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District's Unclaimed Property Program Needs Substantial Improvement

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EXECUTIVE SUMMARY

PURPOSE

Pursuant to Public Law 93-198, Section 455, the District of Columbia Auditor examined the accounts and operations of the Unclaimed Property Unit (UPU) which is under the jurisdiction of the Office of Finance and Treasury, Office of the Chief Financial Officer.

CONCLUSION

The operation of the unclaimed property program appeared to have improved during the audit period, however, the Auditor found that the efficiency and effectiveness of the program can be improved even more. The District's rate of returning unclaimed property to its owners averaged 7% for fiscal years 1996 through 1999. Even though the percentage returned to owners increased to 11% percent in fiscal year 1999 compared to approximately 5% in fiscal year 1998, additional improvements are needed to bring the District's rate of return in line with the national average of between 20 and 50 percent. Table II from page 31 of the report presents the amount of unclaimed property proceeds collected during each of the fiscal years under review, the amount and percentage of collections returned to claimants, and the balance of unclaimed property proceeds after disbursements made for each fiscal year.

Table II
Unclaimed Property Program
Collections and Refunds
Fiscal Years 1996 Through 1999

Fiscal Year	Amount Collected	Amount Returned	Percent Returned to Claimants	End of Year Balance
1996	\$17,598,627	\$1,317,027	7.4%	\$16,281,600
1997	\$18,119,080	\$1,083,980	6%	\$17,035,100
1998	\$27,187,535	\$1,278,535	4.7%	\$25,909,000
1999	\$35,385,320	\$4,080,142	11%	\$31,305,178
Total	\$98,290,562	\$7,759,684	7.2%	\$90,530,878

Source: Unclaimed Property Unit

Managers of the UPU must also establish procedures to ensure that holders of unclaimed

property remit all such property to the District. During fiscal years 1996 through 1999, audits initiated by UPU officials included less than 1% of holders who filed reports with the District. As a result of the audits, managers of the UPU, without providing an adequate rationale for making such a decision, routinely reduced the amount of unclaimed property that holders were required to remit to the District. Interest and penalties were also routinely waived without adequate documented justification. UPU managers must collect all unclaimed property as well as interest and penalties unless a rational explanation is provided for doing otherwise.

The Auditor found that UPU managers had not established any written policies and procedures for some of its functions while for others written policies and procedures had been drafted but not finalized. Finalized policies and procedures must be developed immediately for all appropriate UPU functions. The Auditor also found that the UPU did not adhere to all aspects of the unclaimed law. For example, claim requests were not always paid within the 30 days established by the law and no written notice was provided to the claimant that the claim had been denied.

UPU managers had not established an inventory of unclaimed property in the program's possession and could not provide a comprehensive list of all unclaimed property in its possession by type or by holder. Further, unclaimed property in holders' safe deposit boxes was reported but not delivered to the District. An inventory of this property was also not established and maintained by UPU officials. Although the unclaimed property law allows the sale of unclaimed property that remains unclaimed after one year, UPU officials had not conducted a sale during the audit period and could not provide documentation of the last time a sale was conducted. The UPU must establish an inventory of unclaimed property in its possession and such property reported by holders. Further, the UPU must consider converting some of the property to cash by conducting periodic auctions as provided by law. In conclusion, managers of the District's unclaimed property program must do more to improve its operations, ensure that the mission of the program is effectively achieved, and increase the percentage of unclaimed property returned to owners.

MAJOR FINDINGS

1. Unclaimed property program policies and procedures were not finalized or current.
2. The unclaimed property program does not ensure that holders, including District government agencies, exercise due diligence before filing a holder report.
3. Holder reports were not routinely examined to determine holder compliance.

4. Unclaimed property in safe deposit boxes was not delivered to the District.
5. No inventory was conducted and maintained of reported unclaimed property.
6. All interest and penalties assessed against holders were not remitted to the District.
7. Information necessary for processing owner claims was not fully automated.
8. Some claims were not paid within 30 days.
9. Unclaimed property returned to claimants did not include interest earned after its receipt by the District and costs were not assessed.
10. Improvements are needed in the number of audits conducted and quality of monitoring audits in progress.
11. Unclaimed property program officials must monitor audits in progress.
12. Unclaimed property officials routinely allowed holders to remit less than the amounts found by auditors.
13. Unclaimed property was not sold in a timely manner.
14. Trust fund for unclaimed property has not been established.
15. Inadequate outreach was conducted for holders of unclaimed property.
16. The District did not take sufficient steps to locate owners of unclaimed property.

RECOMMENDATIONS

1. The Director of the UPU must develop policies and procedures for all of the program's functions, including the following: (1) deduction of relevant costs from unclaimed property deposits; (2) receipt, access, control and safeguarding unclaimed property remitted by holders from safe deposit boxes; (3) assessing interest and penalty against holders that fail to comply with the unclaimed property law; (4) selection of unclaimed securities for sale; and (5) the remittance of unclaimed property found as a result of audits. Policies and procedures

developed for the payment of interest to claimants should address the method for allocating costs and the method, rate and time interest will accrue. Further, rules and regulations published in 9 DCMR must be updated as appropriate to reflect current law. All policies and procedures must be immediately finalized.

2. The UPU must review holders' reports and records to determine whether owners were properly notified regarding their property presumed abandoned in the District.
3. Penalties should be assessed against those holders that have not exercised due diligence in providing notification to owners of property presumed abandoned.
4. The Office of Financial Operations and Systems should forward a list of uncleared checks to the related agencies prior to submitting the report of unclaimed checks to the UPU. Pursuant to the unclaimed property law, the respective agencies must notify the owners that their property will be remitted to the UPU. Upon receipt of the District's unclaimed property report, the UPU should also notify owners as required by the law.
5. The Director of the UPU must review holder reports to determine whether unclaimed property has been under-reported by the holder or whether unclaimed property has been reported at all. Comparisons with entities similar to other holders may indicate that the holder has not reported all unclaimed property to the District.
6. The Director of the UPU must enhance the Unit's in-house and contract audit capacity and establish a practice of conducting routine audits of holder reports. These audits should examine holder reports to determine whether holders have complied with the law and also to assist in locating owners of unclaimed property.
7. The Director of the Unclaimed Property Unit must evaluate the effectiveness of the "vault" in which unclaimed property may be stored in the future. Security features must be upgraded if it is determined that current features are inadequate to safeguard assets. If UPU space is determined to be inadequate, the Mayor should find more suitable space conducive to the proper execution of the duties and responsibilities of the unclaimed property program.
8. After the implementation of an effective security system, holders must be required to deliver to the District all abandoned personal property in safe deposit boxes and safekeeping depositories which was reported on holder reports.

9. The Director of the UPU must ensure the preparation of an inventory of all unclaimed property reported and delivered to it, as well as property reported but not delivered to it. At a minimum, this listing should include: holder name and address, holder number, and the type and value of the property.
10. Pursuant to D. C. Code, Section 42-235, unclaimed property program officials should assess and collect all interest and penalties from holders for failure to pay or deliver unclaimed property to the District by the due date, or provide an explanation of why interest and penalties were waived.
11. The Director of the UPU must establish an automated database of unclaimed property to generate needed reports and provide more effective management of the program.
12. The Director of the UPU should ensure that a detailed written explanation is provided to each claimant indicating the specific documents needed and the UPU's process for paying each claim. For those claims that may require documents such as notarized statements or stock certificates which the claimant may not have readily available, the UPU should include with the claim form a separate letter containing detailed instructions regarding the type of documentation that is acceptable for verification of ownership.
13. The Director of the UPU should maintain statistics on the number of days from receipt of a claim request to the date the claim is paid. Appropriate actions should be initiated to ensure that claims are paid or that a written denial of the claim is sent within 30 days of receipt of the claim. If necessary, UPU program managers should request expedited processing of claim payments through SOAR.
14. If unclaimed property officials determine that costs will consistently be deducted from unclaimed property funds, officials should develop and implement a methodology to equitably assess those costs.
15. The Mayor should consider paying claimants interest earned on unclaimed property after the District's receipt of such property especially if unclaimed property officials determine that costs will consistently be deducted from unclaimed property funds.
16. The Director of the UPU should initiate additional audits of holders in order to determine whether holders have complied with the unclaimed property law.

17. The Director of the UPU must develop a uniform system of maintaining files of ongoing and completed holder audits. Each file should contain all pertinent documentation including correspondence regarding the audit.
18. The Director of the UPU must immediately review each audit file and ensure that audit findings have been addressed and that holders have remitted agreed upon amounts to the District.
19. The Director of the UPU must develop a policy regarding holders who resist an audit. If necessary, the Office of the Corporation Counsel should render opinions regarding the UPU's or contract auditor's right to conduct an audit and should assist in obtaining holders' cooperation with audits or assess to the holders' records.
20. The Director of the UPU must develop policies and procedures concerning the reporting and remitting of unclaimed property found by auditors. These policies and procedures must establish criteria to be used in reducing the amount that holders should remit as a result of the auditor's findings.
21. Unclaimed property officials must collect all amounts determined to be due and payable to the District government unless there is a documented, rational basis for accepting less.
22. UPU managers must develop criteria for the sale of unclaimed property including selecting items to be sold as well as determining the sales price. Based on the criteria, unclaimed property officials should review the property which has been remitted by holders and identify those items that can be sold.
23. The Director of the UPU and the Chief Financial Officer must immediately review the statutory requirement for the establishment of an unclaimed property trust fund to determine whether such a fund is needed. If it is determined that the fund is not needed, the Chief Financial Officer must make the appropriate legislative recommendations to the Council of the District of Columbia to repeal or amend this provision of the unclaimed property law.
24. The Director of the UPU and the Chief Financial Officer should review the amounts refunded in recent years to ensure that the unclaimed property trust fund, if established, would be adequately funded to cover claim payments made each fiscal year.

25. The UPU must improve its outreach efforts to locate holders of unclaimed property. These efforts should include, but not be limited to, identifying entities conducting business in the District that have never submitted unclaimed property but are likely to possess such property.
26. The Director of the UPU must implement additional procedures to actively search for those owners identified on holder reports. These searches could include reviews of telephone directories as well as information on the Internet.
27. The Director of the UPU must consider comparing names of unclaimed property owners to the IRS, Social Security Administration, and other similar agencies in an attempt to locate owners by matching information in the databases of these organizations.
28. The UPU should publish the names of all unclaimed property owners regardless of the year in which the property was reported. This publication should include not only the names for the most recent report year but for all unclaimed property.

PURPOSE

Pursuant to Public Law 93-198, Section 455, the District of Columbia Auditor examined the accounts and operations of the Unclaimed Property Unit (UPU) which is under the jurisdiction of the Office of Finance and Treasury, Office of the Chief Financial Officer.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of this examination were to determine:

1. the effectiveness of the Unclaimed Property Unit in recovering and maintaining abandoned/unclaimed property;
2. the effectiveness of the Unclaimed Property Unit in locating owners of abandoned and unclaimed property, and reuniting them with their property;
3. whether the Unclaimed Property Unit adhered to the laws and regulations related to unclaimed property; and
4. how the District has used unclaimed property that it recovered but has not returned to the rightful owner(s).

The examination included a review of the accounts and operations of the Unclaimed Property Unit for fiscal years 1996 through 1999. In conducting the examination, the Auditor reviewed D.C. Law 3-160, entitled the "Uniform Disposition of Unclaimed Property Act of 1980," D.C. Code, Sections 42-201 through 42-242, amendments to D. C. Law 3-160, and other relevant laws, regulations, policies, and procedures.

The Auditor also reviewed documents and records obtained from the Unclaimed Property Unit (UPU) and interviewed officials responsible for managing the unclaimed property program. Relevant records were reviewed and, where necessary, officials of other offices and agencies of the District government were interviewed to facilitate a thorough examination of the unclaimed property program.

The Auditor also conducted a survey of unclaimed property programs in other states. The results of the survey are presented in Appendix I of this report.

BACKGROUND

According to the mission statement, UPU's mission is to educate the public about the Unclaimed Property Act and to implement programs and procedures that ensure the effective collection, safeguarding, and return of property to its rightful owner(s). D.C. Law 3-160, the Uniform Disposition of Unclaimed Property Act of 1980, was enacted in March 1981 to "provide for the disposition of unclaimed personal and intangible property in the District of Columbia." Prior to enactment of the Uniform Disposition of Unclaimed Property Act of 1980, the District of Columbia lacked statutory authority to act as custodian of abandoned personal property within its jurisdiction. D.C. Law 3-160 mandated the reporting and remittance, by holders of unclaimed property, of any and all personal property abandoned by its owners, and further authorized the District to receive such property for safekeeping and fiscal growth.

Organizationally, the Unclaimed Property Unit is within the Office of Finance and Treasury of the Office of the Chief Financial Officer. By Mayor's Order 81-86, effective March 5, 1981, the Director of the Department of Finance and Revenue (currently the Office of Finance and Treasury) was delegated authority to administer the Uniform Disposition of Unclaimed Property Act, and to issue rules under the Act. Pursuant to Reorganization Plan No. 1 of 1992, effective July 7, 1992, all duties and functions of the Unclaimed Property Unit were transferred to the Office of the District of Columbia Controller which was within the Office of Financial Management. Subsequently, pursuant to Public Law 104-8, the District of Columbia Financial Responsibility and Management Assistance Act, all duties and responsibilities related to the administration of the unclaimed property function were transferred to the Office of the Chief Financial Officer.

Definition of Unclaimed Property and Basic Statutory Requirements

Property is presumed abandoned by its owner when the owner has not claimed the property within a statutorily determined time period (dormancy period) after the property became payable or distributable. The "dormancy period," as defined by the unclaimed property law, is three years for most personal property, but can range from a low of 60 days, for unclaimed personal property distributable in the course of a voluntary dissolution, to 15 years depending on the type of property. Pursuant to D.C. Law 12-60, the dormancy period for most personal property was reduced from 5 to 3 years effective March 1998. (See Appendix II for dormancy periods for all properties.)

Unclaimed property consists of intangible and tangible personal property including checking and savings accounts, wages, checks, stocks, bonds, security deposits, and contents of safe deposit boxes. (See Appendix III for other types of unclaimed property.)

Holders (entities that possess property belonging to another that is required to be remitted to the unclaimed property program) are required to determine whether they have any property presumed abandoned, as defined by the unclaimed property law, and report such property to the District once a year. The law requires holders of unclaimed property to report and remit such property to the District of Columbia before November 1st of each year. Insurance companies are excepted from the November 1st deadline but must submit a report and remit unclaimed property to the District before May 1st of each year.

The UPU receives holder reports. It also receives unclaimed property from holders and acts as custodian of such property until the owners are found.

During the audit period (fiscal years 1996 through 1999), the operation of Unclaimed Property Unit was funded with appropriated funds. The Auditor found, however, that the unclaimed property program was not established as a separate responsibility center. In other words, the program's budget and expenditures were not separately maintained but, instead, were included under the Office of Finance and Treasury's responsibility center for asset management. Beginning in fiscal year 2000, the unclaimed property program's budget and expenditures are maintained in a separate responsibility center established specifically for the program.

Each fiscal year an estimate of net collections (remittances of unclaimed property by holders less refunds to claimants) of unclaimed property are included in the District's appropriated revenue budget as a component of miscellaneous revenue. Unclaimed funds collected from holders are deposited in the District's General Fund and used for the fiscal growth of the District until property owners are located.

Also, each fiscal year the District establishes a liability for unclaimed property that should represent an estimate of the value of claims that may be paid out during the fiscal year. The liability is calculated, in part, on the amount of claims paid by the District in previous years.

Unclaimed Funds Received by the District Are Deposited into the General Fund and Not Earmarked for Any Specific Purpose

D. C. Code, Section 42-223(b)(1) provides that:

All funds received or kept under this chapter after the 2 year period described in subsection (a) of this section, including the proceeds from the sale of abandoned property under § 42-222, shall be deposited by the Mayor in the General Fund of the District government, except that the Mayor shall retain in a separate trust fund an amount not less than \$100,000 in order to make prompt payment of claims duly allowed by the Mayor as provided by this chapter.

Until owners are located, unclaimed property funds remitted to the District are held in perpetuity and deposited into the District's General Fund. The funds are not dedicated or earmarked for any specific purpose but are used for the general operation of the District government.

Survey of Other States' Unclaimed Property Programs

In order to determine the practices of other states regarding their use of unclaimed property, the Auditor conducted a survey of unclaimed property programs in 15 states. Of the 15 states that responded to the survey, seven indicated that unclaimed funds were deposited into the state's general fund and were not earmarked for any specific use. Another five states indicated that funds were not earmarked for any specific use, however, these states did not cite a specific account into which unclaimed funds were deposited. One state indicated that unclaimed funds were not earmarked for any use but were deposited into a Trust and Agency Fund and held in perpetuity until the rightful owner or heir made a claim. Only two states responded that unclaimed property funds were earmarked: Oregon earmarks its funds for a common school fund; and Virginia transfers its unclaimed property to a literary fund to provide low-interest loans to localities for public school purposes.

FINDINGS

UNCLAIMED PROPERTY PROGRAM POLICIES AND PROCEDURES WERE NOT FINALIZED OR CURRENT

UPU officials had not established written policies and procedures for all of its operations. For some operations, written policies and procedures had been drafted but had not been finalized. Written policies and procedures should have been established and finalized for all operations of the unclaimed property program. This would enable staff to be aware of the procedures necessary to accurately complete each task, and would also establish uniformity in performing tasks assigned to more than one staff person.

For example, the Auditor found that UPU officials had not established policies and procedures for determining when, or if, interest and penalties assessed against holders should be reduced, or for determining when certain stock should be sold (if at all). The Auditor also found that other areas were completely lacking of written policies and procedures, or that draft policies and procedures had not been finalized. Areas lacking policies and procedures included such matters as: (1) the receipt, access, control and safeguarding of unclaimed property remitted by holders from safe deposit boxes; (2) the remittance of unclaimed property found as a result of audits; (3) assessing interest and penalties against holders who fail to comply with the unclaimed property law; (4) selection of unclaimed securities for sale; (5) deduction of permissible costs from unclaimed property deposits, and (6) the payment of interest earned to claimants.

Written policies and procedures that had been developed for operations of the UPU were labeled "draft" and were dated December 31, 1997. The unclaimed property law was amended after December 31, 1997, however, the "draft" procedures did not reflect such amendments to the law. For example, "draft" procedures for processing holder reports reflected that businesses were required to file a report of unclaimed property by November 1st of each year and remit the property to the District by May 1st of the following year. However, the amended unclaimed property law requires both the filing of a holder report and the remittance of unclaimed property by November 1st.

Further, the UPU's rules and regulations, as published in the District of Columbia Municipal Regulations (DCMR) at 9 DCMR, sections 3000 through 3011, were originally published in November 1982. The unclaimed property law has been amended several times since 1982, but the rules and regulations have not been updated to reflect these amendments. Thus, parties held accountable for complying with the current law are being guided by outdated rules and regulations.

RECOMMENDATION

The Director of the UPU must develop policies and procedures for all of the program's functions, including the following: (1) deduction of relevant costs from unclaimed property deposits; (2) receipt, access, control and safeguarding unclaimed property remitted by holders from safe deposit boxes; (3) assessing interest and penalty against holders that fail to comply with the unclaimed property law; (4) selection of unclaimed securities for sale; and (5) the remittance of unclaimed property found as a result of audits. Policies and procedures developed for the payment of interest to claimants should address the method for allocating costs and the method, rate and time interest will accrue. Further, rules and regulations published in 9 DCMR must be updated as appropriate to reflect current law. All policies and procedures must be immediately finalized.

THE UNCLAIMED PROPERTY PROGRAM DOES NOT ENSURE THAT HOLDERS, INCLUDING DISTRICT GOVERNMENT AGENCIES, EXERCISE DUE DILIGENCE BEFORE FILING A HOLDER REPORT

The Auditor found that the Unclaimed Property Program's staff did not determine whether holders actually sent written notices to owners prior to filing holder reports with the District as required by D.C. Code, Section 42-217(e)(1). The unclaimed property law requires a penalty to be assessed against any holder that does not exercise due diligence in providing notice to owners. The Unclaimed Property Program's failure to determine whether holders sent notices to owners and the adequacy of the notices that were sent may have resulted in owners may not being properly notified that their property was considered abandoned.

Prior to submitting the report of abandoned property to the District, unclaimed property officials could not be assured that holders duly notified owners that their property was presumed abandoned. Further, auditors contracted by UPU to perform audits of holder records did not include audit procedures to determine whether holders exercised due diligence in providing notice to owners.

In addition to ensuring that notices were mailed, unclaimed property officials should ensure that notices are accurate and contain all necessary information for the owner.

In reviewing holder reports and related documents, the Auditor found copies of letters from holders that were addressed to owners regarding the owners' property. Each of the letters reviewed

informed owners that if they did not respond to the holder, their property would be remitted to the District. However, the letters failed to explain that the District would not take ownership of property but would only take custody until the owner claimed the property. This indicated that if information regarding unclaimed property is not properly communicated, owners may mistakenly believe that the District has taken ownership of the unclaimed property. Therefore, the District should ensure that notices sent to owners properly explain the unclaimed property law. The District may ensure that this occurs by establishing guidelines for information that the holder must include in its notification letter and by including a sample notification letter developed by the UPU.

The unclaimed property law allows the District to assess a penalty on a holder that does not exercise due diligence in sending written notices to owners. D. C. Code, Section 42-235(f) states that:

(f) A holder who fails to exercise due diligence as provided in § 42-217 will be assessed a \$10 penalty per item.

The Auditor found that the Unclaimed Property Program did not exercise its own due diligence in determining whether holders sent notices to unclaimed property owners. Further, the Program did not assess any penalties against holders for failure to exercise due diligence.

District Government Failed to Exercise Due Diligence

The Auditor found that due diligence was not exercised by agencies of the District government in attempting to locate owners before reporting and delivering abandoned property to the UPU. The unclaimed property law requires that holders (including the District government) of property presumed abandoned must notify owners before reporting property as abandoned. Each year the Office of Financial Information Services (OFIS) prepares a report of checks issued by District agencies that have not cleared within a year after issuance. According to a representative of OFIS, the report of uncleared checks contains the payee's name and the agency where the check originated, but did not contain the payee's address. The report of uncleared checks is submitted to the Office of Financial Operations and Systems (OFOS), and OFOS officials then submit this information to the UPU.

In fiscal year 1999, OFOS reported approximately \$4.3 million of unclaimed District government issued checks to the UPU. This represented approximately 4,269 accounts from 41 District government agencies. Approximately 65% of the unclaimed property accounts, or 2,774, were from the Office of Tax and Revenue (OTR). Accounts from OTR primarily represented

unclaimed District tax refunds. In fiscal year 1998, approximately \$4.3 million, or 4,136 accounts, in unclaimed funds were remitted to UPU by 46 District government agencies. Again, 63% of the unclaimed funds reported by District agencies came from the Office of Tax and Revenue. District-held unclaimed funds included unclaimed District income tax refund checks and unclaimed payroll checks.

The Auditor found that the OFIS did not notify any of the approximately 4,200 payees in fiscal years 1998 or 1999 that their funds would be sent to the unclaimed property program as required by D.C. Code, Section 42-217(e)(1), which states:

The holder of property presumed abandoned shall send written notice to the owner, not more than 120 days or less than 60 days before filing the report, stating that the holder is in possession of property subject to this chapter, if:

(A) The holder has in its records an address for the apparent owner which the holder's records do not disclose to be inaccurate; and

(B) The value of the property is \$50 or more . . .

Further, unclaimed property program officials did not notify owners as required by D.C. Code, Section 42-218(d) which states:

Within 120 days from the receipt of the report required by § 42-217, the Mayor shall mail a notice to each person having an address listed who appears to be entitled to property of a value of \$50 or more presumed abandoned under this chapter.

For unexplained reasons, OFOS did not forward the report of unclaimed funds to the District agencies where requests for the checks originated, in order to obtain the addresses of the payees. The Auditor found that agencies are involved only at the point when a payee submits a claim form requesting a refund of unclaimed property. At that time, agencies are required to research the claim to determine its validity. However, in order for the District to comply with the unclaimed property law, OFOS should obtain owner addresses for District-held unclaimed property from the appropriate agencies so that owners can be notified prior to and subsequent to the delivery of the property to the UPU.

RECOMMENDATIONS

1. The UPU must review holders' reports and records to determine whether owners were properly notified regarding their property presumed abandoned in the District.
2. Penalties must be assessed against those holders that have not exercised due diligence in providing notification to owners of property presumed abandoned.
3. The Office of Financial Operations and Systems should forward a list of uncleared checks to the related agencies prior to submitting the report of unclaimed checks to the UPU. Pursuant to the unclaimed property law, the respective agencies must notify the owners that their property will be remitted to the UPU. Upon receipt of the District's unclaimed property report, the UPU should also notify owners as required by the law.

HOLDER REPORTS NOT ROUTINELY EXAMINED TO DETERMINE HOLDER COMPLIANCE

Each holder report submitted to the District was not routinely examined by UPU auditors or contract auditors to determine whether holders had under-reported unclaimed property or had not reported unclaimed property at all. Such examinations may have identified holders that under-reported unclaimed property to the District. For example, a comparison of unclaimed property reported by holders in similar industries may have identified holders in the District that did not report property common to that industry. The UPU's auditors could have followed-up to ensure that the holder understood the law and had reported all unclaimed property. In instances where it appeared that a substantial amount of unclaimed property may not have been reported, the Director of the UPU should have ordered a more thorough audit of a holder's records. Failure to examine or use statutorily required holder reports renders the filing of such reports a useless paper exercise.

Unclaimed property officials relied primarily on contract auditors to conduct detailed audits of holder accounts and records. While the UPU audit staff conducted a limited number of audits, it primarily acted as a liaison between contract auditors and holders. At the beginning of our field work, the UPU audit staff consisted of two auditors and an audit director. At the end of field work, the audit staff consisted of one auditor and a vacant audit director position. The UPU must enhance

its in-house and contract audit capacity and successfully implement a practice of routinely conducting compliance examinations of holder reports.

Further, it is essential that unclaimed property officials examine holder reports in a timely manner to ensure that any action necessary to enforce provisions regarding the reporting, delivery, and payment of property can commence before the period of limitation expires. D.C. Code, Section 42-229(b) states that:

No action or proceeding may be commenced by the Mayor to enforce any provision of this chapter in regard to the reporting, delivery, or payment of property more than 10 years after the holder specifically identified the property in a report filed with the Mayor or gave express notice to the Mayor of a dispute regarding the property . . .

Officials of the unclaimed property program must ensure that all holder reports are thoroughly examined and the necessary action is initiated prior to the expiration of the 10-year limitation period.

RECOMMENDATIONS

1. The Director of the UPU must review holder reports to determine whether unclaimed property has been under-reported by the holder or whether unclaimed property has been reported at all. Comparisons with entities similar to other holders may indicate that the holder has not reported all unclaimed property to the District.
2. The Director of the UPU must enhance the Unit's in-house and contract audit capacity and establish a practice of conducting routine audits of holder reports. These audits should examine holder reports to determine whether holders have complied with the law and also to assist in locating owners of unclaimed property.

UNCLAIMED PROPERTY IN SAFE DEPOSIT BOXES WAS NOT DELIVERED TO THE DISTRICT

During the four fiscal years covered by this audit and prior to this time, the Auditor found that holders of unclaimed personal property held in safe deposit boxes and other safekeeping depositories did not deliver such property to the Unclaimed Property Unit.

According to the unclaimed property law, all personal property identified and reported as abandoned must be paid or delivered to the Mayor. Effective March 1998, tangible personal property held in safe deposit boxes or other safekeeping depositories must be turned over to the Mayor 120 days after the filing of the report required by D.C. Code, Section 42-217.

The Auditor found that UPU officials did not require holders to remit to the District unclaimed personal property held in safe deposit boxes and other safekeeping depositories. As a result, the Unclaimed Property Unit does not have in its custody and care, and cannot be assured of the value, condition or even the existence of, unclaimed property reported by these holders.

District of Columbia Code, Section 42-219(a), states, in relevant part, that:

Except for property held in a safe deposit box or other safekeeping depository, upon filing a report required by § 42-217, the holder of property presumed abandoned shall pay, deliver, or cause to be paid or delivered to the Mayor the property described in the report as unclaimed, . . . Tangible property held in a safe deposit box or other safekeeping depository shall not be delivered to the Mayor until 120 days after filing the report required by 42-217 [Auditor's Emphasis]

Holders submitted reports of unclaimed property held in safe deposit boxes and other safekeeping depositories to the Unclaimed Property Unit. However, the Auditor found that holders continued to maintain physical custody of the property and did not deliver the property to the UPU within 120 days after filing the holder report. The Auditor reviewed reports of several holders that reported, but did not remit, unclaimed personal property to the UPU. Some of the unclaimed items included stock certificates, cash, jewelry, wallets, savings bonds, coins, and other documents and miscellaneous papers.

Unclaimed property officials indicated that the UPU informed holders of unclaimed property in safe deposit boxes and other safekeeping depositories not to deliver the property to the program until directed to do so. They were never directed to deliver such property to the program during the audit period. According to the Director of the Unclaimed Property Unit, this decision was made because of the Unit's limited physical space in which to store such property. However, the Auditor noted that the Unit appears to have sufficient secured space in its offices to store these items. The room called "the vault" has a security lock requiring a key card to enter. During our field work, two people were required to open the door to "the vault" at all times, one of which had to be the Director or the Deputy Director of the unit. Based on the audit team's physical examination of the vault, it appeared that the room was used primarily to store reports and other paperwork. For example, several boxes were labeled "negative holder reports" and appeared to contain holder reports.

D. C. Code, Section 42-218(d), requires that upon receipt of a holder's report, the Mayor shall mail a notice to each person having an address listed who appears to be entitled to property of a value of \$50 or more. The notice is to include a statement explaining that "property of the owner is presumed to be abandoned and has been taken into the protective custody of the Mayor." [Auditor's Emphasis]. Therefore, the intent of the unclaimed property law is that abandoned or unclaimed property as reported on holders' reports is to be delivered or paid to the District. The law provides that the Mayor may decline to receive property which the Mayor considers to have a value less than the cost of giving notice and holding sale. However, the decision by unclaimed property program officials to allow holders to retain custody of abandoned property in safe deposit boxes and other safekeeping depositories was not based on a determination of the value of the property but was based on perceived storage space limitations.

UPU officials did not know the last time that holders delivered to the District unclaimed personal property held in safe deposit boxes or other safekeeping depositories. However, they were aware that no such property had been delivered since at least 1995. District officials have made no discernible attempt to examine this property or to determine its value. Further, unclaimed property program staff had not conducted site visits in order to view any property reported by holders. Thus, Unclaimed Property Program officials and staff were unable to determine the quantity, condition, or value of unclaimed property held in safe deposit boxes or other safekeeping depositories. Site visits would have enabled the Unit to verify the existence of the reported property as well as the condition and value of the property. Because Unclaimed Property Program officials did not obtain custody of the reported property and had not examined any reported property, they could not be assured that the holder continued to maintain custody of the property and could not assess the condition of the property.

If the District maintained custody of unclaimed property, it could more easily do the following:

1. examine property in an effort to obtain information that could identify the location of the owner(s);
2. determine the amount and value of the property. This information could be used to support the District's decision to sell or auction property;
3. deposit unclaimed cash from safe deposit boxes and other depositories into the General Fund of the District to be used for the fiscal growth of the District until the owner is located; and

4. identify and review securities to determine whether they should be sold.

The Auditor notes that before unclaimed property officials take physical custody of unclaimed property from safe deposit boxes and safekeeping depositories, they must develop adequate internal control procedures for the receipt, storage, and access to such property. The security system for the "vault" must be evaluated to determine whether additional security features are needed in order to effectively safeguard the property. Further, to fully carry out the provisions of the unclaimed property law, it may be necessary for the Mayor to find more suitable space conducive to the proper execution of this function.

After ensuring that adequate security measures have been implemented, District officials should consider requiring holders to remit to the District all unclaimed property held in safe deposit boxes or other safekeeping depositories.

RECOMMENDATIONS

1. The Director of the Unclaimed Property Unit must evaluate the effectiveness of the "vault" in which unclaimed property may be stored in the future. Security must be upgraded if it is determined that the current facilities are inadequate to safeguard assets. If UPU space is determined to be inadequate, the Mayor should find more suitable space conducive to the proper execution of the duties and responsibilities of the unclaimed property program.
2. After the implementation of an effective security system, holders must be required to deliver to the District all abandoned personal property in safe deposit boxes and safekeeping depositories which was reported on holder reports.

No Inventory Conducted and Maintained of Unclaimed Property Reported

The Auditor found that the UPU did not maintain a comprehensive listing, or inventory, of all personal property in safe deposit boxes and other safekeeping depositories reported by holders as abandoned. An inventory of this property is essential for accountability and decision making purposes such as whether to sell or liquidate such property. An inventory of unclaimed property is also needed to accurately and timely respond to questions from unclaimed property owners or

claimants, the Auditor, or other interested individuals. However, these tasks could not be effectively performed because UPU officials had not prepared a computerized database, or inventory, of reported unclaimed property. As a result, UPU officials could not readily provide information such as the type and amount of property held in safe deposit boxes and other safekeeping depositories that has been reported to it by holders of such property.

The UPU has identified approximately 2,600 holders that submitted reports of unclaimed property over the past four years. In order to determine which holders reported unclaimed property from safe deposit boxes and other safekeeping depositories, as well as the amount or type of such property, unclaimed property program officials would have to review the reports submitted by each of the approximately 2,600 holders for each year. At this point in time, a review of this magnitude would be extremely time consuming and likely would be counterproductive.

Unclaimed property officials indicated that in earlier years, property from safe deposit boxes and other safekeeping depositories was reported and delivered to the District. According to unclaimed property officials, this property continues to be maintained in the "vault." However, an inventory of this property was also not maintained and UPU officials could not provide information such as the type and amount of unclaimed property maintained in the "vault." Without an inventory of property in its possession, the UPU staff would have to examine each box in the vault to determine the contents.

RECOMMENDATION

The Director of the UPU must ensure the preparation of an inventory of all unclaimed property reported and delivered to it, as well as property reported but not delivered to it. At a minimum, this listing should include: holder name and address, holder number, and the type and value of the property.

ALL INTEREST AND PENALTIES ASSESSED AGAINST HOLDERS WAS NOT REMITTED

The unclaimed property law provides several instances in which interest and penalties can be charged to holders. Specifically, D.C. Code, Sections 42-235(a) through (d), as amended, states the following:

(a) Any person who fails to pay or deliver property within the time prescribed by this chapter shall be required to pay interest at the rate of 1 ½ % 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.

(b) Except as otherwise provided in subsection (c) of this section, a holder who fails to report, pay, or deliver property within the time prescribed under this chapter, or fails to perform other duties imposed by this chapter, shall pay to the Mayor, in addition to the interest as provided in subsection (a) of this section, a civil penalty of \$200 for each day the report, payment, or delivery is withheld, or the duty is not performed, up to a maximum of \$10,000.

(c) A holder who willfully fails to report, pay, or deliver property within the time prescribed under this chapter, or fails to perform other duties imposed by this chapter, shall pay to the Mayor, in addition to the interest as provided in subsection (a) of this section, a civil penalty of \$1,000 for each day the report, payment, or delivery is withheld, or the duty is not performed, up to a maximum of \$25,000, plus 25% of the value of any property that should have been paid or delivered.

(d) The interest or penalty or any part of the interest or penalty as imposed in subsection (b) or (c) of this section 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 law or the facts which require that person to pay or deliver property as provided in this chapter.

Many holders did not pay interest and penalties on unclaimed property which was not reported in the year in which it should have been reported as required by law. Further, the UPU routinely canceled or abated interest and penalties which contract auditors found that holders owed to the District. For audits completed during fiscal years 1996 through 1999, the Auditor found that contract auditors for the UPU determined that approximately \$2.7 million in penalties and \$3 million in interest should have been assessed against holders audited during the audit period. However, according to records from the UPU, of the approximately \$3 million in interest which auditors found should have been paid to the District, only \$600,000, or 20%, was actually paid to the District for fiscal years 1996 through 1999. Also, of the \$2.7 million in penalties which auditors found were due to the District, only \$11,000, or less than one-half of one percent, was actually paid to the District during fiscal years 1996 through 1999.

Interest and penalties assessed pursuant to subsections (b) and (c) of D.C. Code, Section 42-235 may be waived provided that certain conditions are met. The unclaimed property law states that a satisfactory explanation is to be provided by the person who failed to pay and that the failure to pay must be based on a mistake by the person in understanding or applying the law or the facts. The UPU's files did not contain information that sufficiently documented adherence to this provision of the law. Further, the audit files did not contain any explanation of why unclaimed property program

officials waived interest and penalties. In the absence of a satisfactory explanation, unclaimed property program officials should have ensured, and must ensure in the future, the prompt collection of such interest and penalty revenue.

RECOMMENDATION

Pursuant to D. C. Code, Section 42-235, unclaimed property program officials should assess and collect all interest and penalties from holders for failure to pay or deliver unclaimed property to the District by the due date, or provide an explanation of why interest and penalties were waived.

INFORMATION NECESSARY FOR PROCESSING OWNER CLAIMS WAS NOT FULLY AUTOMATED

The UPU's system of maintaining unclaimed property reported by holders was not fully automated. The Auditor's review revealed that the UPU's operations would benefit substantially from automation. Currently, the unclaimed property program's staff manually researches files in order to respond to claimants who request the return of unclaimed property. Because the system is not automated, and information is not otherwise available in a computerized format, responses to individuals who inquire whether the District is custodian of unclaimed property in their name may not receive a timely or accurate response.

Holders have reported and remitted unclaimed property to the District for a period in excess of 17 years. During this time, a substantial amount of unclaimed property has been reported and remitted to the District. Despite this extensive period of operation, the unclaimed property program has not benefitted from efficiencies offered by present day information technology.

Owner information for report years 1981 through 1987 is not computerized and the UPU must manually research its files in order to respond to requests for any property reported in those years. For report years 1988 through 1997, UPU officials indicated that owner information was partially computerized. For these years, the UPU can determine whether the owner's name was reported but must manually research paper files to determine whether the District is the custodian of the owner's unclaimed property. For the 1988 through 1997 report years, the names of owners were entered into the computer in order to generate the listing of owners published in the newspaper, however, the information regarding the amount of funds or property held in the owner's name is not computerized and the staff must also manually research paper files to gather this information.

Prior to the 1998 report year, holders of unclaimed property reported unclaimed property in November, but were not required to remit the property to the District until May of the following year. Because holders reported at one time and remitted six months later, holders may have made payments to an owner during the period between the report date and the remittance date. The remittance information for these years had not been computerized and the UPU had to manually search the files to determine whether the District was the custodian of the reported unclaimed property.

Also, the UPU does not generate reports from computerized information that could be used to improve its effectiveness in managing the program and accomplishing its mission. For example, when the Auditor requested a list of unclaimed property submitted by holders, the types of unclaimed property maintained by the unclaimed property program, and when the UPU property was acquired, UPU officials could not readily provide this type of information.

RECOMMENDATION

The Director of the UPU must immediately establish an automated database of unclaimed property to generate needed reports and provide more effective management of the program.

SOME CLAIMS NOT PAID WITHIN 30 DAYS

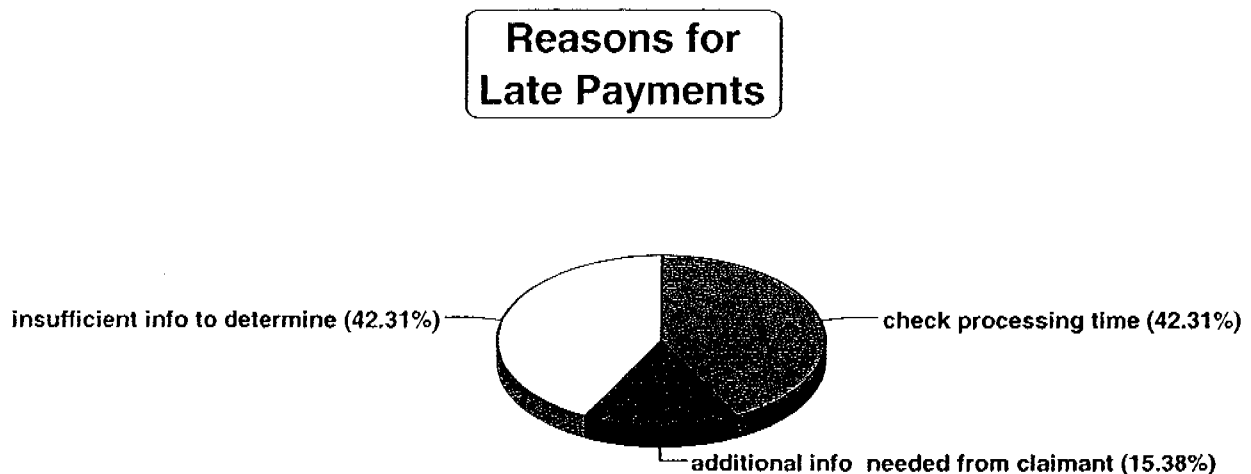
D.C. Code, Section 42-225(a) and (b) states the following:

(a) The Mayor shall within 30 days of the receipt of any claim either pay the claim or give written notice to the claimant of a denial in whole or in part. Upon a denial or a failure by the Mayor to respond within 30 days, the claimant may request a hearing on the claim. Upon such request the Mayor shall hold a hearing and receive evidence in accordance with § 1-1509.

(b) If the claim is determined in favor of the claimant, the Mayor shall make payment of only that amount which the Mayor actually received plus any dividends or interest allowed under § 42-221. The claim shall be paid without deduction for costs of notices or sale or for service charges.

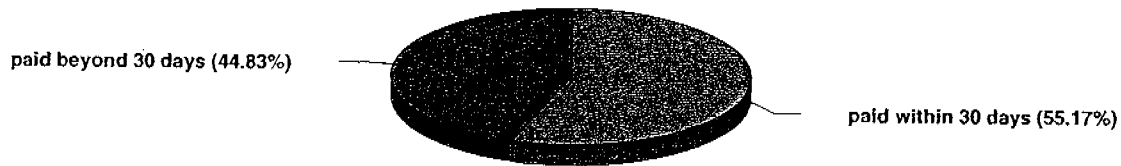
The Auditor found that validated claims for unclaimed property were not always paid within 30 days of receipt of the claim.

In order to determine whether claims were paid within the 30 days allowed by law, the Auditor selected a 10% sample representing 80 of the approximately 800 claims processed by the UPU in 1999. For each claim selected, the Auditor attempted to determine the date that the claim request form was received and the date of the refund check. The Auditor was able to determine the date of receipt of the claim for 58 of the 80 claims selected. For the remaining 22 of the 80 claims in the sample, the claims' receipt date was not recorded on the claim form. However, of the 58 claims for which the receipt date was available, the Auditor found that the check date for 32 claims, or 55%, was within 30 days of receipt of the claim. On the other hand, 26 claim requests, or approximately 45%, were paid beyond 30 days. The chart below depicts the 58 claims paid within and beyond 30 days from the date of the claim's receipt.



The Auditor found that 11, or 42%, of the 26 claims that were not paid within 30 days, appeared to be due to the length of time it took the District's Office of the Chief Financial Officer to process checks for payment. For these 11 claims, it took the District's Office of the Chief Financial Officer an average of 27 days to produce a check from the date documents were entered into SOAR until the date of the refund check. Another 4 claims, or approximately 15% of claims that were not paid within 30 days, appeared to be due to the time taken by the claimant to submit additional information needed by the UPU before the claim could be processed. The UPU's files did not contain sufficient information for the Auditor to determine why the remaining 11 claims were not paid within 30 days. The chart below depicts the reasons why claims were not paid within the 30 days.

Timely Payment of Claims



The UPU officials should maintain statistics on the time it takes to timely process claims beginning with the date a claim request is received until the date a claim is paid. If necessary, a request should be made to expedite the processing of payments through SOAR in order to ensure that payment is received within 30 days. Additionally, UPU managers should ensure that claimants are aware of documentation needed to timely process their claim. Types of documentation needed before a request can be processed are included on the back of the request form. However, in instances where the unclaimed property included stocks which may require documentation such as notarized statements that may not be readily available to the claimant, the UPU staff should reiterate the type of documentation needed in a letter to the claimant.

RECOMMENDATIONS

1. The Director of the UPU should ensure that a detailed written explanation is provided to each claimant indicating the specific documents needed and the UPU's process for paying each claim. For those claims that may require documents such as notarized statements or stock certificates which the claimant may not have readily available, the UPU should include with the claim form a separate letter containing detailed instructions regarding the type of documentation that is acceptable for verification of ownership.
2. The Director of the UPU must maintain statistics on the number of days from receipt of a claim request to the date the claim is paid. Appropriate actions should be initiated to ensure that claims are paid

or that a written denial of the claim is sent within 30 days of receipt of the claim. If necessary, UPU program managers should request expedited processing of claim payments through SOAR.

UNCLAIMED PROPERTY RETURNED TO CLAIMANTS DID NOT INCLUDE INTEREST EARNED AFTER ITS RECEIPT BY THE DISTRICT AND COSTS WERE NOT ASSESSED

Any interest earned on unclaimed property after it was remitted by holders to the UPU was not subsequently passed on to claimants. However, interest earned by unclaimed property while in the holder's possession, was passed on to claimants. Thus, amounts paid to claimants to satisfy a claim represented only the amount remitted by the holder to the District. No additional interest was credited to the property after its receipt by the District. The unclaimed property law does not require claimants to be paid interest earned after receipt by the District.

The Auditor surveyed other states regarding payment of interest to owners of unclaimed property. Responses were received from 14 states regarding this issue. Seven states indicated that no interest was paid to owners. One state indicated that interest earned was used to pay the appropriation of the office that administered its unclaimed property law and any excess interest was deposited into the state's General Fund. The remaining six states generally responded that interest was paid on unclaimed funds held in an interest-bearing account at the time the holder reported the property to the state. Most states paid at the rate of 5% or less, although Virginia paid 6% during the survey period. Two states paid interest for a maximum of 10 years from receipt of the property, and one state paid interest for the first five years that funds were held by the state. Other states paying interest did not indicate whether the interest was paid for a predetermined number of years.

The Director of the District's Unclaimed Property Unit stated that while the District did not pay accrued interest after it received unclaimed property, it also did not charge owners for costs incurred by the UPU to administer the unclaimed property program. Pursuant to D. C. Code, Section 42-223(c), the District may deduct from unclaimed property proceeds certain costs incurred in connection with the administration of the program. Specifically, D.C. Code, Section 42-223(c) states that:

(c) Before making any deposit to the credit of the General Fund of the District government, the Mayor may deduct:

- (1) Any costs in connection with the sale of abandoned property, or with the disposition by other means of abandoned property under § 42-222;
- (2) Any costs of mailing and publication in connection with any abandoned property;
- (3) Reasonable service charges; and
- (4) The costs incurred in examining records of holders of abandoned property and collecting such property from such holders . . .

Officials of the UPU had not established policies and procedures for deducting costs from unclaimed property funds. However, the Auditor found that State Street Bank, a District government contractor that provides custodial and auditing services for unclaimed property, deducted its cost of providing such services from unclaimed property program funds before remitting the funds to the District, as provided for in its contract with the District. Further, the Director of the UPU recently requested and received an opinion from the Office of the Corporation Counsel regarding the legality of deducting certain cost. According to the Corporation Counsel's opinion, the unclaimed property program may use the interest and/or penalty income derived from unclaimed property proceeds, that cannot be associated with an owner, to offset expenses of the unclaimed property program.

RECOMMENDATIONS

1. If unclaimed property officials determine that costs will consistently be deducted from unclaimed property funds, officials should develop and implement a methodology to equitably assess those costs.
2. The Mayor should consider paying claimants interest earned on unclaimed property after the District's receipt of such property especially if unclaimed property officials determine that costs will consistently be deducted from unclaimed property funds.

IMPROVEMENTS ARE NEEDED IN THE NUMBER OF AUDITS CONDUCTED AND QUALITY OF MONITORING AUDITS IN PROGRESS

In fiscal year 1999, unclaimed property officials initiated four audits representing about one tenth (.1) of one percent of the approximately 2,600 holders that reported to the District. Audits should be conducted to ensure that holders have complied with the unclaimed property law, that all unclaimed property has been remitted to the District, and that all property is accounted for as delivered. Audits should also be conducted of entities that have not reported unclaimed property to the District but may have unreported unclaimed property in their possession.

During fiscal years 1996 through 1999, the UPU conducted audits of a limited number of entities by contracting with four external auditors to locate unclaimed property and to conduct audits of holders. Two of the external auditors, Thompson, Cobb, Brazilio and Associates and Owusu and Company, conducted audits of local entities in the Washington/Metropolitan area. Two other external auditors, National Abandoned Property Process Corporation (NAPPCo) and State Street Bank and Trust Company, conducted audits on a national level. Unclaimed property program managers selected entities to be audited by the local auditors. Contract auditors at the national level audited entities that may have held unclaimed property from multiple states. Prior to fiscal year 1998, contractors were paid at rates that ranged from approximately \$40 to \$50 per hour. However, beginning in fiscal year 1998, contractors were no longer paid on an hourly basis but, instead, were paid a fixed percentage of the amounts recovered from their audits. The percentage ranged from 11% to 13% for fiscal year 1998 and 1999. For example, if the UPU received \$25,000 from a holder as a direct result of a contractor's audit findings, the contractor would receive a percentage of the \$25,000. If the rate was 12%, the contractor would receive \$3,000. Therefore, the cost to the District of conducting each audit was determined by the amount the District recovered as a result of that audit. If no funds were recovered, no payment was made to the contractor. The contracts were issued for a base year with two option years. In the base year, contractors were to be paid either 11, 12, or 13% of the net property recovered by the contractor as established in the terms of the contract negotiated with the District. The rate to be paid in the final option year ranged from 12 to 13%. Table I below presents the amounts paid to contractors by the UPU in fiscal years 1998 and 1999.

**TABLE I
PAYMENTS TO CONTRACTORS
FISCAL YEARS 1998 AND 1999**

	FY 1998	FY 1999
Thompson, Cobb, Bazillo and Associates	\$14,681.55	None
Owusu and Company	\$100,520.53	None
State Street Bank and Trust Company ¹	\$60,728.00	\$66,776.00
National Abandoned Property Process Corporation	\$30,431.02	\$220,148.16

Source: Office of the Chief Financial Officer: Mission Support

Contract auditors were successful in finding unclaimed property that had not been reported and remitted to the District. Because more audits were not initiated by UPU, other unclaimed

¹As noted earlier, direct payments were not made to State Street Bank. State Street deducted its fees from the unclaimed property remitted to the District as was provided for in its contract with the District.

property that should have been reported and delivered to the District may not have been identified. The unclaimed property law authorizes the Mayor to conduct audits to determine whether entities have complied with the unclaimed property law. District of Columbia Code, Section 42-230(b), states in relevant part the following:

The Mayor may at reasonable times and upon reasonable notice examine the records of any person to determine if such person has complied with the provisions of this chapter. . .

According to unclaimed property program records, 18 audits of holders in the Washington Metropolitan area were initiated between fiscal years 1996 and 1999. (The discussion which follows does not include audits conducted on a national level by State Street Bank and Trust Co. or by NAPPCo.) Specifically, officials indicated that nine audits were initiated in fiscal year 1996, one in fiscal year 1997, four in fiscal year 1998, and four in fiscal year 1999. In addition to the audits initiated during the audit period, another six audits were commenced prior to fiscal year 1996 that had not been completed by the beginning of fiscal year 1996. Most of the 24 audits were of holders that had reported and remitted unclaimed property. A smaller number of audits were of entities that had never reported and/or remitted unclaimed property to the District.

According to unclaimed property program officials, approximately \$6.6 million were collected as a result of the 24 audits, including approximately \$600,000 in interest and \$11,000 in penalties. The value generated by these 24 audits indicates that additional audits of holders may produce similar findings and similar collections. For example, only one of the 24 audits resulted in no finding of unclaimed property.

UPU officials should arrange to conduct more audits of holders who have reported, as well as entities that have not reported, unclaimed property. The audits would help to ensure that the District has received all unclaimed property from holders as required by the unclaimed property law. Since contracts were issued on a contingency basis, a contractor would not receive payment in the absence of the recovery of unclaimed property. Therefore, the unclaimed property program would not incur any cost of conducting audits unless unclaimed property was actually found and recovered.

Further, holders of unclaimed property could be required to pay a fee for the actual costs of examining their records. D.C. Code, Section 42-230(c-1), states the following:

If in connection with an examination of the records of a holder property which should have been reported pursuant to this chapter is discovered, the holder may be assessed a fee for the actual costs of the examination in addition to any interest charge or penalty that may be due under § 42-235.

During fiscal years 1996 through 1999, UPU records did not indicate that holders were assessed a fee for the cost of conducting an audit.

Unclaimed Property Program Officials Must Monitor Audits in Progress

Unclaimed property program officials did not maintain records to document the status of each of the audits conducted during the audit period. Adequate documentation should have been maintained by unclaimed property officials to justify and support decisions made regarding the audits, to determine whether audits were completed, and to determine whether holders remitted unclaimed property found during the audits. Further, files maintained by unclaimed property officials for each of the holder audits were not organized, and often lacked essential documents that could have been used to determine the status of audits.

According to officials of the UPU, a file was maintained for each holder audited. The files were separate from the audit work paper files and were used to document relevant discussions, communications, and decisions between the auditor, holder, unclaimed property officials, and others. The District of Columbia Auditor examined 22 of the 24 files established for audits initiated and/or completed during the audit period. Two of the audit files were not examined because they could not be located by unclaimed property officials. The Auditor found that the files were not organized in any uniform manner and essential information was missing from several files. Examples of missing information are presented below:

- 11 of the files did not contain final reports from the auditor. These reports could have provided details of the contract auditor's findings and methodology in conducting the audit. Although draft reports were available in some of the files, the draft reports may not have reflected the auditor's final conclusions;
- actual amounts remitted by holders as a result of audits conducted by contract auditors were often significantly less than the value of the auditor's findings. The amount required to be remitted was often reduced by unclaimed property officials after negotiations with the holder. According to unclaimed property officials, the final agreed upon amount was to be documented in an agreement. However, the Auditor found that such agreements were missing from 13 of the 22 files;

- files did not contain a copy of the letter informing the holder of the audit. This letter would have documented the date the audit started, the audit period, and the areas to be reviewed. Also, the letter could have been used to determine whether the holder was given adequate notification of the audit. Section 42-230(c) of the unclaimed property law requires the Mayor to give notice to persons and business associations not less than 90 days prior to the examination; and
- several files contained no evidence of remittances of unclaimed property by holders.

According to UPU officials, of the 24 audits initiated or already in progress during fiscal years 1996 through 1999, 22 had been completed by the end of fiscal year 1999. However, based on the District of Columbia Auditor's review of the audit files, at least six of the so-called completed audits were in fact incomplete and contained issues that had not been resolved.

Further, it appeared that these audits were put "on hold" because holders objected to the District conducting the audits. For one of the incomplete audits initiated in June 1995, documentation in the file reflected that as of June 1999, four years after the audit began, the holder had not remitted the unclaimed property which auditors found during the audit. The unclaimed property law provides that the District may examine the records of any person to determine if the person has complied with provisions of the law. Specifically, D.C. Code, Section 42-230 (b) states in relevant part the following:

....It shall be no defense to such a request for examination that the person believes it is not in possession of any property reportable or deliverable under this chapter.

Also, D.C. Code, Section 42-230(e) states that:

If any holder refuses to permit the holder's records to be examined, the Mayor may issue a subpoena to compel the holder to testify and produce the records pursuant to § 1-338. . . .

The files contained no documentation that the Mayor issued subpoenas to obtain access to holders' records.

RECOMMENDATIONS

1. The Director of the UPU should initiate additional audits of holders in order to determine whether holders have complied with the unclaimed property law.
2. The Director of the UPU must develop a uniform system of maintaining files of ongoing and completed holder audits. Each file should contain all pertinent documentation including correspondence regarding the audit.
3. The Director of the UPU must immediately review each audit file and ensure that audit findings have been addressed and that holders have remitted agreed upon amounts to the District.
4. The Director of the UPU must develop a policy regarding holders who resist an audit. If necessary, the Office of the Corporation Counsel should render opinions regarding the UPU's or contract auditor's right to conduct an audit and should assist in obtaining holders' cooperation with audits or access to the holders' records.

Unclaimed Property Officials Routinely Allowed Holders to Remit Less Than the Amounts Found by Auditors

The Auditor found that only \$6.6 million, or 21%, of the \$31 million in unreported and unremitted unclaimed property that contract auditors found during audits of holders' records was subsequently remitted to the District by the holders. The unclaimed property law requires holders of property presumed to be abandoned to pay or deliver such property to the District. The Auditor found that UPU officials routinely allowed holders to remit less than the amounts found by the auditors. As a result, the UPU did not maintain all unclaimed property in its protective custody.

During audits conducted in fiscal years 1996 through 1999, contract auditors reported finding approximately \$31 million in unclaimed property that holders had not reported to the District. To comply with the unclaimed property law, holders should have remitted this property to the District.

At the conclusion of an audit, the holder was informed of the audit findings and was given an opportunity to discuss the findings with the auditors and unclaimed property officials. Some auditees disagreed with the audit findings and suggested that they remit an amount lower than that found by the auditors. Areas of disagreement included whether certain items should have been classified as abandoned property as well as the methodology used by the auditors to estimate the amount of unclaimed property for those years when a holder did not have adequate records. The D.C. Auditor found that UPU officials often reduced the amount of abandoned property to be remitted by holders, although UPU's files did not contain any justification or documented explanation for the reduction. For example, contract auditors found that one holder owed \$175,000 in unclaimed property, plus interest and penalties. However, the entity offered to pay \$16,731.81 as a final settlement of all unclaimed property owed for the audit period. The District accepted the holder's offer of \$16,731.81 as final payment. The UPU's files did not contain any justification for the lower amount accepted by the District.

RECOMMENDATIONS

1. The Director of the UPU must develop policies and procedures concerning the reporting and remitting of unclaimed property found by auditors. These policies and procedures must establish criteria to be used in reducing the amount that holders should remit as a result of the auditor's findings.
2. Unclaimed property officials must collect all amounts determined to be due and payable to the District government unless there is a documented, rational basis for accepting less.

UNCLAIMED PROPERTY NOT SOLD IN A TIMELY MANNER

During the audit period, the District did not convert any of the tangible personal property to cash by sale or auction. D. C. Code, Section 42-222(a), provides, in relevant part, that:

All abandoned property other than money delivered to the Mayor under this chapter which remains unclaimed 1 year after the delivery to the Mayor may be sold to the highest bidder at public sale.

UPU officials were not sure of the last time the District auctioned unclaimed property but were aware that no property had been sold or auctioned since 1993. The unclaimed property law

states that all abandoned property delivered to the District which remains unclaimed one year after delivery may be sold to the highest bidder at a public sale. The sale of unclaimed property could provide funds beneficial to the District's fiscal growth until owners are found. If claims are subsequently submitted and approved for properties that were sold, the claimants would receive the proceeds from the sale pursuant to D. C. Code, Section 42-224.

RECOMMENDATION

UPU managers must develop criteria for the sale of unclaimed property including selecting items to be sold as well as determining, where appropriate, the minimum sales price. Based on the criteria, unclaimed property officials should review the property that has been remitted by holders and identify those items that can be sold.

TRUST FUND FOR UNCLAIMED PROPERTY HAS NOT BEEN ESTABLISHED

According to D.C. Code, Section 42-223(b)(1), the Mayor shall retain an amount not less than \$100,000 in a separate trust fund in order to make prompt payment of unclaimed property claims. However, the Auditor found that during the period audited, payments to claimants for unclaimed property were made from the District's General Fund. A separate unclaimed property trust fund had not been established as required by law.

Further, unclaimed property officials should re-evaluate the amount at which the fund should be established. During the audit period, payments to claimants were substantially more than \$100,000 for each of the fiscal years audited. For example, during fiscal years 1998 and 1999, approximately \$1.3 million and \$4 million respectively were paid to claimants. Given the magnitude of claims paid by the District in recent years, it does not appear that a trust fund of \$100,000 is adequate to carry out the intent of the unclaimed property law to facilitate the prompt payment of claims.

RECOMMENDATIONS

1. The Director of the UPU and the Chief Financial Officer must immediately review the statutory requirement for the establishment of an unclaimed property trust fund to determine whether such a fund is needed. If it is determined that the fund is not needed, the Chief Financial Officer must make the appropriate legislative

recommendations to the Council of the District of Columbia to repeal or amend this provision of the unclaimed property law.

2. The Director of the UPU and the Chief Financial Officer should review the amounts refunded in recent years to ensure that the unclaimed property trust fund, if established, would be adequately funded to cover claim payments made each fiscal year.

INADEQUATE OUTREACH CONDUCTED FOR HOLDERS OF UNCLAIMED PROPERTY

The Auditor's comparison of the District's outreach efforts with those of other states indicated that the District, on average, collected less unclaimed property from holders than did other states as a result, in part, of its inadequate outreach efforts. For example, Virginia collected an average of approximately \$40 million from fiscal year 1997 through 1999, while the District collected an average of \$26 million. (See Appendix I for statistics from other states.) The lower than average rate of collection for the District may be due, in part, to the fact that entities are not aware of, or are not complying with, the unclaimed property law and, therefore, are not reporting and remitting unclaimed property to the District. One indication that holders may be unaware of the law was reflected in the fact that several organizations audited for unclaimed property indicated that they were unaware of the law. Other entities that were aware of the law indicated that they were not aware of all of the provisions of the law. The unclaimed property law requires that every person holding funds or property presumed abandoned must report such property to the District. However, the District's outreach efforts to holders may be inadequate to ensure that all holders are reporting unclaimed property to the District and are reporting it accurately.

The District has a current list of approximately 2,600 holders. This list includes entities from the District and other states that may have filed a report with the District. In comparison, Wyoming, (with a population less than the District) has identified approximately 3,893 holders and Virginia had identified approximately 16,000 holders. The efforts by these states to locate holders included reviewing newspaper clippings and automatic matching with the database when business licenses and sales/use tax permits are issued. The Director of the District's Unclaimed Property Unit indicated that some of the District's recent outreach efforts to holders included presentations to entities and professional organizations. From fiscal years 1998 to 1999, the District's collections increased approximately 38%, from approximately \$25 million to approximately \$35 million. This may be attributed to increased outreach efforts but not necessarily the most effective outreach efforts. In order to increase collections further and to achieve the national average of between 20 and 50

percent for property returned to owners, the UPU must implement additional efforts that will increase holders' compliance with the District's unclaimed property law.

In an effort to review whether entities within the District filed holder reports, the Auditor obtained a list of banks in the District. District banks were chosen because of the likelihood that they would possess abandoned property. The Auditor determined that at least 13 banks, consisting of approximately 68 branches, were not shown as having filed a holder report. Although there is no guarantee that these banks possessed abandoned property, the business activities of banks suggest that they are likely to possess such property. Similarly, the business activities of registered life insurance companies in the District suggest they too may be holders of additional unclaimed property. Approximately 540 life insurance companies are operating in the District, while approximately 260 were listed as holders in UPU's records. District outreach efforts could include a review of other businesses registered in the District and those businesses that have not reported unclaimed property could be audited to determine whether they possess unclaimed property.

RECOMMENDATION

The UPU must improve its outreach efforts to locate holders of unclaimed property. These efforts should include, but not be limited to, identifying entities conducting business in the District that have never submitted unclaimed property but are likely to possess such property.

THE DISTRICT DID NOT TAKE SUFFICIENT STEPS TO LOCATE OWNERS OF UNCLAIMED PROPERTY

For fiscal years 1996 through 1999, the UPU returned to owners an average of 7% of reported unclaimed property. For fiscal year 1996, it returned approximately 7%, while 6% was returned in fiscal year 1997, and 5 percent in fiscal year 1998. In fiscal year 1999, the UPU's rate of return increased to 11%. Table II presents the Unclaimed Property Program's collections and the total claim payments made during fiscal years 1996 through 1999. Although the District's return rate improved in fiscal year 1999, it was significantly lower than the return rate of other states included in the Auditor's survey. The return rate for the 12 states responding to the Auditor's survey reflected return rates ranging from 20% to 90% in 1998 and 18% to 63% in 1999.

Table II
Unclaimed Property Program
Collections and Refunds
Fiscal Years 1996 Through 1999

Fiscal Year	Amount Collected	Amount Returned	Percent Returned to Claimants	End of Year Balance
1996	\$17,598,627	\$1,317,027	7.4%	\$16,281,600
1997	\$18,119,080	\$1,083,980	6%	\$17,035,100
1998	\$27,187,535	\$1,278,535	4.7%	\$25,909,000
1999	\$35,385,320	\$4,080,142	11%	\$31,305,178
Total	\$98,290,562	\$7,759,684	7.2%	\$90,530,878

Source: Unclaimed Property Unit

According to the National Association of Unclaimed Properties, the national average for unclaimed property returned to owners is between 20 and 50%. The percentage returned by the District averaged 7% between fiscal years 1996 and 1999. Although the Director of the Unclaimed Property Unit has instituted some outreach efforts, much more needs to be done in order to locate more owners and effectively meet the Program's mission of returning abandoned property to its rightful owner. Because more effective outreach efforts were not implemented, the District continues to retain custody of unclaimed property remitted to it by holders that should have been returned to its rightful owner.

According to the Director of the Unclaimed Property Unit, outreach efforts included comparing names of unclaimed property owners with data files from the Office of Finance and Treasury in order to obtain current addresses of unclaimed property owners. However, according to the Director, names of unclaimed property owners are not compared with data from the IRS or Social Security Administration because of fees charged by these agencies. It is the Auditor's position that cost should not be a barrier to utilizing important information maintained by these agencies in that the unclaimed property law authorizes the Mayor to deduct a cost such as this from unclaimed property funds. However, at the conclusion of the Auditor's field work, unclaimed property program officials had not fully implemented this provision of the law. If the law was fully and consistently implemented, the cost of searching data bases to locate owners could be charged to unclaimed property funds.

The Director of the Unclaimed Property Unit has indicated he participated in outreach programs for District residents, and residents in surrounding jurisdictions, in an effort to make individuals and businesses aware of the unclaimed property program, and to locate unclaimed property owners. The Director stated that some of the outreach programs included participation in the ElderFest to inform the elderly and to offer services to locate unclaimed property, and participation in joint outreach efforts with the State of Maryland. The UPU also has a web site at www.dccunclaimedproperty.com which allows owners to search for unclaimed property. Returns for fiscal year 1999 doubled as compared to fiscal year 1998 and this increase may be attributed, in part, to increased outreach efforts. However, the UPU must significantly improve its efforts to return more unclaimed property to owners.

The District may be able to increase the amount of property returned to unclaimed property owners if specific procedures are implemented to locate owners whose names are reported on holder reports. When holder reports are received by the UPU, District officials are required to send notices to the names listed on the report. However, the addresses used by the District are the same addresses used by holders. These addresses, in many instances, may not be correct and unclaimed property program staff have not adequately attempted to locate the correct address for these persons and organizations. The correct addresses for owners may be available in telephone directories or through the Internet. For example, in its review of holder reports, the Auditor noted names of several well-known organizations and some individuals that were listed as owners of property presumed abandoned. The Auditor was able to locate addresses for these organizations and individuals in the telephone directory. The Auditor also found the names of District Government agencies reported by holders as owners of unclaimed property. These accounts should be brought to the attention of District officials so that appropriate action can be taken.

The UPU also publishes a list of names and addresses of unclaimed property owners at least twice a year. However, this list includes only the names of owners who were reported in the most recent holder reports received prior to publication. The names of owners reported in earlier holder reports are not repeated in subsequent publications.

Most of the unclaimed property returned in fiscal year 1999 was property reported in recent years. For example, in a sample of 80 claims representing approximately 10% of claims processed in 1999, 43 returns represented unclaimed property received in report year 1998, 12 were for report year 1997, 7 were for report year 1996, 5 were for report year 1995, 3 were for report year 1994, and 5 were for report year 1992. For an additional five returns, the Auditor was unable to determine the year that the property was received by the UPU. This may indicate that prospective owners of

unclaimed property reported in earlier years may not be aware that the District is in possession of their property.

The District's use of millions of dollars in unclaimed property proceeds for the general operations of the District coupled with its statutory responsibility to reunite this property with its rightful owners appears to give rise to an inherent conflict of interest that may materially affect the effectiveness of the program.

RECOMMENDATIONS

1. The Director of the UPU must implement additional procedures to actively search for those owners identified on holder reports. These searches could include reviews of telephone directories as well as information on the Internet.
2. The Director of the UPU must consider comparing names of unclaimed property owners to the IRS, Social Security Administration, and other similar agencies in an attempt to locate owners by matching information in the databases of these organizations.
3. The UPU should publish the names of all unclaimed property owners regardless of the year in which the property was reported. This publication should include not only the names for the most recent report year but for all unclaimed property.

CONCLUSION

The operation of the unclaimed property program appeared to have improved during the audit period, however, the Auditor found that the efficiency and effectiveness of the program can be improved much more. The District's rate of returning unclaimed property to its owners averaged 7% for fiscal years 1996 through 1999. Even though the percentage returned to owners increased to 11% percent in fiscal year 1999 compared to approximately 5% in fiscal year 1998, additional improvements are needed to bring the District's rate of return in line with the national average of between 20 and 50 percent. Table II from page 31 of the report presents the amount of unclaimed property proceeds collected during each of the fiscal years under review, the amount and percentage

of collections returned to claimants, and the balance of unclaimed property proceeds after disbursements made for each fiscal year.

Table II
Unclaimed Property Program
Collections and Refunds
Fiscal Years 1996 Through 1999

Fiscal Year	Amount Collected	Amount Returned	Percent Returned to Claimants	End of Year Balance
1996	\$17,598,627	\$1,317,027	7.4%	\$16,281,600
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1998	\$27,187,535	\$1,278,535	4.7%	\$25,909,000
1999	\$35,385,320	\$4,080,142	11%	\$31,305,178
Total	\$98,290,562	\$7,759,684	7.2%	\$90,530,878

Source: Unclaimed Property Unit

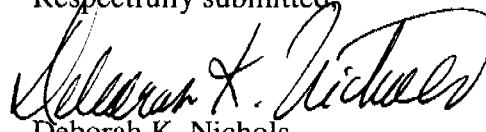
Managers of the UPU must also establish procedures to ensure that holders of unclaimed property remit all such property to the District. During fiscal years 1996 through 1999, audits initiated by UPU officials included less than 1% of holders who filed reports with the District. As a result of the audits, managers of the UPU, without providing an adequate rationale for making such a decision, routinely reduced the amount of unclaimed property that holders were required to remit to the District. Interest and penalties were also routinely waived without adequate documented justification. UPU managers must collect all unclaimed property as well as interest and penalties unless a rational explanation is provided for doing otherwise.

The Auditor found that UPU managers had not established any written policies and procedures for some of its functions while for others written policies and procedures had been drafted but not finalized. Finalized policies and procedures must be developed immediately for all appropriate UPU functions. The Auditor also found that the UPU did not adhere to all aspects of the unclaimed law. For example, claim requests were not always paid within the 30 days established by the law and no written notice was provided to the claimant that the claim had been denied.

UPU managers had not established an inventory of unclaimed property in the program's possession and could not provide a comprehensive list of all unclaimed property in its possession by type or by holder. Further, unclaimed property in holders' safe deposit boxes was reported but

not delivered to the District. An inventory of this property was also not established and maintained by UPU officials. Although the unclaimed property law allows the sale of unclaimed property that remains unclaimed after one year, UPU officials had not conducted a sale during the audit period and could not provide documentation of the last time a sale was conducted. The UPU must establish an inventory of unclaimed property in its possession and such property reported by holders. Further, the UPU must consider converting some of the property to cash by conducting periodic auctions as provided by law. In conclusion, managers of the District's unclaimed property program must do more to improve its operations, ensure that the mission of the program is effectively achieved, and increase the percentage of unclaimed property returned to owners.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Deborah K. Nichols", written in a cursive style.

Deborah K. Nichols

District of Columbia Auditor

APPENDICES

APPENDIX I**SURVEY OF UNCLAIMED PROPERTY PROGRAMS****1. Dollar amount of unclaimed property received during 1996, 1997, 1998 and 1999 to date.**

<u>Amount of Unclaimed Property</u>		<u>Number of states in each range</u>			
		<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>
\$0	\$ 9,999,999	4		3	4
\$10,000,000	- \$19,999,999	5		5	3
\$20,000,000	- \$29,999,999	2		2	2
\$30,000,000	- \$39,999,999	1		0	1
\$40,000,000	- \$49,999,999	0		0	2
\$50,000,000	- \$59,999,999	0		1	0
\$60,000,000	- \$69,999,999	0		1	0

2. Total dollar amount of unclaimed property returned to owners in 1996, 1997 1998, and 1999 to date.

<u>Amount Returned</u>		<u>Number of states in each range</u>			
		<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>
None					
\$0	\$ 9,999,999	10	10	10	9
\$10,000,000	- \$19,999,999	0	0	1	2
\$20,000,000	- \$29,999,999	0	0	0	0
\$30,000,000	- \$39,999,999	0	0	0	0
\$40,000,000	- \$49,999,999	0	0	0	0
\$50,000,000	- \$59,999,999	0	0	0	0
\$60,000,000	- \$69,999,999	1	0	1	0
\$70,000,000	- \$79,999,999	0	1	0	0

3. Percent of property returned compared with amount collected for 1998 and 1999.

	<u>Percent</u>	
	<u>1998</u>	<u>1999</u>
Oklahoma	36	63
Rhode Island	55	47
Montana	Not Provided	46
Idaho	90	42
Wyoming	44	41
Louisiana	40	36
Virginia	20	32
Nevada	30	27
Virginia	26	27
Michigan	21	23
New York	20	21
Connecticut	27	18
Oregon	42	Not Provided

4. Unclaimed property funds earmarked or not earmarked for a specific purpose; purpose for which funds are earmarked.

Not Earmarked: 11

10 deposited in general fund; 1 deposited in Trust and Agency Fund Account

Earmarked: 3

1. Transferred to the Literary Fund and used to provide low-interest loans to localities for public school purposes.
- b. Common School Fund
- c. Interest is given to State Education Assistance Authority

4a. Dollar amount of unclaimed property received each year due to:

		Voluntary Remittances			
<u>amount of remittance</u>		<u>Number of states in each range</u>			
		<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>
\$0 -	\$ 9,999,999	3	3	2	4
\$10,000,000 -	\$19,999,999	2	2	1	1
\$20,000,000 -	\$29,999,999	2	1	2	2
\$30,000,000 -	\$39,999,999	0	0	2	2
\$40,000,000 -	\$49,999,999	0	0	0	0
\$50,000,000 -	\$59,999,999	0	1	0	0
\$60,000,000 -	\$69,999,999	0	0	0	0
\$70,000,000 -	\$79,999,999	0	0	0	0

4b. Contract Auditors

<u># of auditors</u>		<u>Number of states in each range</u>			
		<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>
None					0
\$0 -	\$ 4,999,999	7	7	6	4
\$5,000,000 -	\$ 9,999,999	0	0	0	3
\$10,000,000 -	\$14,999,999	0	0	0	3
\$15,000,000 -	\$19,999,999	0	0	1	1
\$20,000,000-	\$24,999,999	0	0	0	0

4c. Internal Auditors

<u># of auditors</u>		<u>Number of states in each range</u>			
		<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>
None		1	1	1	2
\$0 -	\$ 4,999,999	4	4	5	5
\$5,000,000 -	\$ 9,999,999	0	0	0	0
\$10,000,000 -	\$14,999,999	0	0	0	0
\$15,000,000 -	\$19,999,999	0	0	0	0
\$20,000,000-	\$24,999,999	0	0	0	1
\$61,000,000					

5. Internal audits conducted and number of internal auditors employed in 1996, 1997, 1998 and 1999 to date.

<u># of audits</u>	Audits Conducted			
	<u>Number of states in each range</u>			
	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>
None	1	0	0	3
01-10	2	2	3	3
11-21	2	1	1	0
22-31	0	2	0	1
32-41	1	0	0	1
42-51	2	1	1	1
52-61	0	0	1	0
62-71	0	2	1	0
72-81	0	0	0	1

- 5a. **Auditors Employed**

<u># of auditors</u>	<u>Number of states in each range</u>			
	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>
None	1	1	1	2
01-10	3	4	4	5
11-21	0	0	0	0
21-30	0	0	0	1

6. Accrued interest on funds held by the unclaimed property program returned to owners/heirs once they are located.

Yes	No
4 states	7 states

Comments:

Only on bank accounts and official checks

On accounts earning interest when remitted to a maximum of 5 percent

Earn interest for a maximum of 10 years

7. Number of staff employed to operate the unclaimed property program in 1996, 1997, 1998 and 1999 to date

<u>staff</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>
	<u>Number of states in each range</u>			
0-10	6	6	4	5
11-21	3	2	3	4
22-33	1	2	2	2

8. Number of times unclaimed property program been audited in the last three years?

	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>
<u># of times audited</u>	<u>Number of states in each range</u>			
None				6
01-10	2	2	3	5

9. Oversight procedures used for the unclaimed property program.

1. Internal Controls with mail, deposits, etc.
2. Normal internal checks and balances, no outside oversight
3. Internal audit
4. Instituted own Internal Control/Quality Assurance Unit
5. Legislative reviews
6. Computer Programs that check for double or erroneous payments

10. Number of potential holders identified in the state.

	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>
<u>Number of holders</u>	<u>Number of states in each range</u>			
0 - 5,000				3
5,001 - 10,000				4
10,001 - 15,000				2
15,001 - 20,000				1
20,001 - 25,000				

10a. Sources and tools used to identify potential holders.

- a. Automatic matching and updating database with sales/use tax and withholding taxes
- b. Various directories
- c. Dunn and Bradstreet
- d. Business tax publications
- e. Business registers
- f. Newspaper Articles

11. Are holders fined for failure to file reports and submit unclaimed property?

Yes: 7

No: 4

Comments:

- a. While statute permits fines and penalties, they are rarely applied
- b. Interest only on audit findings, no interest or penalties on voluntary remittances

12. When are tangible personal property items appraised for value?

	<u>#of states</u>
Firm who does auction conducts appraisal	1
Not auctioned	1
Prior to being sold at auction	5
Once a year	1
Holders auction property and send proceeds to the State	1
Three months prior to sale	1

13. How often does your program sell tangible personal property?

	<u># of states</u>
Annually	3
Every two months	2
When Quantity warrants	3
Last one was around 1978	1
Every two years	1
No plans to sale property	1

14. How often does your state sell securities?

After being held for three years	1
Annually	4
Upon Receipt	2
Once or twice a year	2
Three - four liquidations annually	1
At discretion of the treasurer	1

15. How long does your state hold securities before the securities are sold?

a. By statute, Must be sold within one year	3
b. Maximum of three years	1
c. Two years	1
d. Three to six months	1
e. Minimum of three years	3
f. No standard time (Sold based on volume in relation to number of claims	1
g. Three years	2

16. How long does it take to respond to an inquiry from an owner or heir concerning unclaimed property?

Two weeks	1
Three to four weeks	1
Less than thirty days	1
Ninety days	2
One hundred twenty days	1
Twelve months	1

17. Procedures or resources used to locate owners of property.

Newspaper advertisement
Internet Web Site
Credit Bureau
Shopping Malls
Senior Centers
City Hall
Local Media
Festivals, fairs
Telephone books and street directories

18. How owners are informed that their funds are potentially targets of the unclaimed property program?

- a. Due diligence letters prior
- b. Newspaper
- c. Website

19. Procedures for owners to reclaim property?

Complete and submit claim form
Documentation such as drivers' license
Notarized signatures

20. How is the public notified of amendments to laws that affect unclaimed property?

Television
Radio
Press Releases
Website
Mass Mailing
Newspaper

21. What were the administrative expenses for your unclaimed property program for 1996, 1997, 1998, and 1999 to date?

	1996	1997	1998	1999
<u>Administrative Expenses</u>			<u>Number of states in each range</u>	
\$1 - \$2,000,000	6	5	5	3
\$2,000,001 - \$4,000,000	1	2	2	4
\$4,000,001 - \$6,000,000				
\$6,000,001 - \$8,000,000				

22. How much was budgeted for your program for 1996, 1997, 1998, and 1999?

<u>Budgeted amount</u>	1996	1997	1998	1999
None		<u>Number of states in each range</u>		
\$1 - \$2,000,000	4	4	4	4
\$2,000,001 - \$4,000,000	2	2	2	2
\$4,000,001 - \$6,000,000	1	1	2	1
\$6,000,001 - \$8,000,000	0	0	0	0
\$8,000,001 - \$10,300,000	0	0	0	2

APPENDIX II

District of Columbia Unclaimed Property Law Dormancy Periods

<u>Description</u>	<u>Period</u>
Savings, Matured Time Deposits, Demand Deposits (Checking), NOW, plus interest or dividends	3 years
Travelers' Checks	15 years
Written Instruments (Banking and Financial Orgs.)	3 years
Money Orders	3 years
IRAs, Keogh Plans	3 years
Safe Deposit Boxes, Safekeeping	3 years
Funds Held By Life Insurance Companies	3 years
Stocks, Dividends, Profit Distributions, Interest	3 years
Liquidating Distributions	60 days
Funds Held By Fiduciaries, Agents	3 years
Funds held By Government or Governmental Agencies	3 years
Ordered Refunds	1 year
Misc. Property Held in Normal Course of Business (Vendor Checks, Credit Balances, etc.)	3 years
Employee Benefit Trust Distributions	3 years
Gift Certificates and Credit Memos	5 years
Unpaid wages	1 year

APPENDIX III

NAUPA STANDARD PROPERTY TYPE CODES

Account Balances

Description

Checking Accounts
Savings Accounts
Matured CD or Savings Certificate
Christmas Club Funds

Description

Money on Deposits to Secure Fund
Security Deposits
Unidentified Deposits
Suspense Accounts
Aggregate Account Balances

Uncashed Checks

Description

Cashier's Checks
Certified Checks
Registered Checks
Treasure's Checks
Drafts
Warrants
Money Orders
Traveler's Checks
Foreign Exchange Checks

Description

Expense Checks
Pension Checks
Credit Checks Or Memos
Vendor Checks
Checks Written Off to Income
Other Outstanding Official Checks
CD Interest Checks
Aggregate Uncashed Checks

Mineral Proceeds & Interests

Description

Net Revenue Interest
Royalties
Overriding Royalties
Production Payments
Working Interest

Description

Bonuses
Delay Rentals
Shut-in Royalties
Minimum Royalties
Aggregate Mineral Interests

Misc. Checks; & Intangible Personal Property

Description

Wages, Payroll, Salary
Commissions
Workers' Compensation Benefits
Payment for Goods & Services
Customer Overpayments
Unidentified Remittances
Unrefunded Overcharges
Accounts Payable
Credit Balances - Accts. Rec.
Discounts Due

Description

Refunds Due
Unredeemed Gift Certificates
Unclaimed Loan Collateral
Pension & Profit Share Plans
Dissolution or Liquidation
Misc. Outstanding Checks
Misc. Intangible Property
Suspense Liability
Aggregate Misc. Property

Safe Deposit Boxes & Safekeeping

Description

SD Box Contents
Other Safekeeping

Description

Other Tangible Property

AGENCY COMMENTS

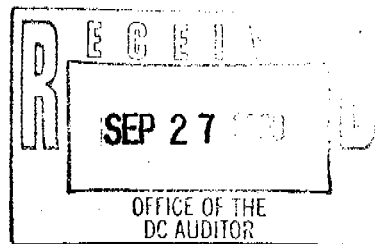
AGENCY COMMENTS

On September 12, 2000, the Office of the District of Columbia Auditor submitted this draft report for review and comment to the Office of the Chief Financial Officer's Office of Finance and Treasury and the Unclaimed Property Unit.

Written comments were received from the Office of the Chief Financial Officer on September 27, 2000. Where appropriate, the report has been changed to reflect the comments which are appended in their entirety to this report.

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

Natwar M. Gandhi
Chief Financial Officer



September 27, 2000

Deborah K. Nichols
District of Columbia Auditor
717 14th Street NW, Suite 900
Washington, DC 20548

Dear Ms. Nichols:

I am in receipt of your draft report entitled Review of Unclaimed Property Program for Fiscal Years 1996 through 1999. As requested, I am providing comments on the District Auditor's recommendations made in the respective report. My comments are as follows:

Policies and Procedures

The District Auditor recommended that the Director of the Unclaimed Property Unit (UPU) must develop policies and procedures for all of the program's functions. In addition, rules and regulations published in the District of Columbia Municipal Regulation (DCMR) must be updated as appropriate to reflect current law. All policies and procedures must be immediately finalized.

The CFO agrees with the recommendation. The Director of UPU will incorporate additional procedures and finalize the policy and procedure manual. In addition, the Director will work with the Office of the Chief Financial Officer's (OCFO) General Counsel to develop the updated regulations for unclaimed property.

Holder's Due Diligence

The District Auditor recommended that the UPU must review holders' reports and records to determine whether owners were properly notified regarding their property presumed abandoned in the District.

The CFO agrees with the recommendation. The Director of Unclaimed Property has been instructed to promulgate the District's guidelines for proper notification by holders to owners of unclaimed property. These guidelines will be mailed to all holders of record.

The DC Auditor recommended that penalties should be assessed against those holders that have not exercised due diligence in providing notification to owners of property presumed abandoned.

The CFO agrees with the recommendation. Pursuant to an education campaign and public notification, penalties shall be assessed against those holders that have not exercised due diligence in providing proper notification to owners of property presumed abandoned in accordance with District Code Section 42-235.

The District Auditor recommended that the Office of Financial Operations and Systems (OFOS) should forward a list of uncleared checks to related agencies prior to submitting the report of unclaimed checks to the UPU. The respective agencies must notify the owners that their property will be remitted to the UPU. Upon receipt of the District's unclaimed property report, the UPU should also notify owners as required by law.

The CFO agrees with the recommendation. The Office of Financial Operation and System has purchased reconciliation software that improves on the District's ability to determine valid stale dated checks. The OFOS will forward a list of uncleared checks to agencies prior to submitting the report of unclaimed checks to the UPU. The OFOS transmittal letter will remind the agencies of their responsibility to determine if the original address is valid, and notify the business or individual of the uncashed check.

Holder Reports

The District Auditor recommended that the Director of UPU must review holder reports to determine whether unclaimed property has been under-reported by the holder or whether unclaimed property has been reported at all.

The CFO disagrees with the DC Auditor recommendation that holder reports should be reviewed to determine if the holder has under-reported or not reported at all. A review of the holder reports will not indicate whether or not a company has under-reported. Underreporting of unclaimed property is usually determined through an audit or self-examination of the company. A company that performs good due diligence in locating owners of unclaimed property will report less unclaimed property as a similar company that does not perform due diligence. However, the UPU will ensure that all holder reports are included in its analysis for selecting audits (i.e. audit scoring).

The District Auditor recommended that the Director of the UPU must enhance the Unit's in-house and contract audit capacity and establish a practice of conducting routine audits of holder reports.

The CFO partially agrees with the DC Auditor recommendation. As mentioned above, the UPU will include all holder reports for audit scoring. Based on these results, the UPU will determine the number of audits to be performed, as well as its resource needs.

Physical Custody of Property

The District Auditor recommended that the Director of UPU must evaluate the effectiveness of the “vault” in which unclaimed property may be stored in the future. Security features must be upgraded if it is determined that current features are inadequate to safe guard assets. After implementation of an effective security system, all abandoned personal property in safe deposit boxes must be delivered to the District.

The CFO agrees with the recommendation. Although the current security features of the vault include monitored electronic access for entrances and exits, the UPU will perform a thorough review of the security system. Any security updates will be implemented, and the UPU will require all safe deposit box holders to transfer the abandoned personal property.

Physical Inventory

The District Auditor recommended that the Director of UPU must ensure the preparation of an inventory of all unclaimed property reported and delivered, as well as property reported but not delivered to it.

The CFO agrees with the recommendation. Inventory of all property delivered or not delivered shall be routinely scheduled. Sufficient resources shall be allocated to the UPU to achieve this goal.

Assessment of Penalties and Interest

The District Auditor recommended that pursuant to D.C. Code, Section 42-235, unclaimed property program officials should assess and collect all interest and penalties from holders for failure to pay or deliver unclaimed property to the District by the due date, or provide an explanation of why interest and penalties were waived.

The CFO agrees with the recommendation. The UPU shall establish penalty and interest assessment procedures, and use the Office of Tax and Revenue’s procedures as a guide. The UPU penalty and interest procedures should assist the UPU in enforcing D.C. Code, Section 42-235.

Claims Processing

The District Auditor recommended that the Director of the UPU should ensure that a detailed written explanation is provided to each claimant indicating the specific documents needed and the UPU's process for paying each claim.

The CFO agrees with this recommendation. This is the current practice.

The District Auditor recommended that the Director of UPU should maintain statistics on the number of days from receipt of a claim request to the date the claim is paid. Actions should be initiated to ensure that claims are paid within 30 days of receipt of the claim.

The CFO agrees with the District Auditor's recommendation. The UPU is currently populating the unclaimed property database to track this information.

The DC Auditor recommended that if the unclaimed property officials determined that costs would be consistently deducted from unclaimed property funds, the officials should develop and implement a methodology to equitably assess those costs.

At this time, costs are not deducted from unclaimed property funds. If this deduction becomes a consistent part of operations, a detailed methodology will be implemented to equitably assess those costs.

The District Auditor recommended that the Mayor should consider paying claimants interest earned on unclaimed property after the District's receipt of such property.

The CFO shall consider paying claimants interest. However, the current and prevailing opinion among the States and the District of Columbia is not to pay interest on deposits. The Unclaimed Property Unit is providing a free service to District residents. There are many heirfinding companies that charge between 10% and 40% of the value of the unclaimed property.

Holder Audits

The District Auditor recommended that the Director of the UPU should initiate additional audits of holders in order to determine whether holders have complied with the unclaimed property law.

The CFO agrees with the District Auditor's recommendation, and as mentioned before the UPU will assess its resource needs based on its audit scoring methodology. In addition, the UPU Director will ensure that the contract for audit services incorporate firms that specialize in unclaimed property audits.

The District Auditor recommended that the Director of the UPU must develop a uniform system of maintaining files of ongoing and completed holder audits.

The CFO agrees with the District Auditor's recommendation, and will implement a system for maintaining its files, and incorporates these procedures in its policy and procedures manual.

The District Auditor recommended that the Director of the UPU must immediately review each audit file and ensure that audit findings have been addressed and that holders have remitted agreed upon amounts to the District.

The CFO agrees with the District Auditor's recommendation. For past audits, the UPU Director will immediately initiate a review of the audit files, and for new audits, incorporate a follow-up review as part of the audit process.

The District Auditor recommended that the Director of the UPU must develop a policy regarding holders who resist an audit.

The CFO agrees with the recommendation. D.C. Code Section 42-230 gives the Mayor subpoena powers against any holder that refuse to allow their records to be examined. The UPU Director will discuss enforcement procedures with the OCFO General Counsel.

The District Auditor recommended that the Director of the UPU must develop policies and procedures concerning the reporting and remitting of unclaimed property found by auditors.

The CFO agrees with the recommendation, and will include these procedures in the final UPU policy and procedure manual.

The District Auditor recommended that unclaimed property officials must collect all amounts determined to be due and payable to the District government unless there is a documented, relational basis for accepting less.

The CFO agrees with the recommendation.

The District Auditor recommended that the UPU managers must develop criteria for the sale of unclaimed property including selecting items to be sold as well as determining the sale price.

The CFO agrees with the recommendation.

Trust Fund

The District Auditor recommended that the Director of the UPU and the Chief Financial Officer must immediately review the statutory requirement for the establishment of an unclaimed property trust fund to determine whether such a fund is needed.

The CFO agrees with the recommendation, and will ask the Director of the UPU to discuss the statutory requirement with the OCFO General Counsel.

The District Auditor recommended that the Director of the UPU and the Chief Financial Officer should review the amounts refunded in recent years to ensure that the unclaimed property trust fund, if established, would be adequately funded to cover claim payments made each fiscal year.

The Office of Financial Operations and Systems has established an unclaimed property liability account based on historical trends and the anticipated upward trend in processing claims. Total refunds paid are compared to the monthly forecast to determine if the liability account should be adjusted to reflect a higher number of claims that are paid. Additions to the liability account are funded from current year's receipts.

Outreach Efforts

The District Auditor recommended that the UPU must improve its outreach efforts to locate holders of unclaimed property. These efforts should include, but not be limited to, identifying entities conducting business in the District that have never submitted unclaimed property but are likely to possess such property.

The UPU has greatly expanded its outreach efforts compared to prior years. Outreach efforts included participation in the National Database of unclaimed property owners, publishing names in three local papers, participating in industry roundtable sessions, mailing notices to claimants, participating in various Wards, Advisory Neighborhood Council (ANC) meetings, and various local events. The UPU will continue to improve its outreach efforts.

The District Auditor recommended that the Director of the UPU must implement additional procedures to actively search for those owners identified on holder reports. These searches could include reviews of telephone directories as well as information on the Internet.

The UPU is currently utilizing these sources where applicable.

The District Auditor recommended that the Director of the UPU must consider comparing names of unclaimed property owners to the IRS, Social Security Administration, and other similar agencies in an attempt to locate owners.

The CFO agrees with the recommendation. The UPU has already contacted the IRS for such data sharing as a FY 2001 initiative. Contact with the Social Security administration and other data matching services are also planned.

The District Auditor recommended that the UPU should publish the names of all unclaimed property owners regardless of the year in which the property was reported. This publication should include not only the names for the most recent report year but for all unclaimed property.

The CFO disagrees with this recommendation. Publishing in excess of 250,000 names twice a year is not utilizing best practices in identifying owners and is cost prohibitive. It is unlikely that the general population will view such a large list for their names. Use of other outreach measures are more conducive to the general population determining if they have unclaimed property. The entire database is currently on the District's website and is on a national database of unclaimed property owners.

If you have any further questions or concerns, please contact me at (202) 727-2476, or your staff can contact John Robinson, Acting Deputy Chief Financial Officer for the Office of Finance and Treasury.

Sincerely,



Natwar M Gandhi
Chief Financial Officer

Cc: John Robinson, Acting DCFO/OFT
Anthony Pompa, DCFO/OFOS
Elliot Kindred, Director, UPU
Wilma G. Matthias, Director, IAIS