

***The City of New York
Office of the Comptroller
Bureau of Management Audit***

WILLIAM C. THOMPSON, JR.
Comptroller

**Audit Report on the
Internal Controls Over Bail Refunds by the
Client Services Unit of the
New York City Department of Finance**

MJ02-081A

May 30, 2002

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EXECUTIVE SUMMARY

Background

The Department of Finance (DOF) administers and enforces tax laws; collects taxes, judgments, and other charges; and provides collection enforcement services for court-ordered private sector creditors. One of the court-ordered services DOF provides is maintaining bail money on behalf of the courts. This service is performed through its Client Services Bail Unit (Unit).

In 1996, DOF contracted with Chase Manhattan Bank¹ (Chase) to maintain a lockbox operation for the collection of bail funds. Courts and Department of Correction (Correction) facilities remit the bail funds, along with the bail receipts given to sureties, directly to a lockbox maintained by Chase. These funds are then directly deposited into a DOF bank account (Common Trust) also maintained at Chase. For each case in which bail is posted, Chase assigns a tracking number (TR#). Chase sends DOF the bail receipts daily, along with a computer tape listing all bail funds deposited in the bank. The information on the computer tape is uploaded onto the Bail Master File, the DOF bail-tracking computer system.

Under § 99M of the General Municipal Law, DOF is entitled to an administrative fee of three percent of the bail refund amount for cases that result in convictions. This fee is assessed by the courts at the conclusion of a case. DOF procedures call for the agency to issue a bail refund check within two weeks after receiving the court order authorizing the release of the bail funds. During Fiscal

¹ Chase Manhattan merged with J.P. Morgan in December 2000 to form JPMorgan Chase. Chase is the retail financial services franchise within the new company.

Year 2001, Chase processed \$45.7 million in bail receipts representing 30,090 cases.

Objectives

The objectives of this audit were to determine whether (1) DOF remits bail refunds in a timely manner, and (2) DOF appropriately deducts the administrative fee as ordered by the courts.

Scope and Methodology

The audit scope covered Fiscal Years 2001 and 2002. To determine whether DOF remits bail refunds in a timely manner, we randomly selected 128 check numbers, representing 128 out of 2062 cases from the August 2001 disbursement report generated from the Bail Master File. We traced the check numbers to the corresponding case file to ascertain whether DOF issued the corresponding check within the two-week period after receiving the court order. To determine whether DOF deducted the three percent (3%) administrative fee as ordered by the court, we reconciled the disbursement information contained in the court orders to the corresponding bail refunds as shown on the disbursement report.

To verify whether the refund information on the Bail Master File was accurate, we randomly selected an additional 50 out of 1968 cases for which bail refund checks were issued in February 2001.

To determine whether DOF reconciled its bank balance to its book balance, we reviewed the bank reconciliations for January 2001 through June 2001.

This audit was conducted in accordance with generally accepted government auditing standards (GAGAS) and included tests of the records and other auditing procedures considered necessary. This audit was performed in accordance with the City Comptroller's audit responsibilities as set forth in Chapter 5, § 93, of the New York City Charter.

Results in Brief

DOF remitted bail refunds in a timely manner. For the 128 sampled cases from August 2001, DOF remitted refunds to sureties within four days, on average, after receiving the court orders. DOF also deducted the three percent (3%) administrative fee from the bail refunds for all sampled cases in which the courts ordered it. Additionally, for the cases in our sample, there were no instances in which the administrative fee was assessed or waived inappropriately by the court.

On the whole, the Unit's internal control structure provided adequate accountability over bail refunds in that: transactions were properly authorized and recorded; transactions were recorded promptly; and key duties and responsibilities for authorizing, processing, recording, and reviewing transactions were adequately segregated among individuals. As a result, DOF procedures provided adequate assurance that bail refunds were issued to the correct sureties, in the correct amounts, within agency-mandated time frames.

Although DOF controls provided reasonable assurance that bail refund checks were sent on time and to the correct parties, we did find a weakness in DOF's maintenance of the Common Trust account, specifically in performing monthly bank reconciliations. DOF did not perform proper bank reconciliations in accordance with the City Comptroller's Directive #11, including adjustment of the accounting records for any unreconciled differences. For the first six months of calendar year 2001, DOF's bank reconciliations for the Common Trust account revealed an average unreconciled difference of \$878,387 between its books and the bank's records.

We reviewed the supporting documentation for May 2001 in an attempt to perform a correct bank reconciliation based on the available records. In examining DOF's reconciliation, we found that DOF made a number of errors in its reconciliation. For instance, the agency reported \$489,653 in interest income earned on its investment account as a deposit to the Common Trust account, although these funds were not deposited in the account. Based on our analysis, the unreconciled difference between the book and bank balances for May 2001 should have been \$390,582—\$237,131 less than the difference DOF recorded in its reconciliation.

We discussed DOF's difficulty in reconciling the Common Trust account with the Unit Director. The director said that he recently instituted a number of changes, including the hiring of an accountant in January 2002 to perform proper reconciliations of all its accounts, including the Common Trust account. At the exit conference, DOF officials provided us a copy of the December 2001 bank reconciliation for the Common Trust account, which was completed by the recently-hired accountant. According to the December 2001 reconciliation, the bank balance was \$4,817.00 more than the book balance. (We did not verify the accuracy of the figures reported in the reconciliation.) This new format appropriately provides for the calculation of adjusted book and bank balances. Officials stated that this is the format that the Unit now uses for its reconciliations.

Recommendations

The audit resulted in three recommendations, specifically, that the Department of Finance should:

- Investigate and resolve the difference between its books and the bank's records for the Common Trust account. The agency should adjust its books, subject to the review and approval of an appropriate official, to account for any differences that cannot be resolved within three months, in accordance with Comptroller's Directive #11.
- Perform monthly bank reconciliations for all its accounts in accordance with Comptroller's Directive #11. The reconciliations should include, at a minimum, calculations of the adjusted bank and book balances.
- Ensure that any differences identified in its bank reconciliations are properly investigated and resolved within three months. The agency should adjust its books, subject to the review and approval of an appropriate official, to account for any differences that cannot be resolved within three months.

DOF Response

The matters covered in this report were discussed with officials from DOF during and at the conclusion of this audit. A preliminary draft report was sent to DOF officials and was discussed at an exit conference on April 24, 2002. On May 1, 2002, we submitted a draft report to DOF officials with a request for comments. We received a written response from DOF officials on May 15, 2002. DOF officials agreed with the audit's findings and recommendations and stated:

“Thank you for the opportunity to review and comment on the above referenced draft report, which confirms that the Department of Finance maintains adequate controls over the bail refund process, that refunds are being made timely and that administrative fees are being properly charged.”

The full text of DOF's comments is included as an addendum to this report.

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INTRODUCTION

Background

The Department of Finance (DOF) administers and enforces tax laws; collects taxes, judgments and other charges; and provides collection enforcement services for court-ordered private sector creditors. One of the court-ordered services DOF provides is maintaining bail money on behalf of the courts. This service is performed through its Client Services Bail Unit (Unit).

DOF has the fiduciary responsibility to provide for custody, care, and control of bail funds deposited by a surety—a person who posts bail for a defendant. The bail amount is set by the court and serves as collateral to allow the discharge of a defendant on the condition that the defendant complies with the order of the court.

In 1996, DOF contracted with Chase Manhattan Bank² (Chase) to maintain a lockbox operation for the collection of bail funds. Courts and Department of Correction (Correction) facilities remit the bail funds, along with the bail receipts given to sureties, directly to a lockbox maintained by Chase. These funds are then directly deposited into a DOF bank account (Common Trust) also maintained at Chase. For each case in which bail is posted, Chase assigns a tracking number (TR#). Chase sends DOF the bail receipts daily, along with a computer tape listing all bail funds deposited in the bank. The tape contains all bail receipt information, including the TR #s, sureties' names and addresses, and bail amounts. The information on the computer tape is uploaded onto the Bail Master File, the DOF bail-tracking computer system.

² Chase Manhattan merged with J.P. Morgan in December 2000 to form JPMorgan Chase. Chase is the retail financial services franchise within the new company.

DOF also establishes manual files for the bail receipts and any other documents related to the cases.

Under § 99M of the General Municipal Law, DOF is entitled to an administrative fee of three percent of the bail refund amount for cases that result in convictions. This fee is assessed by the courts at the conclusion of a case. DOF procedures call for the agency to issue a bail refund check within two weeks after receiving the court order authorizing the release of the bail funds. During Fiscal Year 2001, Chase processed \$45.7 million in bail receipts representing 30,090 cases.

Objectives

The objectives of this audit were to determine whether (1) DOF remits bail refunds in a timely manner, and (2) DOF appropriately deducts the administrative fee as ordered by the courts.

Scope and Methodology

The audit scope covered Fiscal Years 2001 and 2002. To gain an overview of the bail refund process, we interviewed Client Services Unit personnel, including the Unit Director. To determine the adequacy of the internal controls, we reviewed the procedural requirements and the relevant cash control sections of the City Comptroller's Directives #1 (City Manager Financial Integrity Statement) and #11 (Cash Accountability and Control). The controls we reviewed covered the following areas: bank account maintenance; authorization of transactions; preparation of bank reconciliations; recordkeeping; and segregation of duties.

To determine whether DOF remits bail refunds in a timely manner, we randomly selected 128 check numbers, representing 128 out of 2062 cases from the August 2001 disbursement report generated from the Bail Master File. We traced the check numbers to the corresponding case file to ascertain whether DOF issued the corresponding check within the two-week period of the court order. We matched the payee's name, as it appeared on the case files, to the disbursement report.

To determine whether DOF deducted the three percent (3%) administrative fee as ordered by the court, we reconciled the disbursement information contained in the court orders to the corresponding bail refunds as shown on the disbursement report.

To verify whether the refund information on the Bail Master File was accurate, we randomly selected an additional 50 out of 1968 cases for which bail refund checks were issued in February 2001. We reconciled the sureties' names, bail refund amounts, and check dates as they appeared on that month's disbursement report with the information on the canceled checks for the 50 cases.

To determine whether DOF reconciled its bank balance to its book balance, we requested the bank reconciliations for January 2001 through June 2001. We reviewed those reconciliation

statements and determined whether DOF performed them in accordance with Comptroller's Directive #11 (Cash Accountability and Control).

This audit was conducted in accordance with generally accepted government auditing standards, and included tests of the records and other auditing procedures considered necessary. This audit was performed in accordance with the City Comptroller's audit responsibilities as set forth in Chapter 5, § 93, of the New York City Charter.

DOF Response

The matters covered in this report were discussed with officials from DOF during and at the conclusion of this audit. A preliminary draft report was sent to DOF officials and was discussed at an exit conference on April 24, 2002. On May 1, 2002, we submitted a draft report to DOF officials with a request for comments. We received a written response from DOF officials on May 15, 2002. DOF officials agreed with the audit's findings and recommendations and stated:

“Thank you for the opportunity to review and comment on the above referenced draft report, which confirms that the Department of Finance maintains adequate controls over the bail refund process, that refunds are being made timely and that administrative fees are being properly charged.”

The full text of DOF's comments is included as an addendum to this report.

**OFFICE OF THE COMPTROLLER
NEW YORK CITY**

DATE FILED: May 30, 2002

FINDINGS AND RECOMMENDATIONS

DOF remitted bail refunds within two weeks after receiving each court order, as required in its procedures, and appropriately deducted the three percent administrative fee as ordered by the courts. Furthermore, DOF internal controls over bail refunds were adequate to ensure refunds are issued to the correct sureties for the correct amounts. However, we did find weaknesses in DOF's maintenance of its operating bank account (Common Trust) for bail funds. DOF did not perform a proper reconciliation of this account. Furthermore, DOF's reconciliations indicated significant discrepancies dating back to at least 1994. For the period January 2001 through June 2001, DOF's reconciliations indicated an average balance of \$878,387 more on its books than the balance shown in the bank's records. However, this discrepancy was significantly overstated because DOF's reconciliations contained numerous errors. Our analysis of the May 2001 reconciliation revealed that the \$627,713 discrepancy calculated by DOF was overstated by \$237,131. Nevertheless, over a number of years there has been a significant difference between the DOF books and the bank balances for this account, yet the agency did not adjust its books as required by Comptroller's Directive #11.

DOF Issued Bail Refunds Within the Required Time Frame

DOF remitted bail refunds in a timely manner. For the 128 sampled cases from August 2001, DOF remitted refunds to sureties within four days, on average, after receiving the court orders.

The bail refund process is initiated when DOF receives a bail refund order from the court. The court order contains the defendant's name, the bail amount, and instructions to deduct the administrative fee, if applicable. According to DOF procedures, DOF must issue a refund check within two (2) weeks after receiving the order. Upon receipt of the court order, a DOF Client Services representative (representative) date-stamps the order, pulls the manual file related to the case, and forwards both to the data entry representative. The data entry representative reviews the court order and compares it with the bail receipt on file to verify that all information (e.g., surety name, bail amount) is correct and to determine whether there has been any change in the case (e.g., whether the surety moved).³ The representative then updates the Bail Master File to indicate that a check should be issued. The next day, the Unit's Associate Accountant generates a check from the Bail Master File and stamps it with the Commissioner's signature plate. Before mailing the refund check, a Quality Control representative verifies that the information on the check (e.g., payee, bail refund amount) reconciles with the information in the case file.

We examined 128 randomly selected cases for which refunds were issued in August 2001 to ascertain whether DOF issued the checks within the two-week period. The total bail posted for these cases was \$163,700. Of the 128 checks issued, 9 were replacement checks totaling

³ Sureties must go to DOF if they wish to change where their refund checks are to be sent. They must bring the case TR# and two acceptable proofs of identification. All changes are documented in the case file.

\$12,610 (\$13,000 in posted bail, less administrative fees).⁴ For the remaining 119 checks totaling \$147,582.50 (\$150,700 in posted bail, less administrative fees), DOF issued the refunds within the required two-week time frame. The refunds were issued within 3.7 days, on average, after receiving the court order; the number of days ranged from 1 to 14 days. (Files for the nine cases in which replacements were issued revealed that the original checks had also been mailed within the required two-week period.)

DOF Deducted the 3 Percent Administrative Fee as Ordered by the Court

DOF deducted the three percent (3%) administrative fee from the bail refunds for all sampled cases in which the courts ordered it. Additionally, for the cases in our sample, there were no instances in which the administrative fee was assessed or waived inappropriately by the court.

As previously stated, a three percent administrative fee is required to be deducted from the bail refunds of cases which result in conviction. The court assesses the fee at the conclusion of the case; this assessment is included in the court order it sends to DOF. DOF does not have the authority to deduct the fee itself. Although the court may indicate a case's verdict in the package it sends to DOF, it generally does not do so.

We examined the court orders for our 128 sampled cases. The court ordered that the fee be deducted in 71 of them; DOF appropriately deducted the fee for all 71. To verify that the fee was assessed exclusively for cases that ended in convictions, we visited the courts to obtain the case dispositions. Court records were sealed for 36 of the 128 cases, so we could not find out whether those cases ended in convictions. In addition, two other cases were adjourned, and the disposition of another case was not on file. For the remaining 89 cases, 69 resulted in convictions; the courts assessed the three percent fee for all 69 cases. The courts did not assess the fee for any of the 20 cases that did not result in convictions.

⁴ A replacement check is issued if a surety brings proof that he or she never received the original check. DOF mails a replacement check to the surety after issuing a stop payment on the original check. For the nine cases in our sample in which replacement checks were issued, the files contained confirmations from Chase that stop payments were placed on the original checks.

**DOF Controls Over Bail Refunds
were Adequate to Ensure That
Checks were Issued to the Correct
Surety and in the Correct Amount**

On the whole, the Unit's internal control structure provided adequate accountability over bail refunds in that:

- Transactions were properly authorized and recorded
- Transactions were recorded promptly.
- Key duties and responsibilities for authorizing, processing, recording, and reviewing transactions were adequately segregated among individuals.

As a result, DOF procedures provided adequate assurance that bail refunds were issued to the correct sureties, in the correct amounts, within agency-mandated time frames.

Our audit evaluated the adequacy of the DOF's internal controls over bail refunds. In the broadest sense, an agency's internal control structure consists of the policies and procedures established by management to provide reasonable assurance that its goals and objectives are being met. In the case of DOF oversight of bail refunds, the objectives of its internal control structure are to provide management with reasonable assurance that bail funds are safeguarded against loss from unauthorized use or disposition, transactions are executed in accordance with DOF authorization, and transactions are properly recorded.

We interviewed DOF personnel to discuss their procedures concerning bail refunds. As previously stated, each case in which bail was paid is assigned a TR # by Chase when it receives the funds. DOF uploads the bank's computer tape onto its Bail Master File, in which all action regarding bail is recorded.

In regard to proper authorization for transactions, DOF personnel stated that no refunds are issued without an official court order. To be valid, the court order must be signed by a court official and stamped with the court's official raised seal. DOF requires that all court orders are date-stamped upon receipt. Before a bail refund check is issued, the case undergoes two reviews. A data entry representative will first verify that the court order information reconciles with the information contained in the case file (e.g., correct bail amount and TR #) before entering the information on the Bail Master File. A Quality Control representative performs a follow-up review to verify that the information is correct and reconciles the actual refund check with the case file. If either the data entry or the Quality Control representative notices a discrepancy (e.g., addresses on court order and case file do not match), they take steps to resolve it. Between those two reviews, the Unit's Associate Accountant will print the checks from the Bail Master File. The signature plate used to print the Commissioner's signature on the checks is kept in a safe; only three persons (Director of Financial Services, the Unit Director, and the Associate Accountant) have access to it. (We verified that the plate was kept locked in the safe when not in use.) Responsibilities are segregated among various individuals.

The person who enters the signature on the check (Associate Accountant) does not put the information on the system to generate the check (that task is performed by a data entry representative), nor does he send out the check (that task is performed by the Quality Control representative).

We performed a number of observations to determine how these procedures were actually implemented by DOF personnel. As previously discussed, we reviewed 128 randomly-selected cases from August 2001. For each case, we found a court order (with a raised seal, signed by a court official) authorizing the refund. We verified that each court order had been date-stamped. We compared the date stamped on the order with the date the check was issued to verify that it fell within the required two-week period. We also compared the refund order to the disbursement report generated from the Bail Master File to verify that the information (e.g., bail amounts and sureties' names) was correct.

To verify that the information recorded in the Bail Master File was accurate, we reviewed the case files and actual canceled checks for another 50 randomly-selected cases of bail refunds issued in February 2001.⁵ The total bail posted for these cases was \$69,250. Our analysis revealed that the payee (surety) names and addresses, bail amounts, and check dates recorded on the canceled checks reconciled with the information in the Bail Master File and refund court orders. (For those 50 cases, we also found that refunds were issued within the required two weeks following receipt of court order, and the three percent administrative fee was deducted in cases as ordered by the courts.)

Although DOF controls provided reasonable assurance that bail refund checks were sent on time and to the correct parties, we did find a weakness in DOF's maintenance of the Common Trust account, specifically in performing monthly bank reconciliations.

DOF Did Not Perform Proper Bank Reconciliations

DOF did not perform proper bank reconciliations in accordance with the City Comptroller's Directive #11, including adjustment of the accounting records for any unreconciled differences. For the first six months of calendar year 2001, DOF's bank reconciliations revealed an average unreconciled difference of \$878,387 between its books and the bank's records.

The purpose of a bank reconciliation is to verify that a depositor's accounting records and the bank statement are accurate. The reconciliation identifies certain transactions that must be recorded in the depositor's accounting records and helps to determine the actual amount of cash on deposit. While a reconciliation may disclose errors in either the bank statement or the depositor's accounting records, it may also disclose internal control failures, such as

⁵ As of October 2001, when this test was performed, the checks for the 128 bail refunds issued in August 2001 were outstanding and not available to satisfy this audit test.

unauthorized cash disbursements or failures to deposit cash receipts. In a bank reconciliation, the depositor uses the cash-on-hand balance according to its accounting records (book balance) as the starting point. It then adds to the balance all credits given according to the bank statement, and deducts any fees charged by the bank during the period, to come up with the adjusted book balance. To arrive at the adjusted bank balance, the depositor adds deposits in transit and deducts outstanding checks. If the adjusted book and the bank balances do not agree, the depositor should further investigate the discrepancy to determine the cause.

DOF, however, did not follow this procedure in performing its bank reconciliation. It did not calculate adjusted book and bank balances; it instead performed a hybrid of the two. DOF started with the opening book balance, adding deposits and subtracting disbursements made during the period, to arrive at the closing book balance. DOF then added outstanding checks to this figure to arrive at an adjusted book balance. (In a proper reconciliation, outstanding checks are *deducted* from the *bank* balance.) It then compared this figure to the closing bank statement balance. If the adjusted book balance did not agree with the bank balance, DOF simply recorded the difference as a net adjustment in its reconciliation. However, this adjustment was not reflected in its accounting records. The closing book balance was used as the opening book balance for the next period, when this process was repeated.

There are a number of problems with this procedure. First, DOF never calculated an adjusted bank balance, so it accepted the deposits and disbursements reported by the bank without independently verifying their accuracy. Second, it never investigated discrepancies between the two balances, nor did it adjust its books to account for the differences, as required by Comptroller's Directive #11. According to § 6.2 of that directive:

“Differences between the bank balance and the book balance must be resolved within three months after receipt of the bank statement. Differences remaining unresolved after the three months should be properly adjusted to the review and approval of the appropriate official. Each agency should establish written procedures for adjusting differences indicating the names and titles of persons authorized to approve them.”

During the period January through June 2001, DOF's reconciliations showed negative net adjustment amounts (signifying a cash shortage) ranging from \$627,000 to more than \$1 million, as shown in Table I.

TABLE I

Bail Funds Entrusted to DOF
Unreconciled Amounts as Shown on DOF's Bank Reconciliations

Month	Adjusted Closing Book Balance	Closing Bank Balance	Amount Bank Balance is Greater (Less) Than Book Balance
January-01	\$ 5,292,037	\$4,264,712	\$(1,027,325)
February-01	\$ 4,066,989	\$3,150,469	\$ (916,519)
March-01	\$ 10,517,652	\$9,575,470	\$ (942,182)
April-01	\$ 9,899,611	\$9,027,440	\$ (872,171)
May-01	\$ 8,524,897	\$7,897,184	\$ (627,713)
June-01	\$ 10,019,676	\$9,135,261	\$ (884,415)
Average	\$ 8,053,477	\$7,175,089	\$ (878,387)

These adjustments carried over from month to month without resolution.

We reviewed the supporting documentation for May 2001 in an attempt to perform a correct bank reconciliation based on the available records. As shown in Table I above, DOF reported an unreconciled difference between its books and the bank's records for that month. In examining DOF's reconciliation, we found that DOF made a number of errors in its reconciliation. For instance, the agency reported \$489,653 in interest income earned on its investment account as a deposit to the Common Trust account, although these funds were not deposited in the account. It also reported a deposit of \$71,582 that should have been recorded the previous month. DOF also failed to record a May 2001 \$49,256 deposit. Based on our analysis, the unreconciled difference between the book and bank balances for May 2001 should have been \$390,582, \$237,131 less than the difference DOF recorded in its reconciliation. The results of our analysis are shown in Table II.

TABLE II

Analysis of DOF May 2001 Bank Reconciliation
of Common Trust Account

	DOF's Reconciliation	Auditors' Adjusted Figures	Difference
Opening Ledger Balance	\$3,449,952.18	\$3,551,251.96	(\$101,299.78)
Add: Deposits	\$8,300,902.40	\$7,858,705.42	\$442,196.98
Interest	-----	\$12,421.97	(\$12,421.97)
Credits	-----	\$23,550.00	(\$23,550.00)
Total additions	\$8,300,902.40	\$7,894,677.39	\$406,225.01
Subtract: Disbursements	(\$5,371,254.62)	(\$5,278,294.39)	(\$92,960.23)
Other debits	-----	(\$25,165.59)	\$25,165.59
Total subtractions	(\$5,371,254.62)	(\$5,303,459.98)	(\$67,794.64)
Closing Ledger Balance	\$6,379,599.96	\$6,142,469.37	\$237,130.59
Closing Bank Balance	\$7,897,184.23	\$7,897,184.23	-----
Subtract: Outstanding Checks	(\$2,145,296.84)	(\$2,145,296.84)	-----
Adjusted Bank Balance	\$5,751,887.39	\$5,751,887.39	-----
Surplus (Deficit) in Bank Account	(\$627,712.57)	(\$390,581.98)	(\$237,130.59)

We discussed DOF's difficulty in reconciling the Common Trust account with the Unit Director. The agency's inability to reconcile this account is not a new issue. In 1998, the New York State Comptroller identified the same issues in its audit of the controls and accountability of court and trust and bail funds administered by DOF (Report 98-N-12). The State Comptroller recommended that DOF perform bank account reconciliations properly and accurately in accordance with Comptroller's Directive #11. The director said that the persons in charge of monitoring the account and performing the bank reconciliation were no longer with the Unit and that DOF hired him in April 2001 to address the problems cited in the State Comptroller's audit.

The Unit Director said that he recently instituted a number of changes. As of January 2002, the Unit maintains three accounts: two for bail funds⁶ (New York State Unified Court System Cash Bail Account and New York City Department of Correction Cash Bail Account) and one for court and trust funds (Court and Trust Fund Account). All funds received as of January 1, 2002, are put in these accounts. In January 2002, the agency hired an accountant to perform proper reconciliations of all its accounts, including the Common Trust account. Regarding the Common Trust account, the agency plans to let it age out. All funds deposited in that account will be paid out as the applicable cases close. If the funds are extinguished before the cases are paid out, or if the cases are paid out and funds still remain in the account, the agency will make the appropriate adjustment to its books at that time. However, it is likely to take years for the cases associated with the bail (and court and trust) funds to close. Accordingly, this procedure does not comply with Comptroller's Directive #11 regarding a timely investigation and resolution of any difference identified through the bank reconciliation.

⁶ Bail funds are received from two sources: the courts and correction facilities.

At the exit conference, DOF officials provided us a copy of the December 2001 bank reconciliation for the Common Trust account that was completed by the recently-hired accountant using a new format. Officials stated that the accountant will go over the bank and book records for prior months to reconcile the differences and determine the accurate ending balances. (Officials did not say how far back the reconciliation would extend.) According to the December 2001 reconciliation, the bank balance was \$4,817.00 more than the book balance. (We did not verify the accuracy of the figures reported in the reconciliation.) This new format appropriately provides for the calculation of adjusted book and bank balances. Officials stated that this is the format that the Unit now uses for its reconciliations. Officials stated that they will not make an adjusting journal entry to the Common Trust account until the Unit has completed its review of the prior reconciliations; officials did not state a target completion date.

Recommendations

The Department of Finance should:

1. Investigate and resolve the difference between its books and the bank's records for the Common Trust account. The agency should adjust its books, subject to the review and approval of an appropriate official, to account for any differences that cannot be resolved within three months, in accordance with Comptroller's Directive #11.

DOF Response: "We agree. In fact, currently, daily faxes from JP Morgan Chase Bank of previous day's activities are reviewed and reconciled promptly with appropriate management review. The bail deposit balances maintained by the Department agree with the bank statements."

2. Perform monthly bank reconciliations for all its accounts in accordance with Comptroller's Directive #11. The reconciliations should include, at a minimum, calculations of the adjusted bank and book balances.

DOF Response: "We agree. The Department has recently designed a new report format for bank reconciliations that conforms with the requirements of Comptroller's Directive #11. Three months of such reconciliations have been made available to the auditors for their review."

3. Ensure that any differences identified in its bank reconciliations are properly investigated and resolved within three months. The agency should adjust its books, subject to the review and approval of an appropriate official, to account for any differences that cannot be resolved within three months.

DOF Response: "We agree. An additional auditor has recently been hired to assist with the bank reconciliation function. In addition, the Department will develop policies and procedures for write-offs of unreconcilable differences."



May 15, 2002

Roger D. Liwer
Assistant Comptroller for Audits
The City of New York
Office of The Comptroller
1 Centre Street, Room 1100 North
New York, New York 10007-2341

**RE: Draft Audit Report on the Internal Controls over
Bail Refunds by the Client Services Division of the
New York City Department of Finance
Audit Number: MJ02-081A**

Dear Mr. Liwer:

Thank you for the opportunity to review and comment on the above referenced draft audit report, which confirms that the Department of Finance maintains adequate controls over the bail refund process, that refunds are being made timely and that administrative fees are being properly charged.

I have the following specific comments regarding the report's findings and recommendations:

Auditors' Comment (p7) – The Department of Finance did not perform proper bank reconciliations in accordance with the City Comptroller's Directive #11, including adjustment of the accounting records for any un-reconciled differences.

Agency Response – Almost 60 percent of the unreconciled differences disclosed in the draft audit are due to accrued interest on invested funds and other non-cash items. The rules governing the City's investment policies did not require entries for non-cash items at the time the system was designed. We are in the process of redesigning the system and modifying our general ledger to record all non-cash items. In addition, documentation accounting for almost all of the unreconciled items cited in the report has been made available to the auditors.

Auditor's Recommendation #1 – The Department of Finance should investigate and resolve the difference between its books and the bank's records for the Common Trust Account. The agency should adjust its books, subject to review

and approval of an appropriate official, to account for any differences that cannot be resolved within three months, in accordance with Comptroller's Directive #11.

Agency Response -- We agree. In fact, currently, daily faxes from JP Morgan Chase Bank of previous day's activities are reviewed and reconciled promptly with appropriate management review. The bail deposit balances maintained by the Department agree with the bank statements.

Auditor's Recommendation #2 -- The Department of Finance should perform monthly bank reconciliations for all its accounts in accordance with Comptroller's Directive #11. The reconciliations should include, at a minimum, calculations of the adjusted bank and book balances.

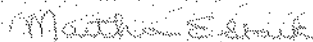
Agency Response -- We agree. The Department has recently designed a new report format for bank reconciliations that conforms with the requirements of Comptroller's Directive #11. Three months of such reconciliations have been made available to the auditors for their review.

Auditor's Recommendation #3 -- The Department of Finance should ensure that any differences identified in its bank reconciliations are properly investigated and resolved within three months. The agency should adjust its books, subject to the review and approval of an appropriate official, to account for any differences that cannot be resolved within three months.

Agency Response -- We agree. An additional auditor has recently been hired to assist with the bank reconciliation function. In addition, the Department will develop policies and procedures for write-offs of unreconcilable differences.

Thank you again for the opportunity to review this draft audit. If you have any questions regarding this response or require any additional information, please call Jesse Ostrow at 212-669-4480.

Sincerely,



Martha E. Stark
Commissioner

C. Robert Y. Lee
Jesse Ostrow
John J. Lynch