



OFFICE OF THE PUBLIC AUDITOR

**EXECUTIVE SUMMARY**

Department of Administration Returned Checks  
Report No. 06-06, June 2006

This engagement is a follow-up review of the recommendations contained in the Department of Administration's (DOA) returned checks performance audit issued in June 2004.<sup>1</sup>

Unlike the prior audit, certain restrictions and limitations were placed on the Office of the Public Auditor's staff due to taxpayer confidentiality issues brought forth by the Department of Revenue and Taxation (DRT). Therefore, the audit team was unable to verify the completeness of returned checks recorded in DRT's Budget and Accounting Computerized Information System (more commonly known as AS400). Refer to Appendix VII for DRT's memo.

We found that DOA has made improvements in its returned checks processes. Specifically, DOA reduced:

- (1) The unreconciled difference between its general and subsidiary ledgers to \$69 as of September 30, 2005, compared to \$57,776 as of June 30, 2003.
- (2) The unreconciled difference between its tax-related general ledger and DRT's subsidiary ledger to \$123 from the \$2.6 million unreconciled difference in the prior audit.
- (3) The number of returned checks from 2,346 at June 2003, to 1,592 at September 2005.

As of June 30, 2003, returned checks amounted to \$5.1 million. By September 30, 2005, this amount decreased by 59% to \$2.1 million. In 2004, DOA transferred its checking accounts to another bank to avail itself of the zero returned check fees.<sup>2</sup> This transfer resulted in a savings of \$5,230 in the first year, and continues to reap savings because of no returned check fees.

We also found that the Point-of-Sale (POS) system reduced problems associated with returned checks by offering online debit/credit card and check payment options.

We applaud DOA for its improvements thus far. However, the following deficiencies remain:

**Department of Administration**

- DOA has not referred any returned checks to the Attorney General, a private attorney, or collection agency for further collection. DOA wrote off \$599,297<sup>3</sup> as of September 30, 2005 for returned checks that exceeded the statute of limitations<sup>4</sup> and also lost revenue of at least \$17,825 in returned check penalty fees that could have been assessed, had collection efforts been initiated.

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<sup>1</sup> OPA's enabling legislation requires that OPA follow-up on the status of audit recommendations.

<sup>2</sup> The current bank waived all returned check fees and automatically re-deposits all first-time returned checks rejected for reasons other than "payment stopped" as a measure to ensure collection of the funds.

<sup>3</sup> \$359,990 was written off based on a prior audit recommendation and \$239,307 was written off from this audit.

<sup>4</sup> In 7 G.C.A. § 11303, the statute of limitations is four years for the government of Guam to collect from the makers of returned checks. However, the statute of limitations to collect on tax-related returned checks varies from seven to 30 years.

- DOA does not charge the makers of returned checks penalty fees consistent with 20 G.C.A. § 6104. DOA continues to charge the makers of returned checks a \$25 returned check fee, which is below the current businesses' average returned check fee of \$35. This translates to additional lost revenue of \$7,130 resulting from the checks written off above.
- Dual custody of physical checks is not maintained. The person who has sole custody over physical returned checks also records them in DOA's AS400 system. Thus, there is opportunity to discard physical checks and not record returned checks in the AS400 system.
- DOA's AS400 system does not automatically post to the general ledger; therefore, manual double posting is required.
- There was a difference of \$174,361 between the physical inventory of checks and DOA's AS400 system.

#### **Department of Revenue and Taxation**

- During our test for timely recording in the AS400, we found that it took between 48 and 319 days for checks to be recorded in DRT's AS400 system. One of the checks tested was not recorded at all.
- Three returned checks totaling \$10,843 were written off in DRT's AS400 system, but were not removed from DRT's physical inventory listing.
- While Real Property Tax staff indicated they were responsible for recording property tax returned checks in the AS400 system, no returned checks had been recorded since the implementation of the POS system in July 2004.
- There was a difference of \$37,580 between the physical inventory of checks and DRT's AS400 system.

#### **Office of the Attorney General, Child Support Enforcement Division's State Disbursement Unit (SDU)**

- SDU does not maintain an accounting system to record, monitor, and collect returned child support checks.
- SDU has not made any efforts (letters or phone calls) to collect from the makers of returned child support checks, nor have they collected returned check fees.
- The Absent Parent Automated System Information (APASI) system does not have any record of returned checks, nor does DOA's AS400 system.
- There have been no efforts to reconcile the returned child support checks balance between DOA and SDU's records, resulting in an unreconciled difference of \$5,897.
- Review of transmittals from the Treasurer of Guam indicated that 31 checks totaling the \$5,897 were sent to SDU; however, only 27 returned checks totaling \$5,224 were in SDU's possession.

The Department of Administration, the Department of Revenue and Taxation, and the Child Support Division of the Attorney General's Office concurred with the recommendations in this report. Refer to Appendices VIII, IX, and X for their respective management responses.



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