



General Audit Chamber

Algemene Rekenkamer



Mini Audit:

The settlement of bounced cheques

July 2021



This document is an English translation of the original Dutch language report entitled: "*Mini audit naar de afwikkeling van bounced cheques*". In the event of textual contradictions or any other differences, the original Dutch text will prevail.

July 2021
General Audit Chamber, Juancho Yrausquin Blvd #10, units 4 & 5.

PREFACE

This is the report arising from our audit of the processing of cheques by the government, which were rejected by the bank.

Citizens needing to make a payment to the government can either pay by cash or cheque at the Receiver's Office (Receiver). Alternatively, the amount due can be transferred via the bank to the government's bank account.

In recent years, the Receiver has experienced a high number of so-called "bounced cheques": cheques issued to the cashier as payment, that are later found to be uncollectible. As a result, the government service has taken place, while payment remains outstanding. In some cases, a receipt is even issued, even though it later turns out that a payment was not issued.

This means that the honest citizen who pays is not treated equally. It is up to the government to, as quickly as possible, track down persons who issue bounced cheques and have them pay. The government does this as best it can. However, the results of our audit indicate that the process can benefit from significant improvements.

We thank the Ministry of Finance for their cooperation during this audit as well as the Social & Health Insurances (SZV) for providing input about their (online) financial environment.

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SUMMARY

All payments can be done either electronically using the bank or at the Receivers' Office (in cash or by cheque). On receipt of a cheque, it is not possible to know whether the cheque will be rejected (bounced) by the bank due to a lack of funds, associated with the bank account. Once it is determined that the cheque has been declined, the payment must be reversed.

The purpose of this study is to determine how many "bounced cheques" exist in practice, the procedure for reversing the payment, and the options for avoiding cheque problems in the future.

The solution to eliminating cheque payments likely lies with online bank payments. In this way, citizens will be able to make payments directly to the government via the Internet and will no longer need to take cash or a cheque to the Receiver's Office. However, each payment must then be processed as quickly as possible, to be followed with a receipt.

The advantage of paying directly is that the number of cash and cheque payments is reduced to a minimum. The volume of physical transactions at the Receiver's Office will decrease materially. Fewer resources will be required to handle cash and cheques, the administrative processing thereof, and the labor-intensive processing of rejected cheques.

Regarding the possibilities for online payments, we used the process of the Social and Health Insurance Administration (hereafter SZV) as a benchmark to analyze the process. Because of the swift processing of incoming payments and the associated online environment, SZV can issue a digital receipt to the payee within a day or sometimes within a few days. Encouraging online payments has made the material problem of "bad cheques" a thing of the past.

RECOMMENDATIONS

In light of our findings, we present the following recommendations to the Minister of Finance:

- Develop policies to encourage online bank payments that include prompt and proper issuance of (electronic) receipts;
- Consult with SZV and analyze how their procedure and processing of online payments takes place;
- Investigate which parts of the administrative system need to be adjusted to provide prompt accurate receipts;
- Assist the Receiver in improving/digitizing the process;
- Enhance internal control of the registration and processing of declined cheques by:
 - ensuring that the work of the Administrative Worker is monitored by another staff member
 - verifying the settlement of declined cheques totals using the information from the bank statements and internal entries.

1. THE AUDIT

We explain our research methodology in Chapter 1. It describes the underlying basis, our objective, and the main and secondary research questions to be answered. Additionally, we outline our audit methodology and indicate which chapters will be covered.

1.1 Basis

This is an efficiency audit. Our authority to conduct a performance audit of the process concerning payments using bounced cheques is established in Article 30, paragraph 1 of the [National Ordinance General Audit Chamber](#).

1.2 Audit Objective

On receipt of the cheque, it is not clear whether the cheque will be declined by the bank.

Our audit objective is to determine whether measures have been taken to ensure that cheques declined by the bank are adjusted promptly. In other words, the receipt is reversed.

1.3 Main Audit Questions

We answer the following main questions in this report:

- Have enough measures been taken to ensure that the recording of declined cheques and their settlement will be correct and complete?
- Are the recorded cash receipts made with bounced cheques adjusted promptly and completely in the accounting system??
- How does the USZV system work and in what way can the government learn from it?

1.4 Reading Guide

In chapter 2, we discuss our findings regarding the process of recording the declined cheques and how they were settled. We also explain how SZV significantly reduced the use of cheques. In chapter 3 we include the Minister of Finance's response, along with our epilogue.

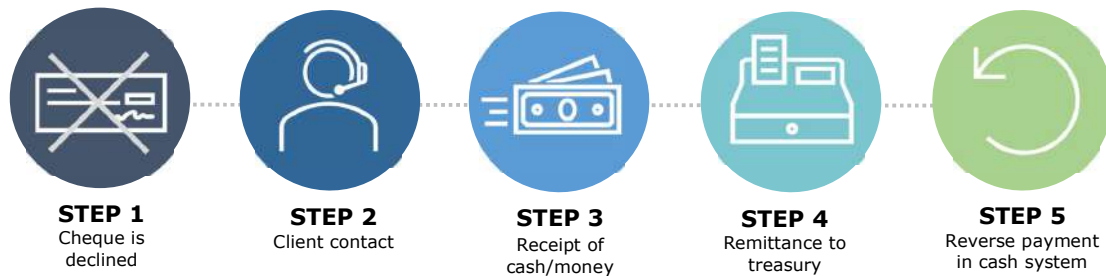
2. REGISTRATION PROCESS (BOUNCED) CHEQUES

2.1 The bounced cheques procedure

The "Bounced cheques" procedure is described in the 'Draft Process Description manual, Ministry of Finance, Tax Administration Receivers Office, version 08-2011'.¹ However, the description manual has not been definitively adopted.²

Figure 1 outlines the process:

Figure 1: flow chart administrative processing in a spreadsheet



2.2 Internal organization

The Administrative Worker performs operational tasks (receiving cash and cheques) and registration tasks (recording of the financial settlement in the Bounced Cheques spreadsheet). However, there is no internal control focused on the accuracy of the spreadsheet. Internal control is important; otherwise, there is a high risk that incorrect entries will accidentally be made, which makes it impossible to trace the entries and the individual responsible for them. Therefore, the use of a spreadsheet requires strict control.

There is no guarantee of the accuracy of the spreadsheet. The task of the administrative worker is not verified internally by another staff member. It is recommended that totals be regularly determined that all declined cheques are included in the spreadsheet and that the declined cheques processed using the spreadsheet result in receipts or reversals (chargebacks).

2.3 Temporary discontinuation of payment by cheque

In September 2019, the [Receiver](#) advised the Minister to, starting in 2020, discontinue acceptance of all personal and business cheques. The reason being a large number of unpaid cheques received in recent years. In doing so, the Receiver raised the alarm because the situation is becoming so bad that consideration was given to discontinue such payments, even though the majority paid using 'good' checks.

The point was made that people could continue to pay by cash, debit card, or (online) bank transfer. The Receiver's advice is prompted by the difficulties involved in collecting money as a result of a 'bad cheque'. Reversing payments after an extended period is virtually impossible as the payments will already be processed by the Tax Inspectorate.³ The objective of this measure was to increase revenue by eliminating the practice of accidentally accepting bad cheques.

Because of opposition from the private sector,⁴ the Minister of Finance soon decided (December 2019) to reinstate payments via cheques. He promised to make improvements to prevent 'bad cheques'.⁵ We have not been shown any improvements since then.

¹ Process # 3.8, Bounced cheques

² Interview report with the Receiver, dated April 8, 2021.

³ Advice from the Receiver to the Minister of Finance, regarding discontinuing the acceptance of cheques, dated September 20th, 2019, DIV#3339.

⁴ <http://shta.com/changes-to-accepted-payment-methods-have-negative-consequences/>

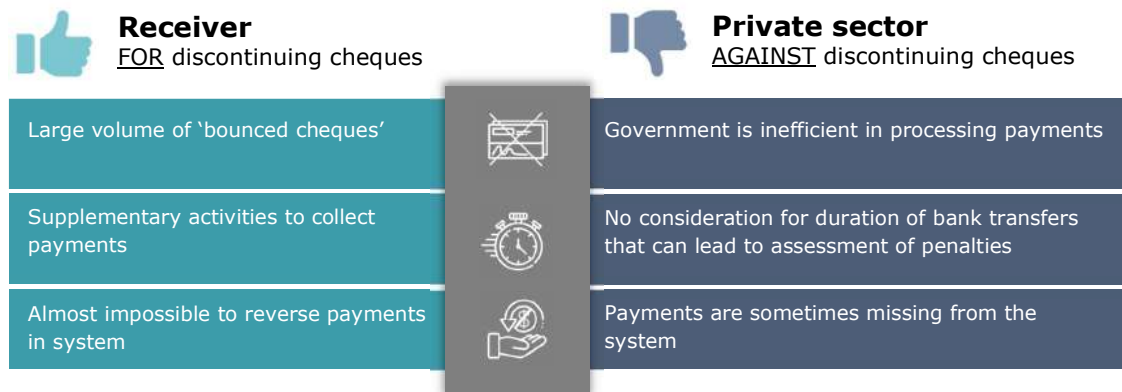
⁵ https://www.soualiganewsday.com/index.php?option=com_k2&view=item&id=29038:minister-irion-issues-retraction-regarding-payment-with-business-and-personal-checks&Itemid=451

2.4 Reaction from the private sector

The private sector responded with resistance to the government's measure to discontinue the acceptance of cheques. Our tax system is not technologically and efficiently suited to cope with direct bank payments. Companies have to deal with payments that go missing from the government's system daily, incurring penalties as a result of the date an online payment was executed versus the date it was received by the recipient. Sometimes it takes three working days for an inter-bank transfer to be executed.

Although we can address the issues caused by 'bounced cheques', the Receiver is not up to date with the processing of deposits. A delay in processing payments by the Receiver has been observed. This alone can increase the number of 'bounced cheques', as many small businesses operate with tight cash flow and do not maintain daily records due to cost constraints. If the Receiver is unable to facilitate the process by improving the efficiency of the tax payment process, they should at the very least not make it any more difficult.⁶

Figure 2: Receiver vs. Private Sector



2.5 Reaction of the Receiver

Payments are all allocated on to the bills, there are no missing payments. If the taxpayer/bank does not mention where the payment is intended for, payments are booked as 'pre-paid' pending additional information. Afterwards, attempts are made to contact the taxpayer for correct information to facilitate the booking.

Payments are always booked on the date of the statement. If the taxpayer pays via another bank and it takes 3 days to appear on government bank account, the date on the government statement is the date that it is booked as the payment date. Furthermore, on the statements there is no mention of which payments are incoming via another bank.⁷

2.6 Social & Health Insurance Administration

SZV receives about 2,500 payments from customers every month. About 80% of the payments are made via the bank; another 500 are by cheque. Of this amount, between 10 and 15 cheques are declined by the bank. According to SZV, compared to the past, this is a considerable decrease.⁸ As a result, SZV spends substantially less time and effort settling rejected cheques. The result is cost saving.

⁶ <http://shita.com/changes-to-accepted-payment-methods-have-negative-consequences/>

⁷ Reaction of the Receiver on the draft report, July 12, 2021

⁸ Interview report with the finance department of SZV, dated May 19th, 2021.

Compared to SZV, clients of the Receiver use the option of paying by a bank to a lesser extent. One reason for this is that customers lack confidence in the (timely) availability of an (electronic) receipt after online payment has been submitted. The administrative processing by the Receiver and SZV is not substantially different. The main exception is that SZV has the infrastructure to make a receipt readily available to all customers who pay by bank.

When payments are recorded at the Receiver, the receipts are sorted and sent by post. This is a manual process and takes time.⁹

One important reason for the low rate of cheque use among SZV customers is the speed and accuracy of processing bank deposits in the financial administration and the swiftness of providing a receipt online. As a rule, payments are processed within a day. In the days just before the payment deadline, processing and issuing the receipt electronically requires a few days more time. SZV's customers have developed the confidence that they will receive a receipt within one or more days and are therefore prepared to pay via the bank.

2.7 Reaction of the Receiver on the comparison with SZV









It is common practice that the SZV is compared to the Receivers Office even though the circumstances are very different. For example, in 2021 the average payments per month at the Receivers office is approximately 16,000, comprising of 19% on-line payments 20% checks and 61% cash. When compared to 2019 this was an average of approximately 17,000 payments comprising of 6% on-line payments, 24% checks and 70% cash.

Even though the administrative processes may not have big differences between both offices, the number of transactions per month differ a great deal. This also contributes to differences in processing time. There is a shift taking place whereby more clients are using the option of online payments. To maintain this trend, investments could be made in a portal to ensure the taxpayer receives a receipt within a day or two, if not immediately. This could also make it more efficient for accountants to pay on their client's behalf.

Such a portal has already been requested but due to the outdated platforms the system is currently running on, the necessary upgrades would have to be implemented.

It would also be beneficial to have accounts at all banks which would make it possible for the Receivers Office to receive the payment on the same day the transfer was made by the taxpayer. Figure 3 shows the most significant differences.

Figure 3: Administrative process for receivables processing Receiver and SZV

GOVERNMENT	SZV
 Bank receivables are monitored	 Operates with an online portal
 Payments are sometimes unclear	 Payments are instantly clear
 Manual sorting and sending of receipts	 Entries are processed manually
 Takes a lot of time	 Receipts are quickly and efficiently issued electronically

⁹ E-mail from the Receiver dated July 6th, 2021.

3. REACTION FROM THE MINISTER AND OUR EPILOGUE

3.1 Reaction of the Minister of Finance

As part of our [audit protocol](#), the draft report was presented to the Minister of Finance on July 8th, 2021. The Minister responded on 13 July 2021:



MINISTER OF FINANCE

Date: July 13, 2021

Subject: Feedback Minister of Finance Concept Report Mini-Audit Bounced Checks

The mini-audit has given a first impression of one of the challenges the government organization faces inherent to a lack of investments, which is directly related to the lack of funding.

During the past few years, the government of St. Maarten made extensive preparations to improve and upgrade the public financial management. The plans include upgrading the accounting and ICT systems to insure integration of the relevant departments and processes. Training for the staff and the re-training where applicable. Successive commitments to receive financing where short-lived, however the most recent and still ongoing effort is that of the structural reform being done, in collaboration the Dutch government and a recently established Temporary Working Organization (TWO). Once again funding has been committed for the preparation and execution of this program. As part of this program several plans of approach have been approved, such as, Plan of Approach Transformation Tax Administration, Plan of Approach Financial Work Processes and Plan of Approach Budget Processes.

In the meantime, smaller initiatives have taken place, which have led to improved facilitation of online payments and a project to clean up the database has been approved. This should address the matter of incorrect administration of payments, for whatever reason, solving both the so-called "missing payments" and reducing the accounts receivable balance.

A handwritten signature in blue ink, appearing to read 'Ardwell M.R. Irion'.

Ardwell M.R. Irion

Minister van Financiën / Minister of Finance

Minister of FIN / Minister van FIN
Government Administration Building
Post Office Box 943, Philipsburg / Soutaliga road 1, Sint Maarten

3.2 Our epilogue

In the past, numerous plans were drafted to modernize the Tax- and Receivers Office, through digitization. For various reasons (financing, implementation, etc.), the Receiver currently still works with outdated systems. With the implementation of the *Landspakketten* and in collaboration with the Temporary Work Organisation, we express optimism that the necessary investments will be made in the foreseeable future to improve the systems. A digital portal, where payments can easily be made and a receipt is received immediately, if not within a few days, will hopefully make bounced cheques, a thing of the past.

We thank the Minister of Finance and the Receiver for their cooperation during this audit.

