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DIVISION OF UNCLAIMED PROPERTY



JULY 2019

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July 15, 2019

DIANNE E. RAY, CPA
—
STATE AUDITOR

Members of the Legislative Audit Committee:

This report contains the results of a performance audit of the Department of the Treasury's Division of Unclaimed Property (Division). The audit was conducted pursuant to Section 2-3-103, C.R.S., which authorizes the State Auditor to conduct audits of all departments, institutions, and agencies of state government. The report presents our findings, conclusions, and recommendations, and the responses of the Division.

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REPORT HIGHLIGHTS



DIVISION OF UNCLAIMED PROPERTY
PERFORMANCE AUDIT, JULY 2019

DEPARTMENT OF THE TREASURY
DIVISION OF UNCLAIMED PROPERTY

CONCERN

The Division of Unclaimed Property is not fully meeting its core responsibility under the Unclaimed Property Act to reunite citizens with lost or forgotten property.

KEY FINDINGS

- The 429,526 unclaimed property claims records we received contained 391,938 records that we identified as duplicate, incomplete, inaccurate, or questionable that did not represent valid claims, due in part to IT system conversion issues. These 391,938 records represented a total of 713,637 properties; more than 650,000 of these properties included items such as cash, checks, and money orders with a value totaling \$271.5 million.
- The Division did not act on 8,170 of the 17,128 claims tested within 90 days as required by state statute. Additionally, it took anywhere from the same day to 1.8 years to pay a claim once it was approved for payment.
- The Division has not mailed notifications since March 2005 to approximately 1.6 million owners of unclaimed property as required by state statute.
- The Division accepts unclaimed property from holders with an “unknown” or “unidentified” name—even if the property would be expected to have an owner name—for properties such as payroll checks, savings accounts, and safe deposit boxes.
- The Division had not taken physical custody of approximately 1,085 tangible unclaimed property items reported to the Division by property holders even though state statute requires the Division to take custody of the property when it is reported by the holder.
- The Division did not sell tangible unclaimed property within 3 years as required by state statutes.
- Treasury accounting staff recorded claims and interest distributions incorrectly, and has not determined the amount of the error or made any necessary adjustments.

BACKGROUND

- The Unclaimed Property Division was created within the Department of the Treasury on July 1, 1987, when the General Assembly enacted the Unclaimed Property Act (Act) [Section 38-13-101, C.R.S.]. The Division’s core responsibility under the Act is to reunite citizens with lost or forgotten property.
- The sources of unclaimed property are businesses or other entities, such as banks or utility companies holding deposits, known as “holders,” in possession of property belonging to someone else (the owner).
- Types of forgotten property can range from “intangible” property such as cash, checks, and dividends, to “tangible” property contained in safe deposit boxes such as precious metals, gift cards, or other valuables.
- According to the Division, it has returned \$452 million in unclaimed property since its creation in 1987.
- There are four different types of claims for unclaimed property: (1) owner claims, (2) heirship claims, (3) business claims, and (4) government claims.
- The Division implemented a new unclaimed property system, named KAPS, in May 2017.
- The Division uses two funds to administer the Unclaimed Property program—the Unclaimed Property Trust Fund and the Tourism Promotion Trust Fund.

KEY RECOMMENDATIONS

- Comply with state statutes to ensure unclaimed property claims are processed in a timely manner and that its claims backlog is eliminated.
 - Enforce its policies and procedures related to the notification of unclaimed property owners.
 - Comply with state statutes related to and implement internal controls over the accepting, safeguarding, and sale of unclaimed property.
 - Implement an adequate review process over accounting transfers between funds to ensure accurate reporting.
- The Division agreed with our recommendations.



CHAPTER 1

OVERVIEW

The State Treasurer (Treasurer) is one of five independently elected constitutional officers of the State. Statute [Section 24-22-107, C.R.S.] designates the State Treasurer as the, “State’s Cash Management Officer,” with responsibilities focused on oversight of the state treasury, including custodial responsibilities for assets within the treasury. The Department of the Treasury (Department) comprises four divisions: Accounting and Cash Management, Investment Management, Administration, and Unclaimed Property.

The Department’s Unclaimed Property Division (Division) was created on July 1, 1987, when the General Assembly enacted the

Unclaimed Property Act (Act) [Section 38-13-101, C.R.S.]. The Division’s core responsibility is to reunite citizens with lost or forgotten property. The sources of the property are businesses or other entities, such as banks or utility companies holding deposits, known as holders, in possession of property belonging to someone else (the owner). The type of forgotten property can range from what statute [Section 38-13-102, C.R.S.] defines as “intangible” property, such as cash, money, checks, interest, dividends, and income, to “tangible” property, defined in statute [Section 38-13-109, C.R.S.] as property held in a safe deposit box which is not intangible. The Division further clarifies this as property such as precious metals, baseball cards, or other valuables that, once delivered to the Division, are kept in the Division’s vault. Intangible property that is payable or distributable, and has remained unclaimed by the owner who has a legal interest in the property for more than 5 years, is considered abandoned [Section 38-13-103, C.R.S.]. All tangible and intangible property held in safe deposit boxes or “any other safekeeping repository in the ordinary course of the holder’s business and proceeds resulting from the sale of the property” which remain unclaimed by the owner for more than 5 years after the lease or rental period on the box or other repository has expired are presumed abandoned [Section 38-13-109, C.R.S.]. The Division reports that it has returned over \$452 million in unclaimed property to its rightful owners since its inception.

The Act benefits the holder by establishing a system in which an obligation to an owner can be removed from the entity’s books forever, since it transfers custody and liability to the State. Thus, it indemnifies the holder, and it benefits the owner by ensuring the safeguarding of the owner’s assets. The Division’s jurisdiction for unclaimed property is for owners whose last known address is in Colorado, or if the property is held in Colorado and the owners’ address is unknown.

Statute requires holders of abandoned property to submit the property to the Division [Section 38-13-112, C.R.S.]. Prior to submitting the property to the Division, the holder must report information in a report about the property that they are going to submit to the Division such as name, last known address, and type of property [Section 38-13-110, C.R.S.].

The Division is required to keep an electronic, alphabetical list of the owners of unclaimed property and make it available to the public on the internet. The Division is required to send every county treasurer and public library in the state a written copy of the list of owners of unclaimed property in that county. This listing must include a statement that the property may be obtained by any person possessing an interest in the property through a submission of an inquiry and proof of claim to the Division. [Section 38-13-111, C.R.S.].

The Division must sell the abandoned property, except securities, within 3 years after it receives the property unless it determines that the cost of the sale exceeds the value. Securities must be kept for at least 1 year before they are sold. The Division advertises its sales in the Denver Post, which is circulated in Denver where the Division conducts all of its sales. The Division is required to sell the property to the highest bidder unless it determines that the highest bid is insufficient [Section 38-13-115(1) and (3), C.R.S.].

UNCLAIMED PROPERTY CLAIMS PROCESS

There are four different types of claims for unclaimed property: (1) owner claims submitted by individuals, (2) heirship claims submitted by an heir or on behalf of the estate, (3) business claims submitted on behalf of a business, and (4) government claims for property such as refunds for overpayments to contractors. Government claims are submitted to the Division by federal, state, and local governments or school districts. The owner can submit a claim by filling out an online form, mailing in a hard copy of the claim form, or by going to the Division and filing the claim in person. The owner must provide proof of identity, proof of ownership, and proof that they lived at the last known address on file. Division policy requires some claims, such as safety deposit boxes or stock certificates, to be notarized.

The Division implemented a new unclaimed property information system, named KAPS, in May 2017. KAPS is a database that houses all of the information related to unclaimed property as well as directly analyzes the data received from holders and owners or claimants

making a claim on their property, in order to authenticate the claimant and to determine whether a valid relationship exists between the claimant and the claimed properties. KAPS is designed to encrypt all data and provides for in-application masking of personal information, such as social security numbers.

UNCLAIMED PROPERTY DIVISION

The Division comprises the following three areas:

AUDIT.

The Division has two people assigned to this section who audit businesses to search for unclaimed property. The auditors work with these businesses to identify unclaimed property that has not been reported to the Division. The Audit section identifies businesses for review through a combination of experience with certain types of entities and a review of the unclaimed property records. Once it identifies a company to audit, it will review the company's records through a combination of questionnaires, desk reviews, and on site audits. Once the audit section completes the audit, staff prepare a report listing any amount of unclaimed property that the company has failed to report and submit to the Division.

COMPLIANCE.

The Division has five people assigned to this section who work with the holders to arrange shipment of the property—typically to the State Capitol. The holders ship the property to the Division in a sealed tamper-proof bag that should include an inventory sheet on the inside of the bag as well as another inventory sheet on the outside of the bag. Division staff review the inventory sheets and verify that all items contained on the sheets are in the bag. Division staff then review the holder's report in KAPS and verify that all items previously reported by the holder are on the inventory sheets and inside the bag. Once verified, Division staff document in KAPS that they received the property, and assign a location in the vault for the property. After they document the

property's assigned location in KAPS, Division staff put the inventory in the appropriate vault location.

Compliance section staff are also responsible for shipping property to its rightful owner after owner claims are approved. Compliance section staff are also responsible for photographing listed items for sale on eBay when the items have not been claimed within the statutorily-required 3-year holding period.

CLAIMS.

The Division has six people assigned to this section who are responsible for accepting and processing claims for unclaimed property.

OFFSETS TO AN UNCLAIMED PROPERTY CLAIM

Before the Division pays a claim that is over \$600, it must determine whether the claimant has unpaid obligations related to other debts. These debts include child support [Section 38-13-117.3, C.R.S.]; outstanding court fines, fees, costs, surcharges or restitution [Section 38-13-117.5, C.R.S.]; and state tax delinquencies [Section 38-13-117.7, C.R.S.]. The Division receives a listing of child support debts from the Colorado Department of Human Services; a listing of outstanding court fines, fees, costs, surcharges and restitution from the Judicial Department; and a listing of tax delinquencies from the Department of Revenue. If the Division finds that there is an unpaid obligation, it must offset the claim by the amount of the claimant's obligation(s). If a claimant has more than one obligation, the Treasury must prioritize child support claims first and state tax delinquencies last [Section 38-13-117.3(2)(a), C.R.S.].

FINANCIAL INFORMATION

The Division primarily uses two trust funds within the State's accounting system, the Colorado Operations and Resource Engine (CORE), to administer the unclaimed property program: The Unclaimed Property Trust Fund and the Unclaimed Property Tourism Promotion Trust Fund.

UNCLAIMED PROPERTY TRUST FUND (TRUST FUND). The Division records unclaimed cash, interest on that cash, and money earned from the sale of property within this fund. The Division can only use the principal in this fund to pay claims as well as the following [Sections 38-13-116.5(2)(a), (2.6), and (2.8), C.R.S.]:

- Direct and indirect costs of administering the program.
- Statutorily required transfers to the Adult Dental Fund within the Department of Health Care Policy and Financing.
- Statutorily required transfers to the State’s General Fund.
- Contract auditor services.

EXHIBIT 1.1 shows how the Treasury expended principal amounts in the Trust Fund during Fiscal Years 2016 through March 2019 for the four purposes noted above, and claims:

EXHIBIT 1.1. UNCLAIMED PROPERTY TRUST FUND EXPENDITURES/DEDUCTIONS FISCAL YEARS 2016 THROUGH MARCH 2019 (IN THOUSANDS)				
	FISCAL YEAR 2016	FISCAL YEAR 2017	FISCAL YEAR 2018	FISCAL YEAR THROUGH MARCH 2019 ²
Claims	\$ 26,834.1	\$ 21,508.5	\$ 24,340.7	\$ 25,351.9
Program administration and Contract Auditor Services	\$ 2,571.6	\$ 2,458.5	\$ 3,527.7	\$ 1,639.1
Adult Dental Fund Transfers ¹	\$ 30,474.6	\$ 34,800.0	\$ 32,432.1	\$ 16,336.4
General Fund Transfers	\$ 8,000.0	\$ 0	\$ 0	\$ 0
TOTAL	\$ 67,880.3	\$ 58,767.0	\$ 60,300.5	\$ 43,327.4

SOURCE: Office of the State Auditor analysis of data in CORE, the State’s accounting system.
¹ The amounts transferred into the Adult Dental Fund for Fiscal Years 2016, 2018, and 2019 are based on requests from the Department of Health Care Policy and Financing; the amount transferred for Fiscal Year 2017 is based on HB16-1409, which required \$34.8 million to be transferred from the Unclaimed Property Trust Fund to the Adult Dental Fund.
² Fiscal Year 2019 balances are as of March 31, 2019.

UNCLAIMED PROPERTY TOURISM PROMOTION TRUST FUND (TOURISM PROMOTION FUND). This fund consists of the proceeds from the sale of securities held as unclaimed property for more than a year. The Division can only use the *principal* in the fund to pay claims. However, the Division is required to transfer all of the *interest* earned each year on the principal in the fund to the following funds:

- Twenty-five percent of the interest to the Colorado State Fair Authority cash fund.
- Sixty-five percent of the interest to the Agriculture Management Fund within the Department of Agriculture.
- Ten percent of the interest to the Colorado Travel and Tourism Promotion Fund within the Office of the Governor.

EXHIBIT 1.2 provides information on Tourism Promotion Fund expenditures incurred by the Division for Fiscal Years 2016 through March 2019:

EXHIBIT 1.2. UNCLAIMED PROPERTY TOURISM PROMOTION TRUST FUND EXPENDITURES FISCAL YEARS 2016 THROUGH MARCH 2019 (IN THOUSANDS)				
	FISCAL YEAR 2016	FISCAL YEAR 2017	FISCAL YEAR 2018	FISCAL YEAR THROUGH MARCH 2019 ³
Claims ¹	\$ 500.9	\$ 8,389.1	\$ 6,432.1	\$ 9,512.0
Colorado State Fair Authority Cash Fund Transfers ²	\$ 1,144.6	\$ 1,226.0	\$ 1,345.6	\$ 1,346.3
Agriculture Management Fund Transfers ²	\$ 2,975.9	\$ 3,187.7	\$ 3,498.6	\$ 3,500.4
Colorado Travel and Tourism Promotion Fund Transfers ²	\$ 457.8	\$ 490.4	\$ 538.2	\$ 538.5
Interest Transfer Totals ²	\$ 4,578.3	\$ 4,904.1	\$ 5,382.4	\$ 5,382.2
Claims and Interest Transfers TOTAL	\$ 5,079.2	\$ 13,293.2	\$ 11,814.5	\$ 14,874.2
SOURCE: Office of the State Auditor analysis of data in CORE, the State's accounting system.				
¹ Amounts are paid from principal.				
² Amounts are transfers from interest.				
³ Fiscal Year 2019 balances are as of March 31, 2019.				

EXHIBIT 1.3 shows total unclaimed property revenues/additions and expenditures/deductions in both funds for Fiscal Years 2016 through March 2019:

**EXHIBIT 1.3. UNCLAIMED PROPERTY
REVENUES AND EXPENDITURES
UNCLAIMED PROPERTY TRUST FUND AND
UNCLAIMED PROPERTY TOURISM PROMOTION TRUST FUND
FISCAL YEARS 2016 THROUGH MARCH 2019
(IN MILLIONS)**

	FISCAL YEAR 2016	FISCAL YEAR 2017	FISCAL YEAR 2018	FISCAL YEAR THROUGH MARCH 2019 ¹
Revenues/Additions	\$97.6	\$105.2	\$132.3	\$91.7
Expenditures/ Deductions	\$68.4	\$67.8	\$66.8	\$52.9

SOURCE: Office of the State Auditor analysis of data in CORE, the State's accounting system.

¹ Fiscal Year 2019 balances are as of March 31, 2019.

The Division performs an analysis of each fund's balance annually. As part of this analysis, the Division updates a spreadsheet of claims paid during the year, broken down by the year the claimed property was originally received. Based on its historical calculations, the Division has estimated that approximately 40 percent of all properties received in any given year will be claimed over the first 20-year period that the properties are held. The Division uses this analysis for its calculation of an annual reserve amount that it holds against the cash in the funds to ensure that the cash is sufficient to pay future claims and current statutorily-required transfers.

The Division has not transferred money from the Tourism Promotion Fund in the last 5 years, other than the statutorily required transfers from interest mentioned previously. EXHIBIT 1.4 shows the ending cash balances in the Trust Fund at the end of Fiscal Years 2015 through 2018 and as of March 31, 2019, and the transfer amounts made out of the Trust Fund's principal during those years.

EXHIBIT 1.4. UNCLAIMED PROPERTY TRUST FUND TRANSFERS AND ENDING CASH BALANCES FISCAL YEARS 2015 THROUGH MARCH 2019 (IN MILLIONS)						
	FISCAL YEAR 2015	FISCAL YEAR 2016	FISCAL YEAR 2017	FISCAL YEAR 2018	FISCAL YEAR THROUGH MARCH 2019 ¹	TOTAL
Transfers of Principal out of the Unclaimed Property Trust Fund	\$27.7	\$38.5	\$34.8	\$32.4	\$16.3	\$149.7
Unclaimed Property Trust Fund Cash Ending Balances	\$198.9	\$173.0	\$242.0	\$295.3	\$339.6	
SOURCE: Office of the State Auditor analysis of CORE accounting data.						
¹ Fiscal Year 2019 balances are as of March 31, 2019.						

As shown in the exhibit, the Trust Fund had sufficient balances to make the claims payments and transfers during all five years we reviewed.

NEW LEGISLATION

SENATE BILL 19-088 [REVISED UNIFORM UNCLAIMED PROPERTY ACT (RUUPA)].

During the 2019 legislative session, the General Assembly passed legislative changes to the Unclaimed Property Act. The new legislation is known as the Revised Uniform Unclaimed Property Act (RUUPA).

SENATE BILL 19-261.

This bill requires that \$30 million be transferred from the Unclaimed Property Trust Fund to the State's General Fund in Fiscal Year 2020.

HOUSE BILL 19-1322.

This bill requires that up to \$30 million be transferred from the Unclaimed Property Trust Fund to the Housing Development Grant Fund to fund affordable housing throughout the state from Fiscal Years 2021 through 2023. The transfer amount is to be determined by the balance in the Unclaimed Property Trust Fund and expectations for current year revenue relative to the transfer cutoff amount. For each state fiscal year that a transfer is not made, the bill specifies that the last year in which a transfer may be made is extended for an additional state fiscal year.

AUDIT PURPOSE, SCOPE, AND METHODOLOGY

We conducted this performance audit pursuant to Section 2-3-103, C.R.S., which authorizes the State Auditor to conduct audits of all departments, institutions, and agencies of the state government. Audit work was performed from January 2018 through July 2019. We appreciate the cooperation and assistance provided by the management and staff of the Unclaimed Property Division during this audit.

We conducted this audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The key objectives of the audit were to understand (1) the process used for identifying and receiving unclaimed property and notifying the owners, (2) controls and security over inventory, (3) the claims processing process, and (4) the IT systems used for unclaimed property. The audit did not review aspects of the Treasury's business that do not relate to unclaimed property.

To accomplish our audit objectives, we performed the following audit work:

- Reviewed relevant state laws.
- Reviewed relevant policies and procedures for accepting, notifying owners, storing, and selling unclaimed property.
- Reviewed relevant policies and procedures for processing unclaimed property claims.
- Obtained testimony and documentation related to accepting, notifying owners of, storing, and selling unclaimed property; as well as for IT systems used for administering unclaimed property.

- Analyzed KAPS data we received from the Division on property received, sold, claimed, and destroyed over the last 5 years.
- Analyzed KAPS data we received from the Division on claims processed over the last 5 years.

We relied on sampling techniques to support our audit work as follows:

- A random sample of 25 unclaimed property items from the KAPS system data to determine if the inventory in the system agreed to physical property stored in the vault.

The results of our testing using these samples were not intended to be projected to the entire population. Rather, the samples were selected to provide sufficient coverage to test controls of those areas that were significant to the audit objective relating to unclaimed property.

GOVERNMENT AUDITING STANDARDS. Section 7.15 of the standards require that the audit report describe limitations or uncertainties with the reliability or validity of evidence if the evidence is significant to the findings and conclusions. Such disclosure is intended to avoid misleading the report users and provide a clear understanding regarding how much responsibility the auditors are taking for the information.

In accordance with standards, we are reporting that, in our judgment, a significant amount of the claims data for the period of July 2014 through March 2019, we received from the Division was not reliable, as we identified the following errors: (1) data entry errors, (2) inconsistent use of the KAPS system, (3) data conversion issues from the prior unclaimed property system to KAPS, and (4) inquiries not resulting in completed claims. Due to the issues we identified with the claims data we received, we tested a subset of claims that were paid during the timeframe of May 2017 through March 2019. However, we could not determine whether we conducted testing on a full population of claims processed during that time period. We discuss the data issues in further detail in CHAPTER 2.

We planned our audit work to assess the effectiveness of those internal

controls that were significant to our audit objectives. Our conclusions on the effectiveness of those controls, as well as specific details about the audit work supporting our findings, conclusions, and recommendations, are described in the remainder of this report.

We communicated certain deficiencies in internal control that were not significant to the objectives of the audit but warranted Division management's attention in a separate letter dated July 15, 2019.

A draft of this report was reviewed by the Division. We have incorporated the Division's comments into the report where relevant. The written responses to the recommendations and the related implementation dates are the sole responsibility of the Division.

CHAPTER 2

UNCLAIMED PROPERTY

CLAIMS PROCESSING

The FastTrack system within KAPS can initially review any single owner claims and electronically approve these claims for payment without human intervention; Division of Unclaimed Property (Division) staff review all other claims. Once Division staff confirm the information included in the claim, the claim goes through up to three levels of review and approval within the Division, depending on the value of the claim. Once a claim is approved, Division staff process the claim for payment.

When Division staff receive and review claims and the related supporting documentation, they use KAPS “workflow steps” to document their review. These workflow steps include activities such as receiving the signed claim form, receiving additional support from the claimant, and approving or denying the claim.

WHAT WAS THE PURPOSE OF OUR AUDIT WORK AND WHAT WORK WAS PERFORMED?

The purpose of our audit work was to review the Division’s processes for receiving, processing, and paying or denying unclaimed property claims and to determine if the Division processed and paid claims in accordance with state statutes and in a timely manner.

We requested data from the Division’s KAPS system, including records for all unclaimed property claims created in the last 5 years, such as owner and claimant names, claims processing dates, and property information. Based on our request, the Division provided us with 429,526 records that it represented as claims created during the period requested.

We specifically performed the following work on the data we received:

- Analyzed the data for completeness and accuracy. This included determining whether the population of paid claims that the Division provided was complete, whether the records represented actual claims created within the period requested, and whether the records contained all necessary information.
- Reviewed a sub-set of 37,588 claims that claimants submitted and the Division paid during the period May 2017 through March 2019, to determine if the Division paid claims in a timely manner. We performed testing to determine the amount of time that elapsed between the claim approval date and the claim paid date in KAPS.
- Reviewed a separate sub-set of 17,128 claims that claimants

submitted during the period May 2017 through March 2019, to determine if the Division acted on the claims in accordance with state statutes. We performed testing to determine the amount of time that elapsed between the claim received date and the earliest date of either the date the Division (1) requested additional supporting documentation for the claim, (2) approved the claim, or (3) denied the claim.

HOW WERE THE RESULTS OF THE AUDIT WORK MEASURED?

We measured the results of our audit work against the following requirements:

- Statute [Section 38-13-119, C.R.S.] requires the Division to act on a claim within 90 days. Based on conversations with Division staff, we considered “acting on” a claim to be when Division staff asked the claimant for additional information, approved the claim for payment, or denied the claim.
- The *Standards for Internal Control in the Federal Government* (Green Book) issued by the United States Government Accountability Office (GAO) and implemented for Colorado by the State Controller states that (paragraph 13.05) “management [should process]...data into quality information.... Quality information is...complete...[and] accurate....” In addition, the Green Book states that (paragraph 13.06), “Management [should process] relevant data from reliable sources into quality information within the entity’s information system.”
- The Green Book also states that (paragraph 10.03), “Management [should design] appropriate types of control activities for the entity’s internal control system,” including the “accurate and timely recording of transactions.”

WHAT PROBLEM DID THE AUDIT WORK IDENTIFY?

We found the following unclaimed property data problems through our testwork:

DATA CONTAINED DUPLICATE, INCOMPLETE, AND/OR INACCURATE CLAIM INFORMATION. We determined that 391,938 of the 429,526 records (91 percent) that the Division provided us were inquiries, duplicate claims, and/or contained other questionable data that did not represent valid claims made during the period July 2014 through March 2019. These 391,938 records represented a total of 713,637 properties – 678,356 of the properties included items such as cash, checks, and money orders with a value totaling \$271.5 million; the remaining properties included items such as securities and other assets contained in the vault that are not assigned a value by the Division until they are sold. As a result of the issues we identified, we focused our audit testing on a subset of claims submitted during the period May 2017 through March 2019.

We found the following specific issues with the KAPS data:

- **DATA CONTAINED MISSING AND INACCURATE INFORMATION.** We identified 101,751 properties converted from the old system that were missing an owner name in the “owner” field in KAPS. In addition, we identified instances in which KAPS contained incorrect dates and other information. Specifically, we identified four instances in which Division staff entered a property receipt date of October 10, 2020, and also identified multiple claims that had a created date in KAPS that was after the date the claim was approved and paid. We also identified one instance in which Division staff entered the physical location of property incorrectly as being with an auctioneer, when the item was actually in the Division’s vault.
- **DIVISION STAFF HAVE NOT USED KAPS APPROPRIATELY OR CONSISTENTLY.** First, we identified Division staff completed workflow steps that were contradictory. For example, Division staff

marked the same claim as both approved and denied. Second, we determined based on our discussions with Division staff that Division staff do not use workflow steps consistently. For example, some Division staff enter the date when a claim form is received for the “received claim form” workflow step date, while other staff enter the date that they review the claim for that step. This workflow step date triggers the 90-day statutory requirement to act on a claim.

- **DATA WAS INVALID OR INCOMPLETE.** We identified 5,550 property owners whose names were incomplete or inaccurate, including names that were listed as symbols or numbers. For example, we found 144 owners with a name listed as “%” and 398 different owners with a name of “000 00 00000000.”

Due to the issues that we identified above with the data from KAPS, we were unable to determine if the unclaimed property database provided to us and on which we performed our testing was complete and accurate; as a result, we could not determine whether we conducted testing on a full population of claims submitted during the period May 2017 through March 2019. In order to test actual paid claims data for this period, we removed 391,938 records from the 429,526 records originally provided by the Division and only tested 37,588 claims that were paid during the timeframe of May 2017 through March 2019. The results of our testing are contained in this finding.

THE DIVISION DID NOT ACT ON CLAIMS IN ACCORDANCE WITH STATUTES. We determined that the Division did not act on 8,170 of the 17,128 claims we tested (48 percent) within the 90-day statutorily-required timeframe. We also noted vast differences in the amount of time it took for the Division to act on the claims. Specifically, the Division acted on claims anywhere from the same day to 1.9 years after the claim was received. For approved claims only, the Division approved the claims anywhere from the same day it determined that all required information had been received to 1.8 years after that date.

EXHIBIT 2.1 includes a breakdown of the time it took the Division to act on claims that were created between May 2017 and March 2019.

**EXHIBIT 2.1. DIVISION OF UNCLAIMED PROPERTY
NUMBER OF DAYS TO ACT ON A CLAIM
UNCLAIMED PROPERTY CLAIMS CREATED
MAY 2017 THROUGH MARCH 2019**

DAYS TAKEN TO ACT ON A CLAIM	CLAIMS ACTED ON
1-90	8,958
91-180	5,631
181-270	1,482
271-360	467
361-450	244
451-540	119
541-630	121
Over 631	106
TOTAL TESTED	17,128

SOURCE: Office of the State Auditor Analysis of KAPS data.

THE DIVISION DID NOT PAY ALL APPROVED CLAIMS IN A TIMELY MANNER. We also found that the Division did not consistently pay claims once Division staff approved them for payment. Specifically, we found that the Division took anywhere from the same day to 645 days to pay a claim once it was approved for payment. While the Division paid the majority of the claims we tested within 2 weeks of payment approval, the Division took from a range of 15 days to 645 days after payment approval to pay 445 of the claims.

WHY DID THIS PROBLEM OCCUR?

The Division does not have adequate internal controls in place over claims processing, including documented policies and procedures, to ensure that its unclaimed property information system contains accurate and complete information and that the Division acts on claims in accordance with the Act.

First, the Division reported that many of the data integrity issues we identified resulted from the conversion. However, the Division could not demonstrate that it had adequate oversight of its contractor's data conversion process when the Division implemented KAPS to ensure that it identified and resolved data conversion issues, or that it ensured the data in the previous system transferred completely and accurately. In addition, the Division does not have a process for performing ongoing data integrity and completeness checks on KAPS data to ensure that system issues are mitigated.

Second, the Division does not have adequate documented policies and procedures over the following:

- Specific instructions regarding the entry of holder, owner, claimant, claim and payment information into KAPS, including instances in which workflow steps should be completed or deleted.
- Deadlines for Division staff to act on a claim, once it is submitted by the claimant.

Third, while the Division has a process in place to review a report of outstanding unpaid claims, it has a backlog of unreviewed claims and, as a result, is not effectively using this report to ensure that it pays claims in a timely manner.

WHY DOES THIS PROBLEM MATTER?

When the Division does not act on claims expeditiously, property owners sometimes submit additional claims for the same property, and the Division then has to sort through duplicate claims for the same item, which is time consuming and causes an even bigger backlog. Further, because current statutes allow unclaimed property owners to sue the division and be awarded costs and attorney fees if the Division does not act on the owner's claim within 90 days, it is especially important for the Division to ensure that it processes claims in a timely manner; otherwise, the Division risks monetary damages due to its failure to process claims on time.

As discussed previously, the General Assembly passed new legislation known as the Revised Uniform Unclaimed Property Act (RUUPA) during 2019. RUUPA still requires the Division to act on a claim within 90 days; however, RUUPA states that if the Division does not take any action on a claim within 90 days, the claim is deemed denied. [Section 38-13-904(3), C.R.S.]. Based on our current audit, the Division is not acting within 90 days consistently, which means these claims would be denied under RUUPA and the claimant would have to file a new claim. Additionally, while there is currently no statutory timeframe specified

for timely claims payment, RUUPA specifically added a deadline of 30 days for the Division to pay approved claims, except for securities, which requires payment within 45 days. Based on the Division's timeliness issues identified through our audit, if the Division does not improve its claims processing timeliness, the Division risks being out of compliance with the new statutory requirements.

RECOMMENDATION 1

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

- A Strengthening its written policies and procedures over claims processing. This should include providing specific instructions regarding the entry of holder, owner, claimant, claim, and payment information into KAPS; and deadlines to act on a claim once submitted by the claimant.
- B Effectively using its current outstanding unpaid claims report to identify outstanding unpaid claims and to ensure that claims are processed in a timely manner and that the claims backlog is eliminated.
- C Identifying, reviewing, and researching data conversion issues to ensure that information contained in KAPS is accurate, including that the issues identified in our audit are corrected.

RESPONSE

DIVISION OF UNCLAIMED PROPERTY

- A AGREE. IMPLEMENTATION DATE: SEPTEMBER 2020.

The Division is fully dedicated to its mission of reuniting owners with their property as quickly as possible. In May 2018, the Division faced a backlog of over 12,600 claims, while maintaining new incoming claim volumes. From May 2018 – March 2019, the Division received an additional 16,747 claims for review. The Department brought in a new division director who has streamlined and modernized the division. Without an increase in FTE, the Division processed 25,847 claims in 11 months, and has reduced the backlog to 2,200 claims. This continues as an ongoing effort and, the past year demonstrates the Division’s renewed dedication to reuniting property with its owner in as timely a manner as possible.

The Division plans to revamp procedures including providing specific instructions regarding the entry of holder, owner, claimant, claim, and payment information into KAPS; and deadlines to act on a claim once submitted by the claimant. The new procedures will also point toward changes in RUUPA, such as claims being denied in 90 days if they are not processed.

B AGREE. IMPLEMENTATION DATE: MARCH 2020.

The past year has seen a dramatic reduction in the Division's backlog of claims, going from over 12,600 claims to 2,200 claims in the backlog in a little more than a year. The Division is dedicated to using all the means available to it to continue to reduce the claims backlog. The Division will continue to utilize a Waiting-to-Pay report on a weekly basis to ensure that payments are delivered to owners within 30 days as required by RUUPA. Some of the remaining backlogged payments in this queue include intercepts or checks resubmitted for payment. The Division is focused on the backlog in an effort to eliminate it.

C AGREE. IMPLEMENTATION DATE: DECEMBER 2020.

The Division strives to ensure that the data it uses is as accurate as possible. Oftentimes, errors are not due to a conversion to a new system, but result from poor original input from holders decades ago. The Division will partner with its vendor to identify and rectify data conversion issues. This may include contacting holders to determine whether additional information is available. The Division will continue to review data in an ongoing effort to correct missing information.

The Division recognizes that 5,500 property owners have incomplete or inaccurate names (such as %'s and 000 00 00000). This represents .0375% of the Division's 15 million properties reported. We will continue our effort to correct these items.

NOTIFICATION TO PROPERTY OWNERS

Prior to submitting unclaimed property to the Division, the holder must submit a property report to the Division containing information such as the property owner's name, last known address, and the type of property. Once either the holder or the Division uploads the report information into KAPS, the KAPS system searches for errors such as invalid zip codes that do not match the state, and blank owner name fields. If there are no errors, or once all of the errors are researched and resolved, the Division approves the report in KAPS and the unclaimed property should automatically be added to the Division's website so that property owners can search for their unclaimed property.

The Division is required to attempt to notify the owner by mail. In the notice, the Division must tell the owner that it has property that may belong to them, and that in order to receive the property, the owner must file a claim with the Division. The Division is also statutorily required to maintain a website for claimants to review properties and file claims.

WHAT WAS THE PURPOSE OF OUR AUDIT WORK AND WHAT WORK WAS PERFORMED?

The purpose of our audit work was to review the Division's processes for receiving unclaimed property and related information from unclaimed property holders and for notifying the owners of the unclaimed property in order to determine whether the Division complies with state requirements.

We requested the Division's policies and procedures and interviewed Division staff about their processes for receiving unclaimed property and the related information from holders, and notifying owners of their unclaimed property. We reviewed 15,298,549 owner records from the KAPS system to see how many owners should have been notified by the

Division in the last 14 years and how many were listed as unknown or unidentified. We also reviewed the Division's process for identifying any unclaimed property belonging to other state departments, and its process for notifying these departments about their unclaimed property.

HOW WERE THE RESULTS OF THE AUDIT WORK MEASURED?

We measured the results of our audit work against the following requirements:

- Statute [Section 38-13-111(4-5), C.R.S.] requires the Division to mail a notice to each owner of unclaimed property with a value of \$50 or more to the owners' last-known address as reported on the holders' submitted property report. This notification must include a statement that the owner may have unclaimed property that is currently being held by the State and inform the owner that they may file a claim with the State Treasurer in order to get their property returned to them.
- Statute [Section 38-13-118.5, C.R.S.] states that, if the Division determines that the property belongs to a state department or agency, it may transfer the property to the department or agency without them submitting a claim.
- Statute [Section 38-13-110, C.R.S.] requires holders to report information about and transfer unclaimed property to the Division. In the property report, the holder shall include the property owner's name, if known, and the owner's last-known address.

WHAT PROBLEM DID THE AUDIT WORK IDENTIFY?

We identified the following issues related to notification of owners:

FAILURE TO NOTIFY OWNERS. We found that the Division has not mailed individual notifications to owners of unclaimed property since March 2005 (over the last 14 years) or otherwise specifically notified owners

that the Division is potentially holding the owners' property. Rather, the Division has used the annual Great Colorado Payback ad campaign each March, Denver Post pamphlets and one-page ads, and the Division's searchable unclaimed property website to make the public aware of the program. Based on the population of 15,298,549 owners in the KAPS system, we found that the Division did not notify a total of approximately 1.6 million owners of unclaimed property the Division received after March 2005.

THE DIVISION HAS NOT TRANSFERRED PROPERTY BELONGING TO OTHER STATE DEPARTMENTS. The Division is currently holding unclaimed property that belongs to other state departments or agencies but has not transferred it to them. Based on our analysis of KAPS data, we identified 31 state departments with unclaimed property that was being held by the Division as of March 31, 2019.

EXHIBIT 2.2 shows the state departments with unclaimed property within the Division along with the number and value of the properties.

**EXHIBIT 2.2. DIVISION OF UNCLAIMED PROPERTY
UNCLAIMED PROPERTY BELONGING TO STATE
DEPARTMENTS
AS OF MARCH 31, 2019**

STATE DEPARTMENT	NUMBER OF UNCLAIMED PROPERTIES	TOTAL CASH	NUMBER OF NON- CASH ITEMS NOT VALUED ¹
University of Colorado	1,393	\$ 589,998	0
Department of Revenue	1,555	\$ 190,161	0
Health Care Policy and Financing	1,324	\$ 168,529	11
Department of Treasury	525	\$ 162,560	185
Department of Transportation	90	\$ 153,162	0
Department of Labor and Employment	124	\$ 60,878	0
Colorado State University	308	\$ 45,043	69
Department of Public Health and Environment	219	\$ 24,971	0
Colorado ²	497	\$ 64,761	0
Other ³	2,846	\$ 199,826	0
TOTAL	8,881	\$ 1,659,889	265

SOURCE: Office of the State Auditor analysis of KAPS data. Numbers are based on amounts we were able to identify from the population of 15,298,549 owners contained in the KAPS system.

¹ This represents the number of shares, in addition to the cash amounts, held by the Division. The value of these securities is not known until they are sold at the current market rate at the time of sale.

² Due to inaccurate or incomplete information, the properties identified were either listed as belonging to the State of Colorado or did not contain the full name of the Colorado department that they belonged to; as a result, we were unable to identify which specific department owned the properties.

³ This includes Adams State University, Auraria Higher Education Center, Colorado Community College System, Colorado Mesa University, Colorado School of Mines, Department of Agriculture, Department of Corrections, Colorado Department of Education, Department of Higher Education, Department of Human Services, Department of Local Affairs, Department of Personnel & Administration, Department of Military and Veterans Affairs, Department of Natural Resources, Department of Public Safety, Department of Regulatory Agencies, Judicial Department, Metropolitan State University of Denver, Office of the Governor, Secretary of State, University of Northern Colorado, and Western State Colorado University.

UNKNOWN PROPERTY OWNERS. The Division accepts unclaimed property from holders when holders include an owner name of “unknown” or “unidentified” in the name field on the property report, even when the type of property would be expected to have an owner name. For example, we identified payroll checks, savings accounts, and safe deposit boxes as properties with unknown owners. We identified approximately 6.2 million properties with a value of about \$137.1 million that were listed as having “unknown” or “unidentified” owners in KAPS as of March 31, 2019. While approximately 5.1 million of these properties with a value of \$23.4 million are gift certificates and gift cards, which may not have a clearly identifiable owner, the majority of the remaining items would be expected to have an identifiable owner.

EXHIBIT 2.3 shows the breakdown of property types with the associated number of unknown owners for the property that we identified as of March 31, 2019.

EXHIBIT 2.3 DIVISION OF UNCLAIMED PROPERTY PROPERTY BELONGING TO UNKNOWN PROPERTY OWNERS AS OF MARCH 31, 2019			
TYPES OF UNCLAIMED PROPERTIES	NUMBER OF UNKNOWN OWNERS	TOTAL CASH VALUE	NUMBER OF NON-CASH ITEMS NOT VALUED
Money Orders	405,526	\$41,463,615	0
Checks	529,642	\$35,024,802	0
Gift Certificates/Gift Cards	5,130,562	\$23,367,159	0
Refunds	92,807	\$4,870,017	0
Accounts Payable	3,303	\$3,926,533	0
Credit Balances	3,560	\$3,745,498	0
Policy Benefits	5,069	\$3,710,082	0
Bonds and Debentures	4,602	\$3,314,571	51,292
Wages, Payroll, and Salaries	10,641	\$2,366,116	3
Dividends	2,314	\$2,195,556	893
Escrow Accounts	1,914	\$1,908,006	0
Principal Payments	523	\$1,572,858	0
Interest Checks	3,351	\$1,253,362	0
Royalties	596	\$1,004,943	0
Funds for Liquidation	1,782	\$795,543	0
Annuities	807	\$582,696	0
Checking and Savings Accounts	746	\$373,322	0
Proceeds due to Beneficiaries	405	\$313,544	0
Pensions	151	\$104,886	2,984
Commissions	361	\$85,939	0
Suspense Accounts	292	\$18,934	0
Stock and Certificates of ownership	724	\$5,232	2,892,115
Safe Deposit Box Contents	1,146	\$4,918	15,375
Other	18,875	\$5,074,500	3,514
TOTAL	6,219,699	\$137,082,632	2,966,176

SOURCE: Office of the State Auditor Analysis of KAPS data. Numbers are based on amounts we were able to identify from the population of 15,298,549 owners contained in the KAPS system.

WHY DID THIS PROBLEM OCCUR?

The Division does not have adequate internal controls in place to ensure that it complies with the Unclaimed Property Act regarding property owner notification. Specifically, the Division does not have documented policies and procedures to ensure that it notifies owners in accordance with the Act.

According to Division staff, 14 years ago (March 2005) the Division

made the decision to stop mailing notices to unclaimed property owners, as required by statute, because the post office returned more than half of the letters mailed and they were concerned with the costs of mailing the notices. However, the Department did not pursue legislative changes to address this concern until 2018 and the General Assembly did not make legislative changes to the Act until 2019; as a result, the Division has remained out of statutory compliance with statute regarding required owner notifications.

The new legislation passed by the General Assembly during 2019 is known as the Revised Uniform Unclaimed Property Act (RUUPA). RUUPA becomes effective on July 1, 2020, at the beginning of Fiscal Year 2021. RUUPA still requires the Division to notify owners of abandoned property; however, the Division may notify owners by using an email address, if known [Section 38-13-503(2), C.R.S.].

The Division also does not have processes to identify unclaimed property the Division is currently holding that belongs to other state departments or to determine if and when they will transfer the property to the departments.

Finally, while the Division has policies and procedures related to holders reports, these policies do not address holders that submit unclaimed property reports with an unknown owner. Specifically, Division staff do not contact all holders to request and obtain this information for properties that would be expected to have an owner name, such as payroll checks, savings accounts, and safe deposit boxes. Because holders are required by state statute [Section 38-13-124(1), C.R.S.] to maintain the information for 5 years after it reports the property to the Division, this information should be available at the Division's request. Additionally, while the KAPS system notifies the Division when there is a blank name for the owner, KAPS does not create a flag for or otherwise prevent the Division from processing reports with owners listed as "unknown" or "unidentified." In addition, KAPS does not allow information in the holder reports to be corrected; the holder report must either be approved or rejected as it was submitted.

WHY DOES THIS PROBLEM MATTER?

The Division's core responsibility under the Unclaimed Property Act, is to reunite citizens with lost or forgotten property. The Division's failure to attempt to contact property owners, or to follow up with unclaimed property holders to identify unknown property owners, increases the risk that individuals with unclaimed property will not be located and reunited with their property.

RECOMMENDATION 2

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

- A Strengthening and enforcing its policies and procedures related to the notification of unclaimed property owners.
- B Ensuring that the Division develops and implements clear policies and procedures related to Division staff’s identification of unclaimed property belonging to State of Colorado departments, including how and when property is transferred to the applicable departments.
- C Implementing system edits in KAPS to ensure that holders’ reports submitted to the Division with “unknown” or “unidentified” owner names are flagged for Division staff follow-up.
- D Expanding its written policies and procedures to ensure that Division staff follow up with holders when they submit unknown owner information to the Division for properties that would be expected to have known owner names.

RESPONSE

DIVISION OF UNCLAIMED PROPERTY

- A AGREE. IMPLEMENTATION DATE: DECEMBER 2020.

The Division continues to strengthen and enhance its efforts to notify owners regarding their unclaimed property. In the past year, without an increase in FTE, the Division was able to reduce the number of outstanding claims by almost 75%, by pursuing an aggressive effort to notify claimants and to process claims, all while

receiving well over 2,000 new claims each month. The Division will establish new procedures to implement RUUPA's requirement to notify owners via email, if an email is known. This furthers the Division's path to modernization through the new Act. Email notifications will be done as part of the revamped annual Great Colorado Payback campaign and through proactive outreach. This focus on modernization is welcomed, and reaffirms the Division's focus on returning unclaimed property to the rightful owners.

B AGREE. IMPLEMENTATION DATE: DECEMBER 2020.

The current statute states that if property is located for a state department, the Division may transfer property without a claim form. The Division believes it is in compliance with this statute, but based on repeated experience, does not automatically transfer property to state departments without a claim form.

The Division prioritizes the return of property to rightful owners and will continue to work with state agencies to do so. It is not unusual for individuals within state departments and agencies to receive a payment from the Division, but not know why it was received because the specific individual did not file a claim. As a result, warrants from the Division are not cashed and the property is returned to the Division. This unnecessarily compounds the processing and reunification of funds to the rightful owner.

The Division will continue its efforts to engage with state departments through a variety of methods, including annual seminars. At these seminars, the Division invites holders (which includes state departments, if they are reporting). The Division will also proactively invite state agencies each year, regardless of whether they report unclaimed property. The Division will promulgate policies and procedures that apply to the transfer of property to state departments and agencies in an effort to return property to its rightful owner.

C AGREE. IMPLEMENTATION DATE: JUNE 2020.

The Division works with holders to reduce reports containing “unknown” or “unidentified” names. It is not unusual for holders to report property with unknown or unidentified names, however. More than 96 percent of the items identified as having no name associated with them come from three categories: gift cards and certificates, cashiers’ checks, and money orders. The overwhelming majority (81.24 percent) are gift cards, which do not carry a name, but are searchable by identifying number. However, the lack of a name does not automatically mean that 1) holders are out of compliance, 2) that a name is obtainable, or 3) that the missing name alone prohibits the reuniting of the owner and the property.

The Division emphasizes that it believes that it is useful to have as many identifying characteristics as is possible. The standard NAUPA holder reporting format is expected to change by early 2020. This format should have enhancements that will greatly reduce basic holder entry errors prior to submission to the State. The KAPS system will then be updated to accommodate these changes. As part of this, the Division will request that the vendor implement a system that flags unknown or unidentified names. The Division will require holders to use this format and will embrace this change when it is made available.

D AGREE. IMPLEMENTATION DATE: DECEMBER 2019.

The Division wants to encourage the reporting of unknown property by holders in order to fulfill its mission to reunite this property to the rightful owners. The Division agrees to expand its holder report processing procedures to follow-up on certain properties with “unknown” or “unidentified” owner names. For example, these properties might include safe deposit boxes and payroll checks above a certain value. As discussed in its prior response, unknown owner names are often largely expected. 96.06 percent of the unknowns in the chart in this finding are expected, the largest being gift cards/certificates at 5,130,573 (81.24% of unknown

population). These cards are reported with account/card information that allows claimants to obtain their property. It's not unusual to have other property types reported with unknown owner names. Some properties include: money orders (405,536), and cashiers' checks (529,642.)

The Division will make inquiries with holders as follow-up with all the categories identified.

ACCEPTING, SAFEGUARDING, AND SELLING UNCLAIMED PROPERTY

The Division is responsible for maintaining custody of all property, including cash, until it is claimed by the owner. The State may not expend any cash held by the Division other than to administer the program, pay claims to owners, and for other statutorily-required transfers as discussed in CHAPTER 1. However, cash held by the Division is invested for the purpose of earning interest, which is subject to appropriation by the General Assembly.

The Division must sell abandoned property other than securities within 3 years after it receives the property, unless it determines that the cost of the sale exceeds the value. The Division is required to hold securities for at least 1 year before selling them. The Division earns interest on the proceeds from the sale of unclaimed property. The Division posts its sales on its website, and advertises the unclaimed property that is for sale in the Denver Post, which is circulated in Denver where the Division conducts all of its sales. Statutes require the Division to sell the property to the highest bidder unless it determines that the highest bid is “insufficient.” Division staff report that they conduct all sales as on-line auctions using eBay.

WHAT WAS THE PURPOSE OF OUR AUDIT WORK AND WHAT WORK WAS PERFORMED?

The purpose of our audit work was to review and test the Division’s internal controls, including policies and procedures, related to the safeguarding and selling of unclaimed property.

We interviewed Division staff about their process for receiving holders’ unclaimed property reports as well as their process for receiving,

securing, and holding tangible unclaimed property, and analyzed KAPS data associated with these processes. We reviewed 15,298,549 owner records in the KAPS system to see if the records contained properties belonging to other states and territories. Additionally, we requested the Division's policies and procedures relating to sales of unclaimed property and tested whether the Division sold unclaimed property during Fiscal Year 2015 through Fiscal Year 2019 in accordance with state statutes.

HOW WERE THE RESULTS OF THE AUDIT WORK MEASURED?

We measured the results of our audit work against the following requirements:

DEFINITIONS OF INTANGIBLE AND TANGIBLE PROPERTY. Statute [Section 38-13-102, C.R.S.] defines “intangible” property as cash, money, checks, interest, dividends, and income and “tangible” property as property held in a safe deposit box that is not intangible [Section 38-13-109, C.R.S.] The Division further defines “tangible” property as property originally contained in safe deposit boxes such as precious metals, baseball cards, or other valuables that, once delivered to the Division, are kept in the Division's vault.

REPORTING AND DELIVERING UNCLAIMED PROPERTY. Statute [Section 38-13-112(1)(a), C.R.S.] requires the unclaimed property holder to deliver the property to the Division when it reports the property to the Division. Additionally, statute [Section 38-13-112(2)(a), C.R.S.] states that, if the property owner requests their property from the holder after the holder reports the property to the Division but before the holder delivers the property to the Division, the holder does not need to deliver the property to the Division; however, the holder must provide the Division a written explanation containing the reason it is not turning the property over to the Division.

ONLINE LIST OF UNCLAIMED PROPERTY. Statute [Section 38-13-111(1), C.R.S.] requires the Division to maintain a list of unclaimed property and owners that is available for online searching.

REQUIREMENTS FOR TAKING CUSTODY OF UNCLAIMED PROPERTY. The Division is responsible for the custody of intangible unclaimed property if one or more of the following criteria is met [Section 38-13-104(1)]:

- A The owner’s last known address is in Colorado.
- B The owner’s address is unknown but the holder is located in Colorado.
- C The owner’s last known address is located in a state that does not have an unclaimed property law and the holder is located in a state that also does not have an unclaimed property law.
- D The transaction related to the property occurred in Colorado.

SALE OF UNCLAIMED PROPERTY. Statute [Section 38-13-115(1), C.R.S.] requires the Division to sell abandoned property other than securities to the highest bidder at a public sale within 3 years of receiving it. The Division considers this abandoned property to be “tangible” property. Statute [Section 38-13-115(3)] also requires the Division to hold securities for at least 1 year but not more than 3 years before selling them. The Division must then take “all reasonable action” to sell securities, unless the Division determines that selling the security is not in the best interest of the State. The Division must post a newspaper advertisement at least three weeks in advance of any sale.

WHAT PROBLEMS DID THE AUDIT WORK IDENTIFY?

We identified the following issues related to the Division’s acceptance, safeguarding, and selling of unclaimed property:

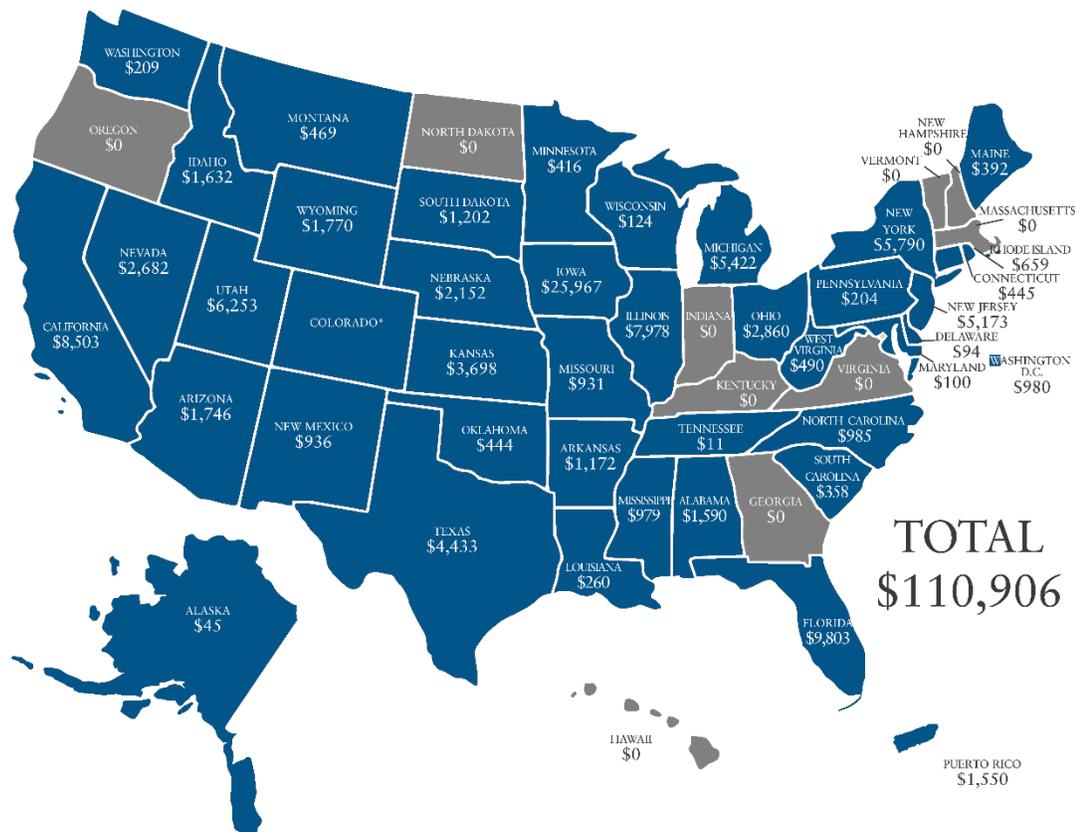
REPORTING AND DELIVERING UNCLAIMED PROPERTY. The Division had not taken custody of approximately 1,085 tangible unclaimed property items as of March 31, 2019. Further, the Division relies on the holders to inform them if they return any undelivered tangible unclaimed property directly to the owner before it is delivered to the Division.

ONLINE LIST OF UNCLAIMED PROPERTY. Some unclaimed property items that have been reported to the Division through holders' reports but not delivered to the Division are not searchable online by property owners. We identified 3 out of a sample of 40 of the unclaimed properties reported by holders but remaining in the holders' possession as of March 31, 2019, that were not contained in the searchable on-line listing.

PROPERTY BELONGING TO OTHER STATES AND TERRITORY. We found that the Division accepted intangible property belonging to other state governments even though the states had their own unclaimed property laws, the last known owners' addresses are outside of Colorado, the holders were not located in Colorado, and the property is not located in Colorado. The Division was also unable to provide documentation showing that the underlying transactions related to the property occurred in Colorado. We specifically identified unclaimed property belonging to approximately 39 other state governments as well as Washington D.C. and Puerto Rico that was held by the Division as of March 31, 2019.

EXHIBIT 2.4 shows the states we identified in our search and the approximate amount of property currently being held by the Division as of March 31, 2019.

EXHIBIT 2.4. PROPERTY BELONGING TO OTHER STATES AND TERRITORIES AS OF MARCH 31, 2019



SOURCE: Office of the State Auditor analysis of KAPS data. Numbers are based on our testing of the population of 15,298,549 properties provided by the Division using a comparison of other state names.

* Amounts reported for Colorado discussed separately. See PAGE 27.

SALES OF UNCLAIMED PROPERTY. The Division did not sell tangible unclaimed property within 3 years as required by state statutes and does not have a policy for selling any physical securities contained in safe deposit boxes that it receives. According to Division staff, the Division stopped all tangible unclaimed property sales in 2009 because the economy was slowing and the Division did not think it would receive sufficient sales amounts for the property it held. However, the Division did not start selling items again until 2017, and the Division had not started selling physical securities received in safe deposit boxes as of the time of our audit.

For internet auctions the Division held for the sale of tangible unclaimed property between July 2017 through March 2019, Division staff did not post newspaper advertisements in accordance with state statutes, as

required. Specifically, we found that the Division did not advertise in the newspaper at least 3 weeks in advance of the sale for any of the 17 sales it conducted during the period. This represents 640 properties. Furthermore, for 11 of the 17 sales, the Division did not advertise the sale at all.

Additionally, the newspaper advertisements the Division posted for the auctions were generic in nature and did not provide the date of the sale or a description of any of the listed items. Although the auction date and item descriptions are not specifically required to be included in unclaimed property newspaper advertisements by current statutory language, this information is vital for generating buyer interest and sufficient bids.

The new RUUPA legislation updates the statutory language related to sales of unclaimed property. While the current Act states that the Division “must” sell property within 3 years with the exception of securities that must be kept at least 1 year before selling, RUUPA states that the Division “may” sell property [Section 38-13-701(1), C.R.S.]. For sales that the Division chooses to conduct, RUUPA also specifically requires the Division to include in the advertisement the date of the sale and a reasonable description of the property. RUUPA only specifically requires the notification of a sale to be in a newspaper if the sale is not held on the internet. [Section 38-13-701(2), C.R.S.].

WHY DID THESE PROBLEMS OCCUR?

Overall, the Division does not have internal controls in place to ensure that it meets its responsibility/mission to reunite citizens with lost or forgotten property. We found the following specific reasons for the problems:

REPORTING AND DELIVERING UNCLAIMED PROPERTY. Although the Division has policies and procedures related to obtaining unclaimed property from holders, the Division reported that it fell behind in accepting property and, as a result, currently has a backlog of reported property that it has not instructed holders to submit to the Division.

Additionally, the Division does not have documented policies and procedures to locate property that holders did not transfer to the Division, including property that holders subsequently returned to property owners.

ONLINE LIST OF UNCLAIMED PROPERTY. According to Division staff, a KAPS system issue is causing some of the property reported to the Division, but held by the holder, to not be searchable online. Division staff are currently researching the issue as well as the pervasiveness of the issue but had not resolved the issue at the time of our audit.

PROPERTY BELONGING TO OTHER STATES AND TERRITORIES. The Division has policies and procedures related to accepting property, but these procedures do not include a written process for separately identifying property that belongs to other state governments and territories that have their own unclaimed property laws and the owner's address is outside Colorado, the holder is not located in Colorado, and the related property transactions did not occur in Colorado. As a result, the Division is unable to make a decision to decline or accept the property, as appropriate.

SALES OF UNCLAIMED PROPERTY. The Division's policies and procedures over sales of tangible unclaimed property do not sufficiently ensure that the Division sells the property in accordance with statutes, including that they do not discontinue tangible property sales and that they properly advertise the sales.

WHY DO THESE PROBLEMS MATTER?

By choosing to discontinue selling and accepting tangible unclaimed property, the Division has failed to comply with its statutory charge and meet its overall mission to reunite citizens with lost or forgotten property [Section 38-13-101 C.R.S., et al.]. The Division cannot ensure that property maintained by holders at the time of reporting to the Division is safeguarded over time and held for property owner retrieval at a later date. For example, safe deposit boxes may contain cash, which is at risk of being misplaced or stolen if not delivered to the Division in

a timely manner. Further, if a holder goes out of business before the Division requests delivery of the unclaimed property, the Division may have no way to find the property.

In addition, by failing to ensure that all unclaimed property is maintained in an on-line listing and searchable by owner, the Division risks failing to reunite owners with their property. Finally, by failing to obtain unclaimed cash and investing it, and by failing to sell tangible property and then investing the proceeds, the Division has lost opportunities for earning interest.

RECOMMENDATION 3

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

- A Researching the Division's unclaimed property records to identify tangible properties that have been reported to the Division that the Division does not physically have, contacting the holders to locate the properties, establishing timeframes for obtaining the property from the holders and safeguarding it, and developing policies and procedures around these processes.
- B Developing, implementing, and enforcing a policy requiring that holders file a written explanation with the Division for tangible property that holders subsequently returned to property owners before submitting it to the Division.
- C Developing, documenting, and implementing written policies and procedures over the sale of tangible unclaimed property. These policies and procedures should include a process for identifying items that the Division must sell to be in compliance with statutory requirements and standard language surrounding the sale dates and description of the property that the Division should be including in its newspaper advertisements.
- D Researching and resolving the online search issue in KAPS to ensure that all tangible unclaimed property is searchable by the public.
- E Updating and implementing its written policies and procedures to identify property belonging to other states and territories, including whether the property should be declined by the Division.

RESPONSE

DIVISION OF UNCLAIMED PROPERTY

A AGREE. IMPLEMENTATION DATE: DECEMBER 2019.

The Division is dedicated to reuniting owners with their unclaimed property. Returning tangible property received by the Division is a complex process that requires many checks and balances to properly receive, inventory and store property from safe deposit boxes that have gone abandoned. Of the division's nearly 15 million properties reported by holders, 0.22% or 32,411 reported properties are tangible properties. The current claimable percentage of tangible properties is even lower at 0.16%, or 12,951 of our current 7,850,509 claimable properties.

The Division will continue to work to enhance and implement its tangible property procedures to address tangible properties reported to the Division, but that have not yet been received from the holder. The Division will set forth a process to receive these properties and will continue to balance the initial reported inventory list with those received from the holder to ensure property can be reunited with its owner or its heir.

B AGREE. IMPLEMENTATION DATE: DECEMBER 2020.

The Division agrees with this recommendation to develop a process requiring written communication between the holder and the Division when tangible properties are returned to owners- after being reported on a holder report and prior to these properties being in possession of the Division.

C AGREE. IMPLEMENTATION DATE: DECEMBER 2019.

Though the Division maintains an active eBay following of over 7,000 individuals, it also recognized a change in process might result in more successful sales. To that end, the Division worked with the General Assembly during the most recent legislative session to

strengthen the requirements regarding the sale of unclaimed property. While the current statute does not require a description of the property, nor of the auction date, the Division will enhance its tangible sale procedures to align with the new RUUPA requirements. These procedures will state the publishing requirements if the sale does not occur on a public website (per RUUPA). RUUPA also changes the statute to state that the Division *may* sell tangible properties after three years, providing the Division with greater flexibility regarding sales.

D AGREE. IMPLEMENTATION DATE: DECEMBER 2020.

As part of its continued effort to reunite owners with their property, the Division agrees to review and confirm on an annual basis that the property count of tangible properties claimable matches the tangible properties available on the Division's website. This allows an owner to generate and pursue a claim.

E AGREE. IMPLEMENTATION DATE: JUNE 2020.

The Division accepts incidental properties (defined as ten or fewer properties, totaling \$1,000 or less, which belong to a state other than the state to which the properties were remitted) from holders where the last known address is a state other than Colorado. A reciprocity agreement, as defined by the National Association of Unclaimed Property Administrators (NAUPA), is “a written agreement between two states in which the states agree to exchange information and collect abandoned property for one another”.

The Division will promulgate reciprocity procedures and work on reducing its backlog of reciprocals to other states. By way of example, in slightly more than a year, the Division has reduced the total number of outstanding claims by almost 75%. The claims from other states, while representing an extremely small proportion of overall claims, is still of high importance to the Division. By participating in NAUPA reciprocal agreements, the Division supports its mission to return property to its rightful owners.

The Division will continue its work in partnership with holders, continuing to require them to follow the statute listing priority rules that determine the appropriate state in which to report, and properties such as money orders. Money orders are to be reported to the state in which the transaction occurs.

ACCOUNTING FOR UNCLAIMED PROPERTY CLAIMS

Division staff notify Treasury accounting staff via email when approved claims for cash and cash proceeds from the sale of tangible property and securities are ready for processing and payment in the State's accounting system, the Colorado Operations and Resource Engine (CORE). Accounting staff review these claims to ensure that the appropriate Division approvals are noted, and then approve these claims by processing the payments in CORE. Once accounting staff approve the claims payments, they email the payment information to Division staff, who enter the information into KAPS.

FINANCIAL INFORMATION

The Division primarily uses two trust funds within CORE to administer the unclaimed property program: The Unclaimed Property Trust Fund and the Unclaimed Property Tourism Promotion Trust Fund, as explained below.

- **UNCLAIMED PROPERTY TRUST FUND (Trust Fund):** The Division can only use the principal in this fund to pay claims, administration of the program, statutorily required transfers, and contract auditor services.
- **UNCLAIMED PROPERTY TOURISM PROMOTION TRUST FUND (Tourism Promotion Fund):** This fund consists of the proceeds from the sale of securities held as unclaimed property for more than a year. The Division can only use the *principal* in the fund to pay securities claims. However, the Division is required to transfer the *interest* in the fund to other funds.
- Treasury accounting staff initially pay all claims, including securities claims, out of the Trust Fund. Division staff run a report from KAPS

quarterly to identify the amount paid for security claims, and accounting staff make an adjusting entry to record that amount in the Tourism Promotion Fund.

WHAT WAS THE PURPOSE OF OUR AUDIT WORK AND WHAT WORK WAS PERFORMED?

The purpose of our audit work was to review the Division and accounting staff internal controls over accounting for unclaimed property claims to determine if the Division complied with state regulations.

We interviewed Division and accounting staff about their accounting procedures for unclaimed property. Additionally, we reviewed transactions Treasury accounting staff recorded in CORE related to unclaimed property claims to determine if the Treasury accounting staff recorded claims payments and transferred interest to the appropriate funds in accordance with state regulations.

HOW WERE THE RESULTS OF THE AUDIT WORK MEASURED?

We measured the results of our audit work against the following requirements:

Statute [Section 38-13-116.7(1), C.R.S.] requires the Division to record all proceeds for the sale of securities within the Tourism Promotion Fund. Statute [Section 38-13-116.7(2), C.R.S.] further specifies that the principal of the Tourism Promotion Fund may only be expended for paying securities claims.

Statute [Section 38-13-116.7(3), C.R.S.] requires the Division to transfer the interest earned on the principal in the Tourism Promotion Fund to the following Funds:

- Twenty-five percent of the interest to the Colorado State Fair Authority cash fund.

- Sixty-five percent of the interest to the Agriculture Management Fund within the Department of Agriculture.
- Ten percent of the interest to the Colorado Travel and Tourism Promotion Fund within the Office of the Governor.

WHAT PROBLEMS DID THE AUDIT WORK IDENTIFY?

We determined that Treasury accounting staff recorded claims and interest distributions incorrectly. First, prior to Fiscal Year 2017, the Division failed to record the correct amount of securities claims payments in the Tourism Promotion Fund. At the Division's request, the Division's KAPS vendor identified the error during Fiscal Year 2017 but as of the time of this audit the Division had not determined the amount of the claims that were recorded to the Trust Fund erroneously prior to Fiscal Year 2017, made adjustments to correct the errors, or determined and addressed any potential impact on earned interest and transfers to other department funds. Although the Division has not determined the amount of the error, claims paid from and recorded in the Tourism Promotion Fund increased from \$500,000 in Fiscal Year 2016 to \$8.4 million in Fiscal Year 2017; therefore, it is likely that a significant amount was posted to the wrong funds.

Second, accounting staff distributed interest from the Tourism Promotion Fund to the incorrect fund. Specifically, in Fiscal Year 2016, Treasury accounting staff transferred \$374,527 to the Office of the Governor's "Travel and Tourism Additional Sources Fund" instead of the "Travel and Tourism Promotion Fund" as required by state statute. The Governor's Office staff notified Treasury accounting staff in Fiscal Year 2017 about the error. However, as of the end of our audit fieldwork, Treasury accounting staff had not made any accounting adjustments to correct the error. In addition, accounting staff indicated that they have not determined if they transferred amounts to the correct funds prior to Fiscal Year 2016.

WHY DID THESE PROBLEMS OCCUR?

The Division and Treasury accounting staff do not have adequate internal controls in place to ensure that they record unclaimed property claim payments for securities or transfers of interest in the appropriate funds, as required by state statutes. Specifically, Division staff reported that the Division's previous information system that was replaced by KAPS in May 2017, reported incomplete claims information related to securities for all fiscal years prior to Fiscal Year 2017, which caused Treasury accounting staff to understate these claims. Additionally, the Division has not implemented an adequate review process to ensure the accuracy of the recording of securities claims payments and interest transfer transactions.

Additionally, as of the time of our audit testwork, Treasury accounting staff had not followed up with the Governor's Office to ensure that all corrections were made for the errors identified, including determining if they needed to correct prior year transfers.

WHY DOES THIS PROBLEM MATTER?

The Division is ultimately responsible for ensuring that activity is recorded accurately within both of the unclaimed property trust funds in CORE. When the Division records the proceeds from the sale of property or securities and/or transfers within the wrong funds, it runs the risk of incorrectly calculating interest that it transfers to other funds as required by state regulations.

RECOMMENDATION 4

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

- A Developing, documenting, and implementing an adequate review process to identify, research, and resolve issues specifically related to the recording of securities claims payments and statutorily-required transfers.
- B Determining the impact of the incorrect transfer noted in our audit and making accounting adjustments, as necessary.
- C Researching the impact of the system reporting error and making adjustments to the accounting records, if necessary.

RESPONSE

DIVISION OF UNCLAIMED PROPERTY

- A AGREE. IMPLEMENTATION DATE: JUNE 2020.

The Division is dedicated to properly recording and transferring all claims. At the Division's request, the Division's vendor identified a programming error. The Division works in partnership with various departments and agencies to ensure that errors are identified and resolved. The Division will redouble its efforts to strengthen the review process related to transfers between the unclaimed property funds and transfers required by the statute.

- B AGREE. IMPLEMENTATION DATE: JUNE 2020.

The Division is in the process of determining the impact noted by the audit findings, and will make adjustments, as necessary. The Division is dedicated to correcting any errors found and ensuring that transfers are made accurately.

C AGREE. IMPLEMENTATION DATE: JUNE 2020.

The Division will research and evaluate the audit findings, and will determine whether adjustments are necessary to be made. If so, the Division will make such corrections.

