



OFFICE OF THE STATE AUDITOR



September 2, 2020

DIANNE E. RAY, CPA
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STATE AUDITOR

DIVISION OF UNCLAIMED PROPERTY – STATUS REPORT

Members of the Legislative Audit Committee:

Attached is the status report from the Department of Treasury on the implementation of recommendations contained in the Office of the State Auditor's (OSA) *Division of Unclaimed Property Performance Audit*.

OSA REVIEW OF DOCUMENTATION

As part of the status report process, we requested and received supporting documentation for each recommendation that the Department reported as having been implemented, or partially implemented. Specifically, we reviewed the following documentation:

- Unclaimed Property Claims Processing Procedures, updated on July 6, 2020.
- Unclaimed Property Compliance Procedures, updated on July 29, 2020.
- Unclaimed Property claims listing as of July 29, 2020.
- Unclaimed Property claims ready to pay listing as of July 29, 2020.
- Unclaimed Property Tangible property search listing, as of July 29, 2020.

Based on our review, the supporting documentation substantiates the Department's reported implementation status.

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STATE OF COLORADO
DEPARTMENT OF THE TREASURY

Dave Young
State Treasurer



Eric Rothaus
Deputy Treasurer

August 25, 2020

Dianne E. Ray, CPA
State Auditor
Colorado Office of the State Auditor
1525 Sherman St., 7th Floor
Denver, CO 80203

Dear Auditor Ray:

In response to your request, we have prepared the attached status report on the implementation status of audit recommendations contained in the Division of Unclaimed Property Performance Audit. The report provides a brief explanation of the actions taken by the Department of Treasury (Treasury) to implement each recommendation.

If you have any questions about this status report and Treasury's efforts to implement the audit recommendations, please contact Deputy State Treasurer Eric Rothaus at (303) 866-2441 or eric.rothaus@state.co.us.

Sincerely,

A handwritten signature in blue ink that reads "David L. Young".

David L. Young
Colorado State Treasurer

AUDIT RECOMMENDATION STATUS REPORT

AUDIT NAME	Department of Treasury – Division of Unclaimed Property
AUDIT NUMBER	1811P
AGENCY	Department of Treasury
DATE OF STATUS REPORT	August 25, 2020

SECTION I: SUMMARY

REC. NUMBER	AGENCY'S RESPONSE	ORIGINAL IMPLEMENTATION DATE	CURRENT IMPLEMENTATION STATUS	CURRENT IMPLEMENTATION DATE
1A	Agree	September 2020	Not Implemented	September 2020
1B	Agree	March 2020	Implemented	March 2020
1C	Agree	December 2020	Not Implemented	December 2020
2A	Agree	December 2020	Not Implemented	December 2020
2B	Agree	December 2020	Not Implemented	December 2020
2C	Agree	June 2020	Implemented	June 2020
2D	Agree	December 2019	Implemented	December 2019
3A	Agree	December 2019	Implemented	December 2019
3B	Agree	December 2020	Not Implemented	December 2020
3C	Agree	December 2019	Implemented	December 2019
3D	Agree	December 2020	Implemented	September 2019
3E	Agree	June 2020	Implemented	June 2020
4A	Agree	June 2020	Implemented	June 2020
4B	Agree	June 2020	Partially Implemented	December 2020
4C	Agree	June 2020	Partially Implemented	December 2020

SECTION II: NARRATIVE DETAIL

RECOMMENDATION 1A

The Unclaimed Property Division should implement internal controls over claims processing to ensure that they comply with state statutes by:

Strengthening its written policies and procedures over claims processing. This should include providing specific instructions regarding the entry of holder, owner, claimant, claim, and payment information into KAPS; and deadlines to act on a claim once submitted by the claimant.

CURRENT IMPLEMENTATION STATUS	Not Implemented	CURRENT IMPLEMENTATION DATE	September 2020
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AGENCY UPDATE

All claims are currently reviewed and processed in 90 days or less. 801 claims are in the Unclaimed Property Division's (Division) ready to process queue: 798 (0-30 days), the oldest dating to July 27. Updates to written policies and procedures regarding the processing of claims within 90 days will be complete by the end of September 2020.

RECOMMENDATION 1B

The Unclaimed Property Division should implement internal controls over claims processing to ensure that they comply with state statutes by:

Effectively using its current outstanding unpaid claims report to identify outstanding unpaid claims and to ensure that claims are processed in a timely manner and that the claims backlog is eliminated.

CURRENT IMPLEMENTATION STATUS	Implemented	CURRENT IMPLEMENTATION DATE	March 2020
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AGENCY UPDATES

The ready-to-pay claims backlog has been eliminated. Claims are batched and paid from the waiting to pay queue within the 30-day requirement. A Senior Administrative staff member working with the Claims manager has assisted in batching paid claims once the queue has 75 claims (ideal batch size for accounting). A section regarding this review was added to the claims procedures (under Ready to Pay). The report/query is in the claims procedures under "Ready to Pay."

RECOMMENDATION 1C

The Unclaimed Property Division should implement internal controls over claims processing to ensure that they comply with state statutes by:
Identifying, reviewing, and researching data conversion issues to ensure that information contained in KAPS is accurate, including that the issues identified in our audit are corrected.

CURRENT IMPLEMENTATION STATUS	Not Implemented	CURRENT IMPLEMENTATION DATE	December 2020
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AGENCY UPDATE

Division is working with the vendor, Kelmar, to identify, review and resolve data conversion issues. We have a plan to correct identified issues by the end of December 2020.

RECOMMENDATION 2A

The Unclaimed Property Division should ensure that it complies with and has effective internal controls over requirements for the notification of property owners under the Unclaimed Property Act as applicable through June 30, 2020, and transitioning to the Revised Uniform Unclaimed Property Act as applicable beginning on July 1, 2020. This should include:
Strengthening and enforcing its policies and procedures related to the notification of unclaimed property owners.

CURRENT IMPLEMENTATION STATUS	Not Implemented	CURRENT IMPLEMENTATION DATE	December 2020
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AGENCY UPDATE

The statutory deadlines for the Division receiving property are May 1 and November 1. Approximately 300 emails were sent in December 2019 to potential owners of unclaimed property (for property received November 2019). This communication is the first step toward electronic notifications. For reporting year 2020, (which reflects holder reports from July 1, 2019 – June 30, 2020) email and paper notifications will be used, as the JBC authorized funding for paper notifications. Notifications, paper and/or electronic, will go out starting in late November 2020 for all reconciled holder reports for reporting year 2020. Reconciled reports indicate that the Division has received and reconciled the correct funds and shares pertaining to a holder's report. The Division continues to revise and update policies and procedures related to notification, which should be completed by December 2020.

RECOMMENDATION 2B

The Unclaimed Property Division should ensure that it complies with and has effective internal controls over requirements for the notification of property owners under the Unclaimed Property Act as applicable through June 30, 2020, and transitioning to the Revised Uniform Unclaimed Property Act as applicable beginning on July 1, 2020. This should include:

Ensuring that the Division develops and implements clear policies and procedures related to Division staff’s identification of unclaimed property belonging to State of Colorado departments, including how and when property is transferred to the applicable departments.

CURRENT IMPLEMENTATION STATUS	Not Implemented	CURRENT IMPLEMENTATION DATE	December 2020
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AGENCY UPDATE

Procedures for this process are in the process of being updated. In April, the Division proactively researched and created claims for Colorado counties and cities. These claims were sent by mail. Some municipalities hesitated to respond as a proactive effort on the part of the Division was unanticipated. As part of the Division’s process, we make an effort to communicate with any state agency, county, or municipality that has property with us prior to sending the claim forms. This encourages a response, and allows for a transfer of property to these agencies/counties/cities in a timely manner. The Division has begun the work of identifying state agency contacts in order to return property. The Division is in the process of making changes to policies and procedures as part of the changes it is making to Claims procedures in general.

RECOMMENDATION 2C

The Unclaimed Property Division should ensure that it complies with and has effective internal controls over requirements for the notification of property owners under the Unclaimed Property Act as applicable through June 30, 2020, and transitioning to the Revised Uniform Unclaimed Property Act as applicable beginning on July 1, 2020. This should include:

Implementing system edits in KAPS to ensure that holders’ reports submitted to the Division with “unknown” or owner “unidentified” owner names are flagged for Division staff follow-up.

CURRENT IMPLEMENTATION STATUS	Implemented	CURRENT IMPLEMENTATION DATE	June 2020
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AGENCY UPDATE

At the time of audit, it was unclear whether the Division’s vendor’s system, KAPS, was able to tag unknown owner names as an error. The Division has verified that KAPS can tag unknown owners , which did not require new programming. KAPS is now tagging unknown owners for Division staff follow-up. The Division has updated the Compliance procedures accordingly (Compliance, Section 3.8).

RECOMMENDATION 2D

Unclaimed Property Division should ensure that it complies with and has effective internal controls over requirements for the notification of property owners under the Unclaimed Property Act as applicable through June 30, 2020, and transitioning to the Revised Uniform Unclaimed Property Act as applicable beginning on July 1, 2020. This should include:

Expanding its written policies and procedures to ensure that Division staff follow up with holders when they submit unknown owner information to the Division for properties that would be expected to have known owner names.

CURRENT IMPLEMENTATION STATUS	Implemented	CURRENT IMPLEMENTATION DATE	December 2019
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AGENCY UPDATE

Compliance procedures have been updated (specifically 3.4 Review of Unclaimed Property Reports) to provide the Division direction as to when an inquiry should be made due to incomplete information, and, as well, for when a report should be returned due to a lack of complete information.

RECOMMENDATION 3A

The Unclaimed Property Division should comply with state statutes related to and implement internal controls over the accepting, safeguarding, and sale of tangible unclaimed property by:

Researching the Division's unclaimed property records to identify tangible properties that have been reported to the Division that the Division does not physically have, contacting the holders to locate the properties, establishing timeframes for obtaining the property from the holders and safeguarding it, and developing policies and procedures around these processes.

CURRENT IMPLEMENTATION STATUS	Implemented	CURRENT IMPLEMENTATION DATE	December 2019
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AGENCY UPDATE

The Division has addressed the backlog by requesting tangible property items, (either by email or by US Mail), and has requested box contents for reports through the year 2019. Based on the changes in RUUPA, the Division has created a new plan to request safety deposit boxes within six months of reports being reconciled. Currently, due to the pandemic, many banks are informing us that there is no one in their office to send the items to the Division. Policies and procedures have been updated in Compliance procedures under Section 3.11.

RECOMMENDATION 3B

The Unclaimed Property Division should comply with state statutes related to and implement internal controls over the accepting, safeguarding, and sale of tangible unclaimed property by:
Developing, implementing, and enforcing a policy requiring that holders file a written explanation with the Division for tangible property that holders subsequently returned to property owners before submitting it to the Division.

CURRENT IMPLEMENTATION STATUS	Not Implemented	CURRENT IMPLEMENTATION DATE	December 2020
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AGENCY UPDATE

Compliance tangible procedures are in the process of being updated, and should be completed and implemented by December 2020.

RECOMMENDATION 3C

The Unclaimed Property Division should comply with state statutes related to and implement internal controls over the accepting, safeguarding, and sale of tangible unclaimed property by:
Developing, documenting, and implementing written policies and procedures over the sale of tangible unclaimed property. These policies and procedures should include a process for identifying items that the Division must sell to be in compliance with statutory requirements and standard language surrounding the sale dates and description of the property that the Division should be including in its newspaper advertisements.

CURRENT IMPLEMENTATION STATUS	Implemented	CURRENT IMPLEMENTATION DATE	December 2019
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AGENCY UPDATE

Compliance procedures have been updated and implemented to address selling safe deposit boxes/safekeeping (section 3.8) This has been updated to identify property to be sold, as well as the differences between eBay and a large auction. Because RUUPA removed the newspaper reference, it is no longer addressed in our procedures. RUUPA's new requirements are also listed within the procedures.

RECOMMENDATION 3D

The Unclaimed Property Division should comply with state statutes related to and implement internal controls over the accepting, safeguarding, and sale of tangible unclaimed property by:
Researching and resolving the online search issue in KAPS to ensure that all tangible unclaimed property is searchable by the public.

CURRENT IMPLEMENTATION STATUS	Implemented	CURRENT IMPLEMENTATION DATE	September 2019
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AGENCY UPDATE

This small population of tangible property that was not viewable online was because the reports had not been properly reconciled by the division. This was immediately addressed by the Division's vendor, Kelmar, to have KAPS identify unpublished tangible items. All Reconciled tangible unclaimed property, including the property discussed in the audit, can now be searched and claimed online. The Division manually tested to ensure reconciliation was accurate.

RECOMMENDATION 3E

The Unclaimed Property Division should comply with state statutes related to and implement internal controls over the accepting, safeguarding, and sale of tangible unclaimed property by:
Updating and implementing its written policies and procedures to identify property belonging to other states and territories, including whether the property should be declined by the Division.

CURRENT IMPLEMENTATION STATUS	Implemented	CURRENT IMPLEMENTATION DATE	June 2020
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AGENCY UPDATE

Compliance procedures have been updated and implemented to address the return of excessive incidental properties as defined by the National Association of Unclaimed Property Administrators. Compliance Section 3.7 on Incidental Reporting has been added to the procedures to define acceptable reporting by holders. Incidental property refers to property that should be reported to other states/territories.

RECOMMENDATION 4A

The Unclaimed Property Division should ensure that its accounting processes comply with state statutes by:

Developing, documenting, and implementing an adequate review process to identify, research, and resolve issues specifically related to the recording of securities claims payments and statutorily required transfers.

CURRENT IMPLEMENTATION STATUS	Implemented	CURRENT IMPLEMENTATION DATE	June 2020
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AGENCY UPDATE

Securities claims payments are properly recorded in accordance with policies and procedures for all periods since the inception of the program in 2006. Following the conversion to a new accounting system in 2017, Treasury's CFO and Controller discovered a flaw in the old accounting system while performing routine comparative statistical analysis on annual totals between the new and old accounting systems. This resulted in a request of the software developer of both systems to investigate and correct an error in the computer script in the old system. With the corrected scripts, new reports were rerun on the old system for the periods since inception, resulting in the correct recordation in accordance with policies and procedures from inception, 2006 through FYE 2020.

RECOMMENDATION 4B

The Unclaimed Property Division should ensure that its accounting processes comply with state statutes by:

Determining the impact of the incorrect transfer noted in our audit and making accounting adjustments, as necessary.

CURRENT IMPLEMENTATION STATUS	Partially Implemented	CURRENT IMPLEMENTATION DATE	December 2020
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AGENCY UPDATE

The Department has calculated the impact of the incorrect transfers and is in the process of reaching out to the Office of the State Controller regarding the adjustments. Resolution of this issue is anticipated by December 2020.

RECOMMENDATION 4C

The Unclaimed Property Division should ensure that its accounting processes comply with state statutes by:
Researching the impact of the system reporting error and making adjustments to the accounting records, if necessary.

CURRENT IMPLEMENTATION STATUS	Partially Implemented	CURRENT IMPLEMENTATION DATE	December 2020
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AGENCY UPDATE

The Department has calculated the impact of the system reporting error and is in the process of reaching out to the Office of the State Controller regarding the adjustments. Resolution of this issue is anticipated by December 2020.