

**STATE OF NEW HAMPSHIRE  
STATE TREASURY  
ABANDONED PROPERTY DIVISION**

**FINANCIAL AUDIT REPORT  
FOR THE SIX MONTHS ENDED DECEMBER 31, 2009**



**STATE OF NEW HAMPSHIRE  
STATE TREASURY  
ABANDONED PROPERTY DIVISION**

**TABLE OF CONTENTS**

	<b><u>PAGE</u></b>
<b>INTRODUCTORY SECTION</b>	
Reporting Entity And Scope .....	1
Organization.....	1
Responsibilities .....	1
Funding .....	2
Prior Audits.....	2
Audit Objectives And Scope.....	3
 <b>CONSTRUCTIVE SERVICE COMMENTS SECTION</b>	
<b>Auditor’s Report On Internal Control Over Financial Reporting And On Compliance And Other Matters .....</b>	<b>4</b>
 <i>Internal Control Comments</i>	
<i>Material Weaknesses</i>	
1. Appropriate Accounting System Should Be Established .....	6
2. Comprehensive Reconciliations Should Be Performed.....	7
3. Report And Remittance Policies And Procedures Should Be Updated.....	9
4. Controls Over Holding And Reporting Of Securities Reported As Abandoned Property Should Be Improved.....	10
<i>Significant Deficiencies</i>	
5. Controls Over Claims Payments Should Be Improved .....	14
6. Controls Over Information Technology Systems Should Be Improved.....	16
7. Authority Granted Within Statute Should Be Used To Encourage Holders To Report Abandoned Property.....	17
8. Accountability Upon Receipt Of Reported Property Should Be Improved.....	19
* 9. Status Of Funds Collected By The Department Of Justice Should Be Clarified.....	20
* 10. Allocation Of Abandoned Property Costs Should Be Based On Cost Analysis.....	21
11. Personnel Costs Should Be Allocated In A Consistent Manner .....	23
12. Appropriateness Of Maintaining Securities Outside Of Custodial Account Should Be Reviewed.....	24
 <i>Compliance Comments</i>	
13. Current Administrative Rules Should Be Adopted .....	27
 <b>Auditor’s Report On Management Issues .....</b>	<b>28</b>
 <i>Management Issue</i>	
* 14. Current Status Of The Foreign Escheated Estates Account Should Be Reviewed .....	29

---

\* Audit comment may require legislative action.

**FINANCIAL SECTION**

**Independent Auditor’s Report**..... 31

*Governmental Fund Financial Statements*

Balance Sheet - Abandoned Property Division..... 32  
Statement Of Revenues And Expenditures And Changes In Account Balance -  
Abandoned Property Division..... 33  
Notes To The Financial Statements..... 34

**Supplementary Information**

Budget To Actual Schedule - General Fund..... 38  
Notes To The Budget To Actual Schedule ..... 39

APPENDIX A - Current Status Of Prior Audit Findings..... 41

APPENDIX B - Letter From The State Treasurer ..... 43

This report can be accessed in its entirety on-line at [www.gencourt.state.nh.us/lba/audit.html](http://www.gencourt.state.nh.us/lba/audit.html)

**STATE OF NEW HAMPSHIRE  
STATE TREASURY  
ABANDONED PROPERTY DIVISION**

**Reporting Entity And Scope**

The reporting entity of this audit and audit report is the Abandoned Property Division of the New Hampshire State Treasury and its custody and escheat of unclaimed and abandoned property pursuant to RSA 471-C. Not included in the scope of this audit and audit report are the State Treasury's responsibilities over the receipt, investment, and disbursement of State funds and the general State Treasury's administration of the State's debt management program. The scope of this audit and audit report includes the balances and financial activity of the Abandoned Property Division as of and for the six months ended December 31, 2009 reported in the accounts of the Abandoned Property Program. Unless otherwise indicated, reference to the Division or auditee refers to the Abandoned Property Division. Reference to the Treasury refers to the State Treasury.

**Organization**

The Abandoned Property Division (Division) of the State Treasury is responsible for administering the Abandoned Property Program. The Director of Abandoned Property Division oversees a staff of four full-time employees, who process all receipts and disbursements of the Abandoned Property Program. The Director reports to a Deputy Treasurer, who in-turn, reports to the State Treasurer.

The Abandoned Property Division is located at 25 Capitol Street, Room 205 in Concord, New Hampshire.

**Responsibilities**

Pursuant to the provisions of RSA 471-C, the State Treasurer is the administrator of the State's Abandoned Property Program. The day-to-day operations of the Abandoned Property Program are managed by the Division which receives, holds, and returns property to owners when located and escheats the property to the State and county governments if, after a period of time, owners can not be located. Pursuant to RSA 471-C:31-a, rightful owners can claim abandoned property subsequent to escheatment upon petition to, and approval by, the Governor and Executive Council.

Property presumed abandoned or unclaimed is reported and remitted by the "holders" of such property typically in the form of currency or shares of securities, such as stocks or mutual funds. Pursuant to RSA 471-C, a holder of unclaimed property is to presume the property is abandoned when the property remains unclaimed for a period of five years (one year for wages and utility deposits and 15 years for traveler's checks.) Holders include entities such as banks, credit unions, utilities, insurance companies, retailers, as well other businesses and government agencies.

The Division attempts to make property owners aware that their property has been reported and remitted to the Division and is available to be claimed. Annually, in compliance with State statutes, the Division purchases a newspaper listing, in two consecutive weeks, publicizing the names and last known address of owners with reported property available to be claimed. The Division also mails a postcard notification to the last known address of the reported owner and also posts New Hampshire abandoned property information on an on-line, web-accessible, multi-state database of unclaimed property owners. This database allows anyone to search for abandoned property held by the participating state abandoned property programs via the internet.

## **Funding**

Cash and checks remitted to the Division as abandoned property are recorded in balance sheet accounts in the State's accounting system (NHFirst). Securities remitted are transferred to a custodial account maintained by a contracted custodian. Securities reported to the Division and held by the custodian are not reported in NHFirst unless and until the securities are liquidated prior to escheatment. The market value of the securities is reported by the Division to the Department of Administrative Services, Bureau of Accounts, at fiscal year end for reporting in the State's comprehensive annual financial report. The financial activity of the Abandoned Property Division is accounted for in the General Fund of the State of New Hampshire. A summary of revenues and expenditures for the six months ended December 31, 2009 is shown in the following schedule.

### **Summary Of Revenues And Expenditures For The Six Months Ended December 31, 2009**

	<b>General Fund</b>
Total Revenues	\$ 16,614,447
Total Expenditures	<u>2,136,574</u>
<b>Excess (Deficiency) Of Revenues Over (Under) Expenditures</b>	<b><u>\$ 14,477,873</u></b>

## **Prior Audits**

The most recent prior financial audit of the Abandoned Property Program was for the fiscal year ended June 30, 1999. The financial audit of the State Treasury for the fiscal year ended June 30, 2005 also contained comments related to the operation of the Division. Appendix A to this report on page 41 contains a summary of the current status of the observations contained in those prior reports related to the Division's operations. A copy of the prior audit reports can be accessed on-line at [www.gencourt.state.nh.us/lba/audit.html](http://www.gencourt.state.nh.us/lba/audit.html).

## **Audit Objectives And Scope**

The primary objective of our audit was to express an opinion on the fairness of the presentation of the financial statements of the Abandoned Property Program (Program) of the Abandoned Property Division (Division) for the six months ended December 31, 2009. As part of our work, we considered the effectiveness of the internal controls over the Program in place at the Division and the State Treasury and tested the Division's compliance with certain provisions of applicable State and federal laws, rules, regulations, and contracts.

Our reports on internal control over financial reporting and on compliance and other matters, and on management issues, the related observations and recommendations, our independent auditor's report, the financial statements, and supplementary information are contained in the report that follows.

## **Auditor's Report On Internal Control Over Financial Reporting And On Compliance And Other Matters**

*To The Fiscal Committee Of The General Court:*

We were engaged to audit the financial statements of the Abandoned Property Program of the Abandoned Property Division (Division) of the New Hampshire State Treasury (Treasury) for the six months ended December 31, 2009 and have issued our report thereon dated June 16, 2010, in which we disclaimed an opinion on those financial statements. The financial statements are the responsibility of the Division's management.

### Internal Control Over Financial Reporting

In planning and performing our work, we considered the Division's and Treasury's internal control over financial reporting as a basis for designing our procedures, but not for the purpose of expressing an opinion on the effectiveness of the Division's and Treasury's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Division's and Treasury's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purposes described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in Observations No. 1 through No. 4 to be material weaknesses.



A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Observations No. 5 through No. 12 to be significant deficiencies.

#### Compliance And Other Matters

As part of our work, we performed tests of the Division's compliance with certain provisions of laws, rules, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our work, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted an immaterial instance of noncompliance which is described in Observation No. 13.

The Division's response is included with each observation in this report. We did not audit the Division's responses and, accordingly, we express no opinion on them.

We noted one other management issue, which we described in Observation No. 14, that we reported to the management of the Division and Treasury in a separate letter dated June 16, 2010.

This report is intended solely for the information and use of the management of the Abandoned Property Division, others within the Division, the State Treasury, and the Fiscal Committee of the General Court and is not intended to be used by anyone other than these specified parties.

Office Of Legislative Budget Assistant

June 16, 2010

**Internal Control Comments**  
**Material Weaknesses**

**Observation No. 1: Appropriate Accounting System Should Be Established**

*Observation:*

The State Treasury (Treasury) and Abandoned Property Division (Division) do not have adequate accounting systems and records to support the balance of the unclaimed and abandoned property account as reported in the State's accounting system (NHFirst) at December 31, 2009.

As noted in Observation No. 2, there is an approximate \$6.8 million difference in the unclaimed and abandoned property liability account balance at December 31, 2009 as determined by records in the Unclaimed Property Management System (UPMS) when compared to the abandoned property liability account balance reported in NHFirst.

Per RSA 6:12-d II(g), all moneys received or held by the State Treasurer pursuant to the Abandoned Property Program shall be kept separate from any other funds and accounts and shall be administered in accordance with the terms and conditions of the unclaimed and abandoned property account. While an account in the State's accounting records was established to meet the statutory requirements, this account does not appear to provide the level of administration and accounting necessary for complete and accurate financial reporting of the abandoned property program.

While the unclaimed and abandoned property account is maintained as a separate balance sheet account (liability account in the State's General Fund reported in NHFirst), the moneys received and deposited by the Division are pooled with other General Fund cash. The State aggregates General Fund cash and does not account for, report, or reconcile cash balances to individual account and fund balances included in the State's General Fund. The UPMS accounts for holder reports, owner records, remittances, and claims paid; however, UPMS does not directly report an asset or liability balance for the abandoned property account.

- The abandoned property liability balance supported by transactions recorded in the UPMS (\$35.5 million) does not agree to the abandoned property liability account balance reported in NHFirst (\$42.3 million) at December 31, 2009. Because the Treasury had not previously reconciled the balances reported by the two systems, Treasury was unaware of the amount of the difference noted.
- No Division, Treasury, or State accounting system reports a reconciled cash or other asset balance to support the abandoned property liability reported in either the UPMS or NHFirst. Treasury pools the cash received by the Division in a bank account with other State cash. Once deposited, the Division does not identify the cash assets, by a reconciliation of all of the accounts in the pooled account or by other means, to support the balance of property held by the Division. The absence of this reconciliation or other means to identify the cash balance for the abandoned property account contributed to the scope limitation which resulted in the decision to disclaim an opinion on the Division's financial statements.

*Recommendation:*

Treasury should establish an accounting system to account for and report the balance in the unclaimed and abandoned property program. The system should allow for accurate and full accounting and reporting of cash forwarded to the Division as unclaimed and abandoned property and the associated liability to the owners of those funds.

As recommended in Observation No. 2, Treasury should resolve the difference in abandoned property liability amounts reported in the UPMS and NHFirst.

*Auditee Response:*

We concur in part.

Up to the implementation of NHFirst on July 1, 2009, the Division had successfully reconciled all activity in UPMS to the State's accounting system (NHIFS) on a monthly basis. That is, remittances received from holders and claims paid to claimants were done properly in the UPMS system as well as in the NHIFS system through June 30, 2009.

An adjusting entry was made to the State's accounting system at fiscal year-end 2010 to adjust the balance to Treasury's internal system (UPMS). It is important to note, however, that the abandoned property liability account balance reflected in the financial statements in the State's comprehensive annual financial report is an estimate of amounts that will be paid to claimants in the future and does not reflect the balance that is reported in the accounting system.

Notwithstanding the foregoing, Treasury is working with the Department of Administrative Services to obtain the appropriate reports from the NHFirst to develop procedures to facilitate monthly reconciliation of the UMPS transactions and balance to that of NHFirst.

*Department Of Administrative Services Response:*

The Department of Administrative Services accepts Treasury's response as presented, and deems that no further comment is necessary.

**Observation No. 2: Comprehensive Reconciliations Should Be Performed**

*Observation:*

During the six months ended December 31, 2009, the Abandoned Property Division (Division) did not reconcile the financial activity in its Unclaimed Property Management System (UPMS) to the same financial activity reported in the State's accounting system (previously NHIFS, now NHFirst). The Division does not reconcile the balances in the two systems.

The State implemented NHFirst in July 2009. Challenges with NHFirst reporting functions made it difficult for the State Treasury (Treasury) to obtain timely and necessary information to

complete bank account and other balance sheet account reconciliations. The Division relies on reporting from the Treasury's Business Office for reconciliation of account activity reported in NHFirst to transactions in UPMS.

Reconciliations are controls intended to detect misstatements due to errors or fraud. A comprehensive reconciliation of UPMS account balances could have detected a material difference in the reported balances as discussed below.

- The Division's Administrative Handbook for Claims Processing includes procedures for agreeing all receipt and payment activity recorded in UPMS and NHIFS. The Division's Administrative Handbooks and reconciliation processes do not include procedures for a reconciliation of the abandoned property account balance. Had a reconciliation of the balances been performed, the \$6.8 million difference between the balances reported in the two information systems noted in Observation No. 1 may have been detected and corrected in a more timely manner.
- Auditor review of UPMS data identified two deposits totaling \$48,199 recorded in UPMS and the bank but not reported in NHFirst as of December 31, 2009. An inquiry of the Treasury indicated the transactions were initiated in NHFirst; however, the transactions were not approved timely in NHFirst and therefore not posted to the general ledger abandoned property account. The required approvals were applied and the transactions were posted to the NHFirst accounts in January 2010.

A comment recommending account reconciliations was noted in our 1999 audit of the Division. The Division reported it had performed monthly account activity reconciliations since that prior audit until June 30, 2009, when issues related to the implementation of the NHFirst caused the reconciliations to become untimely.

*Recommendation:*

The Division should immediately determine the cause and proper resolution of the \$6.8 million difference between UPMS and NHFirst.

The Division should perform regular full reconciliations of account activity *and* balances reported in NHFirst and UPMS. The Division should work with others in the Treasury to identify NHFirst reports that would be useful in the reconciliation process. If suitable reports are unavailable, the Division should work with the Department of Administrative Services, Bureau of Financial Data Management, to develop reports that will meet its needs.

*Auditee Response:*

We concur in part.

Based on an LBA audit finding from 1999, the Abandoned Property Division on a monthly basis reconciled activity reported in UPMS to activity reported in NHIFS, until that system's termination on June 30, 2009 and the adoption of NHFirst; therefore, we believe the discrepancy pre-dates these monthly reconciliations. During fiscal year 2010, reporting limitations of NHFirst

have rendered attempts to reconcile activity in UPMS to the new system difficult. These reporting limitations are expected to be remedied soon. Treasury is in discussions with Administrative Services to develop a method by which the new system will separately account for Abandoned Property balances.

Treasury will not determine the cause of the difference between UPMS and NHFirst because under NHIFS, UPMS was always used as the system of record for the final liability balance as adjusted and reflected in the Comprehensive Annual Financial Report and audited by KPMG. As of June 30, 2010 the NHFirst balance has been adjusted to agree with UPMS and will be reconciled going forward.

### **Observation No. 3: Report And Remittance Policies And Procedures Should Be Updated**

#### *Observation:*

The Abandoned Property Division (Division) has not maintained its Administrative Practices Handbook for Report and Remittance Processing (Handbook) as a current and comprehensive policies and procedures manual for processing cash receipts in the State's accounting system (NHFirst, previously NHIFS). The Handbook is not current for NHFirst processing and does not include policies and procedures for processing monies from certain estates and for determining and reporting the value of securities received.

- The State implemented NHFirst in July 2009. The Division, since June 30, 2009, has used a NHFirst Data Sheet for Cash Book entry as guidance for the proper recording of abandoned property cash receipts in NHFirst as the Handbook has not been updated to reflect changes in procedures necessitated by the implementation of NHFirst.
- The Division reported there are no written policies and procedures for monies delivered pursuant to RSA 561:1 and 561:9 (intestate estate - no heir or legatee ascertained). The Division also reported separate policies and procedure should be developed for its processing of monies delivered pursuant to RSA 561:10 (unclaimed share of estate).
- As noted in Observations No. 4 and No. 12, the Division does not have policies and procedures for determining and reporting the value of securities received.

Policies and procedures are an integral part of an entity's control activities and help ensure that management directives are communicated and carried out. Policies and procedures should address all significant entity processes and should be kept current and reflect changes to operations and management objectives.

A comment recommending the establishment of a divisional manual of procedures was included in our 1999 audit of the Division. Subsequent to that comment, the Division did establish a manual of procedures for the Division; however, as noted above, that manual should be updated on a more current basis.

*Recommendation:*

The Division should update its policies and procedures described in its Handbook for Report and Remittance Processing to address all significant relevant processes, including changes to its operations resulting from the implementation of NHFirst.

*Auditee Response:*

We concur.

Treasury respectfully disagrees that this observation is classified as a “material weakness” as the Division’s Handbook has not been updated to reflect the changes for the implementation of NHFirst and certain other processes which are clearly spelled out in statute.

The 1999 audit of the Division recommended, in the absence of a written procedures manual, that such a manual be developed. Administrative practices and procedures were developed for the various operational components of the Division following the 1999 audit and continually updated, as appropriate, thereafter, until NHFirst implementation. The Treasury is not aware of any instances of non-compliance with any statutory requirements as a result of the delay in the procedures update.

Considerable Treasury resources, as well as certain Division staff, have been focused on learning the NHFirst application and performing other higher-priority Treasury processes, including bank statement reconciliations, involving the implementation and first-year operations of NHFirst. The Division will continue to review and update administrative practices and procedures to address any significant relevant processes including changes to operations resulting from the implementation of NHFirst as limited resources permit and as NHFirst is better understood and functional reports can be developed as resources become available.

**Observation No. 4: Controls Over Holding And Reporting Of Securities Reported As Abandoned Property Should Be Improved**

*Observation:*

The Abandoned Property Division (Division) has not enacted controls to reasonably ensure its accounting and reporting of securities reported as abandoned property are properly safeguarded and accurately reported and its securities custodian is operating as intended by the Division.

The Division contracts with a custodian to accept, hold, report, and process stock and bond securities submitted by holders as abandoned property. Holders of securities deemed abandoned are directed by the Division’s T1 Report of Abandoned Property Instructions to submit securities to the custodian and submit the corresponding Holder Report to the Division. The custodian accepts and holds the securities until directed by the Division to liquidate or reregister the securities. The custodian reports monthly the number and value of securities held on behalf of the Division.

While the Division records the description and number of securities remitted by individual owner in the UPMS, the Division does not record a value to the securities entered into UPMS unless and until the securities are liquidated prior to distribution either to a claimant or to the Division for escheatment. No securities related transactions are ever recorded in the State's accounting system (NHFirst).

At the end of each fiscal year, the Division submits the June 30 account statements from the custodian to the Department of Administrative Services, Bureau of Accounts (BOA), to allow for the inclusion of the balance in the custodial account in BOA's calculation of abandoned property assets and liabilities reported in the State's comprehensive annual financial report. The Division does not test or review the accuracy of the custodian reports prior to their submission to BOA.

Weaknesses were noted in the Division's ability to adequately monitor the custodial account.

1. The Division has not required the custodian to obtain and provide a service auditor's report on its custodial activities. A service auditor's report, commonly referred to as a SAS 70 report, is intended to provide information on the design and performance of controls in place at a service organization, such as the Division's securities custodian.
2. The Division does not periodically reconcile the number of securities held and transacted in UPMS to the same information in the custodian's reports. The custodian provides the Division with monthly reports including Sweep Statements, Settled Basis by Asset Type, and a monthly summary of transactions. These reports list securities in the custodial account, the number of units of each security, and the transactions that occurred during the month. The Division does not periodically reconcile this information to similar information in UPMS, making it unlikely that the Division would detect an error that occurred subsequent to the initial recording of the securities within the account. During auditor comparison of securities reported in UPMS and shares reported on the custodian valuation report, several significant variances were noted. While researching the reasons for these variances, the Division determined the "Lot Level Valuation" report, which has been used by the Division to determine the receipt of securities by the custodian, is not suitable for that purpose. A periodic reconciliation between the securities recorded in UPMS and the custodian's Stock Valuation Statement would likely have detected this error.
3. The Division does not have effective controls to detect when a Holder Report is mistakenly sent to the custodian. The Division relies on the custodian to forward all misdirected reports to the Division. The Division, likely, would not become aware if the custodian failed to report the receipt of securities for which the Division had not independently received the Holder Report.
4. During testing, we noted several instances where securities, which appeared eligible for liquidation and escheat due to the year of receipt, remained in the custodial account without explanation. We also noted instances of liquidation proceeds received by the Division not being applied to the UPMS owner accounts, reportedly due to a discrepancy with the number of shares on record and liquidated.

A similar comment was included in our 1999 audit of the Division.

*Recommendation:*

The Divisions should improve its controls over its holding and reporting of securities reported as abandoned property.

1. The Division should request the custodian to have an appropriate SAS 70 report regularly prepared and made available to the Division. The Division should use the results of that report to understand and react to the controls and weaknesses in place in the activities performed on its behalf by its custodian.
2. The Division should periodically reconcile the securities reported on the Custodial Account Statements to securities recorded by UPMS. Differences in reported information should be investigated and resolved timely. The Division should work with the custodian to identify appropriate reports or procedures to allow the Division to verify the receipt of reported securities.
3. The Division should determine whether controls could be established that would reasonably promote the detection of missing Holder Reports, including Holder Reports related to securities that may have been forwarded to the custodian in error.
4. The Division should review the causes of assets being held that are not also applied to owners' accounts in the UPMS. The lack of complete recording of the liabilities associated to these accounts would complicate the reconciliations of the NHFirst and UPMS accounts recommended in Observation No. 2.

*Auditee Response:*

We concur in part.

1. The Division became aware, through discussions with LBA Audit, that the SAS 70 report which has been made available annually to the Division by its contracted service-provider did not cover custodial services which they provide to the Division nor that portion of custodial services that they subcontract out to a third-party custodian. The Division contacted the vendor to determine if another SAS 70 report or an equivalent was available to these custodial services. The service-provider forwarded the SAS 70 report from their sub-custodian which was then shared with the auditors. It is the Division's understanding from the contractor that future SAS 70 reports will address their custodial responsibilities.
2. The Division does have practices in place that provide an accounting for all shares reported to the State each Report Year. No report is balanced until all shares have been identified to a "custodian" in the UPMS. Further, at the time of escheatment liquidated share proceeds are delivered to the general fund. In order to liquidate shares held, a position by position analysis is carried out to assure the shares in UPMS have a corresponding position in the custodial account to be liquidated.



It is agreed the “Lot Level Valuation Report” may not be the best tool for establishing receipt by the custodian. The Division will work with the custodian and their subcontractor to determine a better vehicle for this purpose and, where appropriate, revise practices accordingly.

3. The recommendation to establish controls to identify potentially missing holder reports and related securities, misappropriated by the vendor, reiterates concerns previously self-identified during Treasury’s internal fraud risk assessment process. The Division will re-visit the matter to consider any and all eventualities in an attempt to determine whether additional controls could be established that would reasonably detect missing holder reports and related securities.
4. This recommendation points to a longstanding issue previously self-identified by the Division and addressed with a change in administrative practices as well as a continuing “securities clean-up project”. Current practices, including report balancing and securities liquidations, established in Report Year ‘06 have all but eliminated the potential for such occurrences in the future.

In the “clean-up project”, commenced in the Spring of 2008, older, unsold shares are identified and matched to a unique property owner, then liquidated and applied to owner accounts. Where discrepancies have forestalled “booking” proceeds to owner accounts, review and analysis is done in conjunction with the custodian to resolve matters. In both instances the approach is to address any issue from the more recent Report Years and work backward, when time and available resources allow.

These circumstances are unlikely to complicate reconciliation of NHFirst and UPMS as suggested in Observation No. 2 since the full amount of liquidation proceeds are deposited to both systems.

## Significant Deficiencies

### **Observation No. 5: Controls Over Claims Payments Should Be Improved**

*Observation:*

The Division does not have sufficient controls to ensure that approved claims are paid as approved and that payments are not altered or misdirected subsequent to receiving approval for payment.

1. An Assistant Treasurer traces and agrees the claimants and amounts from all Division-approved pre-escheat claim forms to the Pre-Check Report, prior to further processing of the payments. The Assistant Treasurer does not independently trace and agree claimants and amounts from Division-approved post-escheat claim forms to similar reports. While the Assistant Treasurer does agree the disbursement total, the claimant names and amounts for post-escheatment claims are not traced and agreed back to claimant forms to ensure that payees and amounts are accurate.
  
2. Subsequent to the Assistant Treasurer's approval, the accountants in the State Treasury's (Treasury) Business Office initiate the payment process by generating a payment file from the Unclaimed Property Management System. The file is converted by the Treasury's Information Technology (IT) Section for loading into the State accounting system (NHFirst). The Treasury's Business Office reviews the status of the file loading and makes any necessary edits to transactions that failed the loading process. The payment file is not locked, secured, or subsequently reviewed to prevent or detect changes to the information contained in the file, subsequent to the Assistant Treasurer's approval for payment. While the payment total is tracked and controlled, changes to payee, address, and individual payment amounts are not controlled or tracked. The Division's normal claims payment procedures provide opportunities for changes to claim payments subsequent to the Assistant Treasurer's approval.
  - The Claims Processor has the ability to change any information, including payee name, address, and amount, on the pre-check report subsequent to the Assistant Treasurer's approval. While changes resulting in an increase or decrease to the report payment total would likely be detected by existing controls, changes to payee names, addresses, and amounts that net to the report total amount would likely not be detected.
  - The conversion of the approved payment file for input into NHFirst utilizes a program written by the Treasury's IT Section. While changes resulting in an increase or decrease to the report total would likely be detected by existing controls, changes to payee name or address that resulted in the same report amount would likely not be detected.
  - After the payment file has been imported into NHFirst, the accountants within the Treasury's Business Office review a Conversion and Interface report to determine whether all claim payments were successfully imported. Any payments that did not import are identified and required edits, usually to the payment dates, are made to the

payment which is then submitted to NHFirst for processing. There is no subsequent review for appropriateness of the edits made by the accountants.

*Recommendation:*

The Treasury should revise its claims payment controls to reasonably ensure claims approved for payment cannot be subsequently altered prior to payment without appropriate management direction and control.

1. Controls used to trace and agree claimant and amount information for pre-escheat claims should also be applied to post-escheat claims. Payee and amount information for post-escheat claims should be agreed to claimant forms prior to payment to ensure only approved claims are paid.
2. Access and authority to alter approved claims prior to payment should be restricted and all changes to approved claims should be tracked, reviewed, and approved by appropriate management prior to release of the payments.

*Auditee Response:*

We concur.

This observation points back to a concern previously self-detected in Treasury's internal fraud risk assessment.

Prior to the implementation of NHFirst on July 1, 2009, the Assistant Treasurer compared Division-approved hardcopy claims forms to a UPMS report for pre-escheat claims payments and sent that signed report to the Bureau of Accounts for further review. The report of post-escheat claims payments, used for approval of the Governor and Executive Council, was also sent to the Bureau of Accounts for review. The Bureau of Accounts then compared both reports to a NHIFS report of payments to be made to claimants prior to releasing the check payments. Since the implementation of NHFirst, however, the review by the Bureau of Accounts has been eliminated.

Treasury has recently revised and implemented its procedures to mitigate the potential risk of claims payments being altered after the approval of claim forms. The Assistant Treasurer currently compares a check payment report of actual checks paid from NHFirst, for both pre and post-escheat claims, to the hardcopy claims reports, reviewed and approved within the Division, prior to the release of the checks. This procedure change eliminates any risk of the Division's claims processors and the Treasury's IT Section personnel from altering claims information prior to the actual cutting of claims checks.

## **Observation No. 6: Controls Over Information Technology Systems Should Be Improved**

### *Observation:*

Weaknesses exist in the State Treasury's (Treasury) information technology (IT) operations that place the Treasury's IT systems at risk.

A review of the IT systems used by the Treasury, including systems used by the Abandoned Property Division (Division), with the Treasury IT personnel responsible for those systems indicated weaknesses in the Treasury's IT systems. For example,

1. The communication hubs and cables of the IT system are not physically secured from unauthorized access. While the rooms in which the hubs and cables are located are locked when unoccupied, the hubs and cables are not secured in locking cabinets or conduits.
2. The Treasury does not store its IT data and system back-ups, including data and systems necessary for the operations of its Division, at a site sufficiently remote from the Treasury's offices to reasonably ensure an event that would make its primary IT systems unusable would not similarly affect the usability of the back-up copy of the data and systems.

A similar comment was noted in our 2005 audit of the State Treasury.

### *Recommendation:*

In its regular reviews of its IT systems, Treasury should consider additional steps to ensure its controls and other efforts are sufficient to provide for secure and reliable operations.

1. The Treasury should improve the physical security of its IT systems. All communications hubs should be physically secured in locked rooms or cabinets and communication cables should be secured to limit unauthorized access to connected systems.
2. The Treasury should store its back-up data and systems in a secure location sufficiently remote from its main data site to reasonably ensure that back-up data and systems are secure and accessible in the event of a reasonably foreseeable disruption.

### *Auditee Response:*

We concur in part.

Treasury continually reviews its IT systems to assess security and reliability of operations balanced with cost. As the result of such reviews, these observations had previously been self-identified and reviewed. Additionally, many physical security enhancements have been made as a result of the 2005 Treasury-wide audit. Therefore, we believe that acceptable measures were taken to mitigate previously identified risk to ensure the reliability of our systems and operations within budget constraints.

1. Treasury took steps in mid-2008 to limit physical access to the Treasury office space by working with the Department of Administrative Services' keycard entry system administrator that helped us identify who, within the State service, could access the office space (State employees and State contractor personnel). We then reduced that list significantly to allow access only to Treasury staff as well as a handful of housekeeping and security individuals who are assigned to the Treasury offices. Treasury receives weekly security-access activity reports that are reviewed promptly by the Deputy Treasurer as to who accessed our office space and when they did. Unusual entries are reviewed with the keycard system administrator for reasonableness.

On a daily basis, server systems event logs are reviewed by the Treasury's IT Manager for any unusual or suspicious activity and to make certain the systems remain operational and secure at all times.

Since the 2005 audit, Treasury servers have been relocated from Treasury offices to a secured room shared with hardware of the Department of Information Technology.

Communications hubs and cables, while still located within the Treasury offices, are secure from unauthorized personnel access through the enhanced physical security of Treasury's office space as discussed above. To further mitigate risk of unauthorized physical access, however, Treasury will investigate the cost of purchase and installation of hardware necessary to secure any accessible communication hub(s) with appropriate secured data cabinet(s) for the upcoming 2012-2013 biennial budget.

2. Treasury recognizes the inherent risk of backup data storage not being remotely located geographically. Prior internal assessments and experience of having remote storage of Treasury data backup has shown to be untimely, costly and has increased our potential risk of data exposure to unauthorized entities and loss of back-up tapes. Back-up tapes are now stored in the Treasury's Business Office area in a locked and fireproof cabinet. Treasury will again review and evaluate the additional expenditures necessary to improve the current backup storage situation versus the level of acceptable risk, while giving full consideration to all available options. In doing so Treasury will continue to be mindful of the potential of a data breach of relocating any backup data offsite.

### **Observation No. 7: Authority Granted Within Statute Should Be Used To Encourage Holders To Report Abandoned Property**

#### *Observation:*

RSA 471-C:19, IV, requires holders of property deemed to be abandoned as of June 30 to report and deliver the property to the Abandoned Property Division (Division) annually by November 1. Insurance companies are required to report property determined to be abandoned as of December 31 by May 1. The Division does not take advantage of available measures to encourage holders to report abandoned property to the State, in compliance with the statutes.

1. While the Division sends partially completed holder report forms to holders who reported abandoned property to the State in prior years, the Division does not follow up with holders who do not return the forms nor does the Division review the history of filers for holders who may have a history of filing reports but do not have a current report on file. While the Unclaimed Property Management System (UPMS) can generate a listing of holders who reported in prior years, but failed to report in the current year, this UPMS reporting capability is not used to identify holders who were “expected” to have reported but did not. RSA 471-C:34, I, grants the Division Director the authority to require any potential holder who has not filed a report to file a verified report stating whether or not the person is holding any unclaimed property.
2. The Division does not regularly assess fines or penalties, allowed by RSA 471-C:38, to holders who report after the statutory deadline. During the six months ended December 31, 2009, the Division had not collected any fines or penalties.
3. The Division does contract with several firms that perform holder compliance audits for the Division and similar organizations in other states. The Division does not utilize the information obtained through holder audits to determine, analyze, and react to holder compliance with the State’s abandoned property laws.

A similar comment was noted in our 1999 audit of the Division.

*Recommendation:*

1. The Division should utilize the authority granted within RSA 471-C to prompt holders to report abandoned property to the Division. The Division should utilize available UPMS reporting capabilities to identify prior holders who did not file during the current year. The Division should require likely holders to verify reporting status as allowed by RSA 471-C:34, I.
2. The Division should assess fines and penalties as provided by RSA 471-C:38, I. To prompt holder reporting, the statute allows for the assessment of fines of up to an 18% annual rate from the date property should have been delivered, or \$25, whichever is greater.
3. The Division should review the results of holder audits to determine whether issues detected during the audits indicate efforts that the Division could take to improve holder compliance through improved communications with holders or through other means.

*Auditee Response:*

We concur in part.

1. The Division prompts holders of their annual reporting requirements by sending out a notice of their annual reporting requirements to all holders who had reported unclaimed property in any of the most recent five years. There is, however, no statutory requirement for previous holders to report to the Division if they do not currently have unclaimed property to submit.

Likewise, there is no statutory requirement for the Division to follow-up with all previous holders of unclaimed property to determine if no reports are received. Resource constraints and other Program priorities preclude the Division from currently taking that statutorily discretionary action at this time.

The Division is currently performing a survey of other states' practices for this action through the National Association of Unclaimed Property Administrators (NAUPA) and, depending on the outcome of the survey, may implement this practice in the future.

2. As correctly stated in the audit observation, the Division does not regularly assess fines and penalties as this practice is discretionary pursuant to current statutes. While the Division has, on occasion, assessed such fines, generally interest and penalties are waived as follow:
  - Reports from third-party audit firms;
  - Reporting extension request; and
  - Voluntary disclosure request.

The Division will review the appropriateness of establishing a systematic approach to the application of interest and penalty, giving due consideration to limited budgetary and personnel resources as well as impediments to enforcement.

3. The Treasury will make an effort to fill the vacant Internal Auditor III position within the Division. Once filled, the holder compliance program will be reevaluated and strengthened to include consideration of out-of-state audits. It should be noted that these audits do not provide reasons or explanations of why holders do not report timely. Rather the audits provide evidence used by the Division to demand payments for failure to do so.

### **Observation No. 8: Accountability Upon Receipt Of Reported Property Should Be Improved**

#### *Observation:*

The Division does not create an initial recording of receipts accompanying Property Holder Reports prior to distributing the documents to Division employees for processing. Because Holder Reports and accompanying receipts are transferred between Division employees prior to initial recording, the accountability for and the ability to detect lost or misdirected Holder Reports and accompanying receipts is negatively affected.

Holders report and deliver property to the Division that has been deemed abandoned in accordance with the criteria established in RSA 471-C. With the exception of securities which are delivered to the custodial account holder, the Holder Report and the related property remittance are both received by the same individual within the Division Office. While the Division appears to have implemented controls to properly account for transactions subsequent to entry into the Unclaimed Property Management System (UPMS), there are no controls in place to ensure that all reports and property received are entered into UPMS.

The Claims Processor receives and opens all Division mail. After date stamping the reports and the check remittances, the documents are given to the Program Assistant for processing in UPMS. The Program Assistant enters the report data into UPMS and generates a deposit log from the system to support the deposit of the checks. The Division does not have controls in place to prevent or detect the misappropriating of both the Holder Report and the remitted property by either the Claims Processor or the Program Assistant.

*Recommendation:*

The Division should improve accountability controls over Property Holder Reports and accompanying receipts. Controls should establish and maintain accountability for amounts upon initial receipt through the deposit process. Tight accountability controls should be established to prevent and detect lost or misdirected Holder Reports and accompanying receipts.

*Auditee Response:*

We concur.

Self-identified during Treasury's internal fraud risk assessment, this issue was raised as a matter of concern. After much internal discussion it is Treasury's position that the costs of creating a fail safe operation must be weighed against the level of risk involved.

Systems upgrade and/or document imaging may be vehicles for enhancing controls in this area as well. Consideration has also been given to the viability of utilizing a third-party "lock box" service. Each potential enhancement has a financial impact. Treasury will evaluate the cost of these additional controls offset by the related risk mitigation in the upcoming biennial budget development process for fiscal years 2012 and 2013.

**Observation No. 9: Status Of Funds Collected By The Department Of Justice Should Be Clarified**

*Observation:*

The New Hampshire Department of Justice (DOJ), Office of Debt Recovery, at May 25, 2010, was holding approximately \$40,000 of abandoned property funds that it had recovered on the Division's behalf from holders during the six months ended December 31, 2009. The Division had requested debt collection assistance from the DOJ to support the Division's collection of amounts identified by contracted holder audits as owed the Division. The DOJ's efforts resulted in the collection of approximately \$40,000 in settlement amounts from two holders. At May 25, 2010, the amount collected by the DOJ remained in the DOJ Debt Recovery Fund and had not been forwarded to the Division.

The Division cited the lack of a memorandum of understanding with the DOJ, specifying the amount to be paid to or retained by the Department of Justice in exchange for their recovery



efforts, as the reason why the Division had not formally requested the transfer of funds from the DOJ.

*Recommendation:*

The Division should resolve with the DOJ the impediments to the transfer of recovered abandoned property funds to the Division.

The Division should review with the DOJ whether a memorandum of understanding should be established between the Division and the DOJ to support future collections activities.

*Auditee Response:*

We concur.

Clarification of this matter is complicated by the statutory provisions surrounding the recently enacted Office of Debt Recovery and the contingent fee contracts the Division has in place with third party audit firms. Property recovered and due reported owners is subject to fees by the DOJ as well as the contingent fees of the contract audit firm. Thereafter, the Division remains responsible for payment of any and all verified claims in full. A responsible solution will require concessions by all parties.

The Division is confident of reaching an equitable arrangement encompassing the rights and responsibilities of all concerned.

The Division will continue to work with the DOJ to establish sufficient valid authority for DOJ's representation in matters pertaining to the administration of RSA 471-C and for the direct recovery and subsequent transfer of recovered abandoned property to the Division.

*Department Of Justice Response:*

Regarding Observation No. 9: Status of Funds Collected by the Department of Justice Should be Clarified, developed as part of your audit of the Abandoned Property Division of the State Treasury, we have reviewed the Observation, Recommendation, and Auditee Response and we concur.

**Observation No. 10: Allocation Of Abandoned Property Costs Should Be Based On Cost Analysis**

*Observation:*

The Abandoned Property Division's (Division) practices for allocating operating costs related to property reported by in-state holders and out-of-state holders does not reflect the Division's actual costs of processing the two classes of abandoned property. The Division's current cost

allocation practices allocate more program costs to the counties than their pro-rata share, based on the distribution of escheat proceeds.

- RSA 471-C:25, II, grants the administrator the authority, prior to any deposit to the general fund or the county treasurers, “to deduct any costs incurred in connection with the administration of this chapter.” The statute goes on to specifically identify this deduction as separate from the 15% allowed at RSA 471-C:30.
- RSA 471-C:30, II states that “the administrator shall retain 15 percent of the amount to be returned [to the counties] as a deduction for any costs and service charges which the state shall incur in escheat proceedings or with respect to reimbursements made pursuant to paragraph III.”

The distribution of escheated property is based on whether the reporting holder was in-state or out-of-state. Escheated property originally reported by an in-state holder is paid to the county in which the holder resides. Escheated property originally reported by an out-of-state holder is deposited in the State’s General Fund. Prior to the distribution, the Division reduces the distribution by the costs incurred in operating the program.

During fiscal year 2009, the Division escheated a total of \$13.8 million of abandoned property; \$13.6 million (98%) was paid to the State and \$250,000 (2%) was paid to the counties.

In calculating the amounts to distribute, the Division identified the \$364,403 cost of the out-of-state holder audit contracts (32% of total program costs) as the only costs related to the administration of the Abandoned Property Program that was deductible from the amounts escheated to the State. The remaining \$757,322 (68%) of total program costs was charged against the counties’ escheat amount. In addition, the Division retained 15% of the counties’ share as a further recovery of costs in accordance with RSA 471-C:30, II.

The Division could not provide references to statutes, rules, policies and procedures, or rationale to support the Division’s practice of charging all of the costs of operating the abandoned property program, other than the costs for out-of-state audit contractors, to the counties.

A similar comment was included in our 1999 audit of the Division and our 2005 audit of the State Treasury.

*Recommendation:*

The Division should establish policies and procedures for charging program costs to the State and counties that more accurately reflects the actual costs incurred by the Division in processing abandoned property reported by in-state and out-of-state holders. A more accurate allocation of costs, based on an analysis of costs of processing abandoned property of in-state and out-of-state holders, will result in a distribution of proceeds that reasonably allocates the costs of operating the Abandoned Property Program to the State and counties that benefit from the operation of the Abandoned Property Program while still reflecting statutory requirements.

The Division should consider requesting legislative clarification of the continued application of RSA 471-C:30, II. As noted in the observation above, the counties are currently charged more than their share of Division costs under RSA 471-C:25, II and then charged an additional 15% of their escheat amount, net of RSA 471-C:25, II costs, as additional recovery of Division costs.

*Auditee Response:*

We do not concur.

As it responded to the 1999 and 2005 audit comments, Treasury has reviewed the cost process in an effort to identify explicit statutory instruction as to the calculation of county treasurer share as well as for the treatment of applicable costs. Treasury believes no changes need be made to the current practice as it is based on applicable statutory provisions and is carried out in compliance therewith and consistent with prior years.

To respond to the underlying concerns in this continuing observation, Treasury will consider the appropriateness of clarification through the legislative processes in the upcoming 2011 Legislative session.

**Observation No. 11: Personnel Costs Should Be Allocated In A Consistent Manner**

*Observation:*

The salaries and benefits of three State Treasury (Treasury) employee positions (both of the Treasury's information technology positions and one Assistant Treasurer) are charged in their entirety to Abandoned Property Division (Division) accounts even though these employees do not work exclusively for the Division. It is unclear why the salaries and benefits for these three employees are budgeted entirely to the Division when the Treasury allocates salaries and benefits of other employees who work in more than one budget area to the accounts in those areas worked.

By charging the salaries and benefits for these three positions entirely to Division accounts, the Treasury does not accurately determine and report the cost of administering the Division's program. In addition to not accurately reporting the costs of the Division and other Treasury operations, any overcharging of costs to the Division program has the effect of downshifting Treasury costs to the counties.

A similar comment was included in our 1999 audit of the Division.

*Recommendation:*

The Treasury should reasonably, and consistently, allocate salary and benefit costs to the Treasury accounts that benefit from the employees' activity.

The Treasury should allocate the costs of its information technology and Assistant Treasurer positions currently charged in their entirety to Division accounts to the Treasury accounts that benefit from their activity.

*Auditee Response:*

We concur in part.

At the outset of the December 7, 2009 Audit Entrance Conference, Treasury made the auditors aware the current practice of allocating Treasury costs to the Abandoned Property program would likely result in the same or similar observation as in previous audits. That notwithstanding, it is improbable the costs of administering the Division's program are overstated. It would follow that the costs of operation would not "downshift" costs to the counties.

The practice in place had been disclosed in the fiscal years 2010 - 2011 budget process in both the Governor's phase and the Legislative phase. As stated in response to the similar comment in the 1999 audit, Treasury does not create time-sheets or the like and has relied on general budget approval as affirmation of cost allocation.

Basic to Treasury's response to the 1999 audit comment was the fact that nearly every component of Treasury supports or oversees Division operations or provides general benefits to the Division. The management team; the business office; the receipt and cash management area; the bank reconciliation area, trusts and custodial accounts; the disbursement area; and information technology all contribute to the program effort. A microanalysis and paper separation of time spent would further tax existing and limited personnel resources. The current practice of cost allocation has evolved due to the Division's continuing program growth and has been maintained consistently over the years as a matter of administrative expediency.

Treasury will again review and evaluate personnel cost allocation in the up-coming biennial budget process for fiscal 2012 and 2013.

**Observation No. 12: Appropriateness Of Maintaining Securities Outside Of Custodial Account Should Be Reviewed**

*Observation:*

The Abandoned Property Division (Division) instructs holders to submit all securities presumed abandoned directly to the Division's securities custodian. However, holders and transfer agents occasionally deliver physical stock certificates directly to the Division. Upon receipt, the Division records the securities and the related owner information in the Unclaimed Property Management System (UPMS). If the securities have been reregistered in the State's name the Division usually forwards the securities to the custodian where the securities are added to the custodial account. If the securities received by the Division are in the owner's name and appear to have limited value, typically the situation with "penny stocks" or similar securities, the

Division usually retains the certificates in a fireproof lockbox, since it is assumed the fees associated with registering and carrying the securities in the custodial account would likely exceed the value of the securities.

The Division does not have policies and procedures to periodically review and determine the value of the securities held in the lockbox. As part of our audit tests, we inventoried the securities in the lockbox; agreed the securities on the inventory to information in UPMS, with the exception of one security presumed by the Division to have been forwarded to the custodian account; and, using available on-line stock valuation tools, determined the value of the securities in the lockbox could be in excess of \$53,000.<sup>1</sup> While the value of the securities in the lockbox at the time of the audit test was not material to the Division's financial activity, it cannot be assumed that the value of these penny stocks could not become more significant, given a sudden jump in value of any of the securities maintained in the lockbox.

*Recommendation:*

The Division should review the appropriateness of maintaining securities outside of its custodial account. The Division should consider whether the concerns over custodial costs for the securities presumed to be of low value outweigh the responsibilities and risks associated with maintaining a separate lockbox of securities that has to be separately secured, monitored, and periodically valued and reported along with the securities in the custodial account.

*Auditee Response:*

We concur in part.

To clarify the content of this Observation it should be known:

- It is the Treasury's opinion that the valuation of the securities at \$53,000 is significantly overstated. The LBA identified \$35,385 or 67% of the total value to 700 shares of Phillips Petroleum Company held on one certificate having CUSIP 718507106. Although the owner of this certificate may still hold an interest in the successor company, due to corporate actions since its issuance 1987 (a merger between Conoco, Inc. and Phillips Petroleum Company in August, 2002) the actual certificate in question may have little or no monetary value.
- Research and analysis are carried out by Division staff to reasonably determine the current value, if any, of "worthless" securities delivered to the Division directly. Since the fee schedule for the custodial account as well as the researched value of the security in question are known, it can readily be determined that the cost of custody would greatly outweigh the value of the security. This is not "assumed" but is factual.
- The Division will review its practice of maintaining certain securities, in physical certificate form, outside of the fee based contract with its custodian.

---

<sup>1</sup> The auditor estimate of the value of the stock in the lockbox is based on an assumption that the certificates continue to have value which has not been superseded through an affidavit or other registration process. Without researching the certificates in question, it is not possible to establish their actual value.

Further, the Division will re-evaluate the risk and responsibility associated with maintaining custody of certain minimal-value properties in its lockbox and/or the Treasury vault.

Additionally, the Division will determine the appropriateness of invoking the provisions of RSA 471-C:32 which allows for destruction or other disposition of property having insubstantial commercial value.

## State Compliance

### **Observation No. 13: Current Administrative Rules Should Be Adopted**

*Observation:*

N.H. Admin. Rules, Tre 300, *Treasury - Abandoned Property Rules*, expired October 22, 2009. As of the date of this report, the Abandoned Property Division (Division) does not have current rules to administer the abandoned property program.

RSA 6:3-a states, “[t]he Treasurer may adopt rules under RSA 541-A and after a public hearing pursuant to: ...V. Administration of RSA 471-C”, the abandoned property statute.

The most recent administrative rules for the Abandoned Property Program were interim rules that became effective April 25, 2009 and expired October 22, 2009.

*Recommendation:*

The State Treasury and Division should adopt rules under RSA 541-A pursuant to the administration of the Abandoned Property Program.

*Auditee Response:*

We concur in part.

The Treasurer’s rulemaking authority for abandoned property matters is derived from RSA 6:3-a, V and RSA 471-C:42. In both instances rulemaking is a discretionary function.

Treasury will determine the current need for adoption of rules to interpret or clarify any provision of RSA 471-C in its present form.

## **Auditor's Report On Management Issues**

*To The Fiscal Committee Of The General Court:*

We were engaged to audit the financial statements of the Abandoned Property Division (Division) of the New Hampshire State Treasury (Treasury) as of and for the six months ended December 31, 2009 and have issued our report thereon dated June 16, 2010, in which we disclaimed an opinion on those financial statements. These financial statements are the responsibility of the Division's management.

In planning and performing our work, we noted an issue related to the operation of the Division that merits management consideration but does not meet the definition of a material weakness or significant deficiency as defined by the American Institute of Certified Public Accountants, and was not an issue of noncompliance with laws, rules, regulations, or contracts.

That issue that we believe worthy of management consideration but does not meet the criteria of a material weakness, significant deficiency, or noncompliance is included in Observation No. 14 of this report.

This report is intended solely for the information and use of the management of the Abandoned Property Division, others within the Division, the State Treasury, and the Fiscal Committee of the General Court and is not intended to be used by anyone other than these specified parties.

Office Of Legislative Budget Assistant

June 16, 2010



## Management Issues

### **Observation No. 14: Current Status Of The Foreign Escheated Estates Account Should Be Reviewed**

*Observation:*

The necessity for the State Treasury (Treasury) to continue to hold old accounts in the State's Foreign Escheated Estates Account (Account) is not clear and does not appear consistent with the Abandoned Property Program's responsibility for returning property to its rightful owners.

At December 31, 2009, the reported balance in the Account was approximately \$260,000. The most recent financial transaction posted to the Account, other than the periodic posting of interest, was a June 2000 expenditure for the return of property to an owner's heir.

Per RSA 561:12-a, the Probate Courts could defer delivery of an estate to a legatee, distributee, cestui, or beneficiary, who lived outside the United States, when there was a question whether that person would have the benefit, use, or control of property due him, and that special circumstances made it desirable that delivery to him be deferred. The provision for the deferral of delivery of property was often used when the legatee, etc., lived in a communist-controlled country, generally behind the "iron curtain". The Probate Courts would order such property converted into available funds and paid to the Treasury to be invested and held subject to further order of the Probate Court. The Treasury maintains these funds in the Foreign Escheated Estates Trust Fund Account. The Account is not a part of the Treasury's Abandoned Property Program.

In a document dated July 2006, Treasury identified five possible options related to the Account including:

1. Propose revision of State statutes to parallel current federal law which could include processes to ultimately release funds to the State's abandoned property process to locate rightful owners.
2. File a motion with the Probate Courts to release the funds to the State's abandoned property process with a goal to return the funds to the rightful owners.
3. Request a review of procedures to ensure the Probate Courts comply with current federal law when releasing payments from estates to beneficiaries.
4. Develop a Probate Court process to order the release of deferred payments directly to heirs and if such heirs cannot be expediently located then release funds to the State's abandoned property process.
5. Determine that the Division has procedures in place to ensure compliance with current federal law and perform a "best practices" peer review with other states to consider whether process change is needed.

As of the date of this report, Treasury has not taken substantive action on any of the five proposed options.

This comment was also noted in our audit reports of the Treasury for the years ended June 30, 1999, 2002, and 2005.

*Recommendation:*

The need to continue to maintain these deferred distributions in the Account would appear to have passed. Treasury should take steps to initiate a process that would allow the funds in the Account to pass to the owners.

The Treasury should contact the appropriate Probate Courts to clarify the status of the funds in the Account and to determine what action should be taken to allow the return of the funds to the owners if known or submit the funds to the Abandoned Property Program if the owners or their whereabouts are unknown.

*Auditee Response:*

We do not concur.

Treasury takes exception to the suggestion that it has taken no substantive action on this finding.

RSA 561:12-a Delivery Deferred, is the statute providing for delivery of certain estate proceeds to the Treasurer, acting solely as custodian of such funds, as ordered by the Probate Court and subject to further Court order. As was pointed out to the field audit team, the existing Treasury custodial files relative to funds delivered pursuant to RSA 561:12-a are currently located with the Director of the Division solely as a matter of convenience. The Treasury has only statutory authority for the custody and investment of the account(s) in which the funds associated with these matters are kept.

As stated in the Treasury memorandum provided to LBA auditors per the Observation above, Treasury has contacted the Probate Court to clarify the status of the funds and determine whether action should be taken by the Treasury to return the funds to an owner. In the opinion of the Probate Court, a change in the statute is not necessary nor is there any need to change any existing processes or procedures regarding these custodial funds. Furthermore, while it has been 20 years since the “fall of the iron curtain”, the statute and procedures regarding foreign escheated estates and the existing fund maintained by the Treasury could also relate to individuals, organizations and sovereign countries currently identified and monitored by the U.S. State Department and U.S. Treasury in the current and ongoing War On Terror or other “special circumstances” as determined by the Probate Court per this statute.

The above notwithstanding, Treasury has once again made contact with the Probate Courts to discuss the foreign escheated estates.

## **Independent Auditor's Report**

*To The Fiscal Committee Of The General Court:*

We were engaged to audit the accompanying Balance Sheet of the Abandoned Property Program of the Abandoned Property Division (Division) of the New Hampshire State Treasury (Treasury) as of December 31, 2009, and the related Statement of Revenues and Expenditures and Changes In Account Balance for the six months then ended. These financial statements are the responsibility of the management of the Division, Treasury, and the Department of Administrative Services of the State of New Hampshire.

The Division does not maintain adequate accounting records to provide sufficient information for the preparation of its financial statements. Because the Division did not maintain complete and adequate accounting records of abandoned property assets and liabilities, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on these financial statements.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 16, 2010 on our consideration of the Division's and Treasury's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, rules, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance.

Office Of Legislative Budget Assistant

June 16, 2010

**STATE OF NEW HAMPSHIRE  
STATE TREASURY  
ABANDONED PROPERTY DIVISION  
BALANCE SHEET  
DECEMBER 31, 2009**

**Assets**

Cash In State Treasury (Note 2)	\$ 42,313,476
Securities Held In Trust (Note 3)	<u>14,453,459</u>
<b>Total Assets</b>	<b><u>56,766,935</u></b>

**Liabilities**

Unclaimed Property In Custody	<u>56,766,935</u>
<b>Total Liabilities</b>	<b><u>\$ 56,766,935</u></b>

The accompanying notes are an integral part of this financial statement.

**STATE OF NEW HAMPSHIRE**  
**STATE TREASURY**  
**ABANDONED PROPERTY DIVISION**  
**STATEMENT OF REVENUES AND EXPENDITURES AND CHANGES IN**  
**ACCOUNT BALANCE**  
**FOR THE SIX MONTHS ENDED DECEMBER 31, 2009**

**Revenues**

Property Remitted	\$ 9,125,913
Securities Remitted	7,137,037
Miscellaneous	<u>351,497</u>
<b>Total Revenues</b>	<b><u>16,614,447</u></b>

**Expenditures**

Payments To Owners	2,044,415
Administration	-0-
Custodial Fees	<u>92,159</u>
<b>Total Expenditures</b>	<b><u>2,136,574</u></b>

**Excess (Deficiency) Of Revenues**

<b>Over (Under) Expenditures</b>	<b><u>14,477,873</u></b>
----------------------------------	--------------------------

Account Balances June 30, 2009	<u>42,289,062</u>
<b>Account Balances December 31, 2009</b>	<b><u>\$ 56,766,935</u></b>

The accompanying notes are an integral part of this financial statement.

**STATE OF NEW HAMPSHIRE  
STATE TREASURY  
ABANDONED PROPERTY DIVISION**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE SIX MONTHS ENDED DECEMBER 31, 2009**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Abandoned Property Division financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) and as prescribed by the Governmental Accounting Standards Board (GASB), which is the primary standard-setting body for establishing governmental accounting and financial reporting principles.

**A. Financial Reporting Entity**

Abandoned Property is a program administered by the Abandoned Property Division of the State Treasury, an organization of the primary government of the State of New Hampshire. The accompanying Abandoned Property Program financial statements report the financial position and results of operations of the Abandoned Property Program.

The financial activity of Abandoned Property is accounted for and reported in the General Fund in the State of New Hampshire's Comprehensive Annual Financial Report (CAFR). Assets, liabilities, and fund balances are reported by fund for the State as a whole in the CAFR.

**B. Financial Statement Presentation**

The State of New Hampshire uses funds to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. Abandoned Property reports its financial activity in the General Fund. The General Fund is the State's primary operating fund and accounts for all financial transactions not specifically accounted for in any other fund. All revenues of governmental funds, other than certain designated revenues, are credited to the General Fund. Annual expenditures that are not allocated by law to other funds are charged to the General Fund.

**C. Measurement Focus And Basis Of Accounting**

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay the liabilities of the current period. For this purpose, except for federal grants, the State generally considers revenues

to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to debt service, compensated absences, and claims and judgments are recorded only when payment is due.

#### **NOTE 2 - CASH IN STATE TREASURY**

Cash remitted from holders is deposited into a State bank account and is pooled with cash from other accounts and agencies of the State.

#### **NOTE 3 - SECURITIES HELD IN TRUST**

Abandoned Property contracts with a custodian to hold and process unclaimed and abandoned securities remitted by holders. The securities are held by the custodian until claimed or liquidated prior to escheatment. Securities held in trust are reported at market value.

#### **NOTE 4 - SUBSEQUENT EVENT**

*Kimberly J. Blain and Joe King's Shoe Shop, on behalf of themselves and all others similarly situated v. Catherine Provencher, Treasurer, State of New Hampshire*

This case was filed in the Merrimack County Superior Court on or around February 18, 2010. The plaintiffs seek to represent a class of persons having property in New Hampshire that has been or will be escheated to the State. The Plaintiffs allege that the State's method of giving notice under the abandoned property system violates their right to due process under the State and Federal Constitutions and the takings and contracts clauses under the State and Federal Constitutions. The plaintiffs seek declaratory and injunctive relief, restitution and disgorgement in the form of an order requiring the State to refund property to the plaintiffs. The plaintiffs do not specifically identify the value of the property in question in their complaint, although they do note that \$44 million has been escheated to the General Fund over a period of 10 years. The State intends to defend this action and is unable to predict the outcome at this time.

#### **NOTE 5 - EMPLOYEE BENEFIT PLANS**

*New Hampshire Retirement System*

The Abandoned Property Division, as an organization of the State government, participates in the New Hampshire Retirement System (Plan). The Plan is a contributory defined-benefit plan and covers all full-time employees of the Division. The Plan qualifies as a tax-exempt organization under Sections 401 (a) and 501 (a) of the Internal Revenue Code. RSA 100-A established the Plan and the contribution requirements. The Plan, which is a cost-sharing, multiple-employer Public Employees Retirement System (PERS), is divided into two membership groups. Group I consists of State and local employees and teachers. Group II consists of firefighters and police officers. All assets are in a single trust and are available to pay retirement benefits to all members.

Group I members at age 60 qualify for a normal service retirement allowance based on years of creditable service and average final compensation (AFC). The yearly pension amount is 1/60 (1.67%) of AFC multiplied by years of creditable service. AFC is defined as the average of the three highest salary years. At age 65, the yearly pension amount is recalculated at 1/66 (1.5%) of AFC multiplied by years of creditable service. Members in service with ten or more years of creditable service who are between ages 50 and 60 or members in service with at least 20 or more years of service, whose combination of age and service is 70 or more, are entitled to a retirement allowance with appropriate graduated reduction based on years of creditable service.

Group II members who are age 60, or members who are at least age 45 with at least 20 years of creditable service can receive a retirement allowance at a rate of 2.5% of AFC for each year of creditable service, not to exceed 40 years.

All covered Division employees are members of Group I.

Members of both groups may qualify for vested deferred allowances, disability allowances, and death benefit allowances subject to meeting various eligibility requirements. Benefits are based on AFC or earnable compensation, service, or both.

The Plan is financed by contributions from the members, the State and local employers, and investment earnings. During the twelve months ended June 30, 2009, Group I State employee members whose employment began prior to July 1, 2009 were required to contribute 5% of gross earnings. Group I State employee members whose employment began on or after July 1, 2009 were required to contribute 7% of gross earnings. Group II members were required to contribute 9.3% of gross earnings. The State funds 100% of the employer cost for all of the Division's employees enrolled in the Plan. The annual contribution required to cover any normal cost beyond the employee contribution is determined every two years based on the Plan's actuary.

The Division's normal contribution rate for the six months ended December 31, 2009 was 9.09% of the covered payroll for its Group I employees. The Division's normal contributions for the six months ended December 31, 2009 amounted to \$18,770.

A special account was established by RSA 100-A:16, II (h) for additional benefits. During fiscal year 2007, legislation was passed that permits the transfer of assets into the special account for earnings in excess of 10.5% as long as the actuary determines the funded ratio of the retirement system to be at least 85%. If the funded ratio of the system is less than 85%, no assets will be transferred to the special account.

The New Hampshire Retirement System issues a publicly available financial report that may be obtained by writing to them at 54 Regional Drive, Concord, NH 03301 or from their web site at <http://www.nhrs.org>.

#### *Other Postemployment Benefits*

In addition to providing pension benefits, RSA 21-I:30 specifies that the State provide certain health care benefits for retired employees and their spouses within the limits of the funds



appropriated at each legislative session. These benefits include group hospitalization, hospital medical care, and surgical care. Substantially all of the State's employees who were hired on or before June 30, 2003 and have 10 years of service, may become eligible for these benefits if they reach normal retirement age while working for the State and receive their pensions on a periodic basis rather than a lump sum. During fiscal year 2004, legislation was passed that requires State Group I employees hired after July 1, 2003 to have 20 years of State service in order to qualify for health insurance benefits. These and similar benefits for active employees are authorized by RSA 21-I:30 and provided through the Employee and Retiree Benefit Risk Management Fund, which is the State's self-insurance fund implemented in October 2003 for active State employees and retirees. The State recognizes the cost of providing these benefits on a pay-as-you-go basis by paying actuarially determined contributions into the fund. The New Hampshire Retirement System's medical premium subsidy program for Group I and Group II employees also contributes to the fund. The Division's normal contribution rate to the medical premium subsidy program was 1.09% of covered payroll for the six months ended December 31, 2009. The Division's normal contribution for the medical subsidy for the six months ended December 31, 2009 amounted to \$4,047.

The cost of the health benefits for the Division's retired employees and spouses is a budgeted amount paid from an appropriation made to the administrative organization of the New Hampshire Retirement System and is not included in the Division's financial statements.

The State Legislature currently plans to only partially fund (on a pay-as-you-go basis) the annual required contribution (ARC), an actuarially determined rate in accordance with the parameters of Governmental Accounting Standard Board (GASB) Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The ARC and contributions are reported for the State as a whole and are not separately reported for the Division.

**STATE OF NEW HAMPSHIRE  
STATE TREASURY  
ABANDONED PROPERTY DIVISION  
BUDGET TO ACTUAL SCHEDULE - GENERAL FUND  
FOR THE SIX MONTHS ENDED DECEMBER 31, 2009**

	<u>Original Budget</u>	<u>Actual</u>	<b>Favorable/ (Unfavorable) Variance</b>
<b><u>Revenues</u></b>			
<b>Restricted Revenues</b>			
Abandoned Property Account Reimbursement	\$ 1,760,944	\$ -0-	\$ (1,760,944)
<b>Total Revenues</b>	<b><u>1,760,944</u></b>	<b><u>-0-</u></b>	<b><u>(1,760,944)</u></b>
<b><u>Expenditures</u></b>			
Current Expenses And Other	867,345	116,463	750,882
Salaries And Benefits	791,536	347,530	444,006
Transfers To Other State Agencies	79,063	4,156	74,907
Travel	9,500	74	9,426
Training	8,500	220	8,280
Consultants	5,000	-0-	5,000
<b>Total Expenditures</b>	<b><u>1,760,944</u></b>	<b><u>468,443</u></b>	<b><u>1,292,501</u></b>
<b>Excess (Deficiency) Of Revenues</b>			
<b>Over (Under) Expenditures</b>	<b><u>-0-</u></b>	<b><u>(468,443)</u></b>	<b><u>(468,443)</u></b>
<b>Other Financing Sources (Uses)</b>			
Net Appropriations (Note 2)	-0-	468,443	(468,443)
<b>Total Other Financing Sources (Uses)</b>	<b><u>-0-</u></b>	<b><u>468,443</u></b>	<b><u>(468,443)</u></b>
<b>Excess (Deficiency) Of Revenues And</b>			
<b>    Other Financing Sources Over (Under)</b>			
<b>    Expenditures And Other Financing Uses</b>	<b><u>\$ -0-</u></b>	<b><u>\$ -0-</u></b>	<b><u>\$ -0-</u></b>

The accompanying notes are an integral part of this schedule.

## **Notes To The Budget To Actual Schedule - General Fund For The Six Months Ended December 31, 2009**

### **Note 1 - General Budget Policies**

The statutes of the State of New Hampshire require the Governor to submit a biennial budget to the Legislature for adoption. This budget, which includes annual budgets for each year of the biennium, consists of three parts: Part I is the Governor's program for meeting all expenditure needs as well as estimating revenues to be received. There is no constitutional or statutory requirement that the Governor propose, or the Legislature adopt, a budget that does not resort to borrowing. Part II is a detailed breakdown of the budget at the department level for appropriations to meet the expenditure needs of the government. Part III consists of draft appropriation bills for the appropriations made in the proposed budget.

The operating budget is prepared principally on a modified cash basis and adopted for the governmental and proprietary fund types with the exception of the Capital Projects Fund.

The New Hampshire biennial budget is composed of the initial operating budget, supplemented by additional appropriations. These additional appropriations and estimated revenues from various sources are authorized by Governor and Council action, annual session laws, and existing statutes which require appropriations under certain circumstances.

The budget, as reported in the Budget To Actual Schedule, reports the initial operating budget for fiscal year 2010 as passed by the Legislature in Chapter 143, Laws of 2009.

Budgetary control is at the department level. In accordance with RSA 9:16-a, notwithstanding any other provision of law, every department is authorized to transfer funds within and among all program appropriation units within said department, provided any transfer of \$2,500 or more shall require approval of the Joint Legislative Fiscal Committee and the Governor and Council. Additional fiscal control procedures are maintained by both the Executive and Legislative Branches of government. The Executive Branch, represented by the Commissioner of the Department of Administrative Services, is directed to continually monitor the State's financial system. The Legislative Branch, represented by the Joint Legislative Fiscal Committee, the Joint Legislative Capital Budget Overview Committee, and the Office of Legislative Budget Assistant, monitors compliance with the budget and the effectiveness of budgeted programs.

Unexpended balances of appropriations at year-end will lapse to undesignated fund balance and be available for future appropriations unless they have been encumbered or are legally defined as non-lapsing accounts.

#### *Variances - Favorable/(Unfavorable)*

The variance column on the Budget To Actual Schedule highlights differences between the original operating budget and the actual revenues and expenditures for the six months ended December 31, 2009. Actual revenues exceeding budget or actual expenditures being less than

budget generate a favorable variance. Actual revenues being less than budget or actual expenditures exceeding budget cause an unfavorable variance.

The unfavorable variance for net appropriations reflects that Abandoned Property Division had not reimbursed the General Fund, as of December 31, 2009, for Abandoned Property Program administrative expenditures incurred during the six months ended December 31, 2009.

**NOTE 2 - Net Appropriations**

Net appropriations reflects appropriations for expenditures in excess of restricted revenue not other wise used (transferred to another department or fund).

## APPENDIX A

The following is a summary, as of June 16, 2010, of the current status of the observations related to the Abandoned Property Division contained in the audits of the Abandoned Property Division for the fiscal year ended June 30, 1999 and the State Treasury for fiscal year ended June 30, 2005. Those reports can be accessed at, and printed from, the Office of Legislative Budget Assistant website: [www.gencourt.state.nh.us/lba/audit.html](http://www.gencourt.state.nh.us/lba/audit.html).

	<u>Status</u>		
<b>1999 Abandoned Property Division Audit</b>			
<i>Internal Control Comments</i>			
<i>Material Weaknesses</i>			
1. Management Needs To Implement Strong Control Environment ( <i>See Current Observations No. 1, 2, 3, 4, 7, 8, and 10</i> )	●	○	○
2. Custodial Account Needs To Be Better Monitored ( <i>See Current Observation No. 4</i> )	●	○	○
<i>Other Reportable Conditions</i>			
3. Unclaimed Property Management System Should Be Reconciled To State Accounting System ( <i>See Current Observation No. 2</i> )	●	○	○
4. Written Control Procedures Over Claims Processing Need To Be Implemented And Adhered To	●	●	○
5. Complete Financial Information For The Abandoned Property Program Needs To Be Compiled	●	●	○
6. Processing And Verification Of Holder Reports Needs To Be Performed In A More Timely Manner	●	●	●
<i>State Compliance Comments</i>			
7. Distribution of Escheatment Proceeds Needs To Be More Timely	●	●	●
8. Calculation Of Counties Share Of Escheat Proceeds Needs To Be Revised ( <i>See Current Observation No. 10</i> )	○	○	○
9. Allocation Of Treasury Salary And Benefits Costs To Abandoned Property Should Be Substantiated ( <i>See Current Observation No. 11</i> )	●	○	○
10. Expenditures Allocated To Abandoned Property Division Should Be Limited To Program Related Costs	●	●	●
<i>Management Issues Comment</i>			
11. Holder Compliance Procedures Need Improvement ( <i>See Current Observation No. 7</i> )	●	○	○

<u>Status Key</u>	<u>Count</u>
Fully Resolved            ●   ●   ●	3
Substantially Resolved   ●   ●   ○	2
Partially Resolved        ●   ○   ○	5
Unresolved                ○   ○   ○	1

**Status**

**2005 State Treasury Audit**

***Internal Control Comments***

***Reportable Conditions***

- |   |   |   |   |
|---|---|---|---|
| 2. Controls Over Information Technology Systems Should Be Improved<br><i>(See Current Observation No. 6)</i>                            | ● | ● | ○ |
| 12. Abandoned Property Procedures Should Be Updated To Reflect Changes<br>In Statute And Process <i>(See Current Observation No. 3)</i> | ● | ● | ○ |
| 13. Allocation Of Abandoned Property Costs Should Be Based On Cost<br>Analysis <i>(See Current Observation No. 10)</i>                  | ● | ○ | ○ |

***State Compliance Comment***

- |   |   |   |   |
|---|---|---|---|
| 18. Clear Language Of Statute Should Be Applied | ● | ● | ● |
|---|---|---|---|

***Management Issue Comment***

- |   |   |   |   |
|---|---|---|---|
| 21. Current Status Of Foreign Escheated Estates Account Should Be Reviewed<br><i>(See Current Observation No. 14)</i> | ● | ○ | ○ |
|---|---|---|---|

**Status Key**

	●	●	●	<u>Count</u>
Fully Resolved	●	●	●	1
Substantially Resolved	●	●	○	2
Partially Resolved	●	○	○	2
Unresolved	○	○	○	0

## APPENDIX B

**Catherine A. Provencher**  
STATE TREASURER



**THE STATE OF NEW HAMPSHIRE  
STATE TREASURY**

25 CAPITOL STREET, ROOM 121  
CONCORD, N.H. 03301  
603-271-2621  
FAX 603-271-3922

E-mail: [cprovencher@treasury.state.nh.us](mailto:cprovencher@treasury.state.nh.us)  
TDD Access: Relay NH 1-800-735-2964

September 14, 2010

Honorable Members of the Legislative Fiscal Committee:

Treasury would like to thank the Office of Legislative Budget Assistant (LBA) Audit Division for the time spent on their very comprehensive review of the Abandoned Property Division (Division) for the six-months ended December 31, 2009 and the observations and recommendations that are offered. Treasury is committed to implementing many of the recommendations made by the auditors. The audit process identifies weaknesses and makes recommendations for change, but does so without regard to the resources available at the time the weakness existed or to the future resources necessary to implement the recommendations. Treasury is keenly aware of its responsibility to maximize the value of the services it provides to the citizens of New Hampshire, and in doing so must continually establish priorities based on resources available. This is especially true in this time of competing priorities, smaller staffs and fewer available financial resources.

The goal of the Division has been, and continues to be, to ensure that the processing of reports from holders of abandoned property and the payment of claims made to the rightful owners of that property is done properly, efficiently and in compliance with statute. While we are confident that this goal is being met, we recognize that the program can always be improved. Therefore, Treasury will strive to implement many of the program and control enhancements suggested by the auditors.

Readers of this audit report could conclude that little improvement has been made by the Treasury and the Abandoned Property Division since the publication of previous audit reports. The facts, however, are that the Division has worked very diligently and has made many significant improvements in internal controls and processes in recent years, especially when compared to the 1999 audit report findings and considering that the Division has two fewer staff. While the 1999 audit report, for example, recommended the development of comprehensive written procedures, this audit report identifies only the need to update certain procedures as a result of the implementation of the State's NH First financial system on July 1, 2009.

To provide the reader a context of the workload for the Division Administrator and staff of four, we offer the following information for the fiscal year ended June 30, 2010:

Claims-Related Activity:

- Claims Forms Issued – 23,000 or approximately 91 per work day
- Claims Processed and Paid – 11,000 or approximately 43 per work day
- Logged Phone Calls – 22,000 or approximately 87 per work day
- Claim Inquiries via MissingMoney.com – 21,000 or approximately 84 per work day
- In-Person Walk-up Inquiries – approximately 10 per work day

Holder Reporting Activity:

- Holder Reports Received and Processed – 3,700
- Cash Deposits Received and Processed – 3,700
- Transactions Recorded – 55,000

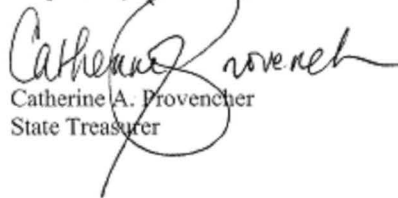
Treasury and the Department of Administrative Services have been in discussions to evaluate options for changes in the accounting and reconciling of Abandoned Property program balances and activity in the State's new accounting system, NH FIRST. As with any implementation of a system as large and complex as NH FIRST, we at Treasury, and the rest of State government, must continue to learn and gain familiarity with the new system. The Treasury is committed to making necessary changes to timely reconcile the Abandoned Property program activity by the end of fiscal year 2011.

Treasury believes that its internal Unclaimed Property Management System (UPMS) meets the requirements for the effective management of the statutory and business mandates. UPMS provides adequate data, reporting and controls to effectively manage the Program and the staff workload (see information above). Certain of the UPMS management and financial reports are included in Treasury's annual report. Additionally, outputs from UPMS are utilized in the calculation of the Abandoned Property liability to future claimants as reported in the State's Comprehensive Annual Financial Report every year.

Finally, Treasury and the Division are very cognizant of the growing incidents and risks of fraud, especially with our growing reliance on technology. Treasury undertook a formal and internal Fraud Risk Assessment process which evaluated the risk of fraud from sources both internal and external to the Treasury. Abandoned Property was the first Treasury business function to undergo this process. The resulting report with its self-identified risks and recommendations was reviewed by the auditors and was the source of some of the findings and recommendations in this audit report. Likewise, Treasury's information technology staff, of two, continually reviews system, electronic interface and communications controls in order to mitigate any fraud-related threats. As stated above, however, all recommendations resulting from these reviews must consider the resource restrictions necessary to comprehensively implement such changes.

I thank the Fiscal Committee for its time and consideration and am ready, willing, and able to answer any question the Committee may have today, or at any time in the future.

Respectfully Submitted,



Catherine A. Provencher  
State Treasurer