Hold Check Process

July 1, 2002 to December 31, 2004

Richard L. Fair
State Auditor
The Honorable Richard J. Codey  
Acting Governor of New Jersey

The Honorable Richard J. Codey  
President of the Senate

The Honorable Albie Sires  
Speaker of the General Assembly

Mr. Albert Porroni  
Executive Director  
Office of Legislative Services

Enclosed is our report on the audit of the Hold Check Process for the period July 1, 2002 to December 31, 2004. If you would like a personal briefing, please call me at (609) 292-3700.

Richard L. Fair  
State Auditor  
May 17, 2005
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Hold Check Process

Scope

We have completed an audit of the Hold Check Process for the period July 1, 2002 to December 31, 2004. Our audit included financial activities accounted for in the New Jersey Comprehensive Financial System (NJCF$). The scope of our audit was all hold checks processed for all departments and financial entities funded by the state through NJCF$.

The “hold check” feature of NJCF$ provides users with the ability to interrupt the automated mailing of check payments so they can be held for agency disposition. Annually, over 53,000 hold checks were processed for more than $1.1 billion.

Objective

The objective of our audit was to determine whether the use of hold checks was necessary.

This audit was conducted pursuant to the State Auditor’s responsibilities as set forth in Article VII, Section 1, Paragraph 6 of the State Constitution and Title 52 of the New Jersey Statutes.

Methodology

Our audit was conducted in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

In preparation for our testing, we studied circular letters promulgated by the State Comptroller and Department of the Treasury, Office of Management and Budget (OMB) policies and procedures. Provisions that we considered significant were documented and compliance with those requirements was verified by interview, observation, and through our samples of financial transactions. We also reviewed financial trends and interviewed agency personnel to obtain an understanding of the programs and the internal controls.
A nonstatistical sampling approach was used. Our samples of financial transactions were designed to provide conclusions about the need for hold check transactions as well as internal control attributes. Sample populations were sorted and transactions were judgmentally selected for testing.

**Conclusions**

We found that most hold checks were necessary. In making this determination, we noted internal control weaknesses, matters of compliance with OMB regulations, and opportunities for cost-savings meriting management’s attention.

**Background**

The New Jersey Comprehensive Financial System (NJCFS) is utilized in processing payments made by the state. The input and approval of transactions occurs at the agency level. Checks are generated by the Department of the Treasury at the HUB (data center) and are transferred to the Capital Post Office for mailing. There are circumstances when agencies are allowed to designate the payment as a “hold check” instead of having the payment mailed direct to the payee. A specific code is entered on the payment screen by the agency and HUB personnel identify these hold checks and remove them from those which are to be shipped to the Capital Post Office. Each day, these checks are delivered to the Department of the Treasury, Office of Management and Budget (OMB) and are subsequently picked up at OMB by the appropriate agencies.

OMB Circular Letter 94-17 identifies reasons when the use of the hold check procedure would be valid. Some examples would include:

- travel advances for state employees;

- letter or order form must accompany the check; and

- closing paperwork must be signed with the presentation of the check.
Intra-Governmental Payment Vouchers

OMB Circular Letter 95-08 identifies the Intra-Governmental Payment Voucher as a transaction that may be utilized to make payments between governmental units without having to generate a check. Our review of hold checks noted over 5,000 instances where the payee was the State of New Jersey, another state agency, or the governmental unit initiating the payment.

One reason for using hold checks is the crossover of budget fiscal years. We found 518 checks totaling $16.6 million that were generated by the Department of Labor and held to be deposited by the same agency. The department explained that these were primarily due to adjustments and state matches that were not known until final reports were completed after year-end. Once final reports were presented, it might be necessary for the current budget fiscal year to reimburse the prior budget fiscal year. Per department personnel, OMB instructed them to generate these checks because the Intra-Governmental Payment Voucher cannot be used to cross budget fiscal years from current to prior. OMB agreed that this is not allowed but did agree that these could be allowed if an edit was created in order for OMB to provide approval of such transactions.

Another limitation in regards to Intra-Governmental Payment Vouchers involves bank accounts. OMB Circular Letter 95-08 states that the Intra-Governmental Payment Voucher cannot be used if the payment between agencies involves two different funds and therefore two different bank accounts. The only exceptions would be the following funds which all share the same bank account: General Fund (100), Special Transportation Trust Fund (480), Casino Control Fund (490), Casino Revenue Fund (491), Property Tax Relief Fund (495), and Gubernatorial Elections Fund (496).
In order to determine if the Intra-Governmental Payment Vouchers are being properly utilized, we selected a sample of 36 checks from the General Fund that were made out to a governmental unit and obtained the cancelled checks in order to determine if they were deposited into the same bank account. We found that 19 of the 36 checks could have possibly been processed as Intra-Governmental Payment Vouchers thereby eliminating the need to hold these checks.

The use of the Intra-Governmental Payment Voucher eliminates the cost of holding and generating checks. It also reduces the funds which must be made available by the Division of Investment to cover the checks.

**Recommendations**

We recommend procedures be improved to allow for the increased use of the Intra-Governmental Payment Voucher and agencies be reminded of those instances where this transaction can be utilized.

**Other Hold Check Concerns**

During our field visits, the following concerns were noted.

NJCFS provides a detailed listing of “check category” codes to hold checks that includes the 11 valid reasons outlined in OMB Circular Letter 94-17. In order to minimize the possibility of misuse of this service, OMB should utilize these codes to monitor the use of hold checks. Our testing disclosed many instances where the incorrect “check category” code was used. Subsequent discussions with fiscal officers found that many were not aware of the selection of “check category” codes available. Of the 19 agencies we visited, we found 12 to be using improper codes. Many agencies were using “code 99 - other special circumstances” to justify their hold checks. This code
should only be used on an exception basis. OMB needs accurate classification of hold checks to properly monitor the process.

Our survey also noted that OMB requires vendor permission on their own letterhead to make an address change on the system. This requirement prevents an employee, who has the capability to initiate payments, from having a check forwarded to an improper address. Our testing noted seven of the 19 agencies we visited are using a hold check instead of requesting the vendor to submit an address change. This same control weakness exists for all hold checks.

In order to achieve cost-savings by reducing the number of checks generated each day, NJCFS can combine payment vouchers made out to the same vendor and remit one check. This would occur even if these payment vouchers were initiated by different agencies. Some fiscal officers noted instances where they did not receive proper credit when allowing their payment to be combined with that of another agency. These agencies utilize hold checks to avoid this potential problem. However, a hold check entry to the “check category” field will produce single checks for each account code line thus avoiding being combined with those of another agency. This method however contradicts the objective of reducing the number of checks generated each day because it instead increases the number of checks even though they are payable to the same vendor.

It should be noted that these single checks can be created without generating a hold check by solely making the appropriate entry to the “single check” field. In this circumstance, the payment would be mailed directly to the payee. The hold check results in additional costs due to sorting, distribution, and more costly postage. It also causes an internal control concern in that the checks are transferred back to the initiating agencies.
A final area of concern involves internal control documentation. OMB Circular Letter 94-17 requires fiscal officers to maintain appropriate internal controls in regards to hold checks. Our discussions with fiscal officers found that most agencies have no written procedures pertaining to hold checks. Of the 19 agencies we visited, only three were able to present us with such documentation.

Recommendations

We recommend:

- methods be developed to educate the appropriate individuals at the various agencies of the importance of utilizing the proper "check category" codes and vendor address change process;

- necessary program modifications be made to reduce the number of checks being generated and the number of checks being held by possibly providing an option where an agency’s payment will not be combined with that of another agency; and

- agencies be informed that written procedures should be prepared to outline in detail the hold check process.

...
May 11, 2005

Mr. James B. Patterson, Assistant State Auditor
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Office of the State Auditor
P.O. Box 067
Trenton, New Jersey 08625-0067

RE: DEPARTMENTAL RESPONSE - HOLD CHECK PROCESS
Audit Report – July 1, 2002 to December 31, 2004

Dear Mr. Patterson:

The Department of the Treasury appreciates the efforts of your staff in the audit performed on the Hold Check Process, and for the courteous and professional manner in which your staff worked with the Office of Management and Budget (OMB) and other departments. The Departmental response to the recommendations is as follows:

Intra-Governmental Payment Vouchers

Audit Recommendation: Recommended that procedures be improved to allow for the increased use of the Intra-Governmental Payment Voucher (IGPV) and agencies be reminded of those instances where this transaction can be utilized.

Response: OMB worked with the Office of Information Technology (OIT) staff to modify the New Jersey Comprehensive Financial System (NJCFS) to allow an encumbrance in the current year to be charged to reimburse an expenditure in a prior year. The modification was placed into production on March 31, 2005. Additionally, continuous monitoring procedures are in place to identify instances in which agencies should use IGPVs rather than checks. The use of IGPVs is often highlighted in the NJCFS Newsletter.

Other Hold Check Concerns

Audit Recommendation: Recommended that methods be developed to educate the appropriate individuals at the various agencies of the importance of utilizing the proper "check category" codes and vendor address change process.
Response: OMB currently provides semi-annual training on the Expenditure Module of the NJCFS. The training includes the proper use of hold checks, the importance of the appropriate check category, the effects/use of the single check flag and vendor set-up. Additionally, the NJCFS Newsletter frequently includes information regarding the same.

Audit Recommendation: Recommended that a necessary program modification be made to reduce the number of checks being generated and the number of checks being held by possibly providing an option where an agency’s payment will not be combined with that of another agency.

Response: Although a program modification could be beneficial, OMB has been reluctant to modify the automated disbursement programming within NJCFS due to the inherent risk. OMB will discuss the costs and associated risks of a modification with OIT to determine the feasibility of the change.

Audit Recommendation: Recommended that agencies be informed that written procedures should be prepared to outline in detail the hold check process.

Response: On a bi-annual basis, OMB provides reports to agencies regarding the number of hold checks and the check categories used within their agencies. Agencies are required to provide justification for the hold checks as well as the check category. Additionally, agencies are reminded that adequate internal control procedures should be detailed and the additional expense of manually handling checks must be given appropriate consideration. Letters have been sent to the 16 agencies referred to in the audit report requesting that written procedures be prepared and a copy sent to OMB.

Best regards,

John E. McCormac, CPA
State Treasurer

clq
C Charlene M. Holzbaur
Kathy A. Steepey