

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

**FOLLOW-UP AUDIT ON INTERNAL CONTROLS AT
THE UNCLAIMED PROPERTY UNIT OF THE
OFFICE OF FINANCE AND TREASURY**

OFFICE OF INTEGRITY AND OVERSIGHT



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



Office of Integrity and Oversight

MEMORANDUM

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

FROM: Timothy Barry, Executive Director
Office of Integrity and Oversight

A handwritten signature in black ink that reads "Timothy Barry".

DATE: January 6, 2016

SUBJECT: Final Report: Follow-Up Audit on Internal Controls at the Unclaimed Property Unit (UPU) of the Office of Finance and Treasury (OFT) (OIO Report No. 15-02-13 OFT)

The attached final report summarized the results of the Office of Integrity and Oversight (OIO)'s Follow-Up Audit on prior audit report: "*Audit of Internal Controls at the Unclaimed Property Unit (UPU) of the Office of Finance and Treasury*," (OIO Report No. 12-02-11 OFT). The prior report was issued on December 20, 2012, and provided eight recommendations to improve the UPU operations and strengthen internal controls. The objective of this follow-up audit was to determine the effectiveness of the corrective actions taken by OFT in response to the recommendations in the prior report.

OFT has made significant improvement in the UPU operations since the prior audit. However, we identified three areas where internal controls could be improved and made four recommendations to strengthen the internal controls in those areas. OFT concurred with our finding and recommendations. We consider OFT's planned and taken corrective actions to be responsive and meet the intent of the recommendations.

We appreciate the assistance and cooperation that you and your staff provided to OIO during this audit. Should you have any questions, please contact me at (202) 442-6433.

cc: Jeff DeWitt, Chief Financial Officer, Government of the District of Columbia
Angell Jacobs, Deputy Chief Financial Officer and Chief of Staff, OCFO
Marshelle Richardson, Chief Risk Officer, OCFO
John Henry, Associate Treasurer for Asset Management, OFT
Gracie Musher, Director, Unclaimed Property Unit, OFT

**FOLLOW-UP AUDIT ON INTERNAL CONTROLS AT THE UNCLAIMED
PROPERTY UNIT OF THE OFFICE OF FINANCE AND TREASURY**

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**FOLLOW-UP AUDIT ON INTERNAL CONTROLS AT THE UNCLAIMED
PROPERTY UNIT OF THE OFFICE OF FINANCE AND TREASURY**

ACRONYMS

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
PIN	Property Identification Number
UPS2000	Unclaimed Property System
UPU	Unclaimed Property Unit
SOAR	System of Accounting and Reporting
SOP	Standard Operating Procedures

EXECUTIVE SUMMARY

OVERVIEW

The Office of the Chief Financial Officer (OCFO)'s Office of Integrity and Oversight (OIO) conducted a follow-up audit on OIO's prior report: "Audit of Internal Controls at the Unclaimed Property Unit (UPU) of the Office of Finance and Treasury," (OIO Report No. 12-02-11 OFT), issued on December 20, 2012. The prior audit identified weaknesses in eight areas and provided eight recommendations to the Deputy Chief Financial Officer, and Treasurer, Office of Finance and Treasury (OFT), to improve the UPU operations and strengthen its internal controls. The objective of this follow-up audit was to determine effectiveness of the corrective actions by OFT in response to the recommendations contained in OIO's prior audit report.

CONCLUSIONS

The UPU made significant improvement in its operations since the prior audit. However, additional actions were needed in the management of the vault inventory. We found that the descriptions of items in the inventory accounts were not detailed enough to insure adequate control and accountability of the items. The description on many of the accounts was very generic like jewelry, or foreign coins with no details on the type of jewelry, number of pieces, or number and type of coins.

We found that not all inventory accounts were entered into the Unclaimed Property System (UPS2000) which reduced the opportunity for owners to identify and claim their abandoned property because if the items are not in the UPS2000 they will not be included in the Missing Money Database.

We also found the UPU had not taken action to levy interest and penalties on holders, who are delinquent in reporting, paying, or delivering unclaimed property to the District as prescribed by D.C. Code § 41-135.

SUMMARY OF RECOMMENDATIONS

Based on the results of additional testing during this follow-up audit, we made the following 4 recommendations to improve the internal controls over the UPU operations:

- Entering unclaimed property into the UPS2000 and the vault inventory log along with a detailed description within an established timeframe after the property is received from the holder.
- Updating UPS2000 with existing vault inventory that is yet to be entered in its database, especially those items classified as appraisable.
- Enforcing the provisions of the DC Code and assess interest and penalties on those holders, who were delinquent in reporting unclaimed property to the District, especially those holders identified by auditors as having unreported property.
- Obtaining satisfactory information through the Accurant Background Database to verify significant discrepancies such as difference in names or addresses on documentation submitted by claimants.

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MANAGEMENT RESPONSES AND OIO COMMENTS

OIO received written response from the Office of Finance and Treasury (OFT) on December 10, 2015. OFT management concurred with the report recommendations and provided corrective actions, taken and planned, to address the findings cited in the report.

We consider OFT's corrective actions to be responsive and meet the intent of the recommendations. The full text of OFT's response is provided in Appendix 1.

INTRODUCTION

BACKGROUND

On December 20, 2012, the OIO issued an audit report on the internal controls at OFT's unclaimed property unit (OIO Report No. 12-02-11 OFT). The report identified weaknesses in the following areas:

- 1) Inventory Management;
- 2) Imposing Interest and Penalties on Delinquent Holders;
- 3) Processing Claim Forms;
- 4) Sales of Securities;
- 5) Revenue and Disbursement Projections;
- 6) Background Checks on Temporary Employees;
- 7) Contractor's Remote Access to the Unclaimed Property System (UPS2000); and
- 8) Unclaimed Property Unit P.O. Box Address

The OIO's prior audit report made eight recommendations to correct the weaknesses identified in the report and to strengthen internal controls.

Unclaimed property consists of money considered abandoned when the owner cannot be located after a specific period of time. These items include checking and savings accounts, certificates of deposit, contents of bank safe deposit boxes, gift certificates, uncollected wages, dividends, stocks, mutual funds, paid up life insurance policies and refunds.

D.C. Code § 41-103 states property that is in the possession of a holder and remained unclaimed by the owner for more than three years after it became payable or distributable is presumed abandoned. D.C. Code § 41-117 requires holders of unclaimed property to report the property to the District each year by November 1, for all abandoned property, except for abandoned property related to life insurance companies, which are due by May 1 of each year.

The District becomes the perpetual custodian of abandoned property turned over to it by holders until such time as it is claimed by its rightful owner. D.C. Code § 41-122 permits the District to sell property escheated to it after holding the property (except marketable securities) for one year at public sale. For marketable securities, the holding period is 3 years. The funds received from the sale of abandoned property are deposited in the District General Fund. The funds are eligible to be claimed at any time by the owner or legal heir by filing a claim with the OFT's Unclaimed Property Unit.

OBJECTIVES, SCOPE AND METHODOLOGY

The audit objective was to determine effectiveness of the implementation of the corrective actions taken by OFT in response to the recommendations contained in OIO's prior audit report.

This follow-up audit covered the 12-month period from October 1, 2014 to September 30, 2015. In order to achieve the audit objective, we examined two statistical samples: 1) a sample of 184 inventory accounts (out of 4,245) stored in the UPU vault; and 2) a sample of 95 paid claims (out

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of 2,026) along with the supporting documentation for the claim. We also reviewed the contract covering the temporary employees assigned to the UPU, and the contract for technical support for the USP2000 computer system.

Our examination included verifying the inventory was properly recorded and accounted for, and verifying that claims for the recovery of abandoned property were properly supported. Additionally, we evaluated the methodology used by the UPU to project revenue and claim disbursements. We also interviewed personnel from the UPU, and contacted the Unclaimed Property Unit of the State of Maryland.

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 finding and conclusions based on our audit objectives.

FINDING AND RECOMMENDATIONS

FINDING: MANAGEMENT OF UNCLAIMED PROPERTY

SYNOPSIS

The Unclaimed Property Unit (UPU) made significant improvement in its operations since OIO's prior audit report. However, improvement was still needed in control over the vault inventory. We determined that individual items in unclaimed property inventory accounts did not have adequate descriptions of each item in the account, and that only 2,123 of the 3,713 inventory accounts listed in the vault inventory log were recorded in UPS2000. The UPU management stated since the control weaknesses were identified in the prior audit report, their first priority was to establish an accountability system over each inventory account as opposed to itemizing individual items within the accounts.

As a result, if an inventory item was removed without authorization, or replaced with an item of lesser value, there was no assurance that it would be readily detected. In addition, the opportunity for owners to identify and claim abandoned property was reduced because items not recorded in UPS2000 are not uploaded to the Missing Money Database¹.

We also found that the UPU still has not implemented procedures to levy penalties and interest on holders that failed to file, or were delinquent in filing abandoned property reports to the District. UPU management stated that they are trying to develop a methodology that can be applied fairly and without bias to all holders. However, by not imposing penalties and interest, the UPU is not in compliance with D.C. Code § 41-135, resulting in the District's loss of revenue.

DISCUSSION

1- Inventory Management

OIO's Prior Audit Report - Internal control weaknesses over inventory management identified by the prior OIO audit included no property identification numbers (PIN) on the unclaimed property to ensure that it was properly checked, labeled, and entered into the UPS2000 system. The audit also disclosed items stored in unsealed envelopes, and items stored in packages did not have

¹ Missing Money Database is a national database of abandoned property that by law was turned over to states and provinces. The database was established by the National Association of Unclaimed Property Administrators in 1999, and is currently operated by the Unclaimed Property Clearinghouse, a business unit of Xerox. Owners can perform searches for lost assets using this database.

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complete and accurate descriptions of the package contents. In addition, there were 26 boxes of unclaimed property that were received from holders but were never opened, inspected, inventoried, or entered into the UPS2000.

Corrective Actions Taken - The UPU improved its management of unclaimed property since the 2012 OIO audit report. All new properties escheated by holders were stored in clear sealable plastic envelopes, and after the envelope was sealed it was signed by two UPU employees. If the account was entered into the UPS2000 a PIN was generated. The PIN, as well as the inventory control number, were written on the inventory storage envelope and entered into the vault inventory log that the UPU developed for better control of the vault inventory.

In addition, since the prior audit, all inventory accounts in the vault have been inventoried, assigned an inventory control number, and recorded in the vault inventory log. According to the vault inventory log, as of June 18, 2015, there were 3,713 inventory accounts² in the vault. All 3,713 accounts had an inventory control number, but only 2,123 of these accounts were entered into the UPS2000 and assigned a PIN. UPU management stated that when they inventoried the vault and created the inventory log they tried to determine if some of the older inventory accounts had been entered into the UPS2000; but they could not find any record of the accounts in the database. They added that they are going to enter as many of the missing accounts as possible into UPS2000, but that some of the older accounts are missing pertinent information such as owner name or the name of the holder that escheated the property.

The UPU did establish an inventory control numbering system, and each inventory account was assigned a control number. The inventory control numbering system serves to identify where in the vault the property is located and the type of property the account contains. The system used an alpha-numeric numbering system. The number began at 001 and increased sequentially and ends with either an "A", "MP" or "D". The alpha character at the end of the number identifies the type of property in the inventory account. The "A" denotes appraisable inventory which signifies the account contains items of value such as coins, gold, silver, jewelry, etc. If the number ends with a "D", it means that the escheated item was ordinary cash and was deposited. For "D" items, there is nothing in the vault and the number was established and included in the inventory log for accountability and control purposes to document the amount of the money and to indicate that it was deposited. Inventory account number ending in "MP" represents miscellaneous paper. Inventory accounts ending in MP are of no monetary value to the District because they cannot be converted into cash. The property includes things such as automotive

²An inventory account is all property belonging to an individual that was escheated by a holder to the District. If a bank escheats the contents of an abandoned safe deposit box to the District that contained cash, jewelry, and silver bars, all of these items will be recorded under a single UPS Property Identification Number and a single Inventory Control Number.

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titles, deeds, real estate sales contracts, bank statements security agreements, stock certificates, bonds, and traveler checks.

The actions taken by the UPU have made a significant improvement to the UPU's operations; however, the ability of rightful owners to identify and claim their abandoned property is greatly reduced because the entire inventory is not included in the UPS2000, and therefore not included in the Missing Money Database, which is commonly used by people nationwide to identify abandoned property.

As part of this, audit, we selected a statistical sample³ of 184 inventory records out of 4,245 records included in the vault inventory log. The reason there were more inventory records (4,245) than inventory accounts (3,713) is that an inventory account can be broken down into sub-accounts if it contained different types of property. For example, inventory account 100 can be recorded as 100A, 100MP, and 100D if the account had appraisable assets, miscellaneous papers, and cash that was deposited. Therefore, in order to assure that each account and the associated sub-accounts had an equal chance of being selected we used the universe of 4,245 records as opposed to the 3,713 inventory accounts. The accounts we reviewed included 110 miscellaneous paper, 63 appraisable assets, and 11 accounts that had currency that was deposited. With the exception of the deposited currency accounts, each item reviewed was in its proper location in the vault; the items were stored in either clear sealed plastic envelopes or sealed paper envelopes, and each inventory package was signed by 2 UPU employees. We noted that only 105 of the 184 inventory accounts tested were entered into the UPS2000. Another noted deficiency was that the vault inventory lacked detailed descriptions of the itemized content of the inventory accounts.

- *Appraisable Inventory:* Of the 63 appraisable inventory accounts reviewed, 34 did not have an adequate description of the package contents. The description on eight of the accounts packages was jewelry; it didn't state whether the items were rings, watches, necklaces or some other type of jewelry. Five other accounts stated "watch" as the description, and there was no brand name or any other identifying description. Another inventory account had silver bars and coins as the account description. When the UPU employee brought the inventory bag for inspection, it only contained the silver bars, and no coins. Upon further research, it was found that 2 separate bags were used for this inventory account. For better control purposes, this should have been noted on the vault inventory log and the bags should have been number 1 of 2, and 2 of 2. In addition, the number of silver bars was not written on the inventory bag (that contained these bars), which would make it impossible to identify, if a bar was missing since the original

³The statistical sample criteria were: confidence level 95%, materiality level 5%, and auditor's expectation of error 1%.

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delivery date by the holder.⁴ The second bag which contained coins also did not have an itemized listing of the coins in the bag. Among the items in this inventory package were a number of pure silver dollars, which are worth more than a dollar on the market. Again these coins should have been listed individually with specific information, such as date or the origin of where it was minted.

UPU officials stated that since the prior audit report, their main focus had been to implement an accurate inventory control system to ensure that all items were assigned an inventory control number and were entered into the vault inventory log. They further stated that future plans include having the inventory appraised and sold on E-Bay as is done in other states such as Maryland. When UPU has the inventory appraised, we believe that a detailed description of each item, to include its appraised value and date of appraisal, should be prepared for each inventory account not only for better control of the inventory, but also to protect the District from any liability if the items are sold in the future.

- *Miscellaneous Papers:* There were 110 inventory accounts in our sample that had an inventory control number ending in MP (miscellaneous paper). The description on the majority of these accounts was “MISC. PAPERS” and contained things such as mortgage papers, deeds, bank statements and life insurance policies.

We found 27 of the 110 MP inventory accounts contained savings bonds or stock certificates, but the inventory list did not include the number of bonds or shares in the account, or the denomination of the bonds or the name of company that issued the shares. Many of these items have been in the custody of the UPU for a number of years, and in some cases the owner is unknown so it may not be worth the resource expenditure to update the item description on these items. However, if items such as stocks and bonds are escheated to the District in the future, the UPU should at a minimum enter the number and denomination of the bonds and the number of shares and the name of the company that issued the stock on the inventory records.

⁴ The risk of theft is reduced by the UPU’s vault procedures that require 2 employees to enter the vault, and there must always be two employees present when work is being done within the vault.

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2- Imposing Interest and Penalties on Delinquent Holders

OIO's Prior Audit Report – It was noted that the UPU has never enforced the provisions of D.C. Code § 41-135 regarding imposing interest and penalties on holders that failed to, or were delinquent in reporting abandoned property to the District within the timeframes prescribed by D.C. Code § 41-117. In addition, the prior audit report stated that the UPU did not attempt to collect interest and penalties on property that was escheated to the District as a result of independent audit firms that were contracted by the District.

D.C. Code § 41-135 states that *“any person who fails to pay or deliver property within the timeframe allowed by law shall be required to pay interest at the rate of 1 ½% per month or fraction of a month on the property of value of the property from the date the property should have been delivered.”* In addition to the interest, the code also requires the holder to pay a civil penalty of \$200 for each day the report, payment, or delivery is withheld, up to a maximum of \$10,000. The code further requires any holder that willfully fails to report, pay, or deliver property within the allowable time, to pay in addition to interest, a civil penalty of \$1,000 per day for each day the report, payment, or delivery is withheld up to a maximum of \$25,000, plus 25 percent of the value of the property that should have been paid or delivered. D.C. Code § 41-135 allows OFT to waive the interest and penalty if the holder's failure to pay or deliver the property is satisfactorily explained, and if the failure has resulted from a mistake by the holder in understanding or applying the law of facts which require the holder to pay or deliver unclaimed property.

During this audit, UPU officials stated that they have updated the UPU operating procedures to address interest and penalties but as of yet have not attempted to impose any interest or penalties on holders. The UPU officials also stated that they are trying to establish a methodology that would enable the UPU to identify all holders and evaluate their compliance, and not appear as if the UPU was targeting specific holders.

We concluded that UPU's rationale does not justify not assessing penalties and interest on holders in non-compliance with the provisions of D.C. Code § 41-135, especially those holders who had abandoned property identified as a result of independent audits that were performed on behalf of the District. According to the UPU's records, during FY 2015, the District paid about \$532,000 to independent auditors who identified over \$5.1 million in abandoned property that was received by the District.

For benchmarking purposes, we contacted the Unclaimed Property Manager for the State of Maryland regarding its policies on imposing fines and penalties on delinquent holders. The Manager stated that they only impose fines and penalties on companies located in the State of

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Maryland that are delinquent in filing reports, and usually unreported property is identified by the State's field auditors.

3- Processing Claim Forms

OIO's Prior Audit Report - It was noted that on 61 claim forms tested (out of 259), the section of the form that shows the claim amount, the analyst that processed the claim, and the person that approved the claim were not completed. In addition, 2 claims were not properly notarized.

During this audit, we tested a statistical sample⁵ of 95 claims from a universe of 2,026 claims that were paid during the period October 1, 2015, through July 30, 2015. We found that each claim was signed by the claims processor and the supervisor responsible for approving the claim, and for claims over \$10,000; they were signed by the Associate Treasurer for Asset Management. We did identify one claim in excess of \$500 that was not notarized as required by the UPU's operating procedures. We also identified one claim where the middle initial on the social security record was "R", and the middle initial on the driver's license was "M". In addition, the address provided by the claimant did not match the property address that was submitted by the holder of the abandoned property. We questioned this claim with the UPU Manager and UPU Supervisor. The UPU officials ran an Accurint Background report on the claimant. The report showed the claimant's name with the middle initial "M" also showed the claimant having had the address on the unclaimed property records. It also showed the last 4 digits of the social security number agreeing with the social security card submitted with the claim. In addition, the date of birth on the Accurint Background report agreed with date of birth on the driver's license that was provided by the claimant with the claim. This eliminated doubt as to the validity of the claim to the property; however, because the additional information was not in the file it left reasonable doubt as to the validity of the payment when reviewed by an independent reviewer.

We also found that for 2 of the paid claims, there was no documentation supporting the claimant having lived at the address associated with the abandoned property. UPU officials stated that if the claimant's social security number matched with the social security number provided by the holder that turned in the abandoned property, they will pay the claim. UPU officials also stated that their past experience has shown if the social security number matches, the claim is considered valid and they don't want the claim processors holding up a claim waiting for unnecessary documentation.

⁵ The statistical sample criteria were: confidence level 95%, materiality level 5%, and auditor's expectation of error 1%.

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4- Sale of Securities

OIO's Prior Audit Report – It was noted that the OFT directed the District's Securities Custodian to sell a batch of securities on a single day in January 2012, without performing any analysis as to whether it was a prudent business decision to execute the sale. In addition, the UPU did not have adequate policies and procedures in place covering the batch sale of securities held in its custody.

D.C. Code § 41-122 allows the District to sell abandoned securities in its custody after holding the securities for three years. Since the prior audit, the UPU revised its policy and procedures regarding the sale of escheated securities. The revised procedures direct the District's Securities Custodian to hold all escheated securities for three years and three months, and then sell those securities on the first trading day of the following month. Prior to the 15th of the month before the sales date, the District Securities Custodian has to provide the UPU via e-mail a Notice of Proposed Sale listing those securities that will be available for sale. The Deputy Chief Financial Officer and Treasurer or the Associate Treasurer for Asset Management can suspend the sale if it is determined to be in the best interests of the District. The Securities Custodian will wire transfer to the UPU the proceeds from each month sale within 5 business days of the settlement of the sale.

During this audit, we reviewed the wire transfer proceeds for the sales of securities during the period October 2014, through August 2015, and found that about \$17.05 million in securities were sold. These funds will remain in the District's General Fund until such time that they are claimed by the rightful owner. We concluded that the actions taken by the UPU to address the concerns raised in the prior audit report are reasonable and sufficient.

5- Revenue and Disbursement Projections

OIO's Prior Audit Report - It was noted that the methodology used by the UPU was not based on any scientific or academic research, and did not reflect any relationship between the estimated liability and amount collected in a given year.

During this audit, we determined that the UPU has worked with the Office of Financial Operations and Systems (OFOS) to develop a revised methodology for estimating revenue and disbursements. Under the revised system, a six year average of revenue and disbursements is developed. For the FY 2015 projections the revenue and disbursements for FY 2009 through FY 2014 were used. The 6-year average disbursement is divided by the 6-year average revenue to get a disbursement payout ratio. The payout ratio is applied to the year with the highest and lowest revenue total during the 6-year period. Those two amounts are then averaged to arrive at

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an average disbursement pay out total. For FY 2015, the disbursement projection was \$9.4 million.

In addition to the projected \$9.4 million to cover claims filed by owners to recover their abandoned property, the District has agreements with other states to deliver any funds belonging to residents of that state. For FY 2015, the total due to other states through the end of FY 2014, was about \$13.5 million. This made the total disbursement projection for FY 2015, \$22.9 million (\$9.4 million plus \$13.5 million). The actual FY 2015 disbursement total was \$20 million which resulted in a favorable variance of \$2.9 million.

The projection for revenue is calculated using the prior 6 years revenue (2009 through 2014) less any one time events such as stock sale or mutual fund sale. The UPU uses the excel trend function to arrive at the FY 2015 revenue estimate. For FY 2015, the estimated revenue was \$26.3 million, and the actual revenue was \$35.8 million resulting in a \$9.5 million favorable variance. The methodology used by UP appears to be reasonable considering the unpredictability of estimating how much property will be identified as abandoned in any fiscal year.

6- Background Checks on Temporary Employees

OIO's Prior Audit Report - It was noted that the UPU never obtained background checks for temporary employees (contractors) even though these employees had access to the UPS2000, which contained personally protected information, such as social security numbers, dates of birth and personal addresses. UPU management took corrective action and requested the OCFO Office of Contracts to modify the contract and require the contractor to perform background checks on employees that will work in the UPU.

During this audit, we reviewed the current contract (Contract No. CFOPD-15-C-026) issued to fill temporary staffing requirements of the OCFO. Under the terms of the contract, 13 employees were provided to the OCFO with 4 of the employees assigned to the UPU. The contract requires each employee to have a criminal background check and no employee with a felony criminal record can be used to fill the staffing requirements. In addition to the background checks that the contractor is required to perform, the OIO's Internal Security Division has also performed background investigations on each of the four contract employees currently assigned to the UPU. Actions taken by the UPU adequately corrected the conditions addressed in the prior audit report.

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7- Contractor's Remote Access to UPS2000

OIO's Prior Audit Report - It was noted that three employees of the UPS2000 contractor had VPN access to the system. The access was necessary to provide software support and document imaging. The prior audit report recommended that, to protect sensitive data of the owners of the unclaimed property records stored in the UPS2000, access should be granted on an as needed basis and terminated as soon as the task was completed. As a result of the audit, the UPU had the passwords of the contractor personnel locked. When the contractor personnel needed access to the system, the contractor had to call the UPU who in turn, had to contact the help desk to reactivate the passwords.

During this audit, we determined that there are two contractor employees who currently have remote VPN access to the system. We concluded that it is not necessary to remove access after each task is completed and have to restore it when access is again required. As far as obtaining sensitive information, this can be done in a single access just as easily as having full time access. Also, the data in UPS2000 is reconciled monthly to the System of Accounting and Reporting (SOAR) records, and if any unauthorized data entries were made it would be identified during the reconciliation process. In addition, in the contractor's technical proposal for Scanning and Indexing Paper Documentation, the contractor stated that all employees have background reference checks, submit to a pre-employment drug screening test, and are required to sign the Acknowledgement of Responsibility and Liability for Maintaining Confidential Information. Therefore we concluded that the contractor access to the UPS2000 has minimal risk.

8- Unclaimed Property Unit P.O. Address

The prior audit report recommended establishing a P.O. Box address after some mail went missing and the UPU was forced to pay for credit monitoring for one claimant. During this audit, we determined that the UPU did set up a P.O. Box address in mid-2012; however, the UPU Manager stated that they never used it, and concluded it would take too long and too much effort to have everything redirected to the P.O. Box. In addition, it would require someone to go to the Box every day to retrieve the mail. The UPU Manager also stated that they are not aware of any missing mail since the 2012 incident. The P.O. Box was maintained in case the "missing-mail problem" arose again. The UPU Manager also stated that the mail room facilitates timely and better service, and a more efficient way for the UPU operations.

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RECOMMENDATIONS

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

1. Ensure that new unclaimed properties delivered to the District are duly entered into the UPS2000 system and in the vault inventory log. Include an inventory list with detailed description of each item either in the inventory log or kept with the items in the inventory account. Also, when the vault items are appraised, include the appraisal, with the descriptions.
2. Update the UPS2000 with the vault inventory items that were not included in the system, especially inventory items classified as appraisable.
3. Enforce the provisions of D.C. Code § 41-135 to impose interest and penalties on holders, who failed to report, pay or deliver abandoned property within the regulatory time period, especially those holders who were identified through audits.
4. Obtain and retain in the claim file additional proof to support the claim validity when documentation provided by the claimant has significant discrepancies such as differences in name. In addition, in cases where the claimant fails to prove residence at the unclaimed property address, run an Accurant Background Database to provide additional support to validate the claim.

MANAGEMENT RESPONSES AND OIO COMMENTS

Management Response (Recommendation 1):

OFT concurred with the recommendation and stated that it has implemented procedures to record inventory when received into the vault inventory log and UPS2000 with a specific listing of the items received. When the items are appraised, the appraisal report will serve as the certified description and both the inventory log and UPS will be updated accordingly. Appraisals are planned to begin in FY2016.

OIO Comment:

The planned corrective action is responsive and meets the intent of the recommendation.

Management Response (Recommendation 2):

OFT concurred with the recommendation and stated that items not logged into UPS2000 will be booked into the system with a generic description until appraised. Once appraised, the appraisal report will be the certified description and the UPS2000 and vault inventory log will be updated. The UPU plans to begin booking these items into UPS2000 in January 2016, with anticipated completion in January 2017.

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OIO Comment:

The planned corrective action is responsive and meets the intent of the recommendation.

Management Response (Recommendation 3):

OFT agrees that it has the authority to impose penalties and interest on non-compliant holders; however, OFT believes that, based on best practice in the unclaimed property field, it needs to identify non-compliant holders and offer a Voluntary Disclosure Program that would allow the holders to perform a self-audit of their records. OFT is in the initial stages of implementing a holder compliance initiative and working with other District agencies to gather data to determine the businesses within the District that may meet these criteria. If the holder does not perform a self-audit, OFT will then determine the most cost effective approach for auditing these holders (either by a third party auditor or hiring a full time employee). Once the audit is complete and funds are found that have not been reported timely, then OFT would apply the interest/penalty provision. OFT anticipates its holder compliance review will be operational by FY 2017. Based on information from other states, a holder, once notified, can take up to a year to perform a self-audit.

OIO Comment:

The planned corrective action is responsive and meets the intent of the recommendation.

Management Response (Recommendation 4):

OFT concurred with the recommendation and stated that new procedures have been established to address this issue. The UPU will use Accurant Database to obtain additional documentation to validate claims and this documentation will be included as part of the claim package.

OIO Comment:

The planned corrective action is responsive and meets the intent of the recommendation.

EXHIBIT A: SUMMARY OF POTENTIAL BENEFITS RESULTING FROM AUDIT

Recommendation	Potential Benefit	Type of Benefit	Agency Reported Completion Date	Status ⁶
1	Ensure that new unclaimed properties delivered to the District are duly entered into the UPS2000 system and in the vault inventory log. Include an inventory list with detailed description of each item either in the inventory log or kept with the items in the inventory account. Also, when the vault items are appraised, include the appraisal, with the descriptions.	Internal Control	FY 2016	Open
2	Update the UPS2000 with the vault inventory items that were not included in the system, especially inventory items classified as appraisable.	Internal Control	January 2017	Open
3	Enforce the provisions of D.C. Code § 41-135 to impose interest and penalties on holders, who failed to report, pay or deliver abandoned property within the regulatory time period, especially those holders who were identified through audits.	Monetary	FY 2017	Open
4	Obtain and retain in the claim file additional proof to support the claim validity when documentation provided by the claimant has significant discrepancies such as differences in name. In addition, in cases where the claimant fails to prove residence at the unclaimed property address, run an Accurant Background Database to provide additional support to validate the claim.	Internal Control	Completed	Closed

⁶ This column provides the status of the recommendation as of the report date. For final reports “Open” means management and OIO are in agreement on the action to be taken, but the action is not complete. “Closed” means that management advised OIO that they took the action needed to correct the condition and that action is complete. If a completion date was not provided the date of management’s response was used. “Unresolved” means that management has neither agreed to the recommended action nor proposed a satisfactory alternative action to correct the condition.

APPENDIX 1: OFFICE OF FINANCE AND TREASURY'S RESPONSE

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



Office of Finance and Treasury

MEMORANDUM

TO: Timothy Barry, Executive Director
Office of Integrity and Oversight

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

DATE: December 10, 2015

SUBJECT: Response to Draft Report on the Audit on Internal Controls at the Unclaimed Property Unit (UPS) of the Office of Finance and Treasury (OFT) (OIO Report No. 15-02-13 OFT)

Below please find responses to the draft report on the audit on internal controls at the Unclaimed Property Unit (UPU) of the Office of Finance and Treasury (OFT) (OIO Report No. 15-02-13 OFT):

1. Recommendation:

Ensure that new unclaimed properties delivered to the District are duly entered into the UPS2000 system and in the vault inventory log. Include an inventory list with detailed description of each item either in the inventory log or kept with the items in the inventory account. Also, when the vault items are appraised, include the appraisal, with the descriptions.

Response:

The agency agrees with this recommendation and has put procedures in place to address this issue. Beginning with 2015 safe deposit box reporting, the vault inventory log description and the UPS2000 system description will include a specific listing and generic description of all items submitted in the safe deposit box. Once the items are appraised, the agency will rely on the appraisal report as the certified description and update both the vault inventory log and the UPS2000 system with this appraisal description.

Status:

Beginning with 2015 safe deposit box reporting, which occurs in the first and second quarters of 2016, items will be specifically listed on the vault inventory log and the UPS2000 system and provided a generic description. After the items are appraised, the description and value will be updated on both systems. We are planning to begin appraising items for sale using an auction site in FY 2016.

2. Recommendation:

Update the UPS2000 with the vault inventory items that were not included in the system, especially inventory items classified as appraisable.

APPENDIX 1: OFFICE OF FINANCE AND TREASURY'S RESPONSE

Response:

The agency agrees with this recommendation. In the first quarter of 2016, for the items that were not logged, the agency will book all items onto UPS2000 with generic descriptions until appraised. As stated in finding #1, once the item is appraised, a more detailed description will be added to the file. Some items lack certain information due to procedures not being in place to properly book and identify items in past years. This has been corrected and new procedures have been implemented that will prevent this in the future. These items will be booked under a safe deposit box description so that they could be located.

Status:

The agency will begin the booking of these items onto UPS2000 beginning January, 2016. Due to the large volume of items, we anticipate completing this project on or before January, 2017.

3. Recommendation:

Enforce the provisions of the D.C. Code #41-135 to impose interest and penalties on holders, who failed to report, pay or deliver abandoned property within the regulatory time period, especially those holders who were identified through audits.

Response:

While the agency recognizes that it has this provision to impose these fees, it believes that, based on best practice in the unclaimed property field, we need to identify holders that are not in compliance with the D.C. Unclaimed Property Statute first and offer a Voluntary Disclosure program that would allow the holder to perform a self-audit of their records. The agency is in the initial stages of implementing a holder compliance initiative to address this issue and is working with other District agencies to gather data to determine the businesses within the District that may meet this criteria. If the holder does not perform a self-audit, we will then evaluate the best and most efficient and cost effective approach to audit the holder (either through a third party audit company or employment of an FTE). Once the audit is complete and funds are found that have not been reported timely, then we would apply the interest/penalty provision. We believe this is the best approach because the statute is vague because it indicates a holder can be charged interest and penalty if that holder "willfully" fails to report. The statute fails to provide a definition of "willfully".

Status: We are in the initial stages of establishing our holder compliance. We would anticipate we will operational by FY 2017. Once we ask a holder to perform a self-audit, based on information from other states, a holder can take up to one year to perform the audit.

4. Recommendation:

Obtain and retain in the claim file additional proof to support the claim validity when documentation provided by the claimant has significant discrepancies such as differences in name. In additional, in cases where the claimant fails to prove residence at the unclaimed property address, run an Accurant background database to provide additional support to validate the claim.

Response:

The agency agrees with this recommendation and has established new procedures to address this issue. Effective immediately, all claims will include in the file all proof to support the validation of the claim. The agency is utilizing the Accurant database on all claims where additional documentation from Accurant could validate the claim and this information will be included as part of the claim package.

Status:

This process has been implemented.