

OFFICE OF THE STATE INSPECTOR GENERAL

Department of the Treasury
Unclaimed Property
Audit and Compliance Program
Performance Audit
June 2023



Michael C. Westfall, CPA
State Inspector General
Report No. 2023-PA-006



COMMONWEALTH OF VIRGINIA
Office of the State Inspector General

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June 27, 2023

The Honorable Glenn Youngkin
Governor of Virginia
P.O. Box 1475
Richmond, VA 23219

Dear Governor Youngkin,

The Office of the State Inspector General (OSIG) completed an audit of the Virginia Department of the Treasury Unclaimed Property Audit and Compliance Program. The final report is attached.

OSIG would like to thank State Treasurer David L. Richardson and his staff for their cooperation and assistance during this audit.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael C. Westfall".

Michael C. Westfall, CPA
State Inspector General

CC: The Honorable Jeff Goettman, Chief of Staff to Governor Youngkin
The Honorable Isabella Warwick, Deputy Chief of Staff to Governor Youngkin
The Honorable Stephen E. Cummings, Virginia Secretary of Finance
The Honorable Roxann L. Robinson, House Chair, Finance Committee
The Honorable Janet D. Howell, Senate Co-Chair, Finance and Appropriations Committee
The Honorable George L. Barker, Senate Co-Chair, Finance and Appropriations Committee
David L. Richardson, State Treasurer
David Swynford, Deputy State Treasurer
Bradley Earl, Director, Department of the Treasury Unclaimed Property
Cliff Lewis, Department of the Treasury Internal Review Manager
Staci Henshaw, Auditor of Public Accounts

Unclaimed Property Audit And Compliance Program

What OSIG Found

Unclaimed Property's Compliance Review Process Is Not Effective

Twelve compliance reviews completed between FY 2018 and FY 2022 were selected for review; however, 58% of the compliance reviews had results that did not tie back to the work performed, 42% of the compliance reviews had scope reductions, and 17% of the compliance reviews had no documentation to support when funds related to the compliance review were remitted.

Compliance Reviews Are Not Completed Timely

The time to complete compliance reviews is trending up even though Unclaimed Property has only started one new compliance review since October 2018. For the 133 reviews closed between FY 2018 and FY 2022, the average time it took for reviews increased from 1.18 years to 4.67 years. This represents a 296% increase in time taken to complete reviews over the four-year period.

Unclaimed Property Does Not Utilize the Enforcement Tools as Set Forth in the Code

The *Code of Virginia* provides Unclaimed Property with enforcement tools in the form of penalty and interest assessments for holders that do not comply. Unclaimed Property was not charging interest and assessed only one penalty for all compliance reviews completed between FY 2018 and FY 2022. OSIG found that eight of 12 compliance reviews selected for testwork should have included penalties and interest to ensure holders complied with the reporting and remitting process. The calculated potential interest Unclaimed Property could have assessed was \$52,790 and potential missed penalties were \$19,305.

Management concurred with nine of nine findings and plans to implement corrective actions from September 30, 2023, to December 31, 2023.

June 2023

HIGHLIGHTS

Why OSIG Conducted This Audit

Unclaimed Property is responsible for receiving escheatment from businesses in Virginia and providing a database for current and prior residents to check if they have any unclaimed funds. Unclaimed Property has an Audit and Compliance Division to ensure that businesses are reporting and remitting unclaimed property in their possession.

What OSIG Recommends

- Management should develop a process to ensure proper escalation of concerns related to receiving requested documentation from holders.
- Management should develop a process to utilize the enforcement tools provided in the *Code* to ensure compliance with requirements for submitting unclaimed property.
- The compliance review process should be evaluated by management and incorporate milestones into the process to ensure that key stages of the review are completed timely.
- Management should develop a process to report on funds assessed, waived, and collected.



For more information, please contact OSIG at (804) 625-3255 or www.osig.virginia.gov

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BACKGROUND

Unclaimed Property is a program within the Department of the Treasury. Unclaimed Property operates under the *Code of Virginia* Title 55.1, Chapter 25, referred to as the Virginia Disposition of Unclaimed Property Act. Their mission is to protect the property interests of citizens through efforts to promote compliance with the Unclaimed Property Act. Ultimately, Unclaimed Property is responsible for reconnecting citizens with their assets that have been turned over to the state when companies lose track of the rightful owners. There is no deadline for citizens to claim their unclaimed property.

The *Code of Virginia*, § [55.1-2501](#) defines unclaimed property as, “All tangible and intangible property, including any income or increment thereon, less any lawful charges, that is held, issued, or owing in the ordinary course of the holder's business and has remained unclaimed by the owner for more than five years after it became payable is presumed abandoned, except as otherwise provided by this chapter. Property is payable for the purpose of this chapter notwithstanding the owner's failure to make demand or to present any instrument or document required to receive payment.” Further the *Code*, in accordance with § [55.1-2524](#), provides that, “A. Every person holding funds or other property, tangible or intangible, presumed abandoned under this chapter shall report and remit to the administrator with respect to the property as provided in this article....”

Unclaimed Property has five divisions:

- Claims - responsible for processing unclaimed property owners' claims;
- Records and Receipts - responsible for processing annual reports submitted by holders along with associated remittances of property;
- Audit and Compliance - responsible for auditing holders to ensure unclaimed property, if any, are reported and remitted to the Commonwealth;
- Securities - responsible for reconciling, selling and processing claims containing securities; and
- Public Relations and Marketing - providing outreach to holders and owners of unclaimed property.

The Audit and Compliance Division has one audit manager and five auditors whose primary responsibility is to conduct compliance reviews of holder records to ensure compliance with the Virginia Disposition of Unclaimed Property Act. The Division receives its authority to conduct compliance reviews from the *Code* § [55.1-2536](#), which states, “A. Except as otherwise provided in this chapter, the administrator may require any person that has not filed a report to file a verified report stating whether or not the person is holding any unclaimed property reportable or deliverable under this chapter.”

The *Code* further provides the Audit and Compliance Division with the authority to request holder records for the prior 10 years, to ensure that unclaimed property is reported and remitted. Per the *Code*, “B. Except as otherwise provided in this chapter, the administrator may at reasonable times and upon reasonable notice examine the records of any person to determine whether the person has complied with the provisions of this chapter. The administrator may conduct the examination even if the person believes it is not in possession of any property reportable or deliverable under this chapter. The administrator may examine all necessary records to determine the amount, if any, of property that would have been reportable or deliverable under this chapter for the 10 years prior to the fiscal year end preceding the opening of the examination; however, for any holder that has not previously filed any report under this chapter, the administrator may examine property presumed abandoned for report year 1985 and subsequent years....”

SCOPE

The audit scope covered Unclaimed Property audit and compliance functions for July 1, 2017 – June 30, 2022. This five-year period allowed for a review of audit and compliance functions that occurred both prior to and following the COVID-19 pandemic.

OBJECTIVES

Our audit’s objectives were as follows:

- Determine if Virginia's unclaimed property program is similarly aligned (or functions similarly) with the unclaimed property programs of other states.
- Determine if Unclaimed Property's process for identifying businesses with unclaimed property and selecting businesses to review is adequate in supporting their overall mission of returning unclaimed property to its owners.
- Determine if Unclaimed Property’s Audit and Compliance Division’s processes are effective in identifying unreported unclaimed property and collecting penalties and fees.

METHODOLOGY

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

OSIG applied various methodologies during the audit process to gather and analyze information pertinent to the audit scope and to assist with developing and testing the audit objectives. The methodologies included the following:

- Review of the *Code of Virginia* pertaining to Unclaimed Property.

- Interviews with Unclaimed Property Auditors and Management.
- Review of written policies and procedures from Unclaimed Property’s Audit and Compliance Division.
- Review of the auditable business list compiled by the Audit and Compliance Division to determine their process for selecting businesses to perform compliance reviews.
- Review of a sample of compliance reviews performed by the Audit and Compliance Division to determine compliance with their processes and the *Code of Virginia*.
- Benchmarking business process activities, and performance metrics against similar activities in five other states utilizing the same unclaimed property system.
- Review of the status of the Gap Analysis project of businesses reporting escheatments to Treasury.
- Review of outreach provided to businesses in Virginia.

FINDINGS

FINDING 1 - UNCLAIMED PROPERTY’S COMPLIANCE REVIEW PROCESS IS NOT EFFECTIVE

Unclaimed Property regularly interacts with: (1) those who are the rightful owners of unclaimed property (the owners), and (2) those in possession of the unclaimed property (the holders). The *Code of Virginia* provides Unclaimed Property with the ability to ensure that funds are remitted and reported by the holders. *Code* [§ 55.1-2536](#) provides that, “...at reasonable times and upon reasonable notice examine the records of any person to determine whether the person has complied with the provisions of this chapter. The administrator may conduct the examination even if the person believes it is not in possession of any property reportable or deliverable under this chapter. The administrator may examine all necessary records to determine the amount, if any, of property that would have been reportable or deliverable under this chapter for the 10 years prior to the fiscal year end preceding the opening of the examination ...” Unclaimed Property has developed the compliance review process to ensure that holders properly submit unclaimed property to the Department of the Treasury as required by the *Code*.

Twelve compliance reviews completed between FY 2018 and FY 2022 were reviewed, and the following deficiencies were identified:

- **Scope Reduction** - For five (42%) of the compliance reviews tested, Unclaimed Property stopped following up on items not received and removed them from the scope. Moving items out of scope, to avoid following-up and taking further action, impacts the legitimacy of the compliance review results. Additionally, this does not encourage holders to be responsive to future requests. Unclaimed Property has other enforcement tools available to assist with compliance with requests.

- **Requested Documentation** - For ten (83%) of the compliance reviews tested, documentation was not received by the requested deadline. Further, additional follow-up on the missing items for nine (75%) reviews were delayed between several weeks and several months. Receiving requested documentation timely is a major factor in the timely completion of a review. By not ensuring that documentation is provided timely, Unclaimed Property's reviews are taking longer than necessary.
- **Follow up on Remittance of Findings** - Two reviews (17%) had no documentation, such as a deposit slip or other confirmation, to support when the funds related to the demand letter were remitted. Currently, there is no formal process for following up with entities after a review is completed. By not following up, Unclaimed Property risks delays in receiving demanded amounts or not receiving amounts at all.
- **Accuracy of Reviews** - Seven reviews (58%) had results that did not tie back to the work performed, as follows:
 - Three instances where errors were noted in the calculation of estimates.
 - Two instances where there was no documentation to support why estimates were not calculated.
 - Two instances where documentation for adjustments made to demanded amounts based on holder proposals was not sufficient to support the adjustment. A review process should ensure that compliance reviews were completed accurately. Unclaimed Property's policies and procedures do not clearly define all the steps in the review process to ensure accuracy.

In addition, the Unclaimed Property workpaper documentation process for compliance reviews is outdated. Currently, Unclaimed Property auditors maintain physical binders for each compliance review. This involves printing all email communications, attachments sent electronically, and making copies of supporting documentation. During interviews with staff, it was noted that sometimes binders have gone overlooked while on a desk awaiting review. When the review is finally complete, the binder is then scanned into Unclaimed Property's online system of record. This manual process is inefficient and less reliable than maintaining records electronically and scanning in hard copy evidence that is received.

Recommendations:

1. Management should establish a process to promptly follow up on requested items that are not received from the compliance review holders.
2. Management should develop a process to ensure proper escalation of concerns related to receiving requested documentation from holders, to include using additional enforcement tools available per the *Code*.
3. Management should develop a documented process to ensure that compliance reviews are completed accurately and are reviewed and approved timely.

4. Management should consider digitizing workpapers and records management processes for their compliance reviews.

TRS Management Response:

Management agreed with the conditions observed by OSIG and agreed with the recommendations.

Management Corrective Action

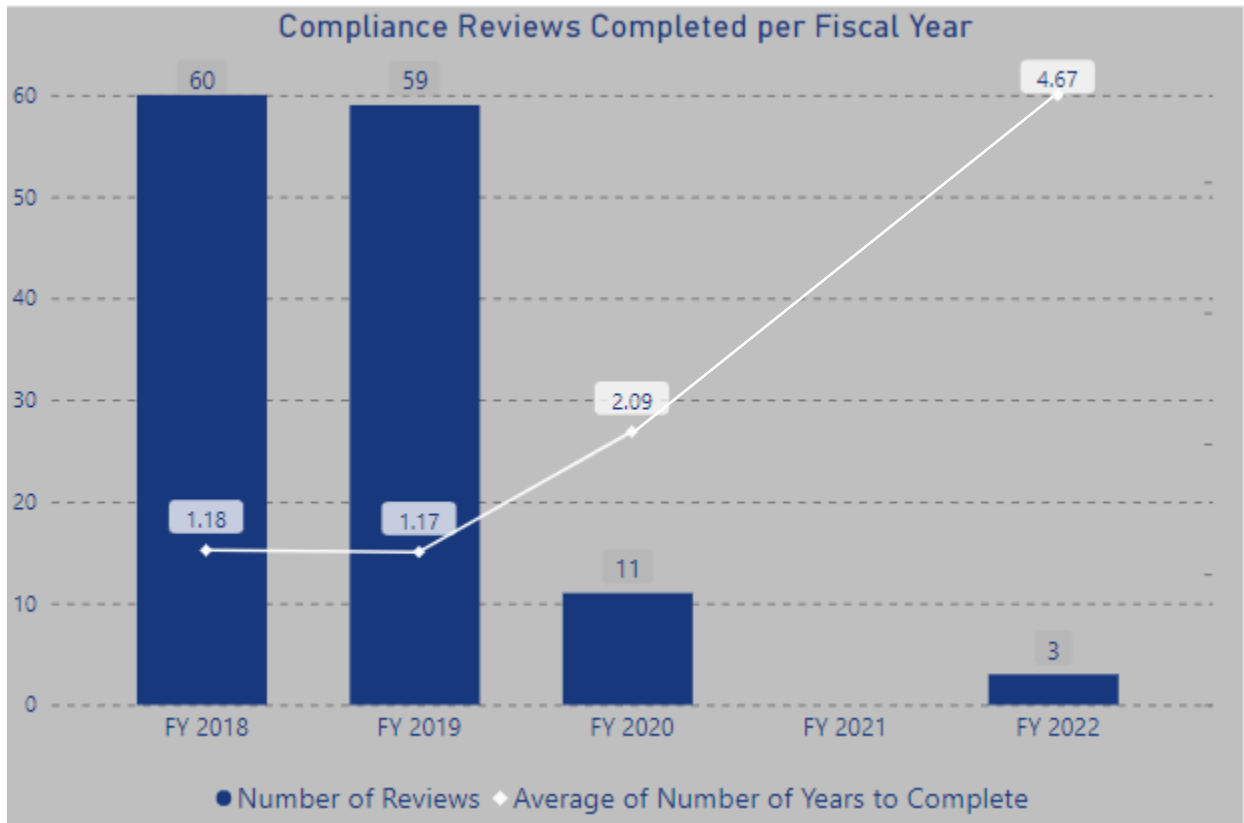
Treasury will develop and document the following:

- A process for reducing the original scope of an audit. The decision should be documented, and the rationale should be detailed. A reduction in scope should be discussed with the Division Director prior to approval.
- Actions if requests aren't provided in a timely manner.
- Require inclusion of the deposit documentation in the workpapers (include in review checklist).
- Improve the workpaper review process to make it more challenging and timely to correct any errors found during the review. Conduct periodic sample review of audits to ensure the original workpaper and the reviewer followed the UCP Audit Documented Procedures.
- Use Word and Excel and either active directory folders, Teams, or SharePoint to organize, review, and document each Compliance Review.

The expected completion date is September 30, 2023.

FINDING 2 - COMPLIANCE REVIEWS ARE NOT COMPLETED TIMELY

Conducting compliance reviews is a primary function of the Audit and Compliance Division of Unclaimed Property. The time to complete compliance reviews is trending up even though Unclaimed Property has only started one new compliance review since October 2018. The graph below shows the number of compliance reviews closed between FY 2018 and FY 2022, and the average time (in years) it took to complete the reviews.



For the 133 reviews closed between FY 2018 and FY 2022, the average time it took for reviews increased from 1.18 years to 4.67 years. This represented a 296% increase in time taken to complete reviews over the four-year period.

OSIG benchmarked Unclaimed Property's review process against three states that had audit departments similar to Unclaimed Property. Two stated they complete their compliance reviews between 30 and 90 days. One stated their compliance reviews could take between one to two years; however, they review five years of financial information whereas Unclaimed Property reviews two years. OSIG used this information to set a parameter of six months from the beginning of field work to issuance of a demand letter or notice of compliance for comparison testwork. Nine of twelve reviews selected for detailed testwork exceeded this timeframe.

Management acknowledged OSIG's parameter, but Unclaimed Property does not currently set parameters related to the time to complete compliance reviews. Per management, Unclaimed Property paused opening new compliance reviews due to a back log of current reviews that needed to be closed. This pause was then extended due to the COVID-19 pandemic halting on-site visits during the latter half of FY 2020 and the beginning of FY 2021. Comparable states did not pause reviews during the pandemic. However, there were no reviews completed during FY 2021 even though eleven compliance reviews remained open at the end of FY 2020. Eight compliance reviews were still open as of the end of FY 2022. These eight compliance reviews have start dates ranging from October 2012 to July 2021. Management believed these compliance reviews remain open most likely due to unresponsive holders.

OSIG found the following deficiencies that impact timeliness of reviews:

- **Milestones** - There are no time frames established for when key points in the process should be completed to verify that projects are on target.
- **Compliance Review Budget Hours** - Unclaimed Property does not budget hours when planning reviews. Budgeting hours at the beginning of review helps identify if the time being spent on the project is meeting expectations.
- **Audit Division Status Reports** - Unclaimed Property does not have a formal process for tracking the status of open reviews. Without a formal reporting process, management is unable to review open compliance reviews and follow-up on compliance reviews not meeting their milestones.

Without an established way to track status of reviews and regular updates for on-going projects, projects may be overlooked and take longer than necessary to complete. Not only does the timing of compliance reviews have an impact on the amount of penalties and interest that should be assessed, excessive review times are inconvenient for entities under review.

Recommendations:

1. Unclaimed Property should establish specific policies and procedures for budgeting and tracking time spent on projects.
2. The compliance review process should be evaluated by management and incorporate milestones into the process to ensure that key stages of the review are completed timely.
3. Management should develop a system to monitor status of open reviews.

TRS Management Response:

Management agreed with the conditions observed by OSIG and agreed with the recommendations.

Management Corrective Action

Treasury will develop and document the following:

- Planning and budgeting requirements for each review with milestones.
- An audit status tracking document using Excel or possibly other Microsoft products available.
- Metrics to determine UCP Compliance's capability of meeting milestones for improvement in processes or reassessment of the estimates of milestones.

The expected completion date is September 30, 2023.

FINDING 3 - UNCLAIMED PROPERTY DOES NOT UTILIZE THE ENFORCEMENT TOOLS AS SET FORTH IN THE CODE

Unclaimed Property is responsible for ensuring rightful owners are reunited with property that is lost, misplaced, or forgotten. Those in possession of property of another (holders) are required by law to turn in unclaimed property to Treasury after a defined dormancy period. The *Code of Virginia* has provided Unclaimed Property with enforcement tools, in the form of penalty and interest assessments for holders that do not comply.

Unclaimed Property was not charging interest and assessed only one penalty for all compliance reviews completed between FY 2018 and FY 2022. OSIG found that eight out of twelve compliance reviews tested should have included penalties and interest to ensure holders complied with the reporting and remitting process. Using the date, the property should have been remitted to Treasury as the date accrual of interest started and the date on the Notice of Non-Compliance as the end date, the calculated potential interest Unclaimed Property could have assessed was \$52,790 and potential missed penalties were \$19,305.

The *Code of Virginia* § [55.1-2540](#). Interest and penalties states, “A. Any person who fails to pay or deliver property within the time prescribed by this chapter shall be required to pay to the administrator interest at the same annual rate as is applicable to delinquent taxes under § [58.1-1812](#) on the property or value thereof from the date the property should have been paid or delivered. Such interest rate shall vary with the rate specified in § [58.1-1812](#). B. Any person who does not exercise due diligence as defined in § [55.1-2500](#) shall pay a civil penalty not to exceed \$50 for each account upon which due diligence was not performed. C. Except as otherwise provided in subsection D, a holder that (i) fails to report, pay, or deliver property within the time prescribed by this chapter; (ii) files a false report; or (iii) fails to perform other duties imposed by this chapter without good cause shall pay to the administrator, in addition to interest as provided in subsection A, a civil penalty of \$100 for each day the report, payment, or delivery is withheld or the duty is not performed, up to a maximum of the lesser of \$10,000 or 25 percent of the value of the property that should have been but was not reported. D. A holder that (i) willfully fails to report, pay, or deliver property within the time prescribed by this chapter; (ii) willfully fails to perform other duties imposed by this chapter without good cause; or (iii) makes a fraudulent report to the administrator shall pay to the administrator, in addition to interest as provided in subsection A, a civil penalty of \$1,000 for each day the report, payment, or delivery is withheld or the duty is not performed, up to a maximum of the lesser of \$50,000 or 100 percent of the value of the property that should have been but was not reported. E. The administrator for good cause may waive, in whole or in part, interest under subsection A and penalties under subsections B, C, and D....”

Unclaimed Property management indicated that they preferred to avoid charging interest and penalties to maintain a good working relationship with the holders under review. However, they would use the possibility of interest and penalties to encourage cooperation if needed.

Unclaimed Property does not have any policies or procedures in place related to the calculation, assessment, nor waiver of interest and penalties. Additionally, management does not maintain documentation of the justification of the waiver nor the approval. While the *Code* allows for the waiver of these fees for good cause, it is OSIG's interpretation that waiving of interest and penalties should be an exception to standard practice. Based on the lack of documentation and interviews with Unclaimed Property management and staff, OSIG determined that Unclaimed Property's standard practice is not assessing these fees. By not assessing these fees, Unclaimed Property is not encouraging holders to be compliant in the future.

These funds represent missed revenue for the Commonwealth. *Code of Virginia* § [55.1-2531](#) states, "A. All funds received under this chapter, including the proceeds from the sale of abandoned property under § [55.1-2529](#), shall be deposited by the administrator in the Literary Fund of the Commonwealth as soon as practical, except that the administrator shall retain in a separate trust fund a sum sufficient from which he shall make prompt payment of claims duly allowed by him as provided by subsection B. . . . B. Before making any deposit to the credit of the Literary Fund, the administrator may deduct (i) any costs in connection with the sale of abandoned property, (ii) any costs of mailing and publication in connection with any abandoned property, (iii) operating expenses, and (iv) amounts required to make payments to other states, during the next fiscal year, through reciprocity agreements." Therefore, these revenues could be used to fund improvements to the program and if these funds are not needed, they should be transferred to the Literary Fund, which provides low-interest loans for school construction, grants under the interest rate subsidy program, debt service for technology funding, and support for the state's share of teacher retirement required by the Standards of Quality.

Recommendations:

1. Unclaimed Property should develop a process to utilize the enforcement tools provided in the *Code* to ensure compliance with requirements for submitting unclaimed property.
2. Unclaimed Property should establish written policies and procedures for the calculation, assessment, and approval of interest and penalties that align with the *Code*. These policies should also include the process required for interest and penalties to be waived, and at what level approval is required for waivers.
3. Management should develop a process to report on funds assessed, waived, and collected. These reports should include the number of compliance reviews where penalties and interests were charged and the reason for the charges.

TRS Management Response:

Management agreed with the conditions observed by OSIG and agreed with the recommendations.

Management Corrective Action

Treasury will develop procedures and decision trees for the following:

- Calculation of penalties and interest based on the *Code of Virginia*.
- A waiver process for penalties and interest.
- A decision tree and process for granting the waiver.

Additionally, Treasury will develop a form for the waiver request and create a spreadsheet with calculation of penalties and interest hard-coded in the spreadsheet.

Treasury will develop a report to detail the amounts assessed, waived and collected. The expected completion date is September 30, 2023.

FINDING 4 - UNCLAIMED PROPERTY DOES NOT UTILIZE A COMPREHENSIVE LIST OF BUSINESSES IN VIRGINIA

Holders of unclaimed property are businesses that are required to report and remit according to *Code of Virginia* § [55.1-2524](#), “A. Every person holding funds or other property, tangible or intangible, presumed abandoned under this chapter shall report and remit to the administrator with respect to the property...”. Businesses with unclaimed property are required to report and remit annually to the Commonwealth. If the business does not have unclaimed property to report and remit, they are not required file a zero-balance report. Per *Code* § [55.1-2500](#). Definitions, “...“Holder” means a person, wherever organized or domiciled, that is (i) in possession of property belonging to another; (ii) a trustee, in the case of a trust; or (iii) indebted to another on an obligation...” This restricts Unclaimed Property’s ability to maintain a comprehensive list to track the businesses that should be reporting unclaimed property.

A provision has been written into the *Code* to provide Unclaimed Property with business data received from the Department of Taxation. The *Code* gives Unclaimed Property the opportunity to develop a Memorandum of Understanding to request a download of businesses filing taxes from the Department of Taxation each year. *Code* § [58.1-3.C.](#), states, “...(viii) provide to the Department of the Treasury for its confidential use such tax information as may be necessary to facilitate the location of owners and holders of unclaimed property...”

Per discussion with Unclaimed Property, the agency was not aware this information was available to them. Without a comprehensive list, Unclaimed Property does not have a population of Virginia businesses to identify and track businesses that should be reporting unclaimed property. This would assist with identifying new businesses and businesses that no longer exist. This would also allow Unclaimed Property to compare businesses that report against their comprehensive list and provide a tool to evaluate and better select businesses for compliance reviews.

Recommendations:

1. Identify available information that the Department of Taxation can offer related to businesses to assist in the creation of a comprehensive list.
2. Collaborate with the Department of Taxation to establish a Memorandum of Understanding, as provided for in the *Code*, to include providing new data on a periodic basis.
3. Assess the feasibility of requesting a *Code* amendment that mandates all businesses to report the presence or absence of escheatment amounts for remittance, to the General Assembly.

4. Implement an automated data process that facilitates the uploading of updated information, enabling the efficient identification of changes in existing businesses as well as new ones. The comprehensive list, once developed:
 - a. Could assist with reconciling their gap analysis.
 - b. Could identify new businesses to provide outreach.
 - c. Could assist in selecting businesses for future compliance reviews.

TRS Management Response:

Management agreed with the conditions observed by OSIG and agreed with the recommendations.

Management Corrective Action

Treasury will develop an MOU with Taxation which will include a process for obtaining the annual file but also the sharing of information in cases around holders and claimants that may arise involving information from Taxation. The expected completion date is October 31, 2023.

FINDING 5 - UNCLAIMED PROPERTY DOES NOT HAVE A DOCUMENTED PROCESS FOR DETERMINING BUSINESSES TO CONDUCT COMPLIANCE REVIEWS

Unclaimed Property auditors complete compliance reviews of businesses to ensure they are properly reporting and remitting funds as required and has developed a list of potential businesses to conduct compliance reviews. The list has 267 businesses identified for consideration for future compliance reviews. To develop the list each auditor was required to submit a certain number of businesses to ensure they had a list for future compliance reviews. The businesses were selected initially by looking for new names on buildings, reviewing the directories in larger buildings, and reviewing the business section of the newspapers. This list was then reviewed by the auditors to determine if the businesses fell within the following parameters:

- At least 100 employees.
- \$10 million in annual sales/revenue.
- No prior reporting history.

These parameters are neither defined nor documented in a policy for updating and maintaining the list of businesses for potential compliance reviews. Further, the parameters do not consider other risk factors, to include:

- Significant changes in reporting history.
- Errors in reporting.
- Businesses that have not reported in recent years.

OSIG selected a sample of fifteen businesses from this list to determine if they fell within these parameters and were approved. The following exceptions were identified:

- Seven had a reporting history in the Unclaimed Property reporting system.
- Three did not fall within the sales/revenue parameter.
- Four did not have at least 100 employees.
- There was no indication the list had been reviewed and approved by management.

Per discussion with the Unclaimed Property audit manager, current staff are not able to answer questions about the list because they were not responsible for compiling the final list. Without properly defined parameters, that include risks of inaccurate or incomplete reporting, Unclaimed Property cannot show that the businesses selected for compliance reviews are at significant risk for not reporting and remitting funds as required.

Recommendations:

1. Define the parameters for selecting businesses for compliance reviews. Document the parameters in agency policy, to include the process for exceptions and approvals.
2. Develop a risk-based approach to selecting businesses that will potentially improve the return in value to Unclaimed Property.

3. Communicate with the Report and Receipts Division of Unclaimed Property for potential businesses to audit, based on errors or concerns identified in reporting and remittance of funds.

TRS Management Response:

Management agreed with the conditions observed by OSIG and agreed with the recommendations.

Management Corrective Action

Unclaimed Property will enhance and document its process for selecting compliance review candidates. The process will include the following:

- Requirements for Revenue, Employees, Customers etc.
- Variations in reported amounts by year.
- Gaps in reporting
- Companies that have never reported but are in the Tax file UCP receives annually.

The expected completion date is September 30, 2023.

FINDING 6 - UNCLAIMED PROPERTY IS NOT CONTINUING TO PERFORM THE GAP ANALYSIS

In FY 2019, Unclaimed Property developed an analysis for holders that had a gap in their reporting of escheatment. Reviewing all years, the gap in reporting was separated into two groups of one to five years and six or more years with no reports. This gap report was then divided among the Unclaimed Property auditors. The auditors were responsible for contacting the holders to determine why they had not reported and letting them know they needed to report. Based on the results of the gap analysis, Unclaimed Property identified over a thousand businesses that had a gap in reporting.

The *Code of Virginia* § [55.1-2524](#) states, “A. Every person holding funds or other property, tangible or intangible, presumed abandoned under this chapter shall report and remit to the administrator with respect to the property...” An analysis of holders not reporting each year is one way to ensure compliance with reporting requirements. This is also an effective way of identifying holders that may require a compliance review. This would further allow Unclaimed Property to follow up and ensure those holders that have had a compliance review continue to report in the years after the review was completed.

Unclaimed Property indicated the gap analysis will not be continued after the initial one. Per discussion with Unclaimed Property management, the teams started this project due to the auditors not being able to visit businesses during the lock down. Management is concerned they will not have time to continue with both the analysis and continue completing compliance reviews now that they can conduct site visits.

Not continuing the gap analysis and restarting it later could be difficult and could require more agency resources. If done annually a procedure can be developed so that the holders can be notified in a timely manner. In addition, the number of holders with gaps in reporting should be less if done at least annually and therefore the number of resources needed would be less.

Recommendations:

1. Reviewing gaps in reporting should start with a report as of FY 2020 and continue annually.
2. Unclaimed Property should develop procedures to ensure that the process of reviewing reporting gaps can be completed to ensure timely notification of businesses that have not reported.
3. Once Unclaimed Property has fully defined the gap analysis process, the Division should work to automate the process for identifying and notifying holders.
4. Unclaimed Property can improve their compliance review selection process by including review of the gap analysis results for holders to conduct compliance reviews.

TRS Management Response:

Management agreed with the conditions observed by OSIG and agreed with the recommendations.

Management Corrective Action

Treasury will develop a policy to produce a report annually of any previously identified holders that did not report in prior years. Unclaimed Property will send a letter to any companies that did not report and track the responses. The expected completion date is September 30, 2023.

FINDING 7 - UNCLAIMED PROPERTY DOES NOT HAVE DOCUMENTED POLICIES AND PROCEDURES OVER KEY COMPLIANCE REVIEW PROCESSES

The Unclaimed Property compliance review procedures were not complete to ensure consistency of their overall process. Unclaimed Property had sufficient policy documents for establishing what should be requested from businesses receiving compliance reviews, and which accounts Unclaimed Property auditors should review.

Policies and procedures were not sufficient to ensure consistency in the selected sample of compliance reviews and did not address several key processes, as follows:

- Calculating, assessing, and waiving interest and penalties.
- Escalation Procedures for issues encountered during the review, such as unresponsive businesses/unclaimed property holders.
- Review planning, milestones, and budgeting of hours.
- Preparation of estimates used in reviews.
- Workpaper review and approval.

There was a consensus within Unclaimed Property's Audit and Compliance Division that the current policies and procedures were sufficient; however, individuals interviewed have worked within the Division between three and nineteen years and were familiar with the process. Based on testwork performed during the audit, the procedures provided for review were not sufficient to ensure consistency in the selected sample of compliance reviews.

Without policies and procedures documented in writing, management is unable to evaluate processes to ensure consistency and determine if updates to the processes are needed. It benefits the agency to ensure that all key processes are documented in writing in a central location accessible to all individuals involved in the process. This provides for continuation of processes when there is turnover. In addition, this provides an opportunity to evaluate the processes to ensure they remain effective and efficient over time.

Recommendations:

1. Unclaimed Property's Audit and Compliance Division should develop detailed policies and procedures that address each key step in the compliance review process.
2. Once developed, policies and procedures should be reviewed annually and updated as needed to reflect any changes in processes.

TRS Management Response:

Management agreed with the conditions observed by OSIG and agreed with the recommendations.

Management Corrective Action

Treasury management will review the current documented procedures for UCP Audit with the goal to improve and document procedures for the following:

- A process for calculation of penalties and interest based on Virginia *Code*.
- Escalation of non-compliant and unresponsive property holders.
- A decision process with defined criteria for granting waivers of penalties and interest.
- Planning and budgeting requirements for each review with milestones and using the milestones in measuring UCP Audit's performance.
- Workpaper review and approval requirements which include the amount of time acceptable before a workpaper is reviewed and what is required for the reviewer including the review being challenging review (define what is challenging in the procedures).

The expected completion date is October 31, 2023.

FINDING 8 - PERFORMANCE MEASURES WERE NOT SUFFICIENT TO EVALUATE UNCLAIMED PROPERTY'S COMPLIANCE REVIEW PROCESS

To effectively evaluate the Unclaimed Property Program and promote the success of the program, performance measures should be transparent, complete, accurate, and consistent to support program performance and decision-making. Unclaimed Property's reported performance measures were not sufficient to evaluate the Audit and Compliance Division's impact regarding the reporting and remittance of unclaimed property. Unclaimed Property management has not established sufficient metrics related to compliance reviews. Management had not set metrics for the Audit and Compliance Division as they could not quantify performance for audit and compliance like they can for the Claims Division or the Reporting and Remittance Division of Unclaimed Property.

Quantifiable metrics, some used by other states, that could benefit the Audit and Compliance Division include, but are not limited to:

- The amount of unclaimed property remitted as a result of compliance reviews.
- Amount of interest and penalties brought in from late and/or delayed holder reports.
- Percentage of holders who report unclaimed property on time and correctly.
- Percentage of holder reports with errors.
- Average time to complete a compliance review.

There was one performance metric related to compliance reviews that OSIG identified. This metric was listed in the Unclaimed Property auditor's Employee Work Profile. The Employee Work Profile required the auditors to complete three reviews per quarter for FY 2018 and 2019, however this expectation was decreased to two per quarter in FY 2020.

Without establishing and reporting measures, Unclaimed Property cannot report to leadership on the Audit and Compliance Division's performance related to the monitoring of holders' compliance, progress of compliance reviews being conducted by auditors, nor ensure the accountability and transparency of the program.

Establishing specific metrics for the Audit and Compliance Division will help management identify trends which will enable them to evaluate key processes to determine which are working well and what processes could use improvement. Tracking metrics related to industry of the holders or types of property often included in findings during reviews could also help management use a risk-based approach when selecting companies for future compliance reviews.

Recommendations:

1. Management should develop, monitor, and periodically report on a full range of performance metrics that measure the performance of the Audit and Compliance Division.

2. Management should work to develop trends to evaluate the success of the program from year to year.

TRS Management Response:

Management agreed with the conditions observed by OSIG and agreed with the recommendations.

Management Corrective Action

Treasury will enhance any current metrics to include the suggested metrics above and research other possible metrics that may be helpful in measuring performance of UCP overall and UCP Compliance. The expected completion date is September 30, 2023.

FINDING 9 - UNCLAIMED PROPERTY DOES NOT HAVE AN OUTREACH PROCESS FOR VIRGINIA BUSINESSES

Unclaimed Property is responsible for ensuring that funds are properly reported and remitted to the Commonwealth in accordance with the *Code of Virginia*. Per *Code* § [55.1-2524](#), “A. Every person holding funds or other property, tangible or intangible, presumed abandoned under this chapter shall report and remit to the administrator with respect to the property...” *Code* § [55.1-2536](#). Requests for verified reports and examinations of records. states, “A. Except as otherwise provided in this chapter, the administrator may require any person that has not filed a report to file a verified report stating whether or not the person is holding any unclaimed property reportable or deliverable under this chapter...”

To help businesses comply with the *Code*, Unclaimed Property has information on their website that describes how to report, what should be reported and the possibility of penalties. Unless there is prior knowledge to report and remit, there is nothing that would lead a new or existing business to visit the website.

If businesses don’t know or understand how to report escheatments it reduces the potential for funds escheated to the Department of the Treasury for returning to the citizens of Virginia. Unclaimed Property could utilize a comprehensive list of all businesses in Virginia and email or mail outreach materials to notify businesses of their responsibilities and direct them to the website for additional information.

Recommendation:

Unclaimed Property should work with their outreach area to develop a tool that can be provided to all businesses, upfront and then new businesses in the future, to inform them of their escheatment responsibilities. The development of a comprehensive list will aid in this process.

TRS Management Response:

Management agreed with the conditions observed by OSIG and agreed with the recommendations.

Management Corrective Action

Treasury will begin to use Unclaimed Property’s current claimant outreach team to develop, document and conduct Training and Education of holders to enhance voluntary compliance. The expected completion date is December 31, 2023.

AUDIT RESULTS

This report presents the results of OSIG's audit of Unclaimed Property's audit and compliance functions. Based on the results and findings of the audit test work conducted, OSIG concluded that internal controls were operating properly except as identified in the report findings.

APPENDIX I - CORRECTIVE ACTION PLAN

FINDING NO.	RECOMMENDATION	CORRECTIVE ACTION	DELIVERABLE	ESTIMATED COMPLETION DATE	RESPONSIBLE POSITION
1	<ol style="list-style-type: none"> 1. Management should establish a process to promptly follow up on requested items that are not received from the compliance review holders. 2. Management should develop a process to ensure proper escalation of concerns related to receiving requested documentation from holders, to include using additional enforcement tools available per the <i>Code</i>. 3. Management should develop a documented process to ensure that compliance reviews are completed accurately and are reviewed and approved timely. 4. Management should consider digitizing workpapers and records management processes for their compliance reviews. 	<ul style="list-style-type: none"> • A process for reducing the original scope of an audit. The decision should be documented and the rationale should be detailed. A reduction in scope should be discussed with the Division Director prior to approval. • Actions if requests aren't provided in a timely manner. • Require inclusion of the deposit documentation in the workpapers (include in review checklist). • Improve the workpaper review process to make it more challenging and timely to correct any errors found during the review. Conduct periodic sample review of audits to ensure the original workpaper and the reviewer followed the UCP Audit Documented Procedures. • Use Word and Excel and either active directory folders, Teams, or SharePoint to organize, review, and document each Compliance Review. 	<ul style="list-style-type: none"> • Updated policies and procedures. • A new automated workpaper process 	9/30/2023	Audit Manager Director of Unclaimed Property

FINDING NO.	RECOMMENDATION	CORRECTIVE ACTION	DELIVERABLE	ESTIMATED COMPLETION DATE	RESPONSIBLE POSITION
2	<ol style="list-style-type: none"> 1. Unclaimed Property should establish specific policies and procedures for budgeting and tracking time spent on projects. 2. The compliance review process should be evaluated by management and incorporate milestones into the process to ensure that key stages of the review are completed timely. 3. Management should develop a system to monitor status of open reviews. 	<ul style="list-style-type: none"> • Planning and budgeting requirements for each review with milestones. • An audit status tracking document using Excel or possibly other Microsoft products available. • Metrics to determine UCP Compliance's capability of meeting milestones for improvement in processes or reassessment of the estimates of milestones. 	<p>Updated planning and budgeting requirements, policy, and procedures. Audit status tracking capability (Excel or Teams)</p> <p>Metrics to measure UCP Compliance's performance.</p>	9/30/2023	Audit Manager Director of Unclaimed Property
3	<ol style="list-style-type: none"> 1. Unclaimed Property should develop a process to utilize the enforcement tools provided in the <i>Code</i> to ensure compliance with requirements for submitting unclaimed property. 2. Unclaimed Property should establish written policies and procedures for the calculation, assessment, and approval of interest and penalties that align with the <i>Code</i>. These policies should also include the process required for interest and penalties to be waived, and at 	<p>Treasury will develop procedures and decision trees for the following:</p> <ul style="list-style-type: none"> • Calculation of penalties and interest based on the <i>Code of Virginia</i>. • A waiver process for penalties and interest. • A decision tree and process for granting the waiver. <p>Additionally, develop a form for the waiver request and create a spreadsheet with calculation of penalties and interest hard-coded in the spreadsheet.</p> <p>Develop a report to detail the amounts assessed, waived and collected.</p>	<p>Updated policy and procedures, waiver form, and report.</p>	9/30/2023	Audit Manager Director of Unclaimed Property

FINDING NO.	RECOMMENDATION	CORRECTIVE ACTION	DELIVERABLE	ESTIMATED COMPLETION DATE	RESPONSIBLE POSITION
	<p>what level approval is required for waivers.</p> <p>3. Management should develop a process to report on funds assessed, waived, and collected. These reports should include the number of compliance reviews where penalties and interests were charged and the reason for the charges.</p>				
4	<ol style="list-style-type: none"> 1. Identify available information that the Department of Taxation can offer related to businesses to assist in the creation of a comprehensive list. 2. Collaborate with the Department of Taxation to establish a Memorandum of Understanding, as provided for in the <i>Code</i>, to include providing new data on a periodic basis. 3. Assess the feasibility of requesting a <i>Code</i> amendment that mandates all businesses to report the presence or absence of escheatment amounts for 	<p>Treasury will develop an MOU with Taxation which will include a process for obtaining the annual file but also the sharing of information in cases around holders and claimants that may arise involving information from Taxation.</p>	MOU	10/31/2023	Director of Unclaimed Property

FINDING NO.	RECOMMENDATION	CORRECTIVE ACTION	DELIVERABLE	ESTIMATED COMPLETION DATE	RESPONSIBLE POSITION
	<p>remittance, to the General Assembly.</p> <p>4. Implement an automated data process that facilitates the uploading of updated information, enabling the efficient identification of changes in existing businesses as well as new ones. The comprehensive list, once developed:</p> <ul style="list-style-type: none"> a. Could assist with reconciling their gap analysis. b. Could identify new businesses to provide outreach. c. Could assist in selecting businesses for future compliance reviews. 				
5	1. Define the parameters for selecting businesses for compliance reviews. Document the parameters in agency policy, to include the process for exceptions and approvals.	<p>Unclaimed Property will enhance and document its process for selecting compliance review candidates. The process will include the following:</p> <ul style="list-style-type: none"> • Requirements for Revenue, Employees, Customers etc. 	Updated policies and procedures	9/30/2023	Audit Manager Director of Unclaimed Property

FINDING NO.	RECOMMENDATION	CORRECTIVE ACTION	DELIVERABLE	ESTIMATED COMPLETION DATE	RESPONSIBLE POSITION
	<ol style="list-style-type: none"> 2. Develop a risk-based approach to selecting businesses that will potentially improve the return in value to Unclaimed Property. 3. Communicate with the Report and Receipts Division of Unclaimed Property for potential businesses to audit, based on errors or concerns identified in reporting and remittance of funds. 	<ul style="list-style-type: none"> • Variations in reported amounts by year. • Gaps in reporting • Companies that have never reported but are in the Tax file UCP receives annually. 			
6	<ol style="list-style-type: none"> 1. Reviewing gaps in reporting should start with a report as of FY 2020 and continue annually. 2. Unclaimed Property should develop procedures to ensure that the process of reviewing reporting gaps can be completed to ensure timely notification of businesses that have not reported. 3. Once Unclaimed Property has fully defined the gap analysis process, the Division should work to automate the process for identifying and notifying holders. 4. Unclaimed Property can improve their compliance 	<p>Treasury will develop a policy to produce a report annually of any previously identified holders that did not report in prior years. Unclaimed Property will send a letter to any companies that did not report and track the responses.</p>	Policy and tracking report.	9/30/2023	Audit Manager Director of Unclaimed Property

FINDING NO.	RECOMMENDATION	CORRECTIVE ACTION	DELIVERABLE	ESTIMATED COMPLETION DATE	RESPONSIBLE POSITION
	review selection process by including review of the gap analysis results for holders to conduct compliance reviews.				
7	<ol style="list-style-type: none"> 1. Unclaimed Property’s Audit and Compliance Division should develop detailed policies and procedures that address each key step in the compliance review process. 2. Once developed, policies and procedures should be reviewed annually and updated as needed to reflect any changes in processes. 	<p>Improve and document procedures for the following:</p> <ul style="list-style-type: none"> • A process for calculation of penalties and interest based on <i>Virginia Code</i>. • Escalation of non-compliant and unresponsive property holders. • A decision process with defined criteria for granting waivers of penalties and interest. • Planning and budgeting requirements for each review with milestones and using the milestones in measuring UCP Audit's performance. <p>Workpaper review and approval requirements which include the amount of time acceptable before a workpaper is reviewed and what is required for the reviewer including the review being challenging review (define what is challenging in the procedures).</p>	Updated and improved policies and procedures.	10/31/2023	Audit Manager
8	1. Management should develop, monitor, and periodically report on a full range of performance	Treasury will enhance any current metrics to include the suggested metrics above and research other	Updated metrics and evidence that the metrics	9/30/2023	Audit Manager Director of Unclaimed

FINDING NO.	RECOMMENDATION	CORRECTIVE ACTION	DELIVERABLE	ESTIMATED COMPLETION DATE	RESPONSIBLE POSITION
	<p>metrics that measure the performance of the Audit and Compliance Division.</p> <p>2. Management should work to develop trends to evaluate the success of the program from year to year.</p>	<p>possible metrics that may be helpful in measuring performance of UCP overall and UCP Compliance.</p>	<p>include the suggested metrics above and are tracked and used to measure progress.</p>		<p>Property</p>
<p>9</p>	<p>Unclaimed Property should work with their outreach area to develop a tool that can be provided to all businesses, upfront and then new businesses in the future, to inform them of their escheatment responsibilities. The development of a comprehensive list will aid in this process.</p>	<p>Treasury will begin to use Unclaimed Property’s current claimant outreach team to develop, document and conduct Training and Education of holders to enhance voluntary compliance.</p>	<p>Outreach Presentation and Training</p>	<p>12/31/2023</p>	<p>Director of Unclaimed Property</p>