

**Department of Administration
Bounced Checks**

**Performance Audit
October 1, 2000 through June 30, 2003**

**OPA Report No. 04-07
June 2004**

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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



OFFICE OF THE PUBLIC AUDITOR

**Department of Administration
Performance Audit of Bounced Checks**

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Introduction

In the 2001 Comprehensive Annual Financial Report (CAFR) issued by the Department of Administration (DOA) in June 2003, 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.

Jurisdiction to Audit

The Public Auditor is required to annually audit “all the transactions and accounts of all departments, offices, corporations, authorities, and agencies in all of the branches of the Government of Guam.” The Public Auditor may also “conduct or cause to be conducted such other audits or reviews as he or she deems necessary.”¹

Background Information

Check as a Mode of Payment

2 G.A.R. § 12101 states:

*“Use of checks or drafts by and drawn on the accounts of individuals, partnerships, and corporations is a **privilege and not a right** (emphasis added). As such, the Government of Guam 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.”*

Receipt Function by the Treasurer of Guam

The Treasurer of Guam (Treasury) is the designated agent to receive and account for all monies from whatever source, and will disburse monies upon properly signed warrants.²

The Treasury is also responsible for (1) receiving all bounced checks and debit memos from banks, (2) preparing a list of these bounced checks, and (3) transmitting the list and bounced checks to



Image 1: View of main treasury outlet windows at the 1st floor of the Department of Administration.

¹ 1 G.C.A. § 1908

² 5 G.C.A. § 22101

OA's Division of Accounts (Accounting), the Department of Revenue and Taxation (DRT), and the Office of the Attorney General's outsourced State Disbursement Unit (SDU).

Custody and Collection Function

Bounced checks are transmitted to Accounting, DRT, and SDU for collection and custody. DRT handles all tax-related checks and DOA handles all other bounced checks except child support. The Office of Attorney General's SDU handles custody and collection of child support bounced checks.

Objectives

Our audit objectives were to analyze the accuracy of the bounced checks list, assess collection efforts, and determine the adequacy of management and control (receipt, custody, and collection) over bounced checks received by the Government of Guam.

Scope and Methodology

Our scope encompassed the bounced checks receivables balances as of September 30, 2001, 2002, and June 30, 2003.

Our methodology included gaining an understanding of the applicable laws and regulations, evaluating management controls over the handling of bounced checks, determining the accuracy of the bounced checks list, and collection ability on the bounced checks.

Our audit 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 the internal controls related to bounced checks. We included tests of records and other auditing procedures that we considered necessary under the circumstances.

Prior Audit Coverage

Prior audit work was conducted via the General Purpose Financial Statements and Single Audits for fiscal years 2001 and 2002. Those audits found deficiencies in internal control over bounced checks.

Reconciliation

In the FY 2001 audit, Finding 2001-88 stated that reconciliation of bounced checks receivables between DOA and DRT had not been performed as of September 30, 2001. The lack of reconciliation of DOA and DRT records for bounced checks resulted in a

difference of \$3.2 million and \$669,217 for DRT income tax and GRT bounced checks, respectively. The effect is that accounts receivables for bounced checks are misstated.

Finding 02-52 (FY 2002) is a repeat of Finding 2001-88. Due to the lack of reconciliation between DOA and DRT records, there was a difference of \$3.5 million and \$353,921 for DRT and GRT bounced checks.

Aging of Accounts Receivable

In FY 2002, Finding 02-53 stated that an aging report is not maintained to determine the aging of bounced check accounts and it appears the Government of Guam is not enforcing its existing collection policies. This is a repeat of FY 2001 Finding 2001-85.

Allowance for Doubtful Accounts

Findings 2001-87 (FY 2001) and 02-51 (FY 2002) stated that there are no established and implemented procedures to record an allowance for doubtful accounts. The allowance for doubtful accounts remains the same every year. The effect is that the realizable accounts receivables could be misstated.

Overall Conclusion

We have concluded that bounced checks are not reconciled or collected timely. Deficiencies include:

- **Amount of bounced checks receivables, based on physical checks on hand, is unknown at both DOA and DRT.** There are two supporting detail lists at DOA: a subsidiary ledger that itemizes bounced checks amounts in the AS400 and a spreadsheet list; neither reconcile with the general ledger. As of June 2003, DRT reported \$1.4 million in bounced checks, while DOA had a balance of \$4.2 million; this translates to a possible adjustment of \$2.8 million that should be made on DOA's books.
- **There are minimal collection efforts of bounced checks at DOA.** Bounced checks are not re-deposited, only one written notice is mailed, and bounced checks are not referred to the Attorney General's office for collection.
- **Monitoring and control of bounced checks are lacking.** The actual physical bounced checks at DOA are kept in an unlocked filing cabinet. There is no centralized location for bounced checks at DRT. Additionally, legal remedies are not properly assessed and the bounced checks list is not consulted.

Specific Findings and Conclusions

Finding 1: Bounced Checks Amount Unknown

Good businesses ensure that the general ledger and supporting details of accounts are reconciled regularly and that they balance.

There are six general ledger accounts that comprise the General Fund bounced checks accounts receivable in the AS400, DOA's financial management system:

- 1) DOA,
- 2) Department of Revenue and Taxation (DRT),
- 3) Gross Receipts Tax (GRT),
- 4) Child Support,
- 5) Attorney General (AG), and
- 6) Miscellaneous (Misc.).

A seventh account, the Real Property Tax (RPT), is recorded separately under the Special Revenue Fund entitled the Territorial Educational Facilities fund.

General Ledger and Subsidiary Ledger Balances Do Not Reconcile

A comparison of the general ledger (GL) and subsidiary ledger (SL) as of September 30, 2001, September 30, 2002, and June 30, 2003 revealed that the amounts do not reconcile (see **Table 1**). The variance as of June 2003 was \$844,871 (see **Appendix A** for variances and expansion of **Table 1**).

Table 1: Comparison of the General and Subsidiary Balances

Period	General Ledger (GL)	Subsidiary Ledger (SL)
General Fund	\$ 4,560,656.57	\$ 4,673,518.40
Real Property Tax	\$ 33,510.87	\$ 86,743.31
September 30, 2001	\$ 4,594,167.44	\$ 4,760,261.71
General Fund	\$ 4,823,202.89	\$ 5,408,549.72
Real Property Tax	\$ 189,119.29	\$ 245,818.75
September 30, 2002	\$ 5,012,322.18	\$ 5,654,368.47
General Fund	\$ 4,958,677.28	\$ 5,712,875.54
Real Property Tax	\$ 170,135.65	\$ 260,808.42
June 30, 2003	\$ 5,128,812.93	\$ 5,973,683.96

Discussions with DOA management (Chief Financial Officer, General Accounting Supervisor, and Accountant) indicated that as of June 2003, no reconciliation of the bounced checks accounts receivable GL and SL were performed based on the actual checks on hand and reconciliations have not been performed in the past. Thus, the bounced checks receivables amount based on physical checks at DOA is unknown. Refer to **Finding 2** for further discussion on the lack of reconciliation of bounced check amounts.

Spreadsheet Listing

Aside from the subsidiary ledger, a spreadsheet list was found to be maintained by the Accounting Technician who processes and handles bounced checks at DOA. The spreadsheet list was developed in 2002 to monitor and record bounced checks prior to preparing a journal voucher and inputting such data into the AS400. However, this spreadsheet list does not reconcile to either the GL or SL. While the DOA Director states that the spreadsheet is simply a tool used to organize daily work, we find it as a tool that requires much attention and is a duplication of employee efforts. Therefore, we

recommend that the DOA Director eliminate the use of the spreadsheet list, which requires duplicative input, and instead exert efforts in updating, reconciling, and maintaining the subsidiary and general ledgers in the AS400.

Inefficient Double Posting of Bounced Checks Data

Most automated accounting systems only require the data entries into the subsidiary ledgers, since the general ledger is automatically updated with each entry. We found that the AS400 does not have this capability and requires staff to input both GL and SL entries. The Accounting Technician first inputs the bounced checks data into the spreadsheet list and then the same account transaction details are inputted into the SL. Then, the transaction's total amount is entered into the AS400 GL. We found this process to be a duplication of efforts, cumbersome, and prone to input errors at the three levels.

We found that the Treasurer discourages the consultation to the spreadsheet list for several reasons: it is not regularly updated, includes makers that have already paid for their bounced checks, is bulky, and a waste of paper.

Miscellaneous Account

The Miscellaneous account in the General Fund was created and used by DOA personnel for posting bounced check payments into the AS400. This account is used for tracking purposes; meaning, the initial debit entry to record the bounced check should immediately be followed by a credit entry to indicate the payment of the bounced check. In theory, the balance in this account should always be zero.

We found that DOA only records the bounced check amounts, but does not reverse the entry for each check that has been paid. As of June 2003, DOA had a balance of \$89,081 in the Miscellaneous account. However, we found 35 checks amounting to \$75,108 in this account that have already been paid. This reflects a lack of monitoring and reconciliation of payments on bounced checks. Reconciliation efforts commenced in December 2003 and in May 2004, the remaining balance of the Miscellaneous account was \$13,184. If the \$13,184 cannot be substantiated, we recommend that it be written off DOA's books.

Finding 2: Bounced Check Balances Not Reconciled as of June 2003

Bounced checks should be monitored and reconciled on a regular basis.

Lack of Reconciliation of DOA Records

Inquiries with DOA Accounting personnel indicated that DOA does not reconcile its bounced checks list with the physical checks on hand. The DOA Deputy Controller, General Accounting Supervisor, and Accountant were **unaware of the amount of physical bounced checks located at DOA** (refer to the GL and SL ending balances as of June 2003 in **Table 1**). Inquiries with the General Accounting Supervisor and Accountant indicated that no inventory of the physical bounced checks has been performed; thus, the **amount of physical bounced checks within DOA is unknown**.

As of December 2003, efforts were undertaken to reconcile the Miscellaneous account and DOA bounced checks in the AS400 GL and SL. According to an Accounting Technician, the reconciliation was done by comparing the GL and SL accounts, but not with the physical bounced checks located at DOA.

Lack of Reconciliation between DOA and DRT Records

Beginning June 2003, the Treasury began transmitting the list of bounced income tax, GRT, and RPT checks, as well as the physical checks, directly to DRT instead of routing it first to DOA Accounting. DRT Accounting Supervisor indicated that the change in procedures resulted from the long delay in DOA Accounting’s transmission of tax-related bounced checks to DRT, which took anywhere from six months to one year.

As shown in **Table 2**, DRT’s records do not reconcile with DOA’s AS400 balance. DRT reported \$1.4 million in bounced checks, while DOA’s general ledger reported a balance of \$4.2 million as of June 2003; this translates to a possible adjustment of \$2.8 million that should be made on DOA’s books as of June 2003.

Table 2: DOA and DRT Reconciliation

Period	Per DOA General Ledger			Total Per DOA	Per DRT *	Variance
	DRT Bounced Checks	GRT Bounced Checks	RPT Bounced Checks			
30-Sep-01	\$ 3,287,532.76	\$ 788,233.10	\$ 33,510.87	\$ 4,109,276.73	\$ 1,189,077.32	\$ 2,920,199.41
30-Sep-02	3,538,697.53	361,682.62	189,119.29	4,089,499.44	1,360,017.57	2,729,481.87
30-Jun-03	3,647,131.23	360,950.68	170,135.65	4,178,217.56	1,395,377.86	2,782,839.70

*Amounts represent GL balance provided by DRT, generated from DRT’s AS400.

Inquiries with DRT Collections Supervisor indicated that previous makers of bounced checks that have made payments are still on DOA’s records. Upon verification of bounced checks above \$10,000, we found three bounced check issuers (four checks) that have fully paid their obligation aggregating \$83,903, but these amounts were still included in DOA’s AS400 as receivables (**Table 3**).

Table 3: Bounced Checks Still in DOA’s records, but have cleared with DRT

Check #	Amount Paid
1 14726 & 14727	44,666.69
2 271404	26,111.51
3 500	13,125.00
TOTAL	\$ 83,903.20

We recommend the Directors of DOA and DRT establish, at a minimum, an annual reconciliation of income tax, GRT, and RPT bounced checks with DOA’s records. DOA should write-off an amount, which represents the difference between DOA general ledger balances and DRT records. The difference was approximately \$2.8 million as of June 2003.

In an April 2004 meeting with OPA, DRT management indicated that all tax-related (income tax, gross receipts tax, and real property tax) bounced checks transmitted to

DRT are first recorded as bounced checks receivables.³ Subsequently, DRT performs a tax assessment resulting in tax payment reversals equal to the bounced check amount. In effect, the assessed bounced checks are reclassified as tax receivables. However, this reclassification is not communicated to DOA.

While we recognize DRT and DOA's ongoing efforts to reconcile their books, the final write-off amount should be as of September 30, 2003.

Lack of Reconciliation of DRT Records

DRT does not reconcile its bounced checks list with the physical checks. The DRT Collections Supervisor is **unaware of the amount of physical bounced checks located at DRT**. Thus, the bounced check receivable amount based on physical checks is also unknown. Although it is claimed that a list of bounced checks are assigned to each revenue officer, we could not verify if that is the case, due to concerns over taxpayer confidentiality. We requested a listing of the bounced checks with the taxpayer names deleted. We only received a partial listing due to the ongoing reconciliation efforts between DOA and DRT.

Inquiries with the Collections Supervisor indicated that physical bounced checks are under the custody of the revenue officers assigned to the accounts and no inventory of the physical bounced checks has been performed. Thus, the **amount of physical bounced checks with each revenue officer is also unknown**.

As of the date of report issuance, DRT Collections was able to partially compile 74 physical bounced checks dated October 1995 to May 2003 aggregating \$192,194. Other bounced checks are being obtained from revenue officers.

We recommend that DRT Accounting and Collections Supervisors perform a reconciliation of the physical bounced checks with their records and immediately write-off all the bounced checks that cannot be supported by actual checks.

DRT does not have a total list of bounced checks that have been assessed as tax receivables. Determination of this amount is ongoing. We recommend that DRT at least annually inform DOA of the amount of bounced checks assessed as tax receivables, so proper reclassification can be performed.

Lack of Reconciliation of SDU Records

Child Support bounced checks were placed under the custody of Guam's State Disbursement Unit (SDU), outsourced to a vendor by the Office of the Attorney General in December 2001. For our report on the Child Support Enforcement Program, refer to OPA Report 03-09 at www.guamopa.org.

As of June 2003, the SDU reported a bounced check balance of \$9,187. DOA's AS400 GL had a balance of \$10,347. A test performed on 10 randomly selected Child Support

³ DRT Management- Director, Deputy Director, Tax Enforcement Officer, Administrator, and Collections Supervisor

bounced checks indicated that the bounced check spreadsheet list obtained from the SDU could be substantiated with physical checks. DOA should adjust its GL balance to the SDU detail subsidiary listing, which has been reconciled to the physical checks on hand. Thus, we recommend that DOA reconcile the Child Support bounced check balance between SDU and DOA records, at least annually.

Finding 3: Aging and Provision for Doubtful Accounts

Procedures to record an allowance for doubtful accounts should be established and implemented in order to reflect the net realizable value of receivables from bounced checks.

The FY 2001 and 2002 Single Audit Reports for the Government of Guam revealed that DOA has no established procedures for recording allowance for doubtful accounts. We found that DOA recorded the same \$15,970 as estimated uncollectible returned checks each fiscal year.

We utilized the spreadsheet list as of June 2003, which totaled \$2,160,144 and had 4,733 checks, to determine an aging of bounced checks. Checks over one year, totaled \$1.7 million. We also found checks as old as 14 years that still remain uncollected. Specifically, checks under one year old amounted to \$363,145 (17.5%); another \$1.3 million (64.7%) were two to four years old; and \$367,872 were older than four years. **Table 4** lists the summary of the accounts receivable aging as of June 30, 2003. **Appendix B** lists the schedules of accounts receivable aging by account as of June 30, 2003.

Table 4: Bounced Check Accounts Receivable Aging Summary as of 6/30/03

Years	# of Checks	Total Amount	%
0 to 1	612	\$ 363,144.66	17.5%
2 to 4	1,628	1,340,045.70	64.7%
5 to 10	1,976	273,371.02	13.2%
11 to 14	468	91,875.45	4.4%
Unknown	14	2,625.93	0.1%
Sub-Total	4,698	\$ 2,071,062.76	100.0%
Misc. Bounced Checks	35	89,081.45	
Total	4,733	\$ 2,160,144.21	

Statute of Limitations

In 7 G.C.A. § 11303, the statute of limitations is four years for the Government to collect from the makers of bounced checks. DRT Tax Enforcement Administrator indicated that the statute of limitations does not apply to tax-related bounced checks. DRT has 30 years to collect on RPT (11 G.C.A. § 24204), 10 years to collect on income taxes (IRC §6502), and 7 years to collect on GRT (11 G.C.A. § 26205).

From the aging list by account in **Appendix B**, there are 2,453 checks totaling \$359,990 that are older than four years, which may be barred from collection due to the statute of limitations. None of the 2,453 checks are tax-related checks. Therefore, we

recommend that an adequate allowance for uncollected checks, which reflect checks barred from collection be established as of September 2003.

Finding 4: Minimal Collection Efforts

Good business practice requires consistent follow-up and collection of accounts that have not been collected.

DOA Collection Efforts

A written notice shall be given to the makers of bounced checks through certified mail, giving the makers 30 calendar days from the date the notice is received to clear the obligation.⁴ DOA can refer checks for collection to legal counsel or to a collection agency. There are minimal collection efforts at DOA. DOA sends the written notice only once by regular mail, no referrals to legal counsel (or a collection agency) are made and no follow-up phone calls are made for subsequent collection efforts.

DRT Collection Efforts

Income tax and gross receipts tax bounced checks are assessed penalties and fees via standardized written notices sent to the makers of the bounced checks. There are three notices sent to income tax payers and two notices sent to GRT payers.

For income tax, the first notice (form TY53) gives the maker of a bounced check 10 days to clear the obligation. The second notice, form TY69, gives the maker an additional 30 days to pay. This second notice is forwarded to DRT collections department and is assigned to a revenue officer for collections. A final notice indicating intention to levy is sent to the maker after the additional 30 days. If the obligation has not been paid, appropriate actions are taken by DRT, such as issuing liens, levies, or seizures of property to satisfy the obligation.

Makers of GRT bounced checks are sent a form similar to the TY69. This notice gives the makers 10 days to pay their obligation. The final notice gives the maker an additional 30 days to clear the liability. Similar to income tax, if the GRT obligations are not paid, appropriate actions are taken by DRT.

Despite these policies, we found several bounced checks that remain uncollected.

- An income tax bounced check from a major retailer for \$464,000 remains uncollected since January 2002 (**Appendix C-2**). DRT Collections Supervisor indicated the bounced check resulted from a stop payment issued by the retailer after filing for reorganization under federal bankruptcy law. This retailer continues to do business, but the bounced check of \$464,000 remains uncollected.

⁴ 2 G.A.R. § 12108(a) and (b), and 20 G.C.A. § 6104

- Another income tax bounced check for \$65,000 remains uncollected since December 2002 (**Appendix C-2**). In this instance, the bounced check was drawn upon a joint account. The bounced check was signed by one of the account holders, however, both DRT and DOA list only the other account holder and not both. It was through physical inspection of the check that it was determined to have been drawn from a joint account. Aside from the \$65,000 remaining uncollected, this bounced check is an example of the possible unreliability of the bounced checks list, since it only lists one of the account holders, instead of both account holders to indicate a joint account.
- There were bounced checks issued by retailers no longer doing business on Guam. Retailer 1 issued two checks for \$51,513 in January 2001 for unspecified payments to the Government of Guam (**Appendix C-1**). Retailer 2 issued a check for \$36,269 in June 2001 for the payment of GRT (**Appendix C-3**). These bounced checks remain uncollected.

Real Property Tax Collections Effort

The Real Property Tax (RPT) bounced checks are recorded under the ledger of the Territorial Education Facilities fund, a Special Revenue Fund. According to the RPT Administrator, the makers of RPT bounced checks are sent an initial notice giving the makers 30 days to pay the bounced check amount, a \$25 penalty fee, and additional interests and fees. If the obligation is not cleared, the maker is sent a second notice that gives the maker 15 days to pay the bounced check, plus a \$50 penalty fee and additional interests and fees. If the maker still takes no action, a final notice known as a deed of non-payment is sent and appropriate actions are taken.

As of June 30, 2003, uncollected RPT bounced checks totaled \$227,717 (155 bounced checks). Of this amount, 76 checks totaling \$35,586 are one year or less; another 43 checks or \$172,804 are over two years; and 36 checks or \$19,327 were three years or older. See **Appendix B-7** for aging of RPT bounced checks.

The largest RPT bounced check is \$121,836 dated 4/15/2002, from an entity that is still in business and the obligation remains uncollected (**Appendix C-7**).

It is important to enforce immediate collection efforts of bounced checks to avoid the possibility of the checks becoming uncollectible due to the closure of businesses, off-island relocation of makers, or expiration of the four-year statute of limitations.⁵

Child Support Collection Efforts

Discussions with the Office Manager of the Child Support SDU indicated they do not collect the \$25 penalty fee for the Government of Guam when makers pay the bounced check amount. Only one notice is sent to the makers of such checks and then phone calls are placed to get in touch with the makers.

⁵ Statute of Limitation is found in 7 G.C.A. §11303.

As of June 30, 2003, Child Support bounced checks balance was \$9,187. **Appendix B-5** lists the aging of the child support bounced checks. **Appendix C-5** lists the top 10 issuers of child support bounced checks.

Bounced Checks Not Re-Deposited

During the scope of our audit, the general fund bank account was maintained at Bank A. This bank charged a bounced check fee of \$5 for each returned check, regardless of the check amount or the bank being drawn upon.

The Treasurer of Guam and DOA General Accounting Supervisor indicated that upon receipt of bounced checks, they were not re-deposited due to additional bank charges. They stated that the likelihood for the checks to come back a second time due to insufficient funds is high. However, the re-depositing of bounced checks could minimize the amount of bounced checks, given the limited collection efforts DOA follows. Further, given the substantial daily bank balances the Government of Guam has, DOA should have negotiated the waiver of the bounced check fees.

In March 2004, DOA transferred the General Fund bank account to Bank B. Bounced check fees are waived at Bank B. Inquiries with DOA management indicated that the DOA Director recommended the inclusion of a waived bounced check fee in the procurement proposal. As of May 2004, DOA began to re-deposit bounced checks.

Returned Checks Not Referred to AG's Office for Collection

The government reserves the right to make available any and all names of makers of bad checks to credit bureaus or credit groups.⁶

From 1989 to 1992, DOA referred bounced checks not paid after 30 days of a written notice to the Office of the Attorney General (AG's office). These checks were removed from the DOA bounced check account and transferred into the Attorney General bounced check account in the AS400. AS400 records showed a total of \$11,622 (16 bounced checks) remain uncollected. Refer to **Table 5** for the top five issuers of these bounced checks.

Table 5: Bounced Checks Transferred to AG's office for Collection

	Check #	Transfer Date	Amount
1	729, 722	5/29/1992	\$7,075.00 ⁷
2	220	8/4/1992	1,729.33
3	no check #	5/29/1992	1,720.50
4	1271, 1269	8/28/1989, 8/17/1989	600.00
5	597	8/17/1989	155.00
		Top 5 Issuers	\$ 11,279.83
		Other 8 Issuers	342.50
		TOTAL	\$ 11,622.33

⁶ 2 G.A.R. § 12107

⁷ This maker owed a total of \$7,875, but an \$800 partial payment was made. Thus, this maker has an outstanding balance of \$7,075.

Inquiries with personnel at the AG's office indicated that no one is aware of the status of these 16 checks. The Administrative Services Officer at the AG's office indicated no knowledge of the bounced checks referred by DOA; thus, we were referred to a Consumer Advocate (CA). The CA indicated that the AG's office has been short-staffed from 1992 to the present, and as a result, these bounced checks became a low priority. As of the issuance date of this report, the AG's office has not provided OPA the status of these 16 bounced checks.

In March 2004, inquiries with personnel at the AG's office revealed that collection efforts for bounced checks are currently not being pursued. DOA General Accounting Supervisor and Deputy Controller confirmed there are no current transfers of bounced checks to the AG's office since 1992.

DOA has not established a collection policy when bounced checks should be referred to either the Attorney General, a private attorney, or to a collection agency for collection. Given the amount of bounced checks outstanding as of June 30, 2003 of \$5.1 million in the GL (**Appendix A**), a comprehensive collection policy is needed.

We recommend that the DOA Director develop a comprehensive collection policy for bounced checks to include at what amounts bounced checks will be referred to the Attorney General, to a private attorney, and/or a collection agency. Referral to an attorney in private practice or to a collection agency would require selection through requests for proposals, pursuant to government procurement laws.

In addition, because of the length of time elapsed and since the 16 bounced checks at the AG's office cannot be located, we recommend that these bounced checks totaling \$11,622 be written off.

Finding 5: Lack of Safeguarding Over Bounced Checks

The U.S. General Accounting Office's Standards for Internal Control states that an agency must establish physical control to secure and safeguard vulnerable assets, such as bounced checks. We found that bounced checks at DOA are stored in file drawers that are kept unlocked, increasing the possibility for any individual to take the bounced checks of a relative or friend undetected.

As of November 2003, we found 3,140 checks stored in these unlocked drawers and another 719 checks stored in an unlocked revolving cabinet, all of which could be easily accessed. This condition may be part of the cause of the



Image 2: Unlocked drawers filled with bounced checks dating from 1989 to 2003.

actual number of checks not agreeing with the GL.

There is only one Accounting Technician who processes bounced checks into the AS400 and who has physical custody over such checks. Processing and custody control should be segregated to ensure adequate check and balance.

DRT does not have a centralized location for all tax-related bounced checks. DRT Collections Supervisor assigns the bounced checks to the revenue officers, who hold the actual bounced checks until such time that the payments are collected. Although the Collections Supervisor claims that she maintains a listing of all the bounced checks and the revenue officer assigned to pursue collection of the bounced check, this listing could not be provided to OPA due to taxpayer confidentiality issues. Consequently, the DRT Collections Supervisor is not aware of where the physical bounced checks are at all times.

Neither DOA nor DRT conduct periodic inventory of the physical bounced checks to verify the accuracy of the subsidiary and general ledger control amounts.

We recommend the Directors of DOA and DRT establish procedures for handling bounced checks, to include ensuring (1) that bounced checks are maintained in locked drawers to prevent unauthorized access, (2) that there is dual custody control of the bounced checks and that the custody and processing functions of bounced checks are segregated, and (3) that periodic inventories of the bounced checks are performed and reconciled to the subsidiary and general ledger totals.

Finding 6: Bank Charges due to No Minimum Check Amount Imposed

The Treasurer of Guam, may upon posting a written notice at all Treasury windows, prohibit checks as a form of payment below a minimum or above a maximum amount.⁸



Image 3: DRT Collections Branch Treasury window did not have any sign indicating the minimum or maximum amount that a check can be written for payment to the Government.

Site visits to the DRT Collections Branch, Department of Motor Vehicles (DMV), and the main treasury outlets of the Treasurer of Guam showed *no posted signs* prohibiting checks as a form of payment below a minimum or above a maximum amount. Discussions with the Treasury Cashier Supervisor confirmed that any check amount, even as low as one dollar (\$1) is accepted as a form of payment, provided the maker of the check is not on the bounced checks list.

The Cashier Supervisor and Assistant Treasurer of Guam preferred that a minimum check amount of \$50 be imposed. Therefore, we recommend the

⁸ 2 G.A.R. § 12103(c)

Director of Administration and the Treasurer of Guam establish a minimum check amount, in order to eliminate unnecessary processing.

Bank Charges

The Government incurred bank charges of \$11,730 (**Table 6**) for (1) general fund- DOA, DRT, and GRT bounced checks, (2) child support, and (3) real property tax bank accounts.

Table 6: Bounced Checks Bank Charges from October 2000 to June 2003

	General Fund Bounced Checks	Child Support Bounced Checks	Real Property Tax Bounced Checks	TOTAL
# of Checks	2,094	62	190	2,346
Average # of Checks/ Month	63	2	6	71
Total Bank Fees	\$ 10,470.00	\$ 310.00	\$ 950.00	\$ 11,730.00

There were 633 checks, dated 1989 to 2003, ranging from \$1 to \$10, with a value of \$4,075 (**Table 7**). Bank A charged DOA \$5 for each bounced check, regardless of the check amount. The Government of Guam paid more in bounced check fees than the value of the checks with amounts from \$1 to \$5. Bounced check fees for these 384 checks were \$1,920 or \$161 more than the value of the checks of \$1,759. This condition resulted from DOA's failure to impose a minimum amount for checks to be accepted and not negotiating with Bank A to waive the fees.

Table 7: Checks Issued with Amounts from \$1 to \$10 as of 6/30/03

Amount/Range	# of Checks	Total Amount	Bank Charge
\$0 to \$1	15	\$ 15.00	\$ 75.00
\$1+ to \$2	15	28.68	75.00
\$2+ to \$3	15	40.88	75.00
\$3+ to \$4	18	70.05	90.00
\$4+ to \$5	321	1,604.45	1,605.00
Total \$0 to \$5	384	\$ 1,759.06	\$ 1,920.00
Over \$5 to \$10	249	2,316.22	1,245.00
Total \$0 to \$10	633	\$ 4,075.28	\$ 3,165.00

Finding 7: Lack of Enforcement of Bounced Check Regulations

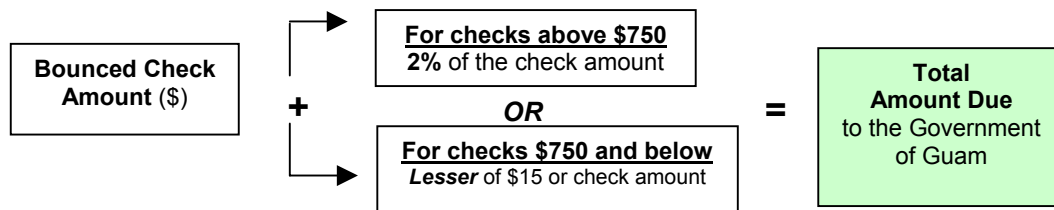
DOA

20 G.C.A. § 6104 requires the Government of Guam to charge a maker the amount of the bounced check *plus* interest or other damages, at the Government's election, damages of triple the face amount of the check, but in no case less than \$50 or more than \$750 for each check.

20 G.C.A. § 6105 further stipulates that the Government is entitled to reasonable attorneys' fees of not less than \$25 nor more than \$250 per bounced check. DOA is only assessing the \$25 fee plus the bad check amount. We found that interest and/or treble damages are not being properly assessed.

DRT

Internal Revenue Code § 6657 requires that bounced income tax checks above \$750 be penalized 2% of the check amount; checks less than \$750 are assessed the lesser of \$15 or the check amount. The chart below illustrates the penalties required by IRC § 6657.



Inquiries with DRT Collections Supervisor and Administrator indicated that the makers of bounced income tax checks are charged 1) the check amount, 2) the *higher* of \$15 or 2% of the check amount, 3) an additional 1% interest per month after the issuance of a written notice to the maker of such bounced checks, and 4) other interest rates and fees.

We estimate a total of \$1.2 million for service charge (\$319,967) and treble damages (\$891,600) that could have been collected by DOA and DRT, but were not assessed. See **Appendix D**. Thus, we recommend the Directors of DOA and DRT impose penalties, treble damages, interest, and/or other service fees as authorized by laws and regulations.

Finding 8: Bounced Checks List Not Consulted nor Updated

The 1989 memorandum issued by former DOA directors regarding the procedures for accepting checks specify that the bad check listing prepared by DOA should be reviewed before checks are accepted. In addition, the memorandum states that a bad checks list should be circulated at the beginning of each month; thus, implying that the bounced checks list should be up-to-date.

Checks returned to the Treasury for collection will be placed on this list until the check amount and charge are paid, while the second occurrence of a bad check will result in denying the payer the privilege of paying through check for a period of six months.⁹

AS400 List Not Updated

Discussions with Treasury cashiers indicated that the subsidiary ledger in the AS400 is not updated on a monthly basis; therefore it is usually several months behind. DOA General Accounting Supervisor indicated that the same Accounting Technician maintains the spreadsheet lists and AS400 subsidiary ledger.

⁹ 2 G.A.R. § 12106

No Consultation of Bounced Checks List

Analysis of the spreadsheet lists indicated that the bounced checks list is not always consulted prior to accepting check payments from a maker who is on the list.

- For example, Maker M issued 12 bounced checks, total of \$18,101, in an eight-month period (August 2002 through April 2003). Had the cashiers reviewed the bounced checks list prior to accepting check payments from Maker M, at least 10 bounced checks with total value of \$15,014 and \$50 in bank charges could have been avoided.
- In another instance, Maker Z issued 24 bounced checks (\$1,982) from 1997 through 2003, the majority of the checks being issued in 1999. None of the 24 checks have been collected from the maker. Had a \$25 fee been assessed for each of the 24 checks, this maker would owe the government \$600 in penalties *plus* the Government can opt to collect treble damages of \$5,684. Had the cashiers reviewed the bounced checks list prior to accepting check payments from Maker Z, a total of 23 bounced checks with the value of \$1,939 and \$115 in bank charges could have been avoided.

Observations made at the DMV and DRT Collections Branch treasury outlets revealed that contrary to Treasury personnel's claim that the cashiers are consulting the AS400 subsidiary ledger prior to check payment acceptance, not all cashiers are consulting these lists prior to accepting checks.

By not reviewing the bounced checks list, the Treasury cashiers failed to prevent the re-occurrence of bounced checks and the Government incurred additional bank charges. Therefore, we recommend that the Treasurer of Guam establish written policies and procedures to ensure treasury cashiers consult the bounced checks list prior to check acceptance.

Recommendations

The lack of review, safeguarding, reconciliation and collection has resulted in the unreconciled bounced check GL balance of \$5,128,813, as of June 30, 2003. We recommend the following:

1. To the Director of Administration:
 - 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.
 - \$2.8 million 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 general ledger and subsidiary ledger as of June 30, 2003;

- \$359,990 allowance for bounced checks exceeding the statute of limitations 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.
 - Develop a comprehensive return check collection policy to include referrals of bounced checks to the Attorney General, 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.
 - Eliminate the use of the spreadsheet list, which requires duplicative input, and instead exert efforts in updating, reconciling, and maintaining the subsidiary and general ledgers in the AS400.
 - Establish and enforce written policies and procedures for the monitoring, control, safekeeping, reconciliation, and collection of bounced checks to include:
 - The 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 subsidiary and general ledgers and adjusted accordingly; and
 - Ensuring aggressive collection efforts to collect bounced checks together with applicable bank fees and penalties.
 - Establish an allowance for uncollected checks, which reflect checks barred from collection as of September 2003.
 - Impose the appropriate penalties, interests, and treble damages pursuant to 20 G.C.A. § 6104.
2. To the Treasurer of Guam:
- 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.
 - Together with the DOA Director, establish and impose a minimum amount for checks- the amount below which checks will not be accepted.
 - Establish written policies and procedures to ensure treasury cashiers consult the bounced checks list prior to check acceptance.
3. To the Director of Revenue & Taxation:
- 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.

- 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.

Management Initiatives



Image 4: Credit cards are now accepted at all four treasury outlets.

Credit Cards: In March 2004, the Treasury outlets began accepting Visa and MasterCard payments. Not only will this initiative help to minimize the occurrence of bounced checks and bounced check fees; this will also increase cash flow into the Government. We caution, though, that adequate procedures and timely reconciliation of credit card payments should be in place.

Automated System: The Treasury, along with DOA and DRT, are in the process of establishing a Point-of-Sale automated system, which is slated for implementation July 2004. The point-of-sale system should aid in minimizing the frequency of bounced checks.

DOA Reconciliation Efforts: In December 2003, an Accounting Technician was assigned to reconcile the DOA and Miscellaneous bounced checks accounts receivable general and subsidiary ledgers as of September 30, 2003; in time for the FY 2003 financial statement audit. Reconciliation is ongoing as of report issuance. DOA is working to determine the estimated allowance for uncollectible bounced checks as of September 30, 2003.

DRT Reconciliation Efforts: In April 2004, DRT began its reconciliation of the physical checks with what is recorded in their system. Reconciliation for account balance as of September 30, 2003 is ongoing.

We applaud DOA and DRT for their initiatives.

Management Response

We provided a draft copy of our report to DOA and DRT for review and comment. Refer to **Appendix E** for DOA's management response and **Appendix F** for DRT's management response.

DOA generally concurred with our findings with the exception that DOA objects to the inclusion of the spreadsheet list mentioned in Finding 1. We have modified our report in consideration of DOA's comment that the spreadsheet list is only used as a tool,

although we recognize the duplication of efforts exerted through the preparation and utilization of such a list.

A list of recommendations that DOA has started to implement included the re-depositing of bounced checks, the ongoing reconciliation with DRT, the establishment of internal controls, and the consideration of the feasibility in utilizing the Small Claims Court for enforcement of bounced check collections.

DRT concurred with our findings and recommendations in the report. DRT has agreed to perform a physical inventory of bounced checks, to maintain all bounced checks in one central location that is adequately safeguarded and under dual control, and to annually reconcile the amount of bounced checks with DOA at a minimum.

We would like to thank both DOA and DRT for their responses and immediate implementation of some of our recommendations.

Limitations of the Report

This report has been released to the Governor of Guam, the Speaker and members of the 27th Guam Legislature, the Director of Administration, the Treasurer of Guam, the Director of Department of Revenue and Taxation, the Director of Bureau of Budget Management and Research, the Attorney General of Guam, the Guam branch of the Office of Inspector General of the U.S. Department of Interior, and the U.S. Attorney for Guam. This report is a matter of public record and its distribution is not limited.

This report does not provide conclusions involving legal determinations.

OFFICE OF THE PUBLIC AUDITOR



Doris Flores Brooks, CPA, CGFM
Public Auditor

Appendices

Appendix A: General Ledger and Subsidiary Ledger Comparison

As of September 30, 2001

Account Type	General Ledger (GL)	Subsidiary Ledger (SL)	GL v. SL
GENERAL FUND			
1 DOA	\$ 449,487.78	\$ 456,410.81	\$ (6,923.03)
2 DRT	3,287,532.76	3,358,665.93	(71,133.17)
3 GRT	788,233.10	847,359.33	(59,126.23)
4 Miscellaneous	13,973.81	0.00	13,973.81
5 Child Support	10,346.79	0.00	10,346.79
6 AG	11,082.33	11,082.33	0.00
7 Unknown Account	0.00	0.00	0.00
Total General Fund Amount	\$ 4,560,656.57	\$ 4,673,518.40	\$ (112,861.83)
SPECIAL REVENUE FUND			
8 RPT	33,510.87	86,743.31	(53,232.44)
Grand Total	\$ 4,594,167.44	\$ 4,760,261.71	\$ (166,094.27)

As of September 30, 2002

Account Type	General Ledger (GL)	Subsidiary Ledger (SL)	GL v. SL
GENERAL FUND			
1 DOA	\$ 887,419.81	\$ 909,796.46	\$ (22,376.65)
2 DRT	3,538,697.53	3,634,591.69	(95,894.16)
3 GRT	361,682.62	853,079.24	(491,396.62)
4 Miscellaneous	13,973.81	0.00	13,973.81
5 Child Support	10,346.79	0.00	10,346.79
6 AG	11,082.33	11,082.33	0.00
7 Unknown Account	0.00	0.00	0.00
Total General Fund Amount	\$ 4,823,202.89	\$5,408,549.72	\$ (585,346.83)
SPECIAL REVENUE FUND			
8 RPT	189,119.29	245,818.75	(56,699.46)
Grand Total	\$ 5,012,322.18	\$5,654,368.47	\$ (642,046.29)

As of June 30, 2003

Account Type	General Ledger (GL)	Subsidiary Ledger (SL)	Spreadsheet List	GL v. SL	GL v. Spreadsheet	SL v. Spreadsheet
GENERAL FUND						
1 DOA	\$ 888,502.60	\$ 946,278.60	\$ 619,469.33	(57,776.00)	269,033.27	326,809.27
2 DRT	3,647,131.23	3,874,324.73	931,070.76	(227,193.50)	2,716,060.47	2,943,253.97
3 GRT	360,950.68	881,189.88	219,585.52	(520,239.20)	141,365.16	661,604.36
4 Miscellaneous	40,766.65	0.00	89,081.45	40,766.65	(48,314.80)	(89,081.45)
5 Child Support	10,346.79	0.00	9,187.10	10,346.79	1,159.69	(9,187.10)
6 AG	10,979.33	11,082.33	11,622.33	(103.00)	(643.00)	(540.00)
7 Unknown Account			52,410.95	0.00	(52,410.95)	(52,410.95)
Total General Fund Amount	\$4,958,677.28	\$5,712,875.54	\$ 1,932,427.44	\$ (754,198.26)	\$ 3,026,249.84	\$ 3,780,448.10
SPECIAL REV. FUND						
8 RPT	170,135.65	260,808.42	227,716.77	(90,672.77)	(57,581.12)	33,091.65
Grand Total	\$ 5,128,812.93	\$ 5,973,683.96	\$ 2,160,144.21	\$ (844,871.03)	2,968,668.72	\$ 3,813,539.75

Appendix B: Bounced Checks Aging Schedules by Account as of 6/30/03

B-1: DOA

Years	# of Checks	Total Amount	%
0-30 Days	54	\$ 7,523.00	1.2%
31-60 Days	41	7,375.00	1.2%
61-90 Days	33	4,073.00	0.7%
91-120 Days	22	2,306.00	0.4%
120-365 Days	201	30,041.00	4.8%
1 Year Total	351	\$ 51,318.00	8.3%
2 yrs.	226	46,764.77	7.5%
3 yrs.	288	123,249.40	19.9%
4 yrs.	368	44,092.03	7.1%
5 yrs.	365	70,764.58	11.4%
6 yrs.	358	44,431.12	7.2%
7 yrs.	447	37,965.29	6.1%
8 yrs.	322	33,734.36	5.4%
9 yrs.	241	46,766.04	7.5%
10 yrs.	241	39,155.59	6.3%
11 yrs.	167	42,122.23	6.8%
12 yrs.	103	15,459.99	2.5%
13 yrs.	111	14,112.91	2.3%
14 yrs.	71	8,557.99	1.4%
No Dates	11	975.00	0.2%
Total	3,670	\$ 619,469.30	100.0%

B-2: DRT

Years	# of Checks	Total Amount	%
0-30 Days	10	\$ 7,805.95	0.8%
31-60 Days	11	6,216.40	0.7%
61-90 Days	40	47,604.91	5.1%
91-120 Days	12	21,415.05	2.3%
120-365 Days	51	123,132.66	13.2%
1 Year Total	124	\$ 206,174.97	22.1%
2 yrs.	265	617,941.34	66.4%
3 yrs.	162	99,072.52	10.6%
4 yrs.	2	6,231.00	0.7%
No Dates	3	1,650.93	0.2%
Total	556	\$ 931,070.76	100.0%

B-3: AG

Years	# of Checks	Total Amount	%
11 yrs.	1	\$ 1,729.33	14.9%
12 yrs.	3	8,795.50	75.7%
13 yrs.	0	0.00	0.0%
14 yrs.	12	1,097.50	9.4%
Total	16	\$ 11,622.33	100.0%

B-4: GRT

Years	# of Checks	Total Amount	%
0-30 Days	10	\$ 19,141.49	8.7%
31-60 Days	6	9,770.77	4.4%
61-90 Days	5	3,046.25	1.4%
91-120 Days	2	890.80	0.4%
120-365 Days	29	35,638.30	16.2%
1 Year Total	52	\$ 68,487.61	31.2%
2 yrs.	51	61,018.62	27.8%
3 yrs.	42	90,079.29	41.0%
Total	145	\$ 219,585.52	100.0%

B-5: Child Support

Years	# of Checks	Total Amount	%
0-30 Days	1	\$ 50.00	0.5%
31-60 Days	2	250.00	2.7%
61-90 Days	4	903.23	9.8%
91-120 Days	0	0.00	0.0%
120-365 Days	2	375.00	4.1%
1 Year Total	9	\$ 1,578.23	17.2%
2 yrs.	27	3,198.26	34.8%
3 yrs.	18	4,410.61	48.0%
Total	54	\$ 9,187.10	100.0%

B-6: Unknown Accounts

Years	# of Checks	Total Amount	%
1 yr.	0	\$ 0.00	0.0%
2 yrs.	31	23,529.83	44.9%
3 yrs.	69	28,327.08	54.0%
4 yrs.	0	0.00	0.0%
5 yrs.	1	420.00	0.8%
6 yrs.	0	0.00	0.0%
7 yrs.	0	0.00	0.0%
8 yrs.	0	0.00	0.0%
9 yrs.	1	134.04	0.3%
Total	102	\$ 52,410.95	100.0%

B-7: Real Property Tax

Years	# of Checks	Total Amount	%
0-30 Days	6	\$ 3,411.90	1.0%
31-60 Days	3	5,524.69	2.0%
61-90 Days	15	10,348.90	5.0%
91-120 Days	4	2,621.51	1.0%
120-365 Days	48	13,678.82	6.0%
1 Year Total	76	\$ 35,585.82	16.0%
2 yrs.	43	172,803.95	75.9%
3 yrs.	36	19,327.00	8.5%
Total	155	\$ 227,716.77	100.0%

Appendix C: Top 10 Issuers of Bounced Checks by Account

The following tables are as of June 2003.

C-1: DOA Bounced Checks

	Name	# of Bounced Checks	Date	Amount	Penalty Fee	Total Amount Due
1	Maker A1	2	1/22/2001	\$ 51,512.50	\$ 50.00	\$ 51,562.50
2	Maker B1	1	3/31/2001	11,988.28	25.00	12,013.28
3	Maker C1	1	11/1/2001	8,742.90	25.00	8,767.90
4	Maker D1	1	3/15/1993	8,649.08	25.00	8,674.08
5	Maker E1	1	8/27/1998	6,014.50	25.00	6,039.50
6	Maker F1	12	1994~1995	5,918.23	300.00	6,218.23
7	Maker G1	1	3/9/1999	5,917.50	25.00	5,942.50
8	Maker H1	6	1998~2000	5,683.13	150.00	5,833.13
9	Maker I1	7	1995~2001	5,471.21	175.00	5,646.21
10	Maker J1	5	1995~1998	5,275.01	125.00	5,400.01
	Top 10	37		\$ 115,172.34	\$ 925.00	\$ 116,097.34
	Other 2,604 Issuers	3,633		504,296.99	90,825.00	595,121.99
	Total	3,670		\$ 619,469.33	\$ 91,750.00	\$ 711,219.33

C-2: DRT Bounced Checks

	Name	# of Bounced Checks	Date	Amount	Penalty Fee	Total Amount Due
1	Maker A2	1	1/15/2002	\$ 464,000.00	\$ 88,160.00	\$ 552,160.00
2	Maker B2	1	12/15/2002	65,000.00	5,200.00	70,200.00
3	Maker C2	1	4/15/2002	20,000.00	3,200.00	23,200.00
4	Maker D2	1	3/13/2002	15,365.00	2,612.05	17,977.05
5	Maker E2	1	4/14/2003	14,798.00	591.92	15,389.92
6	Maker F2	1	11/27/2002	12,000.00	1,080.00	13,080.00
7	Maker G2	2	3/21/2003	10,000.00	500.00	10,500.00
8	Maker H2	5	2003	7,915.10	470.31	8,385.41
9	Maker I2	1	12/31/2001	7,431.00	1,486.20	8,917.20
10	Maker J2	1	4/11/2001	6,664.00	1,932.56	8,596.56
	Top 10	15		\$ 623,173.10	\$ 105,233.04	\$ 728,406.14
	Other 492 Issuers	541		307,897.66	61,857.08	369,754.75
	Total	556		\$ 931,070.76	\$ 167,090.12	\$ 1,098,160.88

C-3: GRT Bounced Checks

	Name	# of Bounced Checks	Date	Amount	Penalty Fee	Total Amount Due
1	Maker A3	1	6/22/2001	\$ 36,269.24	\$ 5,465.39	\$ 41,734.63
2	Maker B3	4	2001~2002	10,339.98	1,651.00	11,990.98
3	Maker C3	7	2002~2003	10,186.11	1,702.92	11,889.03
4	Maker D3	3	2001	7,793.70	1,244.06	9,037.76
5	Maker E3	4	2001~2002	6,032.70	1,004.91	7,037.61
6	Maker F3	1	6/18/2003	5,980.86	922.13	6,902.99
7	Maker G3	1	4/20/2001	5,690.22	878.53	6,568.75
8	Maker H3	2	2002	5,645.68	896.85	6,542.53
9	Maker I3	3	2000~2001	5,161.04	849.16	6,010.20
10	Maker J3	1	3/15/2002	4,581.06	712.16	5,293.22
	Top 10	27		\$ 97,680.59	\$ 15,327.11	\$ 113,007.70
	Other 100 Issuers	118		121,904.93	21,235.72	143,140.65
	Total	145		\$ 219,585.52	\$ 36,562.83	\$ 256,148.35

C-4: AG Bounced Checks

	Name	# of Bounced Checks	Transfer Date	Amount	Penalty Fee	Total Amount Due
1	Maker A4	2	5/29/1992	\$ 7,075.00	\$ 50.00	\$ 7,125.00
2	Maker B4	1	8/4/1992	1,729.33	25.00	1,754.33
3	Maker C4	1	5/29/1992	1,720.50	25.00	1,745.50
4	Maker D4	2	Aug. 1989	600.00	50.00	650.00
5	Maker E4	1	8/17/1989	155.00	25.00	180.00
6	Maker F4	1	7/19/1989	132.00	25.00	157.00
7	Maker G4	1	8/17/1989	125.00	25.00	150.00
8	Maker H4	1	7/19/1989	25.00	25.00	50.00
9	Maker I4	1	8/17/1989	22.50	25.00	47.50
10	Maker J4	1	8/23/1989	22.00	25.00	47.00
	Top 10	12		\$ 11,606.33	\$ 300.00	\$ 11,906.33
	Other 3 Issuers	4		16.00	100.00	116.00
	Grand Total	16		\$ 11,622.33	\$ 400.00	\$ 12,022.33

C-5: Child Support Bounced Checks

	Name	# of Bounced Checks	Date	Amount	Penalty Fee	Total Amount Due
1	Maker A5	2	2001	\$ 1,200.00	\$ 50.00	\$ 1,250.00
2	Maker B5	20	2001	923.04	500.00	1,423.04
3	Maker C5	1	1/3/2001	884.00	25.00	909.00
4	Maker D5	1	5/29/2001	750.00	25.00	775.00
5	Maker E5	2	2001~2003	698.00	50.00	748.00
6	Maker F5	4	2002	580.00	100.00	680.00
7	Maker G5	1	3/6/2002	458.34	25.00	483.34
8	Maker H5	1	4/4/2003	360.00	25.00	385.00
9	Maker I5	1	12/9/2000	316.73	25.00	341.73
10	Maker J5	1	11/25/2002	300.00	25.00	325.00
	Top 10	34		\$ 6,470.11	\$ 850.00	\$ 7,320.11
	Other 17 Issuers	20		2,716.99	500.00	3,216.99
	Grand Total	54		\$ 9,187.10	\$ 1,350.00	\$ 10,537.10

C-6: Unknown Accounts Bounced Checks

	Name	# of Bounced Checks	Date	Amount	Penalty Fee	Total Amount Due
1	Maker A7	1	11/15/2001	\$ 6,034.00	\$ 25.00	\$ 6,809.00
2	Maker B7	1	10/19/2001	5,660.15	25.00	6,435.15
3	Maker C7	1	11/7/2000	4,215.16	25.00	4,990.16
4	Maker D7	1	12/15/2000	4,051.10	25.00	4,826.10
5	Maker E7	1	1/22/2001	3,274.23	25.00	4,049.23
6	Maker F7	1	12/29/2001	2,751.87	25.00	3,526.87
7	Maker G7	1	1/24/2002	2,160.00	25.00	2,935.00
8	Maker H7	1	1/16/2001	2,111.78	25.00	2,886.78
9	Maker I7	1	2/20/2002	1,655.43	25.00	2,430.43
10	Maker J7	1	9/28/2000	1,600.00	25.00	2,375.00
	Top 10	10		\$ 33,513.72	\$ 250.00	\$ 41,263.72
	Other 86 Issuers	92		18,897.23	2,300.00	13,697.23
	Total	102		\$ 52,410.95	\$ 2,550.00	\$ 54,960.95

C-7: RPT Bounced Checks

	Name	# of Bounced Checks	Date	Amount	Penalty Fee	Total Amount Due
1	Maker A8	1	4/15/2002	\$ 121,835.96	\$ 43,732.40	\$ 165,568.36
2	Maker B8	1	4/28/2002	8,719.07	3,124.93	11,844.00
3	Maker C8	1	7/11/2001	8,674.24	3,731.40	12,405.64
4	Maker D8	1	5/20/2003	5,220.96	286.05	5,507.01
5	Maker E8	1	4/20/2003	4,955.42	520.54	5,475.96
6	Maker F8	1	2/28/2001	4,349.35	2,026.06	6,375.41
7	Maker G8	1	1/27/2001	4,194.76	1,988.03	6,182.79
8	Maker H8	1	2/20/2002	3,844.04	1,455.19	5,299.23
9	Maker I8	1	2/20/2002	3,588.11	1,359.97	4,948.08
10	Maker J8	1	4/15/2002	3,431.30	1,255.94	4,687.24
	Top 10	10		\$ 168,813.21	\$ 59,480.51	\$ 228,293.72
	Other 126 Issuers	145		58,903.56	21,333.25	80,236.81
	Total	155		\$ 227,716.77	\$ 80,813.76	\$ 308,530.53

Appendix D: Bounced Check Accounts Ending Balances as of 6/30/03

	Account ID	# of Bounced Checks	Total Amount	Potential Service Fees	Potential Revenue w/ Current Charges	Treble Damages	Total Potential Revenue
1	Account Unknown	102	\$ 52,410.95	\$ 2,550.00	\$ 54,960.95	\$ 43,842.78	\$ 98,803.73
2	DOA	3,670	619,469.33	91,750.00	711,169.33	981,336.19	1,692,505.52
3	DRT	556	931,070.76	167,067.21	1,449,851.17	271,211.43	1,721,062.60
4	GRT	145	219,585.52	36,533.03	269,243.55	101,267.79	370,511.34
5	Child Support	54	9,187.10	1,350.00	10,537.10	19,951.89	30,488.99
6	AG	16	11,622.33	400.00	12,022.33	5,574.50	17,596.83
7	RPT	155	227,716.77	80,813.76	308,530.53	83,988.70	392,519.23
8	Miscellaneous	35	89,081.45	825.00	89,906.45	18,263.55	108,170.00
	TOTAL	4,733	\$ 2,160,144.21	\$ 381,341.71	\$ 2,541,485.92	\$ 1,527,232.83	\$ 4,068,718.75
	Potential Write-Off of Checks Older than 4 years and Potential Service Fees and Treble Damages	2,455	366,221.47	61,375.00	427,596.47	635,632.59	1,063,229.06
	Total Amount Remaining Uncollected	2,278	\$ 1,793,922.74	\$ 319,966.71*	\$ 2,113,889.45	\$ 891,600.24*	\$ 3,005,489.69

* Potential Additional Revenue = \$1,211,567

Appendix E: DOA Management Response

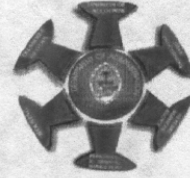


Felix P. Camacho
Governor
Kaleo S. Moylan
Lieutenant Governor

May 25, 2004

GOVERNMENT OF GUAM
(GUBETNOMENTON GUAHAN)
DEPARTMENT OF ADMINISTRATION
(DIPATTAMENTON ATMENESTRASION)
DIRECTOR'S OFFICE

Post Office Box 884 • Hagatña, Guam 96932
Tel: (671) 475-1101/1250 • Fax: (671) 477-6788



Lourdes M. Perez
Director
Joseph C. Manibusan
Deputy Director

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Public Auditor

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

Re: OPA Report No. 04-07, Department of Administration, Performance Audit of Bounced Checks

Dear Mrs. Brooks,

We have reviewed the draft copy of your OPA Report No. 04-07, Department of Administration (DOA), Performance Audit of Bounced Checks, covering the 33-month period from October 1, 2000 to June 30, 2003. As always, we appreciate the efforts your office has taken in providing us this report. We believe that it will be an important tool in administration and reconciliation of bounced check records.

We are in agreement with your findings and recommendations insofar as the existence of variances found between DOA's general and subsidiary ledgers, and between DOA and the Department of Revenue & Taxation records, along with other findings. However, we do object to the inclusion of a particular spreadsheet in your analyses. To this regard, and in response to other report findings, we submit some specific input for your consideration, attached herewith.

We wish to thank you for including in your report some of the initiatives that have been recently undertaken. Many of them are already addressing the findings and recommendations you have noted.

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

Attachment

cc: Governor of Guam

DOA response to OPA 04-07

May 25, 2004

Page 1

Finding 1&2: Bounced Checks Amount Unknown

DOA concurs with the finding of the OPA that the balance of the General Ledger and Subsidiary Ledger are not reconciled. However, we strongly object to the inclusion of the spreadsheet mentioned in this finding. The spreadsheet that has weighed down heavily in this report was not meant to take the place of the records in the AS400 BACIS system. It was simply a tool that one of our technicians used to organize daily work. Additionally, the auditor was made aware that the information provided on the spreadsheet contained information starting only from the date the individual had taken over as the custodian of the checks and is not representative of all bad checks received by DOA. Hence the reason for the large variances noted between it and the General Ledger. It is regretful that DOA accounting staff may have erred in making certain assertions to the OPA as to the importance of this spreadsheet. This representation was erroneous.

The emphasis of the OPA findings should focus on the balance between the General Ledger and the Subsidiary Ledger with the weight of the report focused on any variances found between them. The \$3.8 million reported as the variance between the General Ledger and the spreadsheet should not have been used in this evaluation, but rather the variance between the General Ledger and the Subsidiary Ledger of \$656,128.36 . While this variance existed as of June 30, 2003, please take note, that as of *April 30 2004, DOA Bad Checks Misc. Account now reflects a variance of \$10,415.56, a significant drop from the \$30,407.26 referred to above. DOA is working with DRT to reconcile the GRT and other revenue records which represents over 90% of the total variance.*

Finding 3 thru 7

Our office generally concurs with the findings and recommendations of the OPA as it applies to DOA. The inability of DOA to reconcile our Bounced Check records was largely due to the lack of the availability of data from Oracle system in our AS400. Bounced Check data from the Oracle system was added to AS400 in Dec 2003. DOA has already made considerable adjustments to the bounced check records to bring us closer to reconciliation.

Our office has already started to implement many of the recommendations of the OPA. The following are the corrective actions that DOA has implemented or is currently working on completing:

- ✓ Reconciliation of records with DRT and TOG and the aging and provisions for doubtful accounts is currently being addressed by the Deputy Controller. These reconciliation meetings are to occur at least quarterly. Any adjustments will be reflected in our financial statements possibly for fiscal year 2003 but in no case later than fiscal year 2004.
- ✓ DOA has recognized the need for increasing collection efforts, and had attempted to work with the Attorney General's office in the past. Because of financial constraints both DOA and the Attorney General's Office have little or no resources to devote to the collection and enforcement of the Bounced Check regulation as permitted by 20 GCA §6104 and §6105.

DOA response to OPA 04-07
May 25, 2004
Page 2

DOA is currently looking into the feasibility of using the Small Claims Court for the enforcement of collection efforts, or perhaps to RFP it out to a collection agency. In addition, the implementation of the POS (Point of Sale) system sometime this -summer this year was designed to address this concern (proliferation and non-collectability of bounced checks) plus records reconciliation issues between the divisions within DOA, and the Department of Revenue & Taxation. The number of bounced checks received by the Government of Guam will be significantly reduced, so also will reconciliation issues.

- ✓ The process of re-depositing bounced checks is currently being done. 49 checks totaling \$5,911.61 has been returned to the Treasurer of Guam for redeposit to our current bank. This exercise will serve as the model for the establishment of standard procedures in our collection efforts, wherein we first re-deposit bounced checks prior to pursuing other collection actions. Also, the Department of Administration has negotiated successfully with its current bank to waive bad check charges and redeposit fees.
- ✓ Establishment of internal controls and a flow chart for better recordation and accountability of records. The flow chart will include the re-depositing and the enforcement efforts for the recovery of Bounced Checks. Additionally, the process of reconciling physical inventory of checks against the General Ledger and Subsidiary Ledger will be practiced quarterly. (Assigned to Internal Audit Section and Section Supervisor of the Division of Accounts.)
- ✓ To address the safe-keeping of our checks DOA has identified a locked and secured storage place for Bounced Checks. The Section Supervisor and the assigned employee will have the keys to the drawer. The Drawer will remain lock at all times and opened only as needed.
- ✓ The Treasurer of Guam has formulated a proposal to establish a minimum amount for checks to be accepted as payment. This is under review by management as this time.

DOA will consider the remaining recommendations of the OPA. We hope to complete the establishment and implementation of reliable procedures for the recording and recovery of Bounced Checks in the coming months.

Appendix F: DRT Management Response



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

FELIX P. CAMACHO, Governor Maga'láhi
KALEO S. MOYLAN, Lt. Governor Tiñente Gubetnadot

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

MEMORANDUM:

TO: Office of the Public Auditor

FROM: Director

SUBJECT: Management Responses to Draft Report
In re: Department of Administration Bounced Checks
Performance Audit October 1, 2000 to June 30, 2003

26 MAY 2004

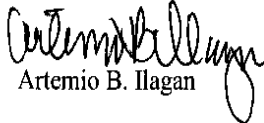
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Public Auditor

Attached herewith is the Department of Revenue & Taxation's (DRT) responses regarding the issues brought forth in the draft report. Thank you again for allowing us the one-day extension to provide this response to you.

With the difficult times facing our Government with respect to cash flow, DRT recognizes the Public Auditor's efforts to determine an amount that fairly reflects the bounced checks receivables so that we can concentrate efforts to collect from the makers who have not taken action to make good on them. DRT appreciates the Public Auditor's recommendations and will implement them as soon as possible.

Also attached are the copies of the laws, as requested, regarding the statute of limitations on collection of income taxes, gross receipts taxes and property taxes since these statutes are used to collect on the makers of bounced checks for each respective tax.

Sincerely,


Artemio B. Ilagan

Attachments: Management Responses
Copies of Statutes

DEPARTMENT OF REVENUE & TAXATION

May 25, 2004

MANAGEMENT RESPONSES

In re: Department of Administration

Bounced Checks

Performance Audit

October 1, 2000 through June 30, 2003

OPA Report No. 04-07

May 2004

The following are the Department of Revenue & Taxation's (DRT) management responses regarding the performance audit on the Department of Administrations (DOA) bounced checks. It should be noted that DRT's efforts to collect bounced checks are procedurally different from DOA. DRT's bounced checks are generally treated as if the taxpayer made no payment and the taxes are then reassessed. This generally gives DRT different statutory periods of collection depending on the type of tax without regard to the 4-year period as per 7 GCA §11303. Income and withholding taxes generally are collectible within a 10-year period from the date of assessment. Gross receipts taxes are generally 7 years, and real property taxes are 30 years. It should be noted that DRT and DOA are aggressively trying to reconcile all bounced check amounts to June 30, 2003 so as to reflect an accurate balance to move forward with. It should be noted in that in issuing the final Public Auditor's Report, all taxpayers names should be omitted to protect the taxpayers' rights to privacy and to adhere to disclosure provisions (§ 6103) under the Guam Territorial Income Tax Laws (Internal Revenue Code).

FINDING 2: Bounced Check Balances Not Reconciled as of June 2003:

1. Lack of Reconciliation Between DOA and DRT Records. DRT recognizes that in the past, procedures for reconciliation of bounced checks between DRT and DOA were ineffective. DRT and DOA have recently met to discuss and establish procedures to effectively reconcile bounced checks. Efforts are being made to reconcile amounts to June 30, 2003 so as to start with a fairly accurate beginning balance from July 1, 2003. DOA and DRT will establish at minimum an annual reconciliation of bounced checks. Consideration is being made by DRT accounting to prepare Journal Vouchers for DOA to ensure that makers of bounced checks to DRT who have paid are removed from DOA's bounced checks receivables.
2. Lack of Reconciliation of DRT Records. In April 2004, DRT began its reconciliation of the physical checks with what is recorded in the DRT system. DRT reconciliation of account balances of bounced checks is on going. DRT accounting and collection supervisors are continuing to perform reconciliation of

the physical bounced checks to the list so as to recommend an immediate write-off of all bounced check amounts that cannot be supported by actual checks. DRT will also inform DOA at least annually of the amount of bounced checks assessed as tax receivables so proper reclassification can be performed by DOA.

FINDING 4: Minimal Collection Efforts:

1. DRT Collection Efforts. Status of bounced checks that remain uncollected as cited in the draft report referenced 4 checks.

- The first check regarding a major retailer for \$464,000.00 presently remains uncollected since their filing for reorganization under federal bankruptcy law requires a stay on collection. The statutory period for collection (10 years) is extended during the stay on collection. DRT is presently looking into the status of this taxpayer.
- The second check of \$65,000.00 still remains uncollected. DRT has determined that this check was for estimated tax payments and is presently determining whether a return was filed so that an assessment can be made and the amount can be collected within the 10-year statutory period. DRT recognizes that this check was paid via a joint account. DRT and DOA are currently implementing procedures to increase reliability of the bounced check listing by ensuring that all joint account holders with bounced checks will be named on the listing.
- The remaining 2 checks by retailers for \$51,513.00 and \$36,269.00 are still uncollected. The issuers of these checks have petitioned for bankruptcy, therefore requiring a stay on collection. The statutory period for collection is extended during the stay on collection. It should be noted that the 7-year period for collection on Gross Receipts Tax is not extended during bankruptcy.
- It should be noted that on Appendix C-2, bounced check Maker H2 has already been cleared with DRT. Also, on Appendix C-3, Makers C3, D3, H3 and J3 have also been cleared with DRT. Also, all appendices with taxpayers' names including those in the report should be omitted to protect the taxpayers' rights to privacy and to adhere to disclosure provisions (§6103) under the Guam Territorial Income Tax Laws (Internal Revenue Code).

2. Real Property Tax Collection Effort. As noted in the Draft Report, DRT issues standard notices to the taxpayer to make payment on the check with applicable interest, penalties and/or fees. If the maker takes no action, a deed of non-payment is sent. This

action essentially results in a tax lien on the taxpayer's property, thereby allowing the DRT 30 years to collect on the tax.

FINDING 5: Lack of Safeguarding Over Bounced Checks:

Presently, all DRT bounced checks are being sourced from DRT Accounting and Real Property Tax to be physically stored in a combination locked safe at Collections Branch under the control of the Collections supervisor and a designee for dual custody control.

FINDING 7: Non-compliance with Bounced Checks Regulations:

1. DRT will implement §6657 of the Guam Territorial Income Tax law (IRC) requiring that bounced income tax checks above \$750.00 be penalized 2% of the check amount; checks less than \$750.00 are assessed the lesser of \$15.00 or the check amount. DRT will impose penalties, treble damages, interest, and or other service fees as authorized by law and regulations.

RECOMMENDATION:

DRT agrees to the recommendations in the draft report. DRT will perform a physical inventory of bounced checks to include checks maintained by Revenue Officer and adjust DRT balances to the actual checks. All bounced checks will be maintained in one central location, adequately safeguarded and under dual custody control. DRT also agrees to at minimum annually reconcile the amount of bounced checks with DOA.