

STATE OF NEVADA

Performance Audit

Office of the State Treasurer
Unclaimed Property Program

2015



Legislative Auditor
Carson City, Nevada

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)

STATE OF NEVADA
LEGISLATIVE COUNSEL BUREAU

LEGISLATIVE BUILDING
401 S. CARSON STREET
CARSON CITY, NEVADA 89701-4747

LEGISLATIVE COMMISSION (775) 684-6800
MICHAEL ROBERSON, *Senator, Chairman*
Rick Combs, *Director, Secretary*

INTERIM FINANCE COMMITTEE (775) 684-6821
PAUL ANDERSON, *Assemblyman, Chairman*
Cindy Jones, *Fiscal Analyst*
Mark Krmptic, *Fiscal Analyst*



RICK COMBS, *Director*
(775) 684-6800

BRENDA J. ERDOES, *Legislative Counsel* (775) 684-6830
PAUL V. TOWNSEND, *Legislative Auditor* (775) 684-6815
SUSAN E. SCHOLLEY, *Research Director* (775) 684-6825

Legislative Commission
Legislative Building
Carson City, Nevada

This report contains the findings, conclusions, and recommendations from our performance audit of the Unclaimed Property Program administered by the Office of the State Treasurer. 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 eight recommendations to improve the 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 "Paul V. Townsend".

Paul V. Townsend, CPA
Legislative Auditor

October 15, 2015
Carson City, Nevada

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Introduction

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. Pursuant to NRS 120A.025, 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. Owners could include the estate or the heir(s) of the original owner.

Any entity or person in possession of property that belongs to a Nevada resident is considered a holder of unclaimed property. This includes holders in other states with property owed to Nevada residents. After the holder unsuccessfully attempts to contact the owner, the property is required to be turned over to the State. Upon payment or delivery of the property, the State assumes custody and responsibility for safekeeping of the property. A holder who pays or delivers property to the State is relieved of all liability arising thereafter with respect to the property.

Abandoned Property Trust Account

All collections of unclaimed property are recorded in the Abandoned Property Trust Account. Collections are used to pay claims and fund the Unclaimed Property Program. NRS 120A.620

requires an annual transfer of \$7.6 million from the Abandoned Property Trust Account to the Millennium Scholarship Trust Fund. In addition, NRS 120A.610 requires an annual transfer of the proceeds from abandoned gift certificates to the Educational Trust Account.

Funds remaining in the Abandoned Property Trust Account must be transferred to the General Fund at the end of each fiscal year. Exhibit 1 provides a 5-year summary of collections, returns, and transfers for the Abandoned Property Trust Account.

**Abandoned Property Trust Account Summary
Fiscal Years 2010 to 2014**

Exhibit 1

	2010	2011	2012	2013	2014
Collections ⁽¹⁾	\$88,827,489	\$113,066,432	\$138,349,767	\$65,752,340	\$62,374,228
Paid Claims	20,683,676	27,058,873	32,713,836	23,022,490	35,259,608
Transfers:					
Millennium Scholarship Trust Fund ⁽²⁾	-	-	7,600,000	7,600,000	7,600,000
Unclaimed Property Account	1,933,138	2,205,280	1,797,957	2,068,556	1,849,500
Educational Trust Account	8,911	14,490	337,852	142,731	198,684
General Fund	66,201,764	83,787,789	95,900,122	32,918,563	17,466,436
Total Claims and Transfers	\$88,827,489	\$113,066,432	\$138,349,767	\$65,752,340	\$62,374,228

Source: State accounting system.

⁽¹⁾ Collections were significantly reduced starting in 2013 when Citibank changed its state of incorporation from Nevada to North Dakota.

⁽²⁾ During the 2010 Special Session, legislation was passed to suspend the transfer of funds to the Millennium Scholarship Trust Fund for fiscal years 2010 and 2011.

Program Budget and Staffing

Funding for operating costs is provided by a transfer from the Abandoned Property Trust Account into the Unclaimed Property Account. 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 years 2013, 2014, and 2015. Daily operations of the Program are supervised by a Senior Deputy Treasurer.

Website Allows Public to Search for Unclaimed Property

The Treasurer's website allows the public to search the database for unclaimed property. The website also provides information on filing claims, obtaining claim forms, and checking the status of a pending claim. For some claims, the database identifies certain criteria has been met and allows the claim to be processed completely online. The Program refers to these as Fast Track claims.

Scope and Objective

This audit focused on the program's activities related to collecting, administering, and returning unclaimed property for the period from July 2013 through February 2015. 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.

Inventory Controls Have Weaknesses

The Program could improve inventory controls over assets in its vault and securities held in various broker accounts. For example, 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.

Savings Bonds in Vault Were Not Properly Recorded

The Program did not properly track many of the savings bonds in its vault. We tested savings bonds belonging to 70 of the 629 individuals we identified as having savings bonds in the program's custody, and found the bonds belonging to 35 of the individuals 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. NRS 120A.590(2) establishes that upon payment or delivery of property to the Administrator, the State assumes custody and responsibility for the safekeeping of the property.

Our observation of the program's vault identified savings bonds in a filing cabinet belonging to 600 individuals with a face value of about \$215,000. We also identified an additional \$142,150 of savings bonds belonging to 29 individuals that were stored in safekeeping bags in the vault. Exhibit 2 summarizes our review of savings bonds.

Test Results for Savings Bonds

Exhibit 2

Location of Savings Bonds in Vault	Test Results
<u>Savings Bonds in File Cabinet:</u> For 123 of the 600 individuals, we found there was an owner name and/or a property ID number attached to the bonds.	We tested bonds for 30 of the 123 owners and found bonds belonging to 10 of the owners were not properly tracked: <ul style="list-style-type: none"> No bonds were recorded for 5 owners. The number of bonds recorded for the other 5 owners did not agree with the number of bonds we observed.
<u>Savings Bonds in File Cabinet:</u> For 477 of the 600 individuals, there was no indication of an owner name or property ID number.	We tested 20 of the 477 individuals' bonds and found 13 were not recorded in the database.
<u>Savings Bonds in Separate Owner Packages:</u> For 29 individuals, there was an owner name and property ID number attached to the package.	We tested 20 of the 29 individuals' bonds and found 17 occurrences when no bonds were recorded in the database for the individual. We also found one instance when some, but not all, of the bonds were recorded in the database.

Source: Audit test results.

In total, we identified \$133,950 of savings bonds that were not recorded in the program's database. Although all of the savings bonds had a name on the bond, and many had more than one name, that individual or individuals may not be the rightful owner of the unclaimed property. For example, a person may have purchased bonds for children or other relatives, but those persons may not be able to legally file a claim for the unclaimed property. The Program has not developed procedures to help ensure savings bonds are properly entered into its database.

Program Did Not Have an Accurate Inventory Report or Perform Reconciliations of Vault Inventory

The Program did not have an accurate inventory list or perform annual reconciliations of unclaimed property held in its vault. The Program is responsible for the safekeeping of various types of personal property kept in its vault. This includes items such as cash, savings bonds, wills, jewelry, and collector coins. A majority of the items are received primarily from banks, casinos, and hospitals. We found the Program had adequate security controls over access to the vault, and the exceptions noted are primarily recordkeeping issues. However, accurate property records are important because some items can be of substantial value. There is an increased risk of theft for items like valuable coins.

We performed an inventory observation and prepared a list of packages in the vault. Owner packages may contain multiple items. 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:

- Twelve instances when the item was not in the vault, and there was no evidence in the database of the items' disposal.
- Six instances when disposal of the item was recorded in the database, a significant amount of time had passed since the disposal, and the item was still in the inventory report. For example, one of these items was disposed in December 1997.

Standards for internal control state an agency must establish physical control to secure and safeguard vulnerable assets. Such assets should be periodically counted and compared to control records. Safekeeping procedures do not include steps to ensure an accurate inventory report is maintained. Without accurate records, the Program cannot ensure its safekeeping responsibilities are met.

We also requested the Program provide documentation of its two most recent inventories. However, staff did not provide evidence that any reconciliations of vault inventory have been performed. Policies and procedures require an annual reconciliation of properties being held in the vault to properties recorded in the database. The reconciliation must be performed by two management employees in the Treasurer's Office who are not a part of the Unclaimed Property Program. Management has not implemented controls to ensure annual reconciliations are performed.

Tracking of Securities Held by Custodians Needs Improvement

According to custodian statements, the Program was responsible for about 270 million shares of securities with a market value of more than \$21 million, as of December 31, 2014. According to Program documents, these securities are in the custody of 50 different custodians. We found the program's records often did not agree with custodian statements. Further, the Program did not take timely corrective action when it identified discrepancies between program records and custodian statements. Untimely reconciliations increase the risk of inaccurate property records.

Main Custodian Account

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. Untimely resolution of discrepancies makes it more difficult to identify who owns the securities, determine the correct number of shares owned, and notify rightful owners.

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. Exhibit 3 summarizes our testing of this account.

Test Results for Main Custodian Account

Exhibit 3

Issue	Test Results
<p><u>Reconciliations Not Timely:</u> Program procedures require a semi-annual reconciliation of the main custodian account be completed around March 1 and September 1. Staff indicated these reconciliations are for the periods ended December 31 and June 30 of each year.</p>	<p>Staff did not begin the semi-annual reconciliation for the period ended June 30, 2014, until December 5, 2014, which was about 3 months late. We could not determine the actual completion date because it was not documented.</p>
<p><u>Semi-Annual Reconciliations Not Consistently Performed:</u> For calendar year 2013, reconciliations were not performed for each 6-month period in the year.</p>	<p>A reconciliation was not performed for the period ending June 30, 2013. Instead, reconciliations were performed for the periods ending March 31 and December 31, 2013. Our review found there was about a 10-month period between these reconciliations.</p>
<p><u>Follow Up Not Timely When Discrepancies Were Noted:</u> When reconciliations were performed, staff identified discrepancies between program records and the custodian's statement. For each security with a discrepancy, there can be multiple owners' accounts that are out of balance.</p>	<p>Staff noted a total of 199 securities had discrepancies for the period ended December 31, 2014. Our review of 40 of the discrepancies found 12 were out of balance on the June 30, 2014, reconciliation as well. Further, 7 of the 12 were also out of balance on the December 31, 2013, reconciliation. Therefore, these seven securities had been out of balance for at least a year without resolution.</p>
<p><u>Untimely Entry of Weekly Transactions:</u> The Program receives weekly transaction reports from the custodian. This includes stock sales, stock splits, interest, and dividends. These transactions should be posted timely to each owner's account in the database.</p>	<p>We found 17 of the 40 discrepancies tested were the result of untimely follow up on the weekly reports. The Program did not follow up on these transactions for between 2½ and 7½ months after being notified.</p>

Source: Auditor review of program records.

We also found 18 of the 40 discrepancies tested were due to untimely entry of holder reports in the program's database. According to staff, holders transfer shares directly to the custodian and submit a holder report to the Program with the applicable information. Our testing found securities from these reports were not recorded in the program's database for 4 months to 1 year. Further, certain securities in these reports had a market value of approximately \$216,000. When holder reports are not entered in the database, rightful owners searching the website are not able to identify their property. We found no evidence of a tracking system for management to monitor the timely entry of holder reports into the database. The Program is responsible for protecting the assets, notifying the public of unclaimed property held by the State, and attempting to return property to the rightful owner.

Current procedures do not clearly establish the periods to be covered by the semi-annual reconciliations or a firm due date for completion, and they do not require the completion date to be documented. Program procedures also do not address the timely follow up of discrepancies identified in the semi-annual reconciliation or in the weekly transaction reports. The number of discrepancies in the 6-month reconciliation could be reduced if weekly transactions were posted timely to the applicable owner's account and holder reports were entered into the database promptly.

Other Custodian Accounts

The Program did not adequately monitor securities held in other custodian accounts. We found reconciliations between program records and custodian statements were not consistently performed. When reconciliations were performed, sufficient documentation was not maintained to verify the reconciliations were timely. Furthermore, staff did not perform timely follow up when they identified discrepancies between program records and custodian statements.

According to program records, there were securities in 49 accounts with custodians other than the main custodian as of December 31, 2014. For 14 of the 49 accounts, a December 31,

2014, statement was not obtained by staff. Therefore, there was no reconciliation performed for these accounts. Four of these statements were obtained by program staff after we requested them. However, according to program management, some custodians will not provide statements and some will not or cannot transfer the securities to the main custodian. This may be because the securities are worthless, non- transferrable, or otherwise restricted.

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. According to staff, the need to reconcile these accounts is not critical because many of the securities in the custody of these custodians are worthless. However, for the 14 accounts without a statement and reconciliation, we were able to estimate the value of certain securities in these accounts at about \$138,000. Exhibit 4 summarizes our testing of other custodian accounts.

Test Results for Other Custodian Accounts

Exhibit 4

Issue	Test Results
Reconciliations were not consistently performed for all accounts.	<p>We requested the two most recently completed reconciliations for 10 of the 49 accounts, as of December 31, 2014. A total of 20 reconciliations were reviewed.</p> <ul style="list-style-type: none"> • Six of the reconciliations were not for the proper period. For one account, neither the December 31, 2014, reconciliation nor the prior reconciliation had been performed. • Four other accounts had reconciliations for December 31, 2014; however, the required reconciliation immediately prior to that period had not been performed.
Timely completion could not be determined.	We could not determine if 11 of the 14 reconciliations were completed timely because the completion date was not documented.
Untimely follow up when reconciliations were performed and staff identified discrepancies between program records and the custodian's statement.	We reviewed 30 of the 62 discrepancies noted on the December 31, 2014, custodian statements. Fourteen of these had been identified as discrepancies on the prior reconciliation.

Source: Auditor review of program records.

When discrepancies are not resolved timely, it is more difficult to identify who owns the securities, the correct number of shares

owned, and to notify rightful owners. Fourteen of the thirty discrepancies tested were because the holder report had not been entered in the program's database timely. We were able to determine certain securities from these reports had a market value of about \$107,000.

Program policies and procedures require either a monthly or quarterly reconciliation of securities held in these custodian accounts. The frequency of the reconciliation depends on how often the custodians submit statements, which is monthly or quarterly. Further, staff is required to initial and date stamp the first page of each reconciliation upon completion. However, current procedures are silent regarding timely follow up on individual reconciling items. Further, management has not implemented controls to ensure all accounts are reconciled timely. For example, our review found the form used to track reconciliations is incomplete and procedures do not require management's review to be documented.

Deposits Were Not Always Timely

The Program did not always make timely deposits. In fiscal year 2014, the Program collected \$62.4 million, of which about \$6.8 million were payments by checks and \$55.6 million were payments by electronic funds transfer. When checks are not deposited until days or weeks after receipt, there is an increased risk of theft or loss.

The Program receives a large number of payments around certain deadline dates. State law requires a holder of property to submit a report by November 1 of each year. If property reported includes cash, payment is due with the report. The one exception is for insurance companies, who are required to file and make payment before May 1 of each year. We tested payments received during the November 2013 and 2014 peak periods and found 33 of 50 (66%) cash payments were deposited an average of 11 working days late. Thirteen of these payments were deposited between 15 and 34 working days late.

We also found deposits were untimely for payments processed after the beginning of the calendar year. We tested the two largest holder payments on 10 deposits randomly selected from

22 deposits of \$10,000 or more processed in January and February 2014 and 2015. Fourteen of the twenty payments (70%) tested were deposited late. Payments were deposited an average of 39 days late, with the latest payment deposited 76 days late.

NRS 353.250 requires every state officer, department, or commission which receives money of the State of Nevada to deposit the money on or before Thursday of each week. If on any day the money accumulated for deposit is \$10,000 or more, the deposit must be made not later than the next working day.

The Program has check scanning machines which allow it to utilize a remote deposit service. Full implementation of this technology should help facilitate timely deposits. Although the Program revised its procedures in 2014, they do not include certain methods to help ensure checks are deposited timely. For example, they do not include steps to reallocate resources during peak periods, ensure deposits of less than \$10,000 are made weekly, and require management review of timeliness.

We also noted the Program did not adequately secure pending deposits. While at the program's office in December 2014, we observed three plastic mail bins containing holder reports with the original checks attached to the reports. These bins were stored in an open area next to one staff's cubicle. Management acknowledged during peak periods the checks could remain in the bins, unsecured in the open office area, for several days until they are processed.

Recommendations

1. Develop procedures to help ensure savings bonds are properly entered in the program's database.
2. Revise safekeeping procedures to help ensure an accurate inventory report is maintained and develop management controls to ensure procedures for annual reconciliations are followed.
3. Revise procedures and develop a tracking system to help ensure all custodian accounts are reconciled timely and to perform timely follow up when discrepancies are identified.

4. Revise procedures to ensure deposits are timely, per NRS 353.250.

Better Practices Needed for Processing Claims

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. Finally, the program's automated process for paying claims, Fast Track, needs additional controls to help prevent and detect fraudulent claims.

Approved and Denied Claims Not Processed Timely

More than half of the claims we tested were not processed timely. NRS 120A.640 requires the Treasurer to allow or deny a claim within 90 days after it is filed. In addition, the Program does not have adequate procedures for large claims to ensure they are properly approved. Our review of claims found:

- Twenty-seven of fifty paid claims were not approved timely. This ranged from 94 to 169 days, with 19 of the 27 claims taking more than 100 days to process. We found no evidence to justify any of the untimely approvals, such as waiting for the claimant to provide additional documents.
- Seventeen of thirty denied claims were not denied timely. This ranged from 92 to 158 days, with 10 of the 17 claims taking over 125 days to process. We found no evidence to justify any of the untimely denials, such as waiting for the claimant to provide additional documents.
- For 16 of 25 pending claims, we found no evidence to justify the delay in processing the claims. These claims ranged from 227 to 747 days since receipt.

NRS 120A.650 states a person aggrieved by a decision of the Treasurer or whose claim has not been acted upon within 90 days after its filing may maintain an original action to establish the claim in the district court, naming the Treasurer as a defendant. If the aggrieved person establishes the claim in an action against the Treasurer, the court may award the claimant reasonable attorney's fees. Further, when claims are not processed timely, the public's perception of the state's ability to administer unclaimed property is diminished. The Program has not implemented procedures that require a tracking system or management report for monitoring the timely processing of claims.

Our review found 3 of 50 paid claims tested were for more than \$5,000. We found no evidence of a second approval for any of these claims. During our prior audit, claims over \$5,000 required a second approval. During this audit, management stated the threshold is \$50,000. However, even for claims over \$50,000, the second approval was not documented. In an additional sample, we tested five judgmentally selected claims over \$50,000 and found no evidence any of them had a second approval. Procedures did not establish when a claim requires a second approval, and were silent regarding a dollar threshold. Further, procedures did not require the second approval to be documented. After we discussed this issue with program management, they implemented a method to document additional approvals for large claims.

Standards for internal control state transactions and other significant events should be authorized and executed only by persons acting within the scope of their authority. Further, all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination. When certain claims are not reviewed and approved by a second person, there is an increased risk of inappropriate payment.

**Information
Technology
Security
Controls Could
Be Stronger**

Security controls over the unclaimed property database could be stronger. Our audit 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. Further, the Program has implemented a process that allows certain claims to be approved faster. However, this process, known as “Fast Track,” increases the risk of fraud because the claimant is not required to provide identification and other documentation normally required to verify one’s identity.

Our prior audit included a recommendation to implement controls to monitor activity in the program’s database, including reviewing computer logs showing who has edited data in the system. The Program did not develop procedures to monitor changes to data in the unclaimed property database. During this audit, our review found that these reports had not been reviewed for almost 5 years, from April 2010 until January 2015. Subsequent to our inquiries, management began reviewing these logs. However, management’s review was untimely. For example, the report covering the period January 1 to March 31, 2014, was generated and reviewed 10 months later on January 30, 2015.

State IT Security Standard 5.3.2 requires system-generated logs be recorded, retained, and regularly analyzed to identify unauthorized activity. Without proper monitoring of changes to data, there is an increased risk of someone processing a fraudulent claim.

The Program has adopted an automated process called Fast Track for certain claims. Although this process provides a convenience to the claimant, internal controls over these claims need strengthening to prevent and detect fraudulent claims. For example, according to management, a total of \$186,000 related to 157 fraudulent claims was paid to one individual who used the Fast Track claims process. Management stated staff worked with law enforcement to ensure the proper evidence was collected, which led to the arrest of the individual. Additional controls were implemented in June 2014 to help prevent this type of fraud.

Currently, a claim is processed as a Fast Track claim if the following requirements are met:

- 1) The claim must be under \$2,500;

- 2) The claimant must provide a matching social security number and date of birth; and
- 3) The property must only have a single reported owner.

According to program records, 6,635 Fast Track claims were paid in fiscal year 2014. Because these claims do not require submittal of identification or other documents, the Program should evaluate additional controls and implement those which are efficient and effective for deterring and detecting fraudulent claims.

Standards for internal control require management to consider the risk of fraud when identifying, analyzing, and responding to risks within the organization. Further, management should analyze and respond to identified fraud risks so that they are effectively mitigated.

Recommendations

5. Revise procedures and develop a tracking system to help ensure claims are processed timely, per NRS 120A.640.
6. Revise procedures to establish a threshold for claims requiring a second approval and to ensure the second approval is documented.
7. Develop policies and procedures to monitor changes to data in the program's database, including timely review of computer logs.
8. Implement additional controls for Fast Track claims to help prevent and detect fraudulent claims.

Appendix A

Audit Methodology

To gain an understanding of the Unclaimed Property Program, we reviewed statutes, regulations, and policies and procedures. In addition, we reviewed the program's financial information, budgets, legislative committee minutes, and other information describing program activities. Further, we interviewed staff and management regarding program activities. Finally we reviewed the program's internal controls over identifying, collecting, administering, and returning unclaimed property.

To evaluate the program's process for administering unclaimed property held in the vault, we obtained three separate inventory reports. From these reports, we randomly selected a total of 125 items and determined if each item was in the vault. Since some items were listed on more than one report, we were not able to determine the total number of items in the population. However, the largest report listed an estimated 4,890 owners, many of them having more than one item.

We also randomly selected 75 items observed in the vault and determined if each item was listed in the program's inventory report. Further, we conducted a physical observation and prepared a list of vault inventory. Our observation found 1,442 owners with packets in the vault. Since each packet may contain multiple items, the exact number of items in the vault is unknown. Additionally, we requested evidence of the two most recent physical vault inventories conducted by staff.

We compiled a list of 629 individuals with savings bonds in the program's vault. Of these, 600 individuals' bonds were stored in a file cabinet, and 29 individuals' bonds were sealed in the individual's owner packets along with other property. From our list, we randomly selected 50 of 152 instances when savings bonds had an owner's name and/or a property identification

number and 20 of 477 instances when the savings bonds had no owner information. For each individual selected, we determined if the savings bonds were properly recorded in the program's database.

To evaluate the program's process for administering securities held in its main custodian account, we requested reconciliations for various time periods during our audit scope. For each reconciliation, we determined if it was completed for the proper time period. From the December 31, 2014, reconciliation, we judgmentally selected the 40 largest of 199 securities noted by staff as having discrepancies. For each security, we reviewed prior reconciliations, information in the program's database, and custodian statements to determine how long each security was unreconciled and the reason for the discrepancy. We reviewed the custodian's statement to determine the value of each security with a discrepancy.

To evaluate the program's process for administering securities held by the other 49 custodians, we reviewed program records to determine which custodians held securities at December 31, 2014. For each account identified, we requested the December 2014 statement. We judgmentally selected the 10 accounts with the highest value from a total of 36 accounts and requested reconciliations for various time periods during our audit scope. We identified the period covered by each reconciliation to determine if it was performed for the proper time period. We also judgmentally selected the 30 largest reconciling items from a total of 62 reconciling items and reviewed prior reconciliations, information in the program's database, and custodian statements to determine how long each item was unreconciled and the reason for the discrepancy.

To evaluate the program's process for collections, we judgmentally selected 50 of the largest payments from 189 deposits made near the program's peak holder reporting periods from 2013, 2014, and January 2015. From these deposits, we selected 120 holder payments based on payment amount. For each selection, we determined if it was deposited timely. To determine if all payments received were deposited, we randomly

selected 50 of the estimated 10,804 payments under \$10,000 and verified the amount deposited matched the amount on the holder report and the holder's check. To test the timeliness of payments made at the beginning of the calendar year, we tested the two largest holder payments on 10 deposits randomly selected from 22 deposits of \$10,000 or more processed in January and February 2014 and 2015.

To evaluate the program's process for returning unclaimed property, we randomly selected 50 of the 26,215 claims paid between July 1, 2013, and December 31, 2014. For each claim, we determined if it was paid timely, properly approved, and paid in accordance with policies and procedures. Further, we randomly selected 30 of the 458 claims denied between July 1, 2013, and December 31, 2014. For each selection, we determined if it was denied timely, the claimant was properly notified, and the property had not been removed from program records. Additionally, we judgmentally selected 25 of 42 claims listed by the database as pending for at least 90 days as of April 27, 2015, and determined if there was a valid reason for the claim to remain open. To identify inappropriately paid claims, we obtained a report showing the names and addresses of all claimants from July 1, 2013, to December 31, 2014. We analyzed the report to identify multiple payments sent to the same name, same address, program staff, or program staff's address. We also judgmentally selected five paid claims over \$50,000 to determine if they were approved by more than one person. Finally, we judgmentally selected 36 of 26,004 cash claims paid between July 1, 2013, and December 31, 2014, and verified the name on the payment matched the owner name on the holder report, or when the name didn't match, sufficient documentation was provided to document the claimant was the rightful owner. These 36 claims were selected from claims where two or more checks were issued to the same name based on information obtained from the Controller's Office.

For our tests involving samples, we used nonstatistical audit sampling, which was the most appropriate and cost effective method for concluding on our audit objective. Based on our professional judgment, review of authoritative sampling guidance, and careful consideration of underlying statistical concepts, we

believe that nonstatistical samples provided sufficient, appropriate audit evidence to support the conclusions in our report. We have not projected the errors noted in our samples to the population because our samples included randomly and judgmentally selected items. Judgmental selections were made based on an analytical review of data and known risk factors such as high dollar value items. Since a portion of our sample was based on these risk factors we do not think a projection of the errors would be appropriate.

Our audit work was conducted from September 2014 to June 2015. 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 October 1, 2015, 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 21.

Contributors to this report included:

Dennis Klenczar, CPA
Deputy Legislative Auditor

Jane Bailey, MS
Audit Supervisor

Eugene Allara, CPA
Deputy Legislative Auditor

Appendix B

Response From the Office of the State Treasurer

Dan Schwartz
State Treasurer



STATE OF NEVADA
OFFICE OF THE STATE TREASURER

October 15, 2015

Paul Townsend, CPA
Legislative Auditor
Legislative Counsel Bureau
401 S. Carson Street
Carson City, NV 89701

Dear Mr. Townsend:

This letter is in response to the State Treasurer's Office Unclaimed Property Division Performance Audit for the period July 2013 through February 2015. As indicated in the attached document titled "Response to Audit Recommendations" the Office accepts the eight recommendations included in the audit report. Please see our detailed response to the audit recommendations in the attached document.

The State Treasurer's Office Unclaimed Property Division would like to express its appreciation for the efforts of the Legislative Counsel Bureau Audit staff to improve the Division's processes and procedures.

If you have any questions regarding this response please contact Chief of Staff Grant Hewitt at (775) 684-5757, Chief Deputy Tara Hagan at (775) 684-5753, or Unclaimed Property Division Deputy Linda Everhard at (702) 486-4354.

Sincerely,

Dan Schwartz
Nevada State Treasurer

CC: Jane Bailey, LCB Audit Supervisor
Grant Hewitt, Chief of Staff
Tara Hagan, Chief Deputy
Linda Everhard, Deputy Unclaimed Property Division

CARSON CITY OFFICE
101 N. Carson Street, Suite 4
Carson City, Nevada 89701-4786
(775) 684-5600 Telephone
(775) 684-5623 Fax

STATE TREASURER PROGRAMS
Governor Guinn Millennium Scholarship Program
Nevada Prepaid Tuition Program
Unclaimed Property
College Savings Plans of Nevada
Nevada College Kick Start Program

LAS VEGAS OFFICE
555 E. Washington Avenue, Suite 4600
Las Vegas, Nevada 89101-1074
(702) 486-2025 Telephone
(702) 486-3246 Fax

Website: NevadaTreasurer.gov E-mail: StateTreasurer@NevadaTreasurer.gov

Office of the State Treasurer's Response to Audit Recommendations

1. Develop procedures to help ensure savings bonds are properly entered in the program's database.

The savings bonds described in this finding are part of the safekeeping process. The Division is unable to sell the savings bonds; therefore, they must be stored in the vault in a separate property bin. Under the previous administration, historical information was inadvertently lost when the card file detailing savings bonds information was destroyed. Staff will be entering the savings bond information directly into the Division's database system. Safekeeping procedures have been revised and now detail how the savings bond information will be stored in the database thus allowing a more accurate inventory of the savings bonds.

2. Revise safekeeping procedures to help ensure an accurate inventory report is maintained and develop management controls to ensure procedures for annual reconciliations are followed.

The audit brought to light a deficiency in the Division's database and safekeeping inventory processes. Although information was entered into the database to adjust the safekeeping inventory i.e. destruction of non-valued property, auction sales, cash deposits etc.; it was discovered that unless a separate step of adding a transaction was completed, the information did not flow through to the inventory report. Safekeeping procedures have been revised to add the additional step of adding a transaction in the database whenever there is a change in the safekeeping status. There is a policy for annual safekeeping inventory reconciliations. This reconciliation will be conducted one month after each year's safekeeping auction has been completed.

3. Revise procedures and develop a tracking system to help ensure all custodian accounts are reconciled timely and to perform timely follow up when discrepancies are identified.

The securities policies and procedures have been revised to identify the specific date in which the security reconciliations must be completed. In addition, the Division contacted our database vendor for assistance with the reconciliation process. The vendor added a report which will assist staff in identifying specific exceptions and allow for more detailed information for the reconciliations. The policies and procedures have been revised to ensure that reconciliation exceptions are described and an action plan will be developed to correct any exceptions discovered after each reconciliation.

4. Revise procedures to ensure deposits are timely, per NRS 353.250.

The majority of deposits are made timely per NRS 353.250. However, during the reporting periods of late October to early November and late April to early May, the Division receives an excessive volume of mail which admittedly creates difficulties in meeting the provisions in NRS 353.250. The policies and procedures regarding receipts have been revised to require all checks be deposited in compliance with NRS 353.250. The staff has been instructed to deposit all checks regardless of their status and conduct research on the problem check copies as time allows.

Office of the State Treasurer's Response to Audit Recommendations

5. Revise procedures and develop a tracking system to help ensure claims are processed timely, per NRS 120A.640.

Currently, 1 full-time equivalent employee (FTE) is dedicated to processing claims. Claims paid have increased from 8,774 totaling over \$5M in 2004 to 17,388 totaling over \$31M in 2014. There are no statistics available for the claims initiated in 2004; however, there were 40,278 initiated in 2014.

With only 1 dedicated FTE, this staff member would have to evaluate 29 claims per hour to keep current. Realistically, only a maximum of 10 claims can be reviewed and decided per hour, which indicates a staffing deficit of 66% in this area. The Division is currently reviewing its current structure and positions and will seek to increase staffing for claims processing. The Division has recently cross trained several staff members in basic claims processing; however, this then removes these staff members from their regular duties to ensure the Division meets the claims processing statutory guidelines in NRS 120A.640. The claims processing policies and procedures have been revised to include the preparation of a claims aging report in order to verify that claims processing is meeting statutory guidelines. This report will be reviewed by the Division Deputy on a monthly basis.

6. Revise procedures to establish a threshold for claims requiring a second approval and to ensure the second approval is documented.

The Division contacted the database vendor and was able to establish a hierarchy in the system for claims approval. The claims approval levels are established by the claim value which has been added to the Claims Processing Policies and Procedures. All claims are now exclusively approved in the database and recorded on the Status Tab of each claim.

7. Develop policies and procedures to monitor changes to data in the program's database, including timely review of computer logs.

A new policy has been developed that requires the quarterly review of changes made in the Division's database to ensure that all changes were necessary and documented. The review includes all areas of unclaimed property that are entered into the database.

8. Implement additional controls for Fast Track claims to help prevent and detect fraudulent claims.

Additional controls were added to the Fast Track claims process in June, 2014. They will not be detailed in this public document but the additional controls have been added to the Division's claims processing policies and procedures. In addition, the Division is negotiating an upgrade to the existing database system which will provide additional controls for Fast Track claims.

Office of the State Treasurer’s Response to Audit Recommendations

<u>Recommendations</u>	<u>Accepted</u>	<u>Rejected</u>
1. Develop procedures to help ensure savings bonds are properly entered in the program’s database	<u>X</u>	<u> </u>
2. Revise safekeeping procedures to help ensure an accurate inventory report is maintained and develop management controls to ensure procedures for annual reconciliations are followed.....	<u>X</u>	<u> </u>
3. Revise procedures and develop a tracking system to help ensure all custodian accounts are reconciled timely and to perform timely follow up when discrepancies are identified	<u>X</u>	<u> </u>
4. Revise procedures to ensure deposits are timely, per NRS 353.250	<u>X</u>	<u> </u>
5. Revise procedures and develop a tracking system to help ensure claims are processed timely, per NRS 120A.640	<u>X</u>	<u> </u>
6. Revise procedures to establish a threshold for claims requiring a second approval and to ensure the second approval is documented	<u>X</u>	<u> </u>
7. Develop policies and procedures to monitor changes to data in the program’s database, including timely review of computer logs.....	<u>X</u>	<u> </u>
8. Implement additional controls for Fast Track claims to help prevent and detect fraudulent claims	<u>X</u>	<u> </u>
TOTALS	<u><u>8</u></u>	<u><u> </u></u>