

**Federal Efforts to Recover Unclaimed
State-Held Assets Face Many
Challenges and Obstacles**

OIG-02-105

July 18, 2002



Office of Inspector General

The Department of the Treasury

Contents

Audit Report	2
Results in Brief	3
Background.....	6
Finding and Recommendations	8
Asset Recovery Has Been Marginally Effective.....	8
Recommendations	18

Appendices

Appendix 1:	Objectives, Scope, and Methodology.....	28
Appendix 2:	List of Federal Agencies We Surveyed	30
Appendix 3:	Unclaimed Asset Questionnaire for Federal and Quasi-Government Agencies	31
Appendix 4:	List of States or District We Reviewed or Surveyed.....	40
Appendix 5:	Unclaimed Property Questionnaire for States.....	41
Appendix 6:	Owners of Unclaimed Federal Assets	55
Appendix 7:	Schedule of Potential Revenue Enhancements	56
Appendix 8:	Management Comments	58
Appendix 9:	Major Contributors to This Report	65
Appendix 10:	Report Distribution	66

Abbreviations

AIC	Office of Accounting and Internal Control
CFO	Chief Financial Officer
DCIA	Debt Collection Improvement Act of 1996
FMS	Financial Management Service
OIG	Office of Inspector General
SBA	Small Business Administration
TFM	Treasury Financial Manual, I TFM 6-5100
TD	Treasury Directive
Treasury	Department of Treasury

*The Department of the Treasury
Office of Inspector General*

July 18, 2002

Edward R. Kingman, Jr.
Assistant Secretary for Management and Chief Financial Officer

Unclaimed federal financial assets are federally owned monetary assets held by states. Unclaimed assets may have resulted from misdirected or unsuccessful mail delivery due to faulty addresses or the relocation or closure of federal agencies. Federal agency owners of the missing assets are required to attempt to recover their assets from the states. If agencies do not recover their assets in a timely manner, the Department of Treasury (Treasury) can act as the collector of last resort for the unclaimed federal assets. Given this responsibility, Treasury has been recovering unclaimed assets on behalf of federal agencies for the past decade.

The overall objective of our audit was to determine whether Treasury was effectively recovering unclaimed federal assets. We conducted our fieldwork at the Office of Accounting and Internal Control, Financial Management Service, and the States of California, Nevada, and Texas. We also surveyed the remaining 47 states, the District of Columbia, and 26 federal and quasi-governmental agencies. A detailed description of the objectives, scope, and methodology is presented in Appendix 1.

At the start of this audit, the Office of Accounting and Internal Control advised us to coordinate the audit through the Deputy Chief Financial Officer because the Chief Financial Officer's (CFO) position was vacant at the time. Accordingly, our audit engagement memo was sent to the Deputy CFO. With your subsequent appointment as CFO, our draft audit report should have been directed to you for official comment, but instead we inadvertently sent the draft to the Deputy CFO. We apologize for any confusion this may have caused.

Results in Brief

Overall, we found that federal efforts to recover unclaimed assets have had limited success. Indeed, only half the agencies we contacted indicated they were even seeking to recover their assets held by states. We found the reasons for such limited effectiveness varied and were attributable to several program challenges and operational obstacles. The common element across these challenges and obstacles relate to the cost of identifying and recovering assets. Agencies must bear all recovery costs from their own appropriated funds. Yet, federal agencies are generally not allowed to retain the recovered funds to offset the cost of recovering these assets. Although the Debt Collection Improvement Act of 1996 (DCIA) allows agencies to retain a portion of the qualified expenses incurred to improve their debt collection processes¹, this reimbursement mechanism is not currently operational.

Our federal agency survey revealed that only 13 (50%) of 26 agencies attempted to recover their assets from the states². Of the 13 agencies, 10 spent less than 21 staff days per year toward asset recovery. The low participation rate resulted in nine appropriated agencies recovering less than \$190,000 over various periods through 2001. On the other hand, with the ability to retain the recovered funds, the Federal Deposit Insurance Corporation (FDIC), a non-appropriated agency, has recovered over \$5.4 million as of 2001. Therefore, FDIC was able to more than offset their asset recovery costs.

In addition, operational challenges hindered the recovery efforts of federal agencies and Treasury. Incomplete state unclaimed property websites, labor-intensive asset identification processes, and cumbersome claim procedures prevented or delayed the recovery of federal assets.

¹ 31 U.S.C. §3720C

² Four agencies did not respond to the survey.

With so few federal agencies actively pursuing state-held assets, Treasury began asset recovery on their behalf. In eight years, the Financial Management Service (FMS) had limited success, recovering approximately \$2 million from 32 states, the District of Columbia, and Canada. However, our audit found that FMS' recovery efforts had been sporadic and faced many of the same challenges and obstacles faced by federal agencies.

We visited or sent surveys to 50 states and the District of Columbia³. As of 2001, 14 (27%) states reported holding unclaimed federal assets of approximately \$3.2 million. Based on further analysis and review, we determined that \$2.9 million were held by six states and the assets belonged to 44 different federal agencies. During the audit, we were able to identify specific asset account information for \$2.9 of the \$3.2 million in outstanding federal assets. We subsequently forwarded the information to AIC for recovery. We also identified and forwarded to the AIC 1,568 additional unclaimed federal asset accounts listed on two websites, which did not show the associated dollar amounts.

In addition to the \$3.2 million, we estimated the Federal government could have also avoided debt interest cost of approximately \$1.7 million, assuming the funds would have reverted to the Treasury General Fund. We estimated the debt interest cost avoidance from the time states received the unclaimed assets through 2001.

We believe that the \$3.2 million in unclaimed federal assets and the avoidable interest costs of \$1.7 million represent the minimum amounts potentially due the Federal government. We could not determine the amounts for unclaimed federal assets or avoidable interest costs held by 37 states because they either did not provide the necessary information or did not respond to our survey.

³ Twelve states did not respond to the survey.

In light of the challenges and obstacles to effective federal recoveries, we make nine recommendations aimed at enhancing the identification and recovery of unclaimed federal assets held by states. Seven recommendations aim to streamline the asset recovery process, and two recommendations focus on fostering state cooperation regarding asset recovery.

In response to our draft report, the Deputy CFO concurred with 6 of the 9 OIG recommendations. For these six recommendations, we believe the planned or ongoing corrective actions, if properly implemented, adequately address the reported findings.

The Deputy CFO did not concur with the three remaining recommendations, but noted that no final decisions would be made on the unclaimed asset program until the end of the ongoing pilot in June 2003. Accordingly, at this time, we are not proceeding with the audit resolution process through the Deputy Secretary as provided under Treasury Directive 40-01, Part III, 2.d. and OMB Circular A-50. Moreover, we are hopeful that when the final program decisions are made, appropriate consideration will be given to the three recommendations and associated program weaknesses, particularly with regard to protecting federal assets against potential fraud and abuse while in the custody of states. The cited Treasury Directive (TD) also provides for the OIG to periodically follow up on report recommendations to ensure that final corrective actions have been completed and are effective.

The Deputy CFO also brought to our attention several technical corrections and suggested clarifications to the draft report. These were incorporated throughout the final report as applicable. The full text of the Deputy CFO's response has been incorporated in Appendix 8.

Background

Unclaimed federal financial assets are federally owned monetary assets held by states. Examples of unclaimed assets may include: savings and checking accounts; non-negotiated cashier checks and money orders; credit balances and refunds; insurance and bankruptcy proceeds; and dividends and royalties. Unclaimed assets may have resulted from misdirected or unsuccessful mail delivery due to faulty addresses or the relocation or closure of federal agencies. Misdirected mail may have also resulted because agency officials established accounts outside the Treasury banking facilities without notifying the agency's finance office.

In general, if assets remain unclaimed for a period of time, state laws require holders of these assets to turn over the funds to the state of the owner's last known address. The unclaimed property laws and abandonment period vary among the states. Holders of unclaimed assets may include: financial institutions; insurance companies; healthcare, telecommunication, and utility providers; and other general business entities.

Owners of unclaimed federal assets may include all Federal government entities, not limited to the 26 agencies we surveyed, as shown on Appendix 2. Federal owners may also include the bureaus or units within each agency. For example, the Department of Defense consists of various defense agencies and four military services, (e.g. Air Force, Army, Marines, and Navy). Each military service has multiple bases and units, any of which may be individual owners of unclaimed federal assets.

Once the states receive the unclaimed assets, they do not take permanent title to the property. Rather, the states act as custodians of the assets, safeguarding them until the rightful owners or their heirs claim the property. Until unclaimed assets are returned to the owner, states invest and earn interest revenue on the unclaimed funds. Although we were unable to

determine an amount, we believe that for some states the earned interests on unclaimed assets can be sizeable.

The Treasury Financial Manual, I TFM 6-5100⁴ (TFM) requires federal agencies to attempt to identify and recover their unclaimed assets. If agencies have attempted asset recovery, they may also contract with Treasury to recover assets on their behalf. However, if agencies do not recover their assets in a timely manner, the TFM authorizes Treasury to act as the collector of last resort for unclaimed federal assets.

As such, Treasury's Office of the Fiscal Assistant Secretary began asset recovery efforts on behalf of federal agencies in 1991, later delegating the duties to the FMS in 1993. FMS' recovery efforts consisted of a periodic letter-writing campaign, requesting the states to help identify and remit the federal assets to Treasury. According to a FMS official, FMS assigned one full-time equivalent staff to this task. From 1993 to 2000, FMS recovered approximately \$2 million in federal assets from 32 states, the District of Columbia, and Canada. However, FMS had no assurance that the states fully or accurately reported the assets they held; and not all states responded to FMS' intermittent inquiries. Consequently, FMS could not systematically identify the types and associated amounts of federal assets states were still holding.

In June 2001, the Fiscal Assistant Secretary delegated the recovery responsibilities to the Office of the Chief Financial Officer, who later delegated the duties to the AIC. Thereafter, AIC had the authority and responsibility to administer a two-year asset recovery pilot program ending June 2003. Since inheriting the asset recovery responsibilities, AIC has assigned three staff members to recover the funds part time. In one year, AIC collected \$3.2 million. During the audit, we were able to identify specific asset account information for \$2.9 of the \$3.2 million in outstanding federal assets. We subsequently

⁴ 31 U.S.C. §3718(a) and §3718 (d)

forwarded the information to AIC for recovery. Although we could not determine the associated dollar amounts, we also identified and referred another 1,568 unclaimed assets held by two states.

Finding and Recommendations

Finding **Asset Recovery Has Been Marginally Effective**

Our audit found that federal efforts to recover state-held unclaimed federal assets have been marginally effective because many federal agencies were not actively identifying or attempting to recover their unclaimed assets, and had not asked Treasury for recovery assistance. Federal agencies' limited success in recovering state-held assets can be attributed to several challenges and operational obstacles that have inhibited more active recovery efforts. On the other hand, we identified during our audit approximately \$3.2 million in federal assets outstanding as of 2001. In addition to identifying the unclaimed assets, we also estimate that Treasury could have avoided approximately \$1.7 million in debt interest costs had the \$3.2 million been recovered prior to our discovery.

Asset Recovery Efforts

The TFM requires federal agencies to attempt to identify and recover their unclaimed assets. We judgmentally selected and surveyed 26 federal agencies to determine their asset recovery efforts. Our survey found that only 13 (50%) of 26 agencies⁵ attempted to recover their assets from the states. Of the 13 agencies, 10 devoted less than 21 staff days per year toward asset recovery. Our survey also revealed that previous recovery results were minimal. Table 1 below shows that out of the 13, 9 appropriated agencies recovered less than \$190,000 in unclaimed assets over various periods through 2001, where as,

⁵ The Department of Agriculture, Federal Emergency Management Agency, Federal Reserve Board, and U.S. Postal Service did not respond to the survey.

one non-appropriated agency recovered over \$5.4 million as of 2001.

Table 1		
Unclaimed Assets Recovered by Federal Agencies		
Federal Agency		Funds Recovered*
	Appropriated Agency:	
1	Department of Commerce	\$1,300
2	Department of Defense	18,247
3	Department of Energy	500
4	Federal Communications Commission	13,369
5	Government Printing Office	19,984
6	Department of Health & Human Services	2,286
7	Department of Interior	50,000
8	Social Security Administration	50,028
9	Department of Transportation	33,823
SUBTOTAL		\$189,537
	Non-Appropriated Agency:	
10	Federal Deposit Insurance Corporation	5,421,625
TOTAL		\$5,611,162

Source: Based on federal agency survey results.

* Reported recoveries covered varying periods through 2001.

In our opinion, the apparent lack of proactive recovery efforts can be attributed to various reasons; foremost is the associated cost of recovering state-held assets. The TFM guidelines require agencies to expend their appropriated operating funds to recover the assets. Agencies must absorb the recovery cost but generally may not retain the recovered assets for future use. Instead, recovered funds are generally deposited into the Treasury General Fund.

Under the DCIA and to the extent authorized in the appropriation Acts, Treasury may reimburse agencies for certain expenses incurred to improve their credit management, debt collection, and debt recovery activities. However, this expense reimbursement mechanism is not operational to agencies at this time. Furthermore, from our federal agency survey, it appears that some agencies still would not have attempted asset recovery even if they were reimbursed for their recovery costs.

Survey responses indicated that seven agencies did not attempt recovery because they believed the amounts of unclaimed assets were insignificant. In addition, four agencies did not establish asset recovery procedures, did not have available resources to administer recovery efforts, or were unaware of their responsibility to recover unclaimed assets. Furthermore, 12 agencies preferred that Treasury identify the unclaimed assets on their behalf; and 6 of those believed that it would not be cost beneficial to recover their own unclaimed assets or that the amount of assets are insignificant. See Appendix 3 for more federal agency survey results.

The TFM authorizes agencies to contract with finders to locate and recover federal assets on their behalf. Agencies may use the recovered funds to pay contracted finders, and the remaining proceeds are returned to the Treasury General Fund. Our agency survey showed that only two appropriated agencies, the Government Printing Office and Small Business Administration (SBA) contracted or planned to contract with finders to recover their assets. Of the \$19,984 Government Printing Office recovered in 2001, a finder located \$3,208. The SBA did not provide the amount of unclaimed funds, if any, recovered by SBA or finders.

Treasury's AIC is not utilizing the services of finders at this time. According to AIC officials, the contract procurement process would be cumbersome and costly. Officials believe that the time and money spent on negotiating contracts would probably exceed the time and money spent on recovering federal assets. Furthermore, because some states do not allow finders to file claims on behalf of owners, finders can only identify federal assets, but not claim them. Therefore, the claim process would still be labor-intensive for federal agencies and Treasury, even with the assistance of finders. On the other hand, AIC officials indicated that in the future, finders might be useful in locating federal assets not available on the state websites.

Under the TFM, agencies may also request asset recovery assistance from Treasury. However, agencies must use their own appropriated funds to reimburse Treasury for its services. Although the survey indicated that two agencies previously requested assistance from Treasury, no agency has formally contracted with Treasury to recover assets on its behalf prior to our audit. Moreover, one survey respondent believed the Treasury collection fee would exceed the unclaimed assets' value.

Unlike appropriated agencies, quasi-federal agencies have a greater incentive to more actively recover state-held assets. These agencies, whose operating funds are not appropriated, may retain the recovered funds. For example, the FDIC recovered and retained over \$5.4 million from 43 states and the District of Columbia as of 2001.

As part of the response to the draft report, the Deputy CFO stated that references to the FDIC were misleading. Specifically, according to the Deputy CFO, essentially all of the funds FDIC recovered were attributable to failed financial institutions, which substantially differ from the types of assets Treasury claims on behalf of other federal agencies.

We believe that all unclaimed federal assets warrant the Federal government's attention, regardless of the assets' type or origin. Furthermore, the main point of listing FDIC was not the dollar amount, but the fact that since FDIC can keep its recovered funds, FDIC has more incentive to actively pursue its lost assets compared to appropriated federal agencies.

Identifying and Recovering Unclaimed Assets, A Daunting Task

Neither Treasury nor federal agencies have systematically identified the amounts of state-held federal assets. Consequently, we visited 3 states and surveyed the remaining 47 states and the District of Columbia, 51 locations in all. In

addition to the amount of unclaimed federal assets, we also wanted to gain an understanding of the claim process for these assets.

Our survey indicated that 36 states maintained unclaimed property records on websites. Based on our fieldwork and website search of five states, we found that searching for federal assets on the websites was extremely labor-intensive. State websites required one to input the asset owner's name exactly as it is spelled on the websites. This task would be simple if one knew all the possible variations of federal agency names. Instead, the name search process became a guessing game.

We found that agency names could be completely or partially abbreviated, misspelled, or otherwise. For example, the name for United States on the website could be represented at least 17 different ways, (e.g.: US, U S, U S , U.S., USA, U S A, Uni, United, United State, United States, U S Govt, U S Government, United States G, United States Gov't, United States Government, U S of America, United States of America.) Moreover, eight states listed at least 1,975 different name variations for the 45 federal agencies we identified. The variations we identified were provided to AIC during the audit. Unless asset searchers had updated lists of federal agency name variations, or searched each asset individually, it would be unlikely to identify 100 percent of the outstanding federal assets.

Even with advanced web search capabilities, federal agencies still would not locate all their assets from state websites. Our fieldwork and survey revealed that 21 state websites did not list unclaimed assets prior to the 1970s, 1980s, or 1990s, depending on the state. In addition, at least six states suppressed government asset information from their unclaimed property websites. According to California and Texas Unclaimed Property officials, they excluded government assets from the websites to prevent public complaints of the

government wasting its resources. Of the 15 states that reported the number of unclaimed federal asset accounts on our survey, California and Texas held the largest amounts.

Identifying state-held federal assets was made further difficult for 27 states, as their websites did not contain complete listings of their unclaimed assets. Instead, these states maintained some unclaimed asset records in the forms of hardcopy files, index cards, microfiche, microfilm, or internal state databases. Searching through these types of records are far more difficult and time-consuming than a website search. Moreover, they are generally not easily accessible to the public. See Appendix 5, Question 6 for more state survey details.

Given the varying state record systems and associated asset identification challenges, federal agencies and Treasury would need assistance from the states. Thirty-three states indicated that they would be willing to assist in federal asset recovery if agencies provided them with a list of agency names. However, 14 of the 33 states have limited asset search capabilities or lack sufficient resources to provide timely assistance. The remaining states did not provide information regarding their asset search capabilities. For the three states⁶ that would not provide recovery assistance, they suggested that federal agencies search for their assets on the websites.

In addition to a labor-intensive identification process, our audit found that the claim process could be cumbersome as well. Nineteen states require a claim form for each federal asset. Moreover, 11 states require owners to claim their own assets. This could be very time-consuming considering that states may hold hundreds or thousands of assets owned by many federal agencies.

Furthermore, our audit revealed that states might not be the only custodians of unclaimed federal assets. The survey

⁶ Kansas, Minnesota, and Oregon.

indicated that the city and county governments of six states might also maintain federal assets. This could occur if federal agencies do not negotiate the checks issued by the city or county. However, since we did not review unclaimed federal assets at the city or county level, we could not determine the amounts of federal assets maintained at the city or county governments or their asset recovery procedures.

Asset Recovery Status

The cost of asset recovery and related operational challenges prevented, delayed, or discouraged federal asset recovery. This is evident by the low participation rate and minimal amount of federal assets that agencies previously recovered.

Under the TFM, Treasury can act as the collector if federal agencies do not timely recover their assets. In 1993, FMS began a state letter-writing campaign to recover assets on behalf of federal agencies. FMS assigned one full-time equivalent staff to periodically send letters to states, requesting assistance in locating unclaimed federal assets. In eight years, FMS recovered approximately \$2 million in federal funds from 32 states, the District of Columbia, and Canada. Given the difficulties in readily identifying unclaimed assets, FMS could not be assured whether states had fully disclosed or returned all federally owned assets.

Our audit found that a letter-writing campaign did not fully capture all the federal assets. Based on our fieldwork and survey, we found that 14 states were maintaining approximately \$3.2 million in federal assets as of 2001, as shown in Table 2 below.

Table 2		
OIG Identified Federal Assets Held By States (As of 2001)		
	State	Amount of Unclaimed Assets
1	California	\$1,217,644
2	Maine	33,000
3	Maryland	127,117
4	Michigan	112,048
5	Nebraska	6,000
6	Nevada	47,279
7	New Jersey	64,857
8	Ohio	146,435
9	Rhode Island	1,234
10	South Carolina	77,703
11	South Dakota	3,242
12	Texas	1,329,023
13	Vermont	16,282
14	Wyoming	1,500
TOTAL		\$3,183,364

Source: Based on state survey results.

Of the \$3.2 million, we found that \$2.9 million from six states belonged to 44 federal agencies. See Appendix 6 for a breakdown by federal agencies. The \$3.2 million we identified was available for recovery during the letter-writing campaign.

Additionally, we were able to determine when the states had received \$2.8 million of the \$3.2 million in federal assets. Based on the receipt dates, we estimated the Federal government could have possibly avoided at least \$1.7 million in debt interest costs. See Appendix 7 for the method of computation.

In response to the draft report, the Deputy CFO questioned the accuracy of the cited amounts for the identified state-held federal assets and the avoidable debt interest costs. While the Deputy CFO raises several technically correct factors that would

impact on the precise amounts for both figures, our intent was to only illustrate the potential benefits to the Federal government had there been a more effective, systematic, and proactive attempt to collect state-held federal assets in the past.

Also in its response, the Deputy CFO stated that once assets are claimed the first time, the amount of unclaimed assets available in subsequent years will be significantly smaller; and thus a three-year projection of the first-year collections could be highly inflated. We agree that the amount of unclaimed funds recovered today does not represent the amount of federal funds to be collected tomorrow. Therefore, we did not make any projections on future federal asset collections. Rather, based on information provided by the states, we estimated the amount of debt interest cost Treasury could have avoided if it had recovered the funds upon the states' receipt of the assets.

Indeed, we believe the \$3.2 million and \$1.7 million figures are likely understated given that only 14 states provided unclaimed federal asset information in their responses to our survey. We also did not survey cities and counties that likely held federal assets, as previously discussed. The OIG simply reported the federal asset amounts provided by the noted states and attaches no level of precision to the cited amounts. We believe that our recommendations below collectively serve to better ensure Treasury the desired level of precision in both identifying and recovering state-held federal assets as suggested by the Deputy CFO's comments.

Although only 14 state survey respondents provided unclaimed federal asset information, the surveys generated much awareness concerning Treasury's efforts to recover assets on behalf of federal agencies. In response to our survey, some states forwarded federal claim information directly to Treasury's AIC. Similarly, during the audit, we referred to AIC specific asset account information that we identified for \$2.9 of the \$3.2 million in outstanding federal assets. We forwarded an

additional 1,568 federal asset accounts we identified from two state websites. These two websites did not provide dollar amounts for these assets.

Based on the unclaimed federal assets we provided to AIC and its own increased recovery efforts, the amount of unclaimed federal assets AIC collected in one year surpassed the amount FMS collected in eight years. Since inheriting the recovery pilot program in June 2001, the Treasury's AIC has collected \$3.2 million for federal agencies as of June 2002. AIC is in the process of contacting and researching federal assets in the remaining states. AIC is locating the unclaimed federal assets with the states' assistance or by searching the unclaimed property websites. AIC's goal is to contact all 50 states by the conclusion of its pilot program in June 2003.

We see several benefits to AIC's plans to centralize federal recovery efforts. Centralization should reduce the burden on states having to deal with each federal agency individually, and would also likely reduce the Federal government's overall cost of identifying and recovering unclaimed assets. Furthermore, having one central federal contact for unclaimed assets should also help make the communication between the Federal government and States more effective and efficient. The states will know where to send all federal claim information once AIC informs the states that it will recover assets on behalf of federal agencies. Given the many challenges to identifying unclaimed assets, AIC must rely on states for assistance. Therefore, developing a positive rapport and consistent contact with states are essential to the recovery of all federal assets.

Internal Controls For Unclaimed Assets

To determine if there were sufficient controls to detect fraudulent claims and prevent unauthorized payment of claims, we observed the unclaimed property operations of California, Nevada, and Texas and interviewed their internal audit division personnel. In general, the three states performed reviews of

their internal operations. The reviews included areas that were either directly or indirectly related to unclaimed assets. Nevada and Texas provided audit reports for our review. Our fieldwork and survey also indicated that 31 states audited holders of their unclaimed assets.

Based on our limited review of the area, we could not determine whether the states' internal review processes provided sufficient assurance that unclaimed assets belonging to federal agencies were adequately protected against fraud or abuse. Moreover, FMS and AIC did not appear to include assessing state internal controls as a part of their recovery efforts.

Recommendations

In the finding section we noted several concerns in asset recovery efforts, identifying and recovering unclaimed federal assets, and internal controls. Accordingly, we recommend the following:

1. To enhance federal and state recovery efforts and to eliminate the duplication of recovery costs incurred by agencies, establish agreements with federal agencies to centralize recovery responsibilities within Treasury.

Management Comments

Because of the pilot program, any formal decision on these matters would be premature. In addition, current regulations already provide for Treasury being the "collector of last resort," and FMS attorneys have advised AIC that written agreements are not warranted. AIC agrees that it will issue another communication to all agencies advising them of its current role by July 31, 2002.

OIG Comments

We believe AIC's planned management action will address the recommendation. Given that AIC is notifying agencies that it will become the "central recoverer" of unclaimed federal assets, recovery efforts should be enhanced and duplication of efforts should be eliminated without formalized agreements.

2. Inform states that Treasury will be the central liaison and recoverer for federal agencies; and provide states with the federal point of contact for unclaimed assets.

Management Comments

Again, formal actions in this regard would be premature due to the pilot program. However, 20 states have paid federal claims already and AIC is in various stages of working with another 20 states, plus the District of Columbia. Thus, 41 entities are aware of AIC's program responsibilities, and AIC will be contacting the remaining entities in due course as resources allow. AIC does not believe actions beyond this are necessary between now and the end of the pilot in June 2003.

OIG Comments

We believe AIC's planned management action will address the recommendation.

-
3. Perform a cost analysis to determine under which circumstances would it be more economical to administer asset recovery duties in-house versus contracting with finders.

Management Comments

The Deputy CFO did not believe that contracting finders would be cost beneficial. After discussions with procurement officials, the Deputy CFO believes that the procurement process would be too time-consuming, taking away time currently spent on recovering federal assets. Additionally, some states do not allow finders to claim assets. Thus, AIC would still need to perform the same claim procedures for the assets identified by the finders. Moreover, finders would not be useful in cases where states refuse to deal with finders or exclude federal assets from state websites. Furthermore, AIC currently deposits all recovered funds into the Treasury General Fund. This amount could be reduced by 10 to 50 percent, after paying the service fees suggested by finders who previously approached AIC.

OIG Comments

The Deputy CFO's response reflects steps already taken that constitute a preliminary cost analysis, albeit unsystematic, in addressing this recommendation. We hope that the AIC will further assess this recommendation with a more precise analysis at the end of the pilot in June 2003. Additionally, in light of the Deputy CFO's comments regarding its anticipated resource constraints, AIC should give further consideration to the added flexibility of using finders, as that would reduce the burden on resources. Both the DCIA and TFM guidance authorize the use of finders. Furthermore, the OIG believes that contracting to finders might also provide further flexibility in meeting the President's initiative to put

more federal jobs up for competition with private firms. The OMB has already directed agencies to put 15 percent of their jobs up for possible outsourcing by the end of fiscal year 2003.

4. To lessen the cost disincentives for states to assist in the asset identification process, assess the feasibility and circumstances of providing financial assistance to states for assisting in the recovery of unclaimed federal assets. Consideration could be given to expanding the TFM guidance on reimbursing finders to include states, netting recovered assets to either fully or partially offset states' costs, and or other possible joint working arrangements similar to other Federal programs such as the Cash Management Improvement Act.

Management Comments

The Deputy CFO believes that implementing this recommendation could lead to a significant reduction in cooperation from the states, as well as in the amount of funds deposited into the Treasury General Fund. With the exception of two states, AIC has been successful in recovering federal assets from states without paying financial incentives thus far.

Additionally, the Deputy CFO does not believe there is justification to pay incentives to some states, and not to others. Once states learn that the Federal government may offset their recovery expenses, states may become less inclined to voluntarily return the federal assets without financial compensation. Since most states have been cooperative thus far without requiring financial reimbursement, the Deputy CFO believes that paying incentives to the states is unnecessary and does not intend to take action on this recommendation.

OIG Comments

The OIG believes the Deputy CFO's response does not adequately address either the reported condition or associated recommendation. However, given AIC's planned program assessment at the end of the pilot in June 2003, the OIG is not proceeding with the audit resolution process through the Deputy Secretary as provided under TD 40-01, Part III, 2.d. and OMB Circular A-50.

We are hopeful that when final program decisions are made, that appropriate consideration will be given to the several factors that collectively inhibit states' willingness or ability to identify or assist in recovering federal assets. As we reported, 14 state survey respondents cited limited asset research capabilities or insufficient resources to provide timely assistance. The Deputy CFO also pointed out in response to the draft report that AIC has already experienced this with some states. The State of Ohio charged a five percent administrative fee and the State of Kentucky charged \$1 per asset. Finally, as we previously discussed, comparable arrangements between Treasury and states currently exist as provided under the Cash Management Improvement Act.

5. To lessen the time-consuming asset identification process of searching state websites, periodically coordinate with federal agencies to determine the list of agency names, including all the possible name variations. Once determined, provide the current listings of agency names to states. Using the agency listings should reduce the time and resources spent on identifying assets, while capturing a larger percentage of the outstanding federal assets. A starting point for working with the agencies and the states could be the 1,975 variations we provided to AIC during the audit.

Management Comments

AIC has already expanded its list of agency names based on the asset information referred by the OIG. In addition to using the expanded listing to search for federal assets on state websites, AIC also shares the agency listing with states when requesting their assistance in identifying federal assets. On the other hand, the Deputy CFO believes that there is a point of diminishing returns relative to the number of name variations used for researching federal assets.

OIG Comments

We believe the Deputy CFO's comments are partially responsive to the recommendation. The response to the draft report did not address how AIC plans to coordinate with federal agencies to update the list of agency names as new variations arise. Our audit found at least 1,975 different name variations represented 45 federal agency owners. With such a wide variety of agency names, federal asset researchers would have a better chance of capturing a larger percentage of the outstanding assets by collaborating with the different federal agencies as to their possible name variations.

Regarding the diminishing returns relative to the number of name variations used for researching federal assets, the OIG believes that the diminishing point for unclaimed assets remains unknown at this time. Moreover, the OIG believes that as the list of federal name variations expands, the marginal costs in terms of money and time to update the list will diminish, as will the number of new name variations.

In light of AIC's planned completion of the pilot program in June 2003, we are not proceeding with the audit resolution process provided under TD 40-01. Also under this Directive, the OIG will periodically follow up on report

recommendations to ensure that final corrective actions have been completed and are effective.

6. To identify and recover federal assets not listed on websites, coordinate with states to develop a systematic approach for identifying and recovering non-listed assets.

Management Comments

AIC concurred and has already implemented procedures to alleviate the difficulty of identifying and recovering federal assets not listed on state websites. AIC indicated that states will research their database on Treasury's behalf and send the claim information for the federal assets they identify.

OIG Comments

We believe AIC's current management action addresses the recommendation, if properly implemented.

7. To eliminate the requirement of federal agency owners claiming their own assets and filing a claim form for each asset, coordinate with states to reevaluate what could be done to lessen the obstacles of claiming the federal assets.

Management Comments

AIC concurred and has already implemented procedures to circumvent the different asset claim protocols required by the individual states.

OIG Comments

We believe AIC's current management action addresses the recommendation, if properly implemented.

-
8. To better ensure the recovery of new unclaimed federal assets, periodically search for federal assets based on the presence of federal organizations within each state, city or county government.

Management Comments

AIC concurred and plans to explore federal assets at other potential sources after its pilot program ends in June 2003. These secondary sources include city and county organizations, as well as State and Federal court systems. Because AIC believes that most states would unlikely obtain substantial amounts of federal assets on an annual basis, AIC intends to search these states for federal assets every other year. Similarly, AIC plans to research federal assets at the secondary resources during the “off” years, including researching those states that previously held large amounts of unclaimed federal assets.

OIG Comments

We believe AIC’s planned management action will address the recommendation, if properly implemented.

9. To mitigate the risk of fraudulent claims of federal assets, establish procedures to review internal controls regarding unclaimed federal assets held by states, cities, and counties.

Management Comments

The Deputy CFO did not believe it would be appropriate to address weak state internal controls. It cited resource constraints to assess states’ control environments and the lack of authority to compel states to improve their controls. Rather than assessing the control environment, the Deputy CFO suggested that the best control against fraudulent claims was to reduce the level of federal assets under states’

control by increasing the recovery of state-held federal assets.

OIG Comments

The Deputy CFO's response does not adequately address the reported condition or recommendation. This appears to be due in part, to a misunderstanding of the recommendation, and yet the OIG's subsequent attempts to clarify the recommendation were declined.

The recommendation does not direct the AIC to compel states to improve their internal controls. Instead, the recommendation aims to alert the AIC of the risk that states may not have adequate internal controls against fraudulent claims of federal assets while under their custody. In light of the difficulties in precisely identifying the amount of state-held federal assets, which could amount in the millions, the recommended risk assessment is not only prudent but also consistent with the purview of the CFO's office.⁷

We agree the AIC would not have the authority to compel states to improve any controls that might be lacking. However, it would be an abdication of the AIC's responsibility not to take sufficient measures to ensure against fraud and abuse of federal assets. Because the specific measures would undoubtedly vary across states, the appropriate starting point would be a risk assessment of the internal control environment of those states holding federal assets.

Given that final program decisions are deferred until the end of the pilot program in June 2003, we are not proceeding with the audit resolution process under TD 40-01. Again,

⁷ One of the program groups under the CFO is the Management Control Program, whose mission includes strengthening management controls and providing Departmental and Bureau management with timely and useful information concerning critical control issues.

the OIG reserves the right to follow up on this recommendation at a future time.

* * * * *

We would like to extend our appreciation to the AIC; the Unclaimed Property offices of the States of California, Nevada, and Texas; and all the survey respondents for their cooperation and courtesies extended to our staff during the review. If you have any questions, please contact me at (415) 977-8810, extension 222. Major contributors to the report are listed in Appendix 9.

Benny W. Lee /S/
Regional Inspector General for Audit

Appendix 1

Objectives, Scope, and Methodology

The overall objective of our audit was to determine whether Treasury was recovering unclaimed federal assets effectively. Specifically, we:

- assessed whether current unclaimed asset laws, regulations, and guidelines were adequate for federal agencies to effectively and efficiently identify and recover unclaimed assets;
- assessed the effectiveness of Treasury's asset recovery efforts;
- assessed the types and amounts of unclaimed federal assets in the nation; and
- determined if there were sufficient controls to detect fraudulent claims and prevent unauthorized payment of claims.

To achieve these objectives, we reviewed applicable asset recovery laws, regulations, and guidelines. We also evaluated Treasury's past and present unclaimed asset recovery procedures and efforts.

During the audit, we identified 45 federal agency owners of unclaimed federal assets. To obtain knowledge of their asset recovery efforts, we judgmentally selected and surveyed 26 of the 45 federal and quasi-governmental agency owners. We considered these 26 agencies to be large in size and decentralized, thus would be more likely to own unclaimed assets.

To determine the amounts and types of unclaimed federal assets nationwide as of 2001 and the identification and claim procedures for the assets, we performed fieldwork at three states and surveyed the remaining 47 states and the District of Columbia, 51 locations in all. We selected our fieldwork sites based on the amount of federal assets we found during our initial website search. We chose two states (California and Texas) with large amounts of federal assets and one state

Appendix 1

Objectives, Scope, and Methodology

(Nevada) with a small amount of federal assets. Our unclaimed property website search consisted of five states, (California, Florida, Nevada, New York, and Texas). We judgmentally selected four states with large populations and one state with a small population.

To determine if there were sufficient controls to detect fraudulent claims and prevent unauthorized payment of claims, we observed the unclaimed property operations of California, Nevada, and Texas and interviewed their internal audit division personnel.

We conducted our audit between April 2001 and January 2002 in accordance with generally accepted government auditing standards.

Appendix 2

List of Federal Agencies We Surveyed

Federal Agency Surveyed		Responded to Survey
1	Department of Agriculture	No
2	Department of Commerce	Yes
3	Department of Defense	Yes
4	Department of Education	Yes
5	Department of Energy	Yes
6	Environmental Protection Agency	Yes
7	Federal Communications Commission	Yes
8	Federal Deposit Insurance Corporation	Yes
9	Federal Emergency Management Agency	No
10	Federal Reserve Board	No
11	Federal Trade Commission	Yes
12	Government National Mortgage Association	Yes
13	Government Printing Office	Yes
14	General Services Administration	Yes
15	Department of Health & Human Services	Yes
16	Department of Housing & Urban Development	Yes
17	Department of Interior	Yes
18	Department of Justice	Yes
19	Office of Personnel Management	Yes
20	United States Postal Service	No
21	Small Business Administration	Yes
22	Securities & Exchange Commission	Yes
23	Social Security Administration	Yes
24	Department of State	Yes
25	Department of Transportation	Yes
26	Department of Veterans Affairs	Yes
Total Survey Respondents		22

Source: Based on federal agency survey results.

Appendix 3

Unclaimed Asset Questionnaire for Federal and Quasi-Government Agencies

We surveyed 26 federal agencies, of which 22 responded to our survey. See Appendix 2 for more details. Some agencies did not provide responses to every question. Our survey results are listed below.

1. Who is your agency's contact person for recovering unclaimed assets?

Name _____ Title _____ Phone _____

Address _____ Fax _____

2. Is your agency aware of the Department of Treasury, Financial Manual, I TFM 6-5100, which provides federal agencies guidance on implementing procedures to identify, recover, and account for its unclaimed assets?

Responses

a.	Yes	20
b.	No	2

Identifying Unclaimed Assets

3. Has your agency attempted to identify its unclaimed assets at the states?

Responses

a.	Yes	13
b.	No (skip to #8)	9

Appendix 3

Unclaimed Asset Questionnaire for Federal and Quasi-Government Agencies

4. List the states from which your agency has attempted to identify unclaimed assets.

Federal Agency	No. of Locations*
Dept. of Defense	8
Dept. of Energy	50
Federal Communications Commission	51
Federal Deposit Insurance Corporation	49
Government Printing Office	All states with websites
Dept. of Health & Human Services	5
Dept of Interior	50
Dept. of Justice	12
Small Business Administration	50
Social Security Administration	54
Dept. of Transportation	50
Dept. of Veterans Affairs	4

* Locations can include all 50 states, District of Columbia, Guam, Puerto Rico, or Virgin Islands.

5. How did your agency attempt to identify its unclaimed assets at the states? (check all that applies)

	Responses
a. Searched the states' unclaimed asset websites	11
b. Requested assistance directly from the states	10
c. Reviewed state publications or announcements	2
d. Used private finders	2
e. Other:	4
• Used external unclaimed property websites.	
• Used state unclaimed property databases.	
• Were notified by states or private finders.	

6. How often does your agency attempt to identify its unclaimed assets at the states?

	Responses
a. More than once a year	4
b. Once a year	2
c. Once every two or more years	1
d. No established timeframe	5

Appendix 3

Unclaimed Asset Questionnaire for Federal and Quasi-Government Agencies

- 7. How many staff days per year does your agency devote to identifying unclaimed assets at the states? (check one)**

Responses		
a.	1-10 days	6
b.	11-20 days	4
c.	21 days or more	2

Skip to question #9.

- 8. Why haven't your agency attempted to identify its unclaimed assets at the states? (check all that applies)**

Responses		
a.	Unaware of federal requirements to recover unclaimed assets	2
b.	No agency procedures for identifying or recovering unclaimed assets	4
c.	No agency resources available to recover unclaimed assets	2
d.	Perception that the amount of unclaimed assets belonging to your agency is insignificant	7
e.	Other:	2
	• Assets found generally do not belong to agency.	
	• Assets belong to a grant program.	

- 9. Has your agency contracted with or plan to contract with private finders to identify unclaimed assets held by states?**

Responses		
a.	Yes	3
b.	No (skip to #11)	18

Appendix 3
Unclaimed Asset Questionnaire for Federal and
Quasi-Government Agencies

10. Has your agency established Department of Treasury procedures before entering into contracts with private finders?

Responses

a.	Yes	1
b.	No	2

11. Has your agency requested assistance from Department of Treasury, Financial Management Service (FMS) or Departmental Office (DO) to help identify unclaimed assets?

Responses

a.	Yes	2
b.	No (skip to #13)	19

12. When was your agency's most recent correspondence with FMS or DO regarding recovery of unclaimed assets?

Responses

a.	Within 1 year ago	2
b.	1–2 years ago	1
c.	Over 2 years ago	1

13. Does your agency prefer to identify its own unclaimed assets from the states or would your agency prefer assistance from the Department of Treasury?

Responses

a.	Identify own assets	9
b.	Assistance from Treasury	12

Appendix 3
Unclaimed Asset Questionnaire for Federal and
Quasi-Government Agencies

14. Explain the reasoning for your response in #13?

Identify Own Assets

- Agencies can use state unclaimed property websites to identify assets.
- Agencies have already developed recovery procedures and designated resources to this effort.
- Assets found generally do not belong to agency.
- Treasury's fee would exceed the value of the assets recovered.
- It is not a major effort to recover assets.

Assistance from Treasury

- There are no cost-benefits for agencies to recover their own assets.
- Treasury should recovery assets on behalf of federal agencies.
- Agencies do not have incentive to recover assets since they do not retain the recovered funds.
- Agencies have not developed procedures to recover assets.
- Agencies believe the amounts of unclaimed assets are insignificant.

Recovering Unclaimed Assets

15. Has your agency recovered unclaimed assets from any state within the past five years?

Responses		
a.	Yes	9
b.	No (skip to #20)	13

Appendix 3

Unclaimed Asset Questionnaire for Federal and Quasi-Government Agencies

16. List the states from which your agency recovered unclaimed assets since 1990.

Federal Agency	No. of Locations*
Dept. of Commerce	1
Dept. of Defense	1
Dept. of Energy	3
Federal Communications Commission	18
Federal Deposit Insurance Corporation	49
Government Printing Office	22
Dept. of Health & Human Services	3
Dept. of Interior	9
Social Security Administration	19
Dept. of Transportation	11

* Locations can include all 50 states or the District of Columbia.

17. What was the dollar amount recovered from the states listed in #16?

	Federal Agency	Funds Recovered*
	Appropriated Agency:	
1	Department of Commerce	\$1,300
2	Department of Defense	\$18,247
3	Department of Energy	\$500
4	Federal Communications Commission	\$13,369
5	Government Printing Office	\$19,984
6	Department of Health & Human Services	\$2,286
7	Department of Interior	\$50,000
8	Social Security Administration	\$50,028
9	Department of Transportation	\$33,823
	SUBTOTAL	\$189,537
	Non-Appropriated Agency:	
10	Federal Deposit Insurance Corporation	\$5,421,625
	TOTAL	\$5,611,162

Appendix 3
Unclaimed Asset Questionnaire for Federal and
Quasi-Government Agencies

18. How many staff days per year does your agency spend processing unclaimed assets at the states? (check one)

Responses		
a.	1-10 days	6
b.	11-20 days	2
c.	21 days or more	2

19. Was the asset recovery process from the states labor intensive?

Responses		
a.	Yes	3
b.	No	7

20. Does your agency prefer to recover its own unclaimed assets from the states or would your agency prefer assistance from the Department of Treasury?

Responses		
a.	Recover own assets	11
b.	Assistance from Treasury	10

21. Explain the reasoning for your response in #20?

Recover Own Assets

- Agencies have already developed recovery procedures and designated resources to this effort.
- Assets found generally do not belong to agency.
- It is not a major effort to recover assets; there are few assets to identify.

Assistance from Treasury

- There are no cost-benefits for agencies to recover their own assets.
- Treasury should recovery assets on behalf of federal agencies.
- Agencies do not have incentive to recover assets since they do not retain the recovered funds.
- Agencies have not developed procedures to recover assets.
- Agencies believe the amounts of unclaimed assets are insignificant.

Appendix 3

Unclaimed Asset Questionnaire for Federal and Quasi-Government Agencies

Accounting for Recovered Assets

22. Has your agency established a system to track the recovered assets?

Responses		
a.	Yes	11
b.	No	11

23. (For quasi government agencies only) What is your agency's policy and regulation in regards to depositing recovered funds?

- Deposit recovered funds into an appropriate insurance fund.
- Agency maintains funds until claimed.

24. Where did your agency deposit the recovered funds?

Responses		
a.	Agency's 1060 account, "Forfeitures of Unclaimed Money and Property"	2
b.	Agency's General Fund	1
c.	Agency's suspense/clearing accounts	1
d.	Other:	7
	• Miscellaneous receipt fund	
	• Insurance fund	
	• Revolving fund	
	• Trust fund	

25. Has your agency refunded unclaimed asset funds received in error?

Responses		
a.	Yes	3
b.	No	12

Appendix 3

Unclaimed Asset Questionnaire for Federal and Quasi-Government Agencies

General Asset Recovery Efforts

26. How can Department of Treasury improve the current recovery process of unclaimed assets?

- Centralize asset recovery responsibilities to Treasury.
- Because claim procedures are mainly designed for private citizens, Treasury could advocate states to establish claim procedures for federal agencies; devise a standard claim form valid for all 50 states.
- Link state unclaimed property information to Treasury's website for agency use only.
- Treasury should intervene when states require indemnity bonds; states refuse to refund due to an administrative change in address; states lack resources to process claim timely; or states question the agency's ownership of assets.
- Treasury should sponsor unclaimed asset recovery workshops and inform agencies regarding available asset recovery services.
- Treasury should contact agencies with proposals for cross-servicing in this area.

Appendix 4

List of States or District We Reviewed or Surveyed

State or District Surveyed		Responded to Survey	State or District Surveyed		Responded to Survey
1	Alabama	No	27	Nebraska	Yes
2	Alaska	No	28	Nevada*	Yes
3	Arizona	Yes	29	New Hampshire	Yes
4	Arkansas	Yes	30	New Jersey	Yes
5	California*	Yes	31	New Mexico	No
6	Colorado	No	32	New York	Yes
7	Connecticut	Yes	33	North Carolina	Yes
8	Delaware*	No	34	North Dakota	No
9	Florida	Yes	35	Ohio	Yes
10	Georgia	Yes	36	Oklahoma	Yes
11	Hawaii	Yes	37	Oregon	Yes
12	Idaho	Yes	38	Pennsylvania	No
13	Illinois	Yes	39	Rhode Island	Yes
14	Indiana	No	40	South Carolina	Yes
15	Iowa	Yes	41	South Dakota	Yes
16	Kansas	Yes	42	Tennessee	Yes
17	Kentucky	Yes	43	Texas*	Yes
18	Louisiana	No	44	Utah	No
19	Maine	Yes	45	Vermont	Yes
20	Maryland	Yes	46	Virginia	Yes
21	Massachusetts	Yes	47	Washington	Yes
22	Michigan	Yes	48	Washington D.C.	Yes
23	Minnesota	Yes	49	West Virginia	No
24	Mississippi	Yes	50	Wisconsin	Yes
25	Missouri	No	51	Wyoming	Yes
26	Montana	Yes			
Respondents		19	Respondents		20
Total Survey Respondents 39					

Source: Based on state survey results.

* OIG obtained information through fieldwork.

Appendix 5

Unclaimed Property Questionnaire for States

Thirty-nine of the 50 states and the District of Columbia responded to our survey. See Appendix 4 for a detailed listing. Some survey participants did not provide responses to every question. Our survey results are listed below.

1. Who should federal agencies contact regarding future claims?

Name _____ Title _____ Phone _____

Address _____ Fax _____

Access to Unclaimed Property Records

2. How can federal agencies identify unclaimed properties held by your State? (check all that applies.)

		Responses
a.	Website	36
b.	CD ROM/software	7
c.	Microfiche/microfilm	4
d.	Publications	13
e.	Other:	37
	• Request assistance in writing or via telephone; provide states with listings of agency names	
	• Use external unclaimed property websites	
	• Use state unclaimed property software	
	• Private finders are available	
	• Contact each county's Treasury department	

Appendix 5

Unclaimed Property Questionnaire for States

- 3. If your State has a website for unclaimed properties, does it include federal government properties?**

Responses		
a.	Yes	31
b.	No (skip to #5)	6
	• California	
	• Connecticut	
	• Delaware	
	• Illinois	
	• Iowa	
	• Texas	

- 4. The earliest unclaimed property captured on the website is dated: (check one)**

Responses		
a.	Prior to 1970	14
b.	1970 – 1979	6
c.	1980 – 1989	8
d.	1990 – 1999	6
d.	2000 – present	1

Skip to #6.

- 5. What other means can federal agencies use to locate their unclaimed properties?**

See responses given for #2e on previous page.

- 6. How does your State maintain unclaimed property records not captured on the website? (check all that applies)**

Responses		
a.	Microfiche/microfilm	9
b.	Index cards	3
c.	Other:	22
	• Internal state database	
	• Hardcopy files	

Appendix 5

Unclaimed Property Questionnaire for States

7. Would city and county governments in your State also be custodians of federal unclaimed assets?

Responses

a.	Yes	6
b.	No (skip to #9)	19

8. Explain the circumstance under which that would occur.

- Unnegotiated checks issued by the city or county governments.
- County Treasury reported unclaimed funds to state, but retained funds to pay claims to owners.
- Improper reporting of federal assets.
- Federal agencies may claim assets if owners do not claim property after 18 months.
- Funds belong to federal grant programs.

Unclaimed Property Database

9. What is the total dollar amount of unclaimed properties held by your State?

32 states reported unclaimed assets of over \$13.8 billion as of 2001, with asset amounts ranging from \$11 million to \$5 billion.

10. Of the total dollar amount in #9, can your database identify the amount of federal unclaimed properties?

Responses

a.	Yes	16
b.	No (skip to #12)	17

Appendix 5

Unclaimed Property Questionnaire for States

11. Based on the attached list of federal agencies, what is the total dollar amount for these agencies?

	State	Amount of Unclaimed Assets
1	California	\$1,217,644
2	Maine	33,000
3	Maryland	127,117
4	Michigan	112,048
5	Nebraska	6,000
6	Nevada	47,279
7	New Jersey	64,857
8	Ohio	146,435
9	Rhode Island	1,234
10	South Carolina	77,703
11	South Dakota	3,242
12	Texas	1,329,023
13	Vermont	16,282
14	Wyoming	1,500
TOTAL		\$3,183,364

12. How many property accounts are maintained in your State's unclaimed property database?

29 states reported unclaimed asset accounts of over 49.7 million, with the number of accounts ranging from 49,000 to 18 million.

13. Of the number of accounts in #12, can your database identify the number of unclaimed federal properties?

	Responses
a. Yes	13
b. No (skip to #15)	17

Appendix 5

Unclaimed Property Questionnaire for States

14. Based on the attached list of federal agencies, how many accounts represent federal unclaimed properties?

State *	No. of Federal Asset Accounts
California	1666
Florida	895
Maine	70
Maryland	76
Mississippi	14
Nebraska	28
Nevada	83
New Jersey	45
New York	673
Ohio	193
South Carolina	144
South Dakota	14
Texas	1,976
Vermont	26
Wyoming	10
TOTAL	5,913

* States replying to this question may not have replied to question #11 and vice versa.

15. What was the total dollar amount of unclaimed properties reported to your State in year 2000?

28 states reported that they received unclaimed assets of over \$1.5 billion in 2000, with asset amounts ranging from \$2.3 million to \$370 million.

16. Since 1990, has the dollar amount of unclaimed property accounts reported to your State each year: (check one)

Responses		
a.	Increased	34
b.	Decreased	3
c.	Remained the same	1

Appendix 5

Unclaimed Property Questionnaire for States

17. How many unclaimed property accounts were reported to your State in year 2000?

25 states reported that they received unclaimed asset accounts of approximately \$2.7 million in 2000, with the number of accounts ranging from 1,329 to 400,000.

18. Since 1990, has the volume of unclaimed property accounts reported to your State each year: (check one)

Responses		
a.	Increased	35
b.	Decreased	2
c.	Remained the same	1

19. Does your State's unclaimed property database track each property's activities, beginning with the receipt of the property to when its claim was paid?

Responses		
a.	Yes	33
b.	No	0

Reporting

20. How are unclaimed property reported to your State? (check all that applies)

Responses		
a.	Hardcopy (paper) reports	37
b.	Reporting software, disks, magnetic tape	33
c.	Via internet	4
d.	Other	0

Appendix 5

Unclaimed Property Questionnaire for States

21. Does your State audit holders to ensure that they are reporting unclaimed properties as required?

Responses		
a.	Yes	31
b.	No (skip to #23)	4

22. How often are the holders audited? (check one)

Responses		
a.	More than once a year	0
b.	Once a year	2
c.	Once every 2 years	0
d.	Once every 3 or more years	19

Federal Agency Claims

23. Has your State paid claims to federal agencies?

Responses		
a.	Yes	32
b.	No (skip to #26)	1

Appendix 5

Unclaimed Property Questionnaire for States

24. Based on the attached list of federal agencies, list the federal agencies that your State has paid since 1990.

12 states paid the following federal agencies since 1990:

Federal Agency Paid*
Department of Agriculture
United States Courts
Department of Defense
Federal Communications Commission
Federal Deposit Insurance Corporation
Federal Emergency Management Agency
Government Printing Office
Department of Health & Human Services
Department of Housing & Urban Development
Department of Interior
Department of Justice
Department of Labor
United States Postal Service
Small Business Administration
Social Security Administration
Department of Transportation
Department of Treasury
Department of Veterans Affairs

* Federal agencies could be any unit within the department.

Appendix 5

Unclaimed Property Questionnaire for States

25. List the dollar amount paid to each federal agency listed in #24.

Of the 12 states, 6 paid federal agencies the following amounts:

Federal Agency Paid*	Amount Paid
Department of Agriculture	\$1,432
Department of Commerce	167
United States Courts	30
Department of Defense	318
Department of Education	43
Federal Communications Commission	135
Federal Deposit Insurance Corporation	65,000
Federal Emergency Management Agency	302
Government Printing Office	54
Department of Health & Human Services	390
Department of Housing & Urban Development	5,380
Department of Interior	2,144
Department of Justice	5,480
United States Postal Service	54,085
Small Business Administration	34
Social Security Administration	5,662
Department of Transportation	250
Department of Treasury	142,619
Department of Veterans Affairs	5,454
TOTAL	\$288,980

* Federal agencies could be any unit within the department.

Appendix 5

Unclaimed Property Questionnaire for States

26. Can your State's unclaimed property database track the status of claims?

Responses		
a.	Yes	35
b.	No (skip to #29)	2

27. Can the unclaimed property database identify the claimants for each claim?

Responses		
a.	Yes	35
b.	No (skip to #29)	1

28. Based on the attached list of federal agencies, what is the dollar amount of outstanding claims made by federal agencies?

At least 7 federal agencies have \$300,000 in outstanding claims in 7 states. The federal agencies could be any unit within the department.

29. Based on the attached list of federal agencies, list the agencies that file claims on a regular basis, such as annually, with your state.

Among the 7 states that responded, they indicated that 7 federal agencies file claims on a regular basis. The federal agencies could be any unit within the department.

30. What types of support documentation does your State require federal agencies to provide when submitting claims? (check all that applies)

Responses		
a.	Proof of ownership	24
b.	Certified indemnity agreement	13
c.	Proof of authority to claim property on behalf of federal agencies	33
d.	Other:	6
	• Federal employee identification.	
	• Same required forms for all claimants.	
	• Depends on asset value and type of asset.	

Appendix 5
Unclaimed Property Questionnaire for States

31. If a property has multiple owners, are all owners required to file a claim before your State pays the claim?

Responses		
a.	Yes (skip to #33)	17
b.	No	13

32. Will your State pay claims made by partial owners of properties belonging to multiple owners?

Responses		
a.	Yes	20
b.	No	5

33. Does your State pay interest on claims?

Responses		
a.	Yes	14
b.	No	22

34. Does your State assess a service charge for processing claims?

Responses		
a.	Yes	2
b.	No	35

35. Can federal agencies submit one claim form to claim multiple properties?

Responses		
a.	Yes	17
b.	No (skip to #37)	19

Appendix 5

Unclaimed Property Questionnaire for States

36. Can federal agencies submit one claim form to claim properties for multiple agencies?

Responses		
a.	Yes	10
b.	No	20

37. Is there a deadline by which claims must be filed?

Responses		
a.	Yes	0
b.	No (skip to #39)	37

38. What is the filing period for federal unclaimed properties?

Not applicable.

Correspondence with Federal Agencies

39. Does your State allow the U.S. Department of Treasury to claim properties belonging to other federal agencies?

Responses		
a.	Yes	19
b.	No	11

40. Has the U.S. Department of Treasury, Financial Management Services (FMS) or Departmental Office (DO) requested assistance from your State, to help identify federal unclaimed properties?

Responses		
a.	Yes	10
b.	No (skip to #42)	18

Appendix 5

Unclaimed Property Questionnaire for States

41. When did your office last correspond with FMS or DO? (check one)

Responses		
a.	Less than 1 year ago	5
b.	1–2 years ago	3
c.	2-3 years ago	0
d.	More than 3 years ago	2

42. If federal agencies provided your office with a list of owner names, would your State help agencies identify federal properties?

Responses		
a.	Yes	33
b.	No	3

43. What can federal agencies do to encourage cooperation from your State with regards to identifying federal properties?

- Provide federal unclaimed asset contact information and listings of agency names.
- Avoid requesting assistance during states' busy season, generally during October and November.
- States may charge a fee to offset asset identification costs.
- Remit federally held unclaimed assets to states.
- Periodically request federal asset search.
- Use state unclaimed property websites to search federal assets on your own.
- Provide proof of authorization to claim federal assets.
- Allow states to redeem outstanding Treasury checks and bonds.
- Be patient.

Appendix 5

Unclaimed Property Questionnaire for States

Outreach Efforts

44. Is your State required to notify owners of unclaimed properties?

Responses		
a.	Yes	23
b.	No	12

45. Does your State notify federal agencies of their unclaimed properties?

Responses		
a.	Yes	21
b.	No (skip #46 and #47)	12

46. How do you notify the federal agencies? (check all that applies)

Responses		
a.	Send notices to individual owners' last known address	10
b.	Send notices to individual owners after researching their most current address	3
c.	Publications, newspapers, newsletters, public announcements, etc.	20
d.	Other:	10
	• Respond to agencies' asset search requests.	
	• Research asset owner's most current address.	
	• Notify owners of new unclaimed assets received.	
	• Post unclaimed asset information on state websites.	
	• Send claim forms to agencies.	
	• Notify via phone, State fairs, or town clerk.	

47. How often does your State notify federal agencies of their unclaimed properties? (check one)

Responses		
a.	Less than once a year	0
b.	Once a year	17
b.	More than once a year	3

Appendix 6

Owners of Unclaimed Federal Assets

	Federal Department Owners ⁸	California	Maryland	Nevada	New Jersey	South Carolina	Texas	Total Per Dept.
1	Department of Agriculture*	\$11,683		\$3,434		\$21,026	\$22,400	\$58,543
2	AMTRAK	\$790						\$790
3	Department of Commerce*	\$3,742		\$1,200			\$5,026	\$9,968
4	United States Congress					\$97		\$97
5	Consumer Product Safety Commission	\$119						\$119
6	United States Courts	\$11,021					\$83,120	\$94,141
7	Department of Defense*	\$130,172	\$728	\$1,832		\$3,674	\$27,610	\$164,016
8	Department of Education*	\$2,313					\$32,542	\$34,855
9	Department of Energy*	\$2,293		\$1,336			\$382	\$4,011
10	Environmental Protection Agency*	\$260		\$227	\$6,952	\$898		\$8,337
11	Federal Communications Commission*	\$3,790	\$180		\$1,135	\$165	\$403	\$5,673
12	Federal Deposit Insurance Corporation*	\$138,972	\$157	\$90			\$188,015	\$327,234
13	Fed. Emergency Management Agency*	\$350				\$855	\$981	\$2,186
14	Federal Home Loan Bank						\$660	\$660
15	Federal National Mortgage Association						\$19,843	\$19,843
16	Federal Reserve Board*	\$3,352		\$4,379			\$22,659	\$30,390
17	Federal Trade Commission*				\$45,000		\$45,060	\$90,060
18	General Accounting Office			\$59				\$59
19	General Printing Office*	\$467				\$2,730	\$147	\$3,344
20	General Services Administration*	\$7,755	\$15,230		\$4,601	\$146	\$14,623	\$42,355
21	Government National Mortgage Assn.*	\$115,425	\$5,163	\$307		\$531	\$5,498	\$126,924
22	Dept. of Health & Human Services*	\$11,820	\$39,214	\$390			\$168,520	\$219,944
23	Dept. of Housing & Urban Development*	\$29,495		\$1,965		\$606	\$61,205	\$93,271
24	Department of Interior*	\$20,695		\$250			\$6,302	\$27,247
25	Interstate Commerce Commission						\$850	\$850
26	Department of Justice*	\$33,161	\$871	\$717		\$432	\$53,366	\$88,547
27	Department of Labor	\$34,523		\$77		\$208	\$33,755	\$68,563
28	Library of Congress						\$577	\$577
29	National Aeronautics & Space Admin.						\$1,359	\$1,359
30	National Archives & Records Admin.						\$160	\$160
31	Office of Personnel Management*	\$1,602					\$1,762	\$3,364
32	Peace Corps	\$1,460						\$1,460
33	Pension Benefit Guaranty Corporation	\$482						\$482
34	United States Postal Service*	\$52,452		\$1,618	\$1,070	\$1,670	\$35,626	\$92,436
35	Railroad Retirement Board	\$90						\$90
36	Sallie Mae						\$912	\$912
37	Securities & Exchange Commission*	\$9,404	\$125		\$1,090		\$51,924	\$62,543
38	Small Business Administration*	\$4,230	\$3,196	\$1,498	\$462	\$14,980	\$8,013	\$32,379
39	Smithsonian Institution						\$1,213	\$1,213
40	Social Security Administration*	\$9,215	\$494		\$13		\$1,189	\$10,911
41	Department of State*	\$5,555				\$110	\$8,817	\$14,482
42	Department of Transportation*	\$77,981				\$168	\$5,477	\$83,626
43	Department of Treasury	\$423,777	\$61,759	\$19,383		\$28,390	\$296,987	\$830,296
44 ⁹	Department of Veterans Affairs *	\$69,198		\$8,517	\$4,534	\$1,017	\$122,040	\$205,306
	TOTAL	\$1,217,644	\$127,117	\$47,279	\$64,857	\$77,703	\$1,329,023	\$2,863,623

* We surveyed 26 of the 44 federal departments.

⁸ Federal department owners could include any unit within the department.

⁹ We identified assets belonging to one additional agency. However, we were unable to determine the dollar amount of the assets.

Appendix 7

Schedule of Potential Revenue Enhancements

The estimated potential revenue enhancement comprises of two components. One component relates to amount of outstanding unclaimed federal assets identified during the audit. The other is the estimated interest costs that Treasury could have potentially avoided, assuming the collected assets would have reduced Treasury's debt borrowings. The following potential revenue enhancement will be recorded in the Inventory, Tracking, and Closure system. This potential revenue enhancement will also be included in the OIG Semiannual Report to the Congress.

<u>Recommendation Number</u>	<u>Potential Revenue Enhancement Amount</u>
Recommendations 1-8	Unclaimed Assets Outstanding \$3,183,364
	Avoidable Interest Costs <u>\$1,720,911¹⁰</u>
	Total \$4,904,275

We computed the future value of each asset to determine the potential interest costs. We applied the following formulas to our computations:

$$1) \text{ FV} = \text{PV} \times (1 + \text{rate})^{\text{term}}, \text{ where}$$

PV = unclaimed asset dollar amount

rate = average interest rate of a Treasury 10-yr note. We computed the average rate based on the decade of when the assets were received through 2001. For example, we applied the average rate of 8.35% for all assets received in the 1980s. See below for the rates.

term = number of years the assets were held through 2001

<u>Decade When Assets Were Received</u>	<u>Average Interest Rate</u>
1970s	8.33%
1980s	8.35%
1990s	6.48%
2000s	5.53%

$$2) \text{ interest cost avoided} = \text{FV} - \text{PV}$$

¹⁰ This amount is the avoidable interest costs for \$2.8 of the \$3.2 million outstanding federal assets. We were not able to determine the receipt dates necessary to compute the interest costs for the remaining \$400,000 of unclaimed federal assets.

Appendix 7

Schedule of Potential Revenue Enhancements

It is AIC management's responsibility to record, in the Inventory, Tracking, and Closure system, the dollar amount of revenue enhancement associated with its final action on these recommendations.

Appendix 8 Management Comments



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

JUN 14 2002

MEMORANDUM FOR BENNY W. LEE
REGIONAL INSPECTOR GENERAL FOR AUDIT

FROM:

Steven O. App *Steven O. App*
Deputy Chief Financial Officer

SUBJECT:

Audit Report on Federal Efforts to Recover
Unclaimed State-Held Assets Face Many
Challenges and Obstacles

This responds to the subject draft audit report dated May 20, 2002. We appreciate the work performed by the audit team, as well as the "partnership" approach taken in working with my staff during the review. The information your team shared not only eliminated duplication of effort, but also led directly to the collection of Federal assets from a number of states.

Before responding to the recommendations offered in the draft, I believe it would be beneficial to share some background and perspective on my staff's involvement in the Unclaimed Assets program. As your report rightly points out, this program originated in the offices of the Fiscal Assistant Secretary in the early 1990s and was run by FMS through the late 1990s, when resources were shifted to higher priority issues associated with the debt collection program. During the time it administered the program, FMS more or less became the "collector of last resort" in that very few agencies actively sought to claim their own assets, due primarily to the lack of appropriations to cover recovery operations and the inability to retain recovered funds. Significantly, FMS operated in this capacity without formal agreements with any other agencies, primarily because FMS attorneys did not believe they were necessary.

In the Fall of 2000, FMS' shift of internal resources came to the Department's attention, and my staff sought to learn if we could absorb and carry out the responsibilities of the Unclaimed Assets program. In June 2001, we received delegated authority from the Fiscal Assistant Secretary to carry out a two-year pilot program, at the end of which a decision would be made on whether or not to terminate the authorization. The delegation of authority specifically did not preclude FMS from assuming control of the program in the future, nor did it prevent FMS from participating in the program over the course of the delegation. (I have attached a copy of the delegation documentation for your review.) As you may be aware, FMS provided a detailee to my offices during the first several months of our program administration, and we currently have a detailee from ATF supporting the program. These additional resources have made the first year of the pilot a successful one, in that we have recovered over \$3.2 million as of this writing. This compares favorably with the roughly \$2 million collected during the 1990s.

Going forward, the issue of available resources will have a major impact on our continued involvement in the program. We have had preliminary discussions with FMS on the possibility

Appendix 8 Management Comments

of it providing a rotating detailee position and/or a more permanent arrangement, and I expect this possibility will be decided one way or the other by the end of the pilot program in June 2003. Two additional factors impacting resources warrant mention. First, as a result of recent audit recommendations tied to our audit follow-up program, my staff has incurred additional responsibilities for which no additional resources can be provided. Specifically, we now have oversight responsibility for the regulatory audit functions at Customs (a 400-person operation) and ATF (a 100-person operation, when fully staffed). Although the eventual establishment of the Department of Homeland Security will impact our work with Customs, there will be additional work relative to ATF. Another new responsibility from the prior audit report is tied to reviewing and validating bureau actions associated with completed/closed audit reports. We are in the process of determining how we will meet both of these new responsibilities within our already tight staffing constraints. Secondly, Departmental Offices currently is in the beginning stages of a management-wide staffing justification exercise, one objective of which is to identify opportunities for reducing staffing throughout the organization. Although my staffing ultimately may remain the same, I believe staffing increases in the current environment are unlikely. Thus, there would appear to be a limit on any additional workload we can absorb, and we must be judicious in managing our responsibilities, with due consideration being given to risks and benefits. The possibility exists that if the successful execution of our primary responsibilities is threatened by our involvement with unclaimed assets, or if the execution of the unclaimed assets program becomes onerous, we will terminate the pilot and seek another office to assume the program responsibilities. At present, I believe we have achieved a delicate balance in which we are operating successfully in all areas.

I believe the range of responsible actions we have taken in establishing this program over the past year are also relevant to this discussion. In addition to advising all agencies of our involvement, we have maintained ongoing communications with the Department of Defense, one of the largest generators of unclaimed assets, in an effort to help establish front-end controls for reducing the volume of assets going to the States in the first place. Although we have not heard from every agency, those that have contacted us are supportive of our efforts. My staff has also documented procedures for our operations and established internal controls for reconciling monies received, as well as ensuring our records are sufficiently thorough to properly handle superior claims, should any be presented. Another measure of our effectiveness in running this program is that we were asked to speak at the annual convention of the National Association of State Treasurers in February of this year, where we furthered our already positive working relationships with several States.

As all of this pertains to the recommendations offered in the draft report, all may have merit in their own context and will be duly considered in conjunction with the conclusion of our pilot program. At this point in time, however, I offer the following comments:

Recommendation 1 – To enhance federal and state recovery efforts and to eliminate the duplication of recovery costs incurred by agencies, establish agreements with federal agencies to centralize recovery responsibilities within Treasury.

Appendix 8

Management Comments

Management Comment – Because of the pilot program, any formal decision on these matters would be premature. In addition, current regulations already provide for Treasury being the "collector of last resort", and FMS attorneys have advised us that written agreements are not warranted. We agree that we will issue another communication to all agencies advising them of our current role, and will do this by July 31, 2002.

Recommendation 2 – Inform states that Treasury will be the central liaison and recoverer for federal agencies and provide states with the federal point of contact for unclaimed assets.

Management Comment – Again, formal actions in this regard would be premature due to the pilot program. However, 20 states have paid our claims already and we are in various stages of working with another 20 states, plus the District of Columbia. Thus, 41 entities are aware of our program responsibilities, and we will be contacting the remaining entities in due course as resources allow. I do not believe actions beyond this are necessary between now and the end of the pilot.

Recommendation 3 – Perform a cost analysis to determine under which circumstances would it be more economical to administer asset recovery duties in-house versus contracting with finders.

Management Comment – The implementation of this recommendation could pose challenges from several perspectives. First, a number of States will not deal with finders and/or do not post Federal assets on their web sites, and finders could not be used in these instances. Second, finders cannot actually claim any assets, and my offices would have to perform much of the same work we are already doing in order to claim assets identified by finders. Third, our discussions with procurement offices has led us to believe that we would be required to spend considerable time dealing with procurement processes and issues at the expense of time we currently spend claiming and collecting assets. Fourth, all monies currently collected are deposited into the Government's general account, while fees suggested by finders who have contacted us range from 10% to 50% of the amounts identified. Finally, we do not believe that conducting further analyses is a responsible use of our resources at this time, especially when we are achieving a fair degree of success with our current approach.

Recommendation 4 – To lessen the cost disincentives for states to assist in the asset identification process, assess the feasibility of providing financial assistance to states for assisting in the recovery of unclaimed federal assets. Consideration could be given to expanding the TFM guidance on reimbursing finders to include states, netting recovered assets to either fully or partially offset state costs, and or other possible joint working arrangements similar to other federal programs such as the Cash Management Improvement Act.

Management Comment – My staff has encountered nothing to suggest that the states require or expect any financial incentives to fulfill their responsibilities. An exception to this is Ohio, which charges a 5% administrative fee on all claims. By contrast, most states have demonstrated dedication and pride in returning assets to their rightful owners, including assets belonging to the Federal government. My staff similarly takes pride not only in collecting assets on behalf of the Federal government, but also in depositing 100% of receipts into the general fund. To go out of

Appendix 8

Management Comments

our way to reduce the benefit to the American public when such payments to States do not appear necessary to achieve success, goes against what we consider to be sound management practices. Moreover, it is difficult for us to envision how we could justify paying incentives to some States, but not others, especially when the States communicate with each other through the National Association of State Treasurers and other organizations. Thus, implementation of this recommendation could lead to a significant reduction in the level of cooperation we enjoy with most States, as well as in the amount of funds we receive and deposit. I do not envision taking actions on this recommendation.

Recommendations 5 – To lessen the time consuming asset identification process of searching state websites, periodically coordinate with federal agencies to determine the list of agency names, including all the possible name variations. Once determined, provide listings of agency names to states. Using the agency listings should reduce the time and resources spent on identifying assets, while capturing a larger percentage of the outstanding federal assets. A starting point for working with the agencies and the states could be the 1,975 variations we provided to AIC during the audit.

Management Comment – We appreciate this suggestion and already expanded our list of possible headings under which States may be holding Federal assets, based on information shared by the OIG staff. We provide this listing when we make initial contact with each state and explain the issue of other possible variations. We also use the expanded listing when making our own searches. At the same time, however, we believe there is a point of diminishing returns relative to the number of headings under which we conduct our own searches, as well as the number of headings we would ask the states to review on our behalf. That is, we use over 100 main headings plus a number of variations thereon in our own searches, and also take advantage of the differing search engines associated with state web sites. We are not familiar with and do not use the 1,975 variations referred to in the draft report, nor would we be inclined to impose on the States the onerous task of searching this number of variations on Federal names. If the report is suggesting that we use the listing information shared by the OIG to expand our own list, then we have done this already.

Recommendation 6 – To identify and recover federal assets not listed on web sites, coordinate with states to develop a systematic approach for identifying and recovering non-listed assets.

Recommendation 7 – To eliminate the requirement of federal agency owners claiming their own assets and filing a claim form for each asset, coordinate with states to reevaluate what could be done to lessen the obstacles of claiming the federal assets.

Management Comment – The same basic response applies to Recommendations 6 & 7. In our initial contact with each State, we explain our objectives and our preferred way of doing business. That is, we seek to submit a claims package that includes: 1) our affidavit, which was approved by the Treasury Office of General Counsel; 2) a spreadsheet listing all assets we wish to claim; and 3) documents supporting our delegation of authority. When any State indicates an unwillingness or inability to meet our request, we tactfully seek to speak with an attorney from the State, and we are generally successful in gaining an exemption from normal procedures. In

Appendix 8

Management Comments

cases where Federal assets are not listed on the State web site, the State will either research and send us individual claim forms, whereupon we prepare a spreadsheet, or will prepare the spreadsheet itself. Even when we use a spreadsheet, some States require that we include a completed claim form for each asset. We have purchased labels and a stamp containing all relevant Treasury information to minimize our work in these instances. The bottom line in these matters is that every State has different requirements and we try to work as effectively as possible within the varying constraints. This sometimes includes enduring the inefficiency of having to deposit hundreds of checks we receive from those States whose systems impose the requirement to issue a separate check for each claimed asset.

Recommendation 8 – To better ensure the recovery of new unclaimed federal assets, periodically search for federal assets based on the presence of federal organizations within each state, city or county government.

Management Comment – It is our intention to explore other potential sources of Federal assets, once we complete our initial cycle through the States. Such sources could include county and city organizations, as well as State and Federal court systems. In addition, our general intention at this point in our pilot program is to investigate available new claims with most States every other year. Our rationale is that it is unlikely that most States obtain substantial amounts of Federal assets every year. During the “off” years, we would search secondary sources of Federal assets, and revisit only the largest States from which we have already claimed assets. Thus, I believe our plans encompass the intention of the recommendation.

Recommendation 9 – To mitigate the risk of fraudulent claims of federal assets, establish procedures to review internal controls regarding unclaimed federal assets held by states, cities and counties.

Management Comment – I believe claiming assets and removing them from State control is the best way to reduce potential exposures to fraudulent claims. As for the specific actions in the recommendation, we do not have the resources to develop procedures or to carry out a program in which we would review the internal controls employed by State, city and county governments. Moreover, given our lack of any authority or jurisdiction, we cannot envision how we could compel those entities to improve any controls we might find to be lacking. Until an environment evolves within Treasury whereby the internal controls at all bureaus meet our requirements, we believe it would be inappropriate to address shortcomings in other entities over which we have no influence, responsibility or direct control.

As a final matter on the draft report, we believe the OIG may wish to reevaluate its projections and assumptions regarding the monetary benefits associated with the recommendations. On one hand, because our program administration has evolved based on management initiative, and considering that final decisions will not be made on any recommendations until the conclusion of the pilot, it may be that no assets can be attributed to the audit report at this time. Secondly, the projections on Federal assets made by States in response to the OIG survey have not always turned out to be the same amount the States were willing to pay when formal claims were submitted. For example, the five States for which the OIG provided spreadsheets to my staff

Appendix 8

Management Comments

(California, Texas, Nevada, Florida and New York) remitted only a combined 63% of the funds identified as available in the draft report. One reason for this is that, in researching the assets in response to our formal claims, the States found that several assets had been misclassified in their systems and were not truly available for us to claim. In addition, given that California, one of the larger remitters of Federal assets, paid interest on the honored portion of our claim, it may be appropriate for the OIG to recalculate its estimates of monetary benefits with this in mind. To be truly accurate, the 5% service charge applied by Ohio should be considered, along with the \$1 per asset Kentucky plans to deduct from our claim.

Another key variable in estimating the potential monetary benefits associated with the implementation of the OIG's recommendations is that once we claim assets from any given State the first time, the amount of assets available in subsequent years will be significantly smaller. Thus a three-year projection of first-year collections could be highly inflated. Finally, as a general observation, I believe the report's references to the FDIC are misleading in that essentially all of the \$5.4 million identified in the draft report was attributable to failed financial institutions; this is substantially different from the types of assets we claim on behalf of the rest of the government.

As the above discussion pertains to the actual estimate of potential monetary benefits available from the work my staff is performing, the OIG may wish to claim for its own purposes the \$3.2 million my staff has collected to date and the total amount my staff recovers by the end of the pilot program. We will share information on actual collections at the end of the pilot.

Please let me know if you need any additional information at this time.

Attachment

cc: Donald Hammond (w/attachment)
Richard L. Gregg (w/attachment)
Marla Freedman (w/attachment)
Edward R. Kingman, Jr. (w/attachment)

Appendix 8 Management Comments



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

JUN 27 2001

MEMORANDUM FOR DONALD V. HAMMOND
FISCAL ASSISTANT SECRETARY

FROM: STEVEN O. APP *Steven O. App*
ACTING CHIEF FINANCIAL OFFICER

SUBJECT: Unclaimed Federal Financial Assets Program

I request authorization to carry out the responsibilities of the Unclaimed Federal Financial Assets program to allow me or my designee to exercise all necessary authority currently vested in the Financial Management Service (FMS) (in accordance with Part 6, Chapter 5100, Treasury Financial Manual) for these purposes. If you grant this authorization, I will assign operational responsibility for the program to (the offices of) the Deputy Chief Financial Officer.

I propose that if you agree to this authorization, our offices will jointly assess the operation of this program after a period of two years, or at an earlier date if circumstances warrant, to determine whether to terminate this authorization. Lastly, this authority would not preclude FMS from assuming control of the program in the future, nor prevent their participation over the course of this delegated authority.

Agree *[Signature]* Disagree _____ Let's Discuss _____

Appendix 9

Major Contributors to This Report

Western Region

John A. Richards, Supervisory Auditor
Helen K. Wong, Auditor-in-Charge
Garrett W. Gee, Auditor-in-Charge
Jack S. Gilley, Auditor
Craig T. Wells, Auditor

Counsel to the Inspector General

Ric Doery, Assistant Counsel

Appendix 10

Report Distribution

The Department of the Treasury

Director, Office of Accounting and Internal Control
Director, Office of Financial Management Service
Director, Office of Strategic Planning and Evaluations
Director, Office of Public Affairs

Office of Management and Budget

OIG Budget Examiner

State Contacts Visited

Chief, Division of Collections, State of California
Administrator, Unclaimed Property Division, State of Nevada
Manager, Unclaimed Property, State of Texas

State Survey Respondents

35 states and the District of Columbia, see Appendix 4 for a complete listing.