

**Department of Administration
Stale-Dated Checks**

**Performance Audit
July 1, 2003 through September 30, 2005**

**OPA Report No. 06-04
May 2006**



OFFICE OF THE PUBLIC AUDITOR

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OFFICE OF THE PUBLIC AUDITOR

EXECUTIVE SUMMARY

Performance Audit of Stale-dated Checks
Issued by the Department of Administration
Report No. 06-04

The stale dating of checks is the process of canceling checks from six months to one year from the date of issuance. By law these checks must be held for three years in the event payees may come forward to claim the checks. If not claimed after three years, these checks revert to the Government of Guam as revenue. This process is known as escheatment. The Office of the Public Auditor (OPA) found that the process of stale dating checks is working effectively with the exception of those checks written from the Child Support account.

- Bank Accounts for the General Fund, Payroll, Income Tax Refund, and Public Assistance have been timely reconciled.
- The cancellation of stale-dated checks and the escheatment processes were up to date.
- Controls were effectively in place to safeguard issued checks that were returned and held by the Treasurer of Guam (TOG) before they were sent to Department of Administration's (DOA) Division of Accounts (Accounting) to be cancelled.
- Controls were in place to ensure that the checks reissued from the unclaimed checks account are reissued to the correct individuals.

DOA's handling of stale-dated checks allowed for the escheatment of \$3,013,784 for FY 2004 and \$860,367 for FY 2005 as revenue to the Government of Guam.

We found some systematic inefficiencies in the AS400 system that if corrected would improve bank reconciliations, and the cancellation of stale-dated checks. Examples include:

- The creation of outstanding checks listings is performed manually since the AS400 system is unable to generate outstanding checks listings in a spreadsheet format.
- Stale-dated checks are manually identified from the AS400 system. Coding of reissued and escheated checks would expedite research and reporting capabilities.

In addition, the following conditions pertaining to the Child Support account which is managed by the Office of the Attorney General's Child Support State Disbursement Unit (SDU) were found:

- SDU's APASI system reported undistributed collections of \$2.4 million, which does not reconcile to DOA's cumulative liability for Child Support of over \$6 million as of September 30, 2005.

- Due diligence of locating the recipients of Child Support has been lacking causing undistributed collections for Child Support to accumulate to over \$6 million.
- SDU which maintains the individual accounts does not reconcile to DOA's control accounts. No reconciliation between the divisions has ever occurred.
- Stale-dated checks in the possession of SDU are not communicated to DOA Accounting to be cancelled.

OPA made several recommendations to the DOA, TOG, and to SDU to further improve the processes. Among these recommendations are:

- DOA to meet with and request Data Processing or their AS400 vendor to establish a program that can easily convert any AS400-generated report into a spreadsheet format.
- DOA to add the phrase "Void after Six Months of Issue" on the next printing of Government of Guam issued checks to remind recipients of the time limitation to cash the checks.
- TOG to deface stale-dated checks before they are sent to DOA Accounting to be cancelled.
- TOG to inform SDU of any undeliverable Child Support checks returned by mail immediately as they become known.
- SDU to reconcile the APASI system records with DOA's AS400 records.
- SDU to perform the required research to locate the intended recipients which is required under law 5 G.C.A. § 34111.
- SDU to deface and send Child Support checks in their possession to DOA Accounting to be cancelled in the AS400.

Reconciling problems between DOA Accounting and SDU will be addressed in a separate audit.

The Department of Administration, Treasurer of Guam and the Child Support Division of the Attorney General's Office concurred with these recommendations from this report.



Doris Flores Brooks, CPA, CGFM
Public Auditor



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Introduction

This report represents the results of our performance audit of the stale-dated checks processes under the Department of Administration (DOA) and the Child Support Enforcement Division's State Disbursement Unit (SDU) under the Office of the Attorney General (OAG). The objective of our audit was to determine the adequacy of the management and control over stale-dated checks issued by the Government of Guam. The scope, methodology, and prior audit coverage are detailed in Appendices 2 and 3.

Background



Image 1: External view of the Department of Administration.

DOA Division of Accounts is the central accounting unit for the Government of Guam. DOA's functions include issuing checks, collecting payments, and performing the bank reconciliations. Stale-dated checks¹ are those checks that have been issued but not cashed within six months or, in some cases, one year.² According to 13 G.C.A. § 4404, banks are not obligated to redeem checks presented more than six months after the date of issuance. The monies from such checks are separately maintained

and accounted for as a liability or payable on the books of the Government of Guam, for a period of three years. The intended recipient of the check has up to three years to come forward to have the check reissued.

State or territory laws govern when to cancel stale-dated checks that remain outstanding in the bank reconciliation after a period of time. These are checks that were not cashed or have been returned by the post office to the Treasurer of Guam (TOG) as undeliverable. According to 5 G.C.A. § 21116(a), all checks older than one year are to be placed in an unclaimed checks account and accounted for separately. 5 G.C.A. § 21116(d) stipulates that any checks that remain unclaimed for more than three years can be escheated³ to the Government of Guam as revenue.

¹ An issued check held an unreasonable time before being presented for payment at a bank.

² Income Tax refund checks remain valid for one year; all other checks become stale-dated after 6 months.

³ The process of reverting or turning over unclaimed property to the state or local government when the legal claimants are absent or cannot be located.

In summary, DOA may cancel a stale-dated check when (1) the actual check is returned to TOG and it remains unclaimed six months after the issuance date or (2) the check was not cashed for a period greater than one year. Any checks that remain unclaimed for more than three years can be escheated to the Government of Guam as revenue.

Banks have written policies regarding a time limit for honoring checks, which coincides with Guam law. A bank will honor the following time limitations by account type:

- General Fund Checks: Void six months from date of issuance.
- Tax Refund Checks: Void one year from date of issuance.
- Public Assistance Checks: Void six months from date of issuance.
- All other transaction accounts, including Child Support and Payroll checks: Void six months from date of issuance.

Results of Audit

We found that the management and control of stale-dated checks by DOA was adequate. As of September 30, 2005, we found (1) the bank reconciliations of the General Fund, Payroll, Income Tax Refund, and Public Assistance accounts were current; (2) the cancellation of stale-dated checks and the escheatment processes of checks were up to date; (3) controls to safeguard issued checks handled by the TOG before being sent to DOA's Division of Accounts (Accounting) for cancellation were effectively in place; and (4) controls to ensure that checks reissued from the unclaimed checks accounts are reissued to the correct entity or payee were in place.

Child Support bank reconciliations, however, remain a concern due to large reconciling items, and the reconciling issues between SDU's system and DOA's accounting system (AS400).

DOA escheated as revenue for fiscal year (FY) 2004 a total of \$3,013,784; \$650,940 from the General Fund, \$2,042,038 from Income Tax Refund, \$226,924 from Payroll, and \$93,882 from Public Assistance.

DOA escheated as revenue for FY 2005 a total of \$860,367; \$752,350 from the General Fund, and \$108,017 from Public Assistance.

For FY 2005, the Government of Guam issued 259,221 checks totaling \$680,229,148 from various accounts. Of this amount, 1,508 checks totaling \$1,105,148, less than one-twentieth of one percent (0.16%)⁴, became stale-dated and were cancelled.

We commend DOA and TOG for ensuring that the stale-dated checks were handled correctly.

However, we found some systematic inefficiency in the AS400 that affects the bank reconciliation, the cancellation of stale-dated checks, and the escheatment processes. For example, the AS400 is unable to generate an outstanding checks listing that can be sorted and used for further analysis, therefore the listing must be completed manually. As a result of this inability of the AS400, additional manpower, which may cost as much as \$4,230⁵ annually, has to be expended to generate this type of report.

Absent Parent Automated System Information (APASI) – SDU

The following conditions pertaining to the Child Support account under SDU's APASI system were found:

- Two stale-dated checks issued in July of 2004 totaling \$3,091 were in the possession of SDU and were not mailed out or sent to DOA for cancellation.

⁴ Total dollar amount cancelled divided by total dollar amount issued $\$1,105,148 \div \$680,229,148 = 0.16\%$

⁵ The \$4,230 is composed of 50 percent attributed to General Fund (\$2,115); and 12.5 percent (\$529) each to Payroll, Income Tax Refund, Public Assistance, and Child Support accounts.

- TOG sends stale-dated Child Support checks that have been held for six months because of undeliverable mailing addresses back to SDU, instead of to DOA Accounting, which creates a reconciliation problem between Child Support and DOA records.
- SDU's APASI system records of collections and disbursements does not reconcile to the collections and disbursements of DOA Accounting.

General Fund

The process of canceling stale-dated checks in the General Fund was working effectively. We noted that the outstanding checks listing, based on the bank reconciliation, was comprised of checks that were not older than one year.

For FY 2005, 68,096 checks totaling over \$539 million were written from the General Fund. Of this amount, less than one-tenth of one percent (0.038%)⁶, or 258 checks totaling \$203,025, became stale-dated and were cancelled.

Although no checks were escheated for FY 2003, in FY 2004 the process was brought up to date and 1,618 checks totaling \$650,940 were escheated. For FY 2005, total escheats amounted to \$752,350 or 472 individual checks.

The ending balance of the unclaimed checks account for FY 2005 was \$521,455. Of this, \$13,873 from 23 checks remaining in the account could have been escheated. These checks were listed by the date they were placed in the unclaimed checks account, not by the actual date of issuance. Improvements in the AS400, such as the coding of checks, should assist in the identification of checks available for escheatment in the future. We recommend that the eligible checks be escheated immediately.

A random sampling of 15 checks from the FY 2005 outstanding checks listing, unclaimed checks, and FY 2005 escheats, totaling \$145,551, indicated that the checks were written to valid vendors and each had adequate supporting documentation.

Controls at Treasurer of Guam

We also found that TOG had adequate controls to secure checks that were returned in the mail. Such checks are recorded in a logbook, separated, alphabetically sorted, and locked in a filing cabinet at the end of the day. Only the Treasurer and the Customer Service Supervisor have access to the cabinet's key. Upon presentation of a picture ID, recipients may pick up their checks within six months of the issuance date. After the six-month period, unclaimed checks written from the General Fund, Income Tax Refund, Payroll, and Public Assistance accounts are sent to DOA Accounting to be cancelled⁷ and recorded into the General Ledger unclaimed checks account. Checks written from the Child Support account are sent back to SDU.

Although the controls at TOG appear to be effective, we recommend that TOG deface all stale-dated checks, including Child Support checks, before sending them to DOA Accounting for

⁶ Total dollar amount cancelled divided by total dollar amount issued $\$203,025 \div \$539 \text{ million} = 0.038\%$

⁷ DOA's check cancellation process includes stamping in red that the check was cancelled.

cancellation. This would limit the number of people handling non-defaced checks and further tighten the controls as checks are passed on to DOA Accounting.

Check Re-issuance Controls at DOA

We found that controls were in place for the re-issuance of cancelled stale-dated checks to vendors or individual claimants who either never received or who have misplaced their original checks. The procedures followed to reissue a stale-dated check include the following:

- Vendor or individual must present a picture ID and sign an affidavit stating that the check was either lost or stale-dated. Refer to Appendix 5 for sample affidavit.
- Research is done by the General Ledger Branch of DOA Accounting to ensure the check was not already cashed or reissued.
- If the original check is not physically presented, a stop payment is processed before a replacement check is issued.
- If a check has cleared but the payee maintains that someone else forged his/her name, both the bank and DOA have processes in place to address the situation. The vendor or individual must sign an affidavit claiming forgery before DOA can replace the forged check. Refer to Appendix 6 for sample affidavit.
- Three signatures (Accounting Clerk, Accounting Technology Supervisor, and the General Accounting Supervisor) are required to authorize the processing and release of the reissued check.

Upon examination of 14 randomly selected reissued checks totaling \$398,952, consisting of five checks totaling \$333,822 from the General Fund, five checks totaling \$27,137 from Income Tax Refund, and four checks totaling \$37,993 from Payroll, we found that all controls were in place and were followed to ensure that the checks were re-issued to the correct entities or individuals.

Improve Efficiency through AS400 Automation



Image 2: Computer that uses AS400.

DOA Accounting recognizes that there are systematic inefficiencies in the AS400 financial management system. DOA personnel stated that it is time consuming to (1) create an electronic listing of outstanding checks, (2) create a subsidiary ledger of stale-dated checks, and (3) convert AS400 reports into a spreadsheet format.

The AS400 creates an outstanding checks listing report, however, the report is inflexible and is unusable for analysis. Auditors typically request an electronic outstanding checks listing capable of being sorted by check date, name, and amount, all of which can be done in a spreadsheet format.

Currently, the DOA accountant must cut and paste each individual AS400 screen to an Excel worksheet to create the outstanding checks listing. This process takes a minimum of eight continuous hours just to create the listing for the General Fund account alone. The accountant must manually create similar outstanding check listings for all the other funds, which includes Payroll, Income Tax Refund, and Child Support. As such, it may take two to four weeks to

generate the reports. This represents an inefficient use of personnel resources and unnecessary costs that could amount up to \$4,230. The AS400 should have the ability to convert any report to a spreadsheet upon proper programming.

Prior to the start of this year, all stale-dated checks slated for cancellation were manually logged into the unclaimed checks subsidiary ledger and the total amount of cancelled stale-dated checks was posted in the general ledger.⁸ Additionally, the escheatment process was completed by manually removing individual checks from the unclaimed checks subsidiary ledger.⁹ DOA Accounting has since requested and received assistance from the AS400 vendor to establish automated report capabilities in the AS400, to include automated subsidiary ledger creation and help with the escheatment processes.

Effective January 2006, the AS400 now has the ability to automate the unclaimed checks subsidiary ledger creation and escheatment processes, thus saving time in performing routine tasks. Now, cancelled and stale-dated checks can be posted from the bank reconciliation module in the AS400 into the cancelled check subsidiary ledger without requiring staff to manually record each check. In addition, DOA Accounting staff only needs to define a cutoff check date and account number for the AS400 to remove the checks within the subsidiary ledger. The checks removed from the subsidiary ledger can then be escheated.

We recommend that individual accountants be trained to have the ability to convert the AS400 reports into spreadsheet format. The training would enhance data analysis and make the process more efficient.

DOA accountant stated that further automation to expand AS400 capabilities could be accomplished. AS400 currently codes checks as either open, cleared, cancelled, or voided. For a check that has not cleared the bank the code field is left blank. When the check clears, the code field is "1". If a check is cancelled, the code field is "2". Code "3" signifies a check that was voided. DOA accountant also stated that it is possible to code checks in greater detail to include checks cancelled and reissued as "4", or checks cancelled and escheated as "5". Accounting can then more efficiently create reports that may be used to account for all checks, cancelled checks, escheated checks, or reissued checks. We recommend that DOA Accounting and Data Processing personnel meet jointly to determine how best to tailor and utilize the AS400's capabilities immediately. Additionally, DOA Accounting and Data Processing should meet quarterly to further expand AS400 capabilities to improve daily processes.

No Time Limitation Noted on Checks

We noted that Government of Guam checks do not indicate on their face how long they will be valid. Since 13 G.C.A. § 4404 sets a time limit of six months, we recommend that DOA print the phrase "Void after Six Months of Issue" on the next order of Government of Guam checks, excluding Income Tax Refund checks, and on all others thereafter so that payees will know how long they have to cash their government checks. Similarly, since Income Tax Refund checks are good for one year from the issuance date, we also recommend that these checks have the phrase "Void after One Year of Issue" printed on them in the next printing and on all others thereafter.

⁸ A summary ledger which is a formal listing of all the financial accounts of a business.

⁹ A detailed record of an account that supports the amount stated in the general ledger.

Payroll

In general, the processes of canceling stale-dated checks, escheating, and bank reconciliation for Payroll checks were working properly. In FY 2005, 102,889 checks totaling \$75,739,148 were issued from the Payroll account. Of this number, 113 checks totaling \$55,397, or less than one-tenth of one percent (0.07%)¹⁰, became stale-dated and were cancelled.

Escheats from Payroll in FY 2004 amounted to \$226,924 from 1,288 checks, which brought the account up to date. A review of the unclaimed checks listing as of September 30, 2005 indicated a balance of \$191,875 with \$13,610 or 9 checks eligible for escheatment. These checks were listed by the date they were placed into the unclaimed checks account, not by the original date of issuance. Improvements in AS400 could enhance the identification of checks by issuance date. We recommend the checks eligible for escheatment in FY 2005 be adjusted immediately.

As is the case for General Fund checks, controls are in place and being followed for the reissuing of unclaimed or stale-dated payroll checks.

Reasons Payroll Checks May Not Be Cashed

One might wonder why a payroll check would remain un-cashed for a long period of time. According to the Payroll Officer, some of the reasons why payroll checks are not cashed include:

- The employee was dismissed or terminated, and failed to turn in the necessary clearances for separation. TOG holds the check until the proper clearance form is submitted.
- The employee was not informed by his/her agency that a check for a retroactive salary increment, or other type of pay adjustment, was processed by DOA payroll.
- The employee left the island immediately after separating from the line agency and was unaware that a lump sum check was due him/her.
- A lien was issued against the employee's check by the Court or the Department of Revenue and Taxation (DRT), but the check was not picked up by a representative of the Court or DRT.

Random testing of five outstanding checks totaling \$2,211 and 10 stale-dated checks totaling \$8,104 revealed that these checks were due and payable to the recipients at the time of issuance. Of the 15 checks, 10 were for recipients who ceased being active Government of Guam line agency employees as of September 30, 2005. Refer to Table 1 for checks tested.

¹⁰ Total amount of checks cancelled divided by total amount issued $\$55,397 \div \$75,739,148 = 0.07\%$

Table 1: Payroll Checks as of September 30, 2005

	Date of Issuance	Check Number	Amount	Check Status	No. of Days From Issuance	Employment Status
1	3/05/2003	345199	\$ 462	Stale-dated/Cancelled ¹¹	925	Inactive ¹²
2	3/28/2003	352446	1,017	Stale-dated/Cancelled	902	Inactive
3	8/25/2003	321811	522	Stale-dated/Cancelled	755	Inactive
4	11/7/2003	420520	180	Stale-dated/Cancelled	683	Inactive
5	11/30/2003	269691	537	Stale-dated/Cancelled	660	Inactive
6	5/28/2004	7351	492	Stale-dated/Cancelled	482	Active
7	6/18/2004	13577	683	Stale-dated/Cancelled	462	Inactive
8	8/6/2004	28922	3,428	Stale-dated/Cancelled	414	Inactive
9	8/27/2004	34404	380	Stale-dated/Cancelled	393	Inactive
10	9/17/2004	40388	402	Stale-dated/Cancelled	373	Active
11	12/3/2004	70634	541	Stale-dated/Outstanding	297	Active
12	2/16/2005	83687	284	Stale-dated/Outstanding	224	Inactive
13	4/29/2005	103371	675	Outstanding	151	Inactive
14	6/17/2005	117931	638	Outstanding	103	Active
15	9/9/2005	140253	74	Outstanding	21	Active
Total			\$ 10,315			

In two of the 15 checks tested, the checks were on hold because the payees owed Child Support. They included check number 28922 in the amount of \$3,428 that represents a lump sum balance for accrued annual leave issued to the payee upon separation of government employment. Although the Court issued Notices of Lien¹³ in these cases, DOA could not release the checks without a Writ of Execution.¹⁴ Until the Writs of Execution are received, the checks, which have become stale-dated, cannot be reissued. We have notified the SDU to issue Writs of Execution for these two cases so that the checks can be reissued.

In the other 13 cases, DOA Payroll maintains that it is under no obligation to contact payees about outstanding checks due to them and that payees have the responsibility to track their own pay and salary issues. There is nothing in the payroll files to indicate why 13 checks remain unclaimed.

Because checks older than six months can remain on the outstanding checks list, we judgmentally selected 23 higher dollar amount checks totaling \$27,819 that were older than six

¹¹ Bank policy states that payroll checks become stale-dated after six months. DOA only cancels and places the outstanding stale-dated checks into an unclaimed checks account at year-end per 5 G.C.A. §21116(a). Consequently, some stale-dated checks may be accounted for as an outstanding check only in the bank reconciling process at year-end.

¹² Active means currently employed by Government of Guam as of September 30, 2005; Inactive means the individual was a former employee who retired, resigned, or is no longer working for the Government of Guam as of September 30, 2005.

¹³ The right to take and hold or sell the property of a debtor as security or payment for a debt or duty, (i.e. Child Support).

¹⁴ A court order to a sheriff to enforce a judgment by levying on real or personal property of a judgment debtor to obtain funds to satisfy the judgment amount.

months to verify the validity of the checks issued. All 23 checks were found to be due and payable to valid payees at time of issuance.

Income Tax Refunds

In general, the Income Tax Refund account's processes of canceling stale-dated checks, escheating, and performing bank reconciliation are working properly. However, checks are listed by date of entry into the accounts rather than by the original date of issuance. Consequently, some checks remained in the unclaimed checks account unnecessarily. Improvements in the AS400 system could help identify checks by the original issuance date in the future.

Escheatment of \$2,042,038, or 3,067 checks, was made for FY 2004, which brought the account up to date. In FY 2005, 38,610 checks totaling \$54,493,830 were issued from the Income Tax Refund account. Of this number, 919 checks totaling \$736,982 (1.35%) became stale-dated and were cancelled. No escheatment of checks was made for FY 2005. The Income Tax Refund unclaimed checks account showed a balance of \$1,960,672. Of this amount, \$187,173 from 205 checks were eligible to be escheated for FY 2005. We recommend that checks eligible for escheatment be adjusted immediately.

As is the case with General Fund and Payroll checks, controls are also in place and being followed to reissue checks from those Income Tax Refund checks that became stale-dated.

Public Assistance

DOA's handling of the Public Assistance account's processes of canceling stale-dated checks, escheating and performing bank reconciliations are working properly. In June 2004, The Department of Health and Social Services Division of Public Welfare began using debit cards for its disbursements for Public Assistance. Consequently, the cancellation of stale-dated checks is no longer a concern and no checks were issued from this account in FY 2005. There were no escheats for 2003, but in FY 2004, 461 checks totaling \$93,882 were escheated. The 2004 escheats brought the remaining unclaimed check amounts up to date. In FY 2005, 253 checks totaling \$108,017 were escheated. The unclaimed checks account for Public Assistance has a remaining balance of \$119,526. FY 2008 will be the final year for escheating checks for this account.

Child Support

SDU is responsible for the collection and disbursement of Child Support funds from non-custodial to custodial parents. SDU records deposits, makes payments, and maintains its records using software specifically designed for the SDU function called APASI. DOA Accounting tracks the collections and



Image 3: External view of the Office of the Attorney General.

disbursements using the AS400 system. It was brought to our attention that the two systems do not reconcile and has never been reconciled. SDU's APASI system reports undistributed collections¹⁵ of \$2.4 million, while DOA Accounting has a cumulative liability of undistributed collections and unclaimed checks of over \$6 million. Reconciling issues between APASI and AS400 will be addressed in a separate audit.

In FY 2005, 49,626 checks totaling \$10,596,780 were issued from the Child Support account. Of this number, 215 checks totaling \$109,103 (1.03%) became stale-dated and were cancelled. The bank account was reconciled timely as of September 30, 2005 and no checks on the outstanding checks listing were found to be older than one year. Problems arose, however, with (1) stale-dated checks being held at SDU without DOA's knowledge and (2) the escheatment process being handled differently from the other funds and (3) reconciliation processes between APASI and AS400.

Stale Dating and Escheatment of Child Support Checks

The process for stale dating Child Support checks differs from other checks issued. 5 G.C.A. § 34111 states that two years of diligent effort must be expended to locate the person entitled to the support check. If after two years the search is unsuccessful, the Superior Court may enter an order to (1) return the funds to the person who paid them, or (2) deposit the funds with the Treasurer of Guam in an interest-bearing account for five years. If unclaimed after seven years, the funds shall escheat to the Government of Guam.

The SDU Director stated that they lack the manpower to perform the necessary research as required by law to locate the intended check recipients; therefore, no unclaimed checks are available for escheatment written from the Child Support account and, consequently, the liability for Child Support will continue to grow. As of September 30, 2005, DOA estimates a cumulative liability for Child Support of over \$6 million.

We recommend that the SDU reinforce with its staff the importance of complying with 5 G.C.A. § 34111 to perform the required research to locate the intended support recipients.

Undeliverable Child Support Checks held at the Treasurer of Guam

When Child Support checks are deemed undeliverable, they are returned to TOG. Intended recipients may go directly to TOG to claim their checks in the same manner as all other checks. Checks that are not picked up after the six-months are then forwarded to SDU, instead of DOA Accounting, to be cancelled. This creates reconciliation problems between SDU and DOA Accounting records.

We recommend that TOG deface and forward the actual checks to DOA Accounting to be cancelled, and send copies of these checks to SDU for them to update their APASI system. We also recommend TOG immediately inform SDU of undeliverable Child Support checks.

¹⁵ Child Support collections from non-custodial parents but never distributed to custodial parents.

Undelivered Stale-Dated Checks Found at Child Support

During the review of the APASI system, we sampled five checks totaling \$10,380, drawn from DOA's cancelled checks for F2005 for comparison to what was reflected on the APASI system. Two checks totaling \$3,091 were found to be in the possession of SDU and were not mailed out. Additionally, all five stale-dated checks were not listed as cancelled in the Financial Activity Reports of the individual Child Support cases. We recommend that all stale-dated checks in the possession of SDU be defaced and forwarded to DOA Accounting to be cancelled. We also recommend, at a minimum, DOA Accounting and SDU reconcile the AS400 and APASI system records on an annual basis.

Conclusion

Our performance audit found that in general the management and control of stale-dated checks was adequate. DOA performed timely bank reconciliation of the General Fund, Income Tax Refund, Payroll, and Public Assistance accounts. The processes of canceling stale-dated checks and escheatment of checks were up to date. Controls were effectively in place to safeguard undeliverable checks that were handled by TOG before these were sent to DOA Accounting to be cancelled. Controls were in place to ensure that reissued checks from the unclaimed checks accounts were issued to the correct entity or payee.

However, we also found:

- Inefficiencies in the stale dating, escheating, and bank reconciliation processes, which could be improved by upgrading AS400 capabilities to automate routine tasks.
- There is no expiration date on Government of Guam-issued checks to remind recipients that there is a time limit to cash a check.
- TOG sends stale-dated Child Support checks back to SDU instead of DOA Accounting to be cancelled, which creates reconciling problems between Child Support and DOA records.
- Two stale-dated checks were found in the possession of SDU and were not defaced. No communication was made to DOA Accounting regarding stale-dated checks in their possession.
- SDU's APASI system records of collections and disbursements does not reconcile to the collections and disbursements of DOA accounting.

Recommendations

We recommend that the Director of the Department of Administration:

1. Meet with and request Data Processing or their AS400 vendor to (a) establish a program and train accountants to convert any AS400-generated reports into spreadsheet format; (b) determine the best way to tailor the AS400 to best utilize its capabilities (i.e. coding of checks as open, cleared, cancelled, voided, reissued, and escheated); and (c) schedule regular quarterly meetings between DOA Accounting and Data Processing to initiate and maintain discussions on how AS400 can best be used.
2. Have the phrase “Void after Six Months of Issue” on the next printing of Government of Guam-issued checks (General Fund, Payroll, and Child Support) and all those thereafter to reflect the time limitation for payees to cash these checks. For Income Tax Refund checks, have the phrase “Void after One Year of Issue” printed.
3. Immediately adjust those checks eligible for escheatment, 23 checks totaling \$13,873 from the General Fund, 9 checks totaling \$13,610 from Payroll, and 205 checks totaling \$187,173 from the Income Tax Refund account.

We recommend that the Treasurer of Guam:

4. Deface all stale-dated checks before sending these checks to DOA Accounting for cancellation.
5. Send all stale-dated Child Support checks to DOA Accounting instead of SDU, and provide a copy of these stale-dated checks to SDU, in order for them to update their APASI system.
6. Inform SDU of any undeliverable Child Support checks immediately after being returned in the mail.

We recommend that the Director of Child Support Enforcement Division’s State Disbursement Unit:

7. Reinforce with staff, the importance of complying with 5 G.C.A. § 34111 to perform the required research to locate the intended support recipients.
8. Deface and forward all stale-dated checks in its possession to DOA Accounting to be cancelled.
9. Reconcile the APASI system records with DOA’s AS400 records on at least an annual basis.

On April 24, 2006, we received a response from the Director of the Department of Administration who generally concurred with our six recommendations that related to DOA and TOG. On May 5, 2006, we met with the Director of Child Support State Disbursement Unit who also generally concurred with the three recommendations that related to SDU. See Appendix 7 and 8 for their management responses.

The legislation creating the Office of the Public Auditor requires agencies to submit an action plan to implement our recommendations within six months after report issuance. Accordingly, our office will be contacting the respective agencies to establish the target date and title of the official responsible for implementing the recommendations.

We appreciate the cooperation shown by the staff of the Department of Administration, Treasurer of Guam, and Child Support Enforcement Division.

OFFICE OF THE PUBLIC AUDITOR

A handwritten signature in black ink, appearing to read "Doris Brooks".

Doris Flores Brooks, CPA, CGFM
Public Auditor

**Appendix 1:
Classification of Monetary Impact**

Finding Area	Funds Put to Better Use¹⁶
General Fund	\$ 2,115
Payroll	\$ 529
Income Tax Refund	\$ 529
Public Assistance	\$ 529
Child Support	<u>\$ 529</u>
TOTAL QUESTIONED COSTS	<u>\$ 4,230¹⁷</u>

¹⁶ Totals may not add up due to rounding.

¹⁷ This figure represents the estimated manpower to generate the reports manually.

Appendix 2:
Scope and Methodology

(Page 1 of 2)

The scope of the work encompassed the review of the management and control over the stale-dated checks processes of the Government of Guam, as recorded by DOA, DRT, TOG, and SDU for the twenty-seven-month period from July 1, 2003 through September 30, 2005. The specific accounts audited included the General Fund, Payroll, Income Tax Refund, Child Support, and Public Assistance accounts.

Our methodology included:

- Gaining an understanding of the DOA, TOG, and SDU policies, procedures, and applicable laws and regulations regarding stale-dated checks.
- Interviewing the DOA Director, OAG Deputy Attorney General, Assistant Treasurer of Guam, and employees in these agencies that were considered pertinent in understanding the processes for stale-dated checks.
- Testing the process of accounting for stale-dated checks.

As of September 30, 2005, the DOA outstanding checks totaled \$15,822,228 from the combined checking accounts of the General Fund, Income Tax Refund, Payroll, Public Assistance, and Child Support accounts.

- 5 checks were selected from the General Fund outstanding checks list totaling \$84,074 to ensure the validity, authorization, and supporting documents of checks issued.
- 28 checks were selected from the Payroll account totaling \$30,030 to verify the validity, authorization, and employee status of checks issued.

As of September 30, 2005, DOA had a combined \$3,820,269 of unclaimed checks written from the General Fund, Income Tax Refund, Payroll, Public Assistance, and Child Support accounts.

- 10 checks were selected from the General Fund unclaimed checks account totaling \$61,477 to ensure the validity, authorization, and supporting documents of checks issued.
- 10 checks were selected from Payroll unclaimed checks account totaling \$8,104 to verify the validity, authorization and supporting documents for the checks issued.
- 5 checks were selected from Child Support totaling \$10,380 to compare how these unclaimed cancelled checks were reflected on SDU's APASI system.

From July 1, 2003 through September 30, 2005, DOA reissued 1,052 checks totaling \$6,939,609 from the Income Tax Refund, General Fund, and Payroll accounts.

Appendix 2:
Scope and Methodology (Page 2 of 2)

- 5 checks were selected from the Income Tax Refund account totaling \$27,137 to ensure that the controls were in place so that the checks were reissued to the correct individuals.
- 5 checks were selected from the General Fund account totaling \$333,821 to ensure that controls were in place so that the checks were reissued to the correct individuals or entities.
- 4 checks were selected from the Payroll account totaling \$37,996 to ensure that controls were in place so that the checks were reissued to the correct individuals.

Except as noted in the scope limitation below, our performance 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 DOA's cash management and control environment related to stale-dated checks. We included tests of records and other auditing procedures that were considered necessary under the circumstances. Internal control weaknesses were identified and discussed in the Results of Audit section of the report.

SCOPE LIMITATION

We were unable to verify the accuracy and reliability of those checks issued from the Income Tax Refund account, due to confidentiality concerns expressed by the DRT Director. Also, for FY 2005, no checks were written from the Public Assistance accounts, therefore, no testing was required.

Appendix 3: Prior Audit Coverage

Office of the Public Auditor Performance Audit

November 2003 In a performance audit of the Child Support Enforcement Program (Report No. OPA 03-09), it was noted that undistributed collections were growing on a yearly basis. It was recommended that the Head of the Child Support Enforcement Division assign staff immediately to resolve the undistributed collections. The recommendations remain unresolved.

Government of Guam Single Audit Report

Fiscal Year 2004 In Finding 04-28, the Collections-Child Support account has a balance of \$4,360,808 that comprised of approximately \$2.3 million in un-disbursed liability and about \$2 million in cancelled checks. The detail that made up the amount of cancelled checks was not found.

It was recommended that periodic monitoring of the accounts should occur to ensure deposits and payments are debited and credited to the correct accounts. The Attorney General's office should furnish a schedule of Undistributed Collections for each quarter. DOA should review and periodically reconcile the accounts, as they may be a potential source of revenue for the general fund.

Fiscal Year 2003 In Finding 03-18, it was recommended that the Child Support Enforcement Program strengthen internal controls to ensure that the responsible personnel attempts to locate absent parents within 75 calendar days and properly document such attempt on file.

Appendix 4:
Summary of Checks Issued in FY 2005

Table 1: Checks Issued and Stale-dated FY 2005

Account	Amount	%	No. of Checks	Amount Stale-Dated	% of Stale-Dated Checks to Amount Issued	No. of Checks Stale-Dated
General Fund	\$ 539,399,390	79%	68,096	\$ 203,025	0.04%	258
Payroll	75,739,148	11%	102,889	55,397	0.07%	113
Income Tax Refund	54,493,830	8%	38,610	736,982	1.35%	919
Public Assistance	0	0%	0	641	0.00%	3
Child Support	10,596,780	2%	49,626	109,103	1.03%	215
Total	\$ 680,229,148	100%	259,221	\$ 1,105,148	0.16%	1,508

Table 2: Escheats FY2004, FY2005, FY2006

Account	Amount Escheated FY2004	No. of Checks	Amount Escheated FY2005	No. of Checks	Missed Escheats FY2006	No. of Checks
General Fund	\$ 650,940	1,618	\$ 752,350	472	\$ 13,873	23
Payroll	226,924	1,288	0	0	13,610	9
Income Tax Refund	2,042,038	3,067	0	0	187,173	205
Public Assistance	93,882	461	108,017	253	0	0
Child Support	0	0	0	0	0	0
Total	\$3,013,784	6,434	\$ 860,367	725	\$ 214,656	237

Appendix 5: Affidavit to Reissue Check



Felix P. Camacho
Governor
Kaleo S. Moylan
Lieutenant Governor

GOVERNMENT OF GUAM
(GUBETNOMENTON GUAHAN)
DEPARTMENT OF ADMINISTRATION
(DIPATTAMENTON ATMENESTRASION)
DIVISION OF ACCOUNTS
Post Office Box 884 • Hagatña, Guam 96932
Tel: (671) 475-1266/1129 • Fax: (671) 472-8483



Lourdes M. Perez
Director

AFFIDAVIT

I, We, _____

Social Security Number: _____ Spouse: _____

Mailing Address: _____

Telephone: -- Home: _____ Work: _____

Driver's License Number: _____ Spouse: _____

Being duly sworn despose(s) and say(s):

That he/she is/are a citizen(s) of the _____

That he/she is/are the payee named in the Govt of GU (account) _____

Check Number: _____ Dated: _____ Amount: \$ _____

That said check(s) was/were: // Lost // Not received // Destroyed
// Other (specify briefly) _____

That he/she has never received the proceeds from said check(s) in the whole or part. That in the event said check(s) is/are subsequently found he/she will return it to Department of Administration, Division of Accounts before cashing it.

Dated: _____ Signature(s): _____

Subscribed and sworn to before me this _____ Day of _____ 20__

Commission Expires: _____ Notary Public

**Appendix 6:
Affidavit of Claimant: Endorsement Forged**



Felix P. Camacho
Governor
Kaleo S. Moylan
Lieutenant Governor

GOVERNMENT OF GUAM
(GUBETNOMENTON GUAHAN)
DEPARTMENT OF ADMINISTRATION
(DIPATTAMENTON ATMENESTRASION)
DIVISION OF ACCOUNTS
Post Office Box 884 • Hagatña, Guam 96932
Tel: (671) 475-1266/1129 • Fax: (671) 472-8483



Lourdes M. Perez
Director

AFFIDAVIT OF CLAIMANT: ENDORSEMENT FORGED

I, We, _____

Mailing address: _____

Telephone number : Work _____ Home _____

Being duly sworn, deposes and says, that (he/she) is the owner and holder of that certain

Check Number: _____ Dated: _____ Amount: \$ _____

Issued by Government of Guam account _____

And which said check purports to be endorsed by affiant, and was paid by (Bank):

_____ the _____ day of _____ 20__;

that the said endorsement purporting to be the endorsement of affiant was not authorized or written by the affiant nor written at the direction of affiant and that said endorsement of said check is forged that affiant has never ratified the said endorsement, and it is affiant's belief that said endorsement was made by _____ who resides at _____ under the following circumstances;

and further, that affiant received no benefit or value from the proceeds of said check, and that no part thereof was applied to any use of purpose in the affiant's behalf.

Affiant further deposes and says that affiant will testify, declare, depose, or certify to the truth of any or all of the foregoing before any competent tribunal, officer, or person, in any case now pending or that may be hereafter instituted in connection with the matter contained in this affidavit.

Dated: _____

Signature(s): _____

Subscribed and sworn to before me this _____ Day of _____ 20__

Notary Public

Commission Expires: _____

Appendix 7: Department of Administration's Management Response



Felix P. Camacho
Governor
Kaleo S. Moylan
Lieutenant Governor

Department of Administration
(DIPATTAMENTON ATEMENSTRASION)
DIRECTOR'S OFFICE
(UFISINAN DIREKTOT)

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

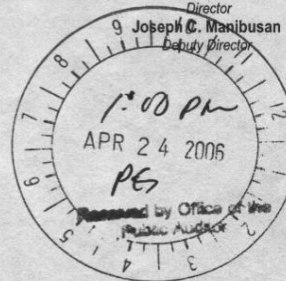


Lourdes M. Perez
Director

Joseph C. Manibusan
Deputy Director

April 24, 2006

Mrs. Zeny Nace
Office of the Public Auditor
Suite 401, Pacific News Bldg.
238 Archbishop Flores Street
Hagatña, Guam 96910



Ref: OPA Draft Performance Audit of Stale-dated Checks

Hafa Adai!

We wish to thank your office for all its effort in the review and audit of DOA's processes and procedures on stale dated checks.

As with any organization whether private or government, review of operations is essential to ensure that optimum efficiency and effectiveness is achieved and practiced. We appreciate and welcome the audits performed by your office and we value the recommendations made to improve our current operating procedures or processes.

Specifically, in response to your letter of April 7, 2006 relative to the above referenced audit, we would like to submit the following comments:

Division of Accounts:

The bank reconciliation module was inadequate during this period of the Oracle system. During this period, stale dated checks were recorded in the system manually. Now that we are back to the AS400 system, we have confirmed that the system can run the stale dated checks automatically and we will require our bank reconciliation staff to perform this task on a regular basis.

Treasurer of Guam:

The Treasurer of Guam (TOG) concurs with recommendations made by your office relative to their handling of stale-dated checks. TOG will work closely with the Division of Accounts to incorporate these recommendations in their current operating procedures.

Once again, we wish to thank you for your assistance in the review of our procedures and processes on the handling of stale-dated checks.

Should you have any questions, please let me know.

Sincerely,

LOURDES M. PEREZ
DOA Director

Appendix 8: (Page 1 of 2)
Office of the Attorney General's Management Response

Douglas B. Moylan
Attorney General



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

Office of the Attorney General

May 9, 2006

VIA FAX 472-7951

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

Re: Performance Audit of Stale-Dated Checks

Dear Ms. Brooks:

This is in response to your recommendations regarding the performance audit of stale-dated checks dated April 12, 2006. You recommended as follows:

1. Reinforce with staff, the importance of complying with 5 G.C.A. Section 34111, to perform the required research to locate the intended support recipients.

Agree. The Child Support Enforcement Division has devised a procedure whereby a staff within State Disbursement Unit is assigned to review stale-dated checks. Once the checks are identified, the SDU staff will forward to the Locate Unit of the Process Officers Section, the names of the custodial and non-custodial parents, for the Locate Unit to make diligent effort to locate either party. If located, a check will be re-issued to either party who is found, priority being given to the custodial parent and then the non-custodial parent if the custodial parent cannot be found.

2. Deface and forward all stale-dated checks in its possession to DOA Accounting to be cancelled.

Agree. Stale-dated checks in the possession of the State Disbursement Unit are currently being stamped "cancelled" or "void". These checks dating from 2004 and 2005 will be forwarded to DOA Accounting to be cancelled.

Suite 101B & 103B Ada's Professional and Commercial Center, 130 East Marine Drive • Hagatna, Guam 96910
(671) 475-3360 (Tel) • (671) 477-6118 (Fax) • child.support@guamcse.net (email)

Letter to Doris Flores Brooks
May 9, 2006
Page 2

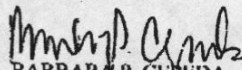
3. Reconcile the APASI system records with DOA's AS400 records on at least an annual basis.

Agree. The Child Support Enforcement Division intends to set up a meeting with DOA Accounting to start the process of reconciling records between the AS400 and APASI systems. We intend to meet at least once a month and to reconcile at least every three months. We are in the process of contacting DOA's Kathy Kukigi to set up our first meeting.

If you have any questions, please do not hesitate to contact me at 475-3324 ext. 601.

Dángkolo' Na Agradesimiento- Thank You Very Much!

Sincerely,


BARBARA P. CEPEDA
Deputy Attorney General
IV-D Director

Appendix 9: Status of Audit Recommendations

Finding/ Recommendation Reference	Status	Action Required
1	Management concurs; additional information needed.	Provide the target date and the title of the official responsible for coordinating with Data Processing or AS400 vendor to a) develop program to convert AS400 to a spreadsheet format, b) code checks, tailor AS400, c) schedule regular meetings to discuss best ways to utilize AS400.
2	Management concurs; additional information needed.	Provide the target date and the title of the official responsible for the implementation of printing “Void after Six Months of Issue” or “Void after One Year of Issue” on the next printing of checks.
3	Management concurs; additional information needed.	Provide the target date and the title of the official responsible escheating those checks that were missed in FY 2005.
4	Management concurs; additional information needed.	Provide the target date and the title of the official responsible for the implementation of the procedure to deface all checks that have become stale-dated before sending to DOA Accounting.
5	Management concurs; additional information needed.	Provide the target date and the title of the official responsible for the implementation of the process to send all stale-dated Child Support checks to DOA Accounting and to provide Child Support with a copy of these stale-dated checks for SDU to update the APASI system.
6	Management concurs; additional information needed.	Provide the target date and the title of the official responsible for the implementation of the procedure to send stale-dated checks to DOA Accounting and notifying Child Support of these checks.
7	Management concurs; additional information needed.	Provide the target date and the title of the official responsible for reinforcing the importance of performing the required research to locate Child Support recipients.
8	Management concurs; additional information needed.	Provide the target date and the title of the official responsible for the implementation of the process to deface and forward all stale-dated checks to DOA Accounting to be cancelled.
9	Management concurs; additional information needed.	Provide the target date and the title of the official responsible for the reconciling the APASI system of records with DOA’s AS400 records.

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



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

All information will be held in strict confidence.