

**Department of Administration
Returned Checks Follow-Up Audit**

**Performance Audit
October 1, 2010 through September 30, 2015**

**OPA Report No. 16-11
December 2016**



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Executive Summary
Department of Administration Returned Checks Follow-Up Audit
OPA Report No. 16-11, December 2016

The Department of Revenue and Taxation's (DRT) handling of returned checks has worsened compared to the conditions noted in our 2006 audit. In addition, while we noted some improvements made by the Department of Administration (DOA) and the Office of Attorney General Child Support Division's State Disbursement Unit (SDU) in handling their own returned checks, there were several deficiencies that remained. Specifically, our follow-up found:

- The amount of outstanding DRT Returned Checks is unknown due to:
 - DRT not maintaining a master listing for returned checks and
 - Missing physical checks or supporting documents;
- Lost revenues of approximately \$745 thousand (K) based on 11 sampled checks for DRT and approximately \$1.3 million (M) for DOA returned checks due to minimal collection efforts;
- Incorrect general ledger balances due to DOA's inconsistent application of the proper accounting standards for tax related receivables and lack of reconciliation with SDU;
- DOA, DRT and SDU did not maximize remedies to collect on returned checks as provided in laws and regulations; and
- Treasurer of Guam (TOG) did not maintain a bad checks list in accordance with the Guam Administrative Rules and Regulations (GAR) as they have stated that it is too time consuming.

We also found that while there is no significant change in the overall number of returned checks with the passing of the credit card convenience fees on to payers, DRT returned checks increased significantly whereas DOA's and SDU's returned checks declined. From this change, the Government of Guam (GovGuam) is no longer incurring credit card fees, which amounted to \$4.3M in fiscal year (FY) 2011. Correspondingly though, GovGuam has incurred lost revenues of \$2.3M due to failure to collect on returned checks.

Total Outstanding Returned Checks is Unknown

A total of 2,464 checks were returned from FY 2011 to FY 2015 amounting to \$5.5M, of which,

- \$5.2M (or 93.6%) pertained to tax and non-tax related checks handled by DRT;
- \$319K (or 5.7%) pertained to license, registration, and other fees handled by DOA; and
- \$33K (or 0.5%) pertained to child support payments handled by SDU.

However, the amount of outstanding checks cannot be ascertained. DRT stated that a Returned Checks listing of outstanding items does exist, but is not consistently updated. As a result, no reliable record of outstanding returned checks can be provided. As for the physical checks, we tested 20 samples and found that 11 checks were missing. This can be attributed to DRT management's lack of monitoring and oversight. In addition, an opportunity exists for errors and fraud to go undetected as only one person was assigned to handle returned checks.

Lost DRT and DOA Revenues of \$2.1M

There was minimal to no follow-up on returned checks by DRT. Of the 20 samples, 11 totaling \$738K have not been paid. The largest check amounted to \$459K, which has not been collected since December 2014, followed by \$139K from October 2011, and \$57K from September 2012.

Although DOA's collection effort is approximately 65% during the audit period, we noted more recently, that after a year, minimal follow-up and timely collection of the remaining outstanding items

occurred. DOA's Returned Checks Receivable for FY 2011 and prior amounted to \$478K. The corresponding treble damages and bounced check fees for these checks would have amounted to \$862K. This resulted in lost revenues because the statute of limitations of four years had been reached.

Inaccurate General and Subsidiary Ledgers

DOA and SDU did not maintain accurate general ledger (GL) and subsidiary ledgers (SL) from FY 2011 to FY 2015 due to the following:

- SDU and DOA did not reconcile the GL and SL balances resulting in an overstated Returned Checks Receivable by \$50K.
- DOA did not write-off the returned checks receivables still outstanding beyond the statute of limitation of four years amounting to \$478K.
- DOA inconsistently applied Governmental Accounting Standards Board Statement (GASB) No. 33 in recognizing tax related revenues resulting in misstatements in the GL account of DRT.

Available Remedies to Collect on Returned Checks not Maximized

DOA, DRT and SDU did not exercise remedies to maximize opportunities to collect on returned checks. We found that:

- Collection letters handled by DOA were not sent via certified mail based on Title 20 Guam Code Annotated §6104, resulting in missed opportunities to maximize revenues, such as treble damages and penalties since confirmation of receipt cannot be established. While SDU did not send collection letters via certified mail, SDU is reviewing the applicability of this law to child support payments, which are not GovGuam revenues. However, the law appears to apply to the issuance of any bad check regardless of the payee.
- We were unable to verify whether DRT letters were mailed via certified mail due to missing documentation for 17 of the 20 samples tested.
- 11 sampled DRT checks totaling \$738K and \$584K worth of checks handled by DOA were not forwarded for collection to the Attorney General's office, a private attorney, or collection agency.
- TOG does not check the bounced check list because it does not maintain one in accordance with 2 GAR §2106. As a result there were 112 repeat makers of returned checks amounting to \$1.2M.

Convenience Fee did not Increase Overall Returned Checks

Based on payment transactions from FY 2011 to FY 2015, the implementation of convenience fees to payers resulted in a significant decrease in the number of credit card transactions from 675K to 55K, which amounted to \$649M and \$16M, respectively. In effect, payments by check increased more than tenfold from 24K in FY 2011 to 297K in FY 2015. While it appears the overall volume of returned checks were not impacted with 511 checks in FY 2011 versus 485 in FY 2015, DRT returned checks increased significantly by 44% from 214 to 308. This was offset by DOA and SDU declines.

Conclusion and Recommendations

Although collection efforts of returned checks are handled by each respective agency, no one was assigned to oversee, monitor, review, and reconcile the total returned checks from DOA, DRT and SDU. As DOA maintains the official GovGuam financial records, we recommend DOA management oversee the returned checks process and coordinate with SDU to reconcile the GL with their SLs on a regular basis (preferably monthly). There is debate among DOA and DRT as to whose responsibility it is to maintain the GL balance for non-tax related receivables. We recommend DRT management monitor and oversee DRT's returned checks process. All three agencies should also implement procedures to maximize remedies as provided by laws and regulations governing returned checks.

Doris Flores Brooks, CPA, CGFM
Public Auditor



Introduction

This report presents the results of our follow-up audit of the Department of Administration's (DOA) Returned Checks process from October 1, 2010 through September 30, 2015. The audit objectives were:

1. To determine the adequacy of controls over returned checks to ensure the efficient and effective collection and accurate recording of all revenues owed to the GovGuam.
2. To determine the impact of the convenience fee in the volume of returned checks.

OPA initially planned to commence a follow-up audit in 2012, but it was placed on hold in order to assess the effect of the implementation of passing on the credit card charges to the payers, which was shouldered by the GovGuam prior to December 2011.

The audit objectives, scope, methodology, and prior audit coverage are detailed in Appendices 1 and 2.

Background

According to Title 2 Guam Administrative Rules and Regulations §12101:

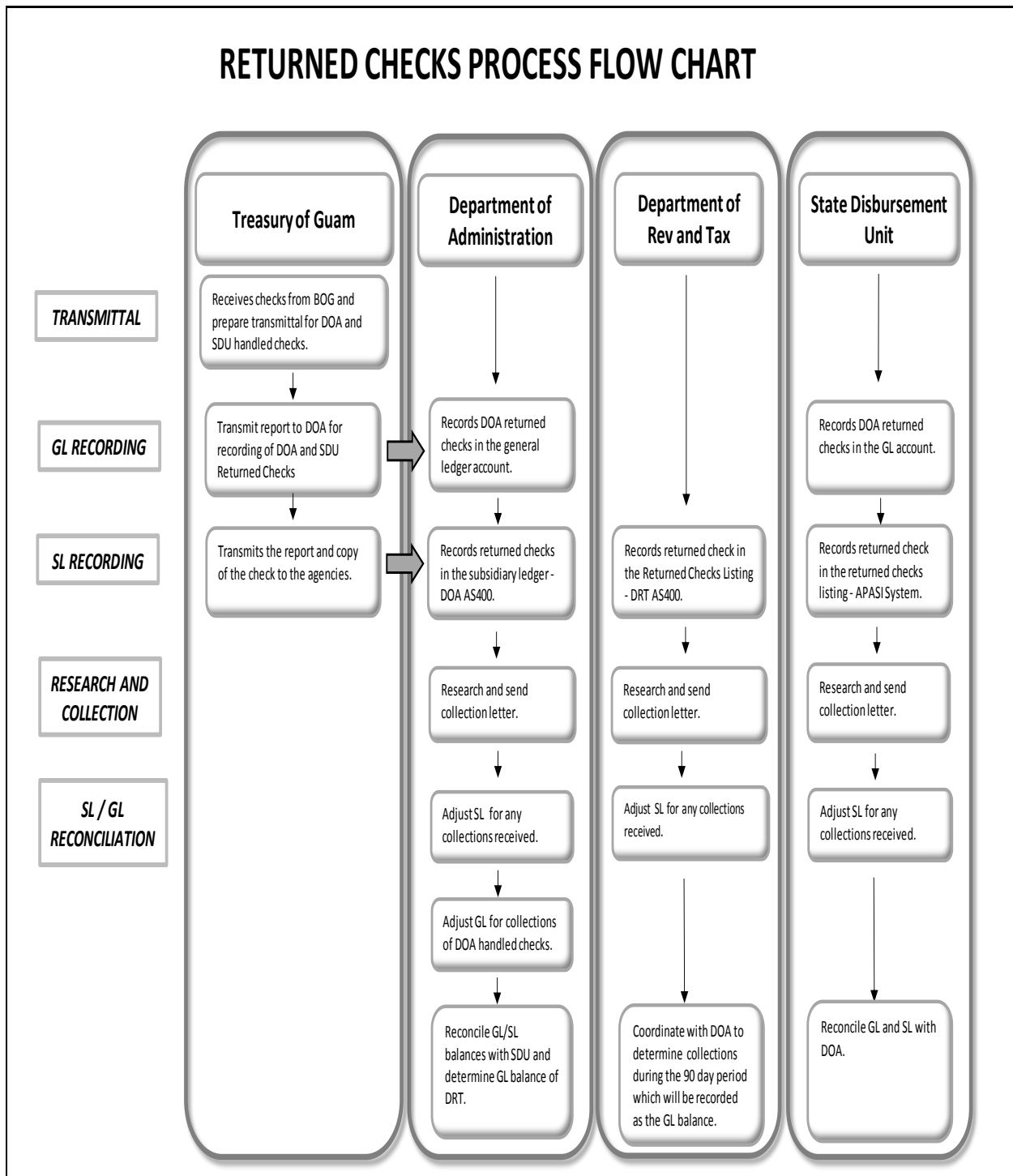
Use of checks or drafts by and drawn on the accounts of individuals, partnerships, and corporations is a privilege and not a right. As such, GovGuam accepts checks or drafts from the maker with the expectation that the maker is faithfully presenting these as sufficient credit or funds to cover the amount of the check or draft made (...) costs associated with collection should not pass to the general public, which faithfully disposes its obligation to the public treasury, but rather to those persons who contribute to the problem of collection expense.

Returned Checks Process

The Treasurer of Guam (TOG) is responsible for (1) receiving all returned checks and debit memos from banks, (2) preparing a list of these returned checks, and (3) transmitting the list of the returned checks to DOA's Division of Accounts, the Department of Revenue and Taxation (DRT), and the Office of the Attorney General's Child Support Enforcement Division State Disbursement Unit (SDU) for collection and custody.

DRT handles all tax and non-tax related checks and DOA handles all other returned checks, except those related to child support payments. SDU handles custody and collection of child support bounced checks.

See flowchart below for the returned checks process from the point when TOG receives returned checks to the point when DOA reconciles the amounts reported in the General Ledger (AS400¹) with DOA and SDU subsidiary ledgers.



¹ DOA and DRT both use the AS400 system to record the General and Subsidiary Ledger entries. However, data access is restricted. Both agencies can't view the other agencies data, unless DRT transactions are tagged to interface in the DOA AS400.

Results of Audit

DRT's handling of returned checks has worsened compared to the conditions noted in our 2006 audit. In addition, while we noted some improvements made by DOA and SDU in handling their own returned checks, there were several deficiencies that remained. Specifically, our follow-up found:

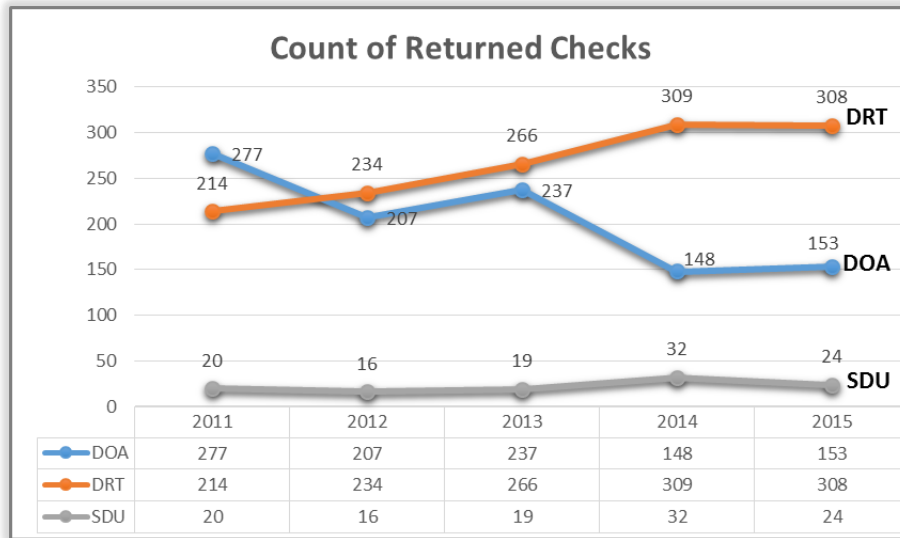
- The amount of outstanding DRT returned checks is unknown due to:
 - DRT not maintaining a subsidiary ledger and
 - Missing physical checks or supporting documents;
- Lost revenues of approximately \$745K based on 11 sampled checks for DRT and approximately \$1.3M for DOA returned checks due to minimal collection efforts;
- Incorrect general ledger balances due to DOA's inconsistent application of the proper accounting standards for DRT related receivables and lack of reconciliation with SDU;
- DOA, DRT, and SDU did not maximize remedies to collect on returned checks as provided in laws and regulations; and
- TOG did not maintain a bad checks list in accordance with 2 GAR §2106 as they have stated that it is too time consuming.

We also found that while there is no significant change in the overall number of returned checks with the passing of the credit card convenience fees on to payers, DRT returned checks increased significantly whereas DOA's and SDU's returned checks declined. From this change, GovGuam is no longer incurring credit card fees, which amounted to \$4.3M in Fiscal Year (FY) 2011. Correspondingly though, GovGuam has incurred lost revenues of \$2.3M due to failure to collect on returned checks.

2,464 Checks Returned from FY 2011- FY 2015

Based on our review of the transmittals, a total of 2,464 checks were returned from FY 2011 to FY 2015 amounting to \$5.5M. Of this total,

- 1,331 checks were handled by DRT amounting to \$5.2M,
- 1,022 checks were handled by DOA amounting to \$319K, and
- 111 checks were handled by SDU amounting to \$33K.



Fiscal Year	DRT		DOA		SDU		Total	
	Count	Amount	Count	Amount	Count	Amount	Count	Amount
2011	214	\$ 1,426,859	277	\$ 48,557	20	\$ 5,363	511	\$ 1,480,779
2012	234	\$ 881,901	207	\$ 54,239	16	\$ 5,173	457	\$ 941,313
2013	266	\$ 524,857	237	\$ 63,341	19	\$ 7,292	522	\$ 595,489
2014	309	\$ 866,248	148	\$ 91,153	32	\$ 10,114	489	\$ 967,515
2015	308	\$ 1,453,147	153	\$ 61,901	24	\$ 5,003	485	\$ 1,520,050
Grand Total	1331	\$ 5,153,012	1022	\$ 319,191	111	\$ 32,944	2464	\$ 5,505,146

Note: The transmittals forwarded by TOG to the audit team has 21 missing pages compared to DRT's file. The following are the difference per fiscal year: 2011 – 1 check for \$338; 2014 – 119 checks for \$583K; and 2015 – 113 checks for \$568K.

Amount of Outstanding Returned Checks Unknown

We found that the amount of outstanding checks cannot be ascertained because: (1) DRT's Returned Checks Listing was not maintained and (2) majority of physical checks sampled or its supporting documents were missing. This can be attributed to DRT management's lack of monitoring and oversight. In addition, since only one person was assigned to handle returned checks, an opportunity exists for errors and fraud to go undetected.

DRT's Returned Checks Listing not Maintained

DRT's Returned Checks Listing (aka "Bounced Checks" report) can be accessed from their AS400 system. Once a transmittal is received from TOG, the returned check listing in the AS400 system is updated and subsequently deleted when payment is received. However, DRT stated that this is not consistently updated. The assigned Revenue Officer took over the returned checks process in 2011, but started to record it in the AS400 system in 2013 and only for those checks that had been researched.

As a result, although we found \$5.2M in DRT returned checks from FY 2011 through FY 2015, the outstanding balance of the returned checks as of FY 2015 could not be ascertained.

Missing DRT Physical Checks or Supporting Documents

It is management's responsibility to establish controls to secure and safeguard vulnerable assets. This would include conducting periodic physical counts and comparing such assets to control records.

During our walkthrough, we found that DRT does not monitor the physical inventory of all returned checks. The checks are kept in a filing cabinet segregated into paid and unpaid. No listing is maintained to keep an inventory of checks in each drawer.

We tested 20 samples to determine the completeness of the checks on file. We found that 11 (or 55%) of the physical checks and supporting documentation were missing. Out of the 11 missing checks, 7 of these checks are still unpaid. Without these checks, no evidence can be presented to makers that such check bounced. In addition, DRT does not have any reference aside from the transmittals from TOG in order to research and reverse the item in the system. This will result in the loss of time and manpower due to the extent of time needed to research each check.

DRT should, on a monthly basis, account for the completeness of the physical checks and its supporting documents for both the paid and unpaid items using the Returned Checks Listing as the master list.

No Segregation of Duties in Handling DRT's Returned Checks

Key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud. This includes separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets so that no one individual controls all key aspects of a transaction or event. This also ensures that there is a check and balance and encourages compliance to set procedures.

Our audit found that the task of receipt, recording, collections, and safekeeping of DRT returned checks is being handled by one Revenue Officer. There was no approver or reviewer function and as result, the subsidiary ledger was not maintained and physical checks and supporting documents were missing. In addition, without the proper segregation of duties, errors or unauthorized transactions may not be detected in a timely manner, especially since an independent review of transactions was not occurring.

DRT should implement effective segregation of duties in handling the returned checks process from recording to receiving payments and monitoring or reviewing the overall process.

Lost DRT and DOA Revenues of \$2.1M

We found that there was minimal to no follow-up on returned checks by DRT. As a result, based on our testing, we found at least \$745K in uncollected revenues by DRT which includes bounce check fee and treble damages. Although DOA's collection effort is approximately 65% during the audit period, we noted that there was minimal follow-up and timely collection of the remaining outstanding items. This resulted in \$1.3M in lost revenues due to the statute of limitations, treble damages, and bounced check fees. In addition, based on the analysis of returned checks, 73% of collection efforts are spent on checks amounting to \$500 or less.

DRT's Collection Efforts

Based on DRT's Standard Operating Procedures, taxpayers making payment on assessed or unassessed accounts will be charged the check amount, bounced check fee, and applicable interest and penalties. They are given 10 to 30 days to pay, depending on the tax type. Despite these policies, no follow-up has been made for all outstanding returned checks. Only one collection letter was sent and no monitoring or follow-up has been done since the Revenue Officer took over in 2011.

Of the 20 DRT checks tested, 15 totaling \$1.3M have no documentation to support that collection letters were sent nor any other follow-up made. We also found that of the 20 samples, 11 totaling \$738K have not been paid. The highest check amounted to \$459K, which has not been collected since December 2014. The next highest check was \$130K and remains unpaid since October 2011, followed by a \$57K returned check from September 2012. This shows that since checks are not being followed-up, an undetermined number of checks may still be uncollected resulting in lost revenues for GovGuam.

DRT's statute of limitation is 10 years for Income and Business Privilege Taxes². Prior to 2014, the statute of limitations for Real Property Tax was 30 years, but has since changed to 10 years.³ Once DRT completes its assessment of outstanding returned checks and establishes a reliable subsidiary ledger, follow up should be done to mitigate lost revenues due to the statute of limitations.

DOA's Collection Efforts

DOA has assigned an Accountant to monitor and follow-up on returned checks under DOA's custody. The Accountant maintains a spreadsheet which lists the outstanding items and the actions made for each returned check. This is separate from the Subsidiary Ledger in the AS400. After an item is researched, a collection letter is mailed once with additional follow-up made by phone or e-mail.

Of the \$319K returned checks from FY 2011 to FY 2015, we found DOA was able to collect approximately \$207K or 65% of the total amount. However, based on the subsidiary ledger, we noted that the remaining Returned Checks Receivable prior to FY 2011 amounted to \$462K and the oldest check dates back to FY 1989. The monitoring spreadsheet maintained by the Accountant does not match with the total subsidiary ledger balance in the AS400. The oldest item in the Accountant's monitoring spreadsheet is from FY 2008 and the items on the spreadsheet amounted to \$347K. Without ensuring that the monitoring spreadsheet is complete, follow-up and collection might not occur for those returned checks not included in the spreadsheet. This may have also contributed to items that have to be written-off due to the statute of limitations.

Of the 10 checks tested, we found that three are still unpaid. We tested these three checks to determine the frequency of follow-up. With the monitoring spreadsheet being the only evidence of follow-up after collection letters are sent, we found that all three unpaid checks do not have documented follow-ups in 2015. Further review of the log utilized by the Accountant indicated that more recently, after the end of a respective year, there was no further follow-up for majority of the items. For example, 2014 returned checks showed follow-up was only made in 2014 and

² 11 Guam Code Annotated (GCA) §26205.

³ 11 GCA §24204.

not in any subsequent year. During our walkthrough, we also confirmed that a history of follow-up for each check is not maintained and would be overwritten by the most recent follow-up action.

Based on 7 GCA §11303, the statute of limitations is four years for the Government to collect from the makers of bounced checks for non-tax related transactions. Given the above conditions, lost revenues due to the statute of limitation of four years amounted to \$478K. This is composed of \$462K for returned checks from FY 2010 and prior and approximately \$16K in 2011. Treble damages and the bounced check fees from these uncollected checks amounted to \$862K. However, \$412K was previously noted in our audit in OPA Report 04-07.

DOA should write-off these balances since they are over the statute of limitations of four years. They should also establish a process to monitor all outstanding returned checks logged in the subsidiary ledger and document all actions made and its status.

SDU's Collection Efforts

SDU has established a process using the Absent Parent Automated System Information (APASI) to log and track actions for returned checks. Our review of SDU's subsidiary ledger shows that during the five-year period, returned checks amounting to \$33K or 97% of the total balance have been collected. We commend SDU for their effort in efficiently monitoring all returned checks and ensuring these are collected and recouped timely.

73% of Collection Effort Spent on Returned Checks of \$500 or Less

Of the 2,464 returned checks from FY 2011 to FY 2015, 73% (or 1,806) is comprised of check amounts of \$500 or less. Of these checks, those ranging from \$200 and below represent 54% (or 1,339). The returned checks with amounts of \$500 or less totaled \$277K, which is only 5% of the \$5.5M aggregate amount of returned checks.

In contrast, 27% or 658 checks consisting of amounts greater than \$500 amounted to \$5.2M. This is 95% of the aggregate value of checks. Accordingly, in order to achieve efficiency, collection efforts should be focused on amounts greater than \$500. Refer to the table below.

Total Checks Returned FY 2011 – FY 2015

Range	Amount	% of Amount	Count	% of Count
< = \$35	\$ 5,069	0.09%	250	10.15%
> \$35 - \$50	\$ 6,048	0.11%	132	5.36%
> \$50 - \$100	\$ 42,388	0.77%	500	20.29%
> \$100 - \$200	\$ 65,998	1.20%	457	18.55%
Total of < = \$200	\$ 119,503	2.17%	1339	54.34%
> \$200 - \$300	\$ 55,723	1.01%	216	8.77%
> \$300 - \$400	\$ 42,971	0.78%	122	4.95%
> \$400 - \$500	\$ 59,085	1.07%	129	5.24%
Total of < = \$500	\$ 277,281	5.04%	1806	73.30%

Range	Amount	% of Amount	Count	% of Count
Total of <\$500	\$ 277,281	5.04%	1806	73.30%
> \$500 - \$1,000	\$ 191,174	3.47%	250	10.15%
> \$1,000 - \$5,000	\$ 668,401	12.14%	285	11.57%
> \$5,000 - \$10,000	\$ 347,870	6.32%	50	2.03%
> \$10,000 - \$20,000	\$ 637,067	11.57%	41	1.66%
> \$20,000 - \$30,000	\$ 203,522	3.70%	8	0.32%
> \$30,000 - \$40,000	\$ 64,631	1.17%	2	0.08%
> \$40,000 - \$50,000	\$ 458,804	8.33%	10	0.41%
> \$50,000 - \$60,000	\$ 221,619	4.03%	4	0.16%
> \$60,000 - \$70,000	\$ 132,565	2.41%	2	0.08%
\$ 90,000.00	\$ 90,000	1.63%	1	0.04%
\$ 130,140.00	\$ 130,140	2.36%	1	0.04%
\$ 365,000.00	\$ 365,000	6.63%	1	0.04%
\$ 397,862.40	\$ 397,862	7.23%	1	0.04%
\$ 459,000.00	\$ 459,000	8.34%	1	0.04%
\$ 860,210.00	\$ 860,210	15.63%	1	0.04%
Grand Total	\$ 5,505,146	100.00%	2464	100.00%



Inaccurate General and Subsidiary Ledgers

Due to the lack of reconciliation, not properly aging the returned checks, and inconsistently applying Governmental Accounting Standards Board Statement (GASB) No. 33 to tax related revenues, the General and Subsidiary Ledgers were misstated from FY 2011 to FY 2015.

Unreconciled General Ledger and Subsidiary Ledger Accounts

The General Ledger (GL) is the balance of the account reflected in the Balance Sheet. The Subsidiary Ledger (SL) shows the breakdown of the balance and the specific detail. In a typical automated accounting system, as transactions affecting individual accounts are posted to the subsidiary ledger, the general ledger is updated simultaneously. The system used by DOA is the AS400, which does not allow for automatic posting from the subsidiary ledger into the general ledger, thus requiring separate postings. The total GL and SL should be reconciled and balanced to ensure that the financial statement is reported correctly.

We found that the returned checks GL account and its corresponding SLs were not being reconciled periodically. As a result:

- Returned Checks Attorney General (AG) was overstated by \$50K.
- Returned Checks Miscellaneous (Suspense) has a balance of \$189K.

Account	DOA General Ledger	Agency Subsidiary Ledger	Difference
Returned Checks Receivable AG	\$ 51,543.44	\$ 1,925.30	\$ (49,618.14)
Returned Checks Receivable DOA	\$ 584,087.72 ⁴	584,087.72 ²	\$ -
Returned Checks Receivable Suspense	\$ 188,555.78	\$ 188,555.78	\$ -
Returned Checks Receivable Guam Environment Protection Agency (GEPA)	\$ 2,205.00	\$ 2,205.00	\$ -
Total Balance	\$ 826,391.94	\$ 776,773.80	\$ (49,618.14)

Returned Checks (AG) Overstated by \$50K or 96% of the Outstanding Balance

Due to lack of coordination between SDU and DOA, the Child Support Returned Checks Receivable Account was overstated by \$50K or 96% of the total balance. We found that the \$50K overstatement pertains to Accounts Receivable (AR) recorded from FY 2006 to FY 2015. In May 2016, subsequent to the initiation of our audit, a review of the DOA AS400 system showed that several entries were made to adjust the account. Despite the reversals that were made, OPA's reconciliation of the GL and the Returned Checks Listing shows an overstatement in the GL of \$3K.

SDU and DOA should continue to coordinate to account for the difference of \$3K. SDU and DOA should also reconcile on a regular basis (preferably monthly) to ensure that the GL and SL accounts are balanced.

Returned Checks Miscellaneous (Suspense) has a balance of \$189K since 2013

Suspense Accounts temporarily store any transaction for which there is uncertainty about which account they should be recorded. However, all suspense account items should be eliminated by the end of the fiscal year. Otherwise, financial statements will contain unidentified transactions, which is therefore incorrect.

Returned Checks Suspense Account is used by DOA to record payments received before the actual check is received. Once they receive the check, DOA would record against this account instead of setting up an accounts receivable.

Our review of the SL shows that entries date back to November 2005 and the last entry was made in October 2012. No further research was made to clear up the remaining balance.

Aged Returned Checks Not Properly Allowanced

As a resolution for a finding cited in OPA Report 06-06, DOA provided an Accounts Receivable aging which will be the basis for the calculation and provision of bad debt allowance for delinquent accounts. However, DOA confirmed that this has not been implemented. In addition, the statute of

⁴ DOA also receives Electronic Fund Transfer rejects for Insurance Payments that were set-up under direct deposit. These EFT rejects are booked in the Returned Checks Receivable Account of DOA. Since these do not pertain to returned checks, OPA deducted this from the balance to only show the amount pertaining to the actual returned checks. Total EFT rejects excluded totaled \$9K.

limitations of four years for the Government to collect from the makers of bounced checks can be the basis in determining how much should be recognized as uncollectible accounts.

Our review of DOA's SL shows that of the \$584K balance as of September 30, 2015, \$478K remain outstanding for more than four years. On the other hand, the Estimated Uncollectible Accounts is showing a balance of \$334K as of FY 2015. No allowance nor write-off was made relating to returned checks during the five-year period, which in effect overstates the Accounts Receivable.

DOA should implement a procedure to record an allowance for uncollected returned checks and timely write-off the returned checks that meet or go beyond the statute of limitations.

No Follow-up on Bad Checks Account (GEPA) Prior to 2011

The Bad Checks GEPA account was created in October 2006 when GEPA checks remitted to DOA were misplaced. Because of this, GEPA demanded that the payee's account be credited. Our review of the account shows that the initial entry was made in 2007 and there were minimal entries from 2007 to 2009. As of FY 2015, the ending balance is \$2,205. No further follow-up has been noted after the last entry in 2009 was made. Since this is beyond the statute of limitations of four years, these amounts should be written off.

Returned Checks DRT GL Misstated by an Undetermined Amount

DOA inconsistently applied GASB 33 in recognizing tax related revenues resulting in misstatements to the accounts receivable GL account for DRT.

Based on GovGuam's interpretation of GASB 33, tax-related revenues are recorded if they are collected within 90 days except for property taxes, which is recognized if collected within 60 days after the end of the current fiscal period.

DRT converted from the Point-of-Sale (POS) system to the Transaction Processing System (TPS) in October 2013. In the POS system, reversal of returned checks were made by DOA through the automatic bounced check reversal program. This reversed the original entry to the cash and the revenue accounts. In compliance with GASB 33, no AR was recognized from FY 2011 to FY 2013.

The DRT GL shows the ending balances from FY 2011 to FY 2013 amounted to (\$37K), (\$46K), and \$31K, respectively. However, collections for receivables received within the availability period of 90 days after the end of the current fiscal period (or 60 days for property taxes) were not recorded and accounted for, which understates the AR GL by an undetermined amount. AR for returned checks received within the FY 2014 and FY 2015 availability period were also not recognized under DRT's TPS system. As DRT did not maintain an accurate Returned Checks Listing, the amount that should have been recognized in comparison to the DOA maintained GL for DRT is unknown as illustrated in the table below.

Fiscal Year	DOA Maintained General Ledger for DRT ⁵	Revenue Recognition based on GASB 33	Difference
2011	\$ (37,230.44)	unknown	unknown
2012	\$ (46,325.37)	unknown	unknown
2013	\$ 31,367.31	unknown	unknown
2014	\$ 884,041.63	unknown	unknown
2015	\$ 21,360.74	unknown	unknown

In the TPS system, upon receipt of the original payment, Cash and Revenue are recorded. DOA does not reverse the original entry when a check is returned, but rather records an AR and reverses Cash. However, upon receipt of payment for the returned check, Cash and Revenue are again recorded. This, in effect, overstates the AR and Revenue accounts since no reversal of these accounts can be seen in the TPS system. This also resulted in an ending balance in the AR account of \$884K in FY 2014, which is non-compliant with GASB 33. The same entries were made in FY 2015. However, prior to closing the books, DOA made an adjusting entry in FY 2015 to reverse the AR and Revenue account which corrected most of the misstatements mentioned. As of FY 2015, a balance of \$21K still remains. However, as stated previously, receivables for returned checks received within the availability period were not recognized.

Going forward, DOA should ensure correct and consistent application of GASB 33 as to the recognition of revenues to ensure correct reporting. DOA should also establish a system to account for the AR balance relating to taxes.

Available Remedies Governing Returned Checks not Maximized

DOA and DRT did not exercise remedies to maximize opportunities to collect on returned checks. We found that:

- DOA collection letters were not sent via certified mail based on 20 GCA §6104, resulting in missed opportunities to maximize available revenues, such as treble damages and penalties since confirmation of receipt cannot be established.
- We were also unable to verify whether DRT letters were mailed via certified mail due to missing documentation for 17 of the 20 samples tested.
- 11 sampled DRT checks amounting to \$738K and \$584K worth of checks handled by DOA were not forwarded to the AG’s office, a private attorney, or collection agency for handling as allowed in 20 GCA Chapter 6 and 2 GAR Chapter 12.
- TOG does not check the bounced check list because it does not maintain one. As a result, there were 112 repeat makers of returned checks amounting to \$1.2M.

Collection Letters not Sent via Certified Mail

As per 20 GCA Chapter 6, a written demand letter should be delivered personally to the maker or mailed by certified mail. It should include the note that failure to pay the check amount together with any lawful charge within 30 days following delivery or mailing of the notice may result in a court judgement for three times the amount of check. The received date in the certified mail will be the basis of the 30 days for which the interest and penalties will be computed.

⁵ These amounts are comprised of the “Bad Checks - Miscellaneous (R&T),” Bad Checks - GRT (R&T),” and “Bad Checks - RPT (R&T)” General Ledgers.

During our testing, we noted that DOA collection letters were mailed by regular mail and not by certified mail. While SDU generated collection letters in accordance with 20 GCA §6104, they also did not send the letters via certified mail. SDU is currently reviewing the applicability of this law to child support payments, which are not GovGuam revenues. However, the law appears to apply to the issuance of any bad check, regardless of the payee. As for DRT, we found collection letters were sent via certified mail for three samples tested. However, 17 samples did not have supporting documents on file.

Outstanding Checks not Forwarded to the AG's Office

As per 20 GCA §6104, if checks are not paid within 30 days from receipt of the demand letter, a cause of action may be brought in Small Claims Court. In addition, 2 GAR §12108 states that a maker of bad checks has 30 calendar days from the date the letter is received to pay the check. After such, the account may be referred to the Treasurer's legal officer or other authority for collection. We noted during our testing that none of the DRT and DOA handled checks were referred to the AG's Office, a private attorney, or collection agency.

DOA has an outstanding balance of \$584K, of which \$462K was prior to 2011. These checks should have been referred to the AG's office to assist in collecting the receivables if check makers failed to pay within 30 days from receipt date of the certified mail. As mentioned, balances from FY 2011 and prior are already beyond the statute of limitation of four years as of FY 2015, and therefore, should be written off.

Likewise for DRT, had the AG's office been involved, more checks could have possibly been collected. Of the \$5.2M in FY 2011 to FY 2015 returned checks, we tested 20 checks amounting to \$2.6M and found that \$738K is still unpaid. Also, the \$5.2M excludes balances from 2010 and prior, which could not be determined as no record was maintained.

DOA should forward uncollected checks received from 2013 to current to the AG's office. As for DRT checks, once the necessary follow-up action is made, unpaid checks should be forwarded to the AG's office for further action.

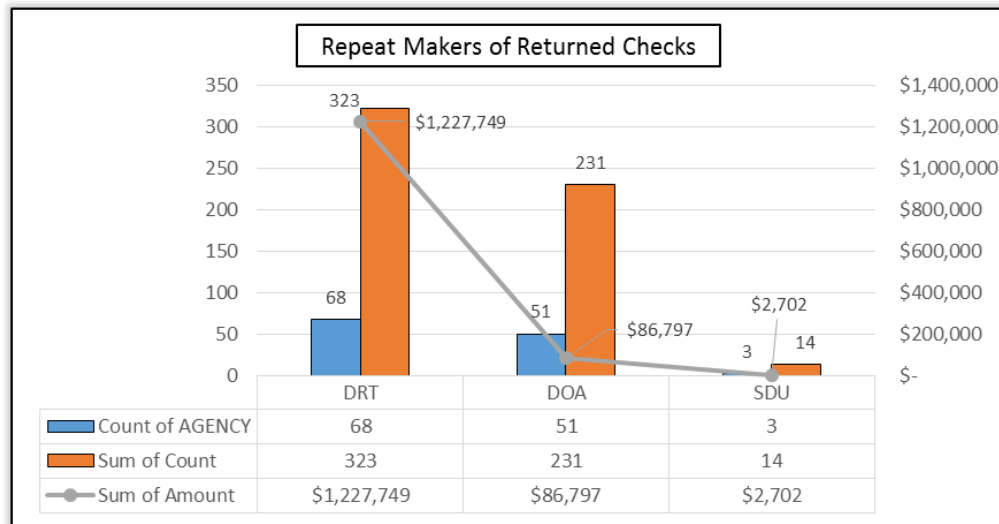
122 Repeat Makers of Returned Checks Allowed to Issue 568 Checks

According to 2 GAR §12106, makers of bad checks should be placed on TOG's bad check list after the first occurrence until the check amount and charge are paid. The second occurrence of a bad check returned to TOG makes mandatory a six-month period during which the maker will not be allowed to make payments of any kind of check or draft drawn on the maker's account. In order for the cashier to determine if the payee is on the bad check list, they would have to access AS400 and check on the Accounts Receivable Listing. They may also use the hard copy list of bad checks.

During our walkthrough, TOG confirmed that cashiers do not check the AS400 nor the hard copy listing prior to accepting checks because it is too time consuming to do so. As a result, when we reviewed the transmittal for the three agencies, there were individuals who issued more than two checks that were returned by the bank ranging from as low as \$10 to as high as \$70K. During our audit period, there were 122 repeat makers of 568 returned checks, of which:

- DRT received 323 returned checks amounting to \$1.2M from 68 repeat makers of bad checks;
- DOA had 231 returned checks amounting to \$87K from 51 payers; and
- SDU received 14 returned checks amounting to \$3K from 3 payers.

Compliance with 2 GAR §12106 requires TOG to maintain a bad check list. TOG has not done so and had said that it is too time consuming. Failure to maintain the bad check listing and refer to it is the primary cause of repeat makers. Also, significant time in the research, collection, and follow-up of these checks could have been avoided if TOG complied with the law.



Convenience Fee has No Impact on Overall Returned Checks

In March 2004, TOG began accepting Visa and MasterCard payments. In September 2010, GovGuam recognized the use of credit cards and debit cards provide a convenient method for citizens to pay their liabilities, but they entail additional fees to GovGuam. In FY 2011, GovGuam paid \$4.3M in credit charges and bank fees.

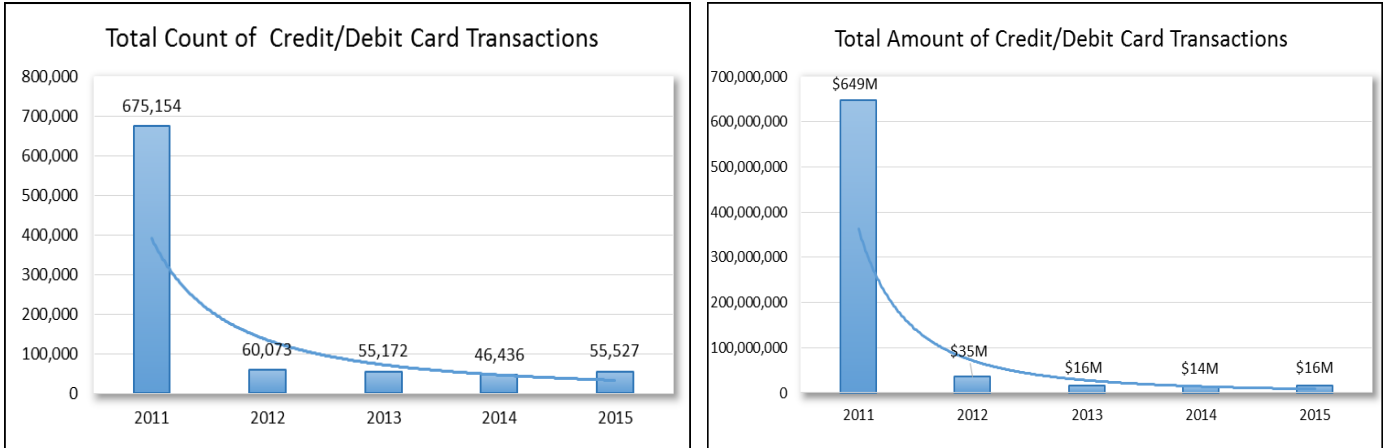
Because of the high credit card fees, GovGuam determined that the fees represent a convenience to the payer and accordingly should not be a burden to GovGuam. In December 2011, the convenience fee was therefore passed on to the payers, pursuant to Public Law 30-196.

The passing of convenience fees to payers resulted in a significant decrease in the number of transactions paid by credit/debit cards by almost tenfold from 675K in FY 2011 to 55K in FY 2015. The value of the payments made by credit/debit cards declined significantly from \$649M to \$16M, a 98% drop in credit/debit card transactions.

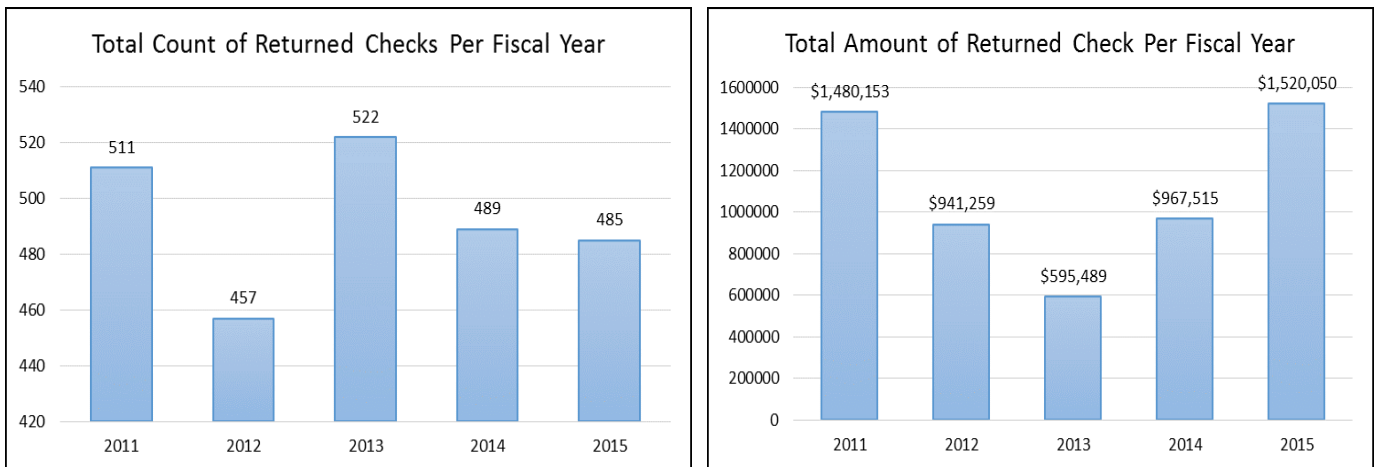
Correspondingly, the number of transactions paid by check significantly increased from 24,433 to 296,764 in FY 2015. The value of these checks increased from \$49M to \$705M. This activity, however, did not impact the number of checks being returned. Although there was a dramatic increase in the number of checks, the number of returned checks decreased from 511 in FY 2011 to 485 in FY 2015. However, the value of checks slightly increased. In 2011, returned checks amounted to \$1.48M and increased to \$1.52M in 2015.

While there is no significant change in the overall number of returned checks from 511 in FY 2011 to 485 in FY 2015, DRT returned checks increased significantly by 44% from 214 to 308 while DOA's returned check declined by 44% from 277 to 155. Returned checks handled by SDU increased slightly from 20 to 24.

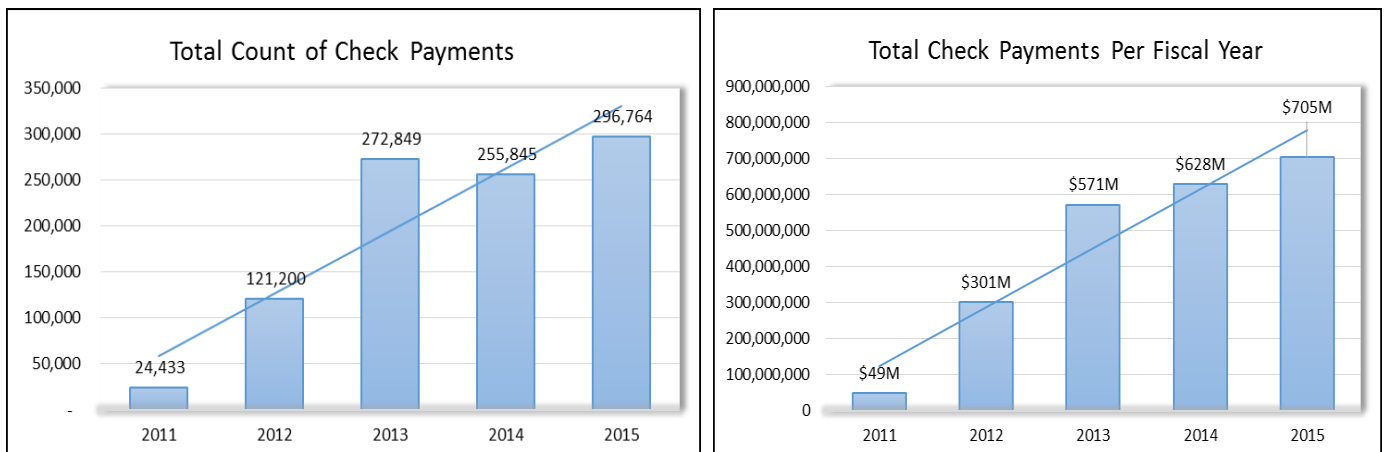
Credit Card Transactions FY 2011 – FY 2015



Returned Checks FY 2011 – FY 2015



Check Payments FY 2011 – FY 2015



Conclusion and Recommendations

Due to the lack of monitoring and oversight by DRT, DOA, and SDU, we found several control deficiencies to ensure the efficient and effective collection and accurate recording of amounts associated with returned checks. As a result,

- The amount of outstanding returned checks is unknown.
- There is lost revenues of approximately \$745K for DRT and \$1.3M for DOA returned checks due to minimal collection efforts.
- DOA inconsistently applied the proper accounting standards for tax related receivables.
- DRT Returned Checks Receivable was misstated by an undetermined amount while SDU's SL was overstated by \$50K.
- DOA, DRT, and SDU did not maximize remedies to collect on returned checks as provided in laws and regulations.

Specifically, the control deficiencies identified are as follows:

- DRT does not maintain a listing for returned checks, physical checks or supporting documents were missing and there was no segregation of duties in handling the Returned Checks process.
- There was a lack of aggressive and timely follow-up of DRT and DOA outstanding returned checks.
- DOA and SDU did not perform any reconciliations during our scope period.
 - Returned Checks AG was overstated by \$50K.
 - Returned Checks Miscellaneous (Suspense) has a balance of \$189K.
- Aged miscellaneous returned checks were not properly allowed.
- Collections letters were not sent via Certified Mail.
- Outstanding checks were not forwarded to the AG's Office.
- TOG does not check the bounced check list prior to accepting checks for payment.

There was a significant increase in the amount of checks since the convenience fee to utilize credit/debit card payments was passed on to customers. However, we found that this did not appear to impact the volume of returned checks from FY 2011 to FY 2015. The value of the returned checks has increased by \$40K from \$1.48M to \$1.52M.

As only one person was assigned to handle the entire DRT returned checks process, we recommend that DRT management monitor and oversee DRT's returned checks process. Since DOA maintains the official GovGuam financial records, we recommend DOA management take responsibility to coordinate with SDU to reconcile the GL with their SL on a regular basis (preferably monthly). There is debate among DOA and DRT as to whose responsibility it is to maintain the GL balance for non-tax related receivables. All three agencies should also implement procedures to maximize remedies as provided by laws and regulations governing returned checks.

Classification of Monetary Amounts

Page 1 of 2

	Finding Description	Questioned Costs	Potential Savings	Unrealized Revenues⁶	Other Financial Impact⁷
1.	2,464 Checks Returned from FY 2011- FY 2015	\$ -	\$ -	\$ -	\$ -
2.	Amount of Outstanding Returned Checks Unknown⁸	\$ -	\$ -	\$ -	\$ -
	DRT's Returned Checks Listing not Maintained	\$ -	\$ -	\$ -	\$ -
	Missing DRT Physical Checks or Supporting Documents	\$ -	\$ -	\$ -	\$ -
	No Segregation of Duties on Handling DRT's Returned Checks	\$ -	\$ -	\$ -	\$ -
	Subtotal	\$ -	\$ -	\$ -	\$ -
3.	Lost DRT and DOA Revenues of \$2.1M	\$ -	\$ -	\$ -	\$ -
	DRT's Collection Efforts ⁹	\$ -	\$ -	\$745,428	\$ -
	DOA's collection Efforts ¹⁰	\$ -	\$ -	\$929,310	\$ -
	SDU's Collection Efforts	\$ -	\$ -	\$ -	\$ -
	73% of Collection Effort Spent on Returned Checks of \$500 or Less	\$ -	\$ -	\$ -	\$ -
	Subtotal	\$ -	\$ -	\$ 1,674,738	\$ -
4.	Inaccurate General and Subsidiary Ledgers	\$ -	\$ -	\$ -	\$ -
	Unreconciled GL and SL Accounts	\$ -	\$ -	\$ -	\$ -
	<i>Returned Checks (AG) Overstated by \$50K or 96% of the Outstanding Balance¹¹</i>	\$ -	\$ -	\$ -	\$49,618

⁶ Unrealized Revenues are funds that could have been collected as additional revenue if corrective actions had been taken by the auditee.

⁷ Other financial impacts are amounts identified, but do not fit the first three categories. For example, reductions to revenues reported on the financial statement that should be realized.

⁸ The amount of DRT outstanding checks is unknown, therefore the total financial impact could not be determined.

⁹ Potential unrealized revenues of DRT is based on 11 out of 20 sampled checks including bounced check fee and treble damages.

¹⁰ This amount includes unrealized revenues due to the lapsed statute of limitation of four years, treble damages, and bounced check fee. Treble damages and bounced check fees already recognized in OPA Report 04-07 amounting to \$411,504 has been excluded.

¹¹ This amount represents the overstatement of receivables of child support payments, which are not considered GovGuam revenues.

Classification of Monetary Amounts

	Finding Description	Questioned Costs	Potential Savings	Unrealized Revenues¹²	Other Financial Impact¹³
	<i>Returned Checks Miscellaneous (Suspense) has a balance of \$189K since 2013</i>	\$ -	\$ -	\$ 188,556	\$ -
	Aged Returned Checks Not Properly Allowed	\$ -	\$ -	\$ -	\$ -
	<i>No Follow-up on Bad Checks Account (GEPA) Prior to 2011</i>	\$ -	\$ -	\$ 2,205	\$ -
	Returned Checks DRT GL is Misstated by an Undetermined Amount ¹⁴	\$ -	\$ -	\$ -	\$21,361
	Subtotal	\$ -	\$ -	\$190,761	\$70,978
5.	Available Remedies Governing Returned Checks not Maximized	\$ -	\$ -	\$ -	\$ -
	Collection Letters not Sent via Certified Mail	\$ -	\$ -	\$ -	\$ -
	Outstanding Checks not Forwarded to the Attorney General's Office	\$ -	\$ -	\$ -	\$ -
	122 Repeat Makers of Returned Checks Allowed to Issue 568 Checks	\$ -	\$ -	\$ -	\$ -
	Subtotal	\$ -	\$ -	\$ -	\$ -
6.	Convenience Fee has No Impact on Returned Checks	\$ -	\$ -	\$ -	\$ -
	Total	\$ -	\$ -	\$1,865,499	\$70,978

¹² Unrealized Revenues are funds that could have been collected as additional revenues if corrective actions had been taken by the auditee.

¹³ Other financial impacts are amounts identified, but do not fit the first three categories. For example, reductions to revenues reported on the financial statement that should be realized.

¹⁴ This amount reflects the balance that remains in DRT's FY 2015 Accounts Receivable GLs maintained by DOA, which should be reversed.

Management Response and OPA Reply

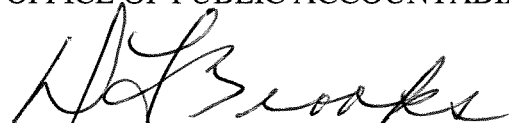
We transmitted a draft report to DOA, DRT, and SDU in December 2016 for their official response. We also met with those agencies to discuss the findings and recommendations contained in the draft report. During our exit meeting, officials from all three agencies generally concurred with the findings and recommendations.

In December 2016, we also received an official response from DOA and DRT indicating that corrective actions will be taken to address and resolve the issues noted in our draft report. See Appendix 4 for DOA's response and Appendix 5 for DRT's response. As of the date of this report, SDU did not provide an official response.

The legislation creating OPA 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, we will be contacting DOA, DRT, and SDU to provide target dates and title of the official(s) responsible for implementing the recommendations.

We appreciate the cooperation shown by the above agencies during the course of this audit.

OFFICE OF PUBLIC ACCOUNTABILITY



Doris Flores Brooks, CPA, CGFM
Public Auditor

Appendix 1: Objectives, Scope & Methodology

The audit objectives were to:

1. To determine the adequacy of controls over returned checks to ensure the efficient and effective collection and accurate recording of all revenues owed to GovGuam.
2. To determine the impact of the convenience fee in the volume of returned checks.

The scope of the audit includes October 1, 2010 (FY 2011) thru September 30, 2015 (FY 2015).

Audit Methodology

To accomplish the objectives of our audit, we performed the following:

- (1) Reviewed relevant laws, regulations, policies, and prior audits relevant to returned checks handled by DOA, DRT, and SDU.
- (2) Obtained an understanding of the process and internal controls over returned checks by conducting walkthroughs and interviews with TOG, DOA, DRT, and SDU officials and staff.
- (3) Obtained and analyzed TOG transmittals, DOA's subsidiary ledger, DRT's listing of returned checks, and SDU's subsidiary ledger.
- (4) Reviewed the general ledger balance and its activities in AS400 and compared the balances with DOA, DRT, and SDU subsidiary ledgers.
- (5) Tested 10 DOA checks totaling \$98,610; 20 DRT checks totaling \$2,640,583; and 11 SDU checks totaling \$4,398 to determine the following:
 - a. accurate and timely recording of returned checks;
 - b. proper segregation of duties and execution of transactions;
 - c. physical controls over returned checks;
 - d. assessment of collection efforts; and
 - e. bounce check fee and treble damages were appropriately assessed and collected.

We conducted this audit in accordance with the standards for performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. These standards require that we plan our audit objectives 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.

Returned checks was referenced in two OPA reports and one financial report. The reports are summarized below

DOA Bounced Checks – OPA Report No. 04-07

This audit cover FY 2001 to 2003. The following are the eight findings noted in this audit.

- Bounced check amounts were unknown due to general ledger and subsidiary ledger balances not reconciling; and inefficient double posting of bounced checks data.
- Bounced checks balances were not reconciled as of June 2003 for DOA, DRT, and SDU.
- No aging and provision for doubtful accounts.
- Minimal collection efforts, bounced checks not re-deposited, and returned checks not referred to AG's office for collection.
- Lack of safeguarding over DOA and DRT bounced checks.
- No minimum check amount imposed.
- Lack of enforcement of bounced check regulations.
- Bounced checks listing not consulted nor updated.

There were 11 audit recommendations, which were closed prior to October 2010, the beginning of our scope period.

DOA Returned Checks Follow-Up Review – OPA Report No. 06-06

This was a follow-up audit of OPA report no. 04-07 covering FY 2004 to 2005. The following were the deficiencies noted in this audit:

- DOA returned checks were not referred to the AG's office.
- DOA did not charge a returned checks penalty fee.
- Dual custody of physical checks was not maintained.
- DOA's AS400 did not automatically post to the General Ledger.
- There was a difference of \$174K between the physical inventory and DOA's AS400.
- DRT took 48 to 319 hours to record checks in AS400.
- Three written-off checks in DRT's system was still in the physical inventory listing.
- Real property tax returned checks were not recorded in the POS system since July 2004.
- There was a difference of \$38K between the physical inventory and DRT's AS400.
- SDU does not maintain an accounting system to record, monitor, and collect returned checks.
- There were no efforts to collect child support returned checks fees and penalties were not charged.
- No record of checks in the APASI and AS400 for the child support returned checks.
- No efforts to reconcile the returned checks between DOA and SDU resulting in an unreconciled difference of \$5,897.
- Four SDU returned checks were missing.

There were nine audit recommendations, which were closed prior to October 2010, the beginning of our scope period.

GovGuam's FY 2015 Financial Audit

The management letter noted that the Government should enforce collection of import and use taxes, customs and quarantine fees, and bounced checks. The independent auditor recommended that DOA analyze recurring losses in these funds and determine if additional personnel may be needed to concentrate on collection efforts.

List of Prior Audit Recommendations - OPA Report 04-07

Agency	Recommendation	Status
DOA	Write-off the bounced checks receivables that cannot be supported by the actual checks. The amount of physical bounced checks on hand is unknown as of the date of this report; \$2.8M write-off in the AS400, resulting from the non-reconciliation of DRT bounced check balances as of June 30, 2003; \$844,871 write-off in the AS400, resulting from the non-reconciliation of GL and SL as of June 30, 2003; \$359,990 allowance for bounced checks exceeding the status of limitation of four years as of June 30, 2003; \$13,184 write-off in the AS400, if the remaining balance in the Miscellaneous account cannot be substantiated; and \$11,622 write-off in the AS400 from the 16 bounced checks at the AG's office that cannot be located.	Recommendation Closed 4/10/06 upon initiation of follow-up audit on Returned Checks.
DOA	Develop a comprehensive return check collection policy to include referrals of bounced checks to the AG, an attorney in private practice, and/or a collection agency. Referrals to an attorney in private practice and/or a collection agency would have to go through the government procurement process.	Recommendation Closed 4/10/06 upon initiation of follow-up audit on Returned Checks.
DOA	Eliminate the use of the spreadsheet list, which requires duplicative input, and instead exert efforts in updating, reconciling, and maintaining the SL and GL in the AS400.	Recommendation Closed 4/10/06 upon initiation of follow-up audit on Returned Checks.
DOA	Establish and enforce written policies and procedures for the monitoring, control, safekeeping, reconciliation, and collection of bounced checks to include: -Annual reconciliation of bounced checks held at DRT (income tax, gross receipts tax, and real property tax) and SDU should be made with DOA records; -Ensuring that bounced checks are adequately safeguarded in locked drawers to prevent unauthorized access, that there is dual custody of the bounced checks, and that the custody and processing functions of bounced checks are segregated; -Ensuring periodic inventories, at least annually, of all bounced checks. The physical inventory should be reconciled to the SL and GL and adjusted accordingly; and -Ensuring aggressive collection efforts to collect bounced checks together with applicable bank fees and penalties.	Recommendation Closed 4/10/06 upon initiation of follow-up audit on Returned Checks.

List of Prior Audit Recommendations - OPA Report 04-07

Agency	Recommendation	Status
DOA	Establish an allowance for uncollected checks, which reflect checks barred from collection as of September 2003.	Recommendation Closed 4/10/06 upon initiation of follow-up audit on Returned Checks.
DOA	Impose the appropriate penalties, interests, and treble damages pursuant to 20 GCA §6104.	Recommendation Closed 4/10/06 upon initiation of follow-up audit on Returned Checks.
TOG	Re-deposit all bounced checks that are less than one year old. If the bounced checks return a second time, collection efforts should be made consistent with the comprehensive collection policy.	In letter of 11/29/04, TOG indicated that bounced checks will be re-deposited upon receipt from DOA.
TOG	Together with the DOA Director, establish and impose a minimum amount for checks- the amount below which checks will not be accepted.	In letter of 11/29/04, TOG indicated that a \$35 minimum amount will be imposed on all checks accepted and a written notice will be posted at all Treasury Windows and Agencies accepting payments.
TOG	Establish written policies and procedures to ensure treasury cashiers consult the bounced checks list prior to check acceptance.	In letter of 11/29/04, TOG indicated that DOA has not provided an up-to-date bounced check list, but Treasury policy and procedures are in place.
DRT	Perform a physical inventory of bounced checks, to include checks maintained by Revenue Officers and adjust DRT control balances to the actual checks. All bounced checks should be maintained in one central location, adequately safeguarded, and under dual custody control.	In letter of 10/11/04, DRT indicated that the Collection Branch maintains all bounced checks in a combination lock safe under dual custody control by the supervisor and a designee Revenue Officer. Recommendation closed on 02/08/2005.
DRT	Annually inform DOA, at a minimum, the amount of bounced checks assessed as tax receivables, so proper reclassification can be performed, as well as reconcile amount of bounced checks with DOA.	In letter of 2/8/05, DRT indicated that they have completed the reconciliation of all inactive accounts.

List of Prior Audit Recommendations - OPA Report 06-06

Agency	Recommendation	Status
DOA	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 AG, private attorney, and/or a collection agency.	Refer to DOA letter dated 6/19/09 and AG status report letter dated 7/2/09. SOPs were established by DOA.
DOA	Consider raising the returned check fee from \$25 to the current business practice of \$35.	Refer to DOA letter dated 6/19/09 and AG status report letter dated 7/2/09. Will consider raising the fee to \$35 but will have to go through the AAA process.
DOA	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.	Refer to DOA letter dated 6/19/09 and AG status report letter dated 7/2/09. SOPs were established by DOA.
DOA	Establish a method for estimating the allowance for uncollected checks.	Refer to DOA letter dated 6/19/09 and AG status report letter dated 7/2/09. SOPs were established by DOA.
DRT	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.	Recommendation closed 05/16/08.
DRT	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.	Recommendation closed 05/16/08.
OAG SDU	Maintain an inventory listing of returned checks that reconciles with the AS400.	Recommendation closed 05/16/08.
OAG SDU	Initiate collection procedures for returned checks.	Recommendation closed 05/16/08.
OAG SDU	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.	Recommendation closed 05/16/08.



Eddie Baza Calvo
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Christine WP Baleta
Director

December 29, 2016

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

Re: Performance Audit, Returned Checks Follow-Up Review - October 1, 2010 through September 2015

Dear Public Auditor Brooks:

We have reviewed the draft report of the OPA Returned Check Follow-Up Review - October 1, 2010 to September 2015. We appreciate the efforts that your office has taken and will use the findings as well as corresponding recommendations to improve procedures and its' implementation.

We are pleased to note that your follow-up review revealed improvements in DOA's and the State Disbursement Unit (SDU)'s efforts in handling returned checks. This has resulted in a decrease in the number of returned checks for the identified period in these respective areas. The report also indicated that DOA has minimal follow-up and timely collection efforts after a year. This is due to a couple of reasons. It is common knowledge that the farther receivables are; the less likely it will be collected. If aggressive efforts in the 12 months following the occurrence do not result in recovery, it is highly unlikely that continued efforts will produce different results. In addition, DOA has been utilizing one (1) of six (6) accountants on staff within our Division of Accounts to process collections. This is an added duty on top of the multitude of responsibilities required. Therefore, if there is no response received from the customers after one year, efforts are minimized to focus on current returned check listing and other primary areas of responsibility. We acknowledge that a better process for referral to the Attorney General's office after we have exhausted internal efforts needs to be implemented.

We have already taken steps to develop a corrective action plan to address concerns noted in the report. We are working on an MOU with DRT on tax refund garnishment that will be completed by January 31, 2017. A sample of this MOU was requested as of this writing. The MOU will include the following steps as a measure to address and resolve the findings noted:

- DOA will develop an SOP noting that, after three unsuccessful attempts have been made to collect from the taxpayer it will then be referred to DRT for tax-offset.
- Semi-annually (by July 31st & January 31st), DOA will submit its' listing of bounced checks to DRT for tax off-set
- If there are no amounts available for tax off-set, or the individual cannot be identified by DRT, the matter will be referred to the Attorney General for collections.
- DRT's non-tax related bounced checks will be managed and collected by DOA according to the above procedures.

DOA and DRT have met with the Attorney General to help facilitate this process of referring uncollected cases. In addition, we will be working with Treasurer of Guam (TOG) and Office of Technology (OTECH) on how we can better compile the listing in compliance, " Title 2 of the Guam Administrative Rules and Regulations (GAR) Chapter 12 §2106".

DOA and DRT will continue to work together to not only resolve issues regarding bounced checks but also any other findings noted.

Should you have questions concerning our response, please do not hesitate to contact me at 475-1234.

Sincerely,



CHRISTINE BALETO
Director, Department of Administration

Appendix 5: DRT Management Response



Dipáttamenton Kontribusion yan Adu'ána

DEPARTMENT OF
REVENUE AND TAXATION
GOVERNMENT OF GUAM Gubetnamenton Guáhan

EDDIE BAZA CALVO, Governor
Maga'láhi
RAY TENORIO, Lt. Governor
Titente Gubetnadot

JOHN P. CAMACHO, Director
Direktot
MARIE M. BENITO, Deputy Director
Sigundo Direktot

December 29, 2016

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

Re: Returned Checks Follow-Up Audit
OPA Report No. 16-0X, Dec 2016

Buenas Yan Saluda,

The Department of Revenue & Taxation (DRT) hereby submits its official response on your recommendations.

DRT is aware of the deficiencies noted in the Returned Check Audit report and is actively working to resolve the issues with the following:

- Determination of the full amount of all returned checks.
 - o DRT will continue to research and reconcile all records within the Department and DOA.
 - o DRT will create and maintain a separate ledger/listing of returned checks both systemically and physically.
- Corrective actions on returned check accounts
 - o Implementing and requiring a working SOP.
 - o Prioritizing and protecting of large and aged accounts.

The above-stated courses of action will also be complemented with a recent proposal to aggressively collect on debts to the Treasury of Guam through the Tax Refund Offset program. This proposal, which has sparked much interest in the last meeting, aims to address an inadequate task that all paper-check recipients are burdened with time and time again at the least cost in its recovery.

Should you have any concerns on this matter, feel free to contact me at 635-1815.


JOHN P. CAMACHO
Director

Appendix 6: Status of Audit Recommendations

No.	Addressee	Audit Recommendation	Status	Action Required
1.	DRT	We recommend management monitor and oversee DRT's returned checks process.	OPEN	Please provide target date and title of official(s) responsible for implementing the recommendation.
2.	DOA and SDU	We recommend DOA management take responsibility to coordinate with SDU to reconcile the GL with their SL on a regular basis (preferably monthly).	OPEN	Please provide target date and title of official(s) responsible for implementing the recommendation.
3.	DOA, DRT, and SDU	We recommend all three agencies implement procedures to maximize remedies as provided by laws and regulations governing returned checks.	OPEN	Please provide target date and title of official(s) responsible for implementing the recommendation.



**Department of Administration
Returned Checks Follow-Up Audit
Report No.16-11, December 2016**

ACKNOWLEDGEMENTS

Key contributions to this report were made by:
Llewelyn Terlaje, CGFM, CGAP, Audit Supervisor
Amacris Legaspi, Audit Staff
Doris Flores Brooks, CPA, CGFM, Public Auditor

MISSION STATEMENT

**To ensure public trust and assure good governance,
we conduct audits and administer procurement appeals,
independently, impartially, and with integrity.**

VISION

**The Government of Guam is the model for good governance in the Pacific.
OPA is a model robust audit office.**

CORE VALUES

**Objectivity: To have an independent and impartial mind.
Professionalism: To adhere to ethical and professional standards.
Accountability: To be responsible and transparent in our actions.**

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- Visit our website at www.opaguam.org
- Call our office at 475-0390
- Fax our office at 472-7951
- Or visit us at Suite 401, DNA Building in Hagåtña;

All information will be held in strict confidence.