

**Government of Guam  
Payroll Efficiency for  
Employee Pay and Voluntary Deductions**

**Performance Audit  
October 1, 2008 through September 30, 2009**

**OPA Report No. 10-01  
April 2010**



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## **EXECUTIVE SUMMARY**

### **Payroll Efficiency for Employee Pay and Voluntary Deductions Report No. 10-01, April 2010**

#### **What We Did**

As part of our efforts to periodically examine and report on the financial practices of government agencies, the Office of Public Accountability examined the government of Guam's overall efficiency and effectiveness when processing certain payroll-related payments.

#### **What We Found**

The methods of payment utilized to process employee pay and voluntary deductions vary significantly among the 54 agencies, departments, offices, and commissions within government of Guam (government entities). There are approximately 12,116 government employees within these entities of which over 39.8% or 4,822 employees receive their pay through direct deposit or Electronic Funds Transfer (EFT), over 60.1% or 7,277 employees who receive their pay through paper checks, and 0.1% or 17 employees who receive their pay utilizing both methods of payment.

Title 22 of Guam Code Annotated (GCA), § 3212(b) states that all payments made to an employee by an employer shall be in the form of cash or check. However, the law has not been amended since 1992 and does not reflect the capabilities and efficiencies present in today's technology. With the introduction of EFT and Automated Clearing House (ACH) deposits, the practice of issuing paper checks to process payroll payments has become less predominant. The ease and speed with which funds can be transferred electronically is of great cost-saving advantage and benefit to governments wanting to save money and operate more efficiently and effectively.

We found that only a few government entities require direct deposit for their employees' pay. The majority of agencies give employees the option of receiving their pay either electronically in checks, or a combination of both methods, and only two agencies continue to issue paper paychecks exclusively.

Direct deposit programs have been offered for over 40 years and are the most widely used type of electronic payment. Private companies and federal, state, and local governments realize the significant amount of savings it offers. A 2009 National Automated Clearing House Association (NACHA) study indicated businesses saved a total of \$6.7 billion over the last 10 years by switching employees to direct deposit. While we are convinced there exists significant cost savings in processing payroll payments through direct deposit rather than through use of paper checks, we were unable to effectively quantify or capture the amount of such savings because the data needed to project cost savings was not readily available or cost effective to obtain.

#### ***Entities Exclusively Using Direct Deposits***

Six autonomous entities, the Guam Economic Development Authority (GEDA), the Government of Guam Retirement Fund (GGRF), the Guam Housing Corporation (GHC), the Guam Housing and Urban Renewal Authority (GHURA), the Guam Legislature (the Legislature), and the Guam Waterworks Authority (GWA) use direct deposits exclusively to pay their 685 employees' salaries.

Payroll personnel interviewed stated that utilizing this form of payment was simple, safe, secure, efficient, and less expensive than paper checks.

### ***Entities Using a Combination of Direct Deposit and Paper Checks***

Nine entities, the Department of Administration (DOA), the Guam Community College (GCC), the Guam International Airport Authority (GIAA), the Guam Memorial Hospital Authority (GMHA), the Guam Power Authority (GPA), the Guam Visitors' Bureau (GVB), the Judiciary of Guam (the Court), the Port Authority of Guam (PAG), and the University of Guam (UOG) allow their 7,628 employees the option to receive their pay either by (1) direct deposit, (2) paper check, or (3) a combination of direct deposit and paper check.

DOA represents the largest agency that processes employee pay for 3,924 Executive Branch employees. At the end of FY 2009, 39% or 1,512 employees opted to receive their pay through direct deposits and 61% or 2,412 employees opted to receive their pay by paper checks. Five agencies – the Office of the Chief Medical Examiner (CME), the Guam Commission for Educational Certification (GCEC), the Guam Election Commission (GEC), the Guam Veterans Affairs Office (GVAO), and the Office of Public Accountability (OPA) - pay their 26 employees exclusively through direct deposits.

### ***Entities Exclusively Using Paper Checks***

Only two government entities, the Department of Education (DOE) and the Public Defender Services Corporation (PDSC) exclusively issue paper checks to their 3,803 employees at the end of FY 2009. However, PDSC subsequently switched all but one of its 49 employees to direct deposit at the beginning of October 2009. In contrast, DOE continues to issue paper checks to its 3,755 employees. In March 2009, a management audit performed by an independent consultant recommended that DOE establish a direct deposit program. In that same month, DOE successfully piloted a direct deposit payroll run for 60 federally-funded employees, but was discontinued due to complaints from non-participating employees. In the opinion of the DOE payroll supervisor, the pilot program had gone smoothly and was positively received by the 60 participating employees. She also indicated her interest in re-implementing the direct deposit program citing its potential for improving staff efficiency and productivity.

### ***Voluntary Deductions***

Payroll deductions are amounts withheld by request from an employee's wages for such things as savings and debt payments. The number of allowable employee voluntary deductions among the 17 entities surveyed ranged from none to an unlimited number of deductions. These voluntary payroll deductions take considerable time to process in terms of payment and reconciliation. By reducing the number of voluntary deductions this would improve payroll efficiency and productivity. Presently, the number of allowable employee voluntary deductions is set separately by each government entity. We found:

- Two entities (GEDA and GHC, with a total of 49 employees) do not allow for any employee voluntary deductions. Both agencies believe it is the responsibility of the employees to take care of their own personal finances.
- Eight entities (DOA, GHURA, GIAA, GMHA, GWA, the Legislature, Court, and PAG, with a total of 6,417 employees) limit the number of allowable employee voluntary deductions.
- Seven entities (DOE, GGRF, GCC, GPA, GVB, PDSC, and UOG, with a total of 5,650 employees) have no limits to the allowable number of employee voluntary deductions. However, GVB and UOG determine what type of deductions an employee can have.

**Overall Conclusion**

Certain government of Guam agencies could improve the effectiveness and efficiency of payroll processing through use of electronic payment processing methods. By converting paper transactions to electronic transactions, the government of Guam and employees save time and money. In addition, electronic processing and account access provides an efficient and effective way to strengthen and improve government payroll services through enhancing employee productivity and allowing employees additional time to do other tasks. It also reduces the risk of lost or stolen checks, fraud, and identity theft; and has a positive environmental impact with less paper being used and fewer vehicular trips being made to the bank.

**What We Recommend**

We recommend the Governor of Guam direct all agency heads to initiate a direct deposit program to promote and educate government employees on the benefits of going on direct deposit, with a focus on those employees who currently receive their pay by paper check. We also recommend a government-wide policy be established limiting the number of allowable voluntary payroll deductions within each entity to no more than five voluntary deductions per employee.

Doris Flores Brooks, CPA, CGFM  
Public Auditor



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# Introduction

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This report presents the results of our audit of the efficiency and effectiveness of the government of Guam's payroll process with regards to employee pay and voluntary deductions. This audit was conducted as part of our efforts to periodically examine and report on the financial practices of government agencies. Our objective was to determine whether the government of Guam's payroll processes used by the various entities for processing their employees' pay and voluntary deductions were efficient and effective.

The audit scope, methodology, and prior audit coverage are detailed in Appendix 1.

## Background

Title 22 of the Guam Code Annotated (GCA) § 3212(b) states that all payments made to an employee by an employer shall be in the form of cash or check. However, the law has not been amended since 1992 and does not reflect the capabilities and efficiencies present in today's technology.

Of the 54 total government entities with a total of approximately 12,116 employees, there are 17 agencies that administer their own payroll system and process employee pay and voluntary deductions.

These agencies are:

1. Department of Administration (DOA) – 3,924 employees
2. Government of Guam Retirement Fund (GGRF) – 45 employees
3. Guam Community College (GCC) – 304 employees
4. Guam Department of Education (DOE) – 3,755 employees
5. Guam Economic Development Authority (GEDA) – 26 employees
6. Guam Housing & Urban Renewal Authority (GHURA) – 110 employees
7. Guam Housing Corporation (GHC) – 23 employees
8. Guam International Airport Authority (GIAA) – 241 employees
9. Guam Legislature (the Legislature) – 164 employees
10. Guam Memorial Hospital Authority (GMHA) – 988 employees
11. Guam Power Authority (GPA) – 560 employees
12. Guam Visitor's Bureau (GVB) – 28 employees
13. Guam Waterworks Authority (GWA) – 317 employees
14. Judiciary of Guam (Court) – 346 employees
15. Port Authority of Guam (PAG) – 327 employees
16. Public Defender Service Corporation (PDSC) – 49 employees
17. University of Guam (UOG) – 910 employees

Payroll deductions are amounts withheld from an employee's wages. Deductions are classified as mandatory or voluntary. Mandatory deductions from gross income include those that must be deducted from the employees' salaries and wages pursuant to federal or local law. These deductions include, but are not limited to, federal income tax and Medicare. Mandatory reductions to gross income, such as employee's share of total retirement contribution, are not subject to federal income tax.



Photo 1: Photograph of DOE Payroll Division at their Hagatna Office.

Voluntary deductions from gross income are options permitted by law but require an employee's written request to authorize the payroll deduction. Generally, agency heads have the discretion to approve or deny requests for these types of reductions, such as deferred compensation plans, voluntary wage assignments to repay debt like child support payments. Voluntary miscellaneous deductions reduce net pay, but do not affect gross income. Participation in these types of deductions is at the employee's written request. These deductions may require a minimum level of participation. The most common deductions represent employee payments for deposits to banks, saving and loan associations, and credit unions, dues and other fees, healthcare premiums, and other deductions such as loan repayments.



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# Results of Audit

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We found no uniformity in employee pay and voluntary deduction processes among the 55 entities. Of approximately 12,116 government employees, 4,822 employees (39.8%) receive their pay through direct deposit, 7,277 employees (60.1%) receive their pay through paper checks, and 17 employees (0.1%) receive their pay utilizing both methods of payment.

Among the 17 entities we surveyed, we found that:

- Six entities utilize the direct deposit exclusively as a means to pay their 685 employees.
- Nine entities utilize a combination of both methods to pay their 7,628 employees.
- Two entities utilize paper checks exclusively as a means to pay their 3,803 employees.

See Appendix 2 for details.

## Methods of Payment

With the introduction Automated Clearing House (ACH) deposits, the practice of issuing paper checks to process payroll payments has become less predominant. The ease and speed with which funds can be transferred electronically is of great cost-saving advantage and benefit to governments wanting to save money and operate more efficiently and effectively.

One of the largest government expenditures is payroll and the costs associated with its process. Through interviews and surveys, we conducted a government-wide review to obtain a better understanding of how payroll is processed, via payroll checks, direct deposits, and voluntary deductions.

### Entities Exclusively Using Direct Deposits

Six government entities (GEDA, GGRF, GHC, GHURA, the Legislature, and GWA) use direct deposit exclusively to pay their 685 employees' salaries. The most common reason given by these agencies for utilizing direct deposits is that it provides considerable cost savings to the entities. Direct deposits are simple, safe, secure, efficient, and less expensive than paper checks.

GWA began direct deposit for its 317 employees in October 2003. The direct deposit program for the Legislature's 164 employees was fully implemented by January 2005. The Legislature's payroll supervisor stated that they initially experienced some resistance to the change, but employees now like the convenience of direct deposits.

### Entities Using a Combination of Direct Deposit & Paper Checks

Nine entities (DOA, GCC, GIAA, GMHA, GPA, GVB, Court, PAG, and UOG) allow 7,628 employees the option to receive payroll either by (1) direct deposit, (2) paper check, or (3) direct deposit and paper check.

- DOA represents the largest agency that processes employee pay for 3,924 employees. At the end of FY 2009, 2,412 employees (61%) opted to receive their pay by paper checks and 1,512 employees (39%) opted for direct deposit. The 26 employees of the Office of the Chief Medical Examiner, the Guam Commission for Educational Certification, the Guam Election Commission, the Guam Veterans Affairs Office, and the Office of Public Accountability are exclusively paid by direct deposit.
- The majority of GCC employees also are paid by direct deposit. Those who do not, either do not have bank accounts or are seasonal employees and students in the work-study program. New employees receive their first pay by paper check until their bank information is verified. Payroll staff informed us that presentations by banks were made to employees about the benefits of direct deposits.
- PAG is the only entity that allows its employees to divide and receive their pay part by direct deposit and the rest by paper check. Of PAG's 327 employees, 239 (73%) receive their pay by direct deposit, 71 (22%) receive paper checks, and 17 (5%) split their pay between both payment methods. Although the practice is unusual, the payroll supervisor said it is not a problem because their system can accommodate it.
- GVB is the only government entity that contracts an independent consultant to prepare its payroll. According to GVB's Controller, this practice of outsourcing is more cost efficient for GVB considering the Bureau only has 28 employees. For FY 2009, 25 employees utilized direct deposits and 3 people received checks. Employees with direct deposits are able to receive money a lot faster and earlier. There are no worries to go to the bank and line-up in long lines.

According to payroll personnel from these nine entities, most of the employees who receive paper checks do so because they like the security of something tangible and want the certainty of checking pay figures and delivering their money to the bank themselves. Other reasons given were that employees either did not have bank accounts or did not have enough money to maintain a bank account.

### **Entities Exclusively Using Paper Checks**

Only two agencies, DOE and PDSC, exclusively issued paper checks to employees at the end of FY 2009.

- PDSC has converted 98% of its 49 employees to direct deposit as of November 2009. All but one employee remains on a paper paycheck because of the timing when funds are available from the Governor's Office and transferred to PDSC. According to the Fiscal Officer, the switch to direct deposits came at the request of the new Director, who wanted to establish 100% direct deposit for PDSC employees.
- DOE continues to issue paper checks to its 3,755 employees. DOE had contracted various independent consultants who reviewed its financial management system and made recommendations to improve its payroll process by moving towards direct deposit. The following is a summary of these studies:

DOE contracted a consultant to conduct an audit on the management and curriculum of the school system. In March 2009, the consultant found that DOE does not offer employees the option of receiving paychecks through direct deposit and recommended a policy be established on direct deposits particularly for new employees. The consultant also recommended that current employees be encouraged to participate in direct deposit. The consultant commented that with more than \$180 million being processed annually through the payroll system, DOE's manual process of issuing paper paychecks has become burdensome and time consuming.

DOE successfully piloted a direct deposit payroll run for 60 federally-funded employees in March 2009, but was discontinued due to complaints from non-participating employees. The DOE payroll supervisor said that the pilot program had gone smoothly and was positively received by the 60 participating employees. She also indicated her interest in re-implementing the direct deposit program, citing its potential for improving staff efficiency and productivity.

In a Financial Management Improvement System (FMIS) study performed by Graduate School Consultants of DOE's financial system in February 2010, the consultants found that the current payroll system is outdated and in need of revision. This finding is a recurring issue identified in a similar 2005 Financial Management Improvement Plan (FMIP) of DOE's programs, practices, and processes. To date, DOE continues to issue paper paychecks to its 3,754 employees.

### **Preparation and Distribution of Paper Paychecks at DOE and DOA**

We performed a walkthrough of DOE and DOA payroll processes. The actual procedures between the two agencies vary in detail. The basic order is fairly uniform and is lengthy, arduous, and time consuming.

The following are the steps typically taken to process payroll by three to four payroll clerks for 3,755 DOE employees each payroll period:

1. Entering Information (estimated time: 2 days) – Approximately seven Payroll staff enter the information from submitted timesheets into the system. The process is tedious and often requires staff to put in late hours on Friday or return on Saturday to complete. On Monday, any discrepancies are reported back to the schools for correction or revision, which must then be made and returned no later than 12 o'clock noon the same day. All corrections or revisions must be entered for the payroll supervisor to verify by 3 p.m. Verifying revisions can take anywhere from thirty minutes to two hours.



Photo 2: Task performed by DOE payroll employees to process, sort, and distribute employee paychecks by divisions and schools.

2. Printing Checks (estimated time: 3-4 hours) - Once all information has been entered and verified, approximately 3,755 payroll checks are printed by the Financial Student Administrative Information System (FSAIS) staff. The FSAIS is where the checks are stored and kept in a secured room. The printer used to print the checks is old and has not been upgraded since 1994, with its printing ribbon lasting about three payroll cycles.



Photo 3: Designated personnel from various DOE locations line up to pick up payroll checks.

3. Stamping Authorization (estimated time: 1 hour) - Once checks are printed, a payroll employee signs the checks out from FSAIS and delivers them to another payroll employee in the payroll office. The checks are then stamped by machine with the Superintendent's signature. The keys to operate the stamping machine are secured in the office of the Chief Payroll Officer; however, there are no spare keys. The payroll supervisor monitors the stamping process to ensure smooth operation. When checks are rejected, the payroll supervisor stamps them

manually and sets them aside for sorting.

4. Bursting Checks (estimated time: 2 hours) - Bursting is the process where paper checks are placed into the machine and cut to separate each check. A payroll employee must monitor the bursting process since the machine is old and could damage checks.
5. Sorting Checks (estimated time: 4 hours) – All 3,755 checks are verified against the payroll register and sorted by division and school. Payroll staff, then certify the number of checks per location and initial the payroll register. Ideally, all payroll staff should participate in this tedious process, but they are not always available to help.
6. Check Distribution (estimated time: 30 minutes) - Once sorted, the checks are sealed in envelopes along with the turnaround documents or checklists for all locations to verify their employees' time for the next pay period. Also included in the turnaround documents are Time Distribution Reports (TDR) to account for federally-funded employees. The envelopes are then picked up by designated timekeepers from each location on payday (Friday). According to the payroll supervisor, the distribution time for payroll checks depends on when DOA releases payroll money to DOE.



Photo 4: Staff of the Treasurer of Guam sorting the EFT statements, paper checks, and payroll registers by departments for the various line agencies.

We performed a similar walkthrough of DOA's payroll process for executive branch agencies and departments. Unlike DOE's Payroll Division, which performs the entire process from start to finish, the process at DOA is spread among its Payroll Division, Data Processing, and the

Treasurer of Guam. Payroll staff gathers, enters, and verifies payroll information. Data Processing staff handles the printing of all the checks. Treasurer of Guam staff handles all stamping, bursting, sorting, and distribution of the checks.

## **Direct Deposit Programs**

Direct deposit programs have been offered for over 40 years and are the most widely used type of electronic payment.<sup>1</sup> The National Automated Clearing House Association (NACHA) is the leading organization in developing solutions to improve the electronic payments system. NACHA represents over 12,000 financial institutions through direct membership and a network of regional payments associations, and 650 organizations through its industry councils. NACHA develops operating rules and business practices for the Automated Clearing House (ACH) Network and for electronic payments in the areas of Internet commerce, electronic data interchange (EDI), international payments, and electronic benefits transfers (EBT).<sup>2</sup> Companies realize the significant amount of savings it offers. According to a 2009 NACHA study, businesses saved a total of \$6.7 billion over the last 10 years by switching employees to direct deposit.<sup>3</sup>

The Debt Collection Improvement Act (DCIA) of 1996 mandated all federal payments (excluding tax refunds) to be made electronically by January 1, 1999. The U.S. Treasury Department's Financial Management Service (FMS) was responsible for overseeing the implementation of the DCIA and the conversion of existing benefit payments from paper check to direct deposit. Along with the Federal Reserve Banks, the Treasury's "Go Direct Deposit Campaign" encouraged Social Security and other federal benefit recipients to switch to direct deposit. The campaign got a boost after Hurricanes Katrina and Rita when paper checks were either delayed or destroyed, causing unnecessary hardship for many senior citizens, people with disabilities, and other federal benefit recipients.

In a discussion about the feasibility of implementing a direct deposit program throughout the government of Guam, the Chief Information Officer (CIO) of the Bureau of Information Technology (BIT) stated that there would be no technological problem on the IT side to move the rest of the 2,412 executive branch employees from paper checks to direct deposit. However, he foresees the initial move to be laborious for the payroll division, which would need to input bank data for all converting employees. The CIO also mentioned that there is only one printer being utilized to print paper checks for DOA and because it is old the possibility of it breaking down is high.

When asked about a timeframe to implement a 100% direct deposit initiative for employees still on paper checks, the CIO stated that the infrastructure already exists and the transition to direct deposits could be done by October 2010.

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<sup>1</sup> March 31, 2009, article by Angela Ceccarelli, HSBC Global Transaction Banking.

<sup>2</sup> Special Report on Expanded use of Direct Deposit for State Payments issued August 4, 2005 by the Commonwealth of Kentucky's Auditor of Public Accounts.

<sup>3</sup> March 31, 2009, article by Angela Ceccarelli, HSBC Global Transaction Banking.

We attempted to identify the potential administrative savings of moving the government payroll to a direct deposit system using the direct deposit calculator available on [www.electronicpayments.org](http://www.electronicpayments.org). However, we were unable to effectively quantify or capture the amount of such savings because the data needed to project cost savings was not readily available or cost effective to obtain. The direct deposit calculator uses industry-average numbers for over 30 variables, which can be adjusted to fit an entity's payroll cost data and use the results for reporting and decision-making. Some soft savings including employee's time for cashing payroll checks would be virtually impossible to quantify or capture. Also available at the website is information on how to start or promote a direct deposit program.

## Environmental Savings through Using Direct Deposit

In addition to being safe, smart and simple, direct deposits also benefits the environment by reducing the amount of paper to print checks and the gasoline emissions from the number of trips the employees make to the bank to deposit their checks.



Photo 5: Image of Paper Footprint Calculator.

PayItGreen is a coalition led by NACHA whose members are committed to educating consumers and businesses about the positive environmental impacts of choosing electronic payments, bills, and statements over paper. PayItGreen encourages businesses and consumers to change from paper to electronic billing and payments by highlighting the environmental benefits of doing so (e.g. pounds of paper saved, gallons of wastewater prevented from discharging into waterways, gallons of gasoline saved, and pounds of greenhouse gases avoided).

Using the Direct Deposit Calculator available at [www.payitgreen.org](http://www.payitgreen.org), we discovered that if the 7,277 employees (60.1%) not currently participating in direct deposit, the government of Guam could save 2,947 pounds of paper; avoid releasing 28,107 gallons of wastewater into the environment, avoid emitting 8,397 pounds of greenhouse gases into the atmosphere, and save 1,092 gallons of gas every year.<sup>4</sup>

## Voluntary Deductions

Among the 17 entities surveyed, the number of allowed voluntary deductions ranged from none to an unlimited amount. Discussions with various payroll personnel indicate that agencies have the discretion to set the number of deductions.

### Entities with No Employee Voluntary Deductions

Two agencies (GHC and GEDA, with 49 employees), believe employees should take care of their personal finances. They state that technological advances with online banking and auto-

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<sup>4</sup> Calculation based on the Direct Deposit Calculator available at [www.payitgreen.org](http://www.payitgreen.org). The computation included multiplying 7,277 employees who receive paper paychecks by 26 pay periods each year, which equates to 189,202 the number of paychecks distributed to employees each year. This also assumes that the government plans to convert 100% of employees to direct deposit.

payments make most voluntary deductions (and the associated administrative costs) unnecessary. However, mandatory deductions such as federal withholdings, and court-order child support payments, are processed.

### **Entities Allowing Limited Employee Voluntary Deductions**

Eight entities (DOA, GHURA, GIAA, the Legislature, GMHA, GWA, Court, and PAG) with 6,417 employees limit the number of allowable employee voluntary deductions. Limitations in the number of voluntary deductions vary among agencies as follows:

- GHURA and GIAA allow only three voluntary deductions. Both agencies allow changes in deductions to be made every pay period so long as proper documentation occurs before the pay period ends. In order for a new payroll deduction to be added or opened, GIAA requires at least ten employees to enroll. GHURA does not require a minimum number.
- The employees at the Legislature, GWA, and PAG are limited to five voluntary deductions. While PAG requires a minimum of 10 employees to be enrolled for a new deduction, the Legislature and GWA has not established a minimum number of enrolled participants.
- GMHA and the Court discontinued allowing new voluntary deductions to be created. The Court still processes deductions that were in place prior to the memorandum, but GMHA only processes deductions for a credit union, membership dues, employee association dues, and employee hospital accounts.
- DOA allows up to 10 voluntary deductions.

### **Entities with Unlimited Employee Voluntary Deductions**

There are seven agencies (DOE, GCC, GGRF, GPA, GVB, PDSC, and UOG) with 5,650 employees that set no limits to the number of allowable voluntary deductions an employee may have. Each agency has different practices in place when it comes to processing voluntary deductions for its employees. However, allowable employee deductions are at the agency's discretion.

- Before a PDSC employee can begin a voluntary payroll deduction with a new vendor, the agency requires at least five employees request for a deduction with the same vendor.
- GPA payroll personnel related a scenario of one employee who had numerous voluntary deductions, including \$5 allotments to various bank accounts. According to them, the employee has 12 voluntary deductions to various banks (both checking and saving accounts) and seven personal deductions for personal insurance and loans.
- DOE has made several concerted efforts to improve its financial management program, practices, and processes with the development of a 2005 FMIP in conjunction with the Department of the Interior, Office of Inspector General, and the Graduate School's Pacific Islands Training Initiative. Recommended short-term actions or "quick hits" were to be completed. One of these recommended short-term actions was to discontinue voluntary payroll deductions. The consultants found that there was no limit on voluntary payroll deductions and there was no minimum amount policy for these payroll deductions. To date, no action has been taken by DOE to improve this inefficiency.

However, DOE clarified that a minimum of 10 employees must be enrolled with the same payroll vendor in order for a payroll deduction to occur.

- GCC has no limit to the number of voluntary deductions an employee can have. However, deductions are not allowed for personal financial obligations such as loans and car insurance payments.



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# Conclusion and Recommendations

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Direct deposit programs streamline payroll operations. Studies have shown that direct deposits are less expensive and more efficient than issuing paper paychecks. Out of 12,116 government employees, 7,277 employees or 60.1% are issued paper paychecks each pay period. If these checks were lost or stolen, the Payroll section of each of these agencies would have to place a stop payment order and reissue a new check to the employee. Additional delays for the employee would occur in receiving and accessing funds through the bank.

With 7,277 or 60.1% of government of Guam employees still receiving pay through paper checks, converting to electronic transactions saves the government of Guam time and money. This process is also an efficient and effective way to strengthen and improve government payroll services by improving employee productivity and allowing employees additional time to do other tasks. Switching to direct deposit also reduces the risk of lost or stolen checks. The transition to direct deposit also has a positive environmental impact with less paper being used and fewer trips to the bank. Tools such as the Direct Deposit Calculator and Paper Footprint Calculator are available online for businesses and governments to estimate the amount of resources they can save annually by converting payroll to direct deposit rather than paying by check.

We recommend that the Governor of Guam direct all Agency Heads to:

1. To initiate a direct deposit program to promote and educate government employees on the benefits of going on direct deposit, with a focus on those employees who currently receive their pay by paper check on or before January 1, 2012. Early implementation is encouraged.
  - a. Mandate new employees to enroll in the direct deposit program.
  - b. Work with all employees, regardless of date of hire, wage status, or pay frequency, to switch to direct deposit as follows:
    - i. Two-third of employees enrolled in direct deposit program by January 1, 2011, if not earlier.
    - ii. One-third of employees enrolled in direct deposit program by January 1, 2012, if not earlier.
2. Establish a government-wide policy to establish a limit of no more than five voluntary deductions per employee for agencies that elect to allow voluntary deductions. This initiative should be implemented by January 1, 2011, if not earlier.

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# Management Response and OPA Reply

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In April 2010 we met with DOA and DOE officials to discuss the recommendations and provide feedback on specific actions by their department to address OPA's recommendations. DOA and DOE officials generally concurred with the recommendations based on suggested revisions to the report. The DOA Director subsequently transmitted an e-mail stating, "We are in agreement with your recommendations, and will work towards implementing those recommendations within the time specified." During DOE's meeting, they communicated that they fully support the recommendations; however, they would have to work closely with DOA to ensure that sufficient cash is provided to make payments to employees on or before noon on payday Friday. They also drafted a policy to limit voluntary deduction payroll deduction authorizations to a maximum of three. See Appendix 4 for DOE's response.

The legislation creating OPA requires agencies to prepare a corrective action plan to implement audit recommendations. Accordingly, our office will be contacting the agency heads for the implementation of the recommendation. We appreciate the assistance and cooperation shown by the 17 government entities and their payroll personnel, the Financial Student Administrative Information System staff, the Bureau of Information Technology, and the Treasurer of Guam in the issuance of this report.

OFFICE OF PUBLIC ACCOUNTABILITY



Doris Flores Brooks, CPA, CGFM  
Public Auditor

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**Appendix 1:****Scope, Methodology, and Prior Audit Coverage**

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The objective of our audit was to determine whether the payroll processes used by the various government entities of the government of Guam for processing their employees' pay and voluntary deductions were efficient and effective. The scope included the review of all government of Guam entities and agencies and the number of government employees who receive their pay through direct deposits and paper checks for FY 2009.

To accomplish our objective, we:

- Conducted surveys and interviews with 17 payroll officials whose agencies administer their own payroll system to understand the processes and procedures used to process employee pay and voluntary deductions.
- Reviewed the government of Guam payroll policies and procedures and practices in relation to processing employee pay and voluntary deductions.
- Obtained a breakdown of employee count, number of direct deposits, and paper paychecks issued by entity.
- Observed the preparation and distribution of DOA and DOE employees' paper paychecks.

The audit methodology included gaining an understanding of the policies, procedures, and applicable laws and regulations pertaining to the government of Guam's payroll process for employee pay and voluntary deductions.

As part of our audit, we reviewed the March 2009 Draft Final Report on the Management and Curriculum Audit for the Guam Public School System (now referred to as the Guam Department of Education) prepared by an independent consultant to determine the applicability to our audit objectives. The consultant made one recommendation to GPSS to convert to a more automated payroll processing system that utilizes direct deposits. As of the date of this report, DOE has not implemented this recommendation.

We conducted this performance audit in accordance with generally accepted government auditing standards contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States of America. These standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

**Appendix 2:**

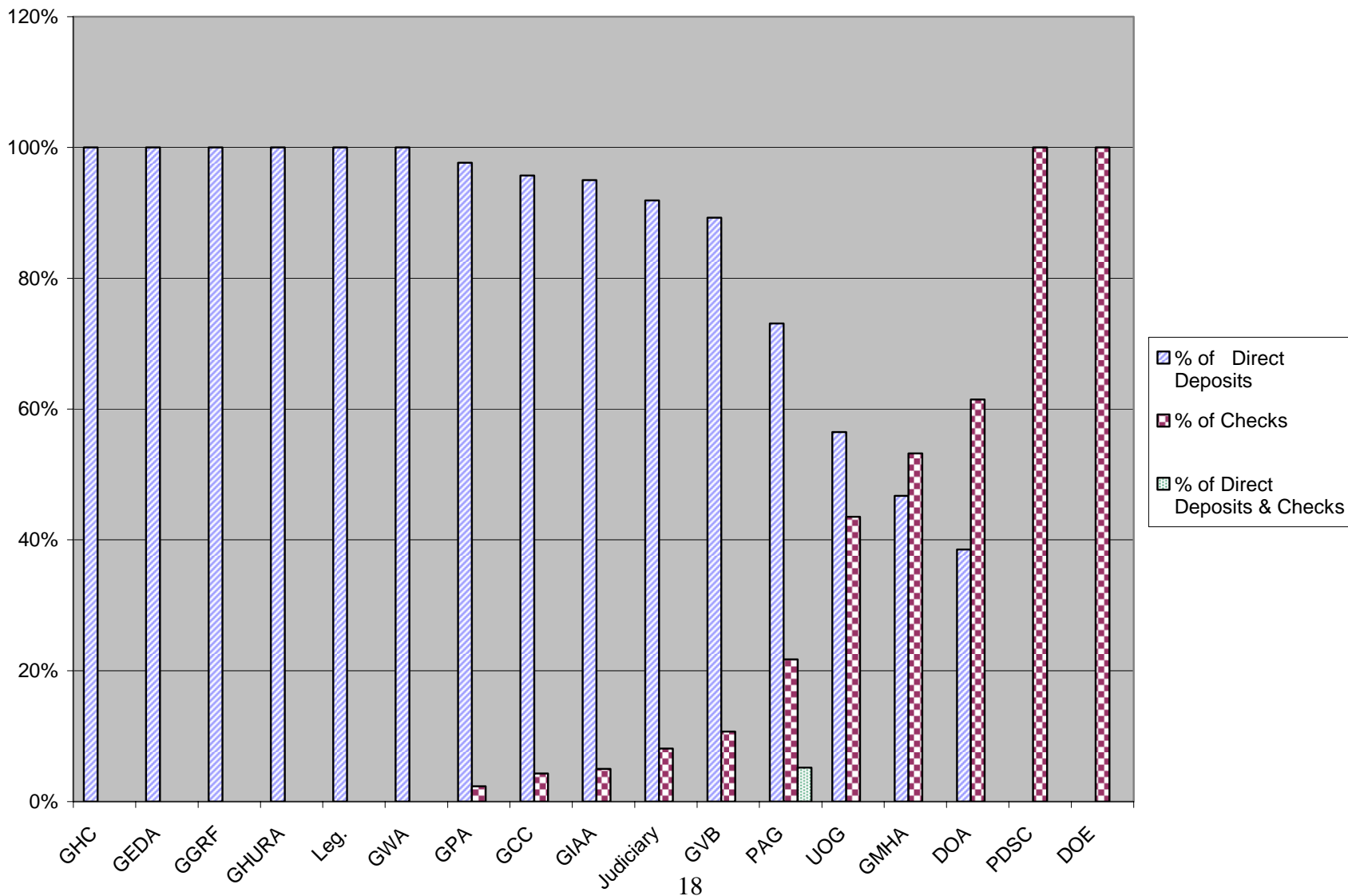
**Comparative Schedule of Agencies Utilizing Direct Deposits and Paper Checks**

Agency	Number of Employees (a)	EFT Net Deposits (b)	Printed Checks (c)	Receives both (d)	% of DD (b/a)	% of Checks (c/a)	% of both (d/a)
Guam Housing Corporation	23	23	0	0	100%	0%	0%
Guam Economic Development Authority	26	26	0	0	100%	0%	0%
Guam Visitor's Bureau	28	25	3	0	89%	11%	0%
Government of Guam Retirement Fund	45	45	0	0	100%	0%	0%
Public Defender Service Corporation <sup>5</sup>	49	0	49	0	0%	100%	0%
Guam Housing & Urban Renewal Authority	110	110	0	0	100%	0%	0%
Guam Legislature	164	164	0	0	100%	0%	0%
Guam International Airport Authority	241	229	12	0	95%	5%	0%
Guam Community College	304	291	13	0	96%	4%	0%
Guam Waterworks Authority	317	317	0	0	100%	0%	0%
Port Authority of Guam	327	239	71	17	73%	22%	5%
Judiciary of Guam	346	318	28	0	92%	8%	0%
Guam Power Authority	560	557	13	0	98%	2%	0%
University of Guam	910	514	396	0	56%	44%	0%
Guam Memorial Hospital	988	462	526	0	47%	53%	0%
Department of Education	3,755	0	3,755	0	0%	100%	0%
Department of Administration	3,924	1,512	2,412	0	39%	61%	0%
Total	12,116	4,822	7,277	17	39.8%	60.1%	0.1%

<sup>5</sup> Note: In November 2009, PDSC implemented a direct deposit program where all employees are receiving payroll through direct deposits, but one remains on paper check.

Appendix 3:

**Comparative Graph for Direct Deposits and Paper Checks**



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## Appendix 4: DOE Management Response

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Nerissa Bretania Underwood, Ph.D.  
Superintendent of Education

### DEPARTMENT OF EDUCATION OFFICE OF THE SUPERINTENDENT

www.gdoe.net  
P.O. Box D.E., Hagatña, Guam 96932  
Telephone: (671)475-0457 or 300-1547/1536 • Fax: (671)472-5003  
Email: nbunderwood@gdoe.net

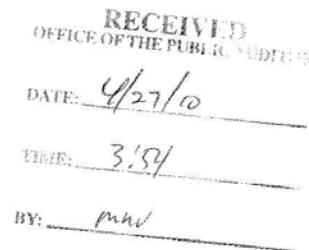


April 26, 2010

Doris Flores Brooks, CPA, CGFM  
Public Auditor  
Office of Public Accountability  
Suite 401, DNA Building  
238 Archbishop Flores Street  
Hagatña, GU 96910

**Subject: Payroll Audit Recommendations**

Buenas and Hafa Adai Ms Flores Brooks!



I have reviewed the recommendations contained in the audit of payroll operations of the Government of Guam. Our comments are listed below:

- a. **Direct Deposits.** We fully support this effort and would like to implement this recommendation as soon as the next calendar year. The Department of Education (DOE) was able to successfully pilot direct deposits. However because of insufficient cash reserves, the project was abandoned. DOE would have to work closely with the Department of Administration to ensure sufficient cash is provided to DOE so that payments are made to employees on or before noon on payday Friday.

Further, we would like to move all DOE employees to direct deposit to ensure processes are streamlined and efficient.

- b. **Limit Voluntary Deductions.** DOE fully supports this recommendation. In fact, we have a draft SOP that will bring set the maximum voluntary deductions to three (3).

Thank you for the opportunity to comment on your recommendations. Please feel free to contact Ms. Taling M Taitano, Deputy Superintendent, Finance and Administrative Services at 300-1556 or 300-1575, if additional information is needed.

  
NERISSA BRETANIA UNDERWOOD, Ph.D.

cc: Deputy Superintendent, FAS  
Chief Payroll Officer