



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

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

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

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

Total Outstanding Returned Checks is Unknown

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

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

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

Lost DRT and DOA Revenues of \$2.1M

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

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

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

Inaccurate General and Subsidiary Ledgers

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

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

Available Remedies to Collect on Returned Checks not Maximized

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

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

Convenience Fee did not Increase Overall Returned Checks

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

Conclusion and Recommendations

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

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