

Audit Highlights



Highlights of performance audit report on the Unclaimed Property Program issued on November 19, 2015. Legislative Auditor report # LA16-07.

Background

The Unclaimed Property Program has the responsibility to collect, safeguard, and distribute unclaimed property. The primary mission of the Program is to reunite rightful owners with their property. The State Treasurer is the Administrator of Unclaimed Property. According to the State Treasurer's Annual Report, the State held about \$675 million in unclaimed property at the end of fiscal year 2014.

Unclaimed property can be any asset owed to a person or business. Property is considered unclaimed when there has been no activity and/or contact with the owner for a period specified in statute. Some common examples are securities, savings bonds, bank accounts, uncashed payroll checks, utility deposits, insurance proceeds, gift certificates, and other items specified in Nevada statute. The person or legal entity entitled to receive the property never loses the right to make a claim for the asset or value of items sold.

All collections of unclaimed property are recorded in the Abandoned Property Trust Account and totaled over \$62 million in fiscal year 2014. Collections are used to pay claims, transferred to other funds like the Millennium Scholarship Fund, and fund the Program. Operating expenditures for fiscal year 2014 were about \$1.85 million. The Program has one office in Las Vegas and had 12 authorized positions during fiscal year 2014.

Purpose of Audit

The purpose of this audit was to evaluate the program's processes for collecting, administering, and returning unclaimed property. Our audit focused on the program's activities related to collecting, administering, and returning unclaimed property from July 2013 through February 2015.

Audit Recommendations

This audit report contains eight recommendations to improve the processes for collecting, administering, and returning unclaimed property.

The State Treasurer accepted the eight recommendations.

Recommendation Status

The program's 60-day plan for corrective action is due on February 19, 2016. In addition, the six-month report on the status of audit recommendations is due on August 19, 2016.

Unclaimed Property Program

Office of the State Treasurer

Summary

The Program could improve inventory controls over assets in its vault and securities held in various broker accounts. The Program did not properly track savings bonds in its possession or maintain an accurate inventory report. Further, reconciliations were not timely for securities in accounts held by custodians. As a result, program records did not include all property to which owners are entitled. In addition, the Program did not always comply with statutory requirements for timely deposits. Improvements to inventory controls could help ensure the Program meets its safekeeping responsibilities.

Better practices for processing claims are needed to help ensure unclaimed property is properly distributed. The Program did not approve or deny claims timely. Untimely processing of claims can result in an action filed in district court by the claimant against the Treasurer. In addition, the Program does not have adequate controls to ensure data in the unclaimed property database is not inappropriately altered.

Key Findings

The Program did not properly track many of the savings bonds in its vault. We tested savings bonds belonging to 70 individuals and found the bonds belonging to 35 of the individuals were not recorded in the program's database. In total, we identified \$133,950 of savings bonds that were not recorded in the program's database. As a result, potential claimants searching the database would not know they were the rightful owners of these savings bonds. (page 4)

The Program did not have an accurate inventory list or perform annual reconciliations of unclaimed property held in its vault. We performed an inventory observation and prepared a list of packages in the vault. We compared the program's inventory report to our list of items in the vault. We found 18 of 25 items selected from the program's report were not in the vault. This included 12 items that were not in the vault and there was no evidence of the items' disposal. It also included six items when the disposal of the items was recorded in the database, a significant amount of time had passed since the disposal, and the items were still on the inventory report. We also requested the Program provide documentation of its two most recent inventories. However, it did not provide evidence that any reconciliations of properties held in the vault to properties recorded in the database had been performed. (page 5)

The Program did not adequately monitor securities held in its main custodian account. We found that semi-annual reconciliations between program records and custodian statements were not completed timely. Additionally, the Program did not follow-up timely on discrepancies noted during its semi-annual reconciliations and its review of weekly transaction reports. The Program contracts with one custodian to maintain its primary account. This custodian had custody of shares valued at about \$20 million, as of December 31, 2014. Our review found there was a difference of 933,000 shares between the custodian statement and program records. According to staff, many of the unreconciled shares are worthless. However, we found certain unreconciled shares had a market value of about \$313,000. (page 7)

The Program did not adequately monitor securities held in other custodian accounts. According to program records, there were securities in 49 accounts with custodians other than the main custodian. For 14 of the 49 accounts, a December 31, 2014, statement was not obtained by staff. Therefore, there were no reconciliations performed for these accounts. When reconciliations are not performed, the Program does not know if its records are accurate. Further, when statements are not obtained, the Program does not have confirmation that the securities recorded in its database are still in the custody of the designated custodian. (page 8)

More than half of the claims we tested were not processed timely. For example, 27 of 50 paid claims tested and 17 of 30 denied claims tested were not processed timely. NRS 120A.640 requires the Administrator to allow or deny a claim within 90 days after it is filed. The Program has not implemented procedures that require a tracking system or management report for monitoring the timely processing of claims. In addition, the Program does not have adequate procedures for large claims to ensure they are properly approved. The current procedure does not establish when a claim needs a second approval, such as a dollar threshold, or require the second approval be documented. (page 13)

Security controls over the unclaimed property database could be stronger. Our review found the Program did not review reports showing who has edited data in the database. As a result, there is an increased risk data could be inappropriately altered, which could allow a fraudulent claim to be processed without detection. (page 14)