

# STATE OF NEVADA

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## Performance Audit

Office of the State Treasurer  
Unclaimed Property Program

2020



Legislative Auditor  
Carson City, Nevada

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# Audit Highlights



Highlights of performance audit report on the Unclaimed Property Program issued on September 3, 2020.

Legislative Auditor report # LA20-16.

## Background

The Unclaimed Property Program (Program) is responsible for collecting unclaimed property, locating property owners, and auditing businesses to ensure they have reported unclaimed property in their possession. The primary mission of the Program is to return abandoned property to the original owners or their heirs. According to the Treasurer's annual report, the State held about \$853 million in unclaimed property at the end of fiscal year 2019.

Unclaimed property can include anything of value owed to an individual or a business. Property is considered unclaimed when there has been no activity or contact with the owner for a specific period. Any entity or person in possession of property that belongs to a Nevada resident is considered a holder of unclaimed property. After unsuccessful attempts to contact the owner, the property must be turned over to the State.

The Program maintains a searchable database of unclaimed property available to the public on the Treasurer's website. The reported owner, an estate, a lawful heir, or a duly authorized representative may file a claim for unclaimed property.

All unclaimed property received by the Program is recorded in the Abandoned Property Trust Account. Money is used to pay claims and fund the Program. Remaining balances in the Account are distributed to the Millennium Scholarship Trust Fund, Educational Trust Fund, and General Fund.

## Purpose of Audit

The purpose of the audit was to evaluate the Program's processes for collecting, administering, and returning unclaimed property. Our audit focused on Program activities for fiscal year 2019, and included some information from fiscal year 2018.

## Audit Recommendations

This audit report contains ten recommendations to strengthen the processes for collecting, administering, and returning unclaimed property. The State Treasurer accepted the ten recommendations.

## Recommendation Status

The Program's 60-day plan for corrective action is due on December 3, 2020. In addition, the 6-month report on the status of audit recommendations is due on June 3, 2021.

# Unclaimed Property Program

## Office of the State Treasurer

### Summary

The Unclaimed Property Program can strengthen certain processes over entities reporting abandoned property and claims to recover assets. Internal controls over the reporting process do not ensure unclaimed property reports and payments are processed timely. The Program's lack of enforcing policy for submitting unclaimed property payments via its online reporting system contributed to unprocessed reports and payments. Further, the Program lacked sufficient oversight of its automated claims system to ensure system reports were monitored for fraud and that the system was functioning properly. Stronger controls can help the Program ensure unclaimed property is promptly processed.

The Program can improve controls over the unclaimed property system and inventory. Specifically, controls are needed to ensure edits to critical data documenting ownership of unclaimed property are appropriate. Additionally, the Program should segregate duties over system and user access. Finally, inventory controls are needed for processing and recording safe deposit box contents in the unclaimed property system. Strong controls will help protect system data from unauthorized use and modifications and ensure safe deposit box contents are safeguarded.

### Key Findings

We identified a backlog of 397 unclaimed property reports received between fiscal years 2016 and 2019. We tested 37 of the 397 unprocessed unclaimed property reports and found for 16 or 43% of the reports, Program staff did not perform timely research to identify why the report was not processed, and 7 or 19% of the reports reappeared in the system after being processed and removed by staff. Timely processing of unclaimed property reports is important to ensure collection of payments from the holders. (page 6)

The Program needs to revise internal controls to segregate duties and maintain appropriate documentation for the deletion of holder reports from the unclaimed property system. Eight of ten reports revealed the same person deleted the report and approved the transaction. Additionally, most lacked sufficient documentation to substantiate the reason for deleting the report. (page 7)

The Program did not ensure payments were received and posted timely in the unclaimed property system. The Program did not post 358 payments totaling \$374,000 in property, dividends, and sales of unclaimed securities collected between fiscal years 2016 and 2019. The time frame payments were unposted ranged between 128 days to about 4 years. When unclaimed property payments are not posted, the property is not assigned to its rightful owner in the state's unclaimed property system. (page 8)

The Program's manual review of fast track claims was insufficient. Policies were not detailed or sufficient to ensure automatic processes were functioning as intended. The Program strengthened its process in April 2019 after our inquires. The revised review process identified one instance when the system inappropriately released a claim to the wrong person and two instances where criteria used by the fast track system was inappropriate. (page 11)

The Program was not reviewing fast track claims reports developed in response to our prior audit. The Program developed two reports to monitor fast track claims in response to the fraud identified. However, the Program did not sustain implementation of the recommendation and could not provide evidence the reports were being generated or reviewed. (page 11)

Property data edits in the unclaimed property system were not reviewed as recommended in our 2010 and 2015 audits. The purpose of reviewing edits is to verify inappropriate changes are not being made to data in the system. (page 13)

The Program did not adequately monitor access to its unclaimed property system. Routine reviews of system access were not performed and a current list of authorized users was not maintained. (page 14)

The Program did not maintain accurate and complete inventory records for the contents of unclaimed safe deposit boxes. We tested 35 safe deposit boxes and were unable to locate 14 items from 4 of the 35 boxes tested. Additionally, our observation of the Program's vault identified 6 of 20 savings bonds not recorded in inventory. (page 15)

Cash submitted with the contents of safe deposit boxes was not deposited in accordance with statute. In fiscal year 2019, a total of \$84,000 in cash was recovered from unclaimed safe deposit boxes. We found the cash deposits associated with these safe deposit boxes were made between 28 to 132 days late. Additionally, it took the Program between 27 and 163 days to record tangible items contained in safe deposit boxes. (page 16)

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This report contains the findings, conclusions, and recommendations from our performance audit of the Office of the State Treasurer, Unclaimed Property Program (Program). This audit was conducted pursuant to the ongoing program of the Legislative Auditor as authorized by the Legislative Commission. The purpose of legislative audits is to improve state government by providing the Legislature, state officials, and Nevada citizens with independent and reliable information about the operations of state agencies, programs, activities, and functions.

This report includes ten recommendations to strengthen the Program's processes for collecting, administering, and returning unclaimed property. We are available to discuss these recommendations or any other items in the report with any legislative committees, individual legislators, or other state officials.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Daniel Crossman".

Daniel L. Crossman, CPA  
Legislative Auditor

June 29, 2020  
Carson City, Nevada

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# Introduction

## Background

The Unclaimed Property Program (Program) is responsible for collecting unclaimed property, locating property owners, and auditing businesses to ensure they have reported unclaimed property in their possession. The primary mission of the Program is to return abandoned property to the original owners or their heirs. Pursuant to Nevada Revised Statutes (NRS) 120A.025, the State Treasurer is the Administrator of the Unclaimed Property Program. According to the Treasurer's annual report, the State held about \$853 million in unclaimed property at the end of fiscal year 2019.

Unclaimed property can include anything of value owed to an individual or a business. Examples of unclaimed property include securities, bank accounts, uncashed payroll checks, utility deposits, insurance proceeds, gift certificates, and other items specified by NRS 120A. Property is considered unclaimed when there has been no activity or contact with the owner for a specific period.

Upon payment or delivery of the unclaimed property, the State assumes custody and responsibility for safekeeping of the property. The Office of the State Treasurer is solely a custodian, and funds and property are held in perpetuity until such time as the original owner or heirs claim them.

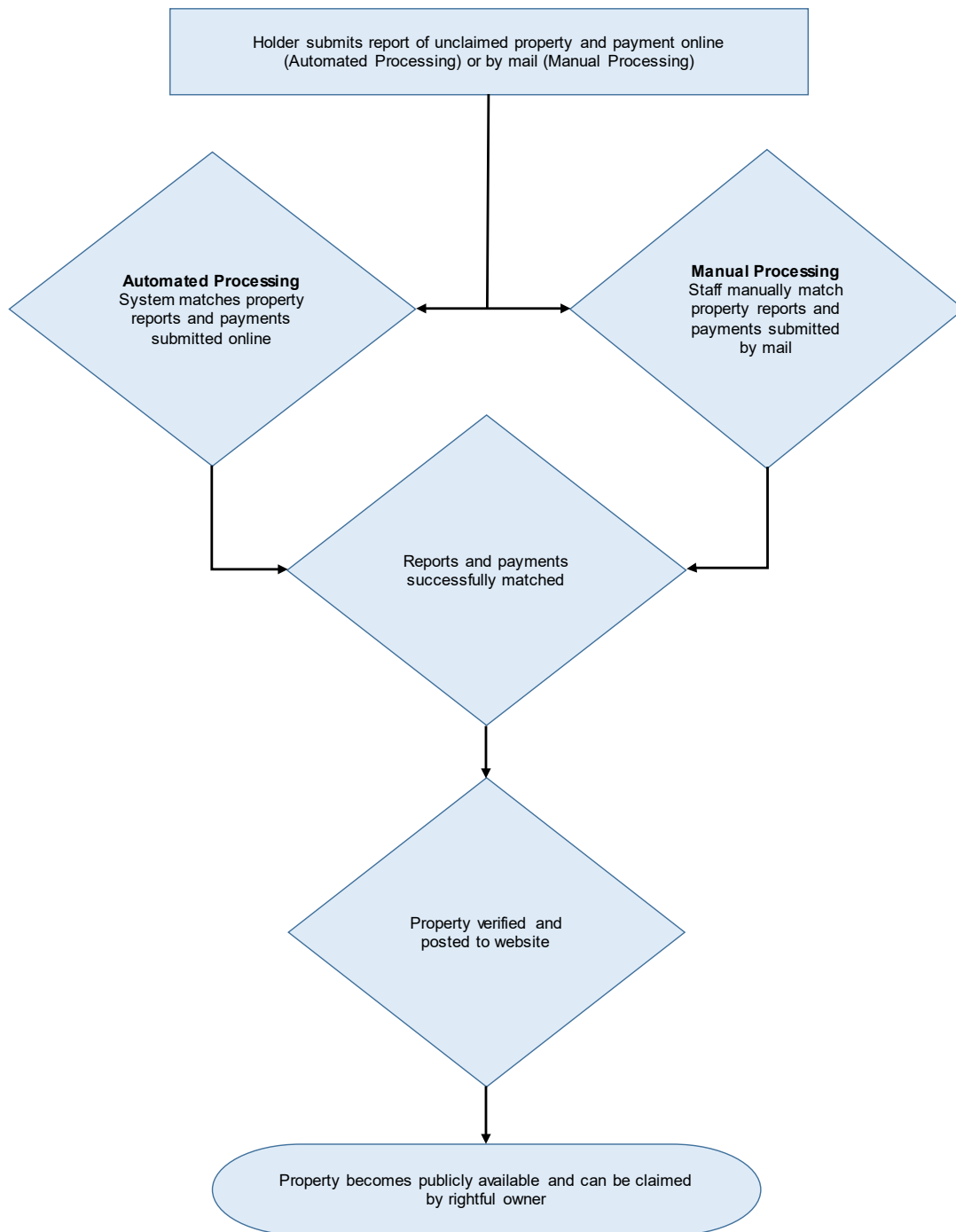
### **Unclaimed Property Reporting Process**

Prior to delivery to the State Treasurer's Office, any entity or person in possession of property that belongs to a Nevada resident is considered a holder of unclaimed property. Nevada law requires all holders to annually review their financial records to determine whether they are in possession of any property that has remained unclaimed for the required dormancy periods. Holders must attempt to contact the owner for properties over a certain dollar value. A holder who pays or delivers property to the State is

relieved of all liability arising thereafter. Exhibit 1 summarizes the unclaimed property reporting process.

### Unclaimed Property Reporting Process

### Exhibit 1



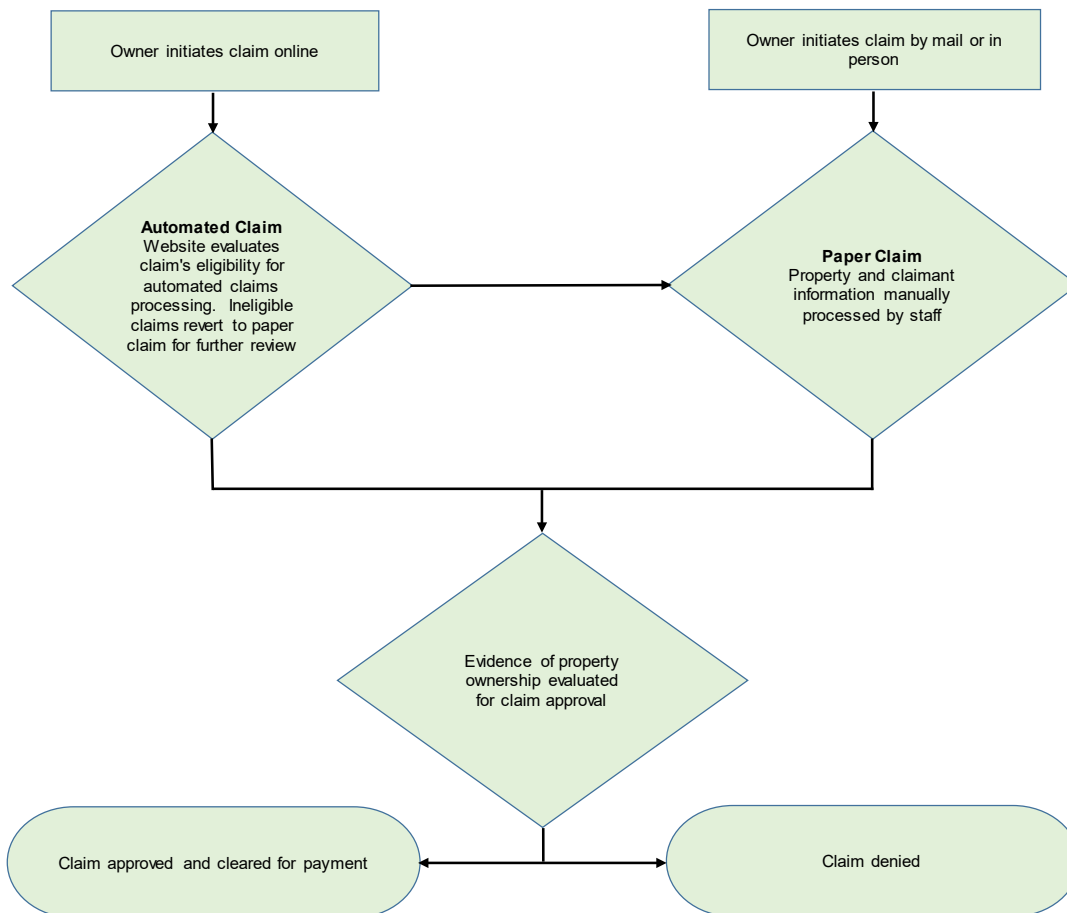
Source: Auditor prepared from discussions with staff, review of Program documentation, and observation of Program operations.

### Unclaimed Property Claims Process

To uphold its mission to reunite owners with property, the Unclaimed Property Program maintains a searchable database of unclaimed property available to the public on the Treasurer’s website. The reported owner, an estate, a lawful heir, or a duly authorized representative may file a claim for unclaimed property. Claims for unclaimed property can be requested online, on the Treasurer’s website, through the mail, or by contacting the Unclaimed Property Office. Exhibit 2 summarizes the unclaimed property claims process.

Unclaimed Property Claims Process

Exhibit 2



Source: Auditor prepared from discussions with staff, review of Program documentation, and observation of Program operations.

**Abandoned Property Trust Account**

All unclaimed property received by the Program is recorded in the Abandoned Property Trust Account (Account). Money in the Account is used to pay claims and fund the Unclaimed Property Program. Remaining balances, after paying claims and funding the Program, are distributed per statute. NRS 120A.620 requires an annual transfer of \$7.6 million to the Millennium Scholarship Trust Fund. NRS 120A.610 requires proceeds from abandoned gift cards be accounted for separately and transferred to the Educational Trust Fund at the end of each fiscal year. Exhibit 3 shows unclaimed property received and returned from the Account over the past 5 fiscal years.

**Abandoned Property Trust Account  
Fiscal Years 2015 to 2019**

**Exhibit 3**

	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
<b>Total Property Received</b>	<b>\$65,264,522</b>	<b>\$77,001,528</b>	<b>\$71,604,893</b>	<b>\$76,378,614</b>	<b>\$73,524,123</b>
Property Returned	31,315,893	28,513,821	36,178,968	39,773,451	42,516,756
Transfers:					
Unclaimed Property Account	1,853,462	1,926,916	1,882,627	2,091,049	2,192,292
Millennium Scholarship Trust Fund	7,600,000	7,600,000	7,600,000	7,600,000	7,600,000
Educational Trust Account <sup>(1)</sup>	193,332	-	105,351	190,185	250,328
General Fund	24,301,835	38,960,791	25,837,947	26,723,929	20,964,747
<b>Total Returns and Transfers</b>	<b>\$65,264,522</b>	<b>\$77,001,528</b>	<b>\$71,604,893</b>	<b>\$76,378,614</b>	<b>\$73,524,123</b>

Source: State accounting system.

<sup>(1)</sup> Transfer to Educational Trust Account not made in fiscal year 2016, because claims for gift cards exceeded collections.

**Program Budget and Staffing**

Operating costs are funded through a transfer from the Abandoned Property Trust Account into the Unclaimed Property Account. For fiscal year 2019, operating costs totaled about \$2.2 million, with the largest cost attributable to personnel. As of March 2020, the Program had 12 employees located in Las Vegas.



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## **Scope and Objective**

The scope of our audit included a review of the Program's activities for fiscal year 2019, but included some information from fiscal year 2018. Our audit objective was to:

- Evaluate the Program's processes for collecting, administering, and returning unclaimed property.

This audit is part of the ongoing program of the Legislative Auditor as authorized by the Legislative Commission, and was made pursuant to the provisions of NRS 218G.010 to 218G.350. The Legislative Auditor conducts audits as part of the Legislature's oversight responsibility for public programs. The purpose of legislative audits is to improve state government by providing the Legislature, state officials, and Nevada citizens with independent and reliable information about the operations of state agencies, programs, activities, and functions.

# Property Reporting and Claim Processes Can Be Strengthened

The Unclaimed Property Program (Program) can strengthen certain processes over entities reporting abandoned property and claims to recover assets. Internal controls over the reporting process do not ensure unclaimed property reports and payments are processed timely. The Program's lack of enforcing policy for submitting unclaimed property payments via its online reporting system contributed to unprocessed reports and payments. Further, the Program lacked sufficient oversight of its automated claims system to ensure system reports were monitored for fraud and that the system was functioning properly. Stronger controls can help the Program ensure unclaimed property is promptly processed.

## **Reporting Process Needs Improvement**

The Program did not ensure certain unclaimed property reports submitted by holders were processed timely or duties were adequately segregated when deleting reports. Further, the Program did not ensure all cash and securities collected from unclaimed property holders was processed timely. Unclaimed property reports and payments must be promptly processed to ensure property collected is matched to the rightful owner and ownership information is available to the public.

### **Some Unclaimed Property Reports Not Processed Timely**

The Program did not investigate unprocessed reports in a timely manner and some reports deleted by Program staff reappeared in the unclaimed property system due to a computer error. We identified a backlog of 397 unclaimed property reports received between fiscal years 2016 and 2019. Timely processing of unclaimed property reports is important because the longer the reports remain open, the harder it is to collect payment.

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We tested 37 of the 397 unprocessed unclaimed property reports and found the following:

- For 16 or 43% of the reports, Program staff did not perform timely research to identify why the report was not processed. Unprocessed reports could be a result of a duplicate report or a report submitted without payment. Staff investigated these reports between 31 and 413 days after the report was received.
- Seven or 19% of the reports reappeared in the system after being processed and removed by staff. According to management, this was caused by a computer problem. Reports are removed by staff when they are erroneous or mistakenly submitted twice by the holder.

Timely processing of unclaimed property reports is important to help ensure collection of payments from the holders. Additionally, property listed on the report is not visible to the public on the Treasurer's website until the report is processed. In May 2019, the Program issued informal guidance to staff indicating reports should be processed within 15 to 30 days after receipt. However, the Program did not document the guidance in its policies and procedures to ensure prompt processing of unclaimed property reports.

#### **Inadequate Controls Over Deleting Holder Reports Increases Risk of Fraud**

The Program needs to revise internal controls to segregate duties and maintain appropriate documentation for the deletion of holder reports from the unclaimed property system. Eight of ten reports revealed the same person deleted the report and approved the transaction. Additionally, most lacked sufficient documentation to substantiate the reason for deleting the report.

Deleting holder reports in the unclaimed property system is considered a risky data change by the system vendor. When reports are deleted, all of the information on the report is removed from the unclaimed property system. Adequate segregation of duties reduces the risk of error, misuse, and fraud. Additionally,

proper documentation, including correspondence with the holder if necessary, provides evidence that deletion of the report was justified.

### **Unclaimed Property Not Processed Timely**

The Program did not ensure payments were received and posted timely in the unclaimed property system. The Program did not post 358 payments totaling \$374,000 in property, dividends, and sales of unclaimed securities collected between fiscal years 2016 and 2019. When unclaimed property payments are not posted, the property is not assigned to its rightful owner in the state's unclaimed property system. This means owners cannot claim or even know that the State is in possession of their property. Exhibit 4 shows the backlog of unposted payments by payment type.

### **Backlog of Unposted Payments As of July 2019<sup>(1)</sup>** **Exhibit 4**

<b>Payment Type</b>	<b>Number</b>	<b>Amount</b>
Holder Reports	147	\$273,762
Stock Sales	74	39,765
Dividends	137	60,543
<b>Totals</b>	<b>358</b>	<b>\$374,070</b>

Source: Auditor analysis of unclaimed property system report "Receipts Not Fully Split/Applied".

<sup>(1)</sup> Payments were received by the Program between fiscal years 2016 and 2019.

We tested 24 of the unposted payments with higher dollar values. Our testing revealed 23 of 24 payments lacked documentation that the Program contacted the holder to determine the reason for the payment and who the funds belonged to. The time frame payments were unposted ranged between 128 days to about 4 years.

In addition to payments, there were 46 unposted securities received by the Program between 2016 and 2019. The Program takes possession of securities through the holder reporting process. For instance, the Program received an unclaimed security from a holder in October 2015 containing 11,224 shares of stock. As of July 2019, none of the owners of the shares had

been identified, and the Program had not contacted the holder to determine property owners.

In most cases, securities are not posted to the proper owner because the holder did not file a report providing ownership details when they submitted the securities to the Program. Program staff indicated they attempt to contact the holder when an unclaimed property report is not received; however, there was no documentation staff contacted the holders for almost all of the items tested. Monitoring controls help ensure property reports and payments get processed in a timely manner.

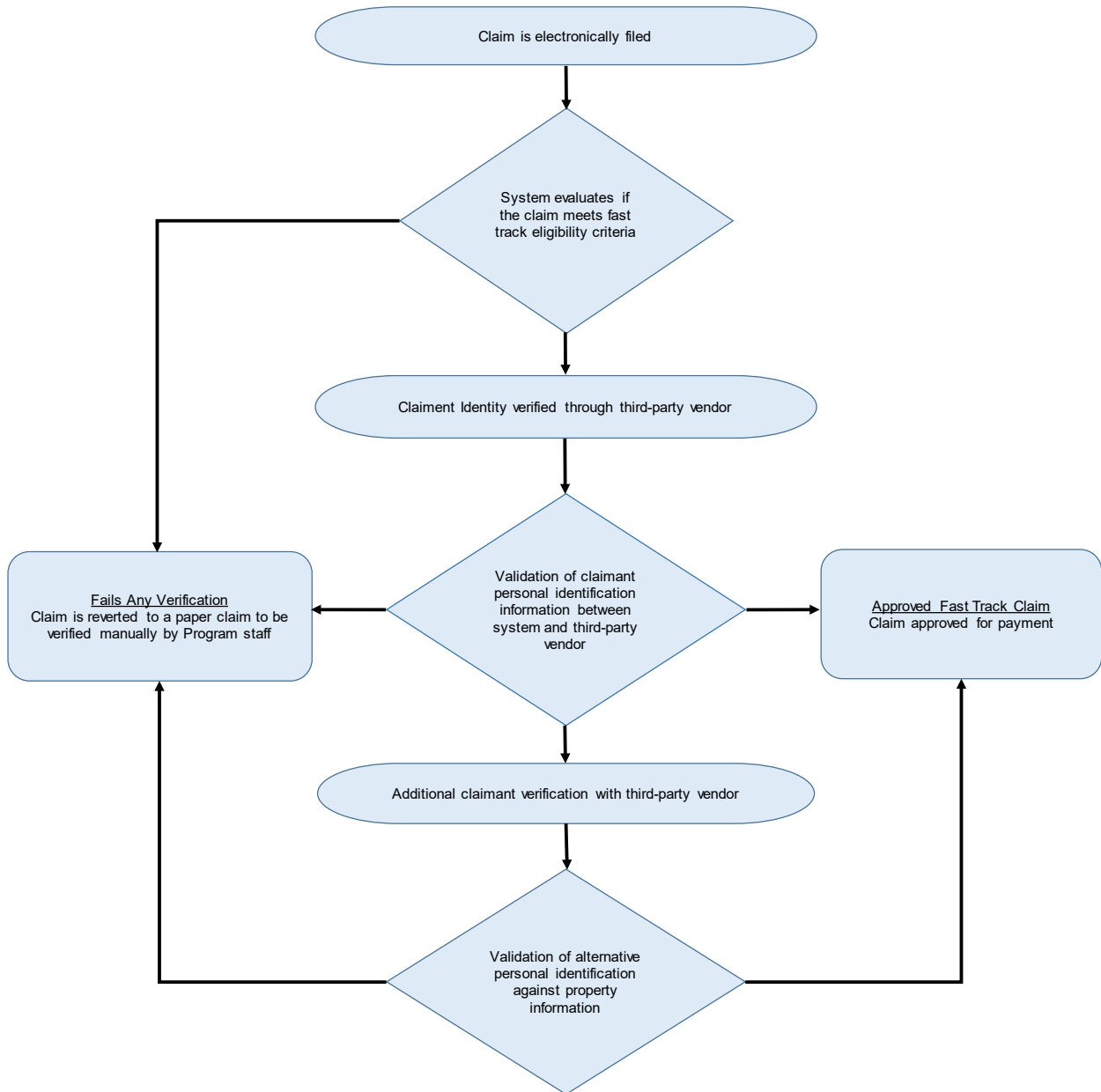
### **Automated Claims System Not Monitored Effectively**

The Program can improve oversight of its automated claims payment system known as fast track. Specifically, the Program's manual review of claims was not adequate to ensure claims were processed and paid appropriately. As a result, weaknesses identified after a more thorough process was established may have existed for up to 2 1/2 years. Additionally, the Program did not sustain implementation of fraud monitoring procedures developed in response to our 2015 audit. In fiscal year 2019, fast track claims made up about 70% of claims processed amounting to about \$720,000.

The fast track system automatically pays claims meeting specific criteria. The payment process is completely automated with the system verifying property eligibility and claimant identity. Exhibit 5 illustrates the fast track claims process.

Fast Track Claims Process

Exhibit 5



Source: Auditor prepared based on discussions with Program staff, analysis of fast track processing criteria, and review of Program's fast track flow chart.

**Fast Track Review Process Not Sufficient**

Oversight of the fast track claims system is important to ensure it is functioning properly, since the process is entirely automated, but the Program's manual review of claims was insufficient. While 5% of fast track claims were manually evaluated for compliance with processing criteria, policies were not detailed or sufficient to ensure automatic processes were functioning as intended. Furthermore, the Program did not maintain documentation regarding the process including management review and approval. The Program strengthened this process in April 2019 after our inquiries.

The fast track review process in effect prior to April 2019 identified no weaknesses with the system. However, the revised review process identified one instance when the system inappropriately released a claim to the wrong person. Program staff, performing a manual evaluation of the claim, identified the weakness and canceled the payment before it was sent to the claimant. Two other instances were identified through the strengthened process where criteria used by the fast track system was inappropriate. Currently, Program management and the system vendor are working to correct the problem.

Due to the uniqueness of the processing issues identified, it is not likely a large number of claims were inappropriately paid, but management could not determine the actual number of claims processed incorrectly. An effective review process can help identify future issues more timely.

**Fast Track Monitoring Reports Not Reviewed**

The Program was not reviewing fast track claims reports developed in response to our prior audit. The Program developed two reports to monitor fast track claims in response to the fraud identified. However, the Program did not sustain implementation of the recommendation and could not provide evidence the reports were being generated or reviewed.

Policies and procedures did not address the review of fast track monitoring reports. Further, turnover in key management and IT personnel may have contributed to the failure to maintain

implementation of the prior audit recommendation. Current Program management indicated they were not aware of these reports. Oversight and monitoring of fast track claims is important to prevent and detect fraudulent claims, ensure the automated claims system is functioning properly, and property is returned to the rightful owner.

### **Recommendations**

1. Develop policies and procedures for the timely processing of unclaimed property holder reports and payments.
2. Ensure proper segregation of duties and documentation is maintained when deleting holder reports from the unclaimed property system.
3. Develop, update, and implement policies and procedures over the fast track claims review process, including monitoring claim reports.



# Property System and Inventory Need Improvement

The Program can improve controls over the unclaimed property system and inventory. Specifically, controls are needed to ensure edits to critical data documenting ownership of unclaimed property are appropriate. Additionally, the Program should segregate duties over system and user access. Finally, inventory controls are needed for processing and recording safe deposit box contents in the unclaimed property system. Strong controls will help protect system data from unauthorized use and modifications and ensure safe deposit box contents are safeguarded.

## **Oversight of Program's Computer System Not Always Performed**

The Program needs to improve monitoring of its unclaimed property system to prevent and detect unauthorized changes to system data. For example, management did not have an effective process to monitor whether employee modifications to system property data were appropriate. In addition, reviews of system access are not routinely performed and a current system access listing is not maintained. Furthermore, an effective process is needed to monitor and document changes to system access.

### **Edits to Important Data Not Adequately Monitored**

Property data edits in the unclaimed property system were not reviewed as recommended in our 2010 and 2015 audits. We requested the quarterly reviews of edit reports for fiscal years 2018 and 2019, and documentation of the reviews could not be provided. After our request, management reviewed the fiscal year 2019 reports; however, all of the reports were ran and reviewed after the end of the fiscal year. Additionally, for three edit reports the reviewing employee also verified the legitimacy of their own edits on the reports.

Edits can include changes to the property owner's name and address, the property's dollar value, and deletion of property from

the system. The purpose of reviewing edits is to verify inappropriate changes are not being made to data in the unclaimed property system. Without proper segregation of duties, one individual can modify property data, misappropriate assets, and conceal the event.

Policies and procedures require a quarterly review of system edit reports. Policies also require documentation of the review be maintained. According to management, current system edit reports do not provide enough information to efficiently verify the appropriateness of employee data edits. For example, current reports only show the data after the edit. The reports do not show the original data prior to the edit. However, this information is available in the system if necessary to substantiate the accuracy of edits made. Management is currently working with the system vendor to develop a more effective and efficient report.

#### **System Access Controls Need Improvement**

The Program did not adequately monitor access to its unclaimed property system. Routine reviews of system access were not performed and a current list of authorized users was not maintained. It took about 5 weeks for the Program to produce a list of authorized system users. The Program cannot determine if user access is appropriate without reviewing system access. For instance, our review found a generic account was shared by Program staff and had administrative privileges. This allowed any employee to add new user accounts and change access privileges of users already on the system.

The Program also has not developed effective controls when changing user access privileges. Our review of system logs identified an employee who made 27 changes to their own access privileges within the unclaimed property system during fiscal year 2019. Documentation was not maintained describing the requested change, the reason for the change, and whether another individual approved the change.

IT systems must have sufficient access controls to provide protection from unauthorized access, alteration, and disclosure of data. State security standards require quarterly reviews of system

## **Controls Over Property Inventory Have Weaknesses**

access. Additionally, agencies are required to assign employees the minimum level of access to perform their job function. Program policies and procedures do not address system access review, maintaining system access reports, or changing user access privileges.

The Program can improve controls over the inventory of unclaimed property. Specifically, an accurate inventory of safe deposit box contents was not maintained. Additionally, the contents of safe deposit boxes including cash were not processed and recorded timely. Incomplete and inaccurate inventory records increases the risk that inventory items can be replaced or stolen.

### **Safe Deposit Property Records Were Inaccurate**

The Program did not maintain accurate and complete inventory records for the contents of unclaimed safe deposit boxes. Deposit box contents included such items as cash, collector coins, jewelry, savings bonds, and wills. We tested 35 safe deposit boxes and identified 2 items that were properly disposed of but were still listed on the inventory report. We also were unable to locate 14 items from 4 of the 35 boxes tested. The missing items had little to no value, such as physical copies of stock certificates.

Additionally, the Program's inventory records contained errors and did not properly reflect savings bonds in the vault. Our observation of the Program's vault identified 6 of 20 bonds were not recorded in inventory. Our 2015 audit contained a recommendation to ensure savings bonds are properly recorded in the unclaimed property system.

We found the Program had adequate security controls over access to the vault, and the exceptions noted are primarily recordkeeping issues. However, lack of complete and accurate inventory records increases the risk some items can be misplaced or stolen. Program policies and procedures lack sufficient guidance to ensure an accurate inventory is maintained. For example, policies require management to periodically reconcile property to inventory records; however, policies lack a follow-up process when discrepancies are identified.

### **Contents of Safe Deposit Boxes Not Processed Timely**

Cash submitted with the contents of safe deposit boxes was not deposited in accordance with statute. In fiscal year 2019, a total of \$84,000 in cash was recovered from unclaimed safe deposit boxes. We found all of the cash deposits associated with these safe deposit boxes were made between 28 and 132 days late. Statute requires agencies make deposits weekly or by the next business day when \$10,000 or more has accumulated. Failure to follow these requirements increases the risk of theft or loss.

Additionally, the Program did not record tangible items contained in safe deposit boxes into the unclaimed property system in a timely manner. It took the Program between 27 and 163 days to record the contents of unclaimed safe deposit boxes. Program policies and procedures have not established a time requirement for recording safe deposit box contents. During fiscal year 2019, proceeds from the sale of safe deposit box contents amounted to about \$95,000. Without timely recording, the Program does not know what property is in its custody and cannot quickly resolve discrepancies between what the holder reported and what was actually received.

### **Recommendations**

4. Ensure policies and procedures regarding the monitoring of system edit reports are followed, and the editing and review functions are properly segregated.
5. Work with the system vendor to improve edit reports to provide sufficient information to ensure oversight and monitoring activities can be performed efficiently.
6. Develop policies and procedures to ensure system access privileges are periodically reviewed for appropriateness, changes are adequately documented, and a current access listing is properly maintained.
7. Segregate duties over user access privileges.
8. Establish controls to ensure an accurate inventory of safe deposit box contents is maintained, including following up on property inventory reconciliation discrepancies.

9. Comply with statute when processing cash received in unclaimed safe deposit boxes.
10. Develop policies and procedures to ensure the processing and recording of the contents of safe deposit boxes is done as soon as practicable.

# Appendix A

## Audit Methodology

To gain an understanding of the Unclaimed Property Program, we interviewed staff and reviewed NRS, regulations, and policies and procedures significant to its operations. We also reviewed financial information, budgets, prior audit reports, legislative committee minutes, and other information describing the activities of the Program. Further, we documented and assessed the adequacy of the Program's controls over collecting, administering, and returning unclaimed property.

To determine if unprocessed unclaimed property reports are resolved timely, we obtained a list of unprocessed property reports received between fiscal years 2016 and 2019. We judgmentally selected a sample of 37 out of 397 reports with high dollar values. For each report in our sample, we determined if Program staff investigated these unprocessed reports in a timely manner.

We also reviewed whether the Program had adequate controls in place when deleting unclaimed property reports. We obtained a list of deleted reports from staff. From the list of 1,035 deleted reports, a sample of 10 reports between fiscal years 2016 and 2019 was randomly selected. We analyzed our sample to determine if the reports were appropriately deleted.

To test if payments were processed timely, we obtained a list of unposted payments received between fiscal year 2016 to 2019. A judgmental sample of 35 high dollar payments from a population of 404 was selected. The sample included 24 cash payments and 11 securities. We tested the payments for documentation of timely follow-up by Program staff.

Next, we tested the Program's process for enforcing unclaimed property payment requirements. We obtained a report of fiscal year 2019 unclaimed property payments. A sample of 45

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noncompliant holder payments was selected for our analysis from a total population of 984 payments. Of the 45 payments selected, 25 were randomly and 20 were judgmentally selected based on value. We analyzed the timeliness of payments and determined if the Program followed up with noncompliant holders.

To evaluate the effectiveness of the Program's oversight of its fast track claims process, we randomly selected five of the Program's weekly fast track claims reviews performed using the Program's old process prior to April 2019 and six under the new process. Supporting documentation for the reviews was requested, the procedures performed were evaluated, and resolution of issues identified by the Program analyzed. We also reviewed reports developed by the Program to monitor for fraudulent fast track claims and requested evidence of management review. Our understanding of the fast track system problems identified and their status was confirmed with Program management.

To ensure the Program was adequately monitoring its unclaimed property system, we reviewed system records for data edits, employee user access, and security logs for fiscal year 2019. System edit reports were analyzed for inappropriate modifications to data and to determine the frequency of management reviews. Documentation supporting management's timely review of user access in the unclaimed property system was requested but not able to be provided. A current access listing for the unclaimed property system was obtained and evaluated. We then confirmed our understanding of the unclaimed property system with Program management.

To verify whether unclaimed safe deposit box contents were adequately tracked and recorded, we obtained current inventory reports from the unclaimed property system. A total of 60 unclaimed safe deposit boxes were reviewed from a population of 1,408. A random sample of 35 boxes was selected and the contents of each box was physically located in the vault. A haphazard sample of 25 boxes was selected from the vault to determine if each item was recorded in the unclaimed property system. Further, 20 savings bonds were randomly selected from

a population of 566 to determine if they were properly recorded in the unclaimed property system.

We also reviewed the fiscal year 2019 submissions from 14 banks to determine if safe deposit box contents were processed timely. First, the date when each bank submitted the unclaimed safe deposit boxes to the Program was identified. Then, the amount of time it took staff to record the contents of each box in the unclaimed property system was calculated. Next, we determined whether cash received in safe deposit boxes was deposited timely in accordance with statute by analyzing all 19 cash deposits from the boxes received in fiscal year 2019. Dates stated on Program records were compared to bank slips and statements to determine how long it took the Program to deposit the cash.

To ascertain if the unclaimed property system and the state accounting system are reconciled and variances resolved timely, we requested the Program's annual reconciliation and reviewed applicable policies and procedures. The Program's fiscal year 2018 and 2019 reconciliation records were compared to the state accounting system and assessed for timely resolution of identified variances.

We used nonstatistical audit sampling for our audit work, which was the most appropriate and cost-effective method for concluding on our audit objective. Based on our professional judgement, review of authoritative sampling guidance, and careful consideration of underlying statistical concepts, we believe that nonstatistical sampling provided sufficient, appropriate audit evidence to support the conclusions in our report. We did not project exceptions to the population, because errors were not projectable. Our sample included both randomly and judgmentally selected items.

Our audit work was conducted from January 2019 to February 2020. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We



believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

In accordance with NRS 218G.230, we furnished a copy of our preliminary report to the State Treasurer. On June 17, 2020, we met with agency officials to discuss the results of the audit and requested a written response to the preliminary report. That response is contained in Appendix B, which begins on page 22.

Contributors to this report included:

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Deputy Legislative Auditor

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# Appendix B

## Response From the Office of the State Treasurer

**Zach Conine**  
State Treasurer



STATE OF NEVADA  
OFFICE OF THE STATE TREASURER

June 23, 2020

Daniel L. Crossman, CPA  
Legislative Auditor  
Legislative Counsel Bureau  
401 S. Carson Street  
Carson City, NV 89701

Dear Mr. Crossman:

This letter is in response to State Treasurer's Office Unclaimed Property Division ("Division") Performance Audit for the fiscal year 2019 and including some information from fiscal year 2018. As indicated in the attached document titled "Response to Audit Recommendations", the State Treasurer's Office accepts the ten recommendations included in the audit report. Please see our detailed response to the audit recommendations in the attached document.

The Division would like to express appreciation for the efforts of the of the Legislative Counsel Bureau Audit staff to improve its processes and procedures.

If you have any questions regarding this response please contact Chief Deputy Tara Hagan at (775) 684-5753, or Unclaimed Property Division Deputy Linda Tobin at (702) 486-4354.

Sincerely,

A handwritten signature in black ink, appearing to be "ZC", written over a horizontal line.

Zach Conine  
Nevada State Treasurer

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Governor Guinn Millennium Scholarship  
Program  
Nevada Prepaid Tuition Program  
Unclaimed Property  
College Savings Plans of Nevada  
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## Office of the State Treasurer's Response to Audit Recommendations

To streamline and formalize the updated processes outlined below in response to the audit, the Division is working to update its Policies and Procedures. The updated Policies and Procedures will be available for review by the Legislative Audit Committee prior to the meeting.

**1. Recommendation: Develop policies and procedures for the timely processing of unclaimed property holder reports and payments.**

**Response:** An upgraded report upload portal was launched in April 2018, and mandatory online report submissions and payments were implemented in June 2018. Prior to this time period, there were a variety of methods in which reports and payments were received which made processing and matching reports to payments more difficult. Each successive reporting cycle since April 2018 has shown marked improvement in reducing processing times, including up to current where the vast majority of all reports are processed within two weeks and all are reviewed within 30 days, with follow up initiated within this 30-day period should there be any deficiencies with the report or payment. A review of over 7,700 holder reports for fiscal year 2020 disclosed two (2) instances of reports not property processed or followed up on within 30 days of receiving the report and/or payment.

The backlog of unprocessed reports from prior years have also been cleared through current. One (1) report from a prior year and one (1) report from the current year remain unprocessed as of the date of this letter. Both are reports containing errors where attempts to resolve with the Holders who submitted them have gone unanswered. The Division has reached out on multiple occasions to finalize processing but has not heard back.

A revised holder report processing policy and procedure has been drafted and pending internal review, which documents expectations for timing, review and follow up for holder reports and payments.

**2. Recommendation: Ensure proper segregation of duties and documentation is maintained when deleting holder reports from the unclaimed property system.**

**Response:** The considerable number of deleted reports from early 2018 was due to a database sync issue and a single file with 234 individual reports which was uploaded through the reporting portal twice. A significant clean-up project was undertaken in 2018 specifically to remove these duplicate reports from the system. Out of approximately 500 deleted reports, ~200 were due to the database sync issue and 234 to the duplicated file upload. The majority of supporting documents for the clean-up project were maintained through emails with holders and on a spreadsheet, with the details not recorded on the Holder record.

Since that period, the ability to delete holder reports has been restricted to the Deputy Treasurer and Management Analyst IV. Documentation is maintained in the main holder record to support the reason(s) for deletion. Supporting information includes email correspondence with the Holder and the Document Locator Number of the file being deleted, which cross references to the report source file located on the network drive. This allows a deleted report to be reloaded should the need arise. Additionally, a report 'Audit – Deleted Reports', was created which maintains pertinent information regarding deleted reports, including who deleted, the amount of

## Office of the State Treasurer's Response to Audit Recommendations

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the report, original report number and the property count. This report is available to be run on-demand and available for review by Senior Management. As of the date of this letter, the Division receives approximately 1-2 requests to delete reports per month. Oftentimes, this is due to a holder having erroneously resubmitted a report when attempting to send payment at a separate time. Deletion requests and subsequent approvals are now being appropriately tracked in the system. These procedures are documented in a new policy and procedure which outlines all periodic internal division audits which are performed, which is currently pending internal review.

**3. Recommendation: Develop, update, and implement policies and procedures over the fast track claims review process, including monitoring claim reports.**

**Response:** In April 2019, the weekly FastTrack audit was reassigned to the Division's Audit Group, which created a new audit program and testing plan for FastTrack claims. The new audit program confirms properties are eligible for FastTrack based on the business rules and confirms the automated approvals were appropriately reviewed and passed the required data matching tests. This audit is performed weekly, prior to the issuance of claims checks. All discrepancies are investigated and documented.

Additionally, two reports are run and reviewed quarterly to detect any unusual patterns in claims initiations. The first is "Multiple Claims to the Same Address" where all claims for a rolling 24-month period are reviewed for unusual patterns of claims being submitted which utilize the same mailing address. This review was reimplemented in April 2019, for the 24 months ending March 31, 2019, after the audit initiation. The second report is the "Multiple Claims from the Same IP Address" where all claims for a rolling 24-month periods are reviewed for unusual patterns of claims being generated from the same location. Due to the claims site server move (from an in-house server to a hosted server), the IP address information was not captured by the system from late 2016 through August of 2019. In August of 2019, the website claims import function was modified to include the IP address with each claim. Immediately following this modification, the review of the associated reports was reimplemented. These procedures are documented in a new policy and procedure which outlines all periodic internal division audits which are performed, which is currently pending internal review.

**4. Recommendation: Ensure policies and procedures regarding the monitoring of system edit reports are followed, and the editing and review functions are properly segregated.**

**Response:** Prior to early 2019, property edits could be performed by any staff member. This was intended to provide staff the ability to make routine changes, such as correcting the spelling on an address or reversing a first name/last name to enable property owners to more effectively use the online search feature. Given the sensitive nature of data changes, this function has been limited to designated staff, specifically, the Holder Program Officer, Auditor III, and the Management Analyst II. All changes made by staff are now documented within the system. The audit reports, which document edits made in the system, are routinely monitored and tested to ensure legitimacy and accuracy of changes made. One of two staff members without the ability to perform edits (Deputy Treasurer and Management Analyst IV) review the audit reports.

## Office of the State Treasurer's Response to Audit Recommendations

These procedures are documented in a new policy and procedure which outlines all periodic internal division audits which are performed, which is currently pending internal review.

- 5. Recommendation: Work with the system vendor to improve edit reports to provide sufficient information to ensure oversight and monitoring activities can be performed efficiently.**

**Response:** At the Division's request and guidance, revised system audit reports showing edits have been created and implemented by the vendor as of January 2020. Revised reports now show data records before and after a change is made. Reports are run and reviewed at least quarterly by the Deputy Treasurer, who does not have system access to edit data. Additionally, system audit reports showing edits were run from January 1, 2016 through current and reviewed for propriety. The review did not disclose evidence of inappropriate changes.

- 6. Recommendation: Develop policies and procedures to ensure system access privileges are periodically reviewed for appropriateness, changes are adequately documented, and a current access listing is properly maintained.**

**Response:** Current access listing will be compiled at least quarterly and reviewed by IT and the Deputy Treasurer. All SQL role provisions are currently documented by IT. User roles and security role changes are currently documented and maintained by the Deputy Treasurer and are readily available to IT. Requests to change SQL access are submitted by the Deputy Treasurer to IT for evaluation, who grants access when deemed necessary. The Division will continue to evaluate this process for industry best practices and opportunities for refinement.

- 7. Recommendation: Segregate Duties over user access privileges.**

**Response:** Currently, SQL role assignments for all staff are assigned, monitored, and controlled by IT. These are the fundamental system assignments which control all users' ability to add, update, or delete any information within the database. There are several SQL roles within the system such as, Claims, Audit, Holder, Receipts, Edits, Safekeeping and Management. Each staff member is assigned appropriate SQL roles based on their individual job duties. Separate from SQL roles, the Deputy Treasurer assigns user access roles and applications. The Management Analyst IV can also assign user access roles and applications when necessary. All application and user roles assigned by the Deputy Treasurer can only be utilized when staff has the appropriate corresponding SQL role. For example, any staff who are not part of the Edit SQL group cannot edit a property record, regardless of the applications and user roles assigned. Another example would be the Holder work group, in order to upload a holder report, first needs to be in the Holder SQL group. In addition to being in the Holder SQL group, the Deputy Treasurer must have also assigned staff the appropriate application permission, "Report Import", to access the module where the task is performed, and also the user role "Import Holder Reports", to be able to run the task. Absent these three levels of permissions, staff would not have the ability to import a holder report into the system.

## Office of the State Treasurer's Response to Audit Recommendations

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**8. Recommendation: Establish controls to ensure an accurate inventory of safe deposit box contents is maintained, including following up on property inventory reconciliation discrepancies.**

**Response:** Inventory processing for safekeeping has improved over the years, partially due to the Division having a consistent team performing the processing. Since 2018, additional controls have been implemented, such as photographing contents during initial intake and ongoing updating of the safekeeping desk manual to reflect current processes. Timing for annual internal audit inventory testing procedures has been modified to occur immediately after processing has concluded for the current fiscal year and prior to auction preparations. This ensures that each year of inventory is subject to two annual testing processes prior to being auctioned. If any errors are noted as a result of the annual testing, they are documented and immediately corrected.

**9. Recommendation: Comply with statute when processing cash received in unclaimed safe deposit boxes.**

**Response:** The safekeeping process desk manual has been modified to include a review of each box's inventory contents when received, which include identifying and flagging boxes that contain cash. These boxes are processed first to ensure cash is deposited in accordance with statute. In the event it will take an extended period of time to process the entire box, cash will be removed, deposited, immediately noted in the system, and the remainder of the safe deposit box contents will be processed as time allows.

**10. Recommendation: Develop policies and procedures to ensure processing and recording of safe deposit boxes is done as soon as practicable.**

**Response:** Safekeeping is processed by the same team who also processes claims for the Division. Accordingly, there is an ongoing balancing act of allocating staff and time resources between these two job duties. Any delays in processing of safekeeping boxes are a direct result of attempts to keep claims processing within the Division's goals. The annual timeline of all functions related to safekeeping, such as delivery, processing, appraisal, auction, and internal inventory testing has been revised to create a much more efficient process, which also allows for timelier intake processing. For fiscal year 2020, there is a noticeable delay in the Division's ability to perform these functions as they can only be performed in person. Due to the COVID-19 Pandemic, the State Treasurer's Office was closed which significantly delayed the safekeeping program. We are diligently working to return to a more normal timeline.

A new policy and procedure is being drafted which addresses the claims staff priority rules for processing claims, safekeeping and securities, which collectively fall to this work group. This will ensure the processing and recording of the safe deposit boxes will be done as soon as practical, while not letting other deadlines or internal timing goals be missed.

## Office of the State Treasurer's Response to Audit Recommendations

<u>Recommendations</u>	<u>Accepted</u>	<u>Rejected</u>
1. Develop policies and procedures for the timely processing of unclaimed property holder reports and payments .....	<u>X</u>	<u>          </u>
2. Ensure proper segregation of duties and documentation is maintained when deleting holder reports from the unclaimed property system.....	<u>X</u>	<u>          </u>
3. Develop, update, and implement policies and procedures over the fast track claims review process, including monitoring claim reports .....	<u>X</u>	<u>          </u>
4. Ensure policies and procedures regarding the monitoring of system edit reports are followed, and the editing and review functions are properly segregated .....	<u>X</u>	<u>          </u>
5. Work with the system vendor to improve edit reports to provide sufficient information to ensure oversight and monitoring activities can be performed efficiently.....	<u>X</u>	<u>          </u>
6. Develop policies and procedures to ensure system access privileges are periodically reviewed for appropriateness, changes are adequately documented, and a current access listing is properly maintained .....	<u>X</u>	<u>          </u>
7. Segregate duties over user access privileges.....	<u>X</u>	<u>          </u>
8. Establish controls to ensure an accurate inventory of safe deposit box contents is maintained, including following up on property inventory reconciliation discrepancies .....	<u>X</u>	<u>          </u>
9. Comply with statute when processing cash received in unclaimed safe deposit boxes .....	<u>X</u>	<u>          </u>
10. Develop policies and procedures to ensure the processing and recording of the contents of safe deposit boxes is done as soon as practicable.....	<u>X</u>	<u>          </u>
TOTALS	<u>10</u>	<u>          </u>