# Issue

# Treatment and disclosure of stale checks may vary among the Services; however, additional information is necessary regarding each Service’s accounting treatment of stale checks. Additionally, State Unclaimed Property Laws may have a direct impact on the accounting treatment of unclaimed property (including stale checks).

# Research

Below outlines the current regulations, accounting guidance and industry standards related to the treatment of stale checks.

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| Stale Checks Treatment and Guidelines | Air Force | Army | Navy | Marines |
| Classification of Stale Checks | Based on Service provided feedback, EFT mandated for new employees. Where possible vendor payments are made via EFT. Workers Comp and Retirement is currently processing payments via check with continued influence to migrate to EFT. Any checks monitored are voided after 180 days. Documentation remained by Treasury on voided checks and upon presentation or request check will be reissued upon validation by the program manager. Current accounting structure does not include a liability account for outstanding checks nor guidance of remitting the money to the debtor’s state. Information is maintained on the employee, vendor, retiree, etc. for verification of check issued, voided, and right to claim. | Based on NAFSGL offsite discussion, require direct deposit for all employees | Based on NAFSGL offsite discussion, require direct deposit for all employees | Encounters issue with Stale Checks |
| DoDI 1015.10: Silent on Treatment. | N/A | N/A | N/A | N/A |
| DoDI 1015.15: Silent on Treatment. | N/A | N/A | N/A | N/A |
| FMR Volume 5, Chapter 7: 070703. Cash Belonging to Deceased or Missing Persons, B. Unknown Whereabouts. Collect cash found in the personal effects of a person whose whereabouts are unknown, including absentees and deserters, into a deposit fund account. Funds that have been held in a deposit fund for more than one year can be transferred to account 20X6133, Payment of Unclaimed Moneys, or into account \*\*R1060, Forfeitures of Unclaimed Money and Property. Make a separate collection for safekeeping deposits of each person and include the safekeeping deposit number on the collection voucher (see Chapter 16, paragraph 160305). Give a copy of the collection voucher to the officer having custody of the personal effects.FMR Volume 8, Chapter 10: 100507. Transfer of Funds. The unpaid compensation is placed in the deposit fund pending receipt of a claim for the compensation. If after one year, a claim has not been paid out from the deposit fund account, the funds should be transferred according to the Treasury guidelines. Subsequent payment of claims from this account is made by preparing an SF 1154. See Department of Treasury Financial Manual, Chapter 3000. | Need more information. | Need more information. | Need more information. | Need more information. |
| U.S. Securities and Exchange Commission: Escheatment Process. All states require financial institutions, including brokerage firms, to report when personal property has been abandoned or unclaimed after a period of time specified by state law – often five years. Before a brokerage account can be considered abandoned or unclaimed, the firm must make a diligent effort to try to locate the account owner. If the firm is unable to do so, and the account has remained inactive for the period of time specified by state law, the firm must report the account to the state where the account is held. The state then claims the account through a process called "escheatment," whereby the state becomes the owner of the account. | Need more information. | Need more information. | Need more information. | Need more information. |
| Industry: Record the amount of the outstanding check as a contingent liability. Depending on the state, the outstanding check must continue to be carried as a liability through a specified time period, usually five years. At this time, the amount is remitted to the state (state belonging to the vendor’s last known address. If the address is not available, the debtor’s state). When the payment is sent to the state, the liability becomes a payment and the contingency can be removed from the books. | Need more information. | Need more information. | Need more information. | Need more information. |

# Discussion

Although the FMR does not include specific guidance on the treatment of stale checks, it does include the treatment of cash belonging to deceased or missing persons. In this case, the funds are to be collected in a deposit fund account for up to a year and subsequently transferred into Payment of Unclaimed Moneys account or Forfeitures of Unclaimed Money and Property. Amounts deposited into these accounts should be tracked by person. Similarly, under the FMR, unpaid compensation is to be placed in a deposit fund suspense account for up to a year and then transferred out. Transferred funds should either go to the Payment of Unclaimed Moneys account or Forfeitures of Unclaimed Money and Property. In the commercial industry, including banking, stale checks/unclaimed property are typically held as a liability for a period specified by the State. After that specified period, the funds are paid to the State and the liability is removed from the books.

From the NAFSGL off-site discussion of this issue, the Navy, Army, and Air Force stated that they had required employees use direct deposit, and had thus minimized the number of written checks to just the first or second paycheck.

# Recommendation

We recommend that the Services all require employees to use direct deposit to reduce the number of stale checks, and that OSD note this requirement in the DoDI 1015.15 in the personnel section. Additionally, we recommend the DoDI 1015.15 be amended to add guidance on how to handle stale checks related to employees as well as vendors. This policy should include the timeframe of up to one (1) year for outstanding checks to remain in a liability account. However, the Services may implement a more restrictive cut-off date for outstanding checks to remain in the liability account. The policy should also include the liability account that will be used and general guidance on the process of remitting the money to the debtor’s state. We recommend that unclaimed property/stale checks continue to be tracked by individual/vendor.

# Service Concurrence

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| Service | Concurrence | Reason for Non-concurrence |
| Air Force | **Concurred 12/13/2018.** |  |
| Army | **Concurred 10/25/2018.** |  |
| Marines  | **Concurred 10/25/2018.** |  |
| Navy | **Concurred 10/25/2018.** |  |

# USD (P&R)MC&FP Disposition

Revise 1015.15 to include requirement of direct deposit use for all personnel; and add guidance on how to handle stale checks related to employees and vendors.

# DFAS Disposition

Update FMR to include guidance on treatment of stale checks.

# Forward to DoDIG?

No DoDIG equities.