



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