

# California State Auditor

B U R E A U O F S T A T E A U D I T S

## **State Controller's Office:**

*Does Not Always Ensure the Safekeeping, Prompt Distribution, and Collection of Unclaimed Property*



June 2003  
2002-122

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# CALIFORNIA STATE AUDITOR

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June 19, 2003

2002-122

The Governor of California  
President pro Tempore of the Senate  
Speaker of the Assembly  
State Capitol  
Sacramento, California 95814

Dear Governor and Legislative Leaders:

As requested by the Joint Legislative Audit Committee, the Bureau of State Audits presents its audit report concerning the State Controller's Office's operation of the Bureau of Unclaimed Property (bureau).

This report concludes that the bureau's controls over its information technology system are insufficient to ensure the proper safekeeping of property in its custody and that its processes do not sufficiently ensure the proper distribution of unclaimed property to their rightful owners. It also concludes that the Financial-related Audits Bureau failed to pursue unclaimed property estimated to total \$6.7 million. The State Controller's Office has taken action to correct some of the problems we identified, but needs to implement further changes.

Respectfully submitted,

ELAINE M. HOWLE  
State Auditor

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# SUMMARY

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## Audit Highlights . . .

*Our review of the State Controller's Office (controller), Bureau of Unclaimed Property (bureau), revealed the following:*

- ☑ *The bureau's computerized Unclaimed Property System lacks sufficient controls to prevent unauthorized changes, and the duplication of account data, potentially resulting in the payment of fraudulent or duplicate claims.*
  - ☑ *The bureau's manual tracking of securities is unreliable and the bureau is inconsistent in how quickly it sells securities.*
  - ☑ *The bureau excludes more than \$7.1 million in unclaimed property from its Web site.*
  - ☑ *The bureau does not consistently review and distribute claims in a reasonable amount of time.*
  - ☑ *The bureau does not ensure that it receives all of the reported contents of safe deposit boxes.*
  - ☑ *The controller's Financial-related Audits Bureau did not pursue an estimated \$6.7 million in unclaimed property from one holder.*
- 

## RESULTS IN BRIEF

The primary purpose of the Bureau of Unclaimed Property (bureau) is to reunite owners with their lost or forgotten property. Common types of unclaimed property include checking and savings accounts, contents of safe deposit boxes, and securities. Since 1959, the State has accumulated more than \$3.4 billion in unclaimed property in approximately 5.2 million accounts. Since fiscal year 1997–98, the bureau's receipts of unclaimed property have exceeded its disbursements. The increase in receipts has been accompanied by a significant increase in the number of paid claims for property held by the bureau. Between fiscal years 1997–98 and 2001–02, the number of claims paid increased from 115,236 to 204,621.

The Unclaimed Property Law (law) requires business associations, banking and financial organizations, life insurance corporations, and others (holders) to review their records each year to determine whether they hold any unclaimed property. The amount of time that the holder can hold unclaimed property before reporting and remitting it to the bureau varies by type, ranging from six months to 15 years, with the majority of types reportable after three years. Further, the law requires both the holders and the bureau to attempt to notify the owners that the property will escheat, or has escheated, to the State.<sup>1</sup> Additionally, the law authorizes the State Controller's Office (controller) to audit holders if there is reason to believe they failed to report property as required.

We found that the bureau's computerized Unclaimed Property System (property system), which it uses to track and disclose unclaimed property, is not sufficiently reliable. Because the controller discovered that staff could make unauthorized changes to the property system, the controller's Information Systems Division prepared programming changes to prevent unauthorized changes to the property system and the potential payment of fraudulent claims. However, because of a reprioritization of the workload, not all of these programming changes have been made and the bureau's staff could still make

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<sup>1</sup> As used here, escheat is the transfer of unclaimed property from the holder to the bureau for safekeeping until claimed by the owner or the owner's heir.

unauthorized modifications to data in the property system, such as owners' names and amounts remitted on their behalf, as recently as May 8, 2003. As a result, bureau staff could make unapproved changes that may go undiscovered, potentially resulting in the payment of fraudulent claims to themselves or others. The Information Systems Division installed programming changes, on May 16, 2003, that will prevent staff from making some unauthorized changes but not others.

In addition, until recently no effective controls existed to prevent the duplication of account data in the property system. Although in 2002 the controller implemented controls to prevent duplicate entries from occurring, the bureau has not eliminated all existing duplicate entries from the property system. We identified 16 holder reports totaling more than \$535,000 that are duplicated in the property system, potentially resulting in the payment of duplicate claims and the provision of inaccurate information to the public. Although the controller states that it has taken action to prevent payments on the duplicate reports, at least some of the duplicate properties still appear on the bureau's Web site.

Furthermore, inaccuracies in the property system may result in the incorrect billing of holders for interest penalties from which they should be exempt under the controller's amnesty program. Beginning in 2000, holders were allowed amnesty for their past failures to report unclaimed property on or before November 1, 1999, and were exempted from paying an interest penalty. However, the bureau did not include an amnesty indicator in the property system for all qualifying holder reports, and the controller has not modified its program that calculates interest penalties to exclude holder reports that were granted amnesty. The controller will have to correct both problems to avoid inappropriately billing the holders that it granted amnesty.

Because the bureau cannot use the computerized property system to track changes in securities, it tracks these manually, increasing the probability of error and the number of staff needed to accommodate the workload. We found that the bureau's manual tracking of securities is unreliable and that the bureau is inconsistent in how quickly it sells securities. Moreover, because the bureau tracks securities by company name rather than by individual owner, when corporate actions such as stock splits result in the issuance of additional securities, the bureau does not consistently associate the new securities

with the original securities. This results in securities for the same owner being sold on different dates for different prices, further complicating the bureau's reconciliation process, increasing both the potential for errors and the risk of allegations that the bureau has mismanaged owners' assets.

We also found that the bureau excludes a large amount of unclaimed property reported to it for federal and state departments, local governments, schools and school districts, other states, and some private entities from its Web site. As of April 30, 2003, the bureau held more than \$7.1 million in unclaimed property for various entities that it had not posted on its Web site. As a result, even if the entities check the bureau's Web site to see if the State has some of their property, they would erroneously conclude that it did not.

The bureau does not consistently approve or deny claims within 90 days after it receives them. We found that claims for securities require more research than claims for most other types of property and generally are not approved within 90 days. In addition, the bureau often takes an unreasonable amount of time to pay claims once they are approved. We found that only 30, or 68.2 percent, of 44 claims we examined were distributed within 30 days of approval. Only two of the 10 claims for securities were distributed within 30 days of approval—a further indication of problems caused by the bureau's cumbersome system for tracking securities.

Also, the bureau does not ensure that it receives all of the reported contents of abandoned safe deposit boxes. Although the holders prepare an inventory of the contents of safe deposit boxes they remit, the bureau disregards this inventory and prepares its own, creating unnecessary work. In addition, the bureau does not compare the contents it receives to those reported by the holders. Such a comparison would reduce the bureau's liability for items not remitted by the holder.

In addition, the bureau has not sold the contents of safe deposit boxes on a frequent basis. Although it is not required to sell the contents, failure to do so results in higher costs to the State to store and safeguard those contents and the overcrowding of its safe deposit box vault. Further, the bureau does not consistently take measures to ensure that it receives all of the proceeds from the sale of these assets. Instead, it relies on what the auctioneer reports as sale prices.

Lastly, the controller's audit bureau does not always fully pursue unclaimed property that its auditors have a reasonable basis for believing should be remitted to the State. Specifically, we found that even though its auditors estimated in January 2002 that one holder failed to remit \$6.7 million beginning as far back as 1978, the audit bureau did not move forward to substantiate or invalidate the estimated findings. After we brought this to the controller's attention, the audit bureau reopened the examination of the holder. Assuming that the audit bureau substantiates the \$6.7 million and the holder remits the funds on June 30, 2003, the estimated interest penalty would be nearly \$8.2 million, resulting in the potential collection of more than \$14.9 million. By not exercising due diligence in pursuing the collection of unclaimed property that there is a reasonable basis to believe should have been remitted, the controller is not fulfilling its responsibility to reunite owners with their lost or forgotten property.

## **RECOMMENDATIONS**

To increase the reliability of the data in the property system, the bureau should do the following:

- Implement the programming changes necessary to ensure that employees cannot make unauthorized and undetected changes to the property system.
- Remove all duplicated account data from the property system.

To avoid issuing incorrect bills to property holders granted amnesty, the bureau should ensure that all qualifying reports are identified in the property system and that necessary changes are made to the billing program.

To eliminate the bureau's manual tracking of securities and dispel any impressions that it exercises judgment in deciding the best time to sell securities, the controller should seek legislation to require it to sell securities immediately upon receipt. Additionally, the bureau should immediately sell all securities already in its custody.

To fully inform all entities that it has their unclaimed property in its possession, the bureau should discontinue excluding any properties from its Web site.

To ensure that it distributes assets to bona fide claimants in a timely manner, the bureau should do the following:

- Review all claims and either approve or deny them within 90 days of receipt.
- Distribute assets on approved claims within 30 days of approval.

To ensure that it has properly accounted for all of the owners' properties, the bureau should develop a standard inventory form for holders to report the contents of safe deposit boxes and for the bureau to verify that it has received all of the reported contents from the holders. To reduce the cost of storing the contents of abandoned safe deposit boxes, the bureau should hold auctions at least monthly. It should also take measures to independently verify that it is receiving all of the proceeds from the auctions.

To ensure that it collects all unclaimed property, the controller should complete its examination of estimated unclaimed property that its auditors have a reasonable basis for believing should be remitted to the State. Further, the bureau should ensure that it bills and collects the applicable interest penalties based upon the results of the audit bureau's examination.

## **AGENCY COMMENTS**

The controller generally agreed with our recommendations and plans to take specific actions to address areas of concern identified in the report. The controller also states that it has begun to implement some of our recommendations. However, the controller believes that we have in some cases overstated the significance of our findings. For example, the controller contends that its failure to pursue \$6.7 million of estimated escheatable property was an isolated incident. We provide comments to clarify and add perspective to the controller's response to the audit in the final pages of this report. ■

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# INTRODUCTION

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## BACKGROUND

The primary purpose of the Bureau of Unclaimed Property (bureau) is to reunite owners with their lost or forgotten property. The bureau is part of the Division of Collections within the State Controller's Office (controller). The following are the most common types of unclaimed property:

### Terms Related to Unclaimed Property

**Claimant**—A person or group of persons who files a claim with the controller to obtain property in the bureau's or the holder's possession.

**Escheat**—The transfer of unclaimed property from the holder to the bureau for safekeeping until claimed by owners or their heirs.

**Holder**—A person or a business that holds unclaimed property, such as business associations, banking and financial organizations, and life insurance corporations.

**Owner**—A person or persons, or a business that owns the unclaimed property and is entitled to the property or the proceeds from its sale.

**Securities**—Assets such as stocks, bonds, and mutual funds.

**Unclaimed property**—Any financial asset left inactive by the owner for a specified period of time.

Source: Unclaimed Property Law and the Bureau of Unclaimed Property's Web site.

- Checking and savings accounts
- Contents of safe deposit boxes
- Securities such as stocks, mutual funds, bonds, and dividends
- Uncashed cashier's checks and money orders
- Certificates of deposit
- Matured or terminated insurance policies
- Estates
- Mineral interests and royalty payments
- Escrow accounts

## THE UNCLAIMED PROPERTY LAW GOVERNS THE BUREAU'S OPERATION

The Unclaimed Property Law (law) governs the bureau's and the controller's handling of unclaimed property. The law requires holders to review their records each year to determine whether they hold any unclaimed property. Further, the law generally requires every holder of unclaimed property worth at least \$50 to report to the bureau the owner's name, last known address, and the date of the last transaction with the owner. The amount of time that the holder can hold unclaimed property before reporting it to

### Escheat Periods By Property Type

Property Type	Escheat Periods
Assets from voluntary or involuntary dissolutions	6 months
Court-ordered refunds	1 year
Savings, matured time deposits, demand deposits, negotiable orders of withdrawal, plus interest or dividends	3 years
IRAs, Keogh plans	3 years
Safe deposit boxes, safekeeping repositories	3 years
Funds held by life insurance companies	3 years
Stocks, dividends, profit distributions, interest	3 years
Funds held by fiduciaries, agents	3 years
Funds held by government or governmental agencies	3 years
Miscellaneous property held in the normal course of business	3 years
Employee benefit trust distributions	3 years
Other written instruments (banking and financial associations)	5 years
Money orders	7 years
Travelers checks	15 years

Source: Code of Civil Procedure, sections 1513 through 1521.

the bureau, known as the escheat period, varies by property type.<sup>2</sup> The escheat period usually begins on the holder's date of last contact with the owner and, as shown in the textbox, ranges from six months to 15 years, with most property types escheating after three years.

Property escheats to the State if the last known address of the apparent owner is in this State or if the holder is domiciled in this State and the owner has not indicated an interest in the deposit within the escheat period. Further, property received by the State under the law never permanently escheats to the State; however, the property may remain in the State's custody indefinitely.

The law requires that both the holders and the bureau attempt to notify the owners that the property will escheat, or has escheated, to the State. Specifically, every banking or financial organization is required to make reasonable efforts to notify any customer, by mail if the holder's records include an address, that the customer's property will escheat to the State. If the property escheats to the State, the bureau must, within one year of the remittance or delivery of escheated property, publish a notice in a newspaper of general circulation that the bureau determines is most likely to give notice to the apparent owner of the property. In addition, if the holder's data include a Social Security number, the bureau must request the Franchise Tax Board (tax board) to provide a current address, and the bureau must mail a notice to the owner if the address in the tax board's records is different from

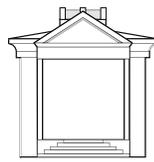
the address that the holder reported to the bureau. The law does not specify a time frame in which this notice must occur.

As shown in Figure 1, the bureau relies on the holders to report unclaimed property to it. To persuade holders to report, the law allows the controller to examine holders' records if it has reason to believe they have failed to report property that is legally reportable. The audits of holders of unclaimed property intend to uncover all property that is legally reportable to the bureau.

<sup>2</sup> As used here, escheat is the transfer of unclaimed property from the holder to the bureau for safekeeping until claimed by the owner or the owner's heir.

**FIGURE 1**

**The Flow of Information From the Holder to the Bureau of Unclaimed Property**



**Holders**

Send reports of escheated property. Reports contain owners' names, last known addresses, Social Security numbers, and property identifications.

**Bureau of Unclaimed Property**



**Reporting Unit**

Reviews holders' data for compatibility with the property system and sends them to Information Systems Division for uploading.



**Information Systems Division**

Uploads reports into the property system and alerts the reporting unit when complete.



**Accounting Unit**

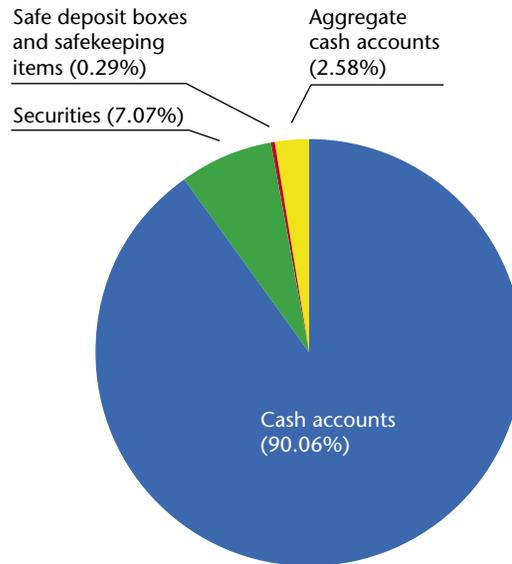
Once reports have been uploaded, owners may begin to claim their property. For reports containing securities, the accounting unit reconciles with the ledgers before they can be paid.

**THE UNCLAIMED PROPERTY FUND HAS INCREASED SIGNIFICANTLY**

Since 1959, the Unclaimed Property Fund (fund) has accumulated more than \$3.4 billion of unclaimed property in more than 5 million accounts. As shown in Figure 2 on the following page, the majority of the individual properties remitted to the bureau are in the form of cash. Cash accounts include insurance claim checks, checking accounts and demand deposits, insurance premiums, refunds, court settlements, savings accounts, and credit union share accounts. The bureau uses aggregate cash accounts for accounts valued at less than \$50 each and for which owner information is not available.

**FIGURE 2**

**Types of Unclaimed Property**



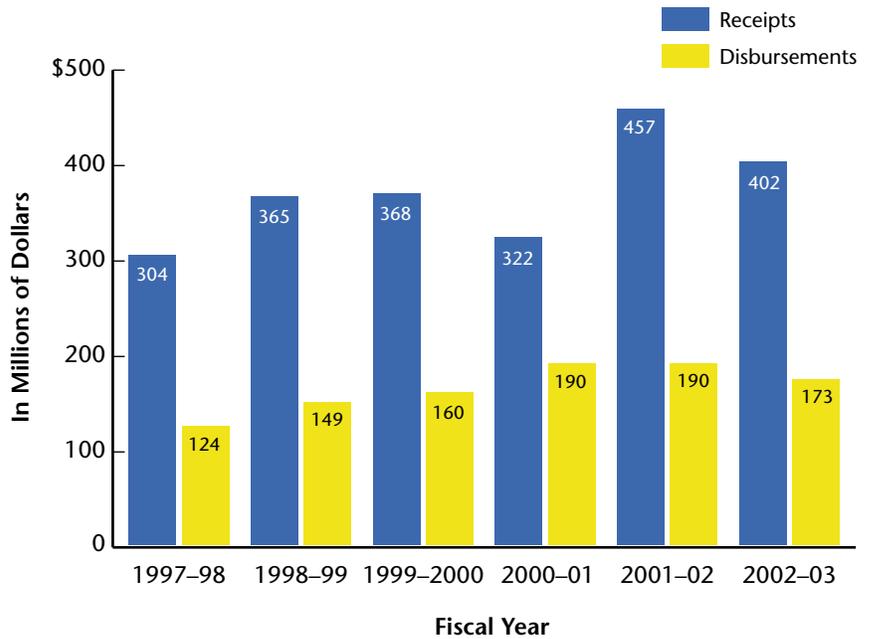
Source: Unaudited data from the Unclaimed Property System of the Bureau of Unclaimed Property, as of February 14, 2003.

Further, as shown in Figure 3, since fiscal year 1997–98, the fund’s receipts have exceeded its disbursements. As discussed below, this results in increased transfers to the State’s General Fund. The fund’s receipts have grown significantly, from \$304 million in fiscal year 1997–98 to \$457 million in fiscal year 2001–02, a 50 percent increase. In addition, the fund’s disbursements have grown from \$124 million in fiscal year 1997–98 to \$190 million in fiscal year 2001–02, a 53 percent increase. As shown in Figure 4 on page 12, during this period the number of claims paid increased from 115,236 in fiscal year 1997–98 to 204,621 in fiscal year 2001–02.

The increase in the receipts of unclaimed property has also allowed for increased transfers to the General Fund. According to the law, the bureau must transfer amounts in the Abandoned Property Account in excess of \$50,000 to the General Fund at the end of each month. These transfers allow the General Fund to use the receipts of the Abandoned Property Account until the rightful owners claim the property. Transfers to the General Fund, in accordance with the law, account for most of

**FIGURE 3**

**Unclaimed Property Receipts and Disbursements**



Source: Unaudited data from the monthly administrative reports of the Bureau of Unclaimed Property and General Fund transfer analyses.

Note: The information for fiscal year 2002-03 is based on actual amounts received and disbursed between July 1, 2002, and April 30, 2003, and projected amounts for May 1 through June 30, 2003.

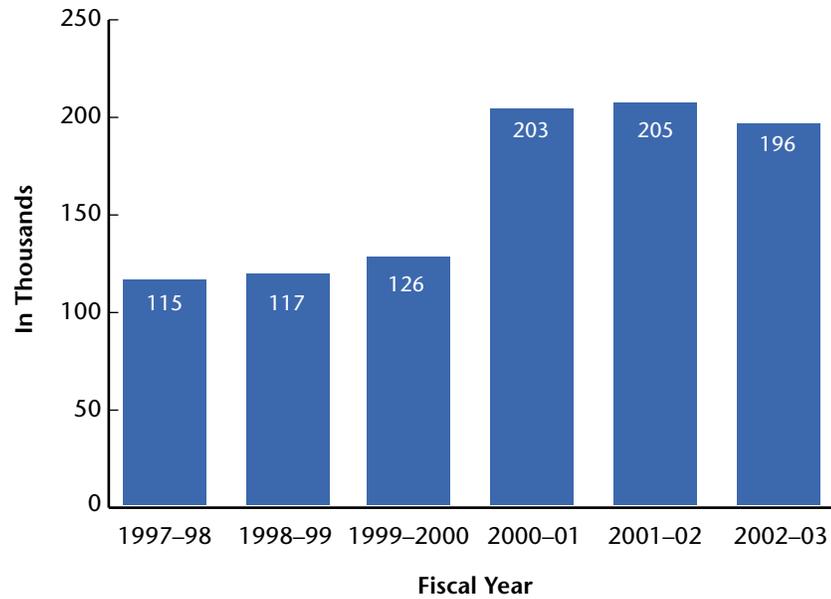
the \$3.4 billion that the bureau has accumulated. As shown in Figure 5 on page 13, transfers to the General Fund increased substantially between fiscal years 1998-99 and 2002-03. During that time, the bureau transferred almost \$1.06 billion to the General Fund.

**SCOPE AND METHODOLOGY**

The Joint Legislative Audit Committee (audit committee) asked the Bureau of State Audits to evaluate the process used by the controller’s bureau for identifying unclaimed property from corporations, business associations, financial institutions, insurance companies, and other holders. Further, the

**FIGURE 4**

**The Number of Claims Paid Between  
Fiscal Years 1997–98 and 2002–03**



Source: Unaudited data from the monthly activity reports of the Bureau of Unclaimed Property.

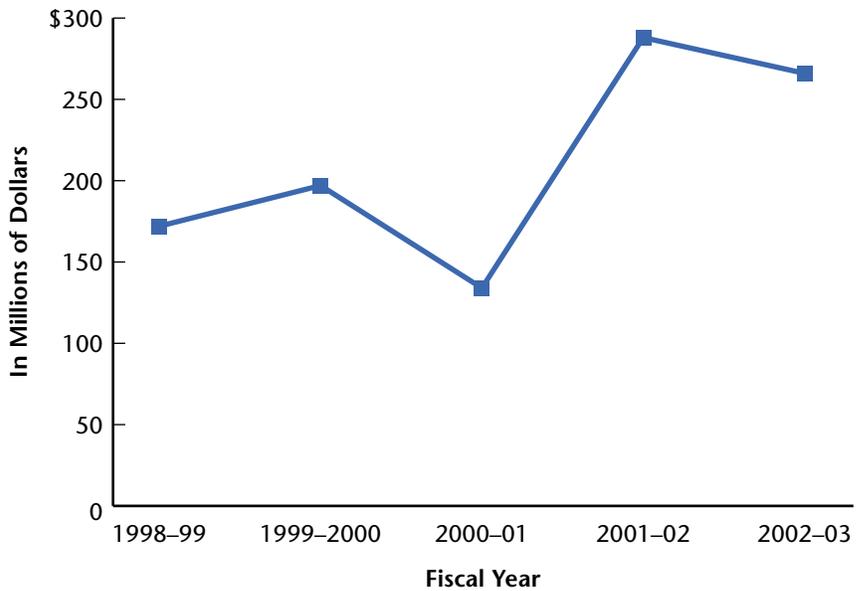
Note: The information for fiscal year 2002–03 is based on the actual number of claims paid between July 1, 2002, and June 4, 2003, and the projected number of claims paid between June 5 and June 30, 2003.

audit committee asked us to determine whether the bureau distributes unclaimed property to eligible recipients accurately and in a timely manner. We were also asked to evaluate the bureau’s process of safeguarding unclaimed property in its custody. Lastly, we were to determine whether the bureau evaluates claimant satisfaction, is responsive to complaints, and has a process in place to identify and implement corrective action.

To evaluate the bureau’s process for identifying unclaimed property, we reviewed information on the audits that the controller conducts of potential holders of unclaimed property. We interviewed staff regarding the process for selecting industries and companies for audit and reviewed a sample of audits conducted by the controller to determine whether the audits conformed to the planned procedures.

**FIGURE 5**

**Transfers to the General Fund Between  
Fiscal Years 1998–99 and 2002–03**



Source: Unaudited data from the monthly administrative reports of the Bureau of Unclaimed Property and General Fund transfer analyses.

Note: At the time of our audit, the fiscal year 2002–03 transfer amounts were only available for the months of July 2002 through March 2003.

To determine whether the bureau distributes unclaimed property to eligible recipients accurately and in a timely manner, we reviewed data contained in the bureau’s Unclaimed Property System and related documents for a sample of 45 randomly selected claims paid between July 1, 2001, and March 5, 2003; the bureau was unable to locate the documentation for one claim that we requested, reducing our sample size to 44. We reviewed applicable laws, supporting documentation, and bureau procedures, and we interviewed bureau staff to assess whether the bureau verified the identity of the person claiming the property; the bureau provided evidence that it verified the identity of the person claiming the property for all but one claim. Further, we reviewed documentation to determine the timeliness with which the bureau approved and distributed the property to the claimant.

To evaluate the processes for safeguarding unclaimed property in its custody, we reviewed the bureau's policies and procedures for the safekeeping of securities and the contents of safe deposit boxes remitted to it. Additionally, we interviewed the bureau's staff directly responsible for the safekeeping of 32 randomly selected securities and 32 judgmentally selected safe deposit boxes. Lastly, we reviewed documentation supporting the inventory and valuation of those properties. In view of pending litigation against the controller regarding the distribution of unclaimed securities, we intentionally excluded the securities of nine companies specifically named in the litigation; however, only one of these companies appeared in our original sample selection, and we replaced it with another company selected at random.

To determine whether the bureau evaluates claimant satisfaction, is responsive to complaints, and has a process in place to identify and implement corrective action, we reviewed claimant surveys conducted by the bureau between November 2002 and March 2003. We also talked with the bureau's management regarding its process to identify and implement corrective actions. Although the bureau recently began analyzing the results of the claimant surveys and has implemented policies and procedures to address problem areas the surveys identify, it is too soon to determine the effect of these efforts. ■

# CHAPTER 1

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## ***Controls Over the Bureau's Unclaimed Property System Are Insufficient to Ensure the Proper Safekeeping of Property in Its Custody***

### CHAPTER SUMMARY

The Bureau of Unclaimed Property (bureau) relies on its computerized Unclaimed Property System (property system) to track unclaimed property escheated to the State by persons and businesses holding unclaimed property (holders) and to disclose that the State Controller's Office (controller) has the unclaimed property.<sup>3</sup> However, the property system is not sufficiently reliable. Our primary concern is that the controller has not implemented controls to prevent bureau employees from making unauthorized changes to the system, despite knowing about this problem for eight months. Further, the property system does not generate reports that would reveal when unauthorized changes are made and by whom. These flaws allowed two student assistants to conspire to modify owner names in the data and allowed their accomplices to fraudulently claim some of the property.

Prior to 2002, the property system lacked effective controls to prevent duplicate data from being loaded into the property system. Although the controller took action to correct this weakness, as of May 6, 2003, the bureau had not yet removed all of the duplicate data from its property system. For example, we identified 16 holder reports totaling more than \$535,000 that were duplicates of other reports in the property system. While the Information Systems Division reports it has taken action to prevent payments on properties listed on the duplicate reports, some of the properties are still on the bureau's Web site. Individuals using the Web site to determine whether the controller has their property may inadvertently conclude that they are owed more than the actual amount.

The bureau does not reconcile the total amount remitted for each holder report to the total of all the individual accounts loaded into the property system by that report. Our analysis of the data

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<sup>3</sup> As used here, escheat is the transfer of unclaimed property from the holder to the bureau for safekeeping until claimed by the owner or the owner's heir.

for the 2000 reporting period determined that the amounts reported for individual accounts were less than the amounts remitted by the holders by more than \$75,000, indicating three possibilities: the holders overpaid the amount due, they failed to include some individual accounts on their reports, or not all of the properties for which funds were remitted were uploaded to the property system. This may result in claimants not receiving funds to which they are legally entitled.

Furthermore, the bureau's staff manually entered nearly 6,700 holder reports directly into the property system due to problems with a holder's electronically submitted reports. In doing so, the bureau bypassed most of the automatic system checks that could have identified errors in the data, such as verifying data formats and checking for duplicate information. The bureau has established a procedure to verify the data in these records as claims come in, but it does not intend to verify all of the data entered directly into the property system.

Although the bureau relies on its property system to account for and disclose that it has unclaimed property, the bureau's report tracking system indicates that as of June 5, 2003, it had not loaded more than 8,500 holder reports into its property system. About 4,500 of these reports are less than one year old and are not considered a backlog. The backlog consists primarily of reports submitted in electronic formats for which it no longer has equipment to read the data. The bureau is currently reviewing all holder reports submitted for prior report years and attempting to either upload the data into the property system or contact the holders to request that they resubmit the data in the current reporting format. The backlog prevents the bureau from notifying owners that it has their property.

### **INACCURATE DATA CONTAINED IN THE BUREAU'S PROPERTY SYSTEM HAS RESULTED IN THE PAYMENT OF FRAUDULENT AND DUPLICATE CLAIMS**

The controller has known for more than eight months that bureau employees have the ability to make unauthorized changes to data in its property system. The controller's Information Systems Division began to prepare programming changes to correct this control weakness eight months ago. However, as of May 8, 2003, the programming changes to correct the problem had not been installed, because of a reprioritization of the workload. As a result, the bureau's staff

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***Two student assistants conspired to modify owner names in the property system and had accomplices fraudulently claim property.***

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could still add, modify, or delete critical data contained in the property system, such as a property owner's name, the date the property was remitted to the controller, or the remitted dollar amount. In addition, because the property system does not produce management reports that specifically identify when or by whom additions, modifications, or deletions of data are made, unapproved changes may occur and go undiscovered. In fact, the bureau found that in 1999 two student assistants conspired to modify owner names in the data and had accomplices fraudulently claim property. One accomplice claimed and was paid \$58,667. The controller investigated, sought prosecution, and ultimately obtained \$41,667 in restitution from the two former student assistants as part of their sentences. The controller did not pay two other claims—one for \$14,454 and another for \$17,223—because it identified the claims as being fraudulent before paying them.

On May 16, 2003, the bureau notified us that the Information Systems Division had installed programming changes to prevent unauthorized changes to the property system that could result in fraudulent payments to bureau staff and others. However, as of May 22, 2003, bureau staff could still modify some information. For example, staff could still add an owner's name to an existing record.

In addition, before 2002, the property system did not have an effective control in place that prevented unclaimed property data from being uploaded more than once. To determine whether the property system contains duplicate data, we reviewed data from nearly 9,000 holder reports loaded into the property system during the 2000 reporting period.<sup>4</sup> We identified 16 holder reports totaling more than \$535,000 that duplicated other reports in the property system. The number of individual accounts turned over to the State in each holder report varies; in some cases, a holder will escheat a single account, and in others it will escheat many accounts. In 2002, the bureau added additional program code to detect potential duplicate reports and prevent them from being loaded. However, our analysis showed that the bureau did not remove all of the duplicates that already exist in the property system.

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<sup>4</sup> Holders must report property that was unclaimed as of June 30 or the end of their fiscal year to the bureau by November 1 of each year. The exception is insurance companies, which must report property that was unclaimed as of December 31 or the end of their fiscal year by May 1 of each year.

Although the Information Systems Division reports it has taken action to prevent payments on properties listed on the duplicate reports, some of the properties are still on the bureau's Web site. Of the \$535,000 in duplicate records, the Information Systems Division reported that it had identified and zeroed out the total balance available for payments totaling \$269,000. Presumably zeroing out the balance available for payment for the duplicate reports would prevent payment on any of the properties included in these reports. However, doing so did not always result in the property records being removed from the bureau's Web site. For example, we tested two holder reports that were previously identified as duplicates and for which the bureau had reportedly zeroed out the total balance available for payment. Two of the six owners we randomly selected had duplicate information reported on the bureau's Web site, resulting in an overstatement of \$29,000. For example, one property owned by a business appeared three times on the bureau's Web site, resulting in a \$24,000 overstatement of value. Additionally, the remaining \$266,000 in duplicated records, which the controller had not yet identified, was still in its property system as of May 6, 2003. On May 19, 2003, the Information Systems Division notified us that they are taking action to remove the remaining records.

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*The controller overpaid more than \$60,000 because of duplicate accounts in its property system.*

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The duplication of unclaimed property data in the property system has resulted in the payment of duplicate claims. In fact, in September 2002, the Information Systems Division identified more than \$80,000 of potential duplicate payments made to owners. We randomly selected four payments to owners of four properties to test and found that in all four cases, the controller had paid the owners double the amount, plus interest, resulting in overpayments of more than \$60,000. To the controller's credit, it successfully recovered two duplicate payments totaling more than \$37,000 in November 2002. The controller is currently attempting to recover the other overpayments. However, in one instance the controller delayed recovering an overpayment of \$9,700 made in September 2000 for nearly two years because the duplication was not identified until September 2002.

Further, our analysis showed that the property system erroneously contains multiple records of a single property for the same owner. Although the manager of the Information Systems Division claims that the duplication is caused by holders submitting the owner data more than once for the same property in the same report, the property system's failure to detect this duplication impairs its reliability. We found that in some cases in which an owner record was duplicated in the

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***The property system erroneously contains multiple listings for the same owner, for the same property.***

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property system, the duplication also appeared on the bureau's Web site. We researched a total of 17 apparent duplicate owner records for businesses and individuals and found that 12 had duplicate owner records on both the property system and the bureau's Web site, resulting in an overstatement of \$150,000 in owners' assets in the bureau's custody. For example, we found a business that had two owner records for a single bank account, both in the property system and on the bureau's Web site, showing that the bureau had \$63,500 more of the business' money than it actually had. In another example, the property system and the bureau's Web site overstated one individual's mutual fund earnings by \$6,700 because of duplicate owner records. Individuals using the Web site to determine whether the controller has their property may inadvertently conclude that they are owed twice the actual amount.

The bureau does not reconcile the total amount remitted for each holder report to the total of all the individual accounts loaded into the property system by that report. As a result, the property system may contain incomplete property information. Our analysis of the 2000 reporting period data identified 10 holder reports, out of a total of nearly 9,000, in which the total amount of the individual accounts entered into the property system is less than the total amount remitted by the holders. The bureau confirmed that all of the 10 reports were out of balance. Although nearly \$648,000 was reported for the individual accounts, the 10 holders remitted a total of nearly \$723,000, a difference of \$75,000, indicating three possibilities: the holders overpaid the amount due, they failed to include some individual accounts on their reports, or not all of the properties for which funds were remitted were uploaded into the property system. This may result in claimants not receiving funds to which they are legally entitled.

Further, the bureau's staff manually entered nearly 6,700 reports from one holder directly into the property system, circumventing most of the automatic system checks, such as verifying data formats and checking for duplicate information. Problems with the electronically formatted reports submitted by the holder led the bureau to have student assistants enter these reports directly into the property system, bypassing most of the system safeguards. The Information Systems Division manager also informed us that no one verified the accuracy of the data entered by the students. This practice, along with the control weaknesses noted earlier, reduces the bureau's ability to ensure that the data contained in the property system are reliable and complete and that the bureau is adequately safeguarding

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*The bureau's staff manually entered nearly 6,700 holder reports from one holder directly into the property system, circumventing most of the automatic system checks.*

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assets placed in the controller's trust. According to the bureau, it reconciled 219 of the reports. It also told us that it reviewed all of the hard-copy reports for alterations to the data, and verified the accuracy of over 16,000 individual properties as claims for those properties were processed. Although the bureau has established a procedure to verify the data in these records as claims are filed, it has not gone back to verify that all the data for the 6,700 holder reports discussed above was entered correctly.

### **THE BUREAU MAY INCORRECTLY BILL HOLDERS FOR INTEREST PENALTIES**

We found that the bureau may incorrectly bill holders for interest penalties even though the controller has ostensibly granted amnesty to those holders from such penalties. The amnesty program, which began in 2000, was available to holders that met certain requirements outlined in the Unclaimed Property Law (law). The amnesty program was limited to unclaimed property legally escheatable on or before November 1, 1999. The controller told holders that they would be exempt from the 12 percent annual penalty on the value of the unclaimed property they reported, which it normally applies from the date the holder should have remitted the property to the bureau. The amnesty program ended on December 31, 2002, and resulted in the receipt of 4,901 holder reports. Although the bureau's report tracking system indicates that it uploaded more than 4,500 amnesty reports, its property system reflects fewer than 3,000 amnesty reports because the bureau did not mark all of the reports with an amnesty indicator in the property system. Moreover, the controller has not modified its program that generates bills for interest penalties to exclude reports submitted under the amnesty program. Assuming that it in fact received and uploaded 4,500 amnesty reports, the controller will have to correct both problems to avoid inappropriately billing holders for penalties on reports submitted under the amnesty program.

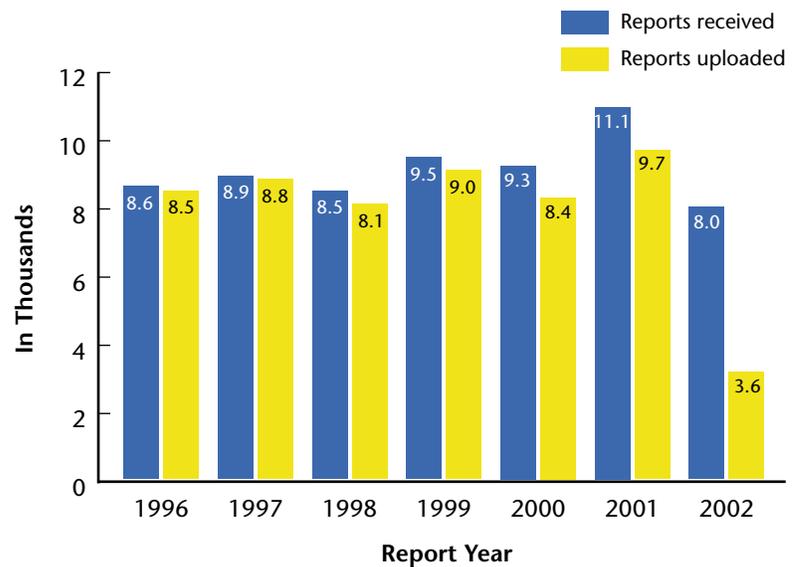
### **ALTHOUGH HOLDER REPORTS MUST BE PROCESSED IN ORDER TO ACCOUNT FOR PROPERTY ESCHEATED TO THE STATE, THOUSANDS OF HOLDER REPORTS AWAIT PROCESSING**

To allow for the tracking and eventual disbursement of unclaimed property, the bureau must process the holder reports by loading the detailed owner data into the property system.

Although the bureau must complete this process to be able to disclose on its Web site that it has the owner’s property, to pay claims, to bill holders for interest due on late filings, and to reconcile the amounts reported by the holders to the amounts actually remitted by the holders, it told us that, as of June 5, 2003, it had not uploaded more than 8,500 holder reports. More than 4,500 of these reports are less than one year old and are not considered a backlog. As shown in Figure 6, the bureau has not yet uploaded some reports from as far back as 1996.

**FIGURE 6**

**Unprocessed Holder Reports Received by the Bureau of Unclaimed Property**



Source: Unaudited data provided by the Bureau of Unclaimed Property.

Note: As of June 5, 2003; the above figure excludes reports received under the controller’s amnesty program.

During discussions with the bureau, we learned that two conditions contribute to its backlog of holder reports:

- Electronic reports in unreadable formats.
- Large increases in the number of holder reports submitted.

Some of the holder reports in the bureau's backlog are in electronic formats that are no longer readable because the bureau does not have equipment to read the data.<sup>5</sup> For example, 21 of the reports awaiting upload are on magnetic tape reels, which the bureau can no longer access. The bureau's manager informed us that the backlog of holder reports may be overstated because some of the reports actually have been uploaded to its property system. It continues to review the remaining holder reports submitted for prior report years and is attempting to upload the data. The bureau reports that over the past six months, it sent 275 letters to holders requesting corrected reports, and has received 67 replacement reports. It plans to continue sending letters requesting old reports be submitted in current reporting formats as these unreadable reports surface. If holders fail to cooperate in resolving the report problems, the bureau plans to send the information to the controller's legal office for possible action.

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*The bureau's backlog in uploading holder reports prevents them from notifying owners that the State has their property.*

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Adding to the backlog is the growth in the number of holder reports submitted, from nearly 8,600 for report year 1996 to a high of 11,075 in report year 2001. Additionally, the controller's amnesty program resulted in the receipt of an additional 4,901 holder reports between 2000 and 2003. To accommodate the workload increase, the bureau received additional limited-term staff in its reporting unit, which is responsible for preparing the holder reports for uploading into the property system.

Because of the backlog in uploading holder reports, the bureau is unable to notify owners that the State has their property. If holder reports are not included in the property system, those assets will not appear on the bureau's Web site. Owners who are unaware that their property escheated to the bureau cannot claim their property. Also, owners who are informed by the holder that their property was remitted to the bureau may experience delays in receiving their property from the bureau due to the additional research necessary to validate the claim prior to the upload of the holder's report. Further, failure to upload the holder reports in a timely manner delays the bureau's ability to bill holders applicable interest of 12 percent per year if they remitted property later than they should have. Cash received from the billing of interest penalties is eventually transferred to the State's General Fund; thus, delays in billing holders results in delays in receipt of such funds by the State.

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<sup>5</sup> We were unable to determine why the bureau did not deal with the reports while the formats were still readable.

## RECOMMENDATIONS

To increase the reliability of the data in the property system, the bureau should do the following:

- Implement the programming changes necessary to ensure that employees cannot make unauthorized and unmonitored changes to the property system.
- Remove all duplicate account data from the property system.
- Ensure that both current and newly hired staff review unclaimed property accounts entered manually when claims are filed against the property to determine the accuracy of the data.

To ensure the accuracy of the data loaded into the property system, the bureau should require its staff to reconcile the total amount remitted by each holder to the total of all the individual records in the property system for that report.

To prevent the billing of penalties for late reporting to holders granted amnesty, the controller should do the following:

- Identify reports covered by the amnesty program that do not currently have an amnesty indicator and add it.
- Modify its program that generates bills for interest penalties to exclude those reports with an amnesty indicator.

To enable the bureau to upload data reported in formats that it cannot access, it should do the following:

- Continue its efforts to contact the holders and request that they resubmit the owner data in the current reporting format.
- Consider contracting with an outside entity to read the remaining reports or to convert them into a usable format.

To allow for the timely notification to owners that the State has their property and the prompt billing of interest penalties, the bureau should ensure that it uploads holder reports within 12 months of receipt. ■

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# CHAPTER 2

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## ***The Bureau of Unclaimed Property's Processes Do Not Sufficiently Ensure the Proper and Timely Distribution of Assets to the Rightful Owner***

### CHAPTER SUMMARY

The Bureau of Unclaimed Property (bureau) cannot use its computerized Unclaimed Property System (property system) to track changes to account data related to the shares of stock in its custody or the sale of safe deposit box contents. Changes in the number of shares of stock can result from corporate actions, such as dividends, stock splits, and mergers. The bureau must record these actions manually, resulting in a complicated, lengthy, and error-prone reconciliation process and delays in distributing assets when the owner eventually claims the property. Further, because the bureau is inconsistent in how quickly it sells securities, it risks allegations that it has mismanaged owners' assets.

We also found that the bureau excludes a large amount of unclaimed property reported to it for federal and state departments, local governments, schools and school districts, other states, and some private entities from its Web site. As of April 30, 2003, the bureau held more than \$7.1 million in unclaimed property for various entities that it has not posted on its Web site. Even if the entities check the Web site to see if the State has some of their property, they will erroneously conclude that it does not.

The Unclaimed Property Law (law) requires the bureau to consider each claim for the return of property within 90 days after it is filed and to provide written notice to the person claiming the property (claimant) if the claim is denied. Although the law does not specifically require the bureau to approve or deny claims within 90 days, we believe that once the claimant has provided all required documentation, 90 days is a reasonable amount of time for the bureau to either approve or deny the claim. However, the bureau does not consistently do so. Claims for securities generally take longer to review and to distribute to the claimant than claims for most other types

of property. Lastly, although the bureau has received numerous complaints regarding the timely distribution of claims, it has not streamlined the claim distribution process.

Additionally, the law requires that the contents of safe deposit boxes be delivered to the bureau either when the bureau asks businesses holding unclaimed property (holders) to do so or within one year of the final date for filing the report of unclaimed property, whichever is earlier. Once a holder delivers the contents of a safe deposit box, the bureau does not reconcile the holder's inventory of the contents to its own inventory to ensure that it receives all of the reported contents. Although the bureau may sell the contents of safe deposit boxes in its custody, no time period for doing so is specified in the law, and the bureau has not established a time frame within which to sell the contents. Further, the bureau does not consistently take measures to ensure that it receives all of the proceeds from the sale of these assets. Instead, it relies on what the auctioneer reports.

## **THE BUREAU'S TRACKING OF SECURITIES IN ITS CUSTODY NEEDS IMPROVEMENT**

The bureau's method for tracking securities in its custody does not adequately safeguard the securities on behalf of the property owners and is prone to error. For example, the bureau's accounting unit does not promptly reconcile the shares reported by the holder to the shares actually received from the holder. In addition, because the property system cannot accommodate subsequent changes in property resulting from corporate actions, such as company name changes and stock splits, the bureau tracks these actions manually. We found that the bureau's manual process does not consistently record the effects of corporate actions, and those that are recorded are often difficult to interpret. To complicate matters further, if an owner files a claim for a security that has been involved in a merger or acquisition, because securities are tracked by company, the bureau must review its ledgers for all involved companies, resulting in a lengthy and time-consuming process to determine the correct amount to distribute to claimants and delays in the distribution of assets. Moreover, when corporate actions such as stock splits result in the issuance of additional securities, the bureau does not associate the new securities with the original securities, or owners, until the owners submit claims. This results in securities for the same owner being sold at different dates for different prices, further complicating the bureau's reconciliation process and increasing the potential for errors.

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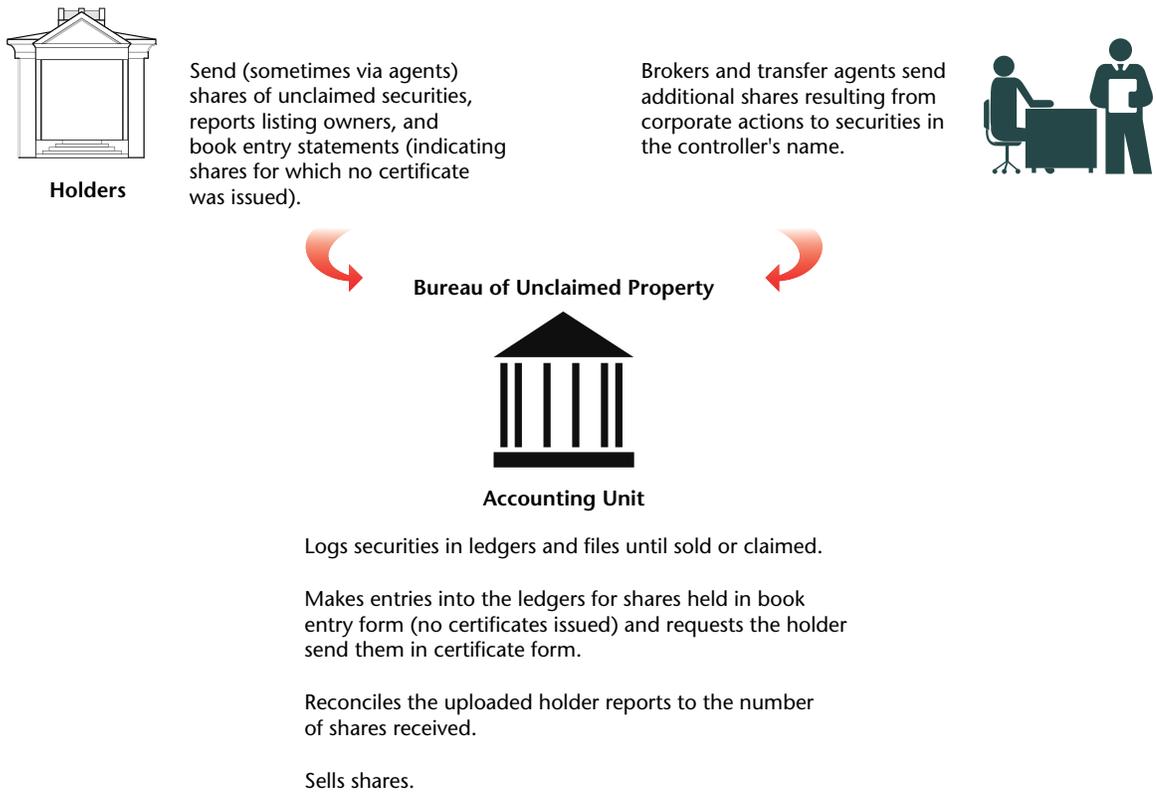
*The bureau's manual tracking of securities results in lengthy reconciliation, inaccurate recording of the effects of corporate actions, and inconsistencies in the length of time between the bureau's receipt and sale of securities.*

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When a holder reports securities as unclaimed property, the law requires the holder to transfer the securities into the controller's name and to deliver duplicates of the securities to the bureau. After the bureau uploads the holder's data into the property system, it reconciles the shares received to the shares reported by the holder. Figure 7 demonstrates the bureau's process for the reporting, remittance, safekeeping, and distribution of securities.

**FIGURE 7**

**The Flow of Securities From Holders to the Bureau of Unclaimed Property**



When holders report and remit securities to the bureau, it records the initial receipt of the securities in approximately 60 handwritten ledgers, separated alphabetically by the issuing company's name. These ledgers contain records of the receipt, sales, and corporate actions associated with securities in the bureau's custody.



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The Bureau of Unclaimed Property maintains numerous manual ledgers to track securities in its custody.

Currently, the bureau's accounting unit waits until the holder reports are uploaded into the property system to complete its reconciliation between the number of shares reported and the number of shares actually received. However, it could complete this reconciliation using the holders' summary sheets, which report the total number of shares transferred to the bureau, thus allowing the bureau to determine whether it received all of the shares and take prompt action if it has not.

Only 27 of the 32 securities we tested were reconciled, and the bureau took an average of more than 16 months to complete these reconciliations. The swiftest reconciliation we found was three months after the receipt of the securities from the holder. Of the 32 securities we reviewed, 10 still were not reconciled two years after the holder remitted them, making it difficult to mark the securities for sale. For example, one holder remitted securities in May 1995, and the bureau did not reconcile the holder's report with an entry in one of the 60 handwritten ledgers until January 2001, 68 months later. Unreconciled securities had been in the bureau's custody for an average of 97.5 months. During this extended period of time, more corporate actions may occur, further complicating the reconciliation of the number of shares reported and remitted

by the holder, taking up more staff time and increasing the likelihood of error. If the bureau fails to reconcile the shares received to the shares reported by the holder, it cannot ensure that it has all of the securities for which it is responsible, thus impairing its ability to properly account for and distribute them.

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***The bureau's 60 ledgers only reflect a portion of the securities maintained by holders in the controller's name.***

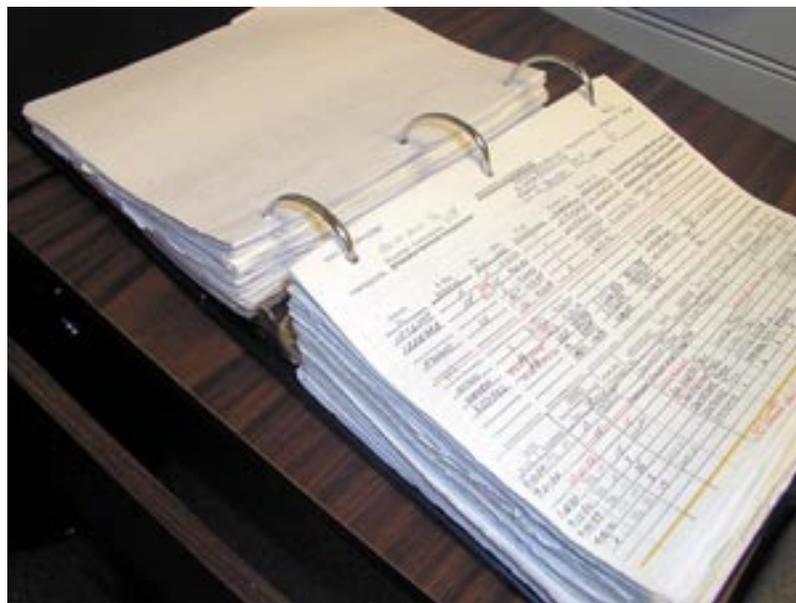
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Of additional concern is that the bureau did not track shares in book entry form until August 2002. A book entry is a paperless recording of securities in an owner's name; no physical certificate is issued. For example, if an owner had requested that a company's dividends be reinvested in the related stock, the holder would not issue new certificates but would list the additional book entry shares in its periodic statements mailed to the owner. Generally, the bureau records book entries in a separate Excel spreadsheet as it becomes aware of them through the companies' periodic statements. Thus, the 60 ledgers only reflect a portion of the securities maintained by holders in the controller's name in book entry form, and staff must research multiple sources to determine the securities for which the bureau is responsible. Because the bureau's manual tracking is triggered by the receipt of security certificates, if a certificate is not received the bureau may not be aware of these securities. Although the bureau often asks companies to issue physical certificates for the securities, the companies do not always comply with this request because they may not offer paper certificates. By reconciling the shares reported and received, the bureau could immediately request additional information on securities it did not receive, such as those recorded as book entries.

Until the mid-1990s, the bureau's staff tracked the inventory of securities and was aware of the total number it should have on hand. However, due to the increase in the number of securities, the increase in the number of book entries, and its manual tracking process, the bureau would need weeks to determine this total, if the task is indeed possible. For example, bureau staff told us that it took nine staff days to track one particular issue through various corporate changes. Without knowing what securities it should have, the bureau cannot ensure that it has received all of the securities it should.

Additionally, the bureau's entries for corporate actions are often difficult to locate because they are handwritten, inconsistent, and not in chronological order. Because securities are tracked by company, if a merger or acquisition occurs, the bureau must review the ledgers for all involved companies to complete the tracking of the security. For example, to research the number

of shares owed for property submitted as Tandem Computers, bureau staff must review the ledgers for Tandem Computers. From these ledgers, bureau staff can determine that Tandem Computers merged with Compaq. In reviewing the ledgers for Compaq, staff can determine that Compaq merged with Hewlett-Packard. This review involves researching dozens of handwritten pages. Further, the ledgers are disorderly and subject to significant use, resulting in pages that are fragile and torn.



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The Bureau of Unclaimed Property's manual ledgers are difficult to decipher.

Until August 2002, the bureau relied on correspondence from companies and research in paper-based formats to alert them to corporate actions. In August 2002, the bureau contracted with an on-line securities valuation company that tracks corporate actions on securities. However, because the bureau continues to track corporate actions manually, the process continues to be prone to errors. To determine the impact of the bureau's manual process on the owners of the securities, we reviewed a sample of 11 securities that had corporate actions. For six of the 11 securities, the bureau either did not record, or incorrectly recorded, information concerning corporate actions.

Further, the bureau's failure to reconcile the shares it receives to the shares reported by the holder means that it is sometimes unaware that it has securities that need to be sold. For example,

because the bureau does not receive a physical certificate for book entry shares, it does not record those securities in its ledgers unless, after receiving periodic statements, it learns that some shares are in book entry form. If it does not reconcile the shares reported by the holder to the shares it received, it may not be aware that it has book entry shares that need to be sold; a similar situation could occur if the holder fails to remit all of the shares that it should.

When a claim for securities is approved, the bureau must review the property system to determine what securities the holder reported for the owner. The bureau must then review the handwritten ledgers to determine the effect of corporate actions, such as cash dividends and stock splits, on that owner's securities. It must also determine whether any of the securities were sold and, if so, the applicable per-share price of the securities. Moreover, because additional securities resulting from stock splits are not consistently sold with the securities from which they were earned, shares of a security may have been sold on different dates at different per-share prices, further complicating the research. In addition, the securities sold on a particular date may belong to several owners, and because the ledgers do not link securities with their owners, the bureau must allocate the number of shares sold between the various owners to determine how many of the shares belong to the owner claiming the property.

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*The bureau took as little as five months and as long as 44 months to sell shares for 14 of the 32 securities we reviewed.*

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Further, we found that the bureau is inconsistent in how quickly it sells securities. For example, the bureau took as little as five months and as long as 44 months to sell shares related to 14 of the 32 securities in our sample. The bureau had at least part of the shares for six of the securities for more than four years. Delays in selling shares of securities cause unnecessary additional work for the bureau when the shares are eventually claimed. For example, in January 1999, two months after a holder remitted 4,401 shares of stock in SunAmerica Inc. (SunAmerica), the corporation merged with American International Group, Inc. (AIG). In July 1999, AIG's stock split 5:4 and in August 2000, AIG's stock again split 3:2. Thus, the one property experienced three corporate actions in two years. The bureau discovered the merger late, and 16 months after it occurred, it exchanged the SunAmerica securities for the new shares. By August 2000, the original 4,401 SunAmerica shares had become 7,053 AIG shares. At that time, nearly four years after the original shares were sent to the bureau, the bureau sold 2,351, or 33 percent, of the total shares. When the owners of these shares file their claims, the bureau will have to review

the many pages of its journals related to these transactions to re-create and confirm exactly how much it owes to the owners, a time-consuming and error-prone process.

In addition, when the bureau is inconsistent in how long it takes to sell securities, it makes itself vulnerable to allegations that it has mismanaged owners' assets because prices of securities change rapidly. In addition, the bureau creates a higher risk for error and delays distributions to owners. If the bureau were to sell securities within a consistent time frame, it clearly would not be assuming responsibility for judging when is the best time to sell the securities.

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*Inconsistencies in the time between the receipt and sale of securities make the bureau vulnerable to allegations that it has mismanaged owners' assets.*

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One possible method for selling securities immediately upon receipt would be for the holder to transfer securities into the controller's name and then deliver duplicates of the securities to a specified broker authorized to accept them on the State's behalf. The specified broker would have instructions and authorization to sell the securities immediately upon receipt. This may require legislation since current statutes require the holder to deliver duplicates of the securities to the bureau. In addition, legislation may be beneficial since it would clarify legislative intent for the immediate conversion of these securities into cash.

### **PROPERTY BELONGING TO GOVERNMENTAL AGENCIES AND SOME PRIVATE ENTITIES ARE EXCLUDED FROM THE BUREAU'S WEB SITE**

The bureau excludes most property of governmental agencies (agencies) from its Web site. These agencies include federal and state departments, local governments, schools and school districts, other states, and some private entities. The information for these entities is not lost; it is merely suppressed from appearing on the bureau's Web site.

According to the chief of the Division of Collections, of which the bureau is a part, the bureau decided to suppress the information for agencies from its Web site because the mixture of ownership between agencies and employee groups from those same agencies was difficult to determine. He also said that the payment of claims to state agencies would generally involve moving claimed funds from the State's General Fund and back to it and would result in spending resources on workloads that have no benefit.

The bureau has a procedure that is intended to ensure it is suppressing only agencies' information from its Web site. According to the procedure, the controller's Information Systems Division generates a weekly report titled *Names Not Excluded That Have a Data String to Be Checked*. The bureau's staff is supposed to review the report to flag those that should be excluded and to ensure that organizations, clubs, or individuals, whose names include words that generally represent a governmental agency, such as "City," are not excluded. However, we found that the bureau has excluded many nongovernmental entities, including ones whose names contain the words "City," "County," or "State" and some private universities.

The chief of the Division of Collections told us that the bureau intends to find ways to identify state agency funds and ways to facilitate the payment or transfer of the agencies' funds. The bureau will also look for ways to notify nonstate entities. However, he also told us that notifying agencies was not a priority for the bureau because available resources are focused on higher priority workloads.

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*The bureau has excluded more than \$7.1 million in unclaimed property for various entities from its Web site.*

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As shown in the Appendix, as of April 30, 2003, the bureau held more than \$7.1 million in unclaimed property for various entities that it has not posted on its Web site. As a result, even if the entities check the Web site to see if the State has some of their property, they would erroneously conclude that it does not.

### **THE BUREAU DOES NOT APPROVE AND DISTRIBUTE CLAIMS IN A TIMELY MANNER**

Although the law states that the bureau shall consider each claim for property within 90 days after it is filed, we found that the bureau does not consistently do so. Specifically, we found that claims for securities generally take longer to review and to distribute to the claimant than most other property types. Although the law does not specify a time frame in which to pay approved claims, we believe the length of time between approval and payment is often unreasonable. Lastly, although the bureau has received numerous complaints regarding the time it takes to distribute claims, it has not streamlined the distribution process. Figure 8 on the following page shows the steps involved in the submission, approval or denial, and payment of a claim.

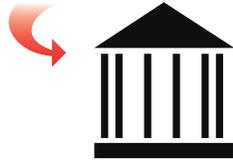
**FIGURE 8**

**The Claim Approval Process at the Bureau of Unclaimed Property**



Owners submit claim forms and documentation proving their identity.

**Bureau of Unclaimed Property**



Compares claims to the property system for matching owner information and by law must consider claims within 90 days of receipt.

**Consumer Services Unit**



Property is returned to owners.



For claims involving cash only, staff issues warrants without further research on the property.



For claims involving safe deposit boxes, staff determines whether the contents were sold before returning original property or proceeds from the sale to the owner.



For claims involving securities, staff researches corporate actions to determine whether the original shares were affected before returning property to owners.

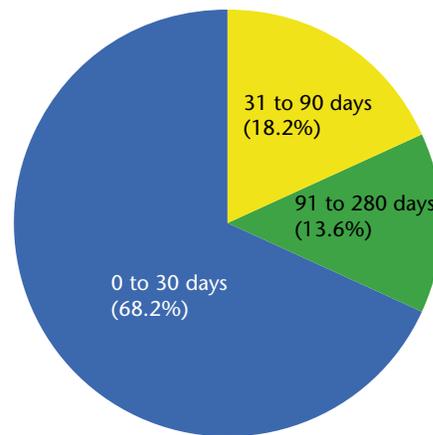
To meet the requirement to consider each claim for property within 90 days after it is filed, we expected that the bureau would either approve or deny all claims within 90 days of receiving all required documentation from the claimant. However, we found that this was not always the case. Specifically, our review of 44 claims found that 16 were not approved or denied within 90 days. Of these 16 claims, seven were for securities and averaged 190 days between receipt and approval. The period between receipt and approval for securities ranged from one being approved within 40 days to 365 days for another, with the average approval taking 151 days. However, the period between receipt and approval for other property types ranged from one being approved on the same day to 358 days for another, with the average approval for claims not involving securities taking 70 days.

Although there is no requirement for the length of time between claim approval and payment, we expected that the bureau would distribute payments for approved claims within a reasonable

time after approval. Based on the bureau's current processes, we determined that a reasonable time frame between claim approval and distribution is 30 days. As shown in Figure 9, of the 44 claims we reviewed, only 68.2 percent, or 30, were distributed within 30 days of approval. Further, only two of the 10 claims for securities were distributed within 30 days of approval. Although the bureau has received numerous complaints regarding the timely distribution of claims, it has not taken steps to ensure a faster turnaround.

**FIGURE 9**

**Length of Time the Bureau of Unclaimed Property Takes to Distribute Assets**



Source: Sample of 44 paid claims from the Bureau of Unclaimed Property.

**THE BUREAU DOES NOT CONFIRM THAT IT RECEIVES ALL OF THE CONTENTS OF SAFE DEPOSIT BOXES AND DOES NOT AUCTION THE CONTENTS AS ALLOWED**

We found that the bureau does not review the holder inventories of the contents of safe deposit boxes and does not confirm that it receives all of the contents on behalf of the property owners. As a result, the bureau cannot take prompt action to request that the holder either explain any differences or remit the missing property. We also found that although the bureau may legally auction the contents of safe deposit boxes on the owners' behalf, it has not conducted auctions on a frequent basis.

When a holder reports a safe deposit box as unclaimed property, the law requires the holder to deliver the contents to the bureau when requested to do so by the bureau or within one year after the final date for filing the holder report, whichever is earlier. For example, the final filing date for the 2002 reporting cycle was November 1, 2002; therefore, the bureau should receive the contents of all of the reported safe deposit boxes by October 31, 2003. Although we found that the bureau and the holders do not consistently comply with this requirement, the owner can claim the contents of a safe deposit box directly from the holder as long as it has not been delivered to the bureau, and thus the owner is unaffected by the delay. Once the bureau receives the contents of a safe deposit box from the holder, the bureau is responsible for ensuring the contents' safekeeping until the owner claims them. The law also allows the bureau to sell the contents of safe deposit boxes on behalf of the owners and return the net proceeds from the sale to the owners, upon receiving and verifying a claim. Figure 10 demonstrates the process the bureau follows for the reporting, remittance, safekeeping, and distribution of the contents of safe deposit boxes.

### **The Bureau Does Not Compare the Contents of Safe Deposit Boxes It Receives to the Holder-Prepared Inventories**

To determine the adequacy of the bureau's safekeeping of the contents of safe deposit boxes, we reviewed a sample of 32 safe deposit boxes. We expected that the bureau's inventories would conform materially to the holders' inventories; however, we found that the bureau does not reconcile the holders' inventories to its own inventories or to the boxes' contents to ensure that it has received all of the property listed. Instead, the bureau creates its own inventories from the contents actually received and usually disregards the holder inventories. The bureau's process of creating its own inventories results in unnecessary work and does not ensure that it has received all of the reported contents of the safe deposit boxes. If the bureau compared the contents received to the contents reported by the holder, it would be able to identify any missing property and take prompt action to request that the holder either explain the difference or remit the missing property. Doing so would reduce its liability for items that were not remitted by the holder.

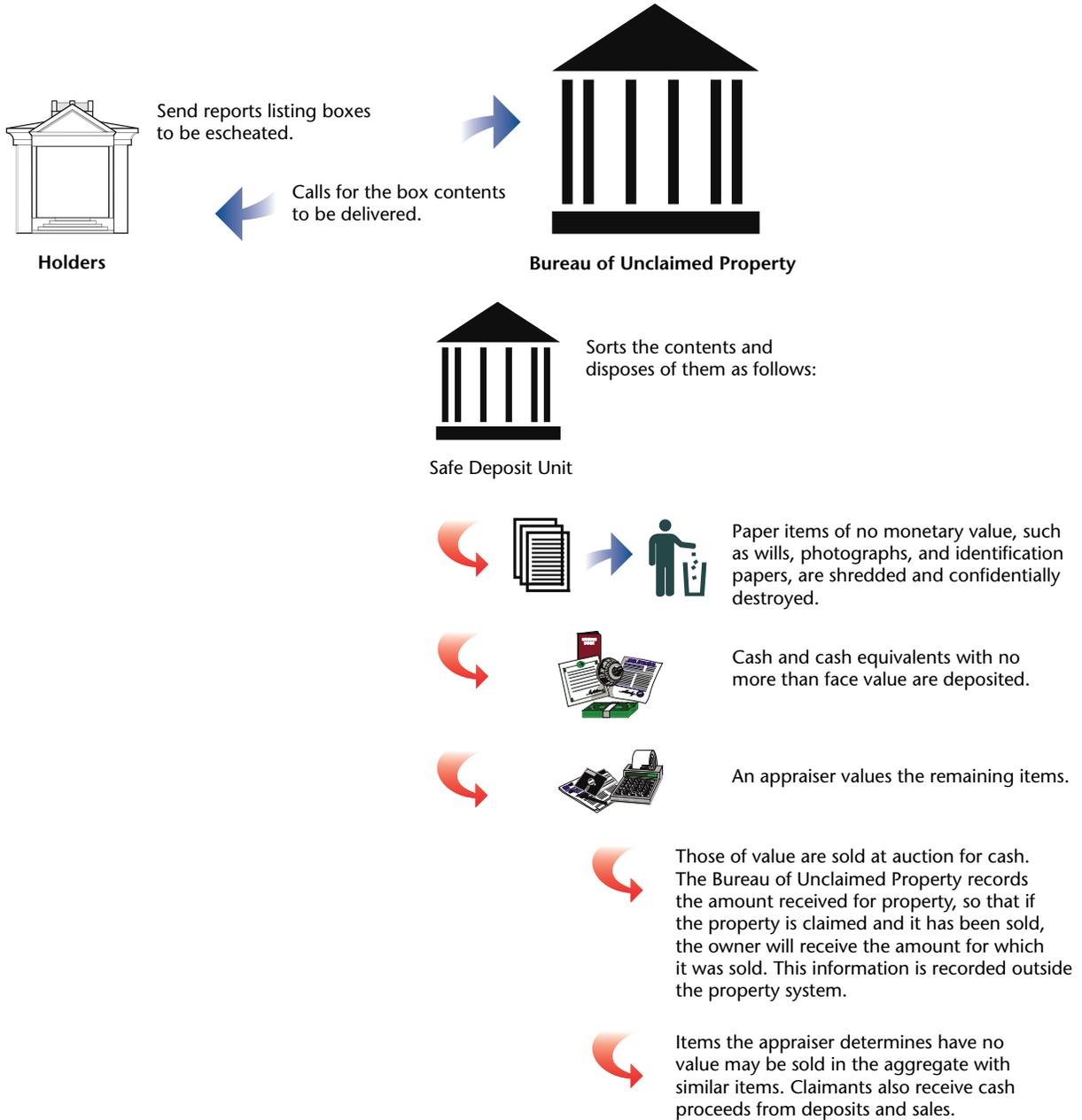
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*If the bureau compared the contents received to the contents reported by the holder, it would be able to identify any missing property and take prompt action to address the difference.*

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FIGURE 10

### The Process of Transferring Safe Deposit Boxes to the Bureau of Unclaimed Property



We reviewed the bureau inventories for a sample of 32 safe deposit boxes to determine whether its inventories agreed with the holder inventories. We found that for six of the safe deposit boxes, the bureau inventories do not conform to the holder inventories. In two of these six cases, the bureau inventories conform to the boxes' contents but do not reflect all of the items listed in the holder inventories. For example, in one case, the bureau inventory lists 17 U.S. coin sets, but the holder inventory lists 18 sets. We counted 17 coin sets among the box's contents. If bureau staff had reconciled its inventory to the holder inventory, its staff could have contacted the holder to determine the disposition of the 18<sup>th</sup> coin set. If the bureau does not promptly identify and seek resolution of differences between what holders claim they have turned over and what the bureau actually received, it could be leaving itself open to accusations that it did not properly safeguard owners' properties.

Of the 32 safe deposit boxes we selected, the contents of 24 remain unsold, and of those, 20 contain items other than deposited cash. We inventoried the physical contents of the 20 safe deposit boxes that contain items other than cash. Although we expected that the bureau inventories would accurately reflect the contents of the 20 safe deposit boxes, we found that one of them contains five items that are not on the bureau inventory, although they are on the holder inventory. Had the bureau used the holder inventory to confirm that it had received the property and then used that inventory as its own, it could have eliminated unnecessary work and had an accurate record of the contents.

### **Although State Law Allows the Bureau to Auction the Contents of Safe Deposit Boxes, It Did Not Auction Property for Almost Two Years**

The law allows the bureau to sell the contents of safe deposit boxes in its custody to the highest bidder at public sale, including sales via the Internet. Although the bureau is not required to sell the contents of safe deposit boxes, failure to do so results in higher costs to the State to store and safeguard those contents. The floor of the bureau's vault is crowded with the safe deposit box contents it has received from holders but has not sent to storage, and its shelves are overflowing with binders and the bagged contents of safe deposit boxes. We found that the bureau had not conducted an auction for almost two years, resulting in the overcrowding of its safe deposit box vault with the contents of safe deposit boxes that it has received from holders.



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The Bureau of Unclaimed Property's safe deposit vault is overcrowded with boxes and bagged contents.

We found two significant problems with the manner in which the bureau processed the proceeds from the sale of safe deposit box contents at auctions. First, the bureau cannot post the proceeds from auctions to each owner's account in its property system, though we believe it is reasonable to expect the bureau to do so. Staff must manually compute the net proceeds that the controller owes to a claimant, which may result in delays in paying the claimant and errors in the amount.

Second, the bureau does not have a procedure in place to verify the proceeds from the sale of a sample of items or groups of items, referred to as lots, which the auctioneer reports to it. We expected the bureau to do this. Failure to verify the proceeds from the sale of a sample of lots may result in the bureau not receiving all of the proceeds due and paying the claimant less than the amount to which the claimant is entitled. The manager of the safe deposit unit told us that the bureau had not verified the proceeds from each lot's sale because the auctions were videotaped and bureau staff in attendance at the time of the auction sporadically recorded the final sale prices. Although the auctioneer videotaped the most recent public auction, the bureau did not confirm that the auctioneer correctly reported the sales amount for a sample of lots.

To determine the accuracy of the lot prices the auctioneer reported to the bureau after an auction held May 29, 2001, we reviewed the auctioneer's videotapes of that auction. The auctioneer correctly reported the prices for all 40 of the sample of lots we tested. To ensure that the bureau deposited the correct amount of auction proceeds, we reconciled the auctioneer's itemized worksheet of proceeds from the most recent auction to the bureau's deposit record. We found that the bureau correctly reconciled the worksheet to its deposit sheet.

From September to December 2002, the bureau began efforts to conduct an Internet auction pilot project as a means of auctioning the contents of safe deposit boxes. The pilot planned to use the Yahoo! Shopping Auctions (Yahoo) Web site. The purpose of the pilot was to determine the cost-effectiveness of auctioning the contents of safe deposit boxes through an Internet auction vendor. According to the manager of the safe deposit unit, the controller's executive office decided to eliminate eBay from consideration for the pilot, and after checking out other on-line auction vendors, the bureau chose to use Yahoo because it was the best of the remaining vendors. In fact, the pilot project manager told us that the project team would have preferred to use eBay instead of Yahoo. The team believed that eBay has more Internet traffic and it is easier to use than Yahoo, it includes a test environment, and the Department of General Services and the states of Texas and Pennsylvania had good experiences using eBay for their own on-line auctions. During the project the bureau found that items on Yahoo similar to those it would offer for sale had received few, if any, bids. The bureau canceled the project in December 2002, before it posted items for sale, because the price range of the test items did not include items with higher dollar values; the bureau concluded that these items would not give an accurate assessment of the pilot's viability.

The bureau is now conducting another Internet auction pilot project to determine the cost-effectiveness of using an auction Web site for the sale of safe deposit box contents, this time using eBay. The bureau expects to conduct five on-line auctions as part of the pilot project. The first auction in early May 2003 listed 10 items for sale, but only sold nine items, for a total sale price of \$2,811.40. The Table shows the listings for the items auctioned. The bureau plans to complete the four additional auctions by June 16, 2003, expecting to sell 20 items at each auction. The bureau will issue a final report on June 30, 2003, with conclusions on the project's cost-effectiveness and viability, and with recommendations for future use.

## TABLE

### Items Auctioned On-line by the Bureau of Unclaimed Property

Item	Sale Amount
Louis XIV Sterling Silver Flatware	\$ 897.62
Uncirculated St. Gaudens \$20	503.26
National Currency \$10 Bill	488.00
Nugget Gold Tie Tack & Ring	290.48
U.S. and Ancient Coins	168.10
Men's Retro Diamond Ring	165.50
Hamilton Pocket Watch	151.74
Men's Mystery Dial Wristwatch	74.40
U.S. Coins, 2 Proof Sets, 2 Silver Dollars	72.30
14K Eversharp Pen	Did not sell
<b>Total</b>	<b>\$2,811.40</b>

## RECOMMENDATIONS

To eliminate the bureau's manual tracking of securities and dispel any impressions that it exercises judgment in deciding when is the best time to sell securities, thereby reducing the potential for errors, eliminating unnecessary work, and reducing the potential for litigation against the State, the controller should seek legislation to require it to sell securities immediately upon receipt. To ensure that the holders remit all of the reported securities, the bureau should compare the shares received to the shares reported by the holders, using the holder report summary sheets.

Alternatively, the controller should consider having holders deliver duplicates of the securities they have transferred into the controller's name to a specified broker authorized to accept them on the State's behalf. The controller should instruct and give the broker authorization to sell the securities immediately upon receipt. This may also require legislation. Additionally, the bureau should immediately sell all securities already in its custody.

If the bureau is unable to sell securities immediately upon receipt, it should do the following:

- Reconcile the securities remitted to the securities reported within one month of the receipt of the securities, for securities not already in its custody.

- Modify the property system to allow it to track all changes to securities, including the effective dates, receipts, sales, disbursements, and corporate actions, on an owner-by-owner basis. The bureau should ensure that it updates the property system to account for securities currently tracked in its manual ledgers. This process should be automated to allocate changes in the number of securities to the affected accounts with minimal human intervention.
- Sell all securities related to a particular account within two years of the initial receipt, regardless of corporate actions. Additionally, the property system should be modified to generate a monthly report to alert the bureau to securities approaching the two-year deadline for sale, regardless of the timing of corporate actions.

In either case, the bureau should do the following:

- Review all of its manual ledgers to ensure that it has accurately recorded all corporate actions, receipts, sales, and disbursements of securities. Once this review is complete, the bureau should discontinue the use of its manual ledgers.
- Complete its reconciliation of the securities remitted to the securities reported for all securities not previously reconciled.

To fully inform all entities that it has their unclaimed property in its possession, the bureau should do the following:

- Discontinue excluding any properties from its Web site.
- When it receives unclaimed property belonging to any governmental entity, notify that entity. If it does not receive sufficient information to determine which governmental entity the property belongs to, it should seek additional information from the holder.

To ensure that it distributes assets to bona fide claimants in a timely manner, the bureau should do the following:

- Review all claims and either approve or deny them within 90 days of receipt.
- Distribute assets on approved claims within 30 days of approval.

To ensure that it has properly accounted for all of the owners' properties, the bureau should develop a standard inventory form for holders to use to report the contents of safe deposit boxes and for the bureau to use to verify that it has received all of the reported contents from the holders. This standard form should include a section for the bureau to indicate its receipt of all of the reported contents, the date of review, and any follow-up required for contents that were reported but not remitted by the holder.

To reduce the overcrowding in its safe deposit box vault, the bureau should conduct an auction of the contents of safe deposit boxes at least monthly.

If the bureau decides to auction all unclaimed properties from safe deposit boxes on the Internet, it should establish a method for ensuring that it receives all of the proceeds that are due.

To ensure that it receives all proceeds from the sale of the contents of safe deposit boxes and that it can accurately and promptly distribute these types of assets to their owners, the bureau should do the following:

- Obtain and review videotapes of auctions and confirm that the auctioneer has accurately reported the sales amount for a sample of auctioned lots.
- Develop a system that posts the proceeds from each auction to the related owners' accounts immediately following the auction. ■

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# CHAPTER 3

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## ***The Controller Does Not Ensure the Collection of All Unclaimed Property***

### CHAPTER SUMMARY

In its regular reviews, the State Controller's Office (controller), Financial-related Audits Bureau (audit bureau) encounters significant amounts of unclaimed property that persons or businesses that are holders of unclaimed property (holders) should have remitted to it. Its four-year review of the title and escrow industry completed in 2002 found nearly \$31.6 million in property not remitted to the State. However, our review of documentation for the examinations of four potential holders of unclaimed property found that the audit bureau does not always fully pursue unclaimed property that its auditors have a reasonable basis for believing should be remitted to the State. Specifically, even though its auditors estimated that one property holder failed to remit \$6.7 million, audit management did not move forward to substantiate or invalidate the estimates. If the estimates prove to be accurate, the bureau could bill the holder for the applicable interest, a total of more than \$8 million, on the unclaimed property not properly remitted. After we brought this to the controller's attention, the audit bureau reopened the examination of the holder to substantiate the unclaimed property not remitted. By not exercising due diligence in pursuing the collection of unclaimed property it has reason to believe should have been remitted, the controller is not fulfilling its responsibility to promptly reunite owners with their lost or forgotten property.

### **THE AUDIT BUREAU'S ROUTINE EXAMINATIONS OF HOLDERS CAN REVEAL SUBSTANTIAL UNCLAIMED PROPERTY NOT REMITTED TO THE STATE**

The Unclaimed Property Law (law) allows the controller to review the records of holders if it has reason to believe they have failed to remit property that is reportable to the Bureau of Unclaimed Property (bureau). The controller's audit bureau conducts examinations of potential holders operating in California. Generally, holders are responsible for self-reporting, and the examinations are planned to determine whether the holders are in compliance with the requirement to remit all unclaimed property to the State.

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*Between 1999 and 2002, the auditor's examinations of title and escrow companies identified \$31.6 million in assets that had not been escheated to the State.*

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The audit bureau creates work plans to select industries for examination and then selects major businesses within the identified industry. Between 1999 and 2002, its examinations of potential holders of unclaimed property focused on companies in the title and escrow industry. During this four-year period, it completed 190 examinations of title and escrow companies and reported nearly \$31.6 million in findings from these examinations. The audit bureau chief informed us that the examinations are intended to test all available information to reveal unclaimed property not previously escheated to the State.<sup>6</sup> Statistical sampling is used only when adequate documentation is unavailable. At the conclusion of an examination, holders are required to remit the identified unclaimed property and are later billed a 12 percent annual penalty on the value of the identified unclaimed property, calculated from the date the property should have been remitted.

### **THE AUDIT BUREAU FAILED TO PURSUE ESTIMATED UNCLAIMED PROPERTY OF MORE THAN \$6.7 MILLION**

We reviewed documentation related to the examinations of four potential holders of unclaimed property. For three of the examinations, we noted only minor inconsistencies in methodologies, supporting documentation, and supervisory review processes. These deficiencies appeared to be restricted to a former supervisor who is no longer employed by the controller. Specifically, although the auditors could determine the amounts of unclaimed property previously remitted to the bureau by requesting the holder reports from the bureau, the auditors generally requested the holders to provide the detailed reports, determined the total amount received from the bureau, and verified only that the total amounts agreed. Further, when they did use sampling, the final reports did not clearly identify the findings as estimates of unclaimed property and did not inform the holders of their responsibility to determine if other amounts are escheatable.

Although the audit bureau chief asserted that the holders are informed that they are expected to review all records available to determine that all unclaimed property is identified and remitted to the State, he was unable to provide evidence to support that these holders were reminded of this responsibility. If the holders are unaware of their responsibility to determine the total

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<sup>6</sup> As used here, escheat is the transfer of unclaimed property from the holder to the bureau for safekeeping until claimed by the owner or the owner's heir.

amount escheatable, they may remit only the amount in the final examination report, potentially resulting in a loss of revenue to the State. In addition, the controller is not fulfilling its responsibility to reunite owners with their lost or forgotten property. Lastly, the audit bureau requires that three different management members review its examination documents. The review of the examination documents is to be performed by the audit manager, a consulting manager, and the bureau chief. However, in one of the examinations we reviewed, the audit manager signed both the audit manager and consulting manager reviews.

For the fourth examination, we found that the audit bureau failed to complete its work to substantiate or invalidate an estimated finding of more than \$6.7 million in unclaimed property. Although its auditors had a reasonable basis for believing a title company should have remitted to the State title reconveyance and recording fees, going as far back as 1978, the audit management did not move forward either to substantiate or invalidate the estimated findings. At the time the original examination was released—January 24, 2002—the audit bureau was waiting on a legal opinion to determine whether the source of the estimated \$6.7 million was in fact legally escheatable. Consequently, audit bureau management did not approve the use of a statistician to help substantiate or invalidate the estimated findings. The audit bureau management decided to issue the original examination, excluding the \$6.7 million, and intended to pursue the estimated findings later if the legal opinion found that the source was legally escheatable unclaimed property.

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***Audit management failed to follow up on estimated findings of more than \$6.7 million in unclaimed property.***

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The legal opinion was issued on January 29, 2002, only five days after the original examination was released, and determined that the source of the estimated findings was unclaimed property. However, as of May 9, 2003, more than 15 months later, the audit bureau had still not taken steps to substantiate or invalidate the estimated findings. Based on information obtained from the audit bureau, we believe it is reasonable to assume that the benefits to either substantiate or invalidate the estimated \$6.7 million in unclaimed property will be greater than the cost to do so. After we brought this to the controller's attention, the audit bureau reopened the examination of the holder to substantiate the estimated unclaimed property. By not moving forward to substantiate or invalidate the estimated findings, the audit bureau failed to exercise due diligence to ensure that it promptly collected all unclaimed property that should have been remitted to the State and made these assets available to their owners.

Further, the law requires holders to pay interest on the value of unclaimed property that they fail to remit, at 12 percent annually from the date the property should have been paid or delivered to the State. The accrual of interest ends on the date the unclaimed property is remitted to the bureau. Assuming the audit bureau substantiates the \$6.7 million and the holder remits the funds on June 30, 2003, the bureau could bill the holder for nearly \$8.2 million in interest that, if received, would go to the State's General Fund. At the completion of the examination, the total of unclaimed property and interest could result in the potential collection of \$14.9 million. However, in the event that a holder disputes the auditors' findings, the controller may, after full examination, enter into a settlement agreement, reducing the interest due.

## RECOMMENDATIONS

To ensure that it collects all unclaimed property, the controller should complete its examination of estimated unclaimed property that its auditors have a reasonable basis for believing should be remitted to the State. Further, the bureau should ensure that it bills and collects the applicable interest penalties based upon the results of the audit bureau's examination.

We conducted this review under the authority vested in the California State Auditor by Section 8543 et seq. of the California Government Code and according to generally accepted auditing standards. We limited our review to those areas specified in the audit scope section of this report.

Respectfully submitted,



ELAINE M. HOWLE  
State Auditor

Date: June 19, 2003

Staff: Ann K. Campbell, Audit Principal  
Jeana Kenyon, CPA, CMA, CFM  
Michelle J. Tabarracci, CISA  
John J. Romero  
Felicity T. Wood

# APPENDIX

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## ***Property Belonging to Governmental Agencies and Some Private Entities Are Excluded From the Bureau of Unclaimed Property's Web Site***

**A**s described in Chapter 2, the Bureau of Unclaimed Property (bureau) excludes most property of governmental agencies (agencies) and some private entities from its Web site. Governmental agencies include federal and state departments, local governments, schools and school districts, and other states. Private entities include organizations or businesses whose names contain the words "City," "County," or "State." They also include private universities.

In Table A.1 on the following page, we have summarized information concerning how much property the bureau holds for the entities its Web site does not currently reflect. We identified by name all entities whose assets total at least \$5,000. The others we summarized in broader categories such as "other counties or county entities" or "foreign entities." With the exception of private universities, we summarized assets belonging to private entities under "miscellaneous, nongovernmental entities." In some cases, we were unable to determine whether the entity was a federal, state, or local entity. For example, the owner was sometimes simply identified as "Health Department" with no other indication of which health department it was. For these and similar cases, we summarized the amounts in the category "unable to determine."

**TABLE A.1****Unclaimed Property the State Owes to Various Agencies**

Property Owner	Amount
Alameda County	\$ 63,925.28
Alhambra, City of	6,652.20
Anaheim, City of	12,817.28
Austin, City of	9,788.00
Bell Gardens, City of	5,000.00
Berkeley, City of	14,605.49
Board of Equalization	404,607.01
Board of Pharmacy	7,649.56
Boca Raton, City of	8,792.28
Brea, City of	6,083.69
Bronx Municipal Court	5,200.00
Burbank, City of	9,567.24
California Community Colleges	25,236.45
California State Lottery	7,818.39
California State University	33,200.85
Chula Vista, City of	18,536.00
Colton, City of	10,786.92
Compton, City of	38,580.19
Contra Costa County	9,211.63
Corpus Christi, City of	6,246.14
Courts	123,121.90
Dana Point, City of	5,722.97
District Attorneys' offices	8,333.10
Downey, City of	46,885.08
Duarte, City of	65,000.00
El Dorado County	5,134.39
Employment Development Department	66,392.77
Federal government	503,513.23
Folsom, City of	9,820.00
Franchise Tax Board	119,977.10
Fresno County	27,409.93
Fresno, City of	17,284.70
Health Services, Department of	14,017.47
Industry, City of	5,082.73

Property Owner	Amount
Insurance, Department of	\$156,304.88
Irvine, City of	5,865.77
Kern County	14,337.15
Lakewood, City of	7,901.06
Lawrence, Massachusetts, City of	5,490.00
Loma Linda University	37,597.68
Long Beach, City of	15,831.53
Los Angeles County	381,056.74
Los Angeles, City of	207,279.38
Madera County	9,404.65
Marin County	9,971.23
Mental Health, Department of	12,039.31
Modesto, City of	5,431.32
Monterey County	7,431.94
Motor Vehicles, Department of	85,872.71
Napa County	6,608.95
Oakland, City of	56,459.89
Oceanside, City of	5,239.50
Ontario, City of	9,006.74
Orange County	96,054.43
Orange, City of	10,733.20
Palo Alto, City of	7,385.10
Pasadena, City of	6,161.69
Philadelphia, City of	6,040.44
Richmond, City of	12,724.31
Riverside County	24,723.98
Riverside, City of	24,439.98
Roseville, City of	9,446.93
Sacramento County	27,186.18
Sacramento, City of	6,262.43
San Bernardino County	40,853.86
San Bernardino, City of	7,837.01
San Diego County	46,069.34
San Diego State University	6,316.39
San Diego, City of	46,960.02
San Francisco, City and County of	37,451.26
San Joaquin County	8,083.42
San Jose, City of	31,656.60

*continued on next page*

Property Owner	Amount
San Mateo County	\$ 17,346.43
Santa Ana, City of	9,637.77
Santa Barbara County	7,871.46
Santa Clara County	48,842.29
Santa Clara, City of	10,549.30
Santa Monica, City of	11,003.61
Schools and school districts	174,397.99
Simi Valley, City of	33,435.90
Solano County	10,207.28
Sonoma County	16,007.13
Stanford University	148,638.93
State Treasurer	30,505.66
Thousand Oaks, City of	6,153.12
Tracy, City of	23,830.51
Union City	6,859.38
University of California	158,141.56
Vallejo, City of	14,638.00
Ventura County	17,801.93
Visalia, City of	7,246.95
Water Resources Control Board	49,433.58
Foreign entities	7,038.00
Miscellaneous, nongovernmental entities	532,209.79
Other California departments and agencies	1,819,288.53
Other cities and city entities	287,809.66
Other counties and county entities	89,827.20
Other local entities	109,010.12
Other out-of-state entities	91,978.97
Other private colleges and universities in California	22,812.16
Unable to determine	128,800.26
<b>Grand Total</b>	<b>\$7,108,840.44</b>

Source: Unaudited data from the Unclaimed Property System of the Bureau of Unclaimed Property.

*Agency's comments provided as text only.*

California State Controller  
300 Capitol Mall, Suite 1850  
Sacramento, CA 95814

June 6, 2003

Ms. Elaine M. Howle\*  
State Auditor  
Bureau of State Audits  
555 Capitol Mall, Suite 300  
Sacramento, CA 95814

Dear Ms. Howle:

Thank you for your efforts to evaluate and improve California's Unclaimed Property Program.

When I took office less than six months ago, the State Controller's management team made it clear that this program required immediate attention because of antiquated systems, rapid program growth, and other operational issues they had identified.

BearingPoint summarized these problems in a recent report, which was given to your auditors when they began work a few months ago. Your report validated many of the earlier findings and identified some additional issues. Our response to all of the findings, conclusions and recommendations summarized in your report is attached.

Since January, my office has taken several actions to address these problems, including:

- Appointing a highly qualified manager to run and improve the program;
- Launching the Feasibility Study Report necessary to replace our outdated systems;
- Testing the sale of tangible property through the Internet; and
- Directing staff to begin selling escheated securities immediately upon receipt.

Your audit report shows that other improvements are still needed, and I am strongly committed to making those changes as quickly as possible given available State resources and approval processes.

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\* California State Auditor's comments begin on page 67.

Once again, thank you for your efforts to assist us on improving the Unclaimed Property Program.

Sincerely,

*(Signed by: Steve Westly)*

Steve Westly  
California State Controller

Enclosure

**STATE CONTROLLER'S OFFICE  
RESPONSE TO BUREAU OF STATE AUDITS REPORT**

**OVERVIEW**

The State Controller's Office (SCO) appreciates the assistance of the Bureau of State Audits (BSA) in reviewing, validating and identifying issues and recommending improvements for the Unclaimed Property Program. Many of these issues have been identified in the last two years through independent reviews conducted by KPMG Consulting and BearingPoint. The BSA findings have reinforced the need for several of the key initiatives already underway, primarily the development and implementation of a new unclaimed property system to meet the rising workloads with available staffing.

**The primary issue facing the program is that the existing system does not have the capability to meet the growing demands and volumes of the program.** The system was designed with older technologies, is difficult to modify and maintain and does not provide the types of system controls and efficiencies needed for the level of program activities now associated with the unclaimed property program.

The system issues are compounded by the rapid growth in the Unclaimed Property Program over the last five years. As reported in the audit, revenues have grown from about \$300 million a year to over \$450 million in State Fiscal Year 2001-02. The volume of claims has increased from 115,000 a year to over 200,000 per year. And, the volume of reports from holders has increased from less than 9,000 a year to a peak of over 13,000 in 2001. This represents a growth of approximately 50 percent in all major aspects of the program over the course of those five years.

The SCO has also taken many actions to improve the program and to meet growing workloads. The BSA audit report reflects some of those actions, but Attachment 1 provides a more comprehensive list of the actions taken over the last three years. In addition, our detailed responses to the recommendations below identify our actions underway this year.

The growth in the program has been fueled by a number of proactive efforts by the SCO and publicity on the program in the media. Some of the key changes brought about by the SCO include:

- In 1998, the SCO implemented the publication and sale of unclaimed property owner data on CD-ROM as a tool for heirfinders and investigators in identifying owners of unclaimed property.
- In 1998, the SCO implemented an unclaimed property search site on the Internet to allow individuals and businesses to check for unclaimed property. In March of 2000, the SCO enhanced the search site capabilities to improve the ability to locate an account.
- In June 2000, the SCO implemented an Interactive Voice Response System that enables callers to search for unclaimed property by touch-tone phone.
- In State Fiscal Year 2000-01, the SCO increased the mailing of notices to owners of unclaimed property by identifying better addresses through cross matching with Franchise Tax Board tax records. Approximately 115,000 notices are mailed per year.

- In calendar years 2001 and 2002, the SCO administered an amnesty program that allowed holders to report delinquent unclaimed properties without incurring the 12% per annum interest charges that are normally charged. This generated almost 5,000 reports and over \$160 million worth of unclaimed property.
- In 2001 and 2002, the SCO expanded the use of third party audit contractors to audit and recover unreported unclaimed properties. Revenues brought in by the third party audit contractors increased dramatically, going from about \$4 million in 2000 to over \$100 million in both 2001 and 2002.

Clearly, the findings in this audit report validate the need and justification for replacement of the existing system. The SCO is currently developing a Feasibility Study Report to replace the system. The study will be completed and submitted for review in July 2003 followed by a budget change proposal in the fall. Given the state’s current administrative requirements and procurement processes, the earliest that the project could get underway is SFY 2004-05. This assumes that the necessary approvals and financing are included in the budget for that year.

The SCO feels that there are many actions that can be taken to make incremental improvements and the SCO is committed to taking those actions as addressed in the responses to the audit recommendations below. However, the real key to meeting the program challenges in the future will be the replacement of the system.

**COMMENTS REGARDING BSA FINDINGS AND CONCLUSIONS**

There are several findings and conclusions in the audit report that the SCO feels are not accurate or do not provide the proper perspective. The SCO comments on these areas are as follows:

• **Chapter 2 - THE BUREAU DOES NOT APPROVE AND DISTRIBUTE CLAIMS IN A TIMELY MANNER**

The audit report found that 64 percent of claims were approved within 90 days, and 70 percent were paid within 30 days after they were approved. This is based on a sample of 44 claims out of over 300,000 claims paid during the sample period. The SCO agrees with the results of the sample, but notes that there is no legal requirement to pay claims within 30 days.

The SCO also feels that results were skewed by a period when workloads increased by over 60 percent in one year, starting with claims received from mid 2000 through July 2001. A part of the sample was taken from this period. The table below shows the difference in results for the two periods. As you can see, results have significantly improved after the period of the 60 percent workload increase. We will continue to work on this.

	Received July 2000 To July 2001		Received August 2001 To March 2003		Total Sample	
Claims Sampled	11		33		44	
Claims Approved in 90 days	2	18%	26	79%	28	64%
Claims Paid in 30 Days	6	55%	25	76%	31	70%

• **Chapter 3 - The Controller Does Not Ensure the Collection of All Unclaimed Property**

The audit report concludes that the SCO is not exercising due diligence in pursuing the collection of unclaimed property that its auditors have a reasonable basis for believing should be remitted to the state. This is based on one unclaimed property audit case out of 190 audits conducted in the last four years. This case involved a legal issue requiring assistance from the Attorney General’s Office on the interpretation of the law. While the SCO acknowledges that it should have acted quicker upon receipt of the Legal Opinion, we believe that this was an isolated case and cannot be extrapolated to a conclusion that the SCO is not ensuring collection of unclaimed property. In addition, the SCO has expanded efforts in other ways beyond the regular audit program to ensure collection of unclaimed property. Collections of unclaimed property have increased substantially as a result of these efforts, which include the administration of an amnesty program and the expansion of third party audit contractors.

**RESPONSE TO RECOMMENDATIONS**

The SCO generally concurs with the other findings and recommendations of the audit and is committed to improving the program to the maximum extent possible and has already taken the initiative on many such improvements. There are a number of plans that will be developed to address the recommendations. The plans and status will be reported to the Bureau of State Audits in our update which will be due 60 days from issuance of the final report.

**Recommendations – Chapter 1**

**To increase the reliability of the data in the property system, the bureau should**

- **Implement the programming changes necessary to ensure that employees cannot make unauthorized and unmonitored changes to the property system.**
- **Remove all duplicate account data from the property system.**
- **Ensure that both current and newly hired staff review unclaimed property accounts entered manually to determine the accuracy of the data, when claims are filed against the property.**

Response: The SCO agrees with the recommendations. Specific actions in response to the above bullets are as follows:

- By July 15, 2003, the unclaimed property system will be modified to limit authorization for making online property updates and to generate audit reports that allow supervisory review of any such online transactions.
- By July 15, 2003, the SCO will develop a plan to delete all the duplicate reports from the system. Actions previously taken by the SCO included implementation of a system edit to prevent uploading of duplicate reports, identification and initiation of collection efforts to recover any previous duplicate claim payments made, and modification of duplicate reports to prevent any further duplicate claim payments. The plan will address additional clean up work and will include modifying the system to prevent the duplicate report properties from appearing on the web site property search pending the deletion of all duplicate reports from the system. The SCO will transmit the plan and any progress in implementing the plan to BSA with the 60-day report.
- By June 13, 2003, the SCO will conduct refresher training to ensure that all staff continues to adhere to current procedures for verification of claims filed for properties on the reports entered manually.

**To ensure the accuracy of the data loaded into the property system, the bureau should require its staff to reconcile the total amount remitted by each holder to the total of all the individual accounts in the property system for that report.**

Response: The SCO agrees with this recommendation. However, in our review of the 10 out of balance reports, we found that only \$193 of the \$75,000 difference was attributable to unclaimed property accounts that were not loaded to the system. The actions taken to date or planned are as follows:

- Five of the ten out of balance reports were due to procedural errors in handling of holder overpayments and did not affect unclaimed property owner accounts. Staff has already been retrained on proper procedures for holder overpayments and all five report balances have been corrected.
- By June 30, 2003, the SCO will complete its investigation into the causes of the other five out of balance reports that appeared to be caused by system processing problems. These five reports will also be corrected by June 30, 2003.
- By July 15, 2003, a plan will be developed to make the necessary programming changes to fix system problems. In addition, the plan will include the development of a periodic report to be generated to identify any out of balance reports so that staff can make the necessary corrections. The SCO will transmit the plan and any progress in implementing the plan to BSA with the 60-day report.

**To prevent the billing of penalties for late reporting to holders granted amnesty, the controller should**

- **Identify reports covered by the amnesty program that do not currently have an amnesty indicator and add the indicator to those reports.**
- **Modify its program that generates bills for interest penalties to exclude those reports with an amnesty indicator.**

Response: The SCO agrees with the recommendations. The following actions are underway:

- By June 20, 2003, the SCO will reconcile the amnesty reports and ensure that all such reports include the amnesty indicator in the tracking system and the unclaimed property system.
- By June 20, 2003, the SCO will review Section 1577 billings previously issued against the amnesty reports to verify that no erroneous billings have been issued for approved amnesty reports. If any erroneous bills are identified, they will be cancelled and the holders will be notified.
- By June 6, 2003, procedures will be modified to ensure that all Section 1577 interest billings are reviewed and that no amnesty reports are incorrectly billed for Section 1577 interest.
- By July 15, 2003 a plan will be developed for programming changes to prevent generating Section 1577 interest billings for approved amnesty reports. The SCO will transmit the plan and any progress in implementing the plan to BSA with the 60-day report.

**To enable the bureau to upload data reported in formats that it cannot access, it should**

- **Continue its efforts to contact the holders and request that they resubmit the owner data in the current reporting format.**
- **Consider contracting with an outside entity to read the remaining reports or to convert them into a usable format.**

Response: The SCO agrees with this recommendation. There are only 21 remaining reports on magnetic tape reels. The SCO will take the following actions:

- By June 16, 2003, complete its analysis of these reels and contact the holders as necessary for any replacement media needed.
- By July 15, 2003, develop alternatives for reading or converting any remaining reports, including options to contract with an outside firm, if necessary, to read or convert the data. Final details of this plan and its status will be transmitted to BSA in the 60-day report.

**To allow for the timely notification to owners that the State has their property and the prompt billing of interest penalties, the bureau should ensure that it uploads holder reports within 12 months of receipt.**

Response: The SCO agrees with this recommendation. By July 31, 2003, a plan will be developed to process reports within a year of receipt. The plan will consider recent reengineering changes and the possibility of generating savings in other areas of the bureau to redirect to report processing. It should be noted that there will invariably be some reports that cannot meet the one-year time frame due to reporting errors by holders. However, every attempt will be made to notify the holders of the problems and to seek quick resolution. The SCO will transmit the plan and any progress in implementing the plan to BSA in the 60-day report.

## **Recommendations – Chapter 2**

**To eliminate the bureau's manual tracking of securities and dispel any impressions that it exercises judgment in deciding when it is the best time to sell securities, thereby reducing the potential for errors, eliminating unnecessary work, and reducing the potential for litigation**

**against the State, the controller should seek legislation to require it to sell securities immediately upon receipt. To ensure that the holders remit all of the reported securities, the bureau should compare the shares received to the shares reported by the holders, using the holders' report summary sheets. Alternatively, the controller should consider having holders deliver duplicates of the securities they have transferred into the controller's name to a specified broker authorized to accept them on the State's behalf. The controller should instruct and give the broker authorization to sell the securities immediately upon receipt. This may also require legislation. Additionally, the bureau should immediately sell all securities already in its custody.**

Response: The SCO concurs with the intent of these recommendations. Current legislation allows the sale of security at any time up to two years following escheatment. In the past, securities have been held for the full time allowed by law so that unclaimed property owners could be reunited with their stock as opposed to cash. However, as noted in the report, holding securities creates significant maintenance workloads that must be done manually, are error prone, and there are no quick and easy automated solutions identified as of yet. It is no longer cost effective to maintain our current practices.

The SCO will implement the following actions to convert the maximum level of securities to cash in the shortest time possible after escheatment:

- The Controller is directing staff to initiate the immediate sale of all new securities received with holder reports to take effect immediately.
- By June 30, 2003, the SCO will develop a plan to accelerate the sale of securities currently in house. For the SFY 2003-04, the SCO requested additional positions through the budget process to conduct added security sales. The proposed positions are included in the Governor's Budget and have been approved by both the Senate and Assembly budget committees. The SCO will transmit the plan and any progress in implementing the plan to BSA with the 60-day report.
- By July 31, 2003, the SCO will consider other options to streamline the process of escheating securities to facilitate more immediate sale of securities. These options may require legislation. The SCO will provide an update to BSA in the 60-day report.
- The RFP to select new third party contractors will include a requirement that securities be delivered to the SCO contracted broker for immediate sale.

**If the bureau is unable to obtain legislation requiring it to sell securities immediately upon receipt, it should**

- **Review all of its manual ledgers to ensure that it has accurately recorded all corporate actions, receipts, sales, and disbursements of securities. Once this review is complete, the bureau should discontinue the use of its manual ledgers.**
- **Complete its reconciliation of the securities remitted to the securities reported for all securities not previously reconciled.**
- **Reconcile the securities remitted to the securities reported within one month of the receipt of the securities, for securities not already in its custody.**

- **Modify the property system to allow it to track all changes to securities, including the effective dates, receipts, sales, disbursements, and corporate actions, on an owner-by-owner basis. The bureau should ensure that it updates the property system to account for securities currently tracked in its manual ledgers. This process should be automated to allocate changes in the number of securities to the affected accounts with minimal human intervention.**
- **Sell all securities related to a particular account within two years of the initial receipt, regardless of corporate actions. Additionally, the property system should be modified to generate a monthly report to alert the bureau to securities approaching the two-year deadline for sale from the original receipt of the securities, regardless of the timing of corporate actions.**

Response: The SCO generally concurs with these recommendations and recognizes the deficiencies of the current unclaimed property system in this area. As noted above, the SCO is currently developing a Feasibility Study Report to justify funding to address the deficiencies in the current system and to apply newer technologies to the business of unclaimed property. The study will be completed and submitted for review in the July 2003. In the interim, the SCO is taking several actions to address the recommendations as follows:

- By June 6, 2003, standardized procedures for making entries into the security ledgers will be implemented to improve consistency of entries in the ledgers. A quality review of entries is included.
- By July 31, 2003, a plan will be developed to improve the timeliness of reconciling the remitted securities to reported securities. In developing the plan, SCO will consider options to speed up the process and the possibility of generating savings in other areas and redirecting staff to assist on this function. The SCO will transmit the plan and any progress in implementing the plan to BSA in the 60-day report.
- As noted above, the SCO will accelerate the sale of securities currently on hand during SFY 2003-04, which should mitigate the need to modify the current unclaimed property system.

**To fully inform all entities that it has their unclaimed property in its possession, the bureau should:**

- **Discontinue excluding any properties from its Web site.**
- **When it receives unclaimed property belonging to any governmental entity, notify that entity. If it does not receive sufficient information to determine which governmental entity the property belongs to, it should seek additional information from the holder.**

Response: Although the SCO generally concurs with the intent of these recommendations, this problem is caused by holders not meeting their responsibility to properly notify government agencies of their property before escheatment. It should also be noted that the budgetary restrictions on use of public funds for outreach to members of the public do not apply to outreach to government agencies.

The SCO is also concerned that trying to resolve ownership during the processing of reports is likely to delay the loading of the report and disadvantage other individual owners on the same report. Therefore, we are recommending the following alternative actions:

- By July 1, 2003, the SCO will issue special instructions to holders in writing and through the SCO web site of their responsibilities to notify owners (including government agencies) prior to the escheatment of accounts. This would allow the government agencies to claim their property prior to escheatment.
- Immediately following, the SCO will discontinue the practice of excluding government properties from the Web site.
- By August 31, 2003, the SCO will develop a plan for routinely notifying government agencies of potential unclaimed properties and providing a simple process for transferring such property to them. An update on the development of the plan will be sent to BSA in the 60-day report.

**To ensure that it distributes assets to bona fide claimants in a timely manner, the bureau should:**

- **Review all claims and either approve or deny them within 90 days of receipt.**
- **Distribute assets on approved claims within 30 days of approval.**

Response: The SCO concurs with the recommendation to complete review of claims within the 90-day statutory limit. However, the legislature is currently considering legislation that will extend this limit to 180 days and reduce 16 positions from unclaimed property program staffing. As noted above, we believe that the SCO has demonstrated significant improvements in meeting this time frame over the last year and will be taking several actions to improve this process as follows:

- By July 31, 2003, identify further opportunities to streamline claim processing and develop any necessary implementation plans.
- By August 31, 2003, review manual inventory controls to determine whether improvements can be made and develop any necessary implementation plans.

Also as noted above, there is no statute that defines the timeframe for distributing assets once a decision has been made. While we agree that a 30-day timeframe is reasonable for payment of cash claims, a 30-day timeframe will not be attainable for security claims until the conversion to cash efforts noted above are implemented. Even then, it will be difficult until the new system tied to the Feasibility Study Report is implemented. In the interim, SCO is taking a number of actions to convert the maximum level of securities to cash in the shortest time possible after escheatment. Please refer to the actions above in response to security recommendations.

**To ensure that it has properly accounted for all of the owners' properties, the bureau should develop a standard inventory form for holders to use to report the contents of safe deposit boxes and for the bureau to use to verify that it has received all of the reported contents from the holders. This standard form should include a section for the bureau to indicate its receipt of all of the reported contents, the date of review, and any follow-up required for contents that were reported but not remitted by the holder.**

Response: The SCO agrees with this recommendation. By August 31, 2003, the SCO will develop and implement the necessary forms, instructions and procedures.

**To reduce the overcrowding of the bureau's safe deposit box vault, the bureau should conduct an auction of the contents of safe deposit boxes at least monthly.**

Response: By June 30, 2003, the SCO will complete the pilot project currently underway for conducting online Internet auctions of safe deposit box contents. Currently state law allows use of an Internet auction only if it is cost-effective in relation to physical auctions. If, as we believe, the pilot proves that Internet auctions are cost effective, the SCO will develop alternatives for conducting such auctions on a routine basis. Monthly may not be feasible with anticipated staffing. A status report on the evaluation of the pilot and our plan for implementing routine auctions will be sent to BSA in the 60-day report.

The SCO is also in the process of developing a Request for Proposal to secure the services of an auctioneer for a physical public auction to conduct regular auctions. Our goal is to hold the first under this contract in the fall of 2003.

The SCO will explore additional space for secured storage of the safe deposit contents to reduce the overcrowding and will implement any feasible alternatives, if necessary. The status of this item will be sent to BSA in the 60-day report.

**To ensure that it receives all proceeds from the sale of the contents of safe deposit boxes and that it can accurately and promptly distribute these types of assets to their owners, the bureau should:**

- **Obtain and review videotapes of auctions and confirm that the auctioneer has accurately reported the sales amount for a sample of auctioned lots.**
- **Develop a system that posts the proceeds from each auction to the related owners' account immediately following the auction.**

Response: The SCO agrees with both of these recommendations and will implement a process to verify sale amounts with the next auction. By July 15, 2003, a plan will be developed for the programming changes to post auction proceeds to the related owner's account.

**If the bureau decides to auction all unclaimed properties from safe deposit boxes on the Internet, it should establish a method of ensuring that it receives all of the proceeds that are due.**

Response: The SCO agrees and was already planning to include the necessary procedures in the implementation of any ongoing Internet auction process.

### **RECOMMENDATIONS – CHAPTER 3**

**To ensure that it collects all unclaimed property that its auditors have a reasonable basis to believe should be remitted to the State, the controller should complete its examination of the estimated unclaimed property. Further, the bureau should ensure that it bills, and collects, the applicable interest penalties based upon the results of the audit bureau's examination.**

Response: The SCO agrees with the recommendation involving the one audit report where a follow-up examination was not performed. The Audits Division is moving forward to substantiate or invalidate the estimated unclaimed property referred to in the examination of this holder. The original examination was appropriately concluded without addressing an issue involving reconveyance or recording fees. The SCO was waiting for an opinion from the Attorney General's (AG) Office to determine if the fees were legally escheatable unclaimed property. The AG opinion concluded that the fees were escheatable property even though there is still a strong legal argument being raised by attorneys for the title companies that such fees are not. Inadvertently, the follow-up audit was not initiated when the AG opinion was received. The examination will address the sampling methodology used to estimate the escheatable fees and we will proceed with our completion of the examination.

Once the results of our examination have concluded the Division of Collections will proceed to bill and collect the property and the applicable interest charges.

**STATE CONTROLLER'S OFFICE**  
**Significant Improvements Implemented In Last Three Years**

- December 2000: Established process to evaluate, approve, and pay less complex claims in 30 days. It now approves approximately 34% of claims under this accelerated process.
- July and November 2001: Significantly reduced claim inventories by redirection of internal resources and the hire of over 20 new staff.
- Established a process to accelerate claims related to property contained in holder reports that it cannot add to the system due to report errors.
- Redirected internal resources to assist in processing security claims payments and improved tracking and assignment processes to improve timeliness.
- February through September 2002: Increased customer service and efficiency and better supported staff by implementing recommendations from KPMG Consulting:
  - Established a claim tracking process to ensure that claims can be located during intake, evaluation, and payment.
  - Created Intake Unit to establish claims on the property system as they arrive.
  - Established a process to notify claimants of receipt of their claims.
  - Developed scripts for telephone operators to ensure accurate and consistent distribution of information to callers.
  - Updated content and navigation within the interactive voice response of the bureau telephone system.
  - Established a Claim Resolution Team to resolve claims that could not be resolved under normal procedures.
  - Improved navigation ability and content on the bureau's Web site.
  - Developed a process to automatically route customer email requests for services to subject matter experts.
  - Established an additional reporting option for holders of unclaimed property to submit reports via CD-ROM.
  - Converted almost a million unclaimed property records from a stand-alone system onto the property system to enable staff to process claims more timely and efficiently.
  - Contracted with a securities service to allow staff easier access to information necessary to process and maintain securities.
- November 2002: Established processes to gather comments from customers.
- December 2002: Reengineered the reporting processing to improve efficiency and provide clearer guidance to holders to assist them in correcting reporting errors.

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# COMMENTS

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## ***California State Auditor's Comments on the Response From the State Controller's Office***

To provide clarity and perspective, we are commenting on the State Controller's Office (controller) response to our audit report. The number below corresponds to the number we placed in the margin of the controller's response.

- We clearly state that there is no legal requirement to pay claims within 30 days of approval. Additionally, we acknowledge the growth in the number of claims paid by the Bureau of Unclaimed Property (bureau) over the past five fiscal years. We believe, however, because the primary purpose of the bureau is to reunite owners with their lost or forgotten property, it is unreasonable to delay payment of claims beyond 30 days from approval.
- The number of claims received between July 2000 and July 2001 and paid in 30 days is misstated. Only five of the 11 claims, or 45 percent, received during this time were paid in 30 days of approval; the difference is based on the method used to determine the approval date. When the bureau's analyst approves a claim, they generally sign and date the claim form. Upon approval, the bureau's Unclaimed Property System (property system) is generally updated to reflect the date on which the claim was approved, however, in some instances, the date in the property system does not agree to the date on the claim form. Our analysis used the analysts' signature date as the date of approval, while the controller's analysis used the date contained in the property system. In this case, the difference in methodologies results in a difference of 36 days.
- The controller's statement lacks context and minimizes the importance of its failure to pursue this "one unclaimed property audit." We reviewed a sample of four of the Financial-related Audit Bureau's (audit bureau) 190 examinations of title and escrow companies. As we report, we found minor inconsistencies in methodologies, supporting documentation, and supervisory review processes for three of the four audits we reviewed. Our primary concerns were related to management's failure to follow up to either substantiate or invalidate its auditors' estimate that

one company had not escheated \$6.7 million in unclaimed property. Because we only looked at four of the audit bureau's examinations, we cannot comment on whether the audit bureau appropriately pursued estimated findings in other audits it either completed or did not complete from 1999 through 2002. However, we believe that our conclusion is warranted because of the size of the estimated escheatable property that the audit bureau did not pursue. The \$6.7 million of estimated escheatable property from this one audit is 21.2 percent of the \$31.6 million found in the 190 completed audits of title and escrow companies.

- We acknowledge that the controller was waiting for the legal opinion from the attorney general to determine whether the source of the estimated \$6.7 million was in fact legally escheatable. We also note that the legal opinion was issued five days after the original examination. Although the controller could not predict the timing of the legal opinion, the issuance of the legal opinion only five days later should have triggered the controller's efforts to either substantiate or invalidate the estimated findings.
- Our report recognizes that there are three potential causes for the \$75,000 difference between the total amount remitted by each holder and the total of all the individual accounts: the holders overpaid the amount due, they failed to include some individual accounts on their reports, or not all of the properties for which funds were remitted were uploaded into the property system. Regardless of the cause, the bureau should ensure that it reconciles the amount received to the amount reported, and take appropriate actions to resolve any differences. Without reconciling the amount received to the amount reported, the bureau cannot ensure that it is adequately safeguarding the assets entrusted to it and cannot follow up with the holders to ensure that it receives all of the assets or owner information it should.
- The controller implies that it consistently sells securities within two years. As we report, the bureau took as long as 44 months to sell some shares of the securities in our sample. At the time of our review, it also had shares of six securities that it had not sold in over four years. Regardless of the time frame in which the bureau may sell securities, it does not sell securities consistently. Because of the inconsistency in selling securities, the bureau is making itself vulnerable to litigation based on the appearance that it is assuming responsibility for determining the best time to sell securities, which it is not, and should not, be doing.

- Holders of unclaimed property are required to make reasonable efforts to notify owners that their property will escheat to the State if their records include an address. While we agree that some holders do not exercise due diligence in this regard, once the property escheats to the State, the bureau becomes responsible for efforts to locate the owners. Failure to notify owners that the bureau has their property in its custody prevents the bureau from fulfilling its primary purpose of reuniting owners with their lost or forgotten property.

cc: Members of the Legislature  
Office of the Lieutenant Governor  
Milton Marks Commission on California State  
Government Organization and Economy  
Department of Finance  
Attorney General  
State Controller  
State Treasurer  
Legislative Analyst  
Senate Office of Research  
California Research Bureau  
Capitol Press