

PERFORMANCE AUDIT
OF THE
UNCLAIMED PROPERTY DIVISION
DEPARTMENT OF TREASURY
August 2000

EXECUTIVE DIGEST

UNCLAIMED PROPERTY DIVISION

INTRODUCTION

This report, issued in August 2000, contains the results of our performance audit* of the Unclaimed Property Division (UPD), Department of Treasury.

AUDIT PURPOSE

This performance audit was conducted as part of the constitutional responsibility of the Office of the Auditor General. Performance audits are conducted on a priority basis related to the potential for improving effectiveness* and efficiency* .

BACKGROUND

As authorized by Act 29, P.A. 1995 (Sections 567.221 - 567.265 of the *Michigan Compiled Laws*), UPD's mission* is to assume custody, on behalf of the State, of abandoned property* that has been unclaimed by an owner*; preserve the property in trust for the owners or their heirs; and return that property to the rightful owners or their heirs upon presentation of proof of ownership.

UPD receives abandoned property (both tangible property* and intangible property*) from holders* and maintains a database of the names of owners and their last known addresses* for all abandoned property. UPD publishes notices of abandoned property in all counties on November 1 each year.

* See glossary at end of report for definition.

Funds received under the Act, including proceeds from the sale of abandoned property, are deposited in the General Fund. UPD maintains a separate trust fund of \$100,000 to pay claims.

For fiscal year 1998-99, UPD reported operating expenditures of approximately \$2.0 million. As of September 30, 1999, UPD had 8 full-time and 8 limited-term employees.

AUDIT OBJECTIVE,
CONCLUSION, AND
NOTEWORTHY
ACCOMPLISHMENTS

Audit Objective: To assess the effectiveness of UPD's operating practices.

Conclusion: Our assessment disclosed that UPD's operating practices were generally effective. However, our assessment disclosed reportable conditions* related to taxable proceeds, limitation of refunds, microfiche record conversion, identification of unclaimed property owners, sale of securities, tangible property inventories and deposits, timeliness of auctions, holder report* filing, identification of potential holders, holder examinations, administrative rules, and written policies and procedures (Findings 1 through 12).

Noteworthy Accomplishments: In August 1999, UPD implemented a web site on the Internet that lists the owners of unclaimed property valued over \$50. This web site (www.treas.state.mi.us) enhanced UPD's efforts to locate owners of unclaimed property.

AUDIT SCOPE AND
METHODOLOGY

Our audit scope was to examine the program and other records of the Unclaimed Property Division. Our audit was conducted in accordance with *Government Auditing*

* See glossary at end of report for definition.

Standards issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

Our audit procedures included the testing of records primarily covering the period October 1, 1996 through September 30, 1999. Our methodology included a preliminary review of UPD operations. This consisted of discussions with staff regarding their functions and responsibilities, tests of program records, and a review of Department and UPD policy directives and operating procedures to gain an understanding of UPD's activities and to form a basis for selecting certain operations for audit.

We assessed and tested records relating to holder reporting of unclaimed property, receipt of unclaimed property, inventory of non-cash unclaimed property, and refunding of claims for unclaimed property. We conducted a survey (see supplemental information) to compare UPD's operating practices with those of other states.

**AGENCY RESPONSES
AND PRIOR AUDIT
FOLLOW-UP**

Our audit report includes 12 findings and 13 corresponding recommendations. The Department's preliminary response indicated that it agreed with 9 recommendations and disagreed with 4 recommendations.

UPD complied with 1 of the 3 prior audit recommendations that were included within the scope of our current audit. The other 2 recommendations were no longer applicable.

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August 23, 2000

Mr. Mark A. Murray
State Treasurer
Treasury Building
Lansing, Michigan

Dear Mr. Murray:

This is our report on the performance audit of the Unclaimed Property Division, Department of Treasury.

This report contains our executive digest; description of agency; audit objective, scope, and methodology and agency responses and prior audit follow-up; comment, findings, recommendations, and agency preliminary responses; a comparison of operating practices, presented as supplemental information; and a glossary of acronyms and terms.

The agency preliminary responses were taken from the agency's responses subsequent to our audit fieldwork. The *Michigan Compiled Laws* and administrative procedures require that the audited agency develop a formal response within 60 days after release of the audit report.

We appreciate the courtesy and cooperation extended to us during this audit.

AUDITOR GENERAL

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Description of Agency

As authorized by Act 29, P.A. 1995 (Sections 567.221 - 567.265 of the *Michigan Compiled Laws*), the mission of the Unclaimed Property Division (UPD), Department of Treasury, is to assume custody, on behalf of the State, of abandoned property that has been unclaimed by an owner; preserve the property in trust for the owners or their heirs; and return that property to the rightful owners or their heirs upon presentation of proof of ownership.

UPD receives abandoned property (both tangible property and intangible property) from holders. UPD maintains a database of the names of owners and their last known addresses for all abandoned property received from holders.

UPD publishes notices of abandoned property in all counties on November 1 each year. Effective August 1999, UPD created a web site on the Internet that lists all owners of property valued over \$50 that was submitted to UPD since 1988. The web site is updated on a monthly basis.

Funds received under the Act, including proceeds from the sale of abandoned property, are deposited in the General Fund. UPD maintains a separate trust fund of \$100,000 to pay claims. Claims submitted to UPD must include proof of ownership and must be paid within 90 days.

For fiscal years 1998-99 and 1997-98, UPD refunded 12,300 and 9,300 claims respectively, totaling \$15.8 million and \$10.1 million, respectively. For fiscal year 1998-99, UPD reported operating expenditures of approximately \$2.0 million. As of September 30, 1999, UPD had 8 full-time and 8 limited-term employees.

Audit Objective, Scope, and Methodology and Agency Responses and Prior Audit Follow-Up

Audit Objective

The objective of our performance audit of the Unclaimed Property Division (UPD), Department of Treasury, was to assess the effectiveness of UPD's operating practices.

Audit Scope

Our audit scope was to examine the program and other records of the Unclaimed Property Division. Our audit was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

Audit Methodology

Our audit procedures were performed from June through October 1999 and included the testing of records primarily covering the period October 1, 1996 through September 30, 1999. Our methodology included a preliminary review of UPD operations. This consisted of discussions with staff regarding their functions and responsibilities, tests of program records, and a review of Department and UPD policy directives and operating procedures to gain an understanding of UPD's activities and to form a basis for selecting certain operations for audit.

We assessed and tested records relating to holder reporting of unclaimed property, receipt of unclaimed property, inventory of non-cash unclaimed property, and refunding of claims for unclaimed property. We conducted a survey (see supplemental information) to compare UPD's operating practices with those of other states.

Agency Responses and Prior Audit Follow-Up

Our audit report includes 12 findings and 13 corresponding recommendations. The Department's preliminary response indicated that it agreed with 9 recommendations and disagreed with 4 recommendations.

The agency preliminary response which follows each recommendation in our report was taken from the agency's written comments and oral discussion subsequent to our audit

fieldwork. Section 18.1462 of the *Michigan Compiled Laws* and Department of Management and Budget Administrative Guide procedure 1280.02 require the Department of Treasury to develop a formal response to our audit findings and recommendations within 60 days after release of the audit report.

UPD complied with 1 of the 3 prior audit recommendations that were included within the scope of our current audit. The other 2 recommendations were no longer applicable.

COMMENT, FINDINGS, RECOMMENDATIONS, AND AGENCY PRELIMINARY RESPONSES

EFFECTIVENESS OF OPERATING PRACTICES

COMMENT

Audit Objective: To assess the effectiveness of the Unclaimed Property Division's (UPD's) operating practices.

Conclusion: Our assessment disclosed that UPD's operating practices were generally effective. However, our assessment disclosed reportable conditions related to taxable proceeds, limitation of refunds, microfiche record conversion, identification of unclaimed property owners, sale of securities, tangible property inventories and deposits, timeliness of auctions, holder report filing, identification of potential holders, holder examinations, administrative rules, and written policies and procedures.

Noteworthy Accomplishments: In August 1999, UPD implemented a web site on the Internet that lists the owners of unclaimed property valued over \$50. This web site (www.treas.state.mi.us) enhanced UPD's efforts to locate owners of unclaimed property.

FINDING

1. Taxable Proceeds

UPD needs to determine if unclaimed property owners may be subject to federal and State income tax regulations for proceeds resulting from the sale of securities, dividends received, interest earnings, and race track ticket winnings.

Unclaimed properties are transferred to UPD at the end of an established abandonment period by holders as follows:

<u>Property Type</u>	<u>Abandonment Period</u>
Securities	7 years
Dividends	7 years
Savings account	5 years
Winning race track ticket	6 weeks after racing date

The State assumes custody at the time that the property is transferred. The proceeds from the sale of securities along with dividends received, interest earnings, and winning race track tickets transferred are deposited in the State's General Fund until a valid claim is filed with UPD. A refund is sent to the owner once the claim is approved for payment.

Subsequent to the passage of Act 505, P.A. 1998, UPD no longer assumes custody of winning race track tickets. However, it still has custody of winning tickets received prior to the passage of the Act 505, P.A. 1998.

Because UPD's refund may include a gain on the sale of securities, dividends received, interest earnings, or race track ticket winnings, the refunds may be taxable to the owner. For the period June 1 through October 22, 1999, refunds for the sale of securities, dividends received, and interest earnings totaled \$6.7 million.

UPD does not report potential taxable earnings to the Internal Revenue Service (IRS). However, UPD may be required to prepare appropriate IRS tax forms to inform the owner and the IRS of proceeds resulting from the sale of certain unclaimed properties.

The IRS tax regulations for the sale of certain properties require the following:

<u>Property Type</u>	<u>IRS Form Needed*</u>	<u>When Required</u>
Securities	1099B	Sale of Security
Dividends	1099DIV	Dividends over \$10
Interest earnings	1099INT	Interest earnings over \$10
Winning race track ticket	W-2G	Winnings of \$600 or more

* Taken from the IRS instructions for 1099 and W-2G tax forms.

Reporting the amount of refunds to taxing authorities, when appropriate, alerts the taxing authorities and the taxpayer to potential tax liabilities. Adjusted gross income from the federal income tax form is the starting point for assessing Michigan income tax payable. Therefore, some of the unreported earnings may accrue back to the State in the form of income tax receipts.

RECOMMENDATION

We recommend that UPD request an IRS ruling to determine if IRS tax forms should be issued for refunds that include the sale of securities, dividends received, interest earnings, and race track ticket winnings.

AGENCY PRELIMINARY RESPONSE

The Department of Treasury disagreed with the recommendation. The Department stated that, according to the National Association of Unclaimed Property Administrators, only two states send out 1099 tax forms. The Department further stated that those forms were sent to report interest paid by the states. UPD will consult with the Department's revenue commissioner.

FINDING

2. Limitation of Refunds

The Department should seek amendatory legislation that establishes threshold limits for refunding unclaimed property.

Act 29, P.A. 1995 (the Uniform Unclaimed Property Act), was implemented January 1, 1996. This Act replaced Act 329, P.A. 1947 (the Michigan Code of Escheats). Act 329 required the refund of all properties with no restrictions. Act 29 was implemented to streamline the functions of UPD and make it more effective and efficient. However, limiting the amount of a refund was not addressed.

Our review of UPD operating practices disclosed that the cost of processing refunds often exceeded the amount of the refund. UPD processed 22,302 refunds totaling \$27.1 million for the period August 14, 1997 through September 29, 1999. Of this total, 3,347 (15%) refunds, totaling \$64,506 (.2%), were for properties valued less than \$50. We estimated that the cost of processing an individual refund was approximately \$55. Applying \$55 per refund to the 3,347 refunds processed under \$50 equates to approximately \$184,085 to process \$64,506 in refunds.

UPD has attempted to control the disproportionate cost of maintaining and refunding the small properties. For example, approximately 80% (3.2 million) of the properties held by UPD are valued less than \$50 and are not published in the annual publication or listed on the Internet web site.

In our survey of 13 states, 10 (77%) of the states also did not list property valued under \$50 in publications and Internet web sites.

It is not effective or efficient to maintain custody of millions of properties valued under \$50, considering that it costs approximately \$55 to process a refund and that virtually no efforts are made to locate and notify these owners.

Restricting refunds to only amounts that exceed \$50 would improve the cost-benefit ratio of the refund process, would significantly reduce the number of properties in UPD's custody, and could enable UPD to place more emphasis on the search for owners and holders of property valued at more than \$50 as addressed in Findings 4 and 9.

RECOMMENDATION

We recommend that the Department seek amendatory legislation that establishes threshold limits for refunding unclaimed property.

AGENCY PRELIMINARY RESPONSE

The Department disagreed with the recommendation. The Department stated that its role is the custodian of unclaimed property funds and all legitimate claims, regardless of their amounts, should be honored.

FINDING

3. Microfiche Record Conversion

The Department issued a work statement services request* to a private contractor to convert all microfiche property records to the automated Unclaimed Property System (UPS). This may result in an ineffective and inefficient use of UPD's resources.

Unclaimed property transferred to UPD prior to 1988 was recorded only on microfiche. UPD had not established a total count and total value of pre-1988 properties. After the property records are converted to the automated UPS, UPD should be able to access all property records more efficiently and establish a total count and total value of all unclaimed properties in its custody.

The Department estimates that the cost to convert the property records to the automated UPS will be \$680,000. However, we question the reliability of this estimate because of numerous factors:

- a. The quantity of data to be transferred is unknown. The properties to be transferred are dated from 1947 to 1988. Since 1988, approximately 4 million properties have been entered on the automated UPS. Thus, it is reasonable to expect that the quantity of properties received in the previous four decades would be significantly higher than 4 million.
- b. Prior to 1988, UPD had not established a format in which records were to be submitted to UPD. Thus, the contractor will have to apply a high level of scrutiny to ensure the accuracy of each property converted.

* See glossary at end of report for definition.

- c. Some of the data may be incomplete or inaccurate. For instance, the microfiche records do not contain the social security numbers or addresses that are used to identify and locate owners. Many of the records lack account numbers. Also, some of the old holder reports may not exist.
- d. Records of refunds for property recorded on microfiche have not been maintained. Therefore, there is no way to verify if a property being converted has already been refunded.

As addressed in Finding 2, we determined that restricting refunds of unclaimed properties to only amounts that exceed \$50 would significantly reduce the number of properties in UPD's custody, improve the cost-benefit ratio of the refund process, and could enable UPD to place more emphasis on the search for owners and holders. UPD estimates that approximately 80% of the property records are valued less than \$50.

If the liability for the millions of properties valued at less than \$50 were written off, this would significantly reduce the scope of the conversion project.

Because of the potentially high cost of converting the property records, the incomplete and inaccurate data, the inability to verify prior refunds, and the potentially large percentage of properties valued less than \$50, the conversion of all property records to UPS may greatly exceed cost estimates and ultimately result in an ineffective and inefficient use of UPD's resources. The final cost of the conversion project, when factored into the cost to process a refund, will likely raise the per refund processing cost.

RECOMMENDATION

We recommend that UPD convert to the automated UPS only those microfiche property records with values exceeding \$50.

AGENCY PRELIMINARY RESPONSE

The Department agreed with the recommendation and will convert only properties valued at \$50 or greater to the automated system.

FINDING

4. Identification of Unclaimed Property Owners

UPD could increase its effort to search for and identify unclaimed property owners.

UPD's mission is to assume custody, on behalf of the State, of abandoned property that has been unclaimed by an owner; preserve the property in trust for the owners or their heirs; and return that property to the rightful owners or their heirs upon presentation of proof of ownership.

Although UPD published names of property owners in newspapers and established a web site listing names of property owners, it did not take the initiative to identify any unclaimed property owners by using some of the other resources available to it, such as: name and address search on the Internet; notices to the last known address; telephone calls to the last known phone number; State records, such as Bureau of Driver and Vehicle Records, Department of State, and social security number matches with the Income Tax Division and federal employer number matches with the Single Business Tax Division, Department of Treasury; and local units of governments. UPD personnel informed us that its philosophy was to put most of its effort into the handling of inquiries and processing claims.

We obtained a list, dated June 10, 1999, of all (105) properties valued over \$50,000 and were able to readily identify the names of 16 businesses and governmental units (total property value of \$1.4 million) and 19 individuals (total property value of \$1.3 million) as potential property owners through an Internet name and address search. The information was obtained in approximately six hours and included phone numbers and addresses.

The businesses and governmental units that we identified had property values ranging from \$51,750 to \$291,480. The properties included outstanding dividends,

State of Michigan warrants, and customer overpayments. The list included names such as those found in the following table:

Name of Owner	Type of Property	Value of Property
First of Michigan Corporation	Outstanding dividends	\$145,105
Metropolitan Hospital	State of Michigan warrants (2)	\$166,690
Ford Motor Company	Customer overpayment	\$59,108
Macomb-Oakland Regional Center	State of Michigan warrant	\$89,146
County of Oakland - Employment and Training Division	State of Michigan warrant	\$291,480
County of Wayne - Detroit Health Department	State of Michigan warrant	\$51,750

The individuals that we identified had property values ranging from \$50,000 to \$234,872. The properties included savings accounts, annuities, insurance benefits, checking accounts, stocks and bonds, and outstanding checks.

Subsequent to our fieldwork, UPD informed us that it has refunded \$922,820 to businesses and governmental units and \$255,384 to individuals included in the list of properties valued over \$50,000.

RECOMMENDATION

We recommend that UPD increase its effort to search for and identify unclaimed property owners.

AGENCY PRELIMINARY RESPONSE

The Department agreed with the recommendation and informed us that it has increased the UPD staff to handle the increased claims volume created primarily by the web site.

FINDING

5. Sale of Securities

UPD had not liquidated some securities as required by the Uniform Unclaimed Property Act.

Section 567.243 of the *Michigan Compiled Laws* requires that all securities presumed abandoned and delivered to the administrator are to be sold within one year of the receipt of the securities. This Section became effective December 30,

1997. Securities include stocks, bonds, and mutual funds. Holders transfer securities to UPD by depositing them directly with the UPD custodian, sending the certificates directly to the UPD office, or including them as contents of safe deposit boxes. Custody must be transferred to UPD prior to the sale of securities.

UPD did not sell abandoned securities that were received as contents of safe deposit boxes. Upon receipt, these securities were handled as "papers of value" and sent to the State's records center to be stored until claimed by the rightful owners. Because UPD did not take inventory of papers of value, we could not determine the number of securities sent to the records center.

In addition, UPD had not sold abandoned mutual funds received from holders since December 30, 1997.

Selling securities within one year of receipt can save a significant amount of time and effort required to track and record interest, dividends, spin-offs, mergers, and stock splits to the accounts of the individual owners.

RECOMMENDATION

We recommend that UPD liquidate all securities as required by the Uniform Unclaimed Property Act.

AGENCY PRELIMINARY RESPONSE

The Department agreed with the recommendation and informed us that it has instructed its custodian for securities to liquidate securities as soon as they are received. Also, it is liquidating mutual funds held at various companies and stocks held at various transfer agents.

FINDING

6. Tangible Property Inventories and Deposits

UPD did not conduct an annual inventory of tangible property received from holders. Also, UPD did not deposit cash immediately as it was received and it was determined that currency and coins had no collectible value.

Tangible property includes such items as cash, coins, jewelry, and securities that have been stored in safe deposit boxes. Proper internal control would require that UPD conduct an annual inventory of tangible property and document the results of the inventory and that UPD immediately deposit currency and coins determined to have no collectible value.

UPD had not conducted a tangible property inventory for approximately five years (May 1992 to November 1997). During this time, tangible property had been transferred by holders and stored in a secured area. An inventory taken in November 1997 through April 1998 resulted in \$164,256 in currency and coins being deposited to the State's General Fund.

Since the inventory was conducted, UPD had received tangible property from 69 holders. We determined from our review of all the holder reports that there was \$27,612 in currency and coins plus hundreds of items of various jewelry and securities stored in the secured area.

An annual inventory provides for improved accountability of property and improved accuracy for reporting the value of tangible property at the end of the fiscal year. Also, depositing cash in a timely manner reduces the risk of loss or theft.

RECOMMENDATIONS

We recommend that UPD conduct an annual inventory of tangible property received from holders.

We also recommend that UPD deposit cash immediately as it is received and it is determined that currency and coins have no collectible value.

AGENCY PRELIMINARY RESPONSE

The Department agreed with the recommendations and informed us that it is in the process of obtaining quotes from auctioneer firms to inventory and appraise the personal property received by UPD from fiscal years 1996-97 through 1998-99.

FINDING

7. Timeliness of Auctions

UPD did not sell abandoned property in accordance with the Uniform Unclaimed Property Act.

Abandoned property consists of tangible or intangible property that is unclaimed by its rightful owner. Section 567.243 of the *Michigan Compiled Laws* provides that, not later than three years after the receipt of abandoned property, the administrator shall sell it to the highest bidder at public sale in whatever city in the State affords, in the judgment of the administrator, the most favorable market for the property involved. Based on our review of holder reports, it appears that UPD collects enough tangible property in a three-year period to justify conducting an auction.

The last auction of abandoned property conducted by UPD was in May 1992.

Conducting periodic auctions of tangible property as required by the *Michigan Compiled Laws* can significantly reduce the demand for storage and converts items to cash, which can be deposited in the General Fund.

RECOMMENDATION

We recommend that UPD sell abandoned property in accordance with the Uniform Unclaimed Property Act.

AGENCY PRELIMINARY RESPONSE

The Department agreed with the recommendation and informed us that it has contracted with the Department of Management and Budget (DMB) to liquidate personal property received by UPD through its regularly scheduled monthly auctions. UPD/DMB auctions were held in May and June 2000.

FINDING

8. Holder Report Filing

UPD needs to ensure that all active holders listed in the UPS database file annual reports as required by statute.

Section 567.238 of the *Michigan Compiled Laws* requires holders to submit a report of unclaimed property by November 1 of each year. The manual for reporting unclaimed property states that holders who have no property to transfer in the current year are still required to submit a negative holder report. Holders who fail to submit a report are not in compliance with the statute.

Beginning with the November 1997 report year, UPD staff discontinued entering negative report data into the UPS database. UPD staff informed us that some holders have multiple holder identification numbers and UPD was unable to accurately determine which holders had or had not submitted annual reports in compliance with the statute. Therefore, UPD did not have information that would allow it to identify and notify delinquent holders who had not submitted reports by the November 1 deadline.

Entering negative report data into the database should allow UPD to accurately track which holders have filed annual reports in compliance with statutory requirements. Sending delinquency letters to holders who have not filed annual reports could enhance the collection of unclaimed property.

RECOMMENDATION

We recommend that UPD ensure that all active holders listed in the UPS database file annual reports as required by the statute.

AGENCY PRELIMINARY RESPONSE

The Department disagreed with the recommendation. The Department informed us that filing negative reports is not required by the Uniform Unclaimed Property Act. Therefore, to maximize the use of UPD's limited resources, it has deleted the instruction to file negative reports from the report booklet sent to holders.

FINDING

9. Identification of Potential Holders

UPD needs to proactively identify potential holders of unclaimed property and notify them of their statutory responsibility to report unclaimed property.

Section 567.238 of the *Michigan Compiled Laws* requires holders to submit a report of unclaimed property by November 1 of each year. Holders of unclaimed property may include banks, credit unions, brokers, insurance companies, utility companies, governmental units, and manufacturers.

UPD stated that, while it believed many holders did not report unclaimed property as required by statute, it did not have enough staff to identify and contact potential holders. UPD relied on voluntary compliance and did not conduct enforcement activities.

Our survey of operating practices in other states' unclaimed property programs indicated that a number of methods are frequently used to identify potential holders. A common method used by other states involved matching records of state tax and regulatory agencies with holder databases.

Placing reliance solely on voluntary compliance may result in potential holders not filing reports and not remitting unclaimed property as required by statute.

RECOMMENDATION

We recommend that UPD proactively identify potential holders of unclaimed property and notify them of their statutory responsibility to report unclaimed property.

AGENCY PRELIMINARY RESPONSE

The Department agreed with the recommendation. The Department plans to cross-match businesses filing Single Business Tax returns but not filing unclaimed property reports.

FINDING

10. Holder Examinations

UPD needs to examine holder records to ensure accurate, timely, and complete reporting of unclaimed property.

Section 567.251 of the *Michigan Compiled Laws* authorizes the UPD administrator to examine the records of holders to determine whether they have complied with the Uniform Unclaimed Property Act. In order to comply with the Act, holders must file annual reports that are accurate, timely, and complete. Examining holder records could result in increased compliance with the Act.

Our review of 35 holder reports submitted during the 36-month period ended December 31, 1998 disclosed that 9 (25%) holders made mistakes in computing abandonment periods and 14 (39%) holders did not submit property in a timely manner.

We also reviewed 10 holder reports submitted by major Michigan corporations for the 24-month period ended December 31, 1998 and noted that 5 (50%) of the corporations had included uncashed payroll checks with their holder reports. However, UPD did not determine whether the other 5 corporations had uncashed payroll checks that should have been included with their holder reports.

UPD staff informed us that there are not enough staff for UPD to conduct its own examination of holder records. UPD did contract with third-party auditors. However, the contracts with the third-party auditors are to find property in other states that belongs to Michigan owners.

In our survey of the operating practices of other states' unclaimed property programs, 8 (80%) of 10 states that responded had in-house audit staffs in 1998 to examine holder reports.

Examining holder records could help ensure better holder compliance and increased collections of unclaimed property.

RECOMMENDATION

We recommend that UPD examine holder reports to ensure accurate, timely, and complete reporting of unclaimed property.

AGENCY PRELIMINARY RESPONSE

The Department agreed with the intent of the recommendation. However, the Department informed us that UPD focuses on voluntary compliance and assisting holders in fulfilling their obligations under the law.

FINDING

11. **Administrative Rules**

UPD had not promulgated any administrative rules.

Section 24.233 of the *Michigan Compiled Laws* provides that administrative rules shall be promulgated to describe an agency's organization and methods of operation, as well as to prescribe the agency's procedures available to the public and the methods by which the public may obtain information. Section 567.260 of the *Michigan Compiled Laws* provides that the UPD administrator may promulgate rules necessary to carry out the provisions of the Uniform Unclaimed Property Act. Act 306, P.A. 1969 (the Administrative Procedures Act of 1969), provides the methods and procedures for establishing rules and regulations.

Because UPD has not promulgated administrative rules, it has been unable to enforce sections of the Uniform Unclaimed Property Act. For instance, Section 567.255 of the *Michigan Compiled Laws* states that holders who file late, or willfully fail to file an annual report with UPD, may be assessed a late fee or penalty. UPD has been advised by the Attorney General that, because it has not promulgated rules, the law would not be enforceable in court. Therefore, UPD has not assessed any late fees or penalties to holders. In fiscal years 1998-99 and 1997-98, 2,032 and 1,424 holders, respectively, filed delinquent reports.

Establishing administrative rules would help UPD enforce all sections of the Uniform Unclaimed Property Act.

RECOMMENDATION

We recommend that UPD promulgate administrative rules.

AGENCY PRELIMINARY RESPONSE

The Department disagreed with the recommendation. The Department believes that the current statute is sufficient for the administration of UPD, given its current philosophy regarding voluntary compliance versus enforcement.

FINDING

12. **Written Policies and Procedures**

UPD needs to develop comprehensive written policies and procedures for functions performed by UPD staff.

Written policies and procedures that address holder reports, receipt processing, receipt of non-cash inventory, and claim and refund processing had not been developed. Staff either wrote their own procedures while learning the process or followed policies and procedures distributed in the form of memorandums from supervisory staff.

Written policies and procedures help ensure proper management of UPD and help communicate the extent of staff responsibilities.

RECOMMENDATION

We recommend that UPD develop comprehensive written policies and procedures for functions performed by UPD staff.

AGENCY PRELIMINARY RESPONSE

The Department agreed with the recommendation and will develop comprehensive written policies and procedures within the next 18 months.

SUPPLEMENTAL INFORMATION

UNCLAIMED PROPERTY DIVISION
 Department of Treasury
Comparison of Operating Practices

All 50 states and the District of Columbia have an unclaimed property law. As part of this audit, we sent surveys to 34 states to compare the Unclaimed Property Division's (UPD's) operating practices with those of other states. We received responses from the following 13 (38%) states: Connecticut, Hawaii, Idaho, Montana, Nebraska, Nevada, New Hampshire, Ohio, Oregon, South Dakota, Washington, West Virginia, and Wyoming. The results of the survey are summarized below:

1. What was the total dollar amount of unclaimed property received?

<u>1997</u>			<u>Michigan</u>
\$1 - \$9,999,999	66.7%	(8 of 12)	
\$10,000,000 - \$19,999,999	8.3%	(1 of 12)	
\$20,000,000 - \$29,999,999	16.7%	(2 of 12)	
\$30,000,000 and above	8.3%	(1 of 12)	\$63.7 million
<u>1998</u>			<u>Michigan</u>
\$1 - \$9,999,999	53.8%	(7 of 13)	
\$10,000,000 - \$19,999,999	23.1%	(3 of 13)	
\$20,000,000 - \$29,999,999	7.7%	(1 of 13)	
\$30,000,000 and above	15.4%	(2 of 13)	\$47.8 million

2. What was the dollar amount of unclaimed property received due to:

<u>Voluntary Remittances in 1997</u>			<u>Michigan</u>
\$1 - \$4,999,999	55.6%	(5 of 9)	
\$5,000,000 - \$9,999,999	22.2%	(2 of 9)	
\$10,000,000 - \$19,999,999	11.1%	(1 of 9)	
\$20,000,000 and above	11.1%	(1 of 9)	\$57.3 million
<u>Voluntary Remittances in 1998</u>			<u>Michigan</u>
\$1 - \$4,999,999	36.4%	(4 of 11)	
\$5,000,000 - \$9,999,999	27.3%	(3 of 11)	
\$10,000,000 - \$19,999,999	9.1%	(1 of 11)	
\$20,000,000 and above	27.3%	(3 of 11)	\$42.6 million

Contract Auditors in 1997			Michigan
\$0	22.2%	(2 of 9)	
\$1 - \$4,999,999	77.8%	(7 of 9)	
\$5,000,000 - \$9,999,999		(0 of 9)	\$6.4 million

Contract Auditors in 1998			Michigan
\$0	36.4%	(4 of 11)	
\$1 - \$4,999,999	54.5%	(6 of 11)	
\$5,000,000 - \$9,999,999	9.1%	(1 of 11)	\$5.2 million

Internal Auditors in 1997			Michigan
\$0	44.4%	(4 of 9)	\$0
\$1 - \$4,999,999	55.6%	(5 of 9)	
\$5,000,000 - \$9,999,999		(0 of 9)	

Internal Auditors in 1998			Michigan
\$0	45.5%	(5 of 11)	\$0
\$1 - \$4,999,999	54.5%	(6 of 11)	
\$5,000,000 - \$9,999,999		(0 of 11)	

3. How many internal audits were conducted and how many internal auditors were employed in 1997 and 1998?

Number of Audits in 1997			Michigan
0	40.0%	(4 of 10)	0
1 - 14	20.0%	(2 of 10)	
15 - 29	10.0%	(1 of 10)	
30 - 44		(0 of 10)	
45 - more	30.0%	(3 of 10)	

Number of Audits in 1998			Michigan
0	30.0%	(3 of 10)	0
1 - 14	30.0%	(3 of 10)	
15 - 29	10.0%	(1 of 10)	
30 - 44	10.0%	(1 of 10)	
45 - more	20.0%	(2 of 10)	

Number of Auditors in 1997			Michigan
0	30.0%	(3 of 10)	0
1 - 3	50.0%	(5 of 10)	
4 - 6	20.0%	(2 of 10)	
7 and above		(0 of 10)	

Number of Auditors in 1998			Michigan
0	20.0%	(2 of 10)	0
1 - 3	60.0%	(6 of 10)	
4 - 6	20.0%	(2 of 10)	
7 and above		(0 of 10)	

4. How many holders are listed on your database?

Number of Holders			Michigan
1 - 4,999	41.7%	(5 of 12)	
5,000 - 9,999	25.0%	(3 of 12)	9,567
10,000 - 14,999	8.3%	(1 of 12)	
15,000 and above	25.0%	(3 of 12)	

5. What sources are used to identify potential holders?

Source			Michigan
Prior reports	69.2%	(9 of 13)	X
Other states	69.2%	(9 of 13)	
Other state agencies	61.5%	(8 of 13)	
Newspaper	53.8%	(7 of 13)	
Publications	46.2%	(6 of 13)	
Tax records	30.8%	(4 of 13)	
Other	30.8%	(4 of 13)	X

6. Does your program accept detailed information on individual accounts remitted by holders electronically?

			<u>Michigan</u>
Yes	69.2%	(9 of 13)	Yes
No	30.8%	(4 of 13)	

7. Does your state have reciprocal/exchange agreements with other states?

			<u>Michigan</u>
Yes	76.9%	(10 of 13)	
No	23.1%	(3 of 13)	No

8. If yes, how many states does your state have reciprocal/exchange agreements with?

			<u>Michigan</u>
1 - 14	10.0%	(1 of 10)	(Not Applicable)
15 - 29	60.0%	(6 of 10)	
30 and above	30.3%	(3 of 10)	

9. What was the total dollar amount received from other states due to reciprocal/exchange agreements?

<u>1997</u>			<u>Michigan</u>
\$1 - \$499,999	60.0%	(3 of 5)	(Not Applicable)
\$500,000 - \$999,999	40.0%	(2 of 5)	
\$1,000,000 and above		(0 of 5)	
<u>1998</u>			<u>Michigan</u>
\$1 - \$499,999	57.1%	(4 of 7)	(Not Applicable)
\$500,000 - \$999,999	28.6%	(2 of 7)	
\$1,000,000 and above	14.3%	(1 of 7)	

10. What was the total dollar amount remitted to other states due to reciprocal/exchange agreements?

1997			Michigan
\$1 - \$499,999	50.0%	(2 of 4)	(Not Applicable)
\$500,000 - \$999,999	25.0%	(1 of 4)	
\$1,000,000 and above	25.0%	(1 of 4)	
1998			Michigan
\$1 - \$499,999	57.1%	(4 of 7)	(Not Applicable)
\$500,000 - \$999,999		(0 of 7)	
\$1,000,000 and above	42.9%	(3 of 7)	

11. How many staff are currently employed by your state to operate the unclaimed property program?

Full-Time Employees			Michigan
1 - 9	61.5%	(8 of 13)	9
10 - 19	15.4%	(2 of 13)	
20 - 29	15.4%	(2 of 13)	
30 and over	7.7%	(1 of 13)	
Part-Time Employees			Michigan
1 - 9	100.0%	(4 of 4)	(None)
10 - 19			
20 - 29			
30 and over			
Temporary Employees			Michigan
1 - 9	100.0%	(3 of 3)	7
10 - 19			
20 - 29			
30 and over			

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

			<u>Michigan</u>
Prior to auction	61.5%	(8 of 13)	X
Other	23.1%	(3 of 13)	
Not appraised	15.4%	(2 of 13)	
Upon receipt		(0 of 13)	

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

			<u>Michigan</u>
Do not conduct sales	15.4%	(2 of 13)	
Annually or more frequently	23.1%	(3 of 13)	
Between annually and every three years	7.7%	(1 of 13)	
Every three years or more	23.1%	(3 of 13)	X
Have not conducted a sale	7.7%	(1 of 13)	
Other (infrequent or not specified)	23.1%	(3 of 13)	

14. When does your state sell securities?

			<u>Michigan</u>
Upon receipt	15.4%	(2 of 13)	
Once a year	23.1%	(3 of 13)	
Twice a year	7.7%	(1 of 13)	
Never	7.7%	(1 of 13)	
Other	46.2%	(6 of 13)	X

15. What was the total number of claims paid out to unclaimed property owners in 1997 and 1998? What was the total dollar amount paid out each year?

<u>Number of Claims in 1997</u>	<u>Michigan</u>		
1 - 4,999	72.7%	(8 of 11)	(Not Available)
5,000 - 9,999	9.1%	(1 of 11)	
10,000 - 14,999		(0 of 11)	
15,000 and over	18.2%	(2 of 11)	

Dollar Amount of Claims in 1997			Michigan
\$1 - \$999,999	8.3%	(1 of 12)	
\$1,000,000 - \$4,999,999	75.0%	(9 of 12)	
\$5,000,000 - \$9,999,999	8.3%	(1 of 12)	\$6.1 million
\$10,000,000 and over	8.3%	(1 of 12)	

Number of Claims in 1998			Michigan
1 - 4,999	50.0%	(6 of 12)	
5,000 - 9,999	33.3%	(4 of 12)	9,260
10,000 - 14,999		(0 of 12)	
15,000 and over	16.7%	(2 of 12)	

Dollar Amount of Claims in 1998			Michigan
\$1 - \$999,999	7.7%	(1 of 13)	
\$1,000,000 - \$4,999,999	69.2%	(9 of 13)	
\$5,000,000 - \$9,999,999	15.4%	(2 of 13)	
\$10,000,000 and over	7.7%	(1 of 13)	\$10.1 million

16. On the average, how long does it take to settle a claim once the claim is filed?

			Michigan
0 - 30 days	53.8%	(7 of 13)	
31 - 60 days	23.1%	(3 of 13)	
61 - 90 days	23.1%	(3 of 13)	X
Over 90 days		(0 of 13)	

17. What procedures or resources are used to locate owners of property?

			Michigan
Newspapers	100.0%	(13 of 13)	X
Radio and television	69.2%	(9 of 13)	X
State Fair booth	61.5%	(8 of 13)	
Notices mailed to owners	69.2%	(9 of 13)	
Telephone calls to owners	46.2%	(6 of 13)	
Social security number matches	53.8%	(7 of 13)	X

Owner list sent to:			
Legislators	46.2%	(6 of 13)	X
County government	30.8%	(4 of 13)	
Libraries	23.1%	(3 of 13)	
Other state records	38.5%	(5 of 13)	
Shopping mall visits	30.8%	(4 of 13)	
Internet listing	76.9%	(10 of 13)	X
Special investigative projects	30.8%	(4 of 13)	X
Other	15.4%	(2 of 13)	

18. What is the minimum property value that you will list or advertise?

			<u>Michigan</u>
\$1 - \$9	7.7%	(1 of 13)	X
\$10 - \$24	7.7%	(1 of 13)	
\$25 - \$49	7.7%	(1 of 13)	
\$50 and over	76.9%	(10 of 13)	

19. When settling claims, does your state have a set minimum amount at which a claim will not be paid. If yes, please identify the amount.

			<u>Michigan</u>
Yes	15.4%	(2 of 13)	
No	84.6%	(11 of 13)	X
<u>Set Minimum Amount</u>			<u>Michigan</u>
\$1 - \$9		(0 of 2)	(Not Applicable)
\$10 - \$24	50.0%	(1 of 2)	
\$25 - \$49		(0 of 2)	
\$50 and above	50.0%	(1 of 2)	

20. Does your state charge a fee for processing a claim?

			<u>Michigan</u>
Yes	7.7%	(1 of 13)	
No	92.3%	(12 of 13)	X

<u>Amount of Processing Fee</u>			<u>Michigan</u>
\$1 - \$9		(0 of 1)	(Not Applicable)
\$10 - \$19		(0 of 1)	
\$20 - \$29		(0 of 1)	
\$30 and over		(0 of 1)	
Other	100.0%	(1 of 1)	

21. What were the administrative expenses for your unclaimed property program?

<u>Administrative Expenses in 1997</u>			<u>Michigan</u>
\$1 - \$999,999	71.4%	(5 of 7)	
\$1,000,000 - \$2,499,999	14.3%	(1 of 7)	\$ 1.21 million
\$2,500,000 - \$3,499,999		(0 of 7)	
\$3,500,000 and over	14.3%	(1 of 7)	

<u>Administrative Expenses in 1998</u>			<u>Michigan</u>
\$1 - \$999,999	62.5%	(5 of 8)	
\$1,000,000 - \$2,499,999	12.5%	(1 of 8)	\$ 1.26 million
\$2,500,000 - \$3,499,999	12.5%	(1 of 8)	
\$3,500,000 and over	12.5%	(1 of 8)	

Glossary of Acronyms and Terms

abandoned property	Tangible or intangible property that is unclaimed by its rightful owner.
effectiveness	Program success in achieving mission and goals.
efficiency	Achieving the most outputs and outcomes practical for the amount of resources applied or minimizing the amount of resources required to attain a certain level of outputs or outcomes.
holder	A person, wherever organized or domiciled, who is in possession of property belonging to another, who is a trustee, or who is indebted to another on an obligation (e.g., banks, utility companies, and governmental units).
holder report	A report of all unclaimed property, due November 1 of each year, that is submitted by a holder to UPD.
intangible property	Money, checks, drafts, deposits, interest, dividends, and income; credit balances, customer overpayments, gift certificates, security deposits, refunds, credit memorandums, and unpaid wages; stocks and other intangible ownership interest in business associations; amounts due and payable under the terms of insurance policies; and amounts distributed from a trust or custodial fund.
IRS	Internal Revenue Service.
last known address	A description of the location of the apparent owner, sufficient for the purpose of the delivery of mail.

mission	The agency's main purpose or the reason the agency was established.
owner	A depositor, in the case of a deposit; a beneficiary, in the case of a trust other than a deposit in trust; a creditor, claimant, or payee, in the case of other intangible property; or a person having a legal or equitable interest in property subject to Act 29, P.A. 1995.
performance audit	An economy and efficiency audit or a program audit that is designed to provide an independent assessment of the performance of a governmental entity, program, activity, or function to improve public accountability and to facilitate decision making by parties responsible for overseeing or initiating corrective action.
reportable condition	A matter coming to the auditor's attention that, in his/her judgment, should be communicated because it represents either an opportunity for improvement or a significant deficiency in management's ability to operate a program in an effective and efficient manner.
tangible property	Items received in safe deposit boxes, including cash, coins, jewelry, and securities.
UPD	Unclaimed Property Division.
UPS	Unclaimed Property System.
work statement services request	A request made to a contractor already under contract with the State to provide an estimated cost of performing a certain task.