



Audit Report



OIG-09-024

GENERAL MANAGEMENT: Treasury Should Reactivate State-Held Federal Unclaimed Assets Recovery Program (Corrective Action Verification on OIG-02-105)

January 7, 2009

Office of
Inspector General

Department of the Treasury

Contents

Audit Report

Background	2
Objective, Scope, and Methodology.....	3
Status of Program and Corrective Actions	3
Conclusion and Recommendation	5

Appendices

Appendix 1: Schedule of Monetary Benefits	7
Appendix 2: Management Response	8
Appendix 3: Report Distribution.....	10

Abbreviations

DCFO	Deputy Chief Financial Officer
DO	Departmental Offices
FMS	Financial Management Service
JAMES	Joint Audit Management Enterprise System
OIG	Office of Inspector General
PCA	planned corrective action
TD	Treasury Directive

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*The Department of the Treasury
Office of Inspector General*

January 7, 2009

Peter B. McCarthy
Assistant Secretary for Management
and Chief Financial Officer

This report presents the results of our review of corrective actions taken by the Department of the Treasury's Departmental Offices (DO) in response to our July 2002 report on DO's state-held federal unclaimed assets recovery program.¹ Federal unclaimed assets refer to federally owned monetary assets that include savings and checking accounts, money orders, dividends, and royalties.

In our July 2002 report, we recommended that Treasury (1) centralize recovery responsibilities within Treasury, (2) inform states that Treasury will be the central liaison and recoverer, (3) perform cost analysis between in-house recovery and contracting with finders, (4) provide financial assistance to states for their recovery efforts, (5) provide states with federal agency names and their variations, (6) work with states to identify nonlisted assets, (7) reevaluate the cumbersome claiming process, (8) search assets in city and county levels, and (9) review state internal controls on unclaimed assets. At the time of our report, the program was managed by the Deputy Chief Financial Officer's (DCFO) office.

Between August 2002 and September 2004, DO closed the recommendations in Treasury's Joint Audit Management Enterprise System (JAMES). The unclaimed federal assets recovery program has been inactive since February 2005, after a DCFO employee who worked the program on a part-time basis left Treasury. We are

¹ *Federal Efforts to Recover Unclaimed State-Held Assets Face Many Challenges and Obstacles*, OIG-02-105 (July 18, 2002).

recommending in this report that Treasury reactivate the program with appropriate policies, procedures, and controls.

Background

According to Office of Management and Budget Circular A-50, audit follow-up is an integral part of good management and a shared responsibility of management and auditors.² Each agency should establish an audit follow-up system to assure the prompt and proper resolution and implementation of audit recommendations. Treasury requires bureau staff to ensure that (1) audit recommendations are resolved on a timely basis; (2) resolved audit recommendations (i.e., those agreed to by bureau management) are promptly acted upon and that progress with respect to proposed and ongoing corrective actions is adequately monitored; and (3) statistical information and other data are appropriately reported pursuant to all statutory and regulatory requirements.³

The status of audit recommendations is tracked in JAMES, an interactive system accessible to both the Treasury Office of Inspector General (OIG) and bureau management. JAMES contains tracking information on audit reports from their issuance through completion of all actions related to the findings and recommendations.

The Assistant Secretary for Management and Chief Financial Officer is responsible for ensuring the proper resolution of audit findings and recommendations and the implementation of corrective actions. The DCFO is responsible for monitoring the status of resolution of audit findings and recommendations, as well as the implementation of corrective actions of both Treasury bureaus and DO.

The DCFO's office conducted a pilot program to recover state-held federal assets from June 2001 to June 2003. Treasury's Financial Management Service (FMS) had previously managed the recovery efforts.

² Office of Management and Budget Circular A-50, revised, "Audit Follow-up" (Sep. 29, 1982).

³ TD 40-03, "Treasury Audit Resolution, Follow-Up, and Closure" (Feb. 2, 2005).

Objective, Scope, and Methodology

The objective of this corrective action verification was to determine whether the Department had taken corrective actions responsive to our recommendations for improving efforts to recover state-held federal unclaimed assets. This corrective action verification addresses the planned corrective actions (PCA) associated with the nine recommendations in our July 2002 report.

We met with staff from the DCFO's office to gain an understanding of how the office monitors recommendations in JAMES. We queried JAMES to review the status of the recommendations. We interviewed officials and staff and obtained supporting documents from the Office of Accounting and Internal Control on the status of efforts to recover state-held federal unclaimed assets.

We conducted our review during April 2008 and May 2008 at DO in Washington, D.C., in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding and conclusion based on our audit objectives.

Status of Program and Corrective Actions

The unclaimed federal assets recovery program has been mostly inactive since February 2005, after a DCFO employee who worked the program on a part-time basis left Treasury. Management told us that due to resource constraints, they decided to work only those claims that arrived unsolicited from states or the Internal Revenue Service, and the DCFO's office performed no further outreach to states. From October 2005 through November 2007, one DCFO's office employee, as an ancillary duty, processed about \$1.8 million in unsolicited claims.

Although DO closed all nine recommendations in JAMES by September 2004, the recommendations were not adequately addressed. For instance, Recommendation 3 called for performing a

cost analysis to determine an economical way to administer asset recovery duties between in-house administration and contracting with finders. The PCA description for the recommendation in JAMES states that corrective actions, if any, would be developed in conjunction with the results of the pilot program. But, in light of the nature of the recommendation, it should have been addressed independently from or as an addendum to the pilot program.

The PCA descriptions in JAMES for Recommendations 4, 5, 8, and 9 also stated that corrective actions, if any, would be linked to the results of the pilot program. Even though the pilot was completed, DO did not follow through on its commitment to develop PCAs linked to the results of the pilot program. While the asset recovery program was essentially abandoned, it has never been formally terminated. So the recommendations should not have been closed.

According to the memorandum that reported the pilot results, more than \$8 million in federal assets were recovered during the 2-year pilot period.⁴ From the time the pilot ended through November 2007, Treasury recovered approximately \$5.2 million. (This amount excludes any funds collected from July 2004 to September 2005 because the DCFO's office provided us with no recovery data for that period.) As discussed earlier, the program recovered \$1.8 million over a roughly 2-year period with passive management. Based on the pilot program experience, a lot more assets - \$8 million - were recovered when the program was actively managed.

Table: Recoveries of state-held unclaimed federal assets, 1993 to 2007

Period	1993 to June 2001	June 2001 to June 2003	July 2003 to June 2004	July 2004 to Sept. 2005	Oct. 2005 to Nov. 2007
Recoveries (in millions)	\$1.9	\$8.0	\$3.4	No data available	\$1.8
Collecting office	FMS	DCFO	DCFO	DCFO	DCFO

Source: Office of the DCFO.

⁴ During the 8 years prior to the DCFO's pilot, FMS recovered \$1.9 million of state-held unclaimed federal assets.

The memorandum also stated that the DCFO's office anticipated recovering a steady stream of assets from states if the program continued, because states were becoming more organized in managing unclaimed assets, and corporate entities and each state's county court systems were also found to hold federal assets. According to the memorandum, staffing problems presented the major challenge to continuing the program.

Estimated Savings Resulting from Reactivating the Program

The DCFO's office recovered \$3.5 million in fiscal year 2003 with just one detailee's efforts. Assuming the same annual recovery for future years,⁵ Treasury could recover \$10.5 million over the next 3 years by reactivating the program and pursuing the recovery of assets with the same efforts and resources.

Conclusion and Recommendation

We believe that the state-held federal unclaimed assets recovery program was a worthwhile effort that generated revenue for the federal government. Given the positive result of the 2-year pilot and estimated future recovery amounts, the benefits of the program are likely to exceed the costs of running it.

Therefore, we recommend that Treasury reactivate the state-held federal unclaimed assets recovery program with appropriate policies, procedures, and controls.

Management Response

In a written response dated December 10, 2008, the Assistant Secretary for Management and Chief Financial Officer recognized the need to ensure proper oversight of the state-held federal unclaimed assets recovery program, and agreed with our recommendation to reactivate the program. A corrective action plan was also provided to properly execute the program. The response is included as Appendix 2.

⁵ We are using the amount recovered in fiscal year 2003 as the basis for our estimate because it is the most recent annual recovery amount available for a full year in which the program was active.

OIG Comment

We believe the corrective action plan, if implemented as described, will address the recommendation.

* * * * *

We would like to extend our appreciation for the cooperation and courtesies extended to our staff during the review. If you have any questions, please contact me at (202) 927-5400. The major contributors to this report were Michael Maloney, Audit Director, and Myung Han, Program Analyst.

Marla A. Freedman
Assistant Inspector General for Audit

A revenue enhancement is an action recommended in an OIG audit report that would, if implemented, enhance the General Fund receipts of the federal government, usually without having any budgetary impact on any of Treasury's appropriations. The following potential revenue enhancement will be recorded in Treasury's Joint Audit Management Enterprise System. The amount will also be included in the OIG semiannual report to Congress.

<u>Recommendation</u>	<u>Revenue Enhancement</u>
Reactivate the state-held federal unclaimed assets recovery program with appropriate policies, procedures, and controls.	\$10.5 million

The potential revenue enhancement listed above represents the estimated monetary benefits Treasury will be able to receive over a 3-year period if it reactivates the state-held federal unclaimed asset recovery program. The estimate is based on the \$3.5 million that the DCFO's office recovered in fiscal year 2003.

Appendix 2
Management Response



ASSISTANT SECRETARY

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

**MEMORANDUM FOR MARLA A. FREEDMAN
ASSISTANT INSPECTOR GENERAL FOR AUDIT**

FROM: Peter B. McCarthy
Assistant Secretary for Management
and Chief Financial Officer

SUBJECT: Management Response to OIG Draft Audit Report – *Corrective Action
Verification on State-Held Federal Unclaimed Assets Recovery
Program*

I have reviewed the subject draft report and appreciate your observations. We recognize the need to ensure proper oversight of the Federal Government's State-Held Unclaimed Assets Recovery Program. Your report will help us to re-establish and improve this important federal program.

The attachment to this memorandum contains our planned action in response to your recommendation. If you have any questions, please let me know, or your staff may contact Elaine Munroe, Assistant Director of Internal Control, at (202) 622-4154.

Attachment

The original comments were signed and dated December 10, 2008.

Appendix 2
Management Response

Attachment

Recommendation: The United States Department of the Treasury should reactivate the state-held federal unclaimed assets recovery program with appropriate policies, procedures, and controls.

Corrective Action: We agree with this recommendation. To properly execute the Unclaimed Assets Program, we will ensure we operate the program on a proactive basis by (1) determining its optimum location within the Department and resolving the resource issue that contributed to it becoming a "reactive" program, (2) ensure we establish appropriate policy and procedures, and (3) ensure controls are established to properly monitor the success of the program.

Implementation Date: September 30, 2009

Responsible Officer: Deputy Chief Financial Officer

Department of the Treasury

Deputy Chief Financial Officer
Office of Strategic Planning and Performance Management
Office of Accounting and Internal Control

Office of Management and Budget

OIG Budget Examiner