

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

**FINANCIAL AND COMPLIANCE  
AUDIT REPORT  
FOR THE YEAR ENDED  
JUNE 30, 1999**



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

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

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

**Reporting Entity**

The reporting entity of this audit and audit report is the custody and escheat of unclaimed and abandoned property pursuant to RSA 471-C as administered by the New Hampshire Treasury Department. Not included in the scope of this audit and audit report are the general Treasury responsibilities over the receipt and disbursement of State funds and the Treasury's administration of the State's debt management program.

**Organization**

The Abandoned Property Division of the Treasury Department (the Division) is responsible for the administration of the Abandoned Property program, whereby property presumed to be abandoned is forwarded to the State Treasurer and, if not claimed by the owner, is escheated to the State for subsequent disbursement to the counties and the General Fund. The Division is under the direction of a deputy treasurer and is supervised by an administrator who oversees a staff of six.

**Responsibilities**

Under RSA 471-C, a holder of unclaimed property presumes that the property is abandoned when the property remains unclaimed for a period of five years (one year for wages and utility deposits, 15 years for travelers checks). Once the property is presumed abandoned, the holder sends the property and available owner information to the Division. The Division records holder and owner information on its Unclaimed Property Management System (UPMS). To assist owners in finding their property, the Division publishes an annual notice of all names and last known addresses of abandoned property owners in a newspaper of general circulation. It also maintains a web site to further assist owners with the recovery of their assets.

Escheatment is the process by which the State transfers title of the property to either the counties or itself. Abandoned property is received from in-state holders, which are classified by county, or from out-of-state holders. After the property has been held by the Division for two years, it is escheated to either the State or the counties. Property originally received from out-of-state holders is escheated to the State's General Fund. Property received from in-state holders is escheated to each county based on the net amount of holder remittances from each county.

## Funding

When cash and checks are remitted to the Division, the funds are recorded in a separate balance sheet account in the State's accounting system. If securities are remitted, they are transferred to a custodial account maintained by State Street Bank and Trust, but are not recorded in the State's accounting system. Interest earned on the funds in the balance sheet account is credited to the State's General Fund.

During fiscal year 1999, Treasury recorded revenues of \$6.5 million, primarily from holder remittances, and expenditures of \$4.5 million. The expenditures are comprised of claimant payments, escheatments, and administrative costs. The following table shows selected activity of the Abandoned Property program for report years 1989 - 1999, rather than by fiscal year. Accordingly, the amounts below are not intended to agree with the accompanying financial statements presented in this report. The administration of the Division is funded through transfers from the Abandoned Property account in accordance with RSA 471-C:25.

### Abandoned Property Program Selected Financial Activity By Report Year

Report Year	Amount Remitted	Claims Paid	Escheated To General Fund	Escheated To Counties
1989	\$ 2,074,975	\$ 900,795	\$ 794,717	\$ 501,180
1990	2,351,292	902,738	983,833	425,754
1991	1,826,742	667,971	838,396	107,680
1992	2,407,557	656,269	1,767,177	204,574
1993	2,046,138	596,592	1,235,569	134,014
1994	3,322,087	972,985	1,851,812	51,692
1995	3,872,616	1,249,154	1,694,286	341,084
1996	6,985,596	1,389,538	pending	pending
1997	5,956,959	2,235,199	pending	pending
1998	7,477,105	2,350,199	pending	pending
1999	5,315,203	1,847,225	pending	pending
<b>Totals</b>	<b>\$ 43,636,270</b>	<b>\$13,768,665</b>	<b>\$ 9,165,790</b>	<b>\$ 1,765,978</b>

Source: Treasury prepared table.

Note 1: The amounts presented exclude securities remitted and distributed.

Note 2: The table excludes administrative costs charged to the program.

## Prior Audit

The last financial and compliance audit of the Abandoned Property Account was for the 27 month period from April 1, 1989 to June 30, 1991. The appendix to this report on page 37, contains a summary of the current status of the observations contained in that prior report. Copies of the prior audit report can be obtained from the Office of Legislative Budget Assistant, Audit Division, 107 North Main Street, State House Room 102, Concord, NH 03301-4906.

## **Audit Objectives And Scope**

The primary objective of our audit is to express an opinion on the fairness of the presentation of the financial statements. As part of obtaining reasonable assurance about whether the financial statements are free from material misstatement, we considered the effectiveness of the internal controls in place at the Division and tested the Division's compliance with certain provisions of applicable State laws, regulations, and contracts. Major accounts or areas subject to our examination included, but were not limited to, the following:

- Internal controls,
- Revenues,
- Cash and investments,
- Expenditures, and
- Liabilities.

Our reports on compliance and on internal control over financial reporting, and on management issues, the related observations and recommendations, our independent auditor's report, and the financial statements of the Abandoned Property Division are contained in the report that follows.

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

*To The Fiscal Committee Of The General Court:*

We have audited the accompanying financial statements of the Abandoned Property Division of the Treasury Department as of and for the year ended June 30, 1999, and have issued our report thereon dated April 30, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Compliance

As part of obtaining reasonable assurance about whether the Abandoned Property Division's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, 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 audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards*. These instances of noncompliance are described in observations No. 7 through No. 10 of this report.



## Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Abandoned Property Division's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Division's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in observations No. 1 through No. 6 of this report.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider observations No. 1 and No. 2 to be material weaknesses.

This auditor's report on compliance and on internal control over financial reporting is intended solely for the information and use of the management of the Treasury Department and the Fiscal Committee of the General Court and is not intended to be and should not be used by anyone other than these specified parties.

*Office of Legislative Budget Assistant*

Office Of Legislative Budget Assistant

April 30, 2000

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

**Observation No. 1 – Management Needs To Implement Strong Control Environment**

*Observation:*

Control procedures in place over the administration of the Abandoned Property program need strengthening. Our audit disclosed significant weaknesses in the areas of reconciliations and in the documentation of procedures performed.

We were requested by the Treasury Department to perform an audit of financial activity of the Abandoned Property Division in order to maintain public confidence in the New Hampshire Abandoned Property program, in the wake of allegations of employee theft of funds from the Massachusetts Unclaimed Check Fund. The Massachusetts State Auditor's Office performed an audit and issued its report on the Massachusetts State Treasurer's Office, which controls that state's abandoned property program. During the course of our audit, we identified similarities between the two programs regarding the lack of controls over abandoned property. We identified the five areas below that were similar to those noted in the Massachusetts audit.

Abandoned property by its very nature is an inherently risky program, whereby the State is holding funds that individuals have forgotten they own. Because of its nature and the public expectation that the State is safeguarding its assets, it is crucial that the Department have and maintain strong internal controls. The control environment sets the tone of the organization and is the foundation for all other components of internal control.

1. The Abandoned Property Division did not implement the following basic control environment attributes.
  - Neither the Division nor the Treasury Department documented the internal control system to ensure that transactions and events are carried out in accordance with management's directives. There is no manual of procedures or administrative rules that outline the administrative policies, accounting policies, and procedures in accordance with applicable statutes. This is discussed further in observation No. 4.
  - Procedures are not in place to ensure that all transactions are promptly recorded and clearly documented. This is discussed further in observations No. 2, 3, 5 and 6.
  - The limited number of staff is not adequate to ensure timely and accurate processing of abandoned property information to the Division's computer system (UPMS). This is discussed further in observation No. 6.
2. There is a lack of reconciliation of financial activity between the Division's UPMS system, the State's accounting system, and the State Street Bank and Trust custodial account. This is discussed further in observations No. 2 and 3.

## **Observation No. 1 – Management Needs To Implement Strong Control Environment (Continued)**

### *Observation (Continued):*

3. There is an overall lack of monitoring over the State Street Bank and Trust Company, the contractor serving as the custodian of abandoned securities. This is discussed further in observation No. 2.
4. There is a lack of compliance with the general provisions of RSA 471-C regarding the use of funds for the administration of the program, timeliness of notifications and advertisement, and the allocation of operating costs and distribution to the counties during the final escheatment process. This is discussed further in observations No. 7, 8, 9 and 10.
5. Improvements need to be made in the recovery of abandoned property through more effective use of the auditors. This is discussed further in observation No. 11.

### *Recommendation:*

The Department needs to implement a strong control environment for the Abandoned Property Division. To accomplish this, the Department should develop and implement a divisional manual of procedures that specifies the operating procedures for the employees. The procedures implemented should be documented and monitored for compliance.

### *Auditee Response:*

We concur in part. Treasury concurs with the principles elaborated in the audit observation but cannot unreservedly agree with specific faults the auditors have cited to buttress their recommendations. Treasury in asking the Legislative Budget Office to audit the abandoned property program sought guidance from the LBA on ways to strengthen the program which was instituted in current form by legislation enacted in 1986. Treasury does not disagree that a strong control environment is necessary to assure the integrity of the assets in custody for this program. Further Treasury agrees that transactions should be promptly recorded and clearly documented and that the Unclaimed Property Management System (UPMS) and the state's integrated financial system should be reconciled.

Treasury is however disappointed that the audit conclusions have ignored the systems that are in place, the business reasons for solely relying upon the outside custodian, the weaknesses and shortcomings of UPMS and the infeasibility of implementing the full array of modules of UPMS as currently configured.

In reply to number 1, bullet point 1, Treasury has elaborated on the procedures currently in place in response to observation number 4. In abbreviated form, the controls in place through UPMS and its predecessor systems do not permit the same individual to both initiate and approve a claim. Payment of an approved claim is processed through Treasury's

## **Observation No. 1 – Management Needs To Implement Strong Control Environment (Continued)**

### *Auditee Response (Continued):*

internal check payment system if the property is not yet escheated or processed through the state's integrated financial system if Governor and Council action is required. Payments are then mailed directly to the owner. The unclaimed property division does not have a role in the ultimate disbursement of the claim.

Treasury currently is writing both a new procedures manual and new administrative rules as the existing rules are outdated and expired. We observe that the existence of a procedures manual *per se* does not insure compliance with procedures; rather it provides new employees with the methodology for performing their functions and a method for management to benchmark whether the procedures are providing control. In fact the procedures manual will be based on the current unwritten procedures unless advised that these procedures are inadequate.

In response to number 2, Treasury has focused on the state's accounting system to ensure that all money received is accounted for immediately and deposited immediately. For many years, the integrated financial system was the only system which could create the reports and track the monetary assets in custody. In 1997 recognizing the limitations of the then in-house developed unclaimed property system, Treasury developed a Request for Proposal to procure a windows-based, off the shelf application which was Y2K compliant. The Wagers UPMS system selected (1998) was the only entity with a system written and tested, a firm price, could be installed in a timely fashion, and assured complete confidentiality of sensitive data (social security numbers and dollar amounts) during conversion.

Unfortunately the conversion was not as seamless as anticipated and less than adequate training of staff by the vendor led to failure to recognize problems with the processing. One example occurred in the stock proceeds data needed for proper completion of bulk sales for the escheatment process. Due to a "change in placement" of the stock data, the report of sales proceeds was inaccurate. This has been corrected for current periods, but historical data still must be proved. There are other problem areas as well. In cases where a claimant has both stock and cash dividends, the custodian handles the stock transaction and the division pays the cash portion, UPMS does not close out the transaction and falsely reports that an open claim is pending. While safeguards within the system will not permit a duplicate payment of the claim, reports do not accurately reflect the actual status. This creates problems with our submissions to the nationwide database. Wagers company also has made changes in certain processing modules without notifying the users. Adjustments or system changes specific to New Hampshire are usually addressed but not always in a timely fashion.

Treasury's unclaimed property division is not yet confident with the integrity of the system nor its ability to generate correct reports. For this reason, additional modules have not yet been utilized by the division. We continue to work with the vendor to resolve open issues as there are limited alternatives to this system available. As UPMS becomes more reliable, routine reconciliations between UPMS and the integrated financial system will be the rule.

## **Observation No. 2 – Custodial Account Needs To Be Better Monitored**

### *Observation:*

The portfolio custodian, State Street Bank and Trust Company, provides safeguarding of transferred abandoned property securities, monitoring of current values, collection of dividends and interest distribution, and a monthly accounting of the portfolio activity. The custodian is acting on behalf of the State to manage and account for the portfolio. The Division has adopted a hands-off approach to the monitoring of the activity within the State Street Bank and Trust custodial account. As a result, the Division does not routinely review the activity within the account to determine that only authorized receipts or disbursements are occurring.

The Unclaimed Property Management System (UPMS) is the Division's database used to account for and track all abandoned property reports and remittances, securities, owners, holders, claims and payments from the Abandoned Property program.

Whenever securities are remitted to the Division, the assets are sent to State Street Bank and Trust. While the Division records the initial information (owner name, address, security type and number of shares) into UPMS, it does not record a financial value for the securities in UPMS. It also does not record the monthly financial activity from the State Street Bank and Trust Custodial Account to its UPMS system and as a result, it is unable to reconcile the two systems. During fiscal year 1999, \$1.5 million in receipts and \$2.0 million in disbursements were recorded in the State Street account that were not fully reflected in UPMS. While UPMS has the ability to track stock values and dividend activity, the Division opted not to use this function and relied totally on State Street Bank to track stock value and dividend proceeds.

We also noted the following issues regarding the Department's accounting for the activity in the State Street account.

- An Accountant IV in the Treasury Department is responsible for tracking the financial activity of the State Street Custodial Account. We noted numerous errors between the figures prepared by Treasury and the State Street Custodial Account statements. Because of this, we recalculated the year's activity and identified an overstatement of the activity of \$448,000.
- No one in the Abandoned Property Division reviews the monthly account information prepared by the Accountant IV for reasonableness. Nor does the Division provide the Accountant IV with monthly transaction information. As a result, the Accountant IV can not verify that the activity on the State Street bank statement contains only authorized disbursements and receipts. Management has made a decision to rely totally on State Street Bank and Trust Company to monitor the activity in this account. Therefore, if an error or irregularity occurred at State Street, the Division would not be aware of it. This was also noted during our last audit as of June 30, 1991.

## **Observation No. 2 – Custodial Account Needs To Be Better Monitored (Continued)**

### *Observation (Continued):*

- Prior to an escheatment, the Division will have State Street liquidate (convert to cash) securities related to the escheatment year and remit the proceeds to the Division. We noted that the Division's accounting treatment of securities liquidations is not consistently applied. During our audit, we performed a comprehensive reconciliation of the Abandoned Property activity and accounts. The purpose of performing this reconciliation was to identify and resolve significant variances between the state accounting system (NHIFS) and UPMS. Securities, totaling \$929,767, were liquidated during fiscal year 1999 and credited to NHIFS. Of this amount only \$88,448 was posted to UPMS, resulting in a net difference of \$841,319. This difference can be directly attributed to the inconsistent accounting treatment of security liquidations.

### *Recommendation:*

We recommend the following:

- The Division should establish policies and effectively implement procedures to better monitor and track the securities activity maintained by State Street Bank and Trust. In so doing the Treasury Department and the Abandoned Property Division should carefully examine its options to include:
  - Better utilization of the UPMS computer system,
  - Better communication between the Abandoned Property Division and Treasury Department employees responsible for accounting,
  - Additional staff resources in the Division, and
  - Change in statute to allow for immediate liquidation of securities.
- The Division should consistently post securities liquidations to both NHIFS and UPMS as the assets are converted to cash. UPMS should reflect the conversion from securities to cash.

### *Auditee Response:*

We concur in part. Treasury agrees with the need to monitor all aspects and maintain the safety of the unclaimed property assets. To accomplish this, State Street Bank and its successor ACS have been custodian for the unclaimed property system since the mid 1990s, succeeding First NH Trust. Treasury has had a contractual relationship with these banks since 1987. Prior to the change in the law in 1986, the state did not accept stock, only dividends. Under the terms of the contract, the institutions perform safekeeping and custodial services, including but not limited to holding the securities, tracking and posting stock dividends, splits, mergers and acquisitions. When instructed by the unclaimed property division, after receipt of an approved claim, the custodian either reregisters the stock for the owner or sells the stock at the owners request. Contractually, the custodian

## **Observation No. 2 – Custodial Account Needs To Be Better Monitored (Continued)**

### *Auditee Response (Continued):*

has assumed the fiduciary responsibility for both the physical custody of the assets and the accuracy of its records.

The custodian is audited both as to its financial records and its procedures by an independent certified public accounting firm. Treasury in fact just received the auditors report from ACS which was an unqualified opinion.

At this time the focus of the division has been on safekeeping and return of assets and not on the market value of these assets. Since the securities are ultimately liquidated or returned to the owner, performance of the portfolio is not a factor and market value does not play a role. There are several obstacles to monitoring market value, as well as stock dividends, splits, mergers and acquisitions. While it has been stated that UPMS has the ability to track stock values and dividend activity, this is an inventory function in the securities module. It does not generate the data but must be manually entered after being obtained from another source. For the unclaimed property division to have access to this current data, it would be necessary to subscribe to a system such as the Bloomberg Service at an annual cost of at least \$20,000 per year. The division also is not staffed at present to keep the inventory system current even if the data were available at no cost. Since the work also entails some sophistication or level of familiarity with the securities markets, a degree of special training probably would be required.

The work of the Accountant IV in Treasury was not intended to provide the unclaimed property division with complete statements for tracking purposes, therefore no formal procedure or communication was established. We believe that the errors may have resulted from posting errors but are unable to comment on the discrepancy noted in the observation as we are uncertain as to the figures used to calculate the activity. The position also has been vacant since April and we currently are seeking to fill it.

As noted the division instructs the custodian to liquidate securities related to an escheatment and remit the proceeds to the state. At this juncture the custodian brings all records pertaining to that security current and provides the history to the division together with the funds. The division recently returned more than \$550,000 to a nonprofit NH institution which had inadvertently lost contact with a charitable bequest. The original stock had split, more than once, and the company had subsequently been acquired by a larger company. Neither the owner nor the division were aware of the splits. What appeared to be a return of some \$200,000 plus was actually nearly twice the amount. It should be noted that both the Treasurer and the division director monitored this transaction closely.

## Other Reportable Conditions

### **Observation No. 3 – Unclaimed Property Management System Should Be Reconciled To State Accounting System**

*Observation:*

There is no periodic reconciliation performed between the Unclaimed Property Management System (UPMS) and the state's accounting system (NHIFS).

UPMS is the Division's database used to account for and track all abandoned property reports and remittances, securities, owners, holders, claims, and payments from the Abandoned Property program. This database is the central information center for the entire Abandoned Property Division. For fiscal year 1999, approximately 109,000 owner records were tracked through this system. There were also 1,400 abandoned property reports filed during fiscal year 1999.

As part of our audit procedures we performed a comprehensive reconciliation of the Abandoned Property activity and accounts. The purpose of performing reconciliations is to identify and resolve significant variances in a timely manner. Without a reconciliation, errors in posting to either system could occur and not be detected in a timely manner. Additionally, the lack of a reconciliation process heightens the risk that a material error or fraud related to receipts or disbursements could occur and not be detected timely.

For fiscal year 1999 cash receipts per NHIFS and UPMS were \$6,061,752 and \$5,207,935 respectively, resulting in a variance between the two systems of \$853,817. While we were able to identify the majority of the variance as timing differences between postings to the two systems, we did note inconsistencies between the two accounting systems, primarily in the area of the accounting treatment of securities liquidations which is discussed in observation No. 2.

*Recommendation:*

We recommend that a comprehensive reconciliation between UPMS and the State accounting system be performed on a monthly basis for both receipts and disbursements. Reconciling items should be investigated and resolved in a timely manner.

*Auditee Response:*

We concur with the recommendation and are working towards this goal. At present the division does review the report of the monthly balance sheet account from the state's accounting system to be certain that transactions in this account are accurately reflected.



#### **Observation No. 4 – Written Control Procedures Over Claims Processing Need To Be Implemented And Adhered To**

*Observation:*

The Division does not have any written policies and procedures regarding the processing of claim disbursements. While the Division does have unwritten control procedures for what is acceptable documentation to support a claim, these are not consistently adhered to by Division staff as discussed below. During fiscal year 1999, the Division disbursed \$1.6 million to claimants, primarily through the mail.

When an owner files a “Claim for Abandoned Property” form, they must provide sufficient proof that he/she is the owner. The claim form specifically identifies the required information needed to adequately document proof of ownership, including proof of personal identification, proof of residency at reported address, and proof of doing business with the reported company.

During our testing we noted that in 12 (13%) out of 95 claims tested, claims were processed and paid without complete documentation to support the claim or evidence of administrative approval to waive required claim documentation.

Other than the instructions on the claim form, the Division does not have any written policies and procedures for the handling of claims. As a result, exceptions are made to what documentation is required on a case by case basis with no consistency as to what exceptions will be allowed and why. By not having written policies and procedures, the Division is putting itself and its employees at unnecessary risk of potential theft of funds from inside and outside of the Division. When dealing with abandoned property, which is by its nature an inherently risky program, the State has a greater responsibility to make certain that controls are in place and adhered to so that potential fraudulent claims are not processed.

*Recommendation:*

The Division needs to document its unwritten policies and procedures in a manual of procedures. It should adhere to its’ control policies under all circumstances. All significant exceptions to the policy should be approved and documented by the administrator and alternate physical proof should be obtained.

*Auditee Response:*

We concur in part. While written policies and procedures as to claims processing were not in place during the audit period, unwritten procedures were in place and followed and are being further developed into a written volume.

Internal controls, albeit unwritten at present, are consistently adhered to. Further, the UPMS has, as an essential component, built-in safeguards to promote consistency of processing and to prevent mishandling of claims. For example, the same person cannot issue a claim form and approve that claim for payment nor can the same person enter data

**Observation No. 4 – Written Control Procedures Over Claims Processing Need To Be Implemented And Adhered To (Continued)**

*Auditee Response (Continued):*

from a holder report and then edit that data or “balance” the report. These built-in safeguards require other staff review thereby establishing a multi-tier claims review process. It should be noted no claim can be issued without utilization of the UPMS and hand written or blank claims are neither issued nor accepted. All payments over \$5,000 are reviewed and approved by the director.

Further, no disbursements are made directly by division staff. Upon the completion of claims processing and approval a warrant is prepared and delivered to Treasury. Post-escheat claims checks are issued and delivered through the Treasury’s “*paybase*” system and pre-escheat checks are processed and delivered through the Treasury MIS division.

The claim form as prescribed by the administrator (RSA 471-C:26 I (a)), establishes a guideline for claimants and offers basic information as to what they may provide to verify their claim. There are a variety of ownership interests and as the result there are varying forms for individuals; corporate entities; heirs or estate representatives; holder refunds and for claims including securities not yet liquidated. Each claim has the potential for unique circumstances requiring support outside of what is described on the applicable form.

“Acceptable documentation” to support a claim by necessity will vary. Each claim can be quite different from another and in many cases require specific documentation to address a unique aspect. Claims staff apply “unwritten internal controls” routinely and consistently in processing thousands of claims each year. Each claim undergoes multiple levels of review and where circumstances vary from the ordinary, staff and Director confer to address specific issues.

There is a strong thread of consistency in claims review to assure the property is delivered to a rightful owner. Each claim is given close scrutiny and when a situation warrants, alternative forms of identification or other documentary verification may fully support a person’s claim, yet not be specifically set forth on the claim form.

Again, the form contains basic guidelines for supporting a claim and not everything set forth on the form is required. After development and implementation of written policies and procedures there will necessarily be exceptions requiring individual focus in review of verification. It will be impossible to codify all exigencies on a claim form.

Once again it is agreed written policies and procedure would be of assistance and are being developed. Such a document in and of itself will not change the fact that each claim will have inherent differences. To strictly adhere to a “controls policy” in all circumstances is impractical and could cause the denial of the return of property to its rightful owner.

## **Observation No. 5 – Complete Financial Information For The Abandoned Property Program Needs To Be Compiled**

### *Observation:*

The financial statements are a primary planning and control tool used by management and are a principal means by which an organization communicates information to those outside the organization. It is the accumulated summary of all transactions into a format that management can use for planning and controlling the entity. Currently, the Division accounts for abandoned property in two places, cash receipts and disbursements through the State's accounting system (NHIFS), and securities through a custodial account with State Street Bank and Trust Company. The Department does not combine the information from these two accounts into one statement of financial activity that provides management with a complete picture of the total activity of the State's abandoned property program.

The Treasury Department, including the Division, could not provide us with complete and accurate financial information for the abandoned property program, when initially requested. Typically, the auditee provides the financial statements or at a minimum summarized financial data. For this audit, it was necessary for the LBA to compile the Division's financial information from its source documents. The abandoned property program had \$18 million in assets as of June 30, 1999.

During our testing of the Division's financial information we noted that the Department did not correctly track the activity of the securities custodial account. We recalculated the financial activity based upon our review of the Custodial Account monthly statements for fiscal year 1999 and noted \$448,000 in adjustments.

It is important to note that the activity in the custodial account is not accounted for in NHIFS. Treasury relies solely on State Street Bank and Trust Company to account for and monitor all securities activity including tracking cash dividends and stock splits by reported owner.

### *Recommendation:*

The Division should prepare monthly and annual statements of financial activity presenting total activity of the program for its own internal review and information. The monthly summaries should also be used when reconciling to NHIFS and the custodial account.

### *Auditee Response:*

We concur in part. Treasury concurs that more formal reporting should be instituted for the division but does not believe that full scale **market value** reports on a monthly basis would add value to the process (see response to observation no 2). Rather an activity report, including monetary assets, numbers of equities and related information would be significant management tool. Final debugging and acceptance of the UPMS will assist the

**Observation No. 5 – Complete Financial Information For The Abandoned Property Program Needs To Be Compiled (Continued)**

*Auditee Response (Continued):*

process. As noted in the response to observation number 2, there are business reasons for not trying to duplicate the activity performed by the custodian.

To comply with the recommendation, and those noted in observations 2 and 3, the division most likely will need to add resources.

**Observation No. 6 – Processing And Verification Of Holder Reports Needs To Be Performed In A More Timely Manner**

*Observation:*

The Division is not processing the Holders Reports of Abandoned Property (T-1) in a timely manner. As a result, errors in submissions by holders may not being identified or corrected timely.

Based upon our testing of 25 T-1 reports filed during fiscal year 1999, we noted that, while all amounts are being deposited into the bank timely, the information was initially entered into UPMS 14 to 222 days after the date received, with the average delay being 52 days.

A holder of abandoned property will submit a T-1 report, along with the property presumed abandoned to the Abandoned Property Division. The T-1 report contains the owner name, last known address, social security number, property type code, identifying account number, date of last known transaction, and description of property (cash or securities). This information is entered into the Division's UPMS system and used as the source for claims processing and escheatments.

Once entered into the system, the reports are then verified by another individual to ensure that the correct information and amounts were entered into UPMS. During our testing of the 25 T-1 reports, we noted that 14 reports were verified, with an average delay between entry and verification of 80 days. The range in dates were from 36 to 141 days between entry and verification. Eleven (44%) of the 25 T-1 reports were still not verified as of January 31, 2000. The average number of days unverified for these reports is 317 days.

By not keying and verifying the information into UPMS in a timely manner, the Division increases the risk of errors and/or fraud not being detected in a timely manner. This information is essential in performing reconciliations between UPMS and NHIFS and the State Street Bank and Trust Company monthly statement of custodial activity.

**Observation No. 6 – Processing And Verification Of Holder Reports Needs To Be Performed In A More Timely Manner (Continued)**

*Recommendation:*

The Division needs to implement procedures to ensure that the T-1 reports are entered and verified in UPMS in a timely manner. This may include evaluating current staffing needs or changing the processing procedure to process information in a timely and reasonable manner. Processing procedures should be documented in a divisional manual of procedures.

*Auditee Response:*

We concur in part. The division processes reports of abandoned and unclaimed property nearly every day. Reports are date stamped “received” upon opening and checks are stamped for deposit only. Remittances are made payable to “Treasurer-State of New Hampshire” or “State of New Hampshire” and are processed and deposited immediately upon receipt by creation of a “Cash Receipt” and delivery to the treasury cashiers for deposit into the NHIFS.

At this point the funds are accounted for outside the division and cannot be withdrawn or otherwise removed by division staff.

Annual reporting of property occurs on November 1st and May 1st of each year with the vast majority of reports coming in on or about November 1. The sheer volume of reporting and processing of information contained therein necessitates an expansion of time within which to accomplish it.

Essential to the UPMS is the function preventing claims paid from an unedited report. If an inaccuracy or error were to occur it would be addressed at the edit stage. In the interim no claim could be paid.

## State Compliance Comments

### **Observation No. 7 – Distribution of Escheatment Proceeds Needs To Be More Timely**

*Observation:*

Treasury did not file its annual escheatment for calendar years 1995, 1996 and 1997 timely, thus reducing funds available to the State and the counties.

Escheatment is the formal, legal process by which the Division transfers ownership of abandoned property to either the State or to the counties. Generally, the Division holds abandoned property for two years prior to commencing escheatment. RSA 471-C:30 required the administrator of the Abandoned Property Division to commence the escheatment process in Merrimack County Superior Court within 180 days after the close of the calendar year after the year in which the property was presumed abandoned. This would normally be by June 29. Below is a table of the filing deadlines and the dates the escheatments were filed at Merrimack Superior Court.

<u>Calendar Year</u>	<u>Court Filing Deadline</u>	<u>Date Filed At Court</u>	<u>Number of Days Late</u>	<u>Amount of Initial Escheatment</u>	<u>Date of Fund Transfer</u>
1995	6/29/97	4/17/98	291	\$2,623,462	9/17/99
1996	6/29/98	Not yet filed	598	Unknown	Pending
1997	6/29/99	Not yet filed	231	Unknown	Pending

As of April 30, 2000, the 1996 and 1997 escheatment proceedings were still pending. Because a portion of escheatment proceeds are remitted to the counties, each county does not have use of these funds during the lengthy delay in processing caused by the Division. When asked why the 1996 escheatment was so overdue, management indicated that there were problems with escheat information in UPMS and that the Division needed more time to verify and correct the information prior to filing a Petition To Escheat with the court.

*Recommendation:*

The Division needs to comply with the statutory deadlines as outlined in the statute. The Division needs to implement written procedures so that escheatment proceedings are done in a timely manner.

**Observation No. 7 – Distribution of Escheatment Proceeds Needs To Be More Timely (Continued)**

*Auditee Response:*

We concur. The division agrees the applicable provisions of RSA 471-C (30 and 31), in effect during the audit period, called for commencement of proceedings as described. Delay in completion of the processes for the years 1996 and 1997 are attributable, at least in part, to:

1. Procurement and implementation of new data processing system – WAGERS UPMS
2. Problems with database arising from system conversion
3. Staff turnover

The division is now fully staffed and problems with data management system have been resolved, allowing the division to proceed with confidence in the numbers used for completing the escheatment process.

The statute prescribes when the process should be commenced it does not set a “deadline” for completion. Section 31 says, in part, “Following completion of the proceedings specified in RSA 471-C: 30, the administrator shall pay or deliver all property escheated under this chapter to the appropriate county treasurer....”

The division takes full responsibility for unmet deadlines, however, the amount of funds payable to a county is not determinable until the process has been completed. Until that time it is unknown whether any monies may be due a particular county.

Recent statutory changes initiated by Treasury streamlined the process and relaxed the requirements as well as the time frames for completion of escheatment and advertising processes. It is therefore expected these issues will not arise in future years.

The division agrees it needs to comply with statutory requirements. Written procedures would assist with implementation of these processes.

**Observation No. 8 – Calculation Of Counties Share Of Escheat Proceeds Needs To Be Revised**

*Observation:*

The Treasury Department may have understated the counties' share of the 1995 escheatment distribution and overstated the State's share of the escheatment. We tested the 1995 escheatment as these funds were paid out during our audit period.

RSA 471-C:31 directs the State to remit to the counties their share of escheatment proceeds after deduction of operating costs and a 15% retention fee. The allocation of escheatment funds is based on whether the holder was in-state or out-of-state. In-state holder proceeds are allocated to the county in which they reside, out-of-state holder proceeds are returned to the State's General Fund. Based on information obtained from the Abandoned Property Pre-Escheatment Report for the report year 1995, total projected funds available for escheat were \$2,623,462. Of this, \$945,502 (36%) was available to the counties and \$1,677,960 (64%) to the State.

Based on our examination of the 1995 Escheatment Proceedings, the Division allocated \$115,555 (20%) of the total operating costs of \$588,091 to the State and allocated 80% of operating costs against the counties portion of the net proceeds. The Division could not provide justification for this allocation. According to Division personnel, the \$115,555 represents the fees paid to State Street Bank and Trust and National Abandoned Property Processing Corporation, however, the Division could not provide documentation to support this figure.

We recalculated and reapportioned the counties distribution based upon the actual holder remittances of 36% from in-state and 64% from out-of-state holders and obtained the following results.

	<u>Treasury</u>	<u>LBA</u>	<u>Difference</u>
Initial County Escheatment Portion	\$ 945,502	\$ 945,502	\$ -0-
Less: Operating Expenses	472,536	211,713	260,823
Less: 15% Retention Allocation	<u>70,945</u>	<u>110,068</u>	<u>(39,123)</u>
Subtotal	402,021	623,721	(221,700)
Less: Post Escheatment Payments	59,965	59,965	-0-
Less: Account Receivable	<u>972</u>	<u>972</u>	<u>-0-</u>
Net Escheated to Counties	<u>\$ 341,084</u>	<u>\$ 562,784</u>	<u>\$ (221,700)</u>
Net State Portion	<u>\$ 1,694,286</u>	<u>\$ 1,472,586</u>	<u>\$ 221,700</u>

Note: post escheatment payments are funds paid to claimants for years that have already been escheated.



**Observation No. 8 – Calculation Of Counties Share Of Escheat Proceeds Needs To Be Revised (Continued)**

*Recommendation:*

The Treasury needs to develop and implement a reasonable allocation method for distributing escheat proceeds to the State and the counties. It should consider actual costs incurred that more accurately reflect the distribution of costs between in-state and out-of-state holders. It also needs to maintain the documentation used for the calculation and methodology.

*Auditee Response:*

We concur in part. Treasury will review the process again in consideration of explicit statutory instruction for the treatment of the costs. Our review of the 1995 Escheatment calculation shows that it was correct as originally calculated by the Abandoned Property Division. The process has also been reviewed and approved by the Administrative Services Budget Office. The method used to calculate the share to escheat to the General Fund and the Counties involves determining the actual expenses connected with collecting those funds. All out-of-state funds collected which go unclaimed escheat to the General Fund. The expenses attributable to collecting the out-of-state funds are fees paid to several outside auditing firms, which by contract with the State, audit out-of-state-holders. In the year audited, these fees totaled \$115,555. This cost was deducted directly from the amounts received from out-of-state holders. The amounts collected from in-state holders are eventually transferred back to the respective counties where the owners were believed to reside. The costs attributable to collecting these funds in 1995 were \$472,536. This amount was deducted directly from the amount available to escheat back to the counties.

**Observation No. 9 – Allocation Of Treasury Salary And Benefit Costs To Abandoned Property Should Be Substantiated**

*Observation:*

The Treasury Department inflated the actual cost of operating the Abandoned Property Division by funding \$156,527 of unrelated salaries and benefits through the Division. The effect of this results in less money available for escheatment to the counties and the General Fund. While the effect on the General Fund is negligible as Treasury is funded by General Fund appropriations, there is a negative impact to the counties.

The Treasury Department has 26 positions authorized in its budget, of these seven are directly related to the administration of the Abandoned Property Division. The Division is under the direction of a deputy treasurer and 25% of that salary, as well as 10% of the State Treasurer's salary, is charged to the Division. The Department has budgeted and charged the full salaries of three additional Treasury employees to the Division, including an assistant treasurer whose primary responsibility is state operating account bank

**Observation No. 9 – Allocation Of Treasury Salary And Benefit Costs To Abandoned Property Should Be Substantiated (Continued)**

*Observation (Continued):*

reconciliations as well as the salaries of the entire MIS section. These positions spend the majority of their time working on general operations of the Department and not on Abandoned Property.

For fiscal year 1999, 43% of total Treasury Department salaries and benefits were charged to the Division. Treasury is unable to substantiate the allocation method used to budget these positions from the Abandoned Property program. There are no time sheets or allocations that show the amount of time these employees actually spend performing Abandoned Property functions. Consequently, it appears the Abandoned Property Division is being allocated a disproportionate share of the Department's salaries and benefits.

Without a documented allocation plan, we question the appropriateness of these unrelated salary charges.

*Recommendation:*

The Department should only charge the Abandoned Property Division for actual salaries and benefits incurred in the operation of the Abandoned Property program and the enforcement of RSA 471-C. In addition, we recommend that the Department implement a method to track time spent by employees indirectly performing Abandoned Property work for the Division or alternatively develop an indirect cost plan to allocate reasonable administrative overhead cost to the Division.

*Auditee Response:*

We do not concur. Nearly every division of the Treasury Department supports the abandoned property effort, from the Treasurer's administrative assistant, to the cashiers, to the Treasury analyst, to the bank reconciliation group, to the business section, to the disbursement section, and most important the information technology section. Furthermore at least three management level employees are involved in oversight. As the abandoned property division developed and positions were added, they were included in the budget as an abandoned property expense and approved as part of the governor's budget and ultimately enacted by the legislature and signed into law.

Treasury does not create time sheets and has relied on a general budget approval for cost allocation.

**Observation No. 10 – Expenditures Allocated To Abandoned Property Division  
Should Be Limited To Program Related Costs**

*Observation:*

The Treasury Department inflated the actual cost of operating the Abandoned Property Division for fiscal year 1999 by charging \$22,799 of unrelated equipment and travel expenditures to the Division. The effect of this results in less money available for escheatment to the counties and the General Fund. While the effect on the General Fund is negligible as Treasury is funded by General Fund appropriations, there is a negative impact to the counties.

RSA 471-C: 25 states; “Before making any deposit to the credit of the general fund..., the administrator may deduct any costs incurred in connection with the administration of this chapter; ....” We believe the intent of RSA 471-C is to ensure that the abandoned property program is self-funded and that only program expenditures be charged as a reduction to the abandoned property funds.

During our testing of the operating expenditures for the Division we noted the following:

- Total fiscal year 1999 equipment purchases for the Abandoned Property Division were \$31,982. We tested 100% of the equipment purchases made from the Division’s equipment class line and noted that \$21,443 (67%) was purchased for and used for general operations of the Treasury Department. Examples of equipment purchased are computer and office equipment for the Deputy and Assistant Treasurers, computer equipment for the Management Information Systems Section, and the State Treasurer’s IBM Thinkpad Notebook computer. Based upon our observations this equipment was being utilized primarily for non-abandoned property use.
- We noted travel reimbursement expenditures to the Treasurer, Chief Deputy Treasurer, and Assistant Treasurer for non-related abandoned property travel. Examples include National Association of State Treasurers Conference on Pension; Interstate Bridge Authority and Turnpike meetings; and Bottom Line Technologies (check writing vendor) meetings. Total cost of these items to the Division was \$1,356.

*Recommendation:*

The Department should only charge the Division for actual expenditures incurred with the administration of RSA 471-C. If the Department wants to charge reasonable indirect costs to the program for administrative overhead then an indirect cost plan should be developed.

**Observation No. 10 – Expenditures Allocated To Abandoned Property Division  
Should Be Limited To Program Related Costs (Continued)**

*Auditee Response:*

We do not concur. Equipment purchased by the Treasury Department begins with the newest equipment allocated to the abandoned property division and older equipment recycled to the rest of the department. The new server was charged to the abandoned property division as was the attendant software as this was needed to support the new management system purchased for abandoned property. The notebook computer is available to abandoned property and all other treasury staff for use when traveling outside the office.

The Treasurer is a member of the Unclaimed Property Committee of the National Association of State Treasurers and also worked for two years with the committee which developed the nationwide data base for abandoned property. Currently discussions are taking place nationally concerning policy decisions and whether the current National Association of Unclaimed Property Administrators should become a subsidiary of the National Association of State Treasurers or a replacement organization should be established by the 31 Treasurers who are responsible for unclaimed property. These meetings are legitimate expenses of the abandoned property division. Other local charges were encoding errors.

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

*To The Fiscal Committee Of The General Court:*

We have audited the accompanying financial statements of the Abandoned Property Division of the Treasury Department as of and for the year ended June 30, 1999 and have issued our report thereon dated April 30, 2000.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing our audit of the financial statements of the Abandoned Property Division as of and for the year ended June 30, 1999, we noted an issue related to the operation of the Division that merits management consideration but does not meet the definition of a reportable condition as defined by the American Institute of Certified Public Accountants, and was not an issue of noncompliance with laws, rules or regulations.

The issue that we believe is worthy of management consideration but does not meet the criteria of reportable condition or noncompliance is included on page 26 of this report.

This auditor's report on management issues is intended solely for the information and use of the management of the Treasury Department and the Fiscal Committee of the General Court and is not intended to be and should not be used by anyone other than these specified parties

*Office of Legislative Budget Assistant*

Office Of Legislative Budget Assistant

April 30, 2000

## Management Issues Comment

### **Observation No. 11 – Holder Compliance Procedures Need Improvement**

*Observation:*

The Division should work toward better assessment of holder compliance as well as strengthening its audit effort.

In August 1995, the Department implemented an audit function within the Division to increase compliance with Abandoned Property laws. Since its inception, the audit section has commenced a total of 17 audits, of which 16 have been completed. Twelve of these audits were commenced in 1995.

Based upon information obtained from the Secretary of State's Corporate Division, as of January 10, 2000, there were approximately 108,000 domestic, foreign, and professional corporations and other organizations conducting business in the State. Per review of the Holder Reference Table in the UPMS database, we identified 7,024 individual holder records as of September 1999. During fiscal year 1999 approximately 1,400 holders filed Reports of Abandoned Property. There is no follow-up performed by the Division to determine whether holders of record should have filed and didn't.

We reviewed the abilities of the Unclaimed Property Management System (UPMS) and noted that an audit module, within the system, was designed to assist audit personnel in monitoring and conducting audits of abandoned property holders. The audit module provides data management tools for the various phases of the audit function including:

1. Holder Analysis: Monitors the holders' activity/remittance history and has the ability to flag non-filers who have filed previously.
2. Audit Tracking: viewing and managing all audit and compliance related actions and correspondence with auditee.
3. Results/Enforcement: compares post-audit remittances to ensure that they agree with the amounts assessed from the audit.

Based upon the information obtained, it appears that the auditors could generate a report that flags non-filing holders who had previously filed to enable the auditors to do appropriate follow-up in a timely and efficient manner. Based upon inquiries of the auditors and management, this module is not being utilized. The auditors informed us that they had experimented with the module and found they did not want to utilize it and decided to continue with their own internally developed spreadsheets.

**Observation No. 11 – Holder Compliance Procedures Need Improvement  
(Continued)**

*Recommendation:*

The Division should implement procedures to improve holder compliance. This should start with evaluating the staffing needs of the audit section of the Abandoned Property Division, as well as the capabilities of its UPMS system. This evaluation should include implementing written procedures for follow-up and potential audits of non-filers. The Division should also consider coordinating its enforcement and education efforts with other state agencies that audit banks, insurance companies, and businesses in the State.

*Auditee Response:*

We concur in part. RSA 471-C clearly places the burden on the holder to report (Section 19,I.) and to pay or deliver (Section 21,I.) abandoned property. The state (Administrator) is charged with custody and safekeeping of the property (Section 22,I.) and to escheat when appropriate (Section 30).

Enforcement provisions are set forth in Section 36 under which an action may be commenced in Superior Court and in Section 38 in which the penalty and interest provisions for non-compliance are set forth.

Prior to the early 1990s, division efforts were directed solely toward safekeeping, return and, when appropriate, escheatment of unclaimed property rather than toward targeted policing and strict enforcement.

That notwithstanding, the abandoned/unclaimed property “industry” has seen dramatic evolutionary change in the past decade. Rapid growth and complexity of legal and technological issues are just two examples. These and other national issues are being systematically raised by interest groups and major accounting firms and their respective legal counsel to weaken and in some cases decimate state programs. This is a concerted effort designed to impede then emasculate state programs. The ramification of these changes are not just statewide but nationwide.

We believe our multi-faceted compliance effort is strong. The 12 audits noted were commenced, all at once, by one individual who shortly thereafter left the division and left the audits hanging in 1995. The existing staff entered the division at different points thereafter and have worked to complete as many of these matters as possible. Auditing is an ongoing effort and a three year major audit is just coming to completion.

**Observation No. 11 – Holder Compliance Procedures Need Improvement  
(Continued)**

*Auditee Response (Continued):*

In the past 12 months pending past audits have been resolved as follows:

Blue Cross/Blue Shield	\$363,000.00
Bank of New Hampshire*	\$194,133.00
Frisbie Memorial Hospital	\$143,023.90
Littleton Regional Hospital	\$103,484.00
Berlin City Dealerships	<u>\$ 8,857.00</u>
Total	\$812,497.90

\*Partial Remittance. Audit resolution efforts ongoing.

Outreach, education and awareness (of the law) efforts are essential to promoting and encouraging holder compliance.

In addition to ongoing state review of out-of-state audits performed by third party contractors, the division has recently initiated a systematic approach to identify non-filers and initiate contact to assure compliance by in state entities.

Holder reporting and remittance histories are tracked in other UPMS modules such as “Holder” and “Deposits”. Utilization of the audit module of UPMS is a management decision and is being analyzed.



## **Independent Auditor's Report**

*To The Fiscal Committee Of The General Court:*

We have audited the accompanying financial statements of the Abandoned Property Division of the Treasury Department as of and for the year ended June 30, 1999. These financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Abandoned Property Division as of June 30, 1999, and the results of its operations for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated April 30, 2000 on our consideration of the Division's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, and contracts.

*Office of Legislative Budget Assistant*

Office Of Legislative Budget Assistant

April 30, 2000

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

**ABANDONED PROPERTY ACCOUNT  
BALANCE SHEET  
JUNE 30, 1999**

**Assets**

Cash And Cash Equivalents	\$ 15,132,614
Investments	<u>3,305,276</u>
Total Assets	<u>\$ 18,437,890</u>

**Liabilities And Account Balance**

Due To General Fund	\$ 1,694,286
Due To Counties	<u>341,084</u>
Total Liabilities	\$ 2,035,370
Account Balance	<u>16,402,520</u>
Total Liabilities And Account Balance	<u>\$ 18,437,890</u>

The accompanying notes are an integral part of these statements.

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

**STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGE IN ACCOUNT BALANCE  
FOR THE YEAR ENDED JUNE 30, 1999**

**Revenues**

Cash Receipts	\$ 5,072,014
Stock Additions	1,094,223
Change In Fair Value Of Investments	329,149
Interest And Dividends	<u>48,368</u>

**Total Revenues** **\$ 6,543,754**

**Expenditures**

General Fund Distribution	\$ 1,694,286
Claimant Payments	1,600,303
Administrative Expenses	745,624
Counties Distributions	392,776
Stock Transfers	63,764
Custodial Fees	<u>34,667</u>

**Total Expenditures** **\$ 4,531,420**

Excess Of Revenues Over(Under)  
Expenditures \$ 2,012,334

**Account Balance July 1, 1998** **14,390,186**

**Account Balance June 30, 1999** **\$ 16,402,520**

The accompanying notes are an integral part of these statements.

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

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 1999**

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

The financial statements of the Abandoned Property Division have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

**A. Financial Reporting Entity**

The Abandoned Property Division was created to administer RSA 471-C. The Division is charged with holding, for its owners, property presumed abandoned according to RSA 471-C:2, which defines abandoned property as "...all intangible property... that has remained unclaimed by the owner for more than five years". The Division, as part of the New Hampshire Treasury Department, is an organization of the primary government of the State of New Hampshire. The accompanying financial statements report the financial activity of the custody and escheat of unclaimed and abandoned property pursuant to RSA 471-C.

**B. Basis Of Presentation – Fund Accounting**

The State of New Hampshire and the Abandoned Property Division use funds and account groups to report on their financial position and the results of their 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. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

## **NOTE 1 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

### **B. Basis Of Presentation - Fund Accounting (Continued)**

#### *Governmental Fund Types*

##### General Fund

The General Fund accounts for all financial transactions not specifically accounted for in any other fund. By law, and with certain exceptions, all revenues of governmental funds are paid daily into the State Treasury. All such revenues, 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. In accordance with GASB Statement No. 21, Treasury records the financial activity of the Abandoned Property Account, in the fund to which the property ultimately escheats, the General Fund.

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

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All government funds are accounted for using the flow of current financial resources measurement focus and reported on a modified accrual basis of accounting. Accordingly, the State of New Hampshire accounts for its financial transactions relating to the General Fund on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when measurable and available to finance operations of the fiscal period. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recognized in the period in which obligations are incurred as a result of the receipt of goods or services.

## **NOTE 2 -- CASH, CASH EQUIVALENTS, AND INVESTMENTS**

The State pools cash and investments, except for separate cash and investment accounts which are maintained in accordance with legal restrictions. The following statutory requirements and Treasury policies have been adopted to minimize risk associated with deposits.

#### *Deposits*

RSA 6:7 establishes the policy to which the State Treasurer must adhere when depositing public monies. The statute restricts deposits to national banks, trust companies, and savings banks within the United States that have a branch in the state of New Hampshire. In addition, all depositories used by the State must be approved, at least annually, by the Governor and Executive Council.

**NOTE 2 -- CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)**

*Deposits (continued)*

Deposits are classified as to credit risk by the three categories described below:

- Category 1 Fully insured or collateralized with securities held by the State or its agent in the State's name.
- Category 2 Collateralized with securities held by the pledging financial institution's trust department or agent in the State's name.
- Category 3 Uncollateralized.

The following schedule shows the June 30, 1999 balance in the State's depository accounts related to the Abandoned Property Account summarized by deposit type and custody risk category. The total bank balance represents the total amounts on deposit as reported by the banks. The carrying amount represents the balances per the State's records.

	Categories			Total Bank Balance	Carrying Amount
	1	2	3		
Deposits:					
Demand Deposits	\$ 200,000	\$ -0-	\$14,911,903	\$ 15,111,903	\$ 15,111,903
Money Market Accounts	-0-	-0-	20,711	20,711	20,711
Total Deposits	\$ 200,000	\$ -0-	\$14,932,614	\$ 15,132,614	\$ 15,132,614

*Investments*

The following statutory requirements and Treasury policies have been adopted to ensure reasonable rates of return on investments while minimizing risk.

RSA 6:8 sets the policy the State Treasurer must adhere to when investing State funds. Subject to Governor and Council approval, the Treasurer must invest in certain types of investments. Those investments include obligations of the United States government or municipal governments within New Hampshire, savings account and legal investments for savings banks and trust companies, participation units in the public deposit investment pool, and certificates of deposit of state or federally chartered banks within New Hampshire, or national banks in Massachusetts. However, because of the nature of abandoned property, the State has no control over the type of investment instrument that is remitted to it by holders.

**NOTE 2 -- CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)**

*Investments (Continued)*

In accordance with GASB Statement No. 3, investments are classified as to risk by the three categories described below:

- Category 1 Insured or registered in the State's name, or securities held by the State or its agent in the State's name.
- Category 2 Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the State's name.
- Category 3 Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the State's name.

The Division's investments at June 30, 1999, summarized by type and custody risk category, are shown in the following schedule. These investments are held by State Street Bank and Trust as custodian of the assets. Investments are reported at fair value.

	Categories			Fair Value
	1	2	3	
Investments:				
Stocks and Bonds	\$ -0-	\$ -0-	\$ 3,111,655	\$ 3,111,655
Closed-ended Mutual Funds	-0-	-0-	7,559	7,559
Subtotal	-0-	-0-	3,119,214	3,119,214
Uncategorized:				
Open-ended Mutual Funds				\$ 186,062
Total Investments	\$ -0-	\$ -0-	\$ 3,119,214	\$ 3,305,276

**NOTE 3 - STATE STREET BANK AND TRUST CUSTODIAL ACCOUNT**

State Street Bank and Trust acts as custodian of abandoned securities for the Abandoned Property Division. If a holder remits securities to the Division, it will in-turn send those securities directly to State Street Bank and Trust. Prior to submission and in accordance with *Instruction for Registration of Stocks and Mutual Funds*, securities must be registered in the State of New Hampshire's nominee name of "Tidebeam & Co."

Stock account transactions are only recorded in the State accounting system when stock is liquidated and the cash is sent to Treasury either for payment to the claimant or for escheatment. If an owner claims the actual stock certificate, the bank reissues the certificate in the owner's name and sends the certificate directly to the owner. In this instance, no transaction is recorded in the State's accounting system.

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## APPENDIX

### Current Status Of Prior Audit Findings

The following is a summary of the status, as of April 30, 2000, of the observations contained in the financial audit report of the Abandoned Property Division for the 27 month period of April 1, 1989 to June 30, 1991. A copy of the prior report can be obtained from the Office of Legislative Budget Assistant, Audit Division, 107 North Main Street, State House, Room 102, Concord, N.H. 03301-4906.

	<u>Status</u>		
<b>Internal Control</b>			
<i>Material Weaknesses</i>			
1. Treasury On-Line System (TROLS)	●	●	●
2. Abandoned Property Stock Account ( <i>see current year observation No. 2</i> )	○	○	○
<i>Reportable Conditions</i>			
3. Escheatment Calculation ( <i>see current year observation No. 8</i> )	○	○	○
4. Inventory Of Abandoned Property	●	●	●
<b>State Compliance</b>			
5. Interest Charges	●	●	○
6. Publication Dates	○	○	○

#### Status Key:

Fully Resolved	●	●	●
Substantially Resolved	●	●	○
Partially Resolved	●	○	○
Unresolved	○	○	○

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