptroller's office. As a result of our review and pursuant to § 402 of the County Charter, we concluded that the manual check function should be conducted by the Comptroller's Office. We also concluded that the Treasurer's processing procedures for manual check payments lack adequate internal controls.

Treasurer personnel performing manual check functions could be used more efficiently to perform other, core treasurer functions, such as bank reconciliations, which are deferred because of a lack of appropriate resources. The manual check process does not take advantage of the controls built into the claims process (including NIFS) used by the Vendor Claims Section of the Comptroller's Office. For example:

- Manual check payments are not routed through NIFS' electronic approval path functions, thereby bypassing oversight of the Claims Section of the Comptroller's Office.
- Payment history files are not created in NIFS for manual checks entered by journal entry. Therefore, NIFS payment history and payment analysis may be incomplete.
- Recording manual check payments in NIFS by journal entry does not create outstanding check liability entries, which would otherwise aid in the bank reconciliation process.

Pursuant to §402 of the County Charter, the Comptroller is charged with the authority to "audit and approve all bills, invoices, payrolls and other evidences of claims, demands, or other charges against the county, and determine the regularity, legality and correctness of the same." The Comptroller, therefore, performs a control function on the activities of other county government departments.

When the Treasurers' Office prepares, authorizes and signs manual checks to third parties without the Comptroller's oversight, it bypasses the Comptroller's charter control function of reviewing and approving payments. Even if the daily processes in the Treasurer's Office were adequately distributed to achieve a proper segregation of duties, this would not obviate the need for the Comptroller's charter control function because the Treasurer has the power to override his own daily process.

We found that:

- The Treasurer's Office issues manual checks without the appropriate oversight by the Comptroller's Office.

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- The performance of the manual check payment function by the Treasurer conflicts with the Treasurer's custodial responsibility over funds belonging to the county. The custodian should not have the ability to authorize the disbursement of funds without oversight.
- The Treasurer's Office issues manual checks in a weak control environment without the maintenance of proper segregation of duties. A Treasurer's Office accounting supervisor and several of the staff informed us that this weakness primarily results from a lack of appropriate resources.
- Once a manual check is prepared, it is returned to the employee who requested the manual check, and this same employee also enters the manual check payment in NIFS without any other review.
- No one in the Treasurer's Office has been assigned the responsibility of reviewing and approving manual check requests.
- The bail clerk's duties are not segregated among different employees. The clerk is responsible for receiving the funds, forwarding them for deposit and making entries to record the transactions. The clerk also processes orders to disburse the funds, prepares the checks, affixes signatures to the checks and records the transactions. Additionally, we found no evidence that another employee reviewed the clerk's work.
- Bank reconciliations were often prepared by an employee who receives and processes receipts, requests manual checks, processes wire transfers or records related journal entries.
- Internal wire transfers do not require approval and are sometimes performed by the same employees who prepare bank reconciliations and prepare journal entries.

Additionally, the office lacks written procedures governing the manual check process, formal job assignments or written job descriptions to fix responsibility for functions and tasks. These conditions have resulted in a loosely controlled work environment where the procedures performed vary from employee to employee. This type of environment increases the likelihood that the day-to-day workload is not consistently performed and that errors due to misinterpretation, misapplication, and/or the lack of application of procedures will take place and go undetected.

The monthly bank reconciliation process is an important control to ensure that both the bank and the county have accurately recorded all cash transactions. We reviewed bank reconciliations and found that:

- The preparer did not sign and date them;
- there were no explanations as to reconciling items or to the follow up performed;
- there was a large dollar amount and volume of old items;
- old items were not aged or followed up upon; and
- reconciliations were not performed timely for three accounts.

We also found that the Treasurer's Office did not maintain adequate control over unused checks. The checks were not safeguarded during the workday, making them accessible to unauthorized individuals. While a log of used and unused checks was maintained, we

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found deficiencies in its use. The logs were incomplete, contained unexplained changes, and there was no periodic verification of the accuracy of the logs by anyone other than its custodian.

The Treasurer's Office issues emergency manual checks as replacements for checks generated by the warrant because of a special need to expedite payment. Comptroller's Office approval is required prior to the issuance of an emergency manual check. Because emergency manual checks are duplicates of checks prepared by the warrant, the Treasurer's Office must take care to ensure that the warrant based check is not distributed but is re-deposited. The Treasurer's Office, however, has no control mechanism to ensure that the re-deposit is made. This increases the risk that the warrant check may not be re-deposited and might be inappropriately left on the outstanding checklist.

We found that the manual check request form is inadequate for use in emergency situations because it does not identify that the check request is for an emergency check, it does not reference the warrant check that is being replaced and does not have a space for the approval of the Comptroller's Office. This increases the risk that the emergency nature of the check may be overlooked, and may be processed without the required Comptroller's Office approval. Additionally, the check writing unit may not be notified to hold the check prepared on the warrant and the warrant check might be released to the payee.

Emergency manual checks also compromise the integrity of the cash disbursement records because NIFS will incorrectly indicate that the payment was made through the check generated by the warrant. There are no notations in NIFS that the warrant check was not issued to the payee and it was replaced by an emergency check. This can lead to false conclusions when researching the payment of obligations.

Sound internal control requires that checks be sent directly to the payee rather than being held by the Treasurer's Office ("check holds") and then returned to the department or employee who had requested that the check be prepared. We found a large volume of check holds; some are done routinely and others are done based on the vendor's request. This practice increases the risk that fraudulent payments may be made or that the payee might not receive the check.

We also reviewed the Treasurer's Office's long-standing policies regarding stale dated checks. The Treasurer's Office recognizes all stale dated outstanding checks, with the exception of court and trust checks, as revenue once they become one-year-old. Because New York's abandoned property law ("APL") requires escheatment to the state in certain circumstances, we have asked the County Attorney whether the Treasurer is required to take additional measures to be in compliance with the APL. Additionally, we found that the Accounting unit does not contact payees or perform other steps to determine why checks have not been cashed or to otherwise pursue the payment of the obligation. The Accounting unit does not issue stop payment orders on checks it considers stale dated and recognized as revenue to prevent them from being cashed. The office has no accounting

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controls in place to ensure that revenue recognition is reversed in the county's financial statements if the stale dated checks are paid by the banks.

In commercial contexts and frequently in government as well, employees who handle cash assets are bonded to assure the protection and safeguarding of cash assets. Bonding also lessens the county's risk of loss from unauthorized use or disposition of resources in the custody of employees and/or lack of faithful performance of duties. A Treasurer's Office Accounting Supervisor advised us that the cashiers were bonded in the past, but at that time the county was not self insured. We suggest that the Treasurer's Office review this matter with the County Attorney to determine whether and which employees should be bonded.

Department's Response

On March 15, 2005, we submitted a draft report to department officials with a request for comments. The matters covered in this report have been discussed with officials of the department during the audit and in an exit conference held on April 21, 2005. The department's comments were received on May 11, 2005, and are included as an addendum to this report (Appendix 1).

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Manual Check Accounts Held by the Treasurer's Office

Background

The following chart presents the 10 bank accounts used as of November 29, 2004, to issue manual checks, the primary purpose of each account, and the number of checks issued in October and November 2004.

Nassau County Treasurer's Office
Bank Accounts used for Manual Checks as of November 29, 2004

Name of Bank	Primary Purpose	Number of Manual Checks Issued	
		October 2004	November 2004
EAB/Citibank General Account	Taxes - Partial Payment Adjustments	20	9
EAB/Citibank Regular Trust	Adjustment to Taxes	2	2
EAB/Citibank Court & Trust	Refunds per Court Orders	18	16
North Fork General	Emergency Manual Checks	10	4
North Fork Surety #4	Bail refunds & Forfeitures -	750	647
North Fork	Tax Redemption, Property Tax	71	57
Chase Court & Trust	Refunds per Court Orders	25	19
Chase	Bond & Coupon Payments	1	0
Commerce Trust	Quarterly Mortgage Tax Payouts	Not Open	90
Bank of NY Surety III	Bail Refunds and Forfeitures	0	0
M Checks	Various*	40	13
F Checks	Funds Transfers not done by wire	1	0
Totals		938	857

* A manual check can be written out of any bank account where unused check stock is not kept on hand using an "M" check. An "M" check is a manual check without bank encoding. The related bank information is encoded on the check at the time of issuance.

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Audit Finding (1):

Manual checks are routinely prepared for many reasons. Historically, the Treasurer's Office has issued manual checks, however we found no substantive reasons why the Treasurer audits and authorizes these payments, other than it evolved this way. Checks issued by the Treasurer's Office stem from transactions similar in nature to those authorized by the Claims Section of the Comptroller's Office via vendor warrants.

For example:

- Mortgage tax payouts to towns, villages, and cities are approved by the Legislature and are similar in form to other tax related payments to the same towns, villages and cities that are processed by vendor claims.
- A bail system is used to record cash bail received and the related disbursements to either refund or forfeit the bail. The Claims Section of the Comptroller's Office currently accepts interfaces to process certain claims, such as payments to Board of Elections poll workers, and vendor claims could process the bail checks that are currently prepared and signed manually by the Treasurer's Office as well.

The Treasurer's Office is the custodian over funds belonging to the county or in which the county has an interest. Mixing its custodial duty with the ability to authorize and record manual check payments is poor internal control and increases the risk that error and irregularities may occur and not be detected and corrected in a timely manner. It also uses treasurer staff resources to perform a non-treasurer function, the audit and authorization of manual checks, reducing the time available to spend on true treasurer functions such as bank reconciliations, follow-up of reconciling items, etc.

While NIFS automatically creates an outstanding check liability entry for the warrant checks, no such entry is created (automatically or manually) for manual checks. It is important to establish control over all outstanding checks, including manual checks, especially because all one-year-old outstanding checks are considered stale dated and recorded in NIFS as a credit to revenue.

Accounting records for manual check payments are deficient. Warrant checks written through NIFS create a history by individual payee in NIFS. The issuance of manual checks by the Treasurer's Office does not create a similar history in NIFS. The absence of manual check payments in the NIFS history file can lead to incomplete analysis when researching payments to vendors, government agencies and other third parties.

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Audit Recommendations:

The Treasurer's Office should consider transferring the audit and authorization functions associated with the issuance of manual check payment responsibility to the Comptroller's Office Claims Section. This includes audit and authorization responsibility for court ordered payments, tax refunds, payouts approved by the legislature and bail payments. The migration of audit and authorization payment functions to the Claims Section would provide the proper segregation of duties, provide detail payment history in NIFS and reflect the monthly outstanding manual check liability in the accounting records.

Until manual check payment functions have been migrated to the Comptroller's Office Claims Section, we suggest the following:

- 1) The Comptroller's Office should have an interim oversight role over manual check payment functions (audit and authorization) performed by the Treasurer's Office;
- 2) The outstanding check liability at the time the manual check is created and issued should be manually created in NIFS by use of journal entries.

Manual checks that clear financial institutions, as reflected on monthly bank statements or runs, should be reflected in NIFS. All outstanding checks for each bank should be reconciled to NIFS.

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Lack of Written Manual Check Procedures, Assignment of Roles, Delegation of Responsibilities

Audit Finding (2):

The Treasurer's Office does not have written procedures governing the issuance of manual checks. Additionally, written job descriptions do not include the assignment of manual check payment functions. The lack of written procedures, combined with a lack of formal assignment of functions, has resulted in a loosely controlled work environment where the procedures performed vary from employee to employee. This increases the likelihood that the day-to-day workload is inconsistently performed and that errors due to misinterpretation, misapplication, and/or the lack of application of procedures can occur and go undetected.

Audit Recommendations:

- a. Procedures governing the issuance of manual checks should be documented. They should include:
 - 1) procedures to safeguard unused manual check stocks, account for the sequences of used and unused manual checks, and identify by bank account check sequence numbers associated with spoiled, voided, stale dated, and outstanding manual checks;
 - 2) guidelines describing common situations where usage of a manual check is appropriate;
 - 3) safeguarding of, and accounting for, the use of the approval signature plates used to sign manual checks;
 - 4) the steps required to record the manual check transaction in the financial records;
 - 5) manual check stale dating procedures, specifically:
 - a) the accounting treatment for the manual checks written to withdraw funds from one account for subsequent re-deposit into another;
 - b) the impact on the outstanding check list and the bank reconciliations; and
 - c) how each bank is advised that checks were deemed stale dated;
 - 6) procedures for reconciling the cash accounts in the primary funds to the fund equity accounts and to the Treasurer's bank ledgers and the bank statement;
 - 7) exception processing procedures; and
 - 8) implementation of documentation standards that would require that the individual who performs the work, sign or initial and date the work, in order to establish accountability.
- b. Job descriptions should be written and tasks should be formally delegated to achieve a proper segregation of duties. Consideration should be given to utilizing a function/responsibility matrix approach to document the staff assignments while also establishing a format that would help to quickly highlight instances where an improper segregation of duties exists. The written delegation of duties and the segregation of duties assessment should be dated and approved. It should also be routinely reviewed, updated and reissued when necessary.

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Controls over Used and Unused Manual Check Stock

Audit Finding (3):

The Treasurer's Office has manual check stock for 10 county bank accounts. The majority of the unused manual check stock is kept in an unlocked print room during the workday. A smaller supply of unused checks is kept in an unlocked filing cabinet just outside of the print room. This lack of security makes the checks accessible to unauthorized employees.

A review of the handwritten log maintained to record and track the number of unused checks on hand, by bank account, highlighted the following internal control weaknesses:

- The bank account numbers and the sequence of check numbers associated with the unused check stock are not recorded on the log.
- A physical count of the unused check stock by bank account is not periodically performed and compared to the unused check log.
- Checks are written out of sequence and changes are made to used and unused check number sequences by the log custodians using correction fluid. However, notations are not always made to explain the changes and the changes are not initialed by someone other than the log custodian.
- There is no evidence that the log is reviewed by anyone other than the two custodians.
- The log did not include the check stock on hand for the National Westminster Tax Certiorari bank account. The reason provided for not including the account in the log was that the account had been closed.
- Controls were not established and maintained over the unused check stock for the Bank of New York Surety Account. The Office was uncertain whether unused checks existed, whether the supply had been used up, or whether the supply had been shredded.

A review of separate handwritten logs, used to account for the check number sequences of unused checks highlighted the following control weaknesses:

- The bank account numbers associated with the checks used are not recorded on the log.
- Changes are made by the custodians of the log using correction fluid. However, notations are not always made to explain the changes and the changes are not initialed by someone other than the custodians.
- There is no evidence that the log is reviewed by anyone other than the two custodians.

We also found no evidence to suggest that anyone other than the log custodians periodically compare the used and unused logs to ensure that the combined sequence of

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used and unused check numbers is fully accounted for, and that any unusual entries are clearly explained.

Audit Recommendations:

- a. Unused manual checks should be safeguarded by locking them in a secure location when not in use. If it is impractical to lock the check printing room during the day, we recommend that the checks stored there be kept in a locked cabinet or other secure container.
- b. The logs of used and unused manual checks, and the procedures followed, should be enhanced to:
 - 1) include the bank account numbers and the sequence of check numbers;
 - 2) require custodians to initial, date and provide a reason for any changes made to the logs;
 - 3) include the reason for checks being issued out of sequence;
 - 4) require logs and changes to the logs to be reviewed by someone other than the custodians and for the review to be signed and dated; and
 - 5) require an employee other than the custodian to:
 - a. perform periodic counts of unused checks;
 - b. verify unused check number sequences to the log;
 - c. compare the logs of used and unused checks to ensure that the total check sequences are accounted for; and
 - d. evidence their review by signature and date.
- c. The department should convert the handwritten formats currently used to prepare the logs to a pre-typed format using a software program such as Excel or Word. This would greatly improve the legibility of the logs and improve efficiency by eliminating the need to rewrite column headings, bank account numbers, etc.
- d. Unused check stock for accounts that have been closed should be shredded. The shredding should be witnessed and documented, and the log should be updated to reflect the date the account was closed and the date the checks were shredded.

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Requests for Manual Checks – Forms, Approvals, Improper Segregation of Duties

Audit Finding (4):

We found that the office's internal controls over disbursements were weak due to a lack of segregation of duties. For example:

- Requests for checks should be prepared by one employee and then reviewed and approved by another before the check is prepared. This responsibility must be assigned to ensure that requests are reviewed and approved.
- Checks should not be returned to the employee who requested the check. Checks prepared by the Check Writing Unit are returned to the individual in the Accounting unit who requested the manual check.

We also found that several different request forms are used. The request forms:

- are similar in format and it is not clear why it is necessary to maintain more than one;
- are used to request both manual checks (including emergency manual checks) and wire transfers (internal or external);
- do not include a designated space to input the reason for the request or the signature and date of the preparer and approver; and
- are not numerically controlled and accounted for, and dollar control counts are not generated. Without numerical control of the number of requests and the corresponding total dollar amount by type of request, the office cannot know whether all requests have resulted in proper check issuances or if all wire transfer requests have been executed for the proper amount.

[Note: see also Audit Finding (6) which focuses on emergency manual checks only.]

Audit Recommendations:

- a. A Treasurer's Office employee should be assigned to review and approve the manual check and wire transfer request forms prior to the checks being written or the wire transfers being executed.
- b. Manual checks prepared by the Check Writing Unit should be returned to a county employee other than the employee who requested the manual check. Likewise, someone other than the employee who requested the wire transfer should execute wire transfers.
- c. The various manual check request forms and wire transfer request forms currently in use should be utilized as guides in the redesigning and redeveloping of one or more standardized forms which would clearly distinguish different request types, such as regular manual checks from emergency manual checks and internal wire transfers from external wire transfers. The request forms should be designed to include

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designated spaces for all information required for a specific request type, including the reason for the request and the signature and date of the preparer and approver.

- d. Requests for manual checks and wire transfers should be numerically controlled and accounted for, including dollar control totals, by use of a log. The information in the log should be compared to the daily totals (both quantity and dollars) of manual checks written and wire transfers executed.

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Manual Checks – Bail Refunds - Improper Segregation of Duties

Audit Finding (5):

We found that there is no segregation of duties in the performance of receiving and disbursing bail monies.

With regard to the receipt of bail money, the bail clerk:

- receives cash bail receipts and enters each individual check into the Bail system to record the cash receipt;
- forwards the bail receipts to the Cage for deposit; and
- enters a summary cash receipt entry into NIFS.

With regard to the disbursement of bail money, the bail clerk:

- receives court orders instructing bail refunds or forfeitures and enters them into the bail system;
- obtains manual unused checks from the Check Writing Unit along with the hand signature stamp;
- loads the unused checks into a check writing machine and then sends it instructions from the Bail System to print the checks; and
- affixes the signature using the stamp and enters a summary cash disbursements entry into NIFS.

The bail clerk advised us that a comparison of the number of manual bail checks to the court orders is performed each morning by one of the staff accountants; however, the review is not evidenced, signed or dated by the reviewer.

Audit Recommendations:

The current process that is in place to receive and record cash bail receipts and disbursements should be reengineered to ensure a proper segregation of duties. Proper segregation must exist between recording cash receipts, cash disbursements, journal entry processing, check signing, and bank reconciliation.

Specifically, manual checks to refund bail, or forfeit bail in favor of Nassau County, should be:

- a. prepared by an employee other than the employee who receives the cash bail, forwards the cash receipt to the Cashier for deposit, and enters the cash receipt into the Bail systems and NIFS; and
- b. signed, by use of hand stamp, by an employee other than the employee responsible for receiving cash bail, entering the disbursements into the system, preparing the related manual cash disbursement checks and updating the bail system and NIFS.

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Emergency Manual Check Requests – Inadequacy of Form Used

Audit Finding (6):

Emergency manual checks are different from regular manual checks; emergency manual checks are used in place of a check that is also being generated by a warrant. In order to avoid a duplicate payment to the payee, extra care must be taken by the Treasurer's Office to ensure that the check generated by the warrant is not distributed or mailed to the payee. An emergency manual check is issued after a payee's request to expedite payment due to dire circumstances, and then only with the written approval of the Comptroller's Office.

A special purpose emergency manual check request does not exist. Instead, a request for a check is completed. (Refer to Audit Finding (4) where the multiple uses of this request form were discussed). Comptroller's Office approval must be obtained prior to the emergency manual check being prepared by the Check Writing Unit.

We found the following deficiencies in the check request form, as it pertains to its use for emergency manual checks:

- When the request form is prepared, the words "emergency manual check" are not entered, and do not appear anywhere on the form. It is not evident from looking at the form that an emergency manual check is being requested.
- The request form does not designate space to describe the reason for the emergency request, the amount and check number of the warrant check being replaced, or for the required approval of the Comptroller's Office. Additionally, the form does not designate space to note when the warrant check was held and when and where it was re-deposited. Lack of this cross-check is poor internal control and also results in a poor audit trail.

These deficiencies in the request form increase the risk that the request for an emergency manual check may not be recognized as such. This may cause the check to be processed without the nature of the emergency being described, the required additional approval being obtained, and the warrant check being held. This, in turn, could lead to:

- unauthorized preparation of emergency manual checks;
- misuse of emergency manual checks in non-emergency situations; and/or
- the issuance of two checks to the payee.

Audit Recommendation:

- a. The department should develop and implement a separate emergency manual check request form. The form should be clearly entitled as an emergency check request.

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- b. The emergency manual check request should include: designated spaces for the reason for the request, the check number and dollar amount of the warrant check being replaced, the required approvals, including the signature of the Comptroller or Comptroller's designee, and a notation (to be entered at a later time) indicating that a warrant check was held including when and where it was re-deposited.
- c. In general, the substance of the recommendations made in Audit Finding (4) also applies here to emergency manual checks.

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Emergency Manual Checks – Related Check Hold

Audit Finding (7):

To ensure appropriate internal control over cash disbursements, checks should generally be delivered directly to the mailroom for distribution and made inaccessible to persons who requested, prepared or recorded them. To the extent there are circumstances, where the general rule does not apply or is not practical, the circumstances should be pre-approved and compensating controls should be established. The issuance of an emergency manual check is an example of a situation where the warrant check being replaced should not be delivered to the mailroom. Rather, the Check Writing Unit must be instructed to hold the warrant check to prevent it from being distributed to the payee and to submit the warrant check for redeposit.

We found that check holds are not the exception to the rule, but rather are done as a matter of routine. Further, a hold slip related to a warrant check being replaced by an emergency manual check is not clearly distinguished as such or segregated from other hold slips. In the normal course of business, hold slips are prepared by the county departments that requested the checks. The department will sign for the check and then either mail the check to the payee or allow the payee to pick up the check. This, as a regular practice, creates a poor internal control environment because the check may be altered, cashed, or misdirected by the employee.

The department uses hold slips, along with a hold slip log, to control check holds. Information on the slip includes the check number, date, name of department requesting the hold, and, in the case of an emergency manual check, instructions stating “Hold, Do Not Send”. For all other cases, the instructions state where the check should be sent or the name of the individual in the county department or agency who will pick up and sign for the check. The Check Writing Unit manually enters each check hold slip into a notebook to record the date the hold applies, the name of the department requesting the hold, the check number or numbers to be held, and a space for the signature of the individual who picks up the held check.

As previously stated, when emergency manual checks are produced, the warrant generated check represents a duplicate payment that must not be distributed. The department's internal controls are not sufficient to ensure that the duplicate is held.

- As is the case with the manual check request, the same hold slip is used for all check holds. Check hold slips related to emergency manual checks are not clearly distinguished as such on the form.
- A control does not exist to ensure that a check hold slip is prepared and forwarded to the Check Writing Unit for every emergency manual check prepared.
- Check holds related to emergency manual checks are not identified as such in the check hold log.

FINDINGS AND RECOMMENDATIONS

We found a number of other deficiencies in the process:

- Check hold slips do not include the reason for the hold or the printed name and signature of the individual requesting the check be held.
- Check hold slips are not required to be reviewed or approved by anyone other than preparer.
- Check hold slips are not numerically controlled to ensure all check hold slips received are entered in the log and accounted for.
- Entries are made in the check hold log without a check hold slip. This occurs because check hold slips are not prepared for the many routine check holds done automatically. These warrant checks are usually held and picked up by the departments that submitted the claim for payment. This practice further compromises the integrity of the Check Hold Notebook as a complete and accurate record of all checks required to be held or actually held. There is no control in place to detect if a check was held and not listed in the book, listed twice, or if a check that should have been held did not get entered in the notebook and was thus not held.
- Hold check entries appear in the notebook from six months ago, for which no signature exists and there is no notation to indicate whether or not the checks were indeed held or why there is no signature.
- A regular review of the check holds notebook by someone other than the individuals who maintain the notebook is not performed.

Audit Recommendations:

The practice of holding checks on a regular and routine basis (other than for warrant checks related to an emergency manual check) negates the internal controls inherent in the customary process of mailing the check to the authorized name and address on file. Accordingly, such a practice should be kept to a minimum and subjected to more oversight as follows:

- a. For all holds that are currently being done on a routine basis, either for specific disbursement types or for certain county agencies or departments, a review should be performed to determine and document the reason that the checks must be held and not mailed. The reason provided should address the risks associated with intervening in the normal distribution by US Mail, including compensating controls and how a proper segregation of duties will be assured. The documentation should be reviewed and approved by a senior level individual. Also, any new requests to hold checks on a regular or routine basis should be subjected to the same oversight process.

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- b. For all non routine and/or emergency check holds, check hold slips should be used to document the requests and an employee independent of the disbursement process should be delegated the responsibility to review and approve the check hold slip. The existing check hold slip should be modified to include the reason for the hold, especially when it is to hold a check for which an emergency manual check has already been prepared and issued. Space should be designated on the hold slip for both the preparer's and approver's signature and date.
- c. Check hold slips should be numerically controlled, accounted for, and retained.
- d. All check holds should continue to be recorded in a log by the Check Writing Unit. The following information should also be entered in the log
 - 1) the amount of the check held or a control total for a series of checks held;
 - 2) a clear "Emergency Check" notation when the hold slip is related to the prior issuance of an emergency manual check; and
 - 3) a clear "Approved Routine Hold" notation for holds that are formally authorized to be done on a routine or recurring basis.
- e. The employee authorized to pick up a held check must sign for it. All exceptions must be clearly explained and documented in the book, with an approval signature and date.
- f. A periodic review of the hold log should be performed by an employee other than the employee who keeps the log to ensure that procedures are being followed. This periodic review should be documented, including the range of hold slip entries reviewed, the signature and the date of the reviewer and any follow up actions taken.

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Emergency Manual Checks – Not Posted in NIFS

Audit Finding (8):

Emergency manual checks are not posted in NIFS or entered in the cash disbursement register prepared by the Treasurer's Office. The reason the check is not posted is because the disbursement is already posted from the warrant and the warrant check is pulled and re-deposited. Thus, the net effect to cash is the same. However, the detail supporting records are inaccurate and misleading. It will appear in NIFS that the warrant check was the instrument used to pay the obligation. There is no reference in NIFS that an emergency check replaced the warrant check. This procedure compromises the integrity of the cash disbursement records.

Further, it is poor internal control to rely on the timely re-deposit of the warrant check to make the cash transaction whole or to prevent duplicate issuance and duplicate payments because there is no accounting control to ensure that all warrant checks have been identified and re-deposited. The Treasurer's Office relies too heavily on the bank reconciliation process to identify instances where a re-deposit was not made timely to the correct account.

Audit Recommendations:

The Treasurer's Office should implement an accounting control over the movement of cash related to emergency manual checks as follows:

- a. All emergency manual check disbursements should be posted as a debit to a general ledger clearing control account in NIFS, included on the cash disbursement register prepared by the Treasurer's Office, and reconciled daily to NIFS. Manual checks that have cleared the bank should be entered as such in NIFS as an offset to the outstanding check liability account (set up whenever a manual check is generated - see earlier recommendation). The outstanding check balance in the liability account should be reconciled to the outstanding checks listed on the bank statement.
- b. The re-deposit of the corresponding warrant check or checks should be posted in NIFS as the offset to the general ledger clearing control account. The NIFS payment history should clearly reflect the re-deposit of the warrant check and the issuance of the replacement check.
- c. All open items in the general ledger clearing control account in NIFS should be reviewed and resolved in a timely manner.

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Manual Checks - Bank Reconciliations

Audit Finding (9):

As of November 29, 2004, there were 112 bank accounts included on the Treasurer's Bank Account Listing. Of the 112 accounts, 10 accounts were used specifically for manual checks.

Strong internal control requires bank reconciliations to be prepared monthly and approved by an employee segregated from other cash receipt and disbursement functions. However, we found that bank reconciliations are often performed by the same employee who performs any one or more of the following functions for the same account:

- receives and processes deposits and returned checks;
- requests manual checks be prepared to disburse funds;
- enters the related journal entries into NIFS;
- requests manual checks be prepared for deposit (which represent the balance of outstanding checks to be stale dated) and re-deposits these checks; and/or
- requests and executes wire transfers.

A review of the bank reconciliations performed as of December 2, 2004 for the 10 accounts used for manual checks highlighted the following deficiencies:

- Two accounts were not reconciled timely:
 - North Fork Trust was last reconciled as of September 30, 2004;
 - JP Morgan Chase (Bond and Coupon) is not being reconciled monthly. It was last reconciled for the external auditors during the 2003 year-end financial audit.
- The employee who prepares the bank reconciliation does not always sign and date the reconciliation. Sometimes the employee's initials may appear on the bank reconciliation.
- No employee other than the preparer reviews bank reconciliations. Treasurer's Office staff advised us that this is due to lack of staff and tight time constraints.
- Bank reconciliations do not make clear whether each reconciling item is new or has been carried forward from previous bank reconciliations
- Explanatory comments are not always included on the bank reconciliation to identify (for future reference and follow-up) the nature and status of each reconciling item.

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- Neither the outstanding check total on the bank reconciliation nor the supporting list of outstanding checks is aged to provide information on how long checks have been outstanding.
- There is no process in place to determine the nature and reason for outstanding checks.

Audit Recommendations:

- a. The two Court and Trust bank accounts should be reconciled by an employee other than the employee who keeps the records, and prepares the manual checks and journal entries and also files Forms AC2709 “Verification and Checklist for Unclaimed Property” with the New York State Comptroller’s Office.
- b. The Bond and Coupon bank account with JP Morgan Chase should be reconciled monthly.
- c. The employee who prepares the bank reconciliation should sign and date the reconciliation.
- d. An employee other than the preparer should review each bank reconciliation on a timely basis. The reviewer should evidence his or her work by signing and dating the reconciliation.
- e. Reconciling items on the bank reconciliation should be dated and grouped into current month items and items carried forward from previous month's reconciliations. This includes outstanding checks.
- f. Explanatory comments should be included on the bank reconciliation to briefly document the nature and status of each reconciling item.
- g. Follow-up procedures should be performed and documented regarding outstanding checks to determine why the manual checks remain outstanding more than the expected time, and to identify unusual items, and recurring items and patterns, such as repetitive payee names or amounts and duplicate check numbers.

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Stale Dated Checks

Audit Finding (10):

We reviewed the Treasurer's Office's long-standing policies regarding stale dated checks. The Treasurer's Office recognizes all stale dated outstanding checks, with the exception of court and trust checks, as revenue once they become one year old. Because New York's abandoned property law ("APL") requires escheatment to the state in certain circumstances, we have asked the County Attorney whether the Treasurer is required to take additional measures to be in compliance with the APL.

A review of the stale dating process revealed the following weaknesses:

- No follow-up procedure is performed to determine why the check has remained outstanding for such a long period of time or to contact the payee to ensure that obligations are properly settled.
- Stale dated checks are identified through a manual review of the duplicate copies of manual checks that are kept on file, or if applicable, through a review of an outstanding check list provided by the bank (only applies for accounts where the county provides the bank with a listing of all checks written). A manual review of paper copies does not ensure that all stale dated checks will be detected.
- A manual check request is prepared periodically to withdraw the total amount of stale dated checks from the account. The Check Writing Unit prepares the check, affixes the signature, and returns it to the individual who requested it. This manual check is not entered in NIFS to record the withdrawal of funds from the account.
- The manual check is then re-deposited (into a different county bank account, fund), included in the daily cash receipts and entered in NIFS as revenue. However, there is no accounting control in place to ensure the check is re-deposited in a timely manner, or that the revenue recognized is related to stale dated checks.
- The Treasurer's Office does not prepare stop payment orders for checks that are stale dated as described above. The Treasurer's Office relies on the banks to not honor stale dated checks when actual experience has shown that banks have honored such checks and cannot be relied upon to dishonor them.
- Stale dated checks that are subsequently presented for payment and honored by the bank(s) can only be properly identified and rectified in NIFS by performing timely bank reconciliations and following up on all reconciling items, including net differences; this is currently not the case. There are no other accounting controls in place to ensure that this will occur.

Audit Recommendations:

- a. The County Attorney should review the practice of stale dating checks when they are outstanding for one year and routinely recognizing them as revenue to ensure compliance with the NYS Abandoned Property Law.
- b. The process followed by the banks using positive pay files, to validate both warrant and manual checks presented for payment, should be explored to determine what

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happens when checks dated one year and older, which have been reversed to revenue by the county, are presented to the bank for payment. The county's procedures should be modified accordingly.

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Controls over Wire Transfers (Replacement of Manual “F” Checks)

Audit Findings (11):

Internal wire transfer requests to move funds between Nassau County bank accounts are not controlled through the requirement of an approval signature. Internal control is further weakened because the request to wire funds internally is usually prepared and then executed by the same employee, the accounting supervisor. Additionally, in the supervisor's absence two other individuals on staff perform this function; however, both of these individuals also perform the bank reconciliation for many of the bank accounts, including the two main general bank accounts; and prepare NIFS journal entries and stale date outstanding checks. Thus, this further exacerbates the significant segregation of duties weaknesses cited in other audit findings in this report.

External wire transfers to third parties must first get the approval of another member of the Accounting area within the Treasurer’s Office. There were no formal procedures in place to:

- require written authorizations;
- to indicate the employees authorized to approve the transactions, or
- establish dollar limits.

Audit Recommendations:

- a. Internal wire transfer requests to move funds between Nassau county bank accounts should be clearly distinguished from external wire transfer requests to move money to third party accounts and requests to prepare manual checks.
- b. An employee with signatory authority should execute wire transfers.
- c. Approval procedures and authorization limits should be established.

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Safeguarding of Cash Assets - Bonding of Employees

Audit Finding (12):

Adequate bonding of employees who handle cash assets is necessary to help promote reasonable assurance over the protection and safeguarding of all cash assets. It also lessens the county's risk of loss from unauthorized use or disposition of resources in the custody of employees and/or lack of faithful performance of duties.

We were advised by a Treasurer's Office Accounting Supervisor that the two cashiers were bonded in the past, for \$1000 each, but at that time the county was not self insured. Shortages also occurred years ago and the cashiers were required to make up any deficiencies. In one instance, we understand that a cashier resigned rather than make up the deficiency.

It is our understanding that the Treasurer's Office is currently reviewing this matter to determine whether the Office's employees can and should be bonded.

Audit Recommendations:

We recommend that the Treasurer's Office review this matter with the County Attorney to determine whether and which employees should be bonded.

Audit Response – Treasurer’s Office

Audit Finding (1): Manual Checks

We agree to have the Comptrollers Office process most of the manual checks request that are presented to the Treasurer Office “excluding only the infrequent Emergency Manual Checks” providing they can assure us that this can be accomplished within a 48 hour timeline.

We agree that there were control deficiencies within the manual check process at the time of the audit. Some of these weaknesses we have corrected and others we are addressing through the implementation of new control procedures. This we have been able to achieve by the addition of Wayne Haughton to our team.

Manual checks are emergency payments done to expedite the time that is incurred when they are routed through NIFS electronic approval path. These are generated in response to desperate mitigating circumstances that need immediate solution which would not be possible if placed in NIFS approval path. Also the issuance and receipt of this payment could not be ascertained by the Treasury Department. However these payments are journalized in NIFS before distribution. They are also checked by treasurer’s office personnel for both accuracy and validity.

- *The Treasurer’s Office issues manual checks without the appropriate oversight by the Comptroller’s Office.*

This is Inaccurate

All manual checks are properly documented and recorded from the initiation stage to the actual disbursement of the check. The process conforms to regulated guidelines approved by the Comptrollers and is accessible for their oversight and scrutiny.

- *The performance of the manual check payment function by the Treasurer conflicts with the Treasurer’s custodial responsibility over funds belonging to the county. The custodian should not have the ability to authorize the disbursement of funds without oversight.*

Not completely accurate

Manual check payment is predominantly a fiduciary responsibility of the Treasury only in certain situations county funds are utilized and proper procedures are followed to ensure accountability.

- *The Treasurer’s Office issues manual checks in a weak control environment without the maintenance of proper segregation of duties. A Treasurer’s Office accounting supervisor and several of the staff informed us that this weakness primarily results from a lack of appropriate resources.*

Accurate

This has been addressed by the addition of new supervisory staff that will give additional review and oversight to the process.

- *Once a manual check is prepared, it is returned to the employee who requested the manual check, and this same employee also enters the manual check payment in NIFS without any other review.*

Not completely accurate.

All manual checks are reviewed for accuracy by a second employee independent of the process and will now be approved by a supervisor who will attach an approval signature

- *No one in the Treasurer's Office has been assigned the responsibility of reviewing and approving manual check requests.*

We agree and this has been corrected.

A supervisor will now review all manual checks.

Paper work is submitted for approval

A Journal entry is made in the NIFS system.

Then a check is generated.

- *The outstanding check liability at the time the manual check is created and issued should be manually created in NIFS by use of journal entries.*

This is currently done in NIFS as a TJ or TR document

- *The bail clerk's duties are not segregated among different employees. The clerk is responsible for receiving the funds, forwarding them for deposit and making entries to record the transactions. The clerk also processes orders to disburse the funds, prepares the checks, affixes signatures to the checks and records the transactions. Additionally, we found no evidence that another employee reviewed the clerk's work.*

Not totally accurate and we have added new corrective measures.

Additional control feature has been assigned. An accounting manager will review all supervisor approved and signed manual check requisition.

There is an approval path initiated in NIFS for all cash receipts- RC Document

A summary sheet (Requisition Document) accompanies all manual checks and this is signed by another employee requesting the check

The clerk does not process orders to disburse funds; he receives Court Orders from various agencies to produce a payment.

This payment is also recorded in the "Bail System"

The Bail Clerk does not affix signatures this is done in the check writing section of the department by different employees.

This Transaction is also recorded and Journalized in NIFS.

Checks are also reviewed for accuracy before they are sent out by a secondary employee.

Manual checks that clear financial institutions, as reflected on monthly bank statements or runs, should be reflected in NIFS. All outstanding checks for each bank should be reconciled to NIFS.

We reconcile all the TR Bank Statements to the NIFS balance at the end of the month.
E.g. NIFS 6400 screen; Fund99; TR Fund 999

Audit Finding (2) Lack of Written Check Procedures

We agree that the Treasurer's Office does not have a written procedure manual governing the issuance of manual checks and we have begun the process to have one completed. However we have performed this function consistently and efficiently with proper documentation recording this process in its entirety. And the records confirm no instance of misinterpretation, misapplication or any other accounting improprieties. We also agree that job descriptions should be written and tasks formally delegated to achieve a proper segregation of duties, but due to human resource constraints this is a work in progress and will be achieved in a timely manner.

Audit Finding (3) Controls over Used and Unused Manual Check Stock

We also found that the Treasurer's Office did not maintain adequate control over unused checks. The checks were not safeguarded during the workday, making them accessible to unauthorized individuals. While a log of used and unused checks was maintained, we found deficiencies in its use. The logs were incomplete, contained unexplained changes, and there was no periodic verification of the accuracy of the logs by anyone other than its custodian.

Corrected

All unused checks are secured in a lock safe in the office of the deputy treasurer. A check log is now kept in an excel spread sheet that has cross check formulas that compares number sequence count with a running balance of actual checks used. This file is password access equipped.

e. Unused manual checks should be safeguarded by locking them in a secure location when not in use. If it is impractical to lock the check printing room during the day, we recommend that the checks stored there be kept in a locked cabinet or other secure container.

Already Implemented 03/01/05

Checks are kept in a locked file cabinet under the Deputy Treasurer's supervision

f. The department should convert the handwritten formats currently used to prepare the logs to a pre-typed format using a software program such as Excel or Word. This would greatly improve the legibility of the logs and improve efficiency by eliminating the need to rewrite column headings, bank account numbers, etc.

Implemented.

This was corrected as part of our "Automation Initiative"

Unused check stock for accounts that have been closed should be shredded. The shredding should be witnessed and documented, and the log should be updated to reflect the date the account was closed and the date the checks were shredded.

We agree and has been corrected effective 03/31/2005.

All unused checks for accounts that have been closed have been shredded in the company of two witnesses and documented accordingly.

Audit Finding (4) Forms, Approval, Improper Segregation of Duties

e. A Treasurer's Office employee should be assigned to review and approve the manual check and wire transfer request forms prior to the checks being written or the wire transfers being executed.

We agree and this has been implemented 03/01/2005

f. Manual checks prepared by the Check Writing Unit should be returned to a county employee other than the employee who requested the manual check. Likewise, someone other than the employee who requested the wire transfer should execute wire transfers.

We agree.

We have added new oversight procedures to approve generated checks and a supervisor to check wire transfers. This will also be approved by a Deputy Treasurer.

g. The various manual check request forms and wire transfer request forms currently in use should be utilized as guides in the redesigning and redeveloping of one or more standardized forms which would clearly distinguish different request types, such as regular manual checks from emergency manual checks and internal wire transfers from external wire transfers. The request forms should be designed to include designated spaces for all information required for a specific request type, including the reason for the request and the signature and date of the preparer and approver.

Agree

This process is currently being updated.

h. Requests for manual checks and wire transfers should be numerically controlled and accounted for, including dollar control totals, by use of a log. The information in the log should be compared to the daily totals (both quantity and dollars) of manual checks written and wire transfers executed.

Agreed

This is currently being done by the department and has always been a daily procedure for "check writing" personnel whose work is checked by a separate employee who confirms both quantity and quality of dollars.

Manual Checks (5) – Bail Refunds – Improper Segregation of Duties

- *The current process that is in place to receive and record cash bail receipts and disbursements should be reengineered to ensure a proper segregation of duties. Proper segregation must exist between recording cash receipts, cash disbursements, journal entry processing, check signing, and bank reconciliation.*

Not completely Accurate

Banking Reconciliation is done by someone other than the bail clerk.

Specifically, manual checks to refund bail, or forfeit bail in favor of Nassau County, should be:

- c. prepared by an employee other than the employee who receives the cash bail, forwards the cash receipt to the Cashier for deposit, and enters the cash receipt into the Bail systems and NIFS; and*

We agree and these duties have been assigned to another employee other than the bail clerk

The Bail system generates the checks but it has to be reviewed by “check writing” and approved by a supervisor who signs off on the check. 03/31/05

- d. Signed, by use of hand stamp, by an employee other than the employee responsible for receiving cash bail, entering the disbursements into the system, preparing the related manual cash disbursement checks and updating the bail system and NIFS.*

Corrected.03/31/2005

“Check writing” unit is the assigned custodian of signature stamps.

Signature stamping has been reassigned to a separate employee and this process is done at all times in the custody of two assigned employees.

Emergency Manual checks Request (6) – Inadequacy of Forms Used

When an emergency manual check is requested the warrant check number is still unknown and can not be referenced. However the voucher number is known as it is in an approval Path and this number is recorded on the requisition slip. A sign authorization slip is required from the Comptrollers office in order to generate an emergency manual check

All request for Emergency Manual checks are currently sent to and approved by the Comptrollers before being acted upon. The Comptroller’s office prepares a hold slip which is sent with an accompanying signed warrant to the treasury dept.

A supervisor signs and approves the request before this emergency manual check is generated by the “Check Writing” unit.

This check is the normal payment which is posted to NIFS in the usual manner. The hold check is re-deposited into the bank account the emergency manual check was drawn on

- *When the request form is prepared, the words “emergency manual check” are not entered, and do not appear anywhere on the form. It is not evident from looking at the form that an emergency manual check is being requested.*

We agree.

Corrected as recommended all “emergency manual check” request forms now give a full description of their purpose.

- *The request form does not designate space to describe the reason for the emergency request, the amount and check number of the warrant check being replaced, or for the required approval of the Comptroller’s Office. Additionally, the form does not designate space to note when the warrant check was held and when and where it was re-deposited. Lack of this cross-check is poor internal control and also results in a poor audit trail.*

We disagree.

Every request form has a space where the reason is described; this is a standard requirement for processing. This form is also approved and signed by a supervisor *These deficiencies in the request form increase the risk that the request for an emergency manual check may not be recognized as such. This may cause the check to be processed without the nature of the emergency being described, the required additional approval being obtained, and the warrant check being held. This, in turn, could lead to:*

We disagree.

The forms do have a designed space for the reason to be included and the check cannot be processed without a written reason that must be approved by a supervisor

- *unauthorized preparation of emergency manual checks;*
- *misuse of emergency manual checks in non-emergency situations; and/or*
- *The issuance of two checks to the payee.*

We disagree

In 2004 only eight Emergency Manual checks were written and they were properly approved and accurate documentation was recorded.

The department should develop and implement a separate emergency manual check request form. The form should be clearly entitled as an emergency check request.

We agree.

These forms were reviewed and approval is pending for a new design specifically for emergency manual check request.

The emergency manual check request should include: designated spaces for the reason for the request, the check number and dollar amount of the warrant check being replaced, the required approvals, including the signature of the Comptroller or Comptroller's designee, and a notation (to be entered at a later time) indicating that a warrant check was held including when and where it was re-deposited.

We disagree.

This is already apart of the process.

Emergency Manual Checks (7) – Related Check Hold

Checks Holds are requested by the department when the vendor wants to pick up the check, which they must sign for before the check is released. A log is kept of all hold checks which are kept in a locked safe.

There is an approval path that is entered in the NIFS system to guard against fraudulent payments. A voucher is generated in NIFS which is approved by a high level member in the dept. other than the initiating employee- e.g. a VM or VB which has a dept. Code and an assign number. It is then authorized by the Comptrollers dept. that approves the Claim Voucher.

- *As is the case with the manual check request, the same hold slip is used for all check holds. Check hold slips related to emergency manual checks are not clearly distinguished as such on the form.*

False

Emergency Manual checks “Hold Slips” are initiated in the Comptrollers office. They direct the checks to someone in the Treasurers office for re-deposit. The purpose of the slip is clearly stated on the slip.

- *A control does not exist to ensure that a check hold slip is prepared and forwarded to the Check Writing Unit for every emergency manual check prepared.*

False

A Hold slips is sent from the Comptrollers office to “check writing”

- *Check holds related to emergency manual checks are not identified as such in the check hold log.*

Corrected 03/31/2005

We found a number of other deficiencies in the process:

- *Check hold slips do not include the reason for the hold or the printed name and signature of the individual requesting the check be held.*

This is now a requirement for processing

- *Check hold slips are not required to be reviewed or approved by anyone other than preparer.*

False

They are reviewed by a second employee in “check writing”.

- *Check hold slips are not numerically controlled to ensure all check hold slips received are entered in the log and accounted for.*

True

Has been corrected and this log is being reviewed weekly

- *Entries are made in the check hold log without a check hold slip. This occurs because check hold slips are not prepared for the many routine check holds done automatically. These warrant checks are usually held and picked up by the departments that submitted the claim for payment. This practice further compromises the integrity of the Check Hold Notebook as a complete and accurate record of all checks required to be held or actually held. There is no control in place*

to detect if a check was held and not listed in the book, listed twice, or if a check that should have been held did not get entered in the notebook and was thus not held.

True

Corrected to reflect a signature for each entry and an assigned number for each entry as recorded on the slip

- *Hold check entries appear in the notebook from six months ago, for which no signature exists and there is no notation to indicate whether or not the checks were indeed held or why there is no signature.*
- *A regular review of the check holds notebook by someone other than the individuals who maintain the notebook is not performed.*

True

Corrected

This log is now reviewed weekly by a supervisor who will attach an approval signature.

Emergency Manual Checks (8) – Not Posted in NIFS

The reason the check is not posted is due to the fact that the disbursement is already posted and accounted for in NIFS during the warrant processing cycle. The warrant check is pulled and re-deposited into the account the EM check is drawn on. This documentation is all kept on file in Treasurer's office. Any open item will be easily identified and corrected.

Emergency manual checks also compromise the integrity of the cash disbursement records because NIFS will incorrectly indicate that the payment was made through the check generated by the warrant. There are no notations in NIFS that the warrant check was not issued to the payee and it was replaced by an emergency check. This can lead to false conclusions when researching the payment of obligations.

We Disagree.

A vendor history file in NIFS records all payments and is reviewed along side the checks log to ensure accuracy. An emergency manual check is merely an advance payment to a vendor. The regular warrant check updates the vendor history file of payments made to vendors

Manual Checks (9) Bank Reconciliations

Bank reconciliations were often prepared by an employee who receives and processes receipts, requests manual checks, processes wire transfers or records related journal entries.

True. We corrected. 03/31/05

All bank reconciliations will be reviewed and checked by a supervisor.

Internal wire transfers do not require approval and are sometimes performed by the same employees who prepare bank reconciliations and prepare journal entries.

All wire transfers are documented and a transcript of the transaction is reviewed by administrative staffs who then submits it to a Deputy Treasurer

The monthly bank reconciliation process is an important control to ensure that both the bank and the county have accurately recorded all cash transactions. We reviewed bank reconciliations and found that:

The preparer did not sign and date them;

True

This procedure has now been implemented.

There were no explanations as to reconciling items or to the follow up performed;

We agree.

All reconciling items will now be reviewed and explained

There was a large dollar amount and volume of old items;

All old and outstanding items will be tracked and a signed follow up report will be submitted.

Old items were not aged or followed up upon; and

Reconciliations were not performed timely for three accounts.

We agree.

This has been corrected all reconciliations are mandated to be completed monthly. A log is now kept of all bank accounts reconciliation where all outstanding items are explained and an approval signature attached.

Stale Dated Checks (10)

We also reviewed the Treasurer's Office's long-standing policies regarding stale dated checks. The Treasurer's Office recognizes all stale dated outstanding checks, with the exception of court and trust checks, as revenue once they become one-year-old. Because New York's abandoned property law ("APL") requires escheatment to the state in certain circumstances, we have asked the County Attorney whether the Treasurer is required to take additional measures to be in compliance with the APL. Additionally, we found that the Accounting unit does not contact payees or perform other steps to determine why checks have not been cashed or to otherwise pursue the payment of the obligation. The Accounting unit does not issue stop payment orders on checks it considers stale dated and recognized as revenue to prevent them from being cashed. The office has no accounting controls in place to ensure that revenue recognition is reversed in the county's financial statements if the stale dated checks are paid by the banks.

We disagree.

The majority of manual checks that are generated in treasurer's office are one time payments and there is a record of Tax redemption payments by Tax sale buyer in the MONY system. A reconciling report of MONY is generated by IT monthly and this is approved by our auditors.

If a stale dated Check is requested, first the original Revenue Journal entry is reversed in NIFS before a manual check is generated.

- c. The County Attorney should review the practice of stale dating checks when they are outstanding for one year and routinely recognizing them as revenue to ensure compliance with the NYS Abandoned Property Law.*
- d. The process followed by the banks using positive pay files, to validate both warrant and manual checks presented for payment, should be explored to determine what happens when checks dated one year and older, which have been reversed to revenue by the county, are presented to the bank for payment. The county's procedures should be modified accordingly.*

We agree

This is being reviewed by County Attorney