

**Department of Administration
Returned Checks**

**Follow-Up Review
July 1, 2003 through September 30, 2005**

**OPA Report No. 06-06
June 2006**



OFFICE OF THE PUBLIC AUDITOR

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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 2004.¹

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.² 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 \$599,297³ as of September 30, 2005 for returned checks that exceeded the statute of limitations⁴ and also lost revenue of at least \$17,825 in returned check penalty fees that could have been assessed, had collection efforts been initiated.

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

² 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.

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

⁴ 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.



Doris Flores Brooks, CPA, CGFM
Public Auditor



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OFFICE OF THE PUBLIC AUDITOR

Introduction

*Follow-up review of
2004 audit of returned
checks.*

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 2004.¹ The objectives of this follow-up review were to (1) ensure that appropriate corrective actions have been implemented, and (2) determine whether or not the implemented Point-of-Sale (POS) system² resulted in the efficient management and reduction of returned checks.

In June 2004, the Office of the Public Auditor (OPA) issued Audit Report No. 04-07, *Performance Audit of the Department of Administration's Returned Checks*. The Executive Summary of this audit report is attached as Appendix IV. The report disclosed deficiencies in the areas of reconciliation, collection efforts, enforcement of returned check regulations, and safeguarding of returned checks.

Any check payments dishonored by the bank for reasons such as insufficient funds and stop payments are returned to Treasurer of Guam (TOG), hence the term "returned check". The returned checks are separated and transmitted to DOA, Department of Revenue and Taxation (DRT), and the Office of the Attorney General Child Support Enforcement Division's State Disbursement Unit (SDU) for follow-up and collection.

During our follow-up review, we noted that DOA made significant improvements in its processing of returned checks. The agency implemented controls over safekeeping of physical checks, and reconciled its general ledger against its subsidiary ledger. However, some control weaknesses from the prior audit still remain.

Scope Limitation

*OPA staff was
prohibited by DRT from
verifying completeness
of returned checks
recorded in the AS400
system due to taxpayer
confidentiality.*

Unlike our prior audit, certain restrictions and limitations were placed on OPA staff for this follow-up engagement. DRT initially agreed to our audit program, but later retracted its concurrence, citing taxpayer confidentiality. Although DRT suggested an alternative procedure, we were still unable to verify the physical existence of returned checks to the AS400 system³ because the data in the DRT AS400 system-generated report did not contain a complete field for check numbers that could be verified against the physical inventory listing.

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

² The POS system was implemented after the issuance of our prior audit on returned checks. It was evaluated in this follow-up review because it is integral in the processing of check payments and affects the frequency of returned checks.

³ The AS400 is also known as the Budget and Accounting Computerized Information System (BACIS).

The scope and methodology of this follow-up review can be found in Appendix II.

Results of Recommendations Follow-Up

There was a 59% reduction, or \$3 million, in returned checks from June 2003 to September 2005.

We determined that DOA made improvements in its returned checks processes. Specifically, DOA reduced the unreconciled difference between its general and subsidiary ledgers to \$69 as of September 30, 2005.

The prior audit noted that from October 2000 through June 2003, 2,346 checks were returned unpaid to the government of Guam. Between July 2003 and September 2005, the number of returned checks dropped to 1,592. In 2004, DOA transferred its accounts to another bank to avail itself of the zero returned check fees.⁴ This transfer resulted in a savings of \$5,230.

As of June 30, 2003, returned checks amounted to approximately \$5.1 million. By September 30, 2005, this amount decreased by 59% to approximately \$2.1 million.

We found that certain deficiencies still exist, as disclosed in the prior audit.

- Returned check receivables older than 90 days were not referred to the Attorney General, private attorneys, or collection agencies for collection.
- There were lengthy delays in recording returned checks as receivables in the AS400 system.
- There were no efforts to reconcile returned checks balance between DOA and SDU records.



The Department of Administration.

Of the 17 recommendations made in the prior audit, eight were implemented, four were partially implemented, three were not implemented, and two were

⁴ The current bank waived all returned check fees and automatically re-deposited all first-time returned checks rejected for reasons other than “payment stopped” as a measure to ensure collection of the funds.

closed as they were determined no longer feasible. See Appendix III for the status of follow-up recommendations.

Lack of Aggressive & Timely Collection Efforts

DOA has yet to refer returned checks to the AG's Office, a private attorney, or a collection agency for collection.

Returned checks totaling approximately \$600,000 exceeded the statute of limitations and were written off.

DOA made minimal collection efforts; however, there was no documentation on what was collected from the mailing of the notices and the follow-up calls. The following conditions were noted:

- DOA did not refer any returned checks to the Attorney General, a private attorney, or collection agency.⁵
- DOA does not charge the makers of returned checks penalty fees consistent with section 6104 of Title 20, Guam Code Annotated (G.C.A.).⁶ DOA continues to charge only \$25 for returned checks, which is below what businesses currently charge.⁷ This does little to deter individuals and businesses from issuing bad checks to the government of Guam.
- SDU made no efforts (letters or phone calls) to collect from the makers of returned child support checks, nor did they attempt to collect returned check fees.
- DRT, however, does charge the makers of returned checks penalty fees consistent with Chapter 68 of the Internal Revenue Code (IRC) and 20 G.C.A. §6104.

Based on the conditions noted above, we found little emphasis on aggressive and timely collection on returned checks. As a result, DOA wrote off \$599,297⁸ as of September 30, 2005 for returned checks that exceeded the statute of limitations.⁹ The department also lost revenue of at least \$17,825 in returned check penalty fees which could have been assessed had collection efforts been initiated. The government of Guam lost an additional \$7,130 because returned check fees have not been increased to the \$35 industry practice. Refer to Appendix I for the Classification of Monetary Impact identified during this audit.

⁵ In the prior audit, we found repeat makers of returned checks. Based on the Attorney General's (AG) Memorandum DOA 04-0794, DOA may forward the returned checks "that appear to be intentionally issued" to the Criminal Division of the Attorney General's Office for further action, which can include restitution.

⁶ A returned check maker is liable to the payee, in this case the government of Guam, for the amount owing on such check, plus interest, other damages claimed, or damages of treble (triple) the face amount of the check, but in no case less than \$50 nor more than \$750. However, DOA maintains that they cannot assess treble damages because they must take the makers of returned checks to court before such assessments can be made.

⁷ According to Marianas Credit Bureau, the minimum returned check fee most businesses in Guam charge is \$35.

⁸ \$359,990 was written off based on a prior audit recommendation and \$239,307 was written off from this audit.

⁹ In 7 G.C.A. § 11303, the statute of limitations is four years for the government of Guam to collect on returned checks. However, the statute of limitations on tax-related returned checks is 30 years for real property taxes (11 G.C.A. § 24204), 10 years for income taxes (I.R.C. § 6502), and seven years for gross receipts taxes (11 G.C.A. § 26205).

In an effort to improve its collection, beginning in FY 2006, DOA assigned three employees to make phone calls and actively pursue payments from makers of returned checks, aside from their regular duties.

Government of Guam returned check fee only \$25, \$10 below industry practice.

In order to deter makers from writing bad checks to the government of Guam, we recommend that DOA consider raising the returned check fee of \$25 to the current business practice of \$35. We also recommend that DOA establish and enforce a written comprehensive collection policy for returned checks, to include referring returned checks to the Attorney General, private attorney, and/or collection agency.

Lack of Management Oversight

Management controls require key personnel to actively monitor operations and investigate any discrepancies. Management should ensure:

- Cash-related documents are safeguarded against re-use, tampering, or unauthorized disposal.
- Key duties and responsibilities are separated among different people to reduce the risk of error, waste, and fraud.
- Cash-related transactions are accurately and timely recorded.

Dual custody of returned checks not maintained. Employee who has sole custody of physical returned checks also records them into the AS400 system.

Safekeeping and Segregation of Duties

Returned checks located at DOA, DRT, and SDU are kept in secured and centralized locations. However, we found that the DOA employee who maintains the physical returned checks has access to the locked drawers without a second employee required to be present. The same employee is responsible for recording returned checks into the AS400 system. Without the separation of duties and adequate monitoring of processes in place, the opportunity exists for either an erroneous or willful act to discard and/or not record returned checks in the AS400.

Delays took as long as 11 months in recording returned checks in DRT's AS400 system.

Timely Recording

We tested for the timely recording of returned checks as follows.

- Of the 12 returned checks totaling \$3,330 tested, delays took as long as 42 days before being recorded in DOA's AS400. Refer to Appendix V for the results of this timeliness test.
- Of the 10 tax-related returned checks totaling \$20,574 tested, we found that delays took as long as 319 days, or almost 11 months, before being recorded in DRT's AS400. One of the checks tested was not recorded at all. Refer to Appendix VI for the results of this timeliness test.

DOA's Recording of Returned Checks and Allowance for Uncollectible Accounts

We tested for the accurate recording of 10 returned checks totaling \$74,373 at DOA. Nine returned checks were tested without exception. However, one check, for \$40,809, was not recorded in DOA's AS400 and was later found to be a tax-related check that was transferred to DRT. In addition, three returned checks totaling \$14,911 had been paid in full, but were still listed in DOA's physical inventory.

No methodology for establishing an allowance for uncollectible returned checks.

We also found that DOA has not established a method for estimating the allowance for uncollectible returned checks. DOA relied on the adjusting entries proposed by the external auditors of the government-wide financial statements every year. Therefore, we recommend that DOA establish a method for estimating an allowance for uncollectible returned checks.

DRT's Recording of Returned Checks

Three returned checks were written off in the AS400, but were not removed from DRT's physical inventory listing.

We also tested 10 tax-related returned checks totaling \$129,165 at DRT. Of these, seven were tested without exception. Three returned checks totaling \$10,843 were written off in DRT's AS400, but were not removed from DRT's physical inventory listing.

Returned property tax checks are not been recorded in DRT's AS400, as required.

While Real Property Tax staff acknowledged responsibility to record returned property tax checks in DRT's AS400 system, we found that since the implementation of the POS system in July 2004, returned property tax checks were not recorded. However, we found that DOA had been recording the returned property tax check totals in its AS400 general ledger, but was not reconciling the amounts with DRT. We recommend that the tax Director ensure that returned property tax checks are recorded in the DRT's AS400 system.

SDU's Recording of Returned Checks

SDU does not maintain an accounting system to record, monitor, and collect returned child support checks.

In October 2004, the responsibility of the SDU was transferred to the Office of the Attorney General Child Support Enforcement Division from the outsourced vendor. Since this transfer, SDU management has not demonstrated efforts to establish an accounting system to record, monitor, and collect returned checks. Unlike the outsourced SDU vendor, which had a system for handling and processing returned checks, the current SDU management has no control system in place.

SDU management lacked training in utilizing the APASI system.

We were unable to test the accuracy and timeliness of recording returned checks into the Absent Parent Automated System Information (APASI) system because SDU management and staff indicated that they were not trained to process the reversal of original payments in the APASI system or record a receivable when Child Support check payments are returned. SDU management failed to provide adequate oversight over the handling, recording, and collection of returned checks.

We recommend that DOA, DRT, and SDU accurately record all returned checks in their respective AS400 and APASI systems no later than 10 working days after receipt from TOG. In addition, we recommend that SDU initiate collection procedures for returned checks.



Lack of Reconciliation

The AS400 system does not allow for automatic posting from the subsidiary ledger into the general ledger, thus requiring manual double posting.

In a typical automated accounting system, as transactions affecting individual accounts are posted to the subsidiary ledger, the general ledger is updated simultaneously.¹⁰ The total net dollar amount of individual transactions in the subsidiary ledger should agree with the control total balance in the general ledger.

Since the AS400 requires manual posting of individual transactions to both the subsidiary and general ledgers, the system creates unnecessary work and inefficiency. Manual double posting in an automated accounting system is unusual. We urge DOA and DRT to meet with their accounting system vendor to seek modifications to eliminate this inefficiency.

DOA's AS400 Reconciliation

DOA made efforts to reconcile its general and subsidiary ledgers for returned checks and was able to reduce the variance between the ledgers to \$69 as of September 30, 2005.¹¹ This is a significant improvement from the \$57,776 variance noted in the prior audit.

¹⁰ An accounting system is comprised of various detailed accounts known as the subsidiary ledger. The organization of these subsidiary accounts into assets, liabilities, revenues, and expenses comprise the general ledger.

¹¹ DOA handles and records returned checks for driver's licenses, car registration, tipping fees, and other non-tax payments.

SDU's APASI Reconciliation

SDU returned checks were not recorded in DOA's accounting system, thus no reconciliation was performed for child support returned checks.

There have been no efforts to reconcile the Child Support returned checks balance between DOA and SDU's records. The APASI system does not have any record of returned checks, nor does DOA's AS400 system. Review of transmittals from TOG indicated that 31 checks totaling \$5,897 were sent to SDU. Of this number, only 27 returned checks totaling \$5,224 were in SDU's possession.

According to the TOG Cashier Supervisor, all child support payment checks dishonored by the bank and returned to TOG are forwarded directly to SDU. However, we found that DOA Accounting was *not* similarly being updated with either copies of the checks or the transmittals for recording in the general ledger. Thus, SDU returned checks remain unrecorded at DOA. Similar to accounting procedures between DRT and DOA, DOA Accounting should be provided with the total value of the SDU returned checks in order to update the general ledger control receivable.

Tax-Related Returned Checks Reconciliation Between DOA and DRT

DOA has made significant improvements reconciling its tax-related returned checks balances from the \$2.6 million difference in FY 2003 to only a \$123 difference in FY 2005.

Prior to FY 2005, DOA and DRT maintained separate subsidiary ledger accounts for income tax, gross receipts tax, and real property tax. A Memorandum of Understanding between DOA and DRT was put in place in January 2006 to facilitate the integration of records and data maintained at the two departments. Specifically, DOA is responsible for recording general ledger entries for returned checks and payments for income tax, gross receipts tax, and real property tax, and DRT is responsible for recording the subsidiary ledger entries.

As of September 30, 2005, there was an unreconciled difference of only \$123 between DOA's general ledger and DRT's subsidiary ledger. This amount is a significant improvement in reconciliation, compared to the prior audit's unreconciled difference of approximately \$2.6 million, for the income tax and gross receipts tax general ledger accounts.

Periodic Physical Inventories

Inventory of physical checks at DOA and DRT not reconciled to respective AS400 systems.

Physical inventories of returned checks were performed at DOA, DRT, and SDU. However, we found no evidence that the physical inventory listings at DOA, DRT, and SDU were reconciled to their respective AS400 and APASI systems.

We found DOA's physical inventory listing was \$174,361 more than the AS400 balance, while DRT's physical inventory listing was \$37,580 less than the AS400 balance. In addition, SDU's APASI system had a zero

ending balance for returned checks because no checks were recorded. See Table 1.

Table 1: Physical Inventory Balance Comparison with AS400 and APASI Systems

Agency	Agency's Physical Inventory of Checks	Agency's Balance per System	Variance
DOA AS400	\$ 793,803	\$ 619,442	\$ 174,361
DRT AS400	1,493,216	1,530,796	(37,580)
SDU APASI	5,897	-0-	5,897

We recommend DRT ensure that its Accounting and Collections Supervisor perform periodic reconciliation between the physical returned checks and the AS400, investigate any discrepancy, and immediately write-off all the returned checks that cannot be supported by physical checks. We also recommend SDU maintain an inventory listing of returned checks that reconciles with the AS400 and APASI systems.

Point-of-Sale (POS) System

DOA, DRT, and TOG implemented the Point-of-Sale (POS) automated system in July 2004 to improve cash flow and reduce the risks and costs associated with returned checks. An intent of the POS system was to reduce the occurrences of returned checks by scanning check payments.¹² However, this check scanning process was discontinued just two months into its implementation due to the unexpected high volume of rejected checks resulting from the following conditions:

- TOG cashiers were scanning all paper drafts, including U.S. Treasury checks, money orders, and cashier's checks; all of which are supposed to be treated as cash.
- Corporate checks drawn from off-island banks were being rejected due to special agreements with their banks, such as no Automated Clearing House (ACH) debits or electronic payments.

POS Inefficiencies

In addition to the above conditions, we found that there were other inefficiencies in the POS system:

- Check payments are processed through the "cash" module of the POS, instead of the "check" module. This requires the cashiers to input the check payments as if they were cash and record the check details (number and date) in the remarks section of the "cash" module. This is subject to human error in the recording of check information in the remarks section.

POS not capable of alerting cashiers of prior NSF check issuers.

¹² The check scanning facilitated the conversion of the paper draft into electronic funds, similar to debit cards.

- The processing of the above made it difficult for TOG to research and track what account(s) were paid by the dishonored checks.
- The current set-up of the POS is not capable of identifying makers of previously returned checks, and therefore, cannot alert the cashiers to deny the check payment from the same maker.

POS Improvements

Payments to TOG can now be made online utilizing debit or credit cards, and checks.

The POS system reduced problems associated with returned checks, largely because it now offers alternative forms of payment. In October 2005, the government of Guam launched its online payment website, www.guampay.com, where people can make credit card or check payments for income tax, real property tax, gross receipts tax, tipping fees, etc. to the TOG. All payments via this website are automatically recorded, through the POS, into DOA and DRT's AS400 systems.

With the increasing use of electronic payment services through credit/debit card and check payments online, the government of Guam can benefit in the implementation of this system because its overall payment services will keep pace with the popularity and efficiency of electronic payments. We noted a reduction in the number of returned checks from 2,346 from the prior audit period to 1,592 from July 2003 through September 2005.

DRT recently met with the POS system contractor to discuss ways to make the processing of returned checks more efficient. We suggest that DRT and DOA continue discussions with the POS system contractor to determine how the manual processing of returned checks can be minimized, and identify other areas of efficiency to reduce manual activities.

Conclusion

We applaud DOA for the improvements they have made in the processing of returned checks. Specific improvements include the implementation of the POS system, the write-off of certain balances from the AS400 as recommended in our prior audit, and improvements in the reconciliation of income tax and gross receipts tax returned checks receivable in the AS400 with DRT's records. DOA made minimal collection efforts; however, there was no documentation on what was collected from the mailing of the notices and the follow-up calls.

Of the 17 prior audit recommendations, eight were implemented and two were closed as determined no longer applicable under the circumstances. Corrective actions were not implemented for seven audit recommendations, of which three have yet to be implemented and four were partially implemented. See Appendix III for a summary of the status of these recommendations.

Further Recommendations

Department of Administration Director

1. Establish written policies and procedures for the monitoring, control, safekeeping, reconciliation, and collection of returned checks. This should include referral of returned checks to the Attorney General, private attorney, and/or a collection agency.
2. Consider raising the returned check fee from \$25 to the current business practice of \$35.
3. Ensure that all returned checks, including returned child support checks, are accurately recorded no later than 10 working days in the AS400 system, upon receipt of the returned checks from TOG.
4. Establish a method for estimating the allowance for uncollected checks.

Department of Revenue and Taxation Director

5. Ensure that DRT Accounting and Collections Supervisors perform periodic reconciliation between the physical returned checks and DRT's AS400, investigate any discrepancy, and immediately write-off all the returned checks that cannot be supported by physical checks.
6. Ensure that all tax-related (income tax, gross receipts tax, and real property tax) returned checks are accurately recorded no later than 10 working days in the AS400 system, upon receipt of the returned checks from TOG.

State Disbursement Unit Director

7. Maintain a physical inventory listing of returned checks that reconciles with the AS400.
8. Initiate collection procedures for returned checks.
9. Ensure that all returned child support checks are accurately recorded no later than 10 working days in the APASI system, and at minimum annually reconciled with DOA's AS400 system.

**Management
Response & OPA
Reply**

In June 2006, we provided a draft report to DOA, DRT, TOG, and SDU for review and comments. In their responses, they generally concurred with our findings.

We have included a copy of their responses in their entirety as Appendices VIII, IX, and X to this report.

The legislation creating the Office of the Public Auditor requires agencies to prepare a corrective action plan to implement audit recommendations, to document the progress in implementing the recommendations, and to endeavor to have implementation completed no later than the beginning of the next fiscal year. Accordingly, our office will be contacting the agency to establish the target date and title of the official responsible for implementing the recommendations.

We appreciate the cooperation shown by the staff of the Department of Administration, Department of Revenue and Taxation, Treasurer of Guam, and the Office of the Attorney General.

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Doris Flores Brooks, CPA, CGFM
Public Auditor

Appendix I:
Classification of Monetary Impact

<u>Finding / Savings Areas</u>	<u>Unrealized Revenues¹³</u>	<u>Unrecorded Costs¹⁴</u>	<u>Savings</u>
Finding Areas			
Lack of Aggressive & Timely Collection Efforts	\$ 264,262	\$ -	\$ -
Lack of Management Oversight			
A) Safekeeping and Segregation of Duties	\$ -	\$ -	\$ -
B) Timely Recording	\$ -	\$ -	\$ -
C) DOA's Recording of Returned Checks and Allowance for Uncollectible Accounts	\$ -	\$ -	\$ -
D) DRT's Recording of Returned Checks	\$ -	\$ -	\$ -
E) SDU's Recording of Returned Checks	\$ -	\$ -	\$ -
Lack of Reconciliation			
A) DOA's AS400 Reconciliation	\$ -	\$ 69	\$ -
B) SDU's APASI Reconciliation	\$ -	\$ 5,897	\$ -
C) Tax-Related Returned Checks Reconciliation Between DOA and DRT	\$ -	\$ 123	\$ -
D) Periodic Physical Inventory	\$ -	\$ 211,941	\$ -
Point-of-Sale			
A) POS Inefficiencies	\$ -	\$ -	\$ -
B) POS Improvements	\$ -	\$ -	\$ -
Savings Area	\$ -	\$ -	\$ 5,230
Totals	<u><u>\$ 264,262</u></u>	<u><u>\$ 218,030</u></u>	<u><u>\$ 5,230</u></u>

¹³ These funds could have been collected as additional revenues, as of the end of the audit scope, if corrective actions had been taken by the auditee.

¹⁴ These funds represent funds, which the auditor determines should be questioned because they represent amounts that cannot be reconciled to a control.

Appendix II:

Scope and Methodology

The scope and methodology of this follow-up review were limited to determining if recommendations of the prior performance audit were implemented. The scope of the work encompassed the review of returned checks, as recorded by the DOA, DRT, and SDU for the 27-month period from July 1, 2003 through September 30, 2005.

Our methodology included:

- Gaining an understanding of the DOA, DRT, TOG, and SDU policies, procedures, and applicable laws and regulations regarding returned checks and the POS automated system, as applicable.
- Interviewing the DOA Director, DRT Director, Deputy Attorney General, Assistant Treasurer of Guam, and the pertinent employees in these agencies who understand the processes for returned checks and the POS system.
- Reviewing government of Guam's implementation of the POS system as it pertains to returned checks.
- Testing the process of accounting for 5,571 returned checks totaling \$2.1 million as follows.
 - **Timeliness:** 12 returned DOA checks totaling \$3,330 and 10 tax-related returned checks totaling \$20,574.
 - **Accuracy:** 10 returned DOA checks totaling \$74,373 and 10 tax-related returned checks totaling \$129,165.

Scope Limitation

Certain restrictions and limitations regarding taxpayer confidentiality were placed on OPA staff for this follow-up engagement. Although DRT initially agreed to our audit program, the department later retracted its concurrence, citing taxpayer confidentiality issues under 11 G.C.A. § 26120. As a result, we were unable to reconcile the physical listing of returned checks to the AS400 system. See Appendix VII for DRT's memo.

We were unable to test the accuracy and timeliness of recording returned child support checks because SDU management and staff were not trained to process the reversal of original payments in the APASI system or record a receivable when child support check payments are returned.

Except as noted in the scope limitation defined above, our follow-up review was conducted in accordance with the standards for performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Accordingly, we obtained an understanding and performed an evaluation of DOA's cash management and control environment. We included tests of records and other auditing procedures that were considered necessary under the circumstances.

Appendix III:

Status of Follow-Up of Recommendations

Prior Audit Finding	Prior Audit Recommendations	Current Status	Review Observations Required Actions/
1 Returned Check Amounts Unknown	<p>a) DOA Director to eliminate the use of the spreadsheet list, that requires duplicative input, and instead exert efforts in updating, reconciling, and maintaining the subsidiary and general ledgers in the AS400.</p> <p>b) DOA to write-off the \$13,184 in the miscellaneous account, if the amount cannot be substantiated.</p>	<p>a) Not Implemented. While management asserts that the employee was instructed to stop using the spreadsheet listing, the employee was observed with this particular spreadsheet open for most of the workday. Upon inquiry, the employee indicated that the spreadsheet was only a personal organizational tool to assist in locating and identifying whether or not a check was returned to the government of Guam. OPA determined that time spent on maintaining the spreadsheet resulted in the untimely inputting of the returned checks in the AS400. We found that delays took as long as 42 days before checks were recorded in DOA’s AS400. Refer to Appendix V for the results of the timeliness test.</p> <p>We also found delays of as long as 319 days at DRT. Refer to Appendix VI for the results of the timeliness test.</p> <p>We were unable to test the timely recording of returned checks at SDU because no returned checks were recorded in the Child Support Division’s APASI system.</p> <p>Aside from these, we also found that no real property tax returned checks had been recorded as receivables in DRT’s AS400 since the implementation of the POS system in July 2004. Real Property Tax staff indicated that they were responsible for recording these checks in the AS400 system.</p> <p>b) As of 9/30/05, there is no balance in the miscellaneous returned check account.</p>	<p>Closed</p> <p>See Recommendation #'s 3, 6, and 9: DOA, DRT, and SDU should ensure that all returned checks are accurately and timely recorded in their respective AS400 and APASI systems within 10 days, of receipt from TOG.</p> <p>Implemented</p>
2 Returned Check Balances Do Not Reconcile	<p>a) Directors of DOA and DRT to establish, at a minimum, an annual reconciliation of income tax, gross receipts tax, and real property tax</p>	<p>a) As of September 30, 2005, DOA reconciled its tax-related returned checks general ledger with DRT’s subsidiary ledger balances and will continue to do so on a regular basis. DOA has discontinued the process of maintaining separate subsidiary ledger accounts and will</p>	<p>Implemented</p>

Prior Audit Finding	Prior Audit Recommendations	Current Status	Review Observations Required Actions/
<p>Returned Check Balances Do Not Reconcile</p>	<p>returned checks with DOA's records. DOA should write-off the difference between DOA's general ledger balances and DRT's records.</p> <p>b) DOA to write-off \$2.8 million in the AS400, resulting from the non-reconciliation of the DRT returned check balances as of June 30, 2003.</p> <p>c) DOA to write-off \$844,871 in the AS400, resulting from the non-reconciliation of general ledger and subsidiary ledger accounts as of June 30, 2003.</p> <p>d) DRT Accounting and Collections Supervisors to perform a reconciliation of the physical returned checks with their records and immediately write-off all the returned checks that cannot be supported by actual checks.</p> <p>e) DRT to inform DOA, at least annually, of the dollar amount of returned checks assessed as tax receivables, so proper reclassification</p>	<p>only record general ledger entries for returned checks and payments to minimize unnecessary or duplicative processes. FY 2005's reconciliation had an immaterial difference of \$123, compared to the prior audit's unreconciled difference of \$2.6 million.</p> <p>b) As of September 30, 2005, DOA wrote-off \$2.8 million from the DRT returned check balance in the general ledger.</p> <p>c) We found that the true variance between DOA's AS400 general and subsidiary ledgers was \$57,776 as of June 30, 2003, because the difference of \$844,871 noted in the prior audit was calculated from the AS400 general ledger and the spreadsheet listing mentioned in prior audit recommendation 1a above. As of September 30, 2005, DOA was able to reduce the variance to \$69 from the \$57,776 difference as of June 30, 2003. We applaud DOA for the significant improvement made.</p> <p>d) Partially Implemented. Although DRT performs regular physical inventories of returned checks, there has not been any reconciliation performed between DRT's physical inventory listing of checks and DRT's AS400 records. This is an improvement compared to the prior audit's finding where there was no physical inventory. However, we were unable to test individual returned checks in DRT's AS400 because the provided report did not contain a separate field for check numbers that could be verified with the physical inventory listing.</p> <p>e) As of FY 2005, DOA no longer maintains separate subsidiary ledgers in its AS400 for income tax, gross receipts tax, and real property tax returned checks and will instead rely on DRT's subsidiary ledger balances. DOA will continue this process on a</p>	<p>Implemented</p> <p>Implemented</p> <p>Closed</p> <p>See Recommendation #5: DRT should ensure that its Accounting and Collections Supervisors perform periodic reconciliation between the physical returned checks and DRT's AS400, investigate any discrepancy, and immediately write-off all returned checks that cannot be supported by physical checks.</p> <p>Implemented</p>

Prior Audit Finding	Prior Audit Recommendations	Current Status	Review Observations Required Actions/
Returned Check Balances Do Not Reconcile	<p>can be performed.</p> <p>f) DOA and AG's Office to reconcile the Child Support returned check balance between the State Disbursement Unit and DOA records, at least annually.</p>	<p>regular basis to reconcile DOA and DRT's returned check balances related to income tax, gross receipts tax, and real property tax.</p> <p>f) Not Implemented. There have been no efforts to reconcile the child support returned check balance between DOA and SDU's records. Per our physical existence testing in December 2005, the SDU had 27 returned checks totaling \$5,224 in its possession. None of these returned checks were recorded in their APASI system as receivables, nor were they recorded in DOA's AS400.</p>	<p>Closed</p> <p>See Recommendation #'s 3, 7 and 9: DOA should record child support returned checks in its AS400 system and annually reconcile with SDU's APASI system.</p> <p>SDU should record such returned checks in its APASI system, and maintain an inventory listing of returned checks that reconciles with DOA's AS400.</p>
3 Aging and Provision for Doubtful Accounts	<p>a) DOA to establish an adequate allowance for uncollected checks, which reflect checks barred from collection as of September 2003.</p> <p>b) DOA to write-off \$359,990 in the AS400, resulting from returned checks that exceed the statute of limitations of four years as of June 30, 2003.</p>	<p>a) Not Implemented. DOA has not established an allowance for uncollected checks. DOA relied on adjusting entries proposed by the external auditors of the government-wide financial statements every fiscal year.</p> <p>b) A post-closing entry of \$599,297 was performed to record and reverse an allowance for returned checks exceeding the statute of limitations of four years as of September 30, 2005, which included the recommended amounts to write-off of \$359,990 as of June 30, 2003.</p>	<p>Closed</p> <p>See Recommendation #4: DOA should establish a method for the estimating the allowance for uncollected checks.</p> <p>Implemented</p>
4 Minimal Collection Efforts	<p>a) DOA Director to develop a comprehensive collection policy for returned checks, to include at what amounts returned checks will be referred to the Attorney General, to a private attorney, and/or to a collection agency.</p>	<p>a) Partially Implemented. There were no written policies and procedures in place for returned checks. DOA has not referred any returned checks to the Attorney General's Office or a collection agency. However, DOA has made other collection efforts, such as reallocating employees to assist in making phone calls and actively pursuing payments from the makers of returned checks. The Attorney General opined that DOA may (1) retain an employee's</p>	<p>Closed</p> <p>See Recommendation #'s 1 8, and 9: DOA to establish a written, comprehensive collection policy for returned checks, including the referral</p>

Prior Audit Finding	Prior Audit Recommendations	Current Status	Review Observations Required Actions/
Minimal Collection Efforts	<p>b) DOA to write-off the returned checks totaling \$11,622, which cannot be located at the AG's office.</p> <p>c) Treasurer of Guam to re-deposit all returned checks that are less than one year old.</p>	<p>payroll check if the employee is determined to have an existing returned check receivable that was due to the government of Guam and (2) forward returned checks "that appear to be intentionally issued" to the Criminal Division of the Attorney General's Office for further action, which can include restitution. The efficiency of DOA's collection efforts cannot be quantified due to the absence of documented results.</p> <p>We also found that the SDU has not made any efforts (letters or phone calls) to collect from the makers of child support returned checks, nor have they been collecting a returned check fee.</p> <p>b) A post-closing entry in FY 2005 wrote-off the \$11,622 balance in this account. As of 9/30/05, there is a zero balance in the AG returned check account.</p> <p>c) The current bank automatically re-deposits all first-time returned checks rejected for reasons other than "payment stopped."</p>	<p>of returned checks to the Attorney General, private attorney, and/or collection agency.</p> <p>SDU should initiate collection procedures for returned checks.</p> <p>Implemented</p> <p>Implemented</p>
5 Returned Checks Not Safeguarded	<p>Directors of DOA and DRT to establish and enforce written policies and procedures for the monitoring, control, safekeeping, reconciliation, and collection of returned checks, to include ensuring (1) returned checks are maintained in locked drawers to prevent unauthorized access, (2) custody and processing functions of returned checks are segregated, (3) periodic inventories of the returned checks are performed and reconciled to the subsidiary and general ledger totals, and (4) aggressive collection efforts to collect returned checks together with applicable bank fees and penalties.</p>	<p>Partially Implemented. While there are no written policies and procedures, returned checks located at DOA, DRT, and SDU are kept in secured and centralized locations. However, we found that the DOA employee maintaining the physical returned checks has access to the locked drawers, and a second employee is not required to be present. In addition, this employee also records the returned checks into the AS400 system, thus the functions of handling and recording returned checks are not separated.</p> <p>We tested the accuracy of recording returned checks into DOA and DRT's AS400 systems. We found that nine of the 10 checks tested at DOA and seven of the 10 checks tested at DRT were tested without exception. However, one of the checks was not recorded in DOA's AS400 because it was later found to be a tax-related check. We also found three tax-related returned checks were written off in DRT's AS400, but were not removed from DRT's physical inventory listing.</p> <p>We also found that returned property tax checks are not recorded in DRT's AS400.</p>	<p>Closed</p> <p>See Recommendation #'s 1, 6, and 9: DOA should establish written policies for the control, monitoring, safekeeping, reconciliation, and collection of returned checks.</p> <p>The DRT Director should ensure real property tax returned checks are properly recorded in its AS400.</p> <p>SDU should maintain an inventory listing of returned</p>

	Prior Audit Finding	Prior Audit Recommendations	Current Status	Review Observations Required Actions/
	Returned Checks Not Safeguarded		We were unable to test the accuracy of recording returned checks into the APASI system because SDU management and staff indicated that they were not trained to process the reversals of the original payment in the APASI and record a receivable when Child Support check payments are returned.	checks that reconciles with the APASI and AS400 systems.
6	Bank Charges Due to No Minimum Check Amount Imposed	DOA Director and the Treasurer of Guam to establish a minimum check amount in order to eliminate unnecessary processing.	While the Treasurer of Guam initially imposed a \$35 minimum check amount to be accepted for payments at all treasury outlets in 2004, this was later rescinded as it was determined unreasonable when government fees of \$5 and less for services, such as drivers' license renewal and copies of relevant documentation, are still in place. In addition, negotiations with the current bank indicated that returned check fees were waived. OPA closed this recommendation due to the circumstances.	Closed- Not Feasible
7	Lack of Enforcement of Returned Check Penalties	Directors of DOA and DRT to impose penalties, treble damages, interest, and/or other service fees as authorized by laws and regulations.	Partially Implemented. DRT is properly imposing penalties, interests, and other service fees as authorized in applicable laws and regulations. However, DOA is only imposing the \$25 returned check fee, which is inconsistent with 20 G.C.A. § 6104. We also found the \$25 fee is lower than the minimum \$35 returned check fee most businesses in Guam are charging.	Closed See Recommendation #2: DOA should consider raising the returned check fee from \$25 to the current business practice of \$35.
8	Returned Check Listing Not Consulted nor Updated	Treasurer of Guam to establish written policies and procedures to ensure treasury cashiers consult the returned checks list prior to check acceptance.	Treasurer of Guam's management indicated that the treasury cashiers have not been instructed to consult the returned check listing located in the AS400 as it was determined to be cumbersome to have the cashiers toggle between the POS and the AS400. OPA revisited this recommendation and recognizes that this may not be practicable, especially during peak times of operation, i.e. tax payment deadlines. OPA closed this recommendation due to the circumstances.	Closed- Not Feasible

Appendix IV:

OPA's Prior Audit Executive Summary



OFFICE OF THE PUBLIC AUDITOR

EXECUTIVE SUMMARY

OPA Report No. 04-07 June 2004

**Department of Administration
Bounced Checks
October 1, 2000 through June 30, 2003**

In the 2001 Comprehensive Annual Financial Report (CAFR) prepared by the Department of Administration (DOA), DOA reported \$4.56 million in bounced checks Receivables as of September 30, 2001. As a result, the OPA initiated a performance audit into the management and control of bounced checks.

Our audit objectives were to (1) analyze the accuracy of the bounced checks list, (2) assess collection efforts, and (3) determine the adequacy of management and control (receipt, custody, and collection) over bounced checks received by the Government of Guam as of September 30, 2001, 2002, and June 30, 2003.

Our audit found that the review, safeguarding, reconciliation, and collection of bounced checks have been minimal. Bounced checks have increased to \$5,128,813, as of June 30, 2003. The exact amount of bounced checks based on actual physical bounced checks is unknown. DOA has not conducted a physical inventory of bounced checks to support the subsidiary listing of bounced checks.

Of the \$5.13 million general ledger balance, \$4.2 million (or 81.5%) pertain to tax-related checks handled by the Department of Revenue and Taxation (DRT); \$940K (or 18.3%) pertain to license, registration, or other payments to the government handled by DOA, and the remaining 0.2% pertain to child support payments handled by the Office of the Attorney General (AG's office). Collection efforts of bounced checks are handled by these three respective agencies individually.

Our audit findings include:

- DRT bounced checks balance of \$1.4 million as of June 30, 2003, does not reconcile with DOA general ledger records of \$4.2 million, a difference of \$2.8 million. DRT has not performed a physical inventory of its bounced checks to determine if its balance agrees with the physical checks.
- From time to time, DRT reclassifies bounced checks as tax receivables. This reclassification is not communicated to DOA, so that DOA can make the appropriate adjustment. Payments of bounced checks are not regularly communicated to DOA by DRT. We found three bounced checks totaling \$83,903 that were still in DOA's books, but were already collected and paid in DRT's books.
- Collection efforts of bounced checks are minimal at DOA. Bounced checks are not re-deposited nor have bounced checks been referred to the AG's office for collection since 1992. Inquiries with personnel at the AG's office indicated that collection efforts for bounced checks are currently not being pursued due to the lack of staff.

- We found a bounced check for \$121,836 dated April 15, 2002 and another for \$464,000 dated January 15, 2002; both remain uncollected from entities that are still in business. Other instances included two retailers, who are no longer doing business on Guam; these retailers issued three bounced checks aggregating \$87,782 for unspecified payments to the Government of Guam that remain uncollected since 2001.
- The bounced checks at DOA are kept in unlocked filing cabinets, while those at DRT are not stored in a centralized location. DRT revenue officers are given custody of certain bounced checks, but DRT does not keep a central control listing to know which revenue officers have bounced checks.
- Both DOA and DRT do not have an actual count of physical bounced checks on hand. An inventory of physical checks has not been performed nor reconciled with the recorded amounts.
- There is no minimum check amount imposed. We found bounced checks as low as one dollar (\$1) that were charged \$5 bank fees. We found 384 checks with amounts ranging from \$1 to \$5 totaling \$1,759, while \$1,920 was charged in bank fees for these checks. From October 2000 to June 2003, the Government of Guam was charged total bounced check fees of \$11,730.
- Treasury cashiers do not consult the bounced checks list prior to the acceptance of check payments. For example, 10 bounced checks issued within an eight-month period totaling \$15,014 from one maker could have been avoided, had the treasury cashiers consulted the bounced checks list prior to check acceptance.

Our recommendations include:

- The write-off of the bounced checks receivable that cannot be supported by the actual checks;
- The reconciliation of bounced checks accounts receivables between DOA and DRT and the write-off of the difference;
- The re-depositing of bounced checks; and
- The development of a comprehensive bounced check collection policy to include referrals of bounced checks to the OAG and/or an attorney in private practice and/or a collection agency.

Several management initiatives, including the acceptance of credit cards as an alternative mode of payment, DOA and DRT reconciliation efforts, and the re-deposit of bounced checks beginning in May 2004, are noted in the report.

The Directors of DOA and DRT generally concurred with our findings and recommendations, with the exception that DOA objects to the inclusion of the spreadsheet list in our finding, which we find to be a duplication of efforts.



Doris Flores Brooks, CPA, CGFM
Public Auditor

Appendix V:

Results of DOA Timeliness Test in Transaction Processing

Checks Tested Within Scope

	Check #	Check Amount	Date of Transmittal	Transmittal Receipt Date	Date of Transaction in AS400	# of Days Before Receipt from TOG	# of Days Before Entry Into AS400
1	102	\$ 72.50	03/21/05	03/29/05	04/05/05	8	15
2	134	58.00	03/21/05	03/29/05	04/04/05	8	14
3	1043	80.00	03/21/05	03/29/05	04/04/05	8	14
4	111	500.00	08/05/05	09/08/05	09/16/05	34	42
5	582	327.00	08/05/05	09/08/05	09/16/05	34	42
6	112	200.00	08/05/05	09/08/05	09/16/05	34	42
7	534	130.00	08/17/05	08/22/05	09/16/05	5	30
8	342	228.69	08/17/05	08/22/05	09/16/05	5	30
9	"None"	500.50	08/17/05	08/22/05	09/16/05	5	30
10	124	500.50	09/16/05	09/29/05	10/25/05	13	39
11	1564	253.00	09/16/05	09/29/05	10/25/05	13	39
12	K561723	480.00	09/16/05	09/29/05	10/25/05	13	39
	TOTAL	\$ 3,330.19			Average	15 days	31 days

Checks Tested Outside of Scope¹⁵

	Check #	Check Amount	Date of Transmittal	Transmittal Receipt Date	Date of Transaction in AS400	# of Days Before Receipt from TOG	# of Days Before Entry Into AS400
13	153	253.00	10/05/05	10/10/05	10/25/05	5	20
14	3579	139.26	10/05/05	10/10/05	10/25/05	5	20
15	430	91.83	10/24/05	10/26/05	11/25/05	2	32
16	154	126.00	10/24/05	10/26/05	11/25/05	2	32
17	2621	144.00	10/24/05	10/26/05	11/25/05	2	32
18	371	400.00	10/24/05	10/26/05	11/25/05	2	32
19	1050	1,684.30	10/24/05	11/01/05	11/25/05	8	32
20	12756	3,239.05	10/24/05	11/01/05	11/25/05	8	32
21	9478	2,417.10	10/24/05	11/01/05	11/25/05	8	32
22	577	10.00	11/09/05	11/14/05	11/25/05	5	16
23	404	5.00	11/09/05	11/14/05	11/25/05	5	16
24	22	111.61	11/09/05	11/14/05	11/25/05	5	16
25	112	5.00	11/09/05	11/14/05	11/25/05	5	16
26	115	5.00	11/09/05	11/14/05	11/25/05	5	16
27	393	15.00	11/09/05	11/14/05	11/25/05	5	16
28	557	64.00	11/09/05	11/14/05	11/25/05	5	16
	TOTAL	\$ 8,710.15			Average	5 days	24 days

¹⁵ Checks were tested outside of our scope to determine if there were improvements made in the timely recording of the returned checks, after our scope. The items were randomly sampled from transmittals in October and November 2005.

Appendix VI:

Results of DRT Timeliness Test of Transaction Processing

Checks Tested Within Scope

	Check #	Check Amount	Date of Transmittal	Transmittal Receipt Date	Date of Transaction in AS400	# of Days Before Receipt from TOG	# of Days Before Entry Into AS400
1	158	\$ 4,714.00	04/29/05	05/04/05	06/16/05	5	48
2	818	2,898.00	04/29/05	05/04/05	06/16/05	5	48
3	1830	597.00	04/29/05	05/04/05	06/16/05	5	48
4	908	3,172.80	09/02/05	09/09/05	Paid Before Assessment ¹⁶	7	N/A
5	1011	394.13	09/02/05	09/09/05	Paid Before Assessment	7	N/A
6	8471	2,500.00	09/02/05	09/09/05	12/06/05	7	95
7	1423	287.56	08/17/05	09/19/05	01/05/06	33	141
8	12275	1,670.00	08/17/05	09/19/05	Paid Before Assessment	33	N/A
9	9104	699.51	08/17/05	09/19/05	Not Assessed	33	Not recorded
10	1609	3,640.56	08/06/04	08/09/04	06/21/05	3	319
	TOTAL	\$ 20,573.56			Average¹⁷	14 days	117 days

Checks Tested Outside of Scope¹⁸

	Check #	Check Amount	Date of Transmittal	Transmittal Receipt Date	Date of Transaction in AS400	# of Days Before Receipt from TOG	# of Days Before Entry Into AS400
10	1421	1,000.00	12/13/05	12/21/05	12/28/05	8	15
11	9296	390.00	12/13/05	12/21/05	12/28/05	8	15
12	456	6,025.00	11/28/05	12/07/05	Not Assessed	9	Not recorded
13	24121	2,805.40	11/28/05	12/07/05	Not Assessed	9	Not recorded
14	1552	2,244.00	11/28/05	12/07/05	01/05/06	9	38
15	284	1,601.45	11/09/05	12/07/05	Paid Before Assessment	28	N/A
16	2672	822.04	11/09/05	12/07/05	Not Assessed	28	Not recorded
17	2257	334.11	11/09/05	12/07/05	01/05/06	28	57
18	12756	3,239.05	10/24/05	11/01/05	11/30/05	8	37
19	9478	2,417.10	10/24/05	11/01/05	Not Assessed	8	Not recorded
20	1050	1,684.30	10/24/05	11/01/05	12/09/05	8	46
21	5584	14,000.00	10/05/05	10/13/05	Paid Before Assessment	8	N/A
22	2483	4,507.76	10/05/05	10/13/05	11/03/05	8	29
23	924	2,872.28	10/05/05	10/13/05	01/05/06	8	92
	TOTAL	\$ 43,942.49			Average	13 days	41 days


¹⁶ Tax-related returned checks are considered “assessed” when they are recorded in DRT’s AS400 as returned check receivables. In some instances, the returned checks were paid before being recorded in DRT’s AS400; hence, the term “Paid Before Assessment.”

¹⁷ Average only of items recorded in AS400; items marked “N/A” or “Not recorded” are excluded from average.

¹⁸ Checks were tested outside of our scope to determine if there were improvements made in the timely recording of the returned checks, after our scope.

Appendix VII:

Inspection of Returned Check Prohibition



Dipáttamenton Kontribusion yan Adu'ána
DEPARTMENT OF
REVENUE AND TAXATION
GOVERNMENT OF GUAM Gubetnamenton Guáhan

FELIX P. CAMACHO, Governor Mega'láhi
KALEO S. MOYLAN, Lt. Governor Tifente Gubetnadot

ARTEMIO B. ILAGAN, Director Direktot
JOHN P. CAMACHO, Deputy Director Segundo Direktot

01 JUN 2006

Received by Office of the Public Auditor JUN 02 2006
PJM
1:15 pm

TO: Doris Brooks, Public Auditor

FROM: Artemio B. Ilagan, Director

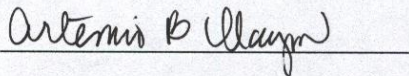
SUBJECT: Inspection of Bounce Check Documents for Gross Receipt Tax Payments.

Hafa Adai! Per the request of your office, this memo is a written acknowledgement by our department and its position relative to the above mentioned subject. The inspection of the original documents by your office will be disclosure of taxpayer information and violate local law as stated under Title 11 of the Guam Code Annotated.

§26120, Article 1 of Chapter 26, Title 11 GCA, "Inspection of Tax Returns and Information: Prohibition", specifically states,

"Tax returns and other information required to be filed or furnished by the taxpayer, or any other person, shall NOT be open for public inspection or divulged except when testifying in any judicial or administrative proceeding in which the government of Guam, or any of its officials in an official capacity, are a party, and in which the government of Guam has an interest in the result; except that any committee of the Legislature, duly created, authorized by resolution of the Legislature, may require that it be furnished any data contained in any tax return for use by such committee in executive session only."

Based on this section, we are unable to allow the Office of the Public Auditor to examine the documents as requested. However, if you have any recommendations or suggestions, which would allow our department to assist you without disclosing taxpayer information, please let me know, so that we can work together to accommodate your request.



Post Office Box 23607, Guam Main Facility, Guam 96921 • Tel. / Telifon: (671) 635-1817 • Fax / Faks: (671) 472-2643

Appendix VIII:

Department of Administration's Official Response



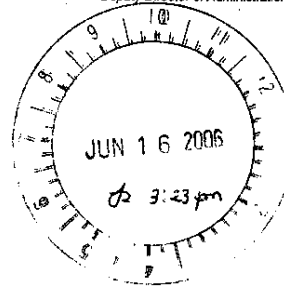
Felix P. Camacho
Governor
Kaleo S. Moylan
Lieutenant Governor

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Lourdes M. Perez
Director of Administration
Joseph C. Manibusan
Deputy Director of Administration

June 14, 2006



Mrs. Doris Flores Brooks
Public Auditor
Office of the Public Auditor
238 Archbishop Flores Street
Suite 401 Pacific News Building
Hagatna, Guam 96932

Re: Follow-Up Review (July 01, 2003 through September 30, 2005) DOA Returned Checks

Dear Mrs. Brooks:

We have reviewed the draft copy of your OPA Follow-Up Review – July 01, 2003 through September 30, 2005 – of your OPA Report No. 04-07, Performance Audit of Bounced Checks. As always, we are very appreciative of the efforts your office has taken and any finding and corresponding recommendation will be an important tool in our endeavor to improve internal control procedures and its implementation.

We are generally in agreement with all your findings and recommendations related to the DOA operations. We are delighted to know that your follow-up review revealed that we resolved much of the initial findings from your initial performance audit.

We have already brainstormed on the methodology in the aging and calculation for the provision for Doubtful Accounts. We are to implement a one hundred percent (100%) allowance for bad debts so that at any given time the accounts receivable always has a zero net balance. Whenever a check bounced the original entry will be reverse and the receivable account will be debited and the allowance account will be credited. When a check that bounced is collected the revenue account will be credited and the allowance will be reverse. We believe this is within Governmental GAAP. This methodology is going to be implemented in fiscal year 2006.

As of this writing we have already made relevant steps in implementing your recommendation relating to DOA and SDU and a follow through will eventually resolve the issue. DOA and CSED has already formally agreed to work together to resolve not only issues regarding bounced checks but all issues that we are aware of as a result of internal and external audits.

We agree that the spreadsheet must be eliminated and have already brainstormed on how to utilize the man-hours spent on the spreadsheet and redirect it to the creation of a data base in the AS400 to be utilized as an inventory of returned checks and collection efforts data. The same data base will be access in automating the creation of sub-ledgers and postings.

Should you have any questions or need any clarification pertaining to our response, please give me a call at 475-1101.

Sincerely,

LOURDES M. PEREZ
Director of Administration

Appendix IX:

Department of Revenue and Taxation's Official Response



Dipattamenton Kontribusiyan Adu'ana
DEPARTMENT OF

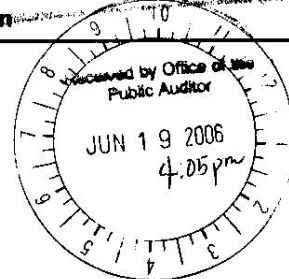
REVENUE AND TAXATION
GOVERNMENT OF GUAM Gubetnamenton Guahan

FELIX P. CAMACHO, Governor, Maga'åhi
KALEO S. MOYLAN, Lt. Governor, Tifenta Gubetnadot

ARTEMIO B. ILAGAN, Director
JOHN P. CAMACHO, Deputy Director
Segundo Director

June 16, 2006

Doris Flores Brooks, CPA, CGFM
Public Auditor
Office of the Public Auditor
Suite 401, Pacific News Building
238 Archbishop Flores Street
Hagatna, Guam 96910



In re: Response to Draft Report for Department of Administration (DOA) Returned
Checks Review, June 2006

Dear Ms. Brooks:

Thank you for providing a Draft Copy of DOA's Returned Checks Review received by our office on June 13, 2006. The Department concurs with your findings and will ensure the implementation of your recommendations upon receipt of your final report.

Sincerely,

John P. Camacho
John P. Camacho
Acting Director

Appendix X:

Office of the Attorney General's Official Response

Douglas B. Moylan
Attorney General

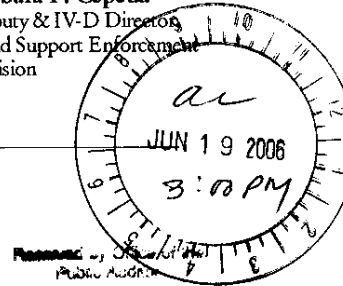


Barbara P. Cepeda
Deputy & IV-D Director,
Child Support Enforcement
Division

Office of the Attorney General

June 19, 2006

Doris Flores Brooks, CPA, CGFM
Public Auditor
Suite 401, Pacific News Building
238 Archbishop Flores Street
Hagatna, Guam 96910



Subject: Follow-up Review of the Department of Administration's Returned Checks

Dear Ms. Brooks:

The Office of the Attorney General, Child Support Enforcement Division hereby provides its official response to the follow-up review of the Department of Administration's Returned Checks from July 1, 2003 through September 30, 2005. Our responses are provided in the attachment marked "*Attachment A*".

If you have any further questions or concerns regarding this matter, please contact Diane Blas, Program Coordinator at 475-3324 ext. 619.

Sincerely,


for BARBARA P. CEPEDA
IV-D Director

Attachment

The Justice Building • 287 West O'Brien Drive
Hagatna, GU 96910 • USA
Telephone No. (671) 475-3324 • Facsimile No. (671) 475-3203 or 477-2159
www.guamattorneygeneral.com • guamattorneygeneral@hotmail.com

Attachment A

State Disbursement Unit Director

OPA Recommendation:

7. Maintain an inventory listing of returned checks that reconciles with the AS400.

CSED Response:

7. Guam CSED *concur*s with OPA's recommendation to maintain an inventory listing of returned checks that reconciles with the AS400.
-

OPA Recommendation:

8. Initiate collection procedures for returned checks.

CSED Response:

8. Guam CSED *concur*s with the OPA's recommendation to initiate collection procedures for returned checks. Provided below are CSED, SDU Standard Operating Procedures (SOP):

Standard Operating Procedures for Returned Checks

1. Transmittal and Physical Checks are received from Treasurer of Guam.
 2. State Disbursement Unit (SDU) will identify the Case Identification Number (CID) and Receipt number.
 3. SDU will record all information gathered for record purposes.
 4. SDU will prepare reversal of receipt for recoupment.
 5. SDU will call and prepare letter (make attempts to locate payor).
 6. SDU will upon receipt of payment send the physical returned check to the payor.
 7. SDU will post collected payment.
 8. SDU will enter notes into the APASI system under the CASE (Case Diary) screen for information and record purposes.
-

OPA Recommendation:

9. Ensure that all returned child support checks are accurately recorded no later than 10 working days in the APASI system, upon receipt of the returned checks from TOG, and annually reconcile with DOA's AS400 system.

CSED Response:

9. Guam CSED *concur*s with OPA's recommendation and will ensure that all returned child support checks are accurately recorded no later than 10 working days in the APASI system, upon receipt of the returned checks from TOG, and annually reconcile with DOA's AS400 system.
-

Do you suspect fraud, waste, or abuse in a government agency or department? Contact the Office of the Public Auditor:



- Call our HOTLINE at 47AUDIT (472-8348);
- Visit our website at www.guamopa.org;
- Call our office at 475-0390;
- Fax our office at 472-7951;
- Or visit us at the PNB Building, Suite 401
In Hagåtña

All information will be held in strict confidence.