

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF THE CHIEF FINANCIAL OFFICER**

**AUDIT OF INTERNAL CONTROLS AT THE UNCLAIMED PROPERTY
UNIT (UP) OF THE OFFICE OF FINANCE AND TREASURY (OFT)**

OFFICE OF INTEGRITY AND OVERSIGHT



**THIS REPORT IS AN INTERNAL DOCUMENT FOR OFFICIAL PURPOSES ONLY AND SHOULD NOT BE
RELEASED WITHOUT THE PRIOR WRITTEN APPROVAL OF THE CHIEF FINANCIAL OFFICER**

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Chief Financial Officer



Office of Integrity and Oversight

MEMORANDUM

TO: Jeffrey Barnette, Interim Deputy Chief Financial Officer and Treasurer
Office of Finance and Treasury

FROM: Mohamad Yusuff, Interim Executive Director
Office of Integrity and Oversight

DATE: December 20, 2012

SUBJECT: Final Report on the Audit of Internal Controls at the Unclaimed Property Unit (UP) of the Office of Finance and Treasury (OFT) (**Report No. 12-02-11 OFT**)

Attached is the final report summarizing the results of the Office of Integrity and Oversight's (OIO) Audit of Internal Controls at the Unclaimed Property Unit (UP) of the Office of Finance and Treasury (OFT). The overall objectives of our audit were to determine whether: a) Unclaimed Property Unit (UP) complies with applicable laws, regulations, and its internal control policies and procedures; and b) effective internal controls are in place to safeguard assets from fraud, waste, and abuse.

OIO provided eight recommendations to address the findings cited in the report. OFT essentially concurred with the recommendations and provided responsive comments and target completion dates for its planned corrective actions. We plan to conduct a follow-up review of OFT's implementation of the corrective action plan on this project in due course during this fiscal year.

We appreciate the assistance and cooperation that you and your staff provided to OIO during this audit. Should you have any questions or need additional information, please call me at (202) 442-8240.

Attachments

cc: Angell Jacobs, Chief of Staff, OCFO

**AUDIT OF INTERNAL CONTROLS AT THE UNCLAIMED PROPERTY UNIT (UP) OF
THE OFFICE OF FINANCE AND TREASURY (OFT)**

TABLE OF CONTENTS

EXECUTIVE SUMMARYi

 OVERVIEWi

 CONCLUSIONi

 SUMMARY OF RECOMMENDATIONS AND MANAGEMENT ACTIONS.....i

INTRODUCTION1

 BACKGROUND1

 OBJECTIVES, SCOPE AND METHODOLOGY.....1

FINDINGS AND RECOMMENDATIONS3

 FINDING 1: MANAGEMENT OF UNCLAIMED PROPERTY.....3

 FINDING 2: COMPLIANCE WITH APPLICABLE LAWS AND ACCOUNTING
 STANDARDS8

EXHIBIT A: SUMMARY OF POTENTIAL BENEFITS RESULTING FROM
 THE AUDIT11

EXHIBIT B: OFFICE OF FINANCE AND TREASURY’S RESPONSE13

**AUDIT OF INTERNAL CONTROLS AT THE UNCLAIMED PROPERTY UNIT (UP) OF
THE OFFICE OF FINANCE AND TREASURY (OFT)**

ACRONYMS

GASB	Governmental Accounting Standards Board
OCFO	Office of the Chief Financial Officer
OFOS	Office of Financial Operations and Systems
OFT	Office of Finance and Treasury
OIO	Office of Integrity and Oversight
UP	Unclaimed Property Unit
UPS2000	Unclaimed Property System

EXECUTIVE SUMMARY

OVERVIEW

The Office of Integrity and Oversight (OIO) conducted an audit of internal controls at the Unclaimed Property Unit (UP) of the Office of Finance and Treasury (OFT). Our overall audit objectives were to determine whether: a) Unclaimed Property Unit (UP) complies with applicable laws, regulations, and its internal control policies and procedures; and b) effective internal controls are in place to safeguard assets from fraud, waste, and abuse.

The audit examined the existence of inventory items of unclaimed property kept in the vault, the completeness of the claim files, and sufficiency and economy of the securities sale transactions occurred during FY 2012. In addition, the audit examined UP's compliance with the Unclaimed Property Act of 1980, and the government accounting standards.

CONCLUSION

The audit disclosed that the Unclaimed Property Unit needs to improve the efficiency of the overall management of the inventory of unclaimed properties. Based on the audit work performed, we determined the following: (1) inventory items in the vault were kept in open envelopes without full description of the contents of each envelope; (2) there were 26 unopened and unrecorded boxes of unclaimed properties received since November 2011; (3) OFT has not properly documented the process to liquidate/sale of securities held in trust as unclaimed property; and (4) we found no instances where the Unclaimed Property Unit adhered to the D.C. Code requirements of imposing interest and penalty on holders, who failed to report, pay, or deliver unclaimed property within the regulatory time period.

SUMMARY OF RECOMMENDATIONS AND MANAGEMENT ACTIONS

We directed eight recommendations to OFT. The recommendations focused on:

- Establishing an effective inventory management system that requires inventory items to be accounted for and recorded in a timely manner after receipt from holders.
- Establishing policies and procedures for securities sale transactions that require adequate analysis before selling any securities.
- Directing agency claim analysts to complete the Claim Forms, specifically, the section "For Official Use Only."
- Acquiring a separate P.O. Box address for the Unclaimed Property Unit to provide faster and more secure services to the District's residents.

EXECUTIVE SUMMARY

- Complying with D.C. Code requirements to impose interest and penalty on holders, who failed to report, pay, or deliver unclaimed property to the District within the regulatory time period.

A summary of the potential benefits resulting from the audit is shown in Exhibit A.

OIO received a written response from OFT on October 26, 2012. OFT essentially concurred with the recommendations and provided responsive comments and target completion dates for its planned corrective actions.

A copy of OFT's complete response is included as Exhibit B.

INTRODUCTION

BACKGROUND

Unclaimed property consists of money and other personal assets that are considered lost or abandoned when an owner cannot be located after a specified period of time. These assets can include checking accounts, certificates of deposit, customer deposits and over-payments, gift certificates, paid-up life insurance policies, uncollected wages, commissions, uncashed checks, death benefits, dividends, insurance payments, money orders, refunds, savings accounts, and stocks.

The Unclaimed Property Act of 1980 (D.C. Code § 41-122) stated that all unclaimed property, other than money, delivered to the District which remains unclaimed one year after the delivery to the District may be sold to the highest bidder at public sale. The District may decline the highest bid and re-offer the property for sale if the price is considered insufficient. D.C. Code also stated that securities abandoned must be held for at least three years before OFT may sell them.

D.C. Code § 41-135 stated: “any person or company who fails to pay or deliver property within the time allowed by law shall be required to pay interest at the rate of 1.5 % per month or fraction of a month on the property or value of the property from the date the property should have been paid or delivered.” In addition to the interest, D.C. Code requires any holder who fails to report, pay, or deliver property within the allowable time, to pay a civil penalty of \$200 for each day the report, payment, or delivery is withheld, up to a maximum of \$10,000.

D.C. Code § 41-135 allows OFT to waive interest and penalty if the holder's failure to pay or deliver property is satisfactorily explained and if the failure has resulted from a mistake by the holder in understanding or applying the law or the facts which require that holder to pay or deliver unclaimed property.

OBJECTIVES, SCOPE AND METHODOLOGY

The objectives of the audit are to determine whether: a) Unclaimed Property Unit (UP) complies with applicable laws, regulations, and internal control policies and procedures; and b) effective internal controls are in place to safeguard assets from fraud, waste, and abuse.

In order to achieve these objectives, we reviewed the applicable laws and regulations, internal control policies and procedures, and government accounting standards for escheated property. We selected a non-statistical sample to test the existence of inventory items in the vault, the sample was selected from OFT's most recent inventory listing dated December 31, 2010. We selected a statistical sample to test completeness of the claim files for a 12-month period (June 2011 - May 2012). Additionally, we tested sufficiency and economy of the securities sale transactions that occurred during FY 2012.

Furthermore, we interviewed and obtained information from UP manager, UP auditor, lead claim analyst, claim analysts, and the administrative assistant. In addition, we obtained information from officials at the Office of Financial Operations and Systems (OFOS).

INTRODUCTION

This performance audit was conducted 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

FINDINGS AND RECOMMENDATIONS

FINDING 1: MANAGEMENT OF UNCLAIMED PROPERTY
--

SYNOPSIS

The OFT Unclaimed Property Unit (UP) did not efficiently and effectively manage the inventory of unclaimed properties in its custody. We found inventory items in the vault were kept in open envelopes with no full description of the contents of each envelope. Additionally, we found 26 unopened and unrecorded boxes of unclaimed properties received since November 2011. OFT officials stated that UP needs additional staff to open the boxes, load the information into the UPS2000 and place the items in sealed bags. Ineffective and loose inventory controls can result in unsatisfactory government services provided to the District's residents when they inquire about their unclaimed properties, moreover such weakness in controls can present a fraud risk, whereby some inventory items could be stolen or replaced with less valued items.

In addition, we found that OFT did not have adequate policies and procedures when it authorized the sale of a complex batch of stocks and bonds in a single day in January 2012.

DISCUSSION

Inventory Management

We selected a sample of 63 inventory items from OFT's most recent inventory listing dated December 31, 2010. The inventory list included 1,428 items of unclaimed property. We were able to locate and find all the sample items. However, we found that there were no reference numbers written on the boxes or the envelopes to ensure that the boxes were duly checked and labeled (the reference numbers are generated by UPS2000). Some inventory items were removed from their original envelopes and placed in D.C. government envelopes. The envelopes were opened and not sealed or signed by OFT officials.

In addition, we found that there is no full description of the inventory items written on the envelopes or in the inventory list. For example, one envelope contained coins but there was no descriptive information written about the number of coins, face value, and engraved years. Lack of a full and complete description of the inventory items is considered a fraud risk factor in that some inventory items could be easily replaced or stolen.

Furthermore, we found 26 unopened boxes received since November 2011. These boxes were not accounted for, and not recorded in UPS2000. Consequently, the District residents would not be able to readily obtain answers when inquiring about their unclaimed properties.

This coming November 2012, the Unclaimed Property Unit is expecting to receive more boxes from banks and holders. Accordingly, it is imperative to establish effective internal control over the inventory management process.

FINDINGS AND RECOMMENDATIONS

Sale of Securities

D.C. Code § 41-122 allows OFT to sell abandoned securities after holding them for at least three years. If the securities were sold before the expiration of the three-year period, an owner of the securities making a claim is entitled to either the proceeds of the sale of the securities, or the market value of the securities at the time the claim is made, whichever is greater. An owner making a claim after the expiration of the three-year period is entitled to receive either the securities delivered, if they still remain on hand, or the proceeds received from the sale.

OFT officials directed the contracted Trustee (ACS Company) to sell a batch of stocks and bonds in a single day in January 2012. We determined that OFT did not perform any analysis and did not have adequate policies and procedures in place when selling complex batches of securities in its custody.

Completeness of the Claim Files

We selected a statistical sample of 259 claim files out of total population of 2,133 claim files that were processed and completed in a 12-month period (June 2011 - May 2012). We found that the section “*For Official Use Only*” was left blank on 61 Claim Forms. The error rate in the sample is 23.6 percent and the projected error rate in the entire population is 29.15 percent. This section in the Claim Form includes information on the claim amount, who approved the claim, and the date the claim was approved.

Additionally, we found one Claim Form with a signature of a Notary Public but there was no official notary stamp; and another Claim Form with no Notary Public stamp. During our examination of the files, we found a UP checklist document to be used internally by claim analysts to process a claim. This checklist stated that if the value of the unclaimed property is less than \$500, the Notary Certification is not required.

The information about waiving the notarization of the form is not written on the Claim Form itself. OFT officials elected to inform some claimants on waiving the notary requirement, but not inform others. The UP manager informed us during the audit exit conference that corrective actions were already taken to ensure that all claim forms will be notarized regardless of the value of the unclaimed property.

Other Matters

Background checks on UP temporary employees (contractors)

The UP employed four contractors as temporary employees (contract renewed annually). Some of the contract employees have been employed for 10 years. We found that UP never obtained background checks on these employees. UP management took the corrective action and requested the Office of the Chief Financial Officer (OCFO) Office of Contracts to modify the contract with the provider of temporary employment services to include the requirement for background checks for employees hired by the UP Unit.

FINDINGS AND RECOMMENDATIONS

Unclaimed Property P.O. Box Address

OFT officials stated that UP has one or two missing pieces of mail almost every month. Responsible officials also confirmed that OFT has ordered and paid for Credit Monitoring Service to one claimant, whose mail was missing after it was sent via certified mail to the UP. In our view, OFT should acquire its own P.O. Box address to ensure faster and more secure services to the District's residents, which could also reduce the risk that some claimants' confidential information might be lost.

Contractor's remote access to UPS2000

OFT officials stated that three persons at the contractor "ACS Company" were given remote access to the District's unclaimed property system and data (UPS2000). Apparently these persons have access to the system in order to fix problems or provide any technical assistance needed. We believe that, in order to protect the District's residents personnel information from identity theft or fraud, the remote access to UPS2000 should be given to the contractor personnel for a short period of time when needed to fix technical problems in the system and should be terminated afterwards.

RECOMMENDATIONS

We recommend that the Deputy Chief Financial Officer and Treasurer, OFT:

1. Establish an effective inventory management system that requires inventory items to be accounted for and recorded in a timely manner when received from holders, and all items in the vault be kept in sealed and signed bags with a full description of the contents on each bag.
2. Establish policies and procedures for sale of securities that require sufficient market analysis to be conducted before selling the securities to achieve the best possible returns to the securities owners.
3. Direct claim analysts to complete the Claim Form specifically the section "For Official Use Only" in order to ensure completeness of claim files.
4. Acquire a separate P.O. Box address for the Unclaimed Property Unit to provide faster and secure services to the District's residents and reduce the risk that some claimants' confidential information could be lost.
5. Terminate any remote access to UPS2000 that was given to the contractor "ACS Company" and establish a policy to provide access to the system when needed and for only short periods of time.

FINDINGS AND RECOMMENDATIONS

MANAGEMENT'S RESPONSE AND OIO COMMENT

Management's Response (Recommendation 1)

OFT concurred with the recommendation and stated that UP strives to inventory vault items in a timely manner, but finds it difficult due to the need of two vault authorized employees for an extended period of time to perform these time-consuming functions. UP will make every effort going forward to inventory and record these items in a timely manner. In addition, UP has ordered sealable clear plastic envelopes that will be dual signed and sealed to keep inventory items.

OIO Comment

OFT corrective actions are responsive and meet the intent of the recommendation.

Management's Response (Recommendation 2)

OFT explained the circumstances surrounding the sale of the securities in January 2012. It noted that the goal of the agency when selling securities is to liquidate the holdings in an impartial manner, with a pre-arranged date in the future, after the regulatory holding period had expired. The agency assured that, going forward, it will prepare a policy and procedure to document the securities trading process.

OIO Comment

We consider OFT's planned actions as meeting the intent of the recommendation. However, we have a suggestion: instead of assigning a particular date for the sale of securities, OFT should consider a wider timeframe such as within a month, or within a quarter, to account for exigencies of the market.

Management's Response (Recommendation 3)

OFT concurred with the recommendation and stated that a procedure has been implemented whereas all claim analysts and the approver sign in the same section "For Official Use Only."

The only exception is when claims are over the dollar amount allowed for approval by the manager, there is a special form for the authorization of the Assistant Treasurer or Treasurer.

OIO Comment

OFT corrective actions are responsive and meet the intent of the recommendation.

FINDINGS AND RECOMMENDATIONS

Management's Response (Recommendation 4)

OFT concurred with the recommendation and provided a target completion date December 31, 2012. OFT will research the need for a separate post office box based on cost, timing impacts and security of the documentation.

OIO Comment

OFT corrective actions are responsive and meet the intent on the recommendation.

Management's Response (Recommendation 5)

OFT concurred with the recommendation and provided a target completion date December 31, 2012. OFT stated the remote access to UPS2000 will be terminated and then enabled thru the Help Desk when needed to access the system to review or correct problems encountered. This access will only be enabled per authorized District of Columbia UP employees.

OIO Comment

OFT corrective actions are responsive and meet the intent of the recommendation.

FINDINGS AND RECOMMENDATIONS

FINDING 2:	COMPLIANCE WITH APPLICABLE LAWS AND ACCOUNTING STANDARDS
-------------------	---

SYNOPSIS

The OFT Unclaimed Property Unit did not comply with D.C. Code requirements of imposing interest and penalty on holders who failed to report, pay, or deliver unclaimed property within the regulatory period of time. OFT did not collect any interest or penalty from any holder since the Unclaimed Property Act was signed into law in October 1980. OFT officials stated that it takes time and effort to determine non-compliant holders and calculate the accrued interest and penalty. As a result, the District has lost the uncollected interest and penalty associated with the requirement of the law.

In addition, we found that OFT officials used a methodology to estimate unclaimed property revenue that is not scientifically approved or supported; and methodology to estimate the unclaimed property liability that does not conform to the requirements of the government accounting standards.

DISCUSSION

Interest and Penalty

D.C. Code § 41-135 provides: “any person or company who fails to pay or deliver property within the time allowed by law shall be required to pay interest at the rate of 1 1/2 % per month or fraction of a month on the property or value of the property from the date the property should have been paid or delivered.” In addition to the interest, D.C. Code requires any holder who fails to report, pay, or deliver property within the allowable time, to pay a civil penalty of \$200 for each day the report, payment, or delivery is withheld, up to a maximum of \$10,000.

D.C. Code § 41-135 also requires any holder who willfully fails to report, pay, or deliver property within the allowable time, to pay, in addition to the interest, a civil penalty of \$1,000 for each day the report, payment, or delivery is withheld, up to a maximum of \$25,000, plus 25% of the value of any property that should have been paid or delivered.

D.C. Code § 41-135 allows OFT to waive interest and penalty if the holder's failure to pay or deliver property is satisfactorily explained and if the failure has resulted from a mistake by the holder in understanding or applying the law or the facts which require that holder to pay or deliver unclaimed property.

We found that OFT gave a blanket waiver to every holder and never collected any interest or penalty and apparently did not consult with OCFO lawyers to help decide the cost-benefit analysis of collecting interest and penalty.

FINDINGS AND RECOMMENDATIONS

Additionally, we found that OFT has contracted with three firms to audit and search for unclaimed properties. These firms informed us that they received no instruction from OFT to collect interest or penalty from holders, who failed to pay or deliver unclaimed property within the regulatory time period.

Responsible officials stated that the UP would need additional staff in order to identify the unclaimed property that was submitted late to the District and to calculate any interest, and penalties due.

Estimating Unclaimed Property Revenue and Liability

OFT's methodology to estimate the revenue of unclaimed property for budget preparation purposes is based on calculating the average revenue for the last two years, reduced by the District unemployment rate, which at that time was 12 percent. We found that this methodology was not based on any scientific evidence or academic research, since we believe there is no relationship between the unemployment rate and unclaimed property. Additionally, the two-year period is a short period for estimating the revenue and a longer period would provide a more accurate and reasonable estimation.

UP officials use a methodology to estimate the liability for financial reporting purposes that is based on calculating the average disbursements for the last five years. The Governmental Accounting Standards Board's "GASB" Standard No. 21 "Accounting for Escheat Property" provides that the unclaimed property liability should represent the best estimate of the amount ultimately expected to be reclaimed and paid, giving effect to such factors as previous and current trends in amounts reclaimed and paid relative to amounts escheated, and anticipated changes in those trends.

We found that UP's methodology does not reflect any relationship between the estimated liability and the amount of unclaimed property collected at a given year. The estimation method should be based on percentage (annual rate) of the unclaimed property on hand at the date of the financial statements as required by GASB Standard No. 21.

RECOMMENDATIONS

We recommend that the Deputy Chief Financial Officer and Treasurer, OFT:

6. Comply with D.C. Code requirements and impose interest and penalty as appropriate on holders who failed to report, pay, or deliver unclaimed property to the District within the regulatory time period.
7. Establish a methodology for revenue estimation that is reasonable, accurate and based on historical revenues for at least a five-year period.

FINDINGS AND RECOMMENDATIONS

8. Establish a methodology for liability estimation that is in conformity with GASB Standard No. 21 and based on percentage (annual rate) of unclaimed property reclaimed and paid to total unclaimed properties on hand at a given year.

MANAGEMENT'S RESPONSE AND OIO COMMENT

Management's Response (Recommendation 6)

OFT maintained that it is a common practice among several States to waive interest and penalty, if the holders voluntarily report past due unclaimed property. It also stated that the Unclaimed Property Unit always require an entity to provide in writing the basis for requesting an extension. It noted that its "staff will review the request to determine if any penalty should be applied." Moreover, based on difficulties to manage the interest and penalties, this enforcement policy will be done on a case by case basis. OFT also assured that it will update its policies and procedures to better document the waiver process related to this issue.

OIO Comment

All things considered, OFT's actions, taken as a whole, meet the intent of the recommendation.

Management's Response (Recommendation 7)

OFT concurred with the recommendation and provide a target completion date December 31, 2012. OFT will work with the Budget Office, OFOS and ORA to establish new methodology for revenue estimation.

OIO Comment

OFT correct actions are responsive and meet the intent of the recommendations.

Management's Response (Recommendation 8)

OFT concurred with the recommendation and provided a target completion date December 31, 2012. UP will work with OFOS to establish an updated methodology for liability estimation based on history for at least the last five years, including current trends.

OIO Comment

OFT corrective actions are responsive and meet the intent of the recommendations.

**EXHIBIT A: SUMMARY OF POTENTIAL BENEFITS RESULTING
FROM THE AUDIT**

No.	Recommendations	Type of Benefit	Agency Reported Estimated Completion Date	Status ¹
1	Establish effective inventory management system that requires inventory items to be accounted for and recorded once received from holders, and all the items in the vault are to be kept in sealed and signed bags with full description of the contents of each bag.	Internal Control	On-going Process	Open
2	Establish adequate policies and procedures for securities sales that require sufficient analysis to be conducted before selling the securities to ensure the best permissible returns to the securities owners	Economy	December 31, 2012	Open
3	Enforce claim analysts to complete the Claim Form specially the section “For Official Use Only” in order to ensure completeness of claim files.	Internal Control	September 26, 2012	Closed
4	Acquire a separate P.O. Box for the Unclaimed Property Unit to provide faster and more secure services to the District’s residents, which could reduce the risk of some claimants’ confidential information being lost or missing in the mail.	Internal Control	December 31, 2012	Open
5	Terminate any remote access to UPS2000 that was given to the contractor “ACS Company” and establish a policy to provide access to the system when needed and for only short period of time.	Internal Control	December 31, 2012	Open

¹ This column provides the status of a recommendation as of the report date. For final reports, “open” means management and the OIO are in agreement on the action to be taken, but is not complete. “Closed” means management has advised that action necessary to correct the deficiency is complete. If a completion date was not provided, the date of management’s response is used. “Unresolved” means that management has neither agreed to take the recommended action nor proposed a satisfactory alternative action to correct the condition.

**EXHIBIT A: SUMMARY OF POTENTIAL BENEFITS RESULTING
FROM THE AUDIT**

No.	Recommendations	Type of Benefit	Agency Reported Estimated Completion Date	Status
6	Comply with D.C. Code requirements and impose interest and penalty on holders who failed to report, pay, or deliver unclaimed property to the District within the regulatory time period.	Economy/ Compliance	December 31, 2012	Open
7	Establish a methodology for revenue estimation that is reasonable, accurate and based on historical revenues for at least 5-year period.	Economy/ Compliance	December 31, 2012	Open
8	Establish a methodology for liability estimation that is in conformity with GASB Standard No. 21.	Economy/ Compliance	December 31, 2012	Open

EXHIBIT B: OFFICE OF FINANCE AND TREASURY'S RESPONSE

See the attached OFT's response dated December 4, 2012

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Chief Financial Officer

Jeffrey Barnette
Interim Deputy Chief
Financial Officer and
Interim Treasurer



Office of Finance and Treasury
Unclaimed Property Unit

MEMORANDUM

TO: Mohamad Yusuff, Acting Director
Office of Integrity and Oversight

FROM: Jeffrey Barnette, Deputy Chief Financial Officer and Treasurer
Office of Finance and Treasury

DATE: December 4, 2012

SUBJECT: Response to Report on the Audit of Internal Controls at the Unclaimed Property Unit (UP) of the Office of Finance and Treasury (OFT) (**Report No. 12-02-11 OFT**)

Below please find responses to the report on the audit of internal controls at the Unclaimed Property Unit (UP) of the Office of Finance and Treasury (OFT) (**Report No. 12-02-11 OFT**):

1. Recommendation:

Establish effective inventory management system that requires inventory items to be accounted for and recorded in a timely manner when received from holders, and all items in the vault are kept in sealed and signed bags with a full description of the contents on each bag.

Response:

It was noted in the audit that 26 unopened boxes were received since November, 2011. Since the field work for the vault portion of the audit was done in June, 2012, please note that 20 of these mentioned safe deposit content boxes were not received until late February, 2012. The other 6 boxes were received on May 10, 2012.

UP strives to inventory vault items in a timely manner, but finds it difficult due to the need of two vault authorized staff employees for an extended period of time to perform these very time-consuming functions. However, the items are always safeguarded in a dual secured vault location and the vault has limited access to only a small number of authorized employees. UP will make every effort going forward to inventory and record these items in a timely manner.

However, if an owner were to inquire regarding safe deposit box contents that had not been inventoried, UP would immediately find that bank's delivery to us and inventory and book those contents in order to provide the proper customer service to the owner.

When items are inventoried in the vault (for security reasons), we then prepare a spreadsheet of the items, and then book them on the UP system. The reference numbers referred to in the report are not received until after the booking to the UP system. Staff will establish a computer with the UP software to improve the recording process of inventory held in the vault. Regarding the recording of currency, some coins were inventoried by quantity, such as 25 quarters. We will look to improve the information recorded on each package of coins. However we do not record the historical dates of each coin, since we do not know which dates are valuable or not until appraised. When appraised before an auction, the value of these items will be determined. We will try to write better descriptions on inventoried items going forward, but will not assume descriptions that could relate to appraised value, i.e., gold coins, silver coins, etc. until the actual appraisal.

We do not seal paper envelopes, which we have used for individual item storage in the past, since we would have to open for audits, research, appraisals, etc., and then put in a new envelope and rewrite the description. We have ordered sealable clear plastic envelopes that we hope to utilize in the future. This should eliminate the waste of envelopes and we will dual sign the seal on the envelope after sealing. Again, please keep in mind that these items are kept in a dual access controlled vault.

Estimated Completion Date of inventory of safe deposit box contents: On Going
Process due to continual delivery of items

Status: Open

2. Recommendation:

Establish policies and procedures for securities sale transactions that require sufficient analysis to be conducted before selling the securities to ensure maximum returns to the securities owners.

Response:

UP regulations requires a dormancy period of three years before selling securities. The goal of the unit when selling securities is to liquidate the holdings with an impartial view of the security. In order to be impartial to the various holdings being liquidated, we have selected a future date and plan to keep that date as long as we liquidate holdings. Most other states sell securities either when received or once a year according to their dormancy period. In researching when other states perform sales of securities, it is usually the same time each year. In fact, during the market collapse of 2008, only three states reported halting their security sales that year, while nine states reported that they performed the sale as in the past.

The authorization for sale of the securities mentioned above was drafted in late December, 2011, approved by the Treasurer and Assistant Treasurer on December 29, 2011, approved by Legal on January 6, 2012. We had been working with our custodian since September, 2011 to perform this sale of all assets received before July 1, 2008, which meets our three year dormancy period. The letter was signed by the Associate Treasurer and sent to ACS on January 17, 2012 with instructions to process the sales on Monday, January 23, 2012. The sales were performed that day except for a few items that were not readily marketable or worthless or needed further research by our custodian. In future years we will continue to look to liquidate positions on or around January 23rd. However prior to any liquidation, staff will review the current financial market conditions and make sure the liquidation is done in the best interest of the claim holders and the District.

Going forward we will prepare a policy and procedure documenting the security trading process.

Estimated Completion Date: December 31, 2012

Status: Open

3. Recommendation:

Direct claim analysts to complete the Claim Form specifically the section "For Official Use Only" in order to ensure completeness of claim files.

Response:

This new form referred to above had only been in use since mid-June, 2011. Some claims analysts were used to signing at other places on the form, which was there and verified on the forms shown to the manager. Our UP system also identifies all actions and approvals by user for each claim. However, a procedure has been implemented whereas all claims analysts and the approver sign in the same section "For Official Use Only". The only exception is when claims are over the dollar amount allowed for approval by the manager, there is a special form for the authorization of the Assistant Treasurer or Treasurer.

Also, until mid-June, 2011, the notary public signature was not required for any claims under the amount of \$50. Some of the claim forms reviewed had been issued prior to mid-June and the notary public signature was not required. Going forward, all claims require a notary public signature before being approved.

Estimated Completion Date: Completed

Status: Completed

4. Recommendation:

Acquire a separate P.O. Box address for the Unclaimed Property Unit to provide faster and secure services to the District's residents and reduce the risk that some claimants' confidential information could be lost.

Response:

In records kept monthly of formal complaints (since July, 2010), there has only been one issue of mail reported lost and that occurred in May, 2012. It was a claim form sent via certified mail that was signed for by the OCFO Mailroom at the Post Office. In order to protect that client we paid for Credit Monitoring for this client for one year. However, we will research the need for a separate post office box based on cost, timing impacts and security of the documentation.

Estimated Completion Date: December 31, 2012

Status: Open

5. Recommendation:

Terminate any remote access to UPS2000 that was given to the contractor "ACS Company" and establish a policy to provide access to the system when needed and for only short periods of time.

Response: We are currently working with Technology experts to disable their VPN access and then enable it thru the Help Desk when needed to access the system to review or correct problems encountered. This access will only be enabled per authorized District of Columbia UP employees.

Estimated Completion Date: December 31, 2012 target is contingent upon the IT team

Status: Open

6. Recommendation:

Comply with D.C. Code requirements and impose interest and penalty as appropriate on holders who failed to report, pay, or deliver unclaimed property to the District within the regulatory time period.

Response:

Section 41-135 (d) states that interest and penalty "may be waived by the Mayor if the person's failure to pay or deliver property is satisfactorily explained to the Mayor and if the failure has resulted from a mistake by the person in understanding or applying the law or the facts which require that person to pay or deliver property as provided in this chapter." UP always requires each entity to provide in writing their basis for requesting an extension and staff will review that request to determine if any penalty should be applied. Based on the difficulty of managing the interest and penalties, this enforcement

policy will be done on a case by case basis. Historically the district has not imposed interest or penalties if holders did report their unclaimed property. The waiver of interest and penalties is common practice for most states that manage Unclaimed Property programs. Our practice is to work directly with each outside entity that is providing the unclaimed property to make sure they continue to work proactively with the District. OFT will update our policies and procedures to better document the waiver process related to this issue.

Estimated Completion Date: December 31, 2012

Status: Open

7. Recommendation:

Establish a methodology for revenue estimation that is reasonable, accurate and based on historical revenues for at least five-year period.

Response:

The revenue estimates for 2012 were based on historical data from 2007 through 2011. There has been a noticeable downward trend in collections each year, so we also took that into consideration. OFT will work with the Budget Office, OFOS and ORA to make sure we are presenting the collected revenue within industry standards. OFT will update our policies and procedures, and the update will document any new methodology used to calculate the revenue estimates.

Estimated Completion Date: December 31, 2012

Status: Open

8. Establish a methodology for liability estimation that is in conformity with GASB Standard No. 21 and based on percentage (annual rate) of unclaimed property reclaimed and paid to total unclaimed properties on hand at a given year.

Response:

UP will work OFOS to establish an updated methodology for liability estimation based on history for at least the last five years, including current trends. OFT will update our policies and procedures, and the update will document any new methodology used to calculate the liability estimate.

Estimated Completion Date: December 31, 2012

Status: Open

As a result of the OIO review, OFT is planning to do a comprehensive analysis of the Unclaimed Property unit to see if the staffing levels are appropriate for the work load and will also review the staffing relationship between OFT and outside contractors. We hope

to have this review completed by the end of the calendar year and can make recommendations to the Front Office for any changes. With respect to the overall review, we do agree with most finding and will look to incorporate suggested recommendations where appropriate.