

**Nassau County
Office of the Comptroller**



**Bank Account Review
Department of Social Services
Child Support Collection Unit Bank Account**

GEORGE MARAGOS

Comptroller

March 29, 2016

NASSAU COUNTY
OFFICE OF THE COMPTROLLER

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Executive Summary

Introduction:

The Department of Social Services' ("DSS") Support Collection Unit is required by New York State Law to maintain an account for child support collection and disbursement to the custodial parent. These are proceeds collected by the department for that obligation and are not used for the County's general operations.

Purpose:

The purpose of this review was to:

- ensure that DSS is fulfilling its fiduciary responsibilities over the collection and distribution of monies meant for the support of children;
- determine whether the DSS Support Collection Unit's bank reconciliations are performed timely and accurately with adequate supervisory oversight; and
- determine that DSS has adequate internal controls to safeguard against misuse or abuse of funds.

Key Findings:

- There is no evidence of the research done by the Support Collection Unit on each custodial parent's account balance that comprised the \$5.7 million of undisbursed funds in the Support Collection Unit bank account as of December 31, 2014, without looking at each custodial parent's account individually in the system.
- There is no aging report based on the last time a disbursement was made from each custodial parent's account. An aging report only exists based on the last date a deposit was received in the account from a non-custodial parent. The last date a disbursement was made from a custodial parent's account is obtained only by examining each individual account.
- Analysis of an ad hoc report specifically requested by the auditors of all undisbursed account balances as of December 31, 2014 showed that the \$5.7 million balance at December 31, 2014 represented 7,509 accounts. In addition, \$1.2 million of the \$5.7 million or 21% still remained undisbursed as of December 2015.
- The Support Collection Unit is not entering the Undistributed Collections ("UDC") Categories and Codes provided in 2005 by the New York State Office of the Temporary and Disability Assistance ("OTDA") in the designated place in the system to document the reason why funds cannot be disbursed from an account. The UDC categories and codes were specifically established and designed by OTDA to help monitor, assess and reduce undisbursed funds in the custodial parents' accounts.

Executive Summary

- The Support Collection Unit has no escheatment process to determine if and when undistributed funds are to be escheated to New York State as required by the Social Services Law.¹ In addition, no process is in place to evidence when, if, or to what extent, the required due diligence efforts had commenced regarding undistributed account balances in order to complete the escheatment process required by the Social Services Law.
- There is a lack of managerial oversight of, and segregation of duties regarding, the accounting function. One accountant received the unopened bank statements, prepared the bank reconciliations and reissued payments from the same bank account with no supervisory review in place. Further, oversight did not exist to ensure that research was done on stale dated checks before reissuing checks.

Key Recommendations:

We recommend that DSS Support Collection Unit:

- investigate and clear the undistributed bank balances by determining whether funds are to be: refunded to non-custodial parents; disbursed to custodial parents; or due to public assistance.
- enter the UDC categories and codes provided by the OTDA in the system, as required, to document the research performed on accounts and why the funds have not been disbursed.
- automatically create an undistributed funds aging report that shows the payment dates to custodial parents to help in the research of undistributed balances in the account.
- create an escheatment process for undistributed account balances with the help of OTDA to ensure compliance with the Social Services Law.
- segregate the accounting duties so that one accountant does not prepare the bank reconciliation and also process daily disbursements for the reissuance of stale dated checks.
- research the reasons for stale dated checks before new checks are issued.

¹ The New York State Social Services Law, Section 111-h(5), Support Collection Unit.

Executive Summary

The matters covered in this report have been discussed with the officials of the Child Support Collection Unit. On January 21, 2016, we submitted a draft report to DSS for their review. DSS provided their response on March 14, 2016. Their response and our follow up to their response are included as an Appendix to this report.

Table of Contents

	<u>Page</u>
INTRODUCTION.....	1
Background.....	1
Audit Scope, Objectives and Methodology	1
FINDINGS AND RECOMMENDATIONS	3
(1) \$5.7 Million of Undisbursed Funds in the Child Support Bank Account Needs Investigation; Unit Not Using NYS Coding for Identifying and Clearing Undisbursed Funds .	5
(2) There Is No Escheatment Process To Determine If and When Undistributed Funds of Approximately \$609,532 Should be Escheated to New York State	11
(3) Lack of Segregation of Duties on Bank Reconciliation and Disbursement Functions on a \$96 Million Annual Disbursement Account May Result in a Risk of Fraud.....	13
APPENDIX.....	15

Introduction

Background

New York State Social Services Law Section §111-h² requires that each social services district establish a support collection unit in accordance with regulations of the department to collect, account for, and disburse funds paid pursuant to any order of child support.

Field Audit recently conducted a countywide survey and compilation of the bank accounts used by all Nassau County Departments via a questionnaire. Information was collected on accounts kept within the Nassau Integrated Financial System (“NIFS”) Bank Accounts (where proceeds are used for County operations), non-NIFS accounts where departments collect and disburse funds that do not belong to the County and petty cash accounts that are maintained in various departments.

As a part of the review of the Countywide Bank Accounts, we identified sixteen non-NIFS bank accounts³ (exclusive of the County Clerk’s Office) that had balances. The DSS Support Collection Unit bank account was selected as the first to be reviewed as it had a large balance, \$6,628,410 (total of all accounts as of December 31, 2014 of approximately \$23,946,404), per the questionnaire.

Audit Scope, Objectives and Methodology

The audit period covered fiscal year 2013 to August 31, 2015.

The objective of the review is to determine whether the DSS Support Collection Unit account is being monitored and reviewed by the Treasurer’s Office to ensure there is no misuse of funds and that bank reconciliations are performed timely to safeguard assets especially those that are not recorded on the County’s accounting system.

Our review of the account included the following:

1. Review the activity in the Support Collection Unit account to ensure proper documentation is maintained and the account is being utilized in accordance with the intended purpose.
2. Determine that the bank reconciliation was performed on a timely basis and there is evidence of managerial review.
3. Determine the reason the account carries such a large balance.

² New York State Social Services Law, Section 111-h. Support Collection Unit.

³ Also excludes the Nassau County Sewer Storm, Tobacco Settlement and CTSC Residual Trust accounts.

Introduction

4. Interview the staff to understand the process followed when performing bank reconciliations, including timeliness and management oversight.
5. Test a sample of items from the bank reconciliation to ensure accuracy.

We verified the deposits and disbursements on the bank account to the New York State Asset System⁴ (database of records), and reviewed the reasons for the large cash balances on the bank reconciliations.

We believe our review provides a reasonable basis for the findings and recommendations contained herein.

⁴ The Asset System is the software database used by New York State to handle all child support receipts and disbursements. Receipt and disbursement information is promulgated to Nassau County (and the other counties of New York) on a daily basis.

Findings and Recommendations

DSS Support Collection Unit

The DSS Support Collection Unit is responsible for the management and oversight of the non-County funds in the Support Collection Unit bank account (a non-NIFS account). The purpose of this bank account is for the disbursement of child support monies to the custodial parent collected from the non-custodial parent.

New York State receives and deposits all payments from the non-custodial parents into the New York State bank account. The New York State Processing Center then disburses funds into the Support Collection Unit bank account to pay the custodial parents. All monies collected from the non-custodial parents and payments made to the custodial parents are recorded in the New York State Asset System. In some instances, cash deposits and checks from the County courts are given directly to the Nassau County Support Collection Unit for deposit. All bounced checks are recorded in the Asset System, and payments to the custodial parent are stopped until payment for the bounced check is received.

The DSS Support Collection Units' total annual collection from non-custodial parents and total annual disbursements to the beneficiaries are listed in Exhibit I, below.

Exhibit I

DSS Support Collection Unit
Total Annual Collections and Disbursements
2013, 2014 and 2015

Year	Annual Collections	Annual Disbursements
2013	\$105,019,268	\$103,467,736
2014	\$101,974,754	\$102,512,626
2015	\$104,725,284	\$103,896,348

The average of the annual collections and total annual disbursements for the three years is approximately \$103,906,435 and \$103,292,237, respectively.

It should be noted that this bank account is very voluminous with deposits into the NYS lockbox account as wire transfers, Unemployment Insurance Benefits deposits and direct deposits. There are numerous tax offsets from the IRS, NYS tax and the lottery. The funds in the bank account include the following:

Findings and Recommendations

- child support payments from the non-custodial parent set to be disbursed pursuant to court order;
- monies for administrative accounts created to maintain payments from the Federal Tax Refund Offset Process pending disbursements pursuant to Federal guidelines. These payments are held for a period of not less than six months pursuant to the New York State Office of Temporary and Disability Assistance policy; and
- monies for administrative accounts created to hold payments received from the New York State Department of Taxation and Finance intercepted by the Support Collection Unit as a result of tax offsets, lottery intercepts and unidentified payments.

Findings and Recommendations

Audit Finding:

(1) \$5.7 Million of Undisbursed Funds in the Child Support Bank Account Needs Investigation; Unit Not Using NYS Coding for Identifying and Clearing Undisbursed Funds

During the review of the December 2014 Bank reconciliation and the auditors' meeting with the DSS Support Collection Unit in February 2015, the auditors documented these issues:

- No evidence that corrective action is being taken on the undisbursed bank balance totaling \$5.7 million (as of December 31, 2014 per the bank reconciliation). The average undisbursed bank balance for three years ended December 31, 2012 to December 31, 2014 was approximately \$5.2 million. The unit states that they are constantly researching some accounts although they might not have been specifically addressing the \$5.7 million. Further, there is no evidence of the research that has been done without looking at each account individually.
- An aging only exists by the last date a deposit was received in the account from a non-custodial parent. There is no aging according to the last time a disbursement was made from the account. This information can only be obtained by reviewing each individual account.
- The Director of Child Support Collection stated the Collection Unit is unable to investigate and timely reduce the undistributed bank balances. According to the Director, since the process is very labor intensive, the unit would need additional staff working 100% on clearing the ever increasing undistributed balance, which has grown from \$4.5 million (2012) to over \$5.8 million (April 2015). The Director also stated that in the past, there was a specialized unit that handled these investigations, but it was eliminated when the unit became short staffed. Prior to 2004, the unit had 114 staff workers and presently there are 53.

Upon the auditors' request, the Support Collection Unit worked on this matter and provided an Excel spreadsheet retrieved from the New York State Asset System of the undistributed bank balances for each child support case from the fiscal years ended December 31, 2012 through 2014 and January 1 through April 30, 2015. The spreadsheet showed the child support case number, the undistributed support amount paid by the non-custodial parent pursuant to the court order and the last date a payment had been received by New York State. The worksheet did not show the last date a payment was made to the custodial parents. We were informed by the Support Collection Unit that the Asset System does not allow the download of dates and amounts of payments made to the custodial parents; this data could only be obtained by reviewing each of the child support accounts on an individual basis.

Findings and Recommendations

In order to address the auditors concerns listed above, the Unit consulted with NYS to generate an ad hoc report listing all undisbursed balances as of December 31, 2014. The auditors met with the Unit again on February 29, 2016. The Support Collection Unit provided an undistributed collection spreadsheet⁵ that showed the number of cases by year (that coincided with the date the last receipt was deposited from the non-custodial parent) totaling to the bank balance of \$5.7 million. The report showed that \$1.2 million of the \$5.7 million 2014 balance still remained undisbursed as of December 2015. The DSS Accounting Executive also stated that a good portion of the \$4.5 million disbursed by December 2015 represented the more current monies that flowed in and out of the account without issues.

Exhibit II below summarizes the total undistributed balance of \$5.7 million as of December 31, 2014, by dollar range of the individual undistributed account balances. It shows that 5,189 of the 7,509 accounts or 69% have individual undistributed balances of under \$500. Also, of the 5,189 accounts, 2,101 have individual balances of less than \$100 and 234 of them are under \$1.00.

⁵ The undistributed collection spreadsheet was obtained by the Child Support Collect Unit from the Asset System as a special request to address findings in the audit report. It was provided to the auditors post audit and was not subject to testing.

Findings and Recommendations

Exhibit II

DSS Support Collection Unit Analysis of Undisbursed Accounts as of 12/31/14

<u>Undistributed Account</u>		<u># of Accounts</u>	<u>Obligation</u>	<u>Amount</u>
<u>From</u>	<u>To</u>		<u>Amount</u>	<u>Undistributed</u>
\$ 0.01	\$ 0.99	234	\$ 37,278.81	\$ 95.39
\$ 1.00	\$ 9.99	232	\$ 30,605.50	\$ 1,004.67
\$ 10.00	\$ 49.99	692	\$ 58,091.15	\$ 20,552.24
\$ 50.00	\$ 99.00	943	\$ 96,975.68	\$ 67,260.66
\$ 100.00	\$ 499.99	3,088	\$ 537,776.35	\$ 755,139.24
\$ 500.00	\$ 999.99	1,017	\$ 353,202.84	\$ 714,324.98
\$ 1,000.00	\$ 4,999.99	1,113	\$ 578,824.18	\$ 2,267,757.56
\$ 5,000.00	\$ 9,999.99	131	\$ 57,334.04	\$ 889,803.62
\$ 10,000.00	\$ 19,999.99	52	\$ 17,997.41	\$ 720,716.26
\$ 20,000.00	\$ 29,999.99	5	\$ 1,928.00	\$ 130,891.54
\$ 30,000.00	\$ 39,999.99	1	\$ 1,120.00	\$ 38,080.00
\$ 40,000.00	\$ 86,999.00	0	\$ -	\$ -
\$ 87,000.00	\$ 99,999.99	1	\$ -	\$ 87,431.53
		<u>7,509</u>	<u>\$ 1,771,133.96</u>	<u>\$ 5,693,057.69</u>

Exhibit III segregates the portion of the \$ 5.7 million undisbursed balance as of 12/31/14 where the obligation amount for each account is zero. An obligation amount of zero means the non-custodial parent is no longer required to make payments into the account. The Exhibit shows that \$1,821,799 of the \$5.7 million balance at 2014 represent 2,576 of the 7,509 accounts or 34% with zero obligation amounts. We found no evidence that the accounts with zero obligation amounts are being actively reviewed and investigated by the Support Collection Unit to determine the nature of the funds in the account and whether monies need to be disbursed to the custodial parents or returned to the non-custodial parents.

Findings and Recommendations

Exhibit III

DSS Support Collection Unit Analysis of Undisbursed Accounts with Obligation Amounts of Zero as of 12/31/14

<u>Undistributed Account</u>		<u># of Accounts</u>	<u>Obligation Amount</u>	<u>Amount Undistributed</u>
<u>From</u>	<u>To</u>			
\$ 0.01	\$ 0.99	121	\$ -	\$ 48.52
\$ 1.00	\$ 9.99	98	\$ -	\$ 404.36
\$ 10.00	\$ 49.99	270	\$ -	\$ 8,045.86
\$ 50.00	\$ 99.00	409	\$ -	\$ 28,353.01
\$ 100.00	\$ 499.99	1,003	\$ -	\$ 235,515.58
\$ 500.00	\$ 999.99	277	\$ -	\$ 194,091.41
\$ 1,000.00	\$ 4,999.99	332	\$ -	\$ 689,796.61
\$ 5,000.00	\$ 9,999.99	46	\$ -	\$ 317,353.26
\$10,000.00	\$ 19,999.99	17	\$ -	\$ 208,106.00
\$20,000.00	\$ 29,999.99	2	\$ -	\$ 52,653.14
\$30,000.00	\$ 39,999.99	0	\$ -	\$ -
\$40,000.00	\$ 86,999.00	0	\$ -	\$ -
\$87,000.00	\$ 99,999.99	<u>1</u>	<u>\$ -</u>	<u>\$ 87,431.53</u> ⁽¹⁾
		<u>2,576</u>	<u>\$ -</u>	<u>\$ 1,821,799.28</u>

⁽¹⁾The one undistributed account of \$87,431.53, with zero obligation is still listed on the undisbursed account spreadsheet in the amount of \$18,390.43 as of April 30, 2015.

The Unit noted the following reasons that monies collected from non-custodial parents remain undisbursed in the account and have not been distributed to either the custodial parent or refunded to the non-custodial parent:

- the non-custodial parent's wages continue to be garnished after the child turns 21 (an administrative order to stop garnishment needs to be filed);
- either the custodial or non-custodial parent has moved and needs to be located; and
- if there is an increase in child support payment, the additional amount may not be distributed to the custodial parent until the support change order document is received by DSS. (For example, if the new order is for \$500 and the Support Collection Unit only has the original \$100 court order, the additional \$400 collected each month must remain in the account until the new court order is received, as they only have the authority to distribute the \$100).

Findings and Recommendations

The auditors selected 20 Support Collection Unit cases from the above provided Excel schedule (shows last date monies from the non-custodial parent were received by New York State and deposited in the account) in order to obtain the reasons why the account balances were not distributed. The amount undistributed from these 20 accounts totaled \$143,888, \$205,243, \$267,725 and \$283,130, for years ended December 31, 2012 through 2014 and January 1 through April 30, 2015, respectively.

Details regarding these undistributed accounts are listed in Exhibit IV, below.

Exhibit IV

**DSS Support Collection Unit
Test Sample of Twenty Undisbursed Bank Balances
Year Ended December 31, 2012 to April 30, 2015**

<u>Description</u>	<u>SCU Number of Accounts</u>	<u>Amount Undistributed 2012</u>	<u>Amount Undistributed 2013</u>	<u>Amount Undistributed 2014</u>	<u>Amount Undistributed as of April 2015</u>
Total of 20 Accounts	20	\$ 143,888	\$ 205,243	\$ 267,725	\$ 283,130
Last Deposit from NonCustodial Parent - 3 to 5 Years Ago	10	\$ 48,399	\$ 48,399	\$ 48,399	\$ 48,399
Money to be Refunded	10	\$ 85,163	\$ 138,606	\$ 193,100	\$ 205,994
Custodial Parents Not Located	5	\$ 31,981	\$ 39,893	\$ 47,881	\$ 50,392
Suspense Accounts	4	\$ 19,658	\$ 19,658	\$ 19,658	\$ 19,658
Money due to Custodial Parent	1	\$ 7,086	\$ 7,086	\$ 7,086	\$ 7,086
Total	20	\$ 143,888	\$ 205,243	\$ 267,725	\$ 283,130

Findings and Recommendations

Our review found the following:

- 10 accounts where the last deposit from a non-custodial parent was 3 to 5 years ago;
- 10 accounts with monies that should have been returned to the non-custodial parent had not been resolved;
- 5 accounts were not disbursed since the custodial parent could not be located;
- 4 accounts were suspense accounts with the parties' name(s) either not known, not listed on the payments or not legible; and
- 1 account with money due the custodial parent.

These cases had not been resolved by the Support Collection Unit when the auditors requested this sample detail. This is because of the many other functions the unit is mandated to perform.

During our meeting on February 29, 2016, the Unit stated they did not use the Undistributed Collections (“UDC”) Categories and Coding as required by the New York State Office of Temporary and Disability Assistance (“OTDA”)⁶ since 2005. The OTDA guidelines state that each local district must review their cases with undistributed collections and when collection cannot be disbursed, the case must be coded for the UDC reason. The Director stated she will remind her staff to use the undistributed collection codes when collections are not disbursed.

Audit Recommendation(s):

We recommend that DSS take the necessary steps to determine how much of the undistributed bank balances is to be disbursed by:

- a) refunding monies owed to non-custodial parents;
- b) identifying any monies owed to public assistance;
- c) locating and disbursing monies to custodial parents;
- d) working with the New York State Child Support Unit to create an undistributed aging report, including the payment dates to custodial parents, for use in identifying the reasons for the large undistributed balances in the account and to use as a management monitoring tool; and
- e) using the required OTDA undistributed codes to identify cases when investigating funds that have not been disbursed.

⁶ The New York State Office of Temporary and Disability Assistance, Undistributed Collections Categories and Coding, dated June 20, 2005.

Findings and Recommendations

Audit Finding:

(2) There Is No Escheatment Process to Determine If and When Undistributed Funds of Approximately \$609,532 Should be Escheated to New York State

The Support Collection Unit did not have an escheatment process for the undistributed account balances as required by the Social Services Law, Section 111-h(5)⁷ or attempt to refund monies owed to the non-custodial parents, or locate the custodial parents for the cases listed below. The law states that the Support Collection Unit must wait for a period of not less than two years after initiating diligent efforts to locate the parties entitled to the undisbursed child support funds remaining in each undistributed collection account before proceeding with the escheatment process. Based on this research, the Support Collection Unit should either obtain court orders to return the funds to the person who paid them or direct the funds to be deposited with the County Treasurer for five years. Upon the expiration of five years from the date of deposit with the County Treasurer, all such funds shall be paid to the State Comptroller pursuant to provisions of Section 602⁸ of the Abandoned Property Law.

Our review of the Excel spreadsheets found undistributed bank balances that were over three years old which are listed in Exhibit V, below.

⁷ The New York State Social Services Law, Section 111-h(5), Support Collection Unit.

⁸ The Laws of New York, Abandoned Property, Article 6, §602.

Findings and Recommendations

Exhibit V

DSS Support Collection Unit Undistributed Bank Balances Year Ended December 31, 2012 to April 30, 2015

Year	SCU Cases	Undistributed Amount	SCU Cases Over Three Years Old	Undistributed Amounts Over Three Years Old	Undistributed Percentage Over Three Years Old
2012	6,715	\$ 4,500,783	909	\$ 313,470	6.96%
2013	7,188	\$ 5,375,857	1,166	\$ 417,895	7.77%
2014	7,509	\$ 5,693,058	1,474	\$ 565,007	9.92%
As of 4-30-15	7,928	\$ 5,812,617	1,580	\$ 609,532	10.49%

Note: Some accounts are not dated. According to the SCU Accountant, undated accounts are usually administrative tax accounts. They have no date because they are entered manually, and are normally disbursed by the end of the fiscal year. They have not been included in the cases over three years old, but are included in total case numbers.

As noted in Finding 1, the Excel spreadsheets show the last date of payment which the auditors used to calculate the undistributed amounts that were over three years old (see Exhibit III above). As a result, these undistributed amounts may be higher than what is shown, since the aging of outstanding cases was not provided to the auditors. In our review, we found approximately 7% of the undistributed balance belonged to accounts that have not had a payment from a non-custodial parent in at least three years. The percentage increased to approximately 10.5% by the end of the audit period. As stated in the note to Exhibit III above, a portion of the accounts (55 totaling \$134,673 in 2012, 74 totaling \$185,430 in 2013, 73 totaling \$108,321 in 2014, and 79 totaling \$220,244 at the end of April 2015) were not dated.

When asked about these undated accounts, the Support Collection Unit Accountant stated that each account is different, but usually accounts are not dated because they are manually entered administrative tax accounts. The Support Collection Unit Accountant stated that these accounts are normally disbursed by the end of the tax year, and that to retrieve more information, each account would need to be researched individually.

The Support Collection Unit did not perform an escheatment process on undistributed accounts to locate the custodial parents, return the funds to the non-custodial parent or to have a court order to transfer the funds to the County Treasurer within a two year period as required by Law. This lack

Findings and Recommendations

of oversight in monitoring and maintaining the bank account represents a major internal control weakness in the safeguarding of assets.

Audit Recommendation(s):

We recommend the Support Collection Unit create an escheatment process for undistributed account balances with the assistance of OTDA to ensure compliance with the Social Services Law on escheatment.

Audit Finding:

(3) Lack of Segregation of Duties on Bank Reconciliation and Disbursement Functions on a \$96 Million Annual Disbursement Account May Result in a Risk of Fraud

When the auditors were reviewing the large outstanding undistributed bank balances between \$5 and \$6 million (for the period 2012 through April 2015), they found a serious lack of segregation of duties. The DSS Support Collection Unit accountant prepares very arduous, complicated monthly bank reconciliations on this account with approximately \$7 to \$8 million deposited into and disbursed out of this account each month. At the same time, his responsibilities also include preparing batch disbursement paper work. The auditors also found there is a lack of supervisory review. The primary reason for the significant number of undistributed bank balances is the lack of follow-up and review to clear undisbursed amounts.

Each month, the accountant prepares the monthly list of stale dated checks and sends a batch report to reissue payments to the custodial parent through the Asset system. The accountant does not investigate the reasons for the failure to cash the checks, such as faulty addresses. The completed monthly bank reconciliation is forwarded to the Director of the Unit for review. At the entrance conference, the Director acknowledged that she did not have the time nor the staff to perform a supervisory review of the bank reconciliations or the process of reissuing stale dated checks by the accountant.

This lack of managerial oversight resulted in inadequate segregation of duties (poor internal control) since the staff person received the unopened bank statements, prepared the bank reconciliations and reissued payments from the same bank account with no supervisory review in place. The person performing the bank reconciliation should not be the same person with disbursement functions. The unit should have investigated the reasons for each stale dated check before reissuing checks.

“Segregating the incompatible duties of custody of cash, record-keeping, authorizations, and reconciliations prevents an employee or official from controlling all phases of the accounting

Findings and Recommendations

function.”⁹ As a result, internal control weakness exists, and errors and fraud have a greater possibility of going undetected. When duties cannot be segregated, supervisory oversight is needed to mitigate the risks resulting from inadequate segregation of accounting duties.

Although these weaknesses are present, the auditors tested three days of cash receipts and disbursements to the New York State Asset System reports for each of the months of December 2014 and January 2015, and found no exceptions.

Audit Recommendation(s):

We recommend that DSS:

- a) safeguard funds under their custody by segregating the duties so that there is a different staff person reviewing the bank reconciliations than the one preparing the reconciliations. The supervisor should also not be the person processing the daily disbursements from the Support Collection Unit bank account. These additional controls are needed to prevent the misuse of funds and prevent fraud;
- b) investigate the reasons for stale dated checks before new checks are issued; and
- c) adequately perform federal and state mandated functions.

⁹ Office of New York State Comptroller, The Practice of Internal Controls, Bank Reconciliation Procedures 3-2-2, page 14.

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**Bank Account Review
By the
Office of Nassau County Comptroller
Of the
Department of Social Services
Child Support Collection Unit Bank Account**

**Support Collection Unit
Responses
to
Auditors Finding and Recommendations**

March 11, 2016

Audit Finding:

(1) \$5.7 Million of Undisbursed Funds in the Child Support Bank Account Needs Investigation: Unit Not Using NYS Coding for Identifying and Clearing Undisbursed Funds.

Audit Recommendation(s):

We recommend that DSS take the necessary steps to determine how much of the undistributed bank balances is to be disbursed by:

- a) refunding monies owed to non-custodial parents;
- b) identifying any monies owed to public assistance;
- c) locating and disbursing monies to custodial parents;
- d) working with the New York State Child Support Unit to create an undistributed aging report, including the payment dates to custodial parents, for use in identifying the reasons for the large undistributed balances in the account and to use as a management monitoring tool; and
- e) using the required OTDA undistributed codes to identify cases when investigating funds that have not been disbursed.

DSS Response:

Due to restrictions the Support Collection Unit (SCU) could not provide case specific evidence to the auditors. However, the SCU is taking ongoing corrective action towards reducing its Undistributed Collections (UDC). While current staffing levels prevent the assignment of this task to a specific unit as in the past, both the SCU child support and accounting staff have incorporated these functions into their daily caseload management. SCU Administrators, namely the Director and Assistant Coordinator, review accounts with UDC and, where appropriate, process refunds and distribute payments. In addition, all child support line staff incorporates researching the location of one or both of the parties as part of their daily case maintenance to facilitate the disbursement of UDC. Researching the location of legally responsible relatives and custodial parents as well as their assets and income sources is one of the primary functions of our program area and assists us in meeting our paramount policy goal of distributing child support collections to the family.

The auditor's report states there is no aging mechanism in place for the SCU to manage its UDC. The SCU receives monthly reports from OTDA and can request ad hoc reports (i.e. reports that specifically include date of disbursement to custodial parent) if needed that are used to determine the status of UDC.

The SCU feels that the auditors misunderstood the Director's response in regards to the unit's ability to "investigate and timely reduce the undistributed bank balances". To clarify, the Director of Child Support stated "we (SCU) are able to investigate our UDC, though not at the level we

Appendix

previously were. At one time we were able to designate an entire unit the task of researching and reducing our UDC. We are no longer able to do that. The tasks associated with researching the UDC are already incorporated into the daily job functions of staff within the Child Support program area”.

It should be noted that not all of the 5.7 million dollars in the bank account is UDC. Included in the 5.7 million dollars as of (December 31, 2014) are Administrative accounts- these are accounts set up administratively for the processing of payments which have been received through various administrative enforcement mechanisms. These administrative accounts are set up pursuant to current Office of Temporary Disability Administration (OTDA) policy and regulated by State and Federal guidelines. Some administrative accounts are set up to process payments received from Tax Refund Offset Process (TROP). These TROP accounts will generally have payments held for a period of not less than six months. Administrative accounts may also include accounts which are set up to temporarily process unidentified or misidentified payments or wire transfers. Most of the funds in the child support bank account are actual child support payments which have been paid to the SCU and are either awaiting disbursement to the custodial parent or back to the Department of Social Services (DSS). Funds used to reimburse DSS are disbursed back to the department once per month on the last business day of each month. The disbursement of child support payments to a custodial parent will vary based on the court ordered obligation frequency and will generally be disbursed within 24-48 hours after SCU’s receipt of the payment. It should also be noted that in cases with an ongoing support obligation Federal guidance allows a reasonable amount of overpayment be kept on the account as “future payments”. While the Federal government does not define “reasonable amount” we are advised by OTDA, that an amount equal to one month’s obligation is acceptable to maintain on the account.

Also included in the UDC are funds that applied to accounts where neither the non-custodial parent nor custodial parent can be located. While ongoing location efforts are made by line staff and also performed automatically by the ASSETS system, it should be noted that both parties are ordered by court and SCU (via Clients Rights and Responsibilities-detailed in Child Support Application) they are required as a condition of services to keep the SCU notified of their current address at all times. These are the cases which make up the majority of the UDC.

UDC may also include funds on accounts where one or both of the parties to the action are now deceased. SCU CANNOT return, refund or refer the UDC on many of these cases without a court order directing same. In these cases we need the cooperation of the courts to identify the legal beneficiary.

UDC can also appear on accounts where employers and/or income payors continue to remit payments to the SCU when the support obligation has been terminated and no arrears are due. This occurs despite ongoing efforts to terminate the wage withholding via mailed termination notices,

Appendix

faxes, and telephone calls. This often occurs in cases where the payor is a large agency such as Social Security Administration. UDC on these accounts can be large.

With reference to Exhibit III, it should be noted that, the SCU Administration reviews cases almost daily to investigate accounts with no obligation amount in an attempt to initiate case closure as well as establish the effective date for “diligent efforts” necessary for escheatment of funds.

In reference to the one undistributed account of \$87,431.53 with a zero obligation it must be noted that this account is an administrative account and that administrative accounts need not have an obligation amount. We agree that as of April 2015 the balance was \$87,431.53 and that as of today the balance is \$2096.52. The SCU will continue to work on the remaining balance to determine who is entitled to receive these funds.

Response to Audit Recommendation(s) (Audit Findings 1)

SCU agrees with audit recommendations a, c and e and will be reviewing procedures to help facilitate same. SCU disagrees with audit recommendation b as this function is automated and with recommendation d regarding “aging reports” (see above for discussion on this matter).

Auditor’s Follow-up Response:

We concur with the corrective action taken by the Support Collection Unit regarding recommendations (a), (c), and (e) to reduce the undistributed collection accounts by refunding monies owed to non-custodial parents; locate and disburse monies to custodial parents and to start entering the UDC categories and codes required by the New York State Office of Temporary and Disability Assistance (“OTDA”) when researching reasons for undisbursed funds.

With respect to the response to recommendation b, we reiterate that the Support Collection Unit take steps to identify the portion of each account with an undistributed collection balance that represents monies due to public assistance. While the function may be automated for purposes of transferring the monies to public assistance, the appropriate UDC categories and code should be used to identify this portion of each account’s balance.

With respect to the response to recommendation (d), the auditors noted that the monthly report of undistributed account balances was too detailed to be used for management oversight purposes. We reiterate that summary aging reports of undistributed account balances, similar to Exhibits II, III, and V in the report, be generated on a monthly basis and reviewed by management. Further, the auditors were never provided with the ad hoc reports that specifically included the last date of disbursement to the custodial parent. In order for these reports to be effective they should not be generated on an ad hoc basis, but rather for the same time period covered by the monthly reports from the OTDA.

Audit Finding:

(2) There is no Escheatment Process to Determine If and When Undistributed Funds of \$609,532 should be Escheated to New York State

Audit Recommendation(s):

We recommend the Support Collection Unit create an escheatment process for undistributed account balances with the assistance of OTDA to ensure compliance with the Social Services Law on escheatment.

DSS Response:

New York State OTDA protocol regarding escheatment of funds is currently under review. OTDA is working on streamlining the process and has informed us that they are not aware of any large district that is using the current process. Nassau SCU continues to review accounts with UDC during its normal course of business and performs due diligence where appropriate pursuant to the provisions of SSL 111-h(5)**. This lays the groundwork needed to pursue the escheatment of funds when OTDA will provide local districts with an updated protocol.

**Finding 2 by the auditors should be clarified or corrected in that;

Diligent efforts do not need to be made for two years. The law states SCU must wait for a period of at least two years from initiating diligent efforts before proceeding with the escheatment process.

Auditor's Follow-up Response:

We reiterate the recommendation for the Support Collection Unit to create an escheatment process for undistributed account balances. As noted during the audit, the only way to confirm the nature, extent, or timing of the due diligence that may have been performed by the Child Support Collection Unit is to review the notes entered in each individual account in the system, on an account by account basis. The creation of an escheatment process should include the compilation of UDC coded information that is gathered and entered in the system during the time that due diligence is being performed, in such a way that the work performed and the status can be retrieved from the system and reviewed by management; and the progress being made on each account can be gauged.

With respect to the clarification noted in the response, the text of the finding was revised accordingly.

Audit Finding:

(3) Lack of Segregation of Duties on Bank Reconciliation and Disbursement Functions on a \$96 Million Annual Disbursement Account May Result in a Risk of Fraud

Audit Recommendation(s):

We recommend that DSS:

- a) safeguard funds under their custody by segregating the duties so that there is a different staff person reviewing the bank reconciliations than the one preparing the reconciliations. The supervisor should also not be the person processing the daily disbursements from the Support Collection Unit bank account. These additional controls are needed to prevent the misuse of funds and prevent fraud;
- b) investigate the reasons for stale dated checks before new checks are issued; and
- c) adequately perform federal and state mandated functions.

DSS Response:

DSS agrees with audit recommendation (a), the need to have a segregation of duties for Child Support Accounting functions. As a result Child Support Accounting will now be under the responsibility of the DSS Accounting Executive, who will perform a supervisory review of the bank reconciliation and all other functions performed by the Accountant III. An additional accountant has been requested to be hired so the actual duties of disbursements and the function of preparing the monthly bank reconciliation will be separate.

Response to Audit Recommendation(s) (Audit Findings 3)

DSS has always completed audit recommendations (b) and (c). All stale dated checks are researched before a new check is re-issued and all federal and state mandates are performed more than adequately.

Auditor's Follow-up Response:

With respect to the response to recommendation (a), we concur with the corrective action taken to provide supervisory oversight of the accounting function and to segregate the disbursement function from the preparation of the monthly bank reconciliation and follow up of reconciling items.

With respect to the response to recommendation (b), the Director acknowledged at the entrance conference that she did not have the time nor the staff to perform a supervisory review of the process of reissuing stale dated checks by the accountant. During the audit, the accountant told the auditors that he would reissue stale dated checks after six months without investigating the

Appendix

reasons why checks had not cleared the bank. When first asked again at the exit conference, the accountant confirmed what he told the auditors during the audit, but then the Director tried to clarify that they do perform research first. Since it was not clear whether or to what extent research is being done before stale dated checks are reissued, we reiterate that a process be developed and documented to evidence that stale dated checks are investigated before new checks are issued.

With respect to the response to recommendation (c), we reiterate the recommendation that federal and state mandated functions be performed adequately. We do not agree that all federal and state mandates are being performed more than adequately. For example:

- According to the NYS OTDA, all states are required by federal regulations to categorize and age their undistributed collection balances. The Support Collection Unit is not entering the Undistributed Collections (“UDC”) Categories and Codes provided in June 2005 by the NYS OTDA in the designated place in the system to document the reason why funds cannot be disbursed from an account. The UDC categories and codes were specifically established and designed by OTDA to help monitor, assess and reduce undisbursed funds in the custodial parents’ accounts. This includes funds in the administrative accounts created to maintain monies from the IRS and New York State that were intercepted as a result of tax offsets, lottery intercepts and unidentified payments.*
- As discussed during the audit, the Child Support Collection Unit had no process in place to evidence when, if, or to what extent due diligence efforts had commenced regarding undistributed account balances in order complete the escheatment process required by Social Services Law, Section 111-h(5).*