



August 31, 2001

The Honorable Paul J. Tavares
General Treasurer
Room 102 State House
Providence, RI 02903

Dear General Treasurer Tavares:

During our audit of the State's financial statements for the fiscal year ended June 30, 2000, we noted certain matters involving compliance, internal controls, and other operational matters which relate to responsibilities within the Office of the General Treasurer. These comments and recommendations are intended to enhance compliance with laws, regulations and contracts, improve internal control, or result in other operational efficiencies.

BANK ACCOUNT RECONCILIATIONS

The General Treasurer's Office is responsible for reconciling 55 bank accounts on a monthly basis. More than half of the reconciliations for the month ended June 30, 2000 were completed after mid-September. Although a similar situation existed in the prior year, the problem was exacerbated in fiscal 2000 due to the merger of two large banks that handled most of the State's accounts. Because of the merger, many of the bank's reports were received late or were inaccurate which delayed the reconciliation process.

Timely reconciliation of bank to book transactions is an essential control over cash receipts and disbursements to ensure that all transactions have been recorded in the State's accounting system. Further, when accounts are not reconciled timely, reconciling and other outstanding items become more difficult to research and clear. Although the bank problems contributed to the delay in completing the reconciliations, Treasury should still make every effort to complete more timely reconciliations.

RECOMMENDATION

1. Reconcile the bank accounts more timely.

Auditee Views

Treasury concurs with this recommendation and has aggressively addressed this issue and made considerable progress.

Of the 55 bank reconciliations reviewed, we noted that fifteen accounts carried reconciling items that were more than a year old. Some of the reconciling items included amounts deposited in the bank three to fifteen months prior, but still not recorded on the books as of June 30, 2000. Consequently, cash and revenues were understated on the financial statements and required audit adjustment. Periodically, Treasury should notify all State agencies when there are unidentified deposits for which a corresponding receipt voucher has not been prepared. If no response is received, then the Treasurer's Office should record the receipt as miscellaneous revenue.

RECOMMENDATIONS

2. Research and clear old reconciling items for all account reconciliations.
3. Implement procedures to ensure that all receipts are properly recorded by year-end.

Auditee Views

Treasury concurs with this recommendation. Treasury is investigating old reconciling items and will work with the appropriate agencies to clear these items. Miscellaneous receipts will be recorded at year end when a specific receipt cannot be recorded.

RECEIPT VOUCHERS

Cash receipts posted to the State accounting system did not always match the bank statements because deposits were wired to the wrong bank account. All State agencies are responsible for making their own deposits and for preparing the receipt vouchers. The receipt vouchers are then released by Treasury once verification of the deposit is made.

Throughout fiscal 2000, federal funds were wired into the General Fund bank account, but the funds were intended for the Highway / Intermodal Surface Transportation Fund. The Department of Transportation prepared the receipt vouchers to

record the receipts to the Highway Fund, and Treasury approved them, however, the actual funds were deposited in the General Fund bank account. For example, \$368,271.88 was wired into the General Fund bank account on November 19, 1999, but posted to the Highway Fund account on February 3, 2000. The funds were not actually transferred to the Highway Fund bank account until August 2000. In several instances, deposits wired into the General Fund bank account in May and June 2000 had not been transferred to the Highway Fund bank account as of November 2000.

Treasury should initiate adjustments upon realizing the deposit has been made in an incorrect bank account.

RECOMMENDATION

4. Improve procedures to ensure that receipts are recorded in the appropriate fund and corresponding bank account. Notify agencies when errors continue to be made.

Auditee Views

Treasury is assisting, and will continue to assist, agencies and departments with their responsibility to take the necessary steps to resolve bank account errors. Specifically, Treasury has worked during the current fiscal year with the DOT to resolve this issue.

DEPOSIT AND INVESTMENT RISK

Depository insurance provided by the Federal Deposit Insurance Corporation (FDIC) is limited for governmental accounts held by one official custodian (General Treasurer). Consequently, FDIC coverage can do little to reduce risk associated with the large amounts the State has on deposit at any one time. At June 30, 2000, the State had \$42 million on deposit in banks of which approximately \$1.4 million was insured. Bank balances can often be much greater at points during the year.

The continual merger of banking institutions limits opportunities for the State to decrease its risk by spreading its deposits among more banks. Further, many smaller banks cannot provide the services the State requires for its high volume transactions in certain accounts.

The Rhode Island Collateralization of Public Deposits Act requires financial institutions to insure or pledge eligible collateral equal to the amount of time deposits held for the State with maturities over 60 days. The law also requires financial institutions holding state funds to insure or pledge collateral equal to all public deposits if they do not meet minimum capital standards as prescribed by their federal regulator. None of the State's deposits were required by law to be collateralized as of June 30,

2000. Many states, encountering the same situation, have statutory requirements for 100 percent or partial collateralization of all public deposits.

Treasury has taken various steps to reduce the amount of cash in demand deposit accounts thereby minimizing exposure to the risk of uninsured and uncollateralized deposits. These include utilizing controlled disbursement accounts and more aggressive over-night investment of funds on deposit. Additionally, formal monitoring procedures are in place to periodically review the financial stability of the State's depositories.

RECOMMENDATION

5. Consider seeking legislation requiring full or partial collateralization of all time and demand deposits.

Auditee Views

Treasury will continue to investigate actions taken by other states in this area and will explore additional deposit and investment protection the State can undertake.

PENSION C ACCOUNT

The Treasurer's Office has not consistently written off stale-dated checks drawn on the Pension C bank account – checks were last written off in 1994. These checks should be written-off on the same write-off schedule utilized for all other checks.

RECOMMENDATION

6. Write off the Pension C checks in the same manner as the other accounts.

Auditee Views

Treasury has obtained permission from Retirement to perform this task and will complete the write-off process by the end of summer. In the future, the new system will automatically perform these write-offs more frequently.

We thank you and your staff for the cooperation extended to us during our audit.

Sincerely,



Ernest A. Almonte, CPA, CFE
Auditor General