Audit Report

Trust and Agency Ledger Accounts
January 1, 2007– September 30, 2007

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Comptroller's Summary

Background

Trust and Agency Accounts are used to account for fiduciary funds held in trust, for subsequent distribution, transmittal, or release to other governments, persons, or funds. The audited period was January 1, 2007 – September 30, 2007. For this period the total Trust and Agency Assets amounted to $293,491,201.06 and Liabilities amounted to $293,491,201.06.

Audit Scope, Objective and Methodology

The audit included a review of selected accounts managed by the following departments:

Finance – Court and Trust Funds and Bank Collateral
Risk Management – Disability and Health Insurance
Department of Social Services – DSS Trust Fund Accounts

The audit scope included a review of:

- The managing department and finance's accounting/banking sections internal controls and accounting processes for each fund.
- The recording of receipts and disbursements, financial institution statements, reconciliations, mandated reports and Client accounts (as applicable).

Summary of Findings

The Department of Finance – Court and Trust Funds and Bank Collateral were found in good order.

The Risk Management and Department of Social Services accounts were not reconciled. Processes and oversight were not in place to ensure reconciliation and the accounting of all funds.

Detailed Findings

Finance

Court & Trust Fund The County is responsible for court and trust funds as ordered by the court. Accounts T205 and T061 represent the asset and liability accounts for monies received from the Courts on foreclosures, mechanic liens and other court ordered cases.

Account #	**Asset Account**	Amount		Account #	**Liability Account**	Amount
T205	Cash Court and Trust Fund	$2,604,925.47		T061	Court and Trust Fund	$2,604,925.56
	Total Assets	$2,604,925.47			Total Liabilities	$2,604,925.56

Account Review including Internal Controls

The county's responsibility includes maintaining dedicated bank accounts for monies received from each judgment and the filing of required reports.

Pursuant to Section 184 of the New York State Finance Law, a monthly report is filed with the State Comptroller accounting for Court and Trust Funds held by Dutchess County. The report for September 30, 2007 was reviewed and verified to the supporting bank statement balance and ledger balance for each client.

The "Report of Abandoned Property – Court & Trust", as required by Abandoned Property Law 600, was filed.[1] In addition, unclaimed funds as of January 1, 2008 held by the county for a period of five years were paid to the State Comptroller.

All disbursements are required to have court order authorization. In the sample of payments reviewed all disbursements were authorized with a court order. Through September a total of $1,194,852.29 was disbursed. At the time of each disbursement a 2% fee is paid to the Commissioner of Finance.

The liability balance matched the cash in bank balance on the trial balance.

Court orders with payments are received in the mail by the Finance administration section and the payments are given to the Finance banking section. The Finance banking section opens up each dedicated bank account for the individual(s) and records the transaction in the ledger.

[1] Report is filed annually.

Bank Collateral

Account #	**Asset Account**	Amount		Account #	**Liability Account**	Amount
T459.00	Bank Collateral	$133,383,000.00		T032	Deposit of Securities by Bank	$133,383,000.00
	Total Assets	$133,383,000.00			Total Liabilities	$133,383,000.00

These accounts are memo only accounts and represent the total amount of securities pledged as collateral by Financial Institutions to secure the County's deposits that exceed FDIC insurance limits. The amount pledged by the various financial institutions fluctuates with the County's account balance. Financial institutions provide a statement listing securities pledged and their market value; 102% of the market value is the established amount sufficient to cover the County's bank balance. Finance maintains a spreadsheet of monthly changes in bank balances and records the change in the general ledger.

A sample of statements from the Financial Institutions and journal entries made by Finance were reviewed. There were no discrepancies.

Department Of Social Services/ Finance

DSS Trust Fund Accounts The following trust fund accounts represent asset and liability accounts for the Department of Social Services. Dutchess County DSS is appointed the Representative Payee for Social Security and/or Supplemental Security Income for individuals who cannot manage or direct the management of their money. As required by the Social Security Administration, a separate interest bearing bank account is maintained for each individual or if a bank account is shared interest is allocated proportionately among individuals.

There is joint responsibility between DSS and the Department of Finance for managing client trust accounts.

DSS is responsible for managing each client's funds including tracking of receipts, authorizing disbursement of funds and maintaining client balances.

Finance is responsible for the management of the bank accounts holding client funds including maintenance of the corresponding general ledger accounts.

A review of each department's processes was conducted.

FINANCE

The Department of Finance is responsible for maintaining the general ledger accounts. Finance receives monies from DSS for deposit into bank accounts maintained for clients and also disburses funds from these accounts for clients per authorization provided by DSS. Finance provides DSS with a reconciliation worksheet of bank accounts which lists opening balance, total receipts, total disbursements, adjustments and the ending balance. Finance does not maintain balances by client.

ASSET				LIABILITY		
Account Number	**Asset Account**	**Asset Balance at 9/30/07**		**Account Number**	**Liability Account**	**Liability Balance at 9/30/07**
T200. NYRT	Cash Bank Of New York Recovery Trust	$(41,565.68)		T051	SSI Payments	$(6,734.23)
T201	Cash In Time Deposits	73,287.83		T053.00	Social Service Trust	452,877.12
T202. BART	Bank of America Recovery	168.55		T053.54	Individual Social Service	40,071.88

	Trust				Savings Accounts	
T202. BAT	Cash Savings, BA Burial Trust Savings	444.27		T056	State Training School	61,399.15
202. NYBT	Cash Saving BNY Burial Trust Savings	9,032.36				
202. NYREC	Cash Saving, BNY Recovery Trust Savings	35,600.51				
	Total Assets	**$76,967.84**			**Total Liabilities**	**$547,613.92**

Findings – Finance

Finance did not reconcile DSS trust accounts:

- Per the above table, Assets totaling $76,967.84 were not sufficient to support Liabilities totaling $547,613.92. The above assets represent DSS trust account bank balances as maintained by Finance. During this audit, Finance identified $473,716.50 which was deposited and recorded to an incorrect bank account. *On April 8, 2008 Finance corrected the error resulting in total assets increasing from $76,967.84 to $550,684.34. As a result, assets exceeded liabilities by $3,070.42.*

- Due to the $473,716.50 being deposited in an incorrect bank account, clients did not receive interest earnings on their funds for the period of time monies were deposited into the incorrect bank account.

- The reconciliation worksheet prepared by Finance was not provided to DSS on a timely basis.

Recommendations - Finance:

Finance must reconcile DSS Trust accounts.

- The Finance accounting section should review the DSS trust accounts monthly to ensure DSS assets equal DSS liabilities and discrepancies should be immediately investigated and reconciled. The difference of $3,070.42 should be investigated and reconciled.

- Finance should correct the interest reported to DSS.

- The reconciliation worksheet should be prepared and provided to DSS on a monthly basis.

DSS

DSS maintains an account activity for each client in their internal T53 computer program. Included in the account activity are the recording of deposits, withdrawals and client balance. The grand total of all client balances on the T53 computer program is the total amount reported as held for clients and should match the monies reported in the bank accounts managed by Finance.

DSS receives monies for clients and transmits it to Finance for deposit. When funds are to be disbursed, DSS provides Finance with the list of names and amounts. Finance prepares disbursement checks and returns the checks to DSS for verification and distribution.

DSS receives a reconciliation worksheet from Finance that lists deposits received and disbursements made in the ledger accounts per information provided by DSS.

Findings - DSS:

1. A process was not in place for DSS to reconcile to Finance's records.

    - While the DSS client balance report showed $299,573.79, Finance's T53 Trust Account balances reported $547,613.92. The difference of $248,040.13 could not be identified.

    - DSS does not receive a monthly report from Finance listing bank balances; as such DSS was unaware the total bank balances reported in Finance's general ledger were $76,967.84 while DSS records showed $299,573.79 being held for clients. A review of bank balances would have identified the incorrect deposit mentioned under findings for Finance on page 7.

    - DSS did not verify the total amount held for clients as reported on the DSS T53 computer program matched the opening/closing balances reported on Finance's reconciliation worksheet.

2. DSS does not have a process to verify all funds received for clients and reported in the T53 computer program were deposited in the DSS collection bank account and transmitted to Finance.

Recommendations - DSS

1. A process should be established and implemented to reconcile accounts with Finance on a periodic basis.
    - The difference of $248,040.13 should be resolved. A process should be established and implemented to reconcile accounts on a periodic basis.

    - DSS should request a monthly report of general ledger account balances from Finance in order to verify all monies transmitted for deposit are reflected in the correct bank accounts. This verification will ensure all funds for T53 clients are accounted for.

    - DSS must periodically verify the balances on the DSS T53 computer program to the opening/closing balances reported on Finance's reconciliation worksheet.

2. DSS should develop a system to log in all funds received and transmitted to Finance. Client's funds recorded in the T53 client report by DSS should be reconciled to the applicable amounts transmitted to Finance.

Risk Management Trust Accounts

One of Risk Management's responsibilities is to manage employee benefit insurances. Our review of the Risk Management Trust Accounts was limited to the Disability and Health Insurance Trust Accounts.

The Finance Department is responsible for managing the overall bank account that records deposits and disbursements for Disability and Health Insurance. These funds are co-mingled with funds from other Trust and Agency ledger accounts.

Risk Management Process Review

Risk Management's responsibilities include:

Processing payments to vendors for Disability/Health Insurance
Recording the disbursement of funds for the above insurances
Collecting and maintaining records for self pay individuals

A review of Risk Management's processes follow:

Ledger Balances

Risk Management uses various Trust and Agency ledger accounts to manage Disability and Health Insurance.

Risk Management is billed by the respective vendors for Disability/ Health Insurance costs. Payments to vendors are charged to the designated ledger account.

Risk Management receives revenue from employer contributions, employee contributions and self pays to cover Disability/ Health Insurance costs. Revenues received should equal payments made.

- Employer contributions are charged to each department's appropriation line. The contribution is recorded as revenue in the designated Risk Management ledger account.
- Employee contributions are deducted from employee bi-weekly earnings and paid to Risk Management. Risk Management records the contribution as revenue in the ledger account.
- All others eligible for coverage are billed for their contributions if necessary. Risk Management records the payment as revenue in the Ledger account.

Findings:

Disability/ Health Insurance Trust Accounts were not reconciled. Our review as of September 30, 2007 revealed:

1. The Management and Confidential Disability account had a credit balance of $17,657.63, indicating more monies were appropriated and collected to pay the actual bills. See Addendum 1, Table I.

2. The CSEA Disability accounts had a debit balance of $1,597.69 indicating not enough monies were appropriated and collected to cover all bills paid. See Addendum 1, Table II.

3. The Health Insurance accounts had a debit balance of $98,343.42 indicating health insurance costs were expended without sufficient funds. See Addendum 1 Table III.

Recommendations:
Additional oversight is required. Reconciliation of revenue and expenses must be performed to ensure sufficient monies are budgeted/collected to cover expenses. The net shortage for 2007 should be determined and the situation addressed. Management tools should be developed and implemented to reconcile all funds collected and disbursed.

Revenue Calculations
In 2006/2007, LOGOS (a new financial management/payroll system) was implemented. With the advent of LOGOS, department costs for Disability/Health Insurance were appropriated and expensed in each department's budget. Prior to this time all costs were budgeted in accounts maintained by Risk Management.

The LOGOS System:

- Calculates and charges each department's appropriation account for the cost of Disability/Health Insurance based on the status of the department's employees. Payment is made to Risk Management for employer contributions.

- Calculates the amount to be deducted from employees bi-weekly earnings; codes are utilized to generate the employee's deduction. Payment is made to Risk Management for employee deductions.

Findings:
The LOGOS system entries are not reconciled to actual expenses. Risk Management indicated the conversion to the new county-wide financial system did not have automated processes available to reconcile receipts to expenditures.

The system does not recognize all payroll codes used to report changes in an employee's status; as a result, costs associated with these changes are not calculated correctly.

Recommendations:
Processes should be developed and executed to allow periodic reconciliations to ensure appropriation accounts are correctly charged and receipts match expenses.

The LOGOS payroll system should be corrected to recognize all payroll status codes to accurately calculate costs.

Cordelia Shemain

Cordelia Shemain, Auditor

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Diane Jablonski, Comptroller

Addendum 1

Disability Insurance In 2007, the premium for disability insurance was $10.00 per CSEA employee per month; CSEA employees contributed $3.20 of the $10.00 per month. Management and confidential employees did not have to contribute to the cost of the disability insurance coverage.

TABLE I		
Management and Confidential		
Account #	Liability Accounts	Liability Balance at 9/30/07
020.MCDBL	Management/Confidential Disability	($25,890.06)
Adjustments	Correction for May & June 07	8,232.43
	Adjusted Balance	($17,657.63)

TABLE II		
CSEA		
Account #	Liability Accounts	Liability Balance at 9/30/07
019.00*	Employee's Contribution	$ 1,506.97
019.01*	Employers Contribution	(65.48)
020.CSEADBL	CSEA Employee Disability	(12,963.80)
	Total	$(11,522.31)
Adjustments	September 07 bill paid in October 07	13,120.00
	Adjusted Balance	$ 1,597.69

- These accounts were replaced with 020.CSEADBL

Health Insurance

Management employees do not contribute toward the cost of health insurance. All other current employees contribute various percentages of health insurance costs depending on the date of hire. Retirees, employees on a leave of absence, and those using COBRA also contribute various percentages for health insurance costs.

TABLE III					
Acct #	**Accounts**	Acct Balance 9/30/07	Open Receivables DCC and Resource Recovery	Unpaid Bills	Adjusted Balance (*Account balance(-) + Open*

					Receivables (-) plus Unpaid Bills(+))
020.00	Employees Contribution	$(501,686.21)		$157,706.31	$(343,979.90)
020.CDPHP	Capital District Physicians	(90,193.02)		78,375.00	(11,818.02)
020.MVP	Mohawk Valley Physicians MVP)	(815,689.19)	$(255,887.88)	1,321,924.85	250,347.78
020.NYSHIP	NYS Health Insurance Plan	(257,556.30)	(66,624.22)	527,974.08	203,793.56
	Total	**$(1,665,124.72)**	**$322,512.10**	**$2,085,980.24**	**$98,343.42**