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We have completed an audit of the Unclaimed Property Program administered by the Office of the State Treasurer. This audit is part of 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. The results of our audit, including findings, conclusions, recommendations, and the State Treasurer's response, are presented in this report.

We wish to express our appreciation to the management and staff of the State Treasurer's Office for their assistance during the audit.

Respectfully presented,

A handwritten signature in black ink, appearing to read "Paul V. Townsend".

Paul V. Townsend, CPA  
Legislative Auditor

February 2, 2010  
Carson City, Nevada

STATE OF NEVADA  
OFFICE OF THE STATE TREASURER  
UNCLAIMED PROPERTY PROGRAM

AUDIT REPORT

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# **EXECUTIVE SUMMARY**

## **OFFICE OF THE STATE TREASURER UNCLAIMED PROPERTY PROGRAM**

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### **Background**

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

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

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

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### **Purpose**

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

## EXECUTIVE SUMMARY

### OFFICE OF THE STATE TREASURER UNCLAIMED PROPERTY PROGRAM

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## Results in Brief

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

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

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## Principal Findings

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- The Program did not fully utilize its audit function. We found staff auditors performed less than half the number of audits established in a performance measure. The purpose of audits is to identify and collect unclaimed property and improve future compliance with reporting requirements. When audit coverage is not adequate, rightful owners may be denied their property. (page 9)
- In addition to performing an adequate number of audits, a risk-based approach for scheduling audits is needed to ensure audit resources are used effectively. Our analysis of the audits performed did not find sufficient evidence a risk-based approach was consistently used. For example, 20 of 40 audits each had less than \$3,000 in findings. This includes

## EXECUTIVE SUMMARY

### OFFICE OF THE STATE TREASURER UNCLAIMED PROPERTY PROGRAM

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two audits with no findings. The Program does not have written policies and procedures for scheduling audits. (page 9)

- The audit function is the Program's primary method for identifying holders that have not properly reported. However, additional methods to improve reporting compliance are available. We contacted unclaimed property personnel in nine states and found all nine have implemented additional methods to identify unclaimed property, and improve reporting. The use of other methods could help the Program meet its goal to reunite rightful owners with their property. (page 12)
- The Program had custodian responsibilities for about \$27 million in securities, as of December 31, 2008. However, the Program has not established a timeframe for when securities are to be sold. According to the Program's database, there are about 7.2 million shares that have been held by the Program for 2 or more years and are available for sale. Untimely sales of securities that have not been claimed increase the number of shares held in trust. As a result, additional staff resources are needed to account for the securities. Further, the longer shares are held, interest income is lost for the State. (page 13)
- The Program did not always make timely deposits. Our review found 27 of 37 payments received from holders were not deposited timely. These deposits ranged from 1 to 26 days late. NRS 353.250 has established timeframes for when money received is to be deposited. Failure to follow statutory deposit requirements increases the risk of theft or loss. Further, interest income for the State is not maximized. (page 15)
- The Program did not consistently perform accurate and timely reconciliations. For example, the Program's

## EXECUTIVE SUMMARY

### OFFICE OF THE STATE TREASURER UNCLAIMED PROPERTY PROGRAM

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

- Security controls over sensitive data in the Program's database could be strengthened. Our review found the Program does not review computer logs showing who has edited data in the system. As a result, there is an increased risk data could be inappropriately altered, which would allow a fraudulent claim to be processed without detection. (page 18)

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## Recommendations

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This audit report contains nine recommendations to improve the Program's practices for identifying, collecting, and administering unclaimed property. These recommendations include policies, procedures, and other controls to help ensure unclaimed property is properly reported, collected, and safeguarded. We also made a recommendation to monitor activity in the Program's computer system. (page 31)

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## Agency Response

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The Office, in response to the audit report, accepted the nine recommendations. (page 24)

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# Introduction

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## Background

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

Statutes require companies and governmental agencies holding unclaimed property to submit annual reports and turn over unclaimed personal assets and contents of safe deposit boxes. Personal assets include securities, bank deposits, payroll checks, utility deposits, insurance proceeds and other items specified in Nevada statutes.

Property is considered abandoned if it is unclaimed by the apparent owner for the number of years prescribed by statute. Once the property is presumed abandoned, the company holding the property is required to file a report and deliver the property to the Administrator. Exhibit 1 shows some of the types of unclaimed property and their corresponding holding periods.

### Exhibit 1

#### **Types of Unclaimed Property and Holding Periods**

| <b>Property Type</b>   | <b>Holding Period</b> |
|--|-----------------------|
| Payroll Check, Utility Deposit   | 1 year                |
| Securities, Bank Deposits, Life Insurance Policy, Contents of Safe-Deposit Boxes | 3 years               |
| Money Order  | 7 years               |
| Traveler's Check   | 15 years              |

Source: NRS 120A.500 and 120A.510.

Upon payment or delivery of property to the Administrator, the State assumes custody and responsibility for the safekeeping of the property. A holder who pays or delivers property in good faith is relieved of all liability. The person or legal entity entitled to receive the property never loses their right to make a claim for the asset or value of items sold. Owners could include an estate or the heir to the original owner.

**Program Has Experienced Significant Growth in Recent Years**

The Program has experienced significant growth in recent years. Exhibit 2 shows the increase in collections and paid claims for fiscal years 2005 to 2009.

**Exhibit 2**

**Collections and Paid Claims  
Fiscal Years 2005 to 2009**

|                          | Fiscal Year<br>2005 | Fiscal Year<br>2006 | Fiscal Year<br>2007 | Fiscal Year<br>2008       | Fiscal Year<br>2009 |
|--------------------------|---------------------|---------------------|---------------------|---------------------------|---------------------|
| Collections <sup>1</sup> | \$29,688,109        | \$38,783,209        | \$45,180,757        | \$83,530,132 <sup>2</sup> | \$77,258,831        |
| Paid Claims              | \$ 7,979,272        | \$ 7,264,939        | \$12,348,171        | \$24,966,198              | \$25,390,291        |

Source: State's Accounting System.

<sup>1</sup> – Amounts listed are cash receipts. The Program also collects securities and contents of safe-deposit boxes.

<sup>2</sup> – Increase primarily due to \$36.8 million from Citibank for its first year of incorporation in Nevada.

The data in Exhibit 2 represents an increase of 160% in collections and 218% in paid claims during the 5-year period.

**Budget & Staffing**

All collections of unclaimed property are recorded in the Abandoned Property Trust Account. Funding for operating costs of the Program is provided by a transfer from the Abandoned Property Trust Account into the Unclaimed Property Account. The Program has one office in Las Vegas and 11 authorized positions. This includes a Deputy Treasurer, six administrative staff, and four auditors. The Program also contracts with vendors for various services such as audits of out-of-state companies, and maintenance of its primary account for securities. Exhibit 3 shows operating expenditures and transfers for fiscal years 2005 to 2009.



**Operating Expenditures and Transfers  
Fiscal Years 2005 to 2009**

|   | <b>Fiscal Year<br/>2005</b> | <b>Fiscal Year<br/>2006</b> | <b>Fiscal Year<br/>2007</b> | <b>Fiscal Year<br/>2008</b> | <b>Fiscal Year<br/>2009</b> |
|---|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| Contracts                                   | \$ 963,867                  | \$ 806,430                  | \$ 757,809                  | \$ 677,543                  | \$ 475,148                  |
| Other Operating Expenditures <sup>1</sup>   | \$ 934,757                  | \$ 942,903                  | \$ 1,011,250                | \$ 1,102,073                | \$ 1,267,822                |
| Transfer to the Millennium Scholarship Fund | \$ 0                        | \$ 7,600,000                | \$ 7,600,000                | \$ 7,600,000                | \$ 0                        |
| Transfer to the General Fund                | \$19,811,659                | \$22,269,598                | \$23,464,527                | \$49,179,534                | \$50,092,050                |

Source: State's Accounting System.

<sup>1</sup> – Includes personnel, equipment, advertising, and various cost allocations.

Beginning in fiscal year 2006, NRS 120A.620 requires an annual transfer of \$7.6 million from the Abandoned Property Trust Account to the Millennium Scholarship Trust Fund. Then, the remainder in this account must be transferred annually to the General Fund. During the 2009 Session, legislation was passed which suspended the transfer to the Millennium Scholarship Trust Fund for the fiscal year ending on June 30, 2009. Further, at the end of fiscal years 2010 and 2011, the amount of the transfer is reduced to \$3.8 million.

Website Allows Rightful Owners to Identify Property and Begin Claim Process

The Program has maintained a state website since 1997 that provides individuals the ability to search the database of abandoned property. When rightful owners identify property, they can then access an online claim form. The system will electronically enter certain information into the form which is then ready to be printed and completed. The claimant subsequently submits a signed claim form, along with proper identification and various documents. In addition, the website informs companies holding unclaimed property of reporting requirements.

### Percentage of Property Returned To Claimants

Management has stated its goal is to return 30% to 40% with more public outreach and education. The percentage of property collected that was returned to claimants was:

- Fiscal year 2005 – 27%
- Fiscal year 2006 – 19%
- Fiscal year 2007 – 27%
- Fiscal year 2008 – 30%
- Fiscal year 2009 – 33%

### **Scope and Objective**

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 218.737 to 218.893. 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.

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

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## **Findings and Recommendations**

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### **Certain Program Practices Need Improvement**

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

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

#### **Methods to Identify Unclaimed Property Not Fully Utilized**

The Program did not fully utilize its audit function or implement other methods to identify unclaimed property. We found staff auditors performed less than half the number of audits established in a performance measure. In our prior audit, we recommended the Program maintain an adequate level of audit coverage. The purpose of audits is to identify and collect unclaimed property and improve future compliance with reporting requirements. When audit coverage is not adequate, rightful owners may be denied their property. In addition to audits, our review also found there are other methods available to identify unclaimed property and improve reporting compliance.

#### **Audit Function Needs Improvement**

The Program did not meet its performance measure for staff audits. We found 40 audits were completed during the 18-month period ended December 31, 2008. This included 22 audits in fiscal year 2008 and 18 audits in the first half of fiscal year 2009. The Program has a performance measure of 55 annual staff audits.

In addition to performing an adequate number of audits, a risk-based approach for scheduling audits is needed to ensure audit resources are used effectively. The

Program has a staff of four auditors and a large number of potential auditees. We obtained a list of more than 1,000 Nevada companies that have submitted holder reports who could be considered for an audit. In addition, the number of companies subject to an audit is even larger as this list does not include other Nevada holders that have not reported. The purpose of a risk-based approach is to ensure available staff resources are allocated to the areas that matter most.

Our analysis of the audits performed did not find sufficient evidence a risk-based approach was consistently used. For example:

- Twenty of 40 audits each had less than \$3,000 in findings. This includes two audits with no findings.
- One casino audit resulted in findings of almost \$206,000, which was about 55% of the total in findings for fiscal year 2008. However, only one other casino audit was performed that year.

Our review also included a calculation of the amount in findings on a daily basis. Because the length of time to complete an audit can vary significantly, this calculation helps measure how effectively resources were used. We found a large variance among the various types of companies that were audited. For example, audits of health insurance providers had \$1,646 per day in findings but restaurants were less than \$100 a day. Further, 11 of the 40 audits were of restaurants. Exhibit 4 is a summary of the entity types and audit findings for the 40 audits we reviewed.

**Summary of Staff Audits Performed  
July 1, 2007 to December 31, 2008**

| <b>Entity Type</b>        | <b>Number of Audits</b> | <b>Total Amount in Findings</b> | <b>Average Amount in Findings</b> | <b>Days to Complete Audits</b> | <b>Amount in Findings per Day</b> |
|---------------------------|-------------------------|---------------------------------|-----------------------------------|--------------------------------|-----------------------------------|
| Health Insurance Provider | 3                       | \$ 37,865                       | \$12,622                          | 23                             | \$1,646                           |
| Casino                    | 8                       | \$310,240                       | \$38,780                          | 67 to 417                      | \$29 to \$916                     |
| Golf Course               | 4                       | \$ 63,779                       | \$15,945                          | 30 to 91                       | \$13 to \$578                     |
| Bank                      | 2                       | \$ 10,888                       | \$ 5,444                          | 29 to 68                       | \$0 to \$375                      |
| Taxi/Limo Company         | 5                       | \$ 49,258                       | \$ 9,852                          | 76 to 282                      | \$6 to \$165                      |
| Auto Dealer               | 5                       | \$ 27,885                       | \$ 5,577                          | 64 to 299                      | \$29 to \$127                     |
| Restaurant                | 11                      | \$ 19,528                       | \$ 1,775                          | 12 to 139                      | \$65 to \$99                      |
| Miscellaneous             | 2                       | \$ 7,181                        | \$ 3,591                          | 125 to 594                     | \$7 to \$25                       |

Source: Auditor review of program records.

The 2009 – 2011 Executive Budget includes a new performance measure for the Program, which is the average amount collected per staff audit. The projected amount is \$8,340 and \$8,400 for fiscal years 2010 and 2011, respectively. Twenty-five of the 40 audits we reviewed had findings of less than \$8,300. A risk-based approach would help ensure the Program meets its goal for effective audits. When high-risk companies are not audited, rightful owners may be denied their property and limited resources are not effectively utilized. The Program does not have written policies and procedures for scheduling audits.

The Program has taken steps to help identify unclaimed property by contracting with companies that specialize in these types of audits. These contractors primarily perform out-of-state audits. Payments to these vendors are based on a percentage of unclaimed property they identify, collect, and deliver to the State. For the 18-month period ended December 31, 2008, there was a total of almost \$5.6 million in audit findings by contract auditors. From this amount, about \$680,000 was paid to the vendors.

### Other Methods to Identify Property and Improve Reporting Are Available

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

Some of the methods other states have utilized are:

- Review reports that show a company's reporting history. This report can be used for trend analysis to identify large fluctuations in amounts reported from year to year.
- Review tax records and other data that can be used to compare companies in the same industries and identify those reporting significantly less.
- Access business-related databases which provide information about company size and personnel. For example, a company with a large staff has a high likelihood of turnover, which can result in unclaimed payroll checks.
- Take steps to increase awareness in the business community of reporting requirements. This includes holding seminars or webinars, and advertising in certain business journals.
- Coordinate efforts with other agencies. Three states obtain lists of new corporations from the Secretary of State, and one state said it uses sales tax audits to identify companies with unclaimed property.

When a high-risk company is identified, it does not necessarily require an audit. Certain states said they first contact the company and request voluntary compliance. This approach could improve compliance without significant use of resources. Our review found some companies indicated they had not previously reported because they were not aware of reporting requirements.

The Program has options that warrant consideration. For example, its database is capable of running a company history report that can be used to identify large variances in amounts reported from year to year and periods of no reporting. These variances may warrant further investigation to determine if the variance is valid. Further, management stated it is considering entering into an agreement with the Internal Revenue Service that would allow the Program to obtain tax information, which would

be used for analytical review. Also, the Program's software vendor offers a free service where the vendor obtains data from the system and performs data mining to identify companies with a high risk of improper reporting.

### **Process for Sale of Securities Needs Improvement**

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

The Program has securities in a primary custodian account, about 250 mutual fund accounts, and various accounts with transfer agents<sup>1</sup>. There has been significant growth in securities held by the Program since our prior audit. For example, market value of the primary account has increased from \$3.2 million to \$22.4 million between June 2000 and December 2008. Further, there were 82.5 million shares in this account on December 31, 2008.

When claims are filed for securities, the claimant has the option to either 1) have the Program sell the shares and receive cash, or 2) have the shares transferred to him. Shares received from holders that have not been claimed are currently not required to be sold within a certain time period. Exhibit 5 shows the number of shares received and paid to claimants for fiscal years 2004 to 2008.

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<sup>1</sup> Transfer agent is usually a bank or trust company charged with keeping a record of the shareholders of a corporation and issuing and canceling stock certificates as shares are bought and sold.

**Shares Received and Paid To Claimants  
Fiscal Years 2004 to 2008**

| <b>Fiscal Year</b> | <b>Shares Received</b> | <b>Shares Paid To Claimants</b> |
|--------------------|------------------------|---------------------------------|
| 2004               | 3,558,284              | 162,223                         |
| 2005               | 4,131,097              | 643,832                         |
| 2006               | 3,312,670              | 159,300                         |
| 2007               | 1,808,526              | 24,108                          |
| 2008               | 7,937,815              | 53,116                          |
| Totals             | 20,748,392             | 1,042,579                       |

Source: Unclaimed Property database.

According to the Program's database, there are about 7.2 million shares that have been held by the Program for 2 or more years and are available for sale. Management stated criteria has been established for selling shares that have not been claimed, but the process is not documented. Data was not available to determine how many shares have been sold that were not claim related.

The cost to maintain securities has also increased in recent years. The Program contracts with a vendor to maintain its primary account. From fiscal years 2003 to 2007, the Program paid its prior vendor no more than \$50,000 a year in fees. In fiscal year 2008, the Program paid about \$80,000 to its current vendor in various fees. For the first 6 months of fiscal year 2009, the Program paid approximately \$46,000. Vendor fees are both fixed and variable. One of the variable fees is a monthly maintenance fee based on the number of issues.<sup>2</sup> From September 2007 to December 2008, the number of issues increased from 729 to 972. Timely sales should reduce the number of issues, which would result in lower costs.

NRS previously required the sale of securities 1 year after receipt. During the 2005 Session, this was changed to 2 years. When the Uniform Unclaimed Property Act was adopted in 2007, that requirement was repealed. NRS is silent on when securities

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<sup>2</sup> Issues is the number of companies with shares held in trust by the Program.



are to be sold, and there are no written procedures to determine when securities are to be sold. All nine states we contacted have established a timeframe for selling securities. When timeframes are not established, the Program is put in the position of trying to determine the best time to sell. Thus, the State incurs the risk of trying to time the market.

### **Deposit Procedures Need Revision**

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

Our sample of 27 checks deposited late totaled about \$370,000. Based on the interest rate in effect when these deposits were made, there was \$221 in lost interest. Although this amount is not significant, there was a total of \$148.6 million in deposits recorded in the State's accounting system during the 18-month period we reviewed.

The Program receives a large number of payments around certain deadline dates which makes compliance with deposit requirements difficult. NRS 120A.560 requires a holder of property to submit a report by November 1 of each year. The one exception is for insurance companies, who are required to file before May 1 of each year. Management stated it is exploring a variety of solutions to ensure timely deposits during peak periods.

### **Property Records Not Consistently Reconciled**

The Program did not consistently perform accurate and timely reconciliations of various property records. For example, we found problems with reconciliations for property collected, paid claims, and securities. Further, the inventory list for tangible property in the Program's vault was inaccurate. Without accurate records, the Program cannot ensure its safekeeping responsibilities are met. Our prior audit included a recommendation that property management records be periodically reconciled with accounting records. However, the Program does not have policies and procedures for reconciling program records to the state's records or for reconciling accounts with securities.

### Reconciliation of Program Records to State Records Needs Improvement

The Program's reconciliation of its internal records to state records for property collected and paid claims did not include all applicable transactions. Our review found reconciliations did not include about \$493,500 in paid claims and \$21,600 in collections at the end of fiscal year 2008. Standards for internal control require accurate and timely recording of transactions. In order to properly process receipts and payments, all cash transactions are entered in both the Program's internal database and the state's accounting system. However, certain events occur that cause the two systems to be out of balance. For example, there can be timing differences for the month or year in which transactions are recorded in each system. Therefore, reconciliation of the two systems is necessary to ensure accurate recording.

In addition, we found reconciliations were not always timely. For example, reconciliation of paid claims in July and August 2007 were not performed until September 2008. Further, there were differences between the two systems for how amounts were recorded in certain general ledger categories. Periodic reconciliations will help ensure the timely identification of errors and omissions.

### Program Records for Securities Did Not Always Agree With Vendor Records

The primary account for securities is maintained by a contracted vendor. As of December 31, 2008, there were about 82.5 million shares in this account. We found program records did not always agree with vendor records for the number of shares in certain securities and necessary owner information was incomplete. For example, we reviewed 15 accounts and found 9,792 shares were held by the vendor that did not have a corresponding owner listed in the Program's database. As a result, the Program does not have an owner name to publish in its newspaper advertising or list at its website. Therefore, the rightful owner is denied a means to learn he is entitled to these shares. NRS 120A.590 establishes that upon payment and delivery of property to the Administrator, the State assumes custody and responsibility for the safekeeping of the property.

The size and volume of activity in this account mandates timely reconciliations in order for the Program to meet its custodian responsibilities. Management stated it did not have a full-time individual dedicated to this process until June 2008. Since that

time, progress has been made in reconciling out-of-balance accounts. However, certain accounts still have incomplete owner information and some have been out of balance for more than 1 year. We also found the Program's spreadsheet used to reconcile this account was not always updated timely. For example, the Program's database listed 475,000 shares in one company were received on November 14, 2008. These shares were not included in the spreadsheet, as of April 28, 2009.

In addition to the primary account, the Program has securities in about 250 mutual fund accounts and an unspecified number of accounts with transfer agents. As of December 31, 2008, the combined market value of these accounts was about \$5 million. We were not provided evidence to confirm these accounts were reconciled in a timely manner. Management stated these accounts are reconciled but evidence of these reconciliations is not well documented.

#### Inaccurate Inventory List for Property in Vault

The Program did not have an accurate inventory list for unclaimed property held in its vault. The Program receives safe-deposit box contents such as wills, coins, and jewelry. We found 11 of 20 items selected from the inventory list were not in the vault. These items had been claimed, auctioned, or destroyed and should have been removed from the list. Inaccurate inventory lists increase the risk that theft or loss could occur and go undetected. Although the Program has adequate safekeeping procedures, they do not include steps to ensure the inventory list is periodically reviewed and reconciled to items in the vault.

#### Auction Items Not Sold Timely

The Program did not always sell property at auctions as required. The Program receives tangible property that is held in its vault and subsequently sold at auction, if it is not claimed. We found 11 of 40 items (27.5%) were not sold timely. Our review of 40 items resulted in the following:

- Of 20 items we selected that were sold at the December 2008 auction, 6 were not sold timely. This included items that were sold from 1 to 2 years late.
- From 20 items in the vault we selected for testing, 5 should have been sold at the December 2008 auction, but were not. All five items were received in 2006.

NRS 120A.610 requires all property other than money delivered to the Administrator to be sold within 2 years after delivery. Untimely sales increase the number of items in the vault, which increases recordkeeping duties and the risk of theft or loss.

In addition to the requirement that property be sold within 2 years, NRS 120A.610(6) requires property removed from a safe-deposit box to be held for 1 year after it is received. Therefore, safe-deposit box contents which are held in the vault must be held at least 1 year but no more than 2 years. Program procedures include steps for compliance with these requirements. However, vault inventory was not always monitored to ensure items were held and sold as required.

#### **Denied Claims Not Always Properly Processed**

Evidence was not always provided to verify denied claims were properly processed. For 14 of 25 denied claims, there was no evidence the claimant was sent written notification of reasons for the denial. For 10 of these claims, an entry was made in the system that a denial letter was sent. We reviewed all available documents and found no evidence of a denial letter. For the remaining four claims, there was no entry in the system a denial letter was sent and there was no evidence of a denial letter.

NRS 120A.640 requires the Administrator to give written notice to the claimant within 90 days after a claim is filed of the decision to allow or deny the claim. If the claim is denied, the Administrator shall inform the claimant of the reasons for the denial and specify what additional evidence is required before the claim will be allowed. In addition, program procedures require a denial letter be sent to the claimant. However, procedures do not specify the denial letters are to be retained as evidence that statutory requirements were met. When denial letters are not sent, there is an increased risk rightful owners are denied the ability to provide additional evidence that would convince the Administrator to allow the claim.

#### **Information Technology Security Controls Can Be Strengthened**

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

detection. State Information Security Policy 5.3 requires all systems and networks to generate audit logs that show addition, modification and/or deletion of information. Further, audit logs must be recorded, retained, and regularly analyzed to identify unauthorized activity.

There are two groups of users with access to the Program's computer system and corresponding database. The first group is employees of the Program and certain staff with the Office of the Treasurer. Due to the Program's limited staff size, management stated their access level is necessary in order to perform job duties and further segregation of duties is not practical. However, a compensating control is available that would serve as a means to detect who changed data and when. Management stated the system vendor is in the process of developing a report that would show changes to critical data fields. Although there can be valid reasons for editing data, periodic review of this report could prevent and detect inappropriate editing of data.

The second group of users have a higher level of access. This group consists of the Programs' database administrators and employees of the system vendor. Although direct access to the database server is common for these individuals, a compensating control is needed to reduce the risk of inappropriate activity. Options are available for generating logs that show who changed data on the database server and when. These logs would provide management a means to review changes to critical data by high-level users and determine if they were appropriate.

## **Recommendations**

1. Develop policies and procedures for scheduling audits, using a risk-based approach.
2. Consider implementing additional methods to identify unclaimed property and improve holder reporting compliance.
3. Develop procedures that establish a timeframe for selling securities.

4. Revise procedures for deposits to ensure compliance with NRS 353.250.
5. Develop policies and procedures to help ensure timely reconciliations of property records.
6. Revise safekeeping procedures to help ensure an accurate inventory list is maintained.
7. Monitor vault inventory to ensure items are sold timely.
8. Revise procedures for denied claims to help ensure claimants are notified in writing and denial letters are retained.
9. Implement controls to monitor activity in the Program's computer system, including reviewing computer logs.

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# Appendices

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## Appendix A Audit Methodology

To gain an understanding of the Unclaimed Property Program, we interviewed staff and reviewed statutes, regulations, and policies and procedures. In addition, we reviewed the Program's financial information, budgets, minutes of various legislative committees, and other information describing activities of the Program. We documented and assessed internal controls over identifying, collecting, administering, and returning unclaimed property.

We reviewed the Program's practices for identifying unclaimed property by contacting nine states considered to have an effective unclaimed property program. For each state contacted, we documented best practices for identifying unclaimed property and improving compliance with reporting requirements. We also compared these best practices to those of the Program. Next, we documented the number of staff audits completed from July 2007 through December 2008 and the dollar amount in audit findings. We also performed an analytical review to determine if a risk-based approach was consistently utilized for scheduling audits.

To evaluate the Program's practices for collecting unclaimed property, we randomly selected 40 holder reports from a list of all holder reports submitted between July 2007 and December 2008. For each selection, we verified the report was submitted timely and contained required information, property was delivered timely, and property was accurately recorded in the Program's database and the state's accounting system. To determine if deposits were timely, we tested all holder reports previously selected. For each report, we documented the deposit date and compared it to the submittal date.

To evaluate the Program's practices for administering unclaimed property, we reviewed practices for inventory, reconciliations, auctions, securities, and contracts. To determine if inventory was accurately recorded, we randomly selected 20 items from the inventory report and verified each item was in the vault. For items not located, we

verified they were claimed, sold, or discarded. Next, we judgmentally selected 20 items in the vault and verified each item was listed in the inventory report. To determine if reconciliations were properly performed, we reviewed documents used by the Program to reconcile its records to the state's records for collections and paid claims. Further, we reviewed documents used by the Program to reconcile its records to custodian statements for securities. This included a judgmental sample of 15 accounts identified as out of balance. For each selection, we compared the number of shares listed in the Program's database to the number of shares held by the custodian.

To determine if property was sold at auctions in accordance with statutes, we randomly selected 20 items from a list of all items sold at the December 2008 auction. For each selection, we identified the date it was submitted to the Program and verified it was sold timely. We also judgmentally selected 20 items from the vault. For each item, we documented the date it was received and verified its date to be sold at auction was not past due.

To document best practices for the sale of securities, we contacted Maine, Oregon, Texas, Washington, West Virginia, North Carolina, Pennsylvania, Iowa, and Florida. We also obtained a list of all mutual fund and transfer agent accounts and their market value at December 31, 2008. For each account, we obtained the vendor statement and verified it agreed with program records.

To determine if contracts were in accordance with statutes and regulations, we obtained a list of 10 contracts in effect during our audit scope. For each contract, we verified the services met the definition of an independent contractor, it was properly approved, solicitations were obtained, services began on or after the effective date, and a certificate of insurance was provided. Next, we judgmentally selected the largest payment to each contractor during our audit period and randomly selected five additional payments to one contractor. For each selection, we verified the payment amount was in accordance with the contract.

To evaluate the Program's practices for returning unclaimed property, we obtained a list of all claims submitted between July 2007 and December 2008. From the list, we randomly selected 30 paid claims and 25 denied claims. For each paid claim selected, we verified the claim was paid timely, properly approved, and accurately



recorded in the Program's database and the state's accounting system. For each denied claim selected, we verified the claim was denied timely and written notice of the denial was sent to the claimant. We also verified the denial was properly authorized and documented.

To assess the security of the Program's information system, we examined access levels for all users and adherence to the state's security IT standards. We also requested transaction logs and discussed the use of logs with management.

Our audit work was conducted from October 2008 through July 2009. 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 218.821, we furnished a copy of our preliminary report to the State Treasurer. On January 21, 2010, 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 24.

Contributors to this report included:

Dennis Klenczar, CPA  
Deputy Legislative Auditor

S. Douglas Peterson, CISA  
Information Systems Audit Supervisor

Jeff Rauh, CIA, CISA  
Deputy Legislative Auditor

**Appendix B**  
**Response From the Office of the State Treasurer**

**Kate Marshall**  
*State Treasurer*



Cecilia G. Colling  
*Chief of Staff*  
Mark Winebarger  
*Chief Deputy Treasurer*

STATE OF NEVADA  
OFFICE OF THE STATE TREASURER

January 29, 2010

Mr. Paul Townsend, CPA  
Legislative Auditor  
Legislative Counsel Bureau  
401 South Carson Street  
Carson City, NV 89701-4747

Dear Mr. Townsend:

In response to the Legislative Counsel Bureau's preliminary audit report on the Office of the State Treasurer, Unclaimed Property Program for the 18-month period ending December 31, 2008, the Nevada State Treasurer's Office respectfully submits our Agency Response to Audit Recommendations, including the Audit Recommendations Checklist.

The Office hereby accepts all nine recommendations included in the audit report. All nine recommendations have already been instituted or addressed by the Unclaimed Property Program as part of the Office's reorganization. The Treasurer's Office takes its responsibility to serve as the state's custodian of unclaimed property very seriously. The Unclaimed Property Program has experienced significant growth in terms of collections and claims paid to rightful owners. In fact, collections in Fiscal Year 2009 (\$77.2 million) were more than 160% above collections in 2005 (\$29.6 million), while claims paid increased by 218%, from \$7.9 million in FY 2005 to \$25.3 million in FY 2009.

These increases are a direct result of the exemplary efforts of the Unclaimed Property Program staff through:

- New polices and procedures established to better ensure both collections and claims paid to rightful owners are more accurately completed.
- Increased outreach efforts to both holders and individual claimants through the use of expanded newspaper advertising, our user-friendly website and the creation of various publications designed to better inform holders about legal requirements, among other things.

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**STATE TREASURER PROGRAMS**  
Governor Guinn Millennium Scholarship Program  
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Unclaimed Property  
Uprromise College Fund 529 Plan

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(NSPO Rev. 12-08)



Mr. Paul Townsend, CPA  
January 29, 2010  
Page 2 of 2

I am proud of the efforts of my staff and I believe it speaks well for the dedication these individuals have demonstrated to greatly improve Nevada unclaimed property reporting and ability to find rightful owners.

Should you require additional information or have other questions, please feel free to contact my Chief of Staff, Steve George, at (775) 684-5666 or via email at [sggeorge@nevadatreasurer.gov](mailto:sggeorge@nevadatreasurer.gov). Thank you for the opportunity through this audit examination to highlight the great strides the Unclaimed Property Program has made during my administration to improve both our service to holders and rightful owners, while maintaining appropriate measures to secure and administer unclaimed property on behalf of the State of Nevada.

Respectfully,

A handwritten signature in black ink, appearing to read "Kate Marshall", written in a cursive style.

Kate Marshall  
State Treasurer

To begin, we would like to address points made by LCB audit staff in the Introduction:

**Collections and Paid Claims: Fiscal Years 2005 to 2009**

As noted in the audit report, the Unclaimed Property Division (“Division”) has experienced significant growth since Fiscal Year 2005, with collections increasing by 160% and claims paid to rightful owners increasing by 218% during that five-year period. Further, while productivity has dramatically increased since 2005, Program costs have decreased. The Division has greatly expanded its outreach efforts to both holders—financial institutions, insurance companies, and other businesses—during this period through the publication of helpful brochures and guides, as well as personal communication by staff to businesses around the state for the purpose of better educating holders of their responsibilities. The tremendous growth in claims paid is directly attributable to an enhanced, user-friendly website that provides people with the opportunity to quickly determine if the state may be holding unclaimed property rightfully belonging to them, the decision in 2008 to advertise the names and last known addresses of unclaimed property owners in 16 different Nevada newspapers around the state (previously, advertising was only done in 9 newspapers), and beginning in FY 2008, notification cards began being mailed to owners of securities and tangible assets.

**Budget and Staffing**

In FY 1999, the Division, which consisted of four administrative staff members, had collections of \$9 million and claims of \$2.6 million. Two additional administrative staff members were approved in the 2007 Legislative Session. Since FY 2007, the Division workload, including claims paid and collections, has doubled in size.

**Website Allows Rightful Owners to Identify Property and Begin Claim Process**

During the past 18 months, many improvements to the Division’s website have occurred, including a revised search engine function that allows users to simply type in their name in any form as opposed to the legal name/title to which the property was filed (EX: under the previous process, you would have needed to type in “Estate of John J. Smith,” whereas the new search engine allows the user to simply type in “Smith” to view all database entries with this name). Holders are more quickly and easily able to review Nevada Revised Statutes relating to holder requirements, and people attempting to determine if the state may be holding unclaimed property rightfully belonging to them now have available a more simplified process to search for items. In the Division’s continuing efforts to assist rightful owners with claiming property belonging to them, a Fast Track Claims system has been introduced which allows a claimant to file an electronic claim form without having to mail in any forms to the Division. Claims selected for the Fast Track process must pass certain criteria, including a Social Security number and name match, to be considered. This enhancement to the website has increased the efficiency of the Division and provided better customer service to claimants. Fast Track claims are processed in less than half the time it would normally take.

## **Response to Audit Recommendations**

### **1. Develop policies and procedures for scheduling audits, using a risk-based approach**

Although a risk-based approach has always been used to identify potential audit candidates, those procedures were previously not in the form of a written policy. Written policies and procedures outlining the risk-based approach are now in place.

### **2. Consider implementing additional methods to identify unclaimed property and improve holder reporting compliance.**

The Program continually strives to develop and implement strategies to improve reporting and identification of unclaimed property held by various businesses. To that end:

- The Program contracted with ACS, the state's unclaimed property database vendor, to periodically perform an extract of our holder files, which compares against 3<sup>rd</sup> party corporate information and trend analysis to identify noncompliant holders, resulting in potential risk-based audit candidates.
- Adoption of a Voluntary Disclosure Agreement (VDA) program in FY 2009 which allows noncompliant holders to voluntarily report unclaimed property, with interest and penalties waived by signing a contract. Currently, over one million dollars in unclaimed property has resulted in the implementation of this program.
- A Memorandum of Understanding (MOU) with the Department of Taxation to share information with the unclaimed property program was explored in FY 2007. Based upon the advice of our Deputy Attorney General, the agreement was not signed. The Program is revisiting this concept. Meanwhile, the Department of Taxation has agreed to provide each of its audit clients with information on unclaimed property.
- We are currently working with the Secretary of State to increase holder outreach and reporting by utilizing the business portal being developed by that office.

### **3. Develop procedures that establish a timeframe for selling securities.**

Policies and procedures for the timely sale of securities are in place. However, NRS 120A.610 (5) states, "Securities delivered to the Administrator pursuant to this chapter may be sold by the Administrator at any time after the delivery." The point that "the longer shares are held, interest income is lost for the State" is misleading. When a security is held in its share form, the State of Nevada benefits from all corporate actions and stock increases that affect the stock, including dividends, stock splits, and other various activity. Although the office does not attempt to time the sale of securities, it does use prudent judgment in making such decisions. In 2008, when the securities and stock markets collapsed, the Program joined ranks with other state unclaimed property programs during that extraordinary economic upheaval by deciding to not sell any stock unless a claimant requested it. Therefore, stock that would normally have been sold was not sold as that could have resulted in a significant loss of revenue to the rightful owners and/or the state. The Program feels this was a responsible decision and was in the best interest of the state and the owners of these securities. With the resurgence of the market,

the Program has once again begun selling securities and is confident that the right decision was made. The Program's policies and procedures currently require the issuance of a written "Suspend Sale of Securities" directive from the State Treasurer for the purpose of interrupting the Program's established timeframe for the sale of securities.

**4. Revise procedures for deposits to ensure compliance with NRS 353.250.**

The procedure for timely deposit of payments has been revised and the Program is meeting all statutory requirements, including during peak periods (NOTE: Almost 80% of money the Program receives occurs during the November 1<sup>st</sup> holder reporting period). The remote deposit program, which came online in 2008, allowed this process to be modernized, resulting in compliance with the statute. Further, cross training of all Las Vegas staff provides double the number of office employees during the holder reporting period.

**5. Develop policies and procedures to help ensure timely reconciliation of property records.**

Written policies and procedures for the timely reconciliation of collections and paid claims are in place and outline the functions of the Program's Workflow Stats, which has consistently been used to track this information. Since September 2008, reconciliations have been performed timely.

Due to poor accounting techniques, securities were out of balance beginning in 2004 and continuing through 2006. Therefore, the reconciliation process from the unclaimed property database to the securities custodial account has been a monumental task. In June 2008, a full-time position was created for the purpose monitoring securities. Procedures were written and Excel spreadsheets developed to track incoming securities, security sales, and transfers for the custodial account, mutual fund accounts, and other brokerage accounts. Procedures have also been written to evidence the timely completion of the securities reconciliations.

**6. Monitor vault inventory to ensure items are sold timely.**

In regard to the accuracy of inventory held in the unclaimed property vault, prior to the LCB audit we discovered after consulting with the unclaimed property database software vendor that a secondary application had to be updated to reflect inventory changes. It was further discovered that this procedure had not been completed for several years prior to 2007, which required an inordinate amount of work to reconcile the inventory list with existing items. Policies and procedures have been created and are being used to ensure this does not happen in the future.

**7. Auction Items Not Sold Timely**

As mentioned in the previous response, due to improper safekeeping and accuracy of inventory not previously being performed before this administration took office, the vault did have items that were not properly recorded and therefore not advertised timely, as required per NRS 120A.580. The December 2008 auction marked the final phase in this clean up effort of items that needed to be auctioned off or disposed of. Internal policies and procedures for performing this function have been approved.

**8. Revise procedures for denied claims to help ensure claimants are notified in writing and denial letters are retained.**

The existing policies and procedures address NRS 120A.640 notification requirements, including the imaging of a denial letter and an entry of such denial in the computerized system. Although this had been standard procedure, it was discovered that one former employee was not following this procedure.

**9. Implement controls to monitor activity in the program's computer system, including reviewing computer logs.**

The software vendor is currently developing a security log component that will be used by the 36 states that currently utilize the system. Draft policies and procedures have been written that will comport with State Information Security Policy 5.3 and be adopted once the vendor finalizes the security log component. Further, procedures are now activated to produce a log showing when higher level of access users change information on the database server.

**Additional Responses to LCB Audit**

Several statements and/or comments were made within the body of the Findings and Recommendations section of the audit that we would like to address or clarify for the record.

**Audit Functions Needs Improvement**

As for the number of audits performed by the Program during the 18-month period of the LCB audit, at the end of FY 2007 and beginning of FY 2008, the Program lost two auditors with 20+ years of unclaimed property audit experience to retirement (NOTE: the one large casino audit of \$205,000 mentioned in the audit report was completed by one of the 20 year experienced auditors right before his retirement). This left the unclaimed property with one experienced auditor. Two other positions were vacant for a combined total of almost twelve months. During this time, when new staff was hired, small audits with limited complexity were selected to help train the auditors. In FY 2009, with staff closer to appropriated levels, 45 audits were completed, resulting in \$533,645 in unclaimed property. The average amount collected was \$11,858. The performance measure for FY 2010 is 55 completed audits. As of January 12, 2010, 32 of the required 55 audits have been completed. One large audit of four different subsidiaries has preliminary results of over one million. Additionally, four casino audits are currently being completed.

**Cost to Maintain Securities**

The securities custodian charges a monthly maintenance fee based on the number of issues. The comparison of the number of issues from September 2007 to December 2008 is skewed due to the large number of shares received into the custodian account in October and November, the traditional time period when the majority of shares arrive in the office. Therefore, the December balance would normally be higher as the result of new shares being received during October and November. In September 2008, there were 697 issues in the custodial account, slightly less than the year before, while the

average number of shares during this 16-month time period was 759. As for the cost of the vendor, an RFP was issued for this service in 2007. The higher cost reflects the winning bid selected through the RFP process. As a note, the bid by the previous vendor during the 2007 RFP process was much higher than the previous fee paid for the same services during fiscal years 2003 to 2007.



**Office of the State Treasurer  
Response to Audit Recommendations**

| <u>Recommendation<br/>Number</u> |  | <u>Accepted</u>  | <u>Rejected</u>  |
|----------------------------------|--|------------------|------------------|
| 1                                | Develop policies and procedures for scheduling audits, using a risk-based approach. ....                                   | <u>  X  </u>     | <u>      </u>    |
| 2                                | Consider implementing additional methods to identify unclaimed property and improve holder reporting compliance .....      | <u>  X  </u>     | <u>      </u>    |
| 3                                | Develop procedures that establish a timeframe for selling securities .....   | <u>  X  </u>     | <u>      </u>    |
| 4                                | Revise procedures for deposits to ensure compliance with NRS 353.250 .....   | <u>  X  </u>     | <u>      </u>    |
| 5                                | Develop policies and procedures to help ensure timely reconciliations of property records .....                            | <u>  X  </u>     | <u>      </u>    |
| 6                                | Revise safekeeping procedures to help ensure an accurate inventory list is maintained .....                                | <u>  X  </u>     | <u>      </u>    |
| 7                                | Monitor vault inventory to ensure items are sold timely....  | <u>  X  </u>     | <u>      </u>    |
| 8                                | Revise procedures for denied claims to help ensure claimants are notified in writing and denial letters are retained ..... | <u>  X  </u>     | <u>      </u>    |
| 9                                | Implement controls to monitor activity in the Program's computer system, including reviewing computer logs..               | <u>  X  </u>     | <u>      </u>    |
|                                  | <b>TOTALS</b>  | <u>    9    </u> | <u>    0    </u> |