

Audit Highlights



Highlights of Legislative Auditor report on the Office of the State Treasurer, Unclaimed Property Program issued on April 13, 2010. Report # LA10-09.

Background

The Unclaimed Property Program (Program) has the responsibility to collect, safeguard, and distribute unclaimed property for current and past residents and businesses of the State. The State Treasurer is the Administrator of Unclaimed Property. It is the goal of the Program to reunite property with the rightful owners or heirs. According to the State Treasurer's Annual Report, the State held about \$337 million in unclaimed property at the end of fiscal year 2009.

Statutes require companies and governmental agencies holding unclaimed property to submit annual reports and turn over unclaimed personal assets and contents of safe deposit boxes. Upon payment or delivery of property to the Administrator, the State assumes custody and responsibility for the safekeeping of the property.

All collections of unclaimed property are recorded in the Abandoned Property Trust Account. Funding for operating costs of the Program is provided by a transfer from the Abandoned Property Trust Account into the Unclaimed Property Account. The Program has one office in Las Vegas and 11 authorized positions.

Purpose of Audit

The purpose of this audit was to determine whether the Program's activities related to identifying, collecting, administering, and returning unclaimed property were carried out in accordance with applicable state laws, regulations, policies, and best practices. This audit focused on the Program's practices for identifying, collecting, administering, and returning unclaimed property for the 18-month period ended December 31, 2008.

Audit Recommendations

This audit report contains nine recommendations to improve the Program's practices for identifying, collecting, and administering unclaimed property. These recommendations include policies, procedures, and other controls to help ensure unclaimed property is properly reported, collected, and safeguarded. We also made a recommendation to monitor activity in the Program's computer system.

The Office accepted the nine audit recommendations.

Status of Recommendations

The Office's 60-day plan for corrective action is due on July 8, 2010. In addition, the six-month report on the status of audit recommendations is due on January 10, 2011.

Unclaimed Property Program

Office of the State Treasurer

Results in Brief

The Program substantially complied with state laws, regulations, and policies significant to its activities. However, the Program could improve its practices for identifying unclaimed property. In addition, the Program did not always comply with requirements for timely deposits. Improvements to identification practices could increase collections and timely deposits will strengthen controls over cash receipts.

The Program also needs stronger controls over administrative functions related to the sale of securities, various reconciliations of internal records, and access to data in the Unclaimed Property database. Stronger controls in these areas would help ensure the Program continues to meet its responsibility to properly safeguard unclaimed property.

Principal Findings

The Program did not fully utilize its audit function. We found staff auditors performed less than half the number of audits established in a performance measure. The purpose of audits is to identify and collect unclaimed property and improve future compliance with reporting requirements. When audit coverage is not adequate, rightful owners may be denied their property.

In addition to performing an adequate number of audits, a risk-based approach for scheduling audits is needed to ensure audit resources are used effectively. Our analysis of the audits performed did not find sufficient evidence a risk-based approach was consistently used. For example, 20 of 40 audits each had less than \$3,000 in findings. This includes two audits with no findings. The Program does not have written policies and procedures for scheduling audits.

The audit function is the Program's primary method for identifying holders that have not properly reported. However, additional methods to improve reporting compliance are available. We contacted unclaimed property personnel in nine states and found all nine have implemented additional methods to identify unclaimed property, and improve reporting. The use of other methods could help the Program meet its goal to reunite rightful owners with their property.

The Program had custodian responsibilities for about \$27 million in securities, as of December 31, 2008. However, the Program has not established a timeframe for when securities are to be sold. According to the Program's database, there are about 7.2 million shares that have been held by the Program for 2 or more years and are available for sale. Untimely sales of securities that have not been claimed increase the number of shares held in trust. As a result, additional staff resources are needed to account for the securities. Further, the longer shares are held, interest income is lost for the State.

The Program did not always make timely deposits. Our review found 27 of 37 payments received from holders were not deposited timely. These deposits ranged from 1 to 26 days late. NRS 353.250 has established timeframes for when money received is to be deposited. Failure to follow statutory deposit requirements increases the risk of theft or loss. Further, interest income for the State is not maximized.

The Program did not consistently perform accurate and timely reconciliations. For example, the Program's reconciliation of its internal records to state records for property collected and paid claims did not include all applicable transactions. In addition, we reviewed 15 accounts for securities and found 9,792 shares held in trust by a vendor did not have a corresponding owner listed in the Program's database. Without accurate records, the Program cannot ensure its safekeeping responsibilities are met. The Program does not have policies and procedures for reconciling program records to the state's records or for reconciling accounts with securities.

Security controls over sensitive data in the Program's database could be strengthened. Our review found the Program does not review computer logs showing who has edited data in the system. As a result, there is an increased risk data could be inappropriately altered, which would allow a fraudulent claim to be processed without detection.