



Department of Commerce Unclaimed Funds - Interest Calculation Audit

Audit Period: July 2015 through December 2015

Results Summary:

Objective	Conclusion
Interest Calculation	Well-Controlled with Improvement Needed
Claims Processing and Payment	Improvement Needed

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Executive Summary

Background

The Department of Commerce (COM) is a multi-functional regulatory agency that performs a wide array of regulatory duties across its seven operating divisions. One of these divisions, the Division of Unclaimed Funds, is responsible for the safekeeping and return of moneys designated as "unclaimed" due to death, inadvertence, or forgetfulness. State law requires these funds to be reported to the state for safekeeping after the owners have left the funds unclaimed for a period of time, typically five years. The state acts as a custodian for the funds until the rightful owners or their heirs claim the funds. Common sources of unclaimed funds include dormant checking and savings accounts, insurance proceeds, unclaimed wages and employment benefits, uncashed checks and money orders, undelivered stock and dividends, forgotten rent or utility deposits, and intangible contents of safe deposit boxes. These unclaimed funds are held in a custodial account under the Treasurer of State and until the rightful owner is located. Unclaimed funds support economic development throughout Ohio. The Ohio Development Services Agency and the Ohio Housing Finance Agency use these resources to guarantee and fund low- and moderate-income housing programs. Unclaimed funds also guarantee performance bonds for the Minority Business Bonding Fund.

In state fiscal year 2015, the program collected more than \$290 million and paid claims totaling \$76.0 million to current or former Ohio residents. The Division is a part of the Ohio Business Gateway, which allows businesses to electronically file reports and remit funds into the state's unclaimed funds account using the Automated Clearing House. In addition, the Division has a customer service tool on its website that allows the public to search for unclaimed funds and to initiate the claims process.

During the audit, OIA identified opportunities for COM to strengthen internal controls and improve business operations. OIA conforms with the *International Standards for the Professional Practice of Internal Auditing*. OIA would like to thank COM staff and management for their cooperation and time in support of this audit.

This report is solely intended for the information and use of agency management and the State Audit Committee. It is not intended for anyone other than these specified parties.



Scope and Objectives

OIA staff was engaged to perform an assurance audit related to the Unclaimed Funds interest calculations for claims payments. This work was completed March through June 2016. The scope of this audit included the key processes related to Unclaimed Funds interest calculations for claim payments.

The following summarizes the objectives of the review:

- Evaluate the design and effectiveness of controls over the Unclaimed Funds interest calculation process.
- Evaluate the design and effectiveness of controls over claims processing and payment.

Detailed Observations and Recommendations

The Observations and Recommendations include only those risks which were deemed high or moderate. Low risk observations were discussed with individual agency management and are not part of this report. However, the low risk observations were considered as part of the audit objective conclusions.



Observation 1 – Claims Processing and Monitoring

According to Ohio Administrative Code (OAC) §1301:10-4, any person who claims a property interest in unclaimed funds paid to the COM Director may file a claim for unclaimed funds. An individual submitting a claim for funds must establish ownership and/or proper authority to claim the funds. The Director is required to consider each claim within 120 days after it is filed.

The Division of Unclaimed Funds (Division) is responsible for considering and certifying claims to the Office of Budget and Management (OBM) for payment on behalf of the Director. On a daily basis, account examiners review claim forms and supporting documentation to determine whether claimants have established ownership and/or proper authority to claim the funds. In addition to the supporting documentation provided by claimants, account examiners and other authorized employees (e.g. supervisors) can search the Westlaw Clear database, which contains confidential personal information (CPI), to verify claim information such as the claimant’s current or previous address. The Division’s Clear policy limits use of the database to valid business reasons and stipulates that employee searches are subject to periodic review by the Department’s Clear Administrator. At the conclusion of the account examiner’s review, the account examiner either approves or denies the claim. The Division electronically settles and submits approved claims to OBM for payment in the Wagers system and mails denial letters to claimants whose claims are denied.

Monitoring the Status of Claims

According to Division management, the Division periodically monitors claims status reports generated by the Wagers system to identify undecided claims that are reaching or exceeding the 120-day time limit. Division management discusses these claims with the account examiners and develops a strategy to expedite the account examiner’s review and decision. Although the Division maintains copies of the status reports it uses to monitor claims, the Division does not maintain any other documentation to evidence completion of monitoring procedures. In addition, from a sample of 25 claims paid during the period July through December 2015, the Division did not pay 3 (12%) claims within 120 days after the claims were filed, as required by OAC. Specifically, the Division paid the claims between 207 and 1,718 days.

Monitoring Clear Searches:

Prior to conducting Clear searches, employees sign an acknowledgment form that they received the Clear policy and understand that violation of the policy may result in disciplinary action. Employees are also assigned a unique password to access the database and are required to enter the associated claim number for each search. The Division’s Superintendent reported that Westlaw sends a monthly report of all Clear searches to the Department’s Clear Administrator, who then forwards the report to the Division for further review. However, the Division did not review any reports during the period November 2015 through June 2016 due to a vacancy in the



Department's Clear Administrator role. The Division was also unable to provide details on how management utilizes this report to identify inappropriate searches.

Failure to establish and document monitoring procedures and to implement methods to improve efficiency and reduce claims processing time increases the likelihood that claims are not processed within 120 days as required by OAC. Also, failure to monitor employees' use of the Clear database and investigate searches that are unrelated to claims increases the likelihood that CPI is inappropriately accessed or utilized.

Recommendation

Develop and implement written policies and procedures to specifically address, but are not limited to:

- Monitoring the status of undecided claims on a periodic basis (i.e. weekly, monthly) to ensure claims are processed timely and not reaching or exceeding the 120-day time limit. Document the status of monitoring activities to evidence timely resolution of claims exceeding 120 days.
- Investigating Clear searches that are unrelated to claims on a monthly basis; including documenting a standard methodology to select the appropriate sample size of searches for each supervisor to review.

Policies and procedures should include guidelines, timeframes, and identify the individual(s) responsible for completing and documenting the monitoring procedures including reporting significant issues to the Division Superintendent.

Management Response

The division takes its responsibilities very seriously and works diligently to comply with all applicable statutory and administrative rules as well as departmental and division policies. While the division strives to process claims in the required time frame, due to budgetary constraints, the division has limited number of Claims Examiners to review claims. As a result, it is not always possible given the volume of claims, complexity of claims, and time of year and outreach program (E.g. a posting on Face Book resulted in 63,000 claims in 2 days) to review all claims within the required time frame. Sometimes, a review of the claim history would appear to show that the claim has been in the Examiner's basket for a long period. However, a careful review would show that the claim may have been dropped from the review process for lack of sufficient supporting documents, and the claimant provided the documents several months later for the claim to be reinstated for review.

The Division is currently working with the Deputy Director of Strategic Planning/Lean Liaison to streamline the claims process. This will allow the Division to make process improvements to



simplify the claims review process and gain efficiencies to process claims within the 120-day time frame. Once the examination is complete the division will draft new written policies and procedures. The division will examine its processes to determine where efficiencies can be gained in order to eliminate the three percent of claims that are not processed timely. After the examination is complete and if appropriate, the division will draft new written policies and procedures that help ensure the timely processing of claims.

The division monitors its aging claims by running the In-basket report on a monthly basis to track claims reaching or exceeding the 120-day limit. Copies of the report are emailed to the Supervisor and the Examiners and after they have reviewed them, they report action taken to management. The division will document the review of the aging reports.

The division did investigate CLEAR searches quarterly. However, that responsibility had been handled by an individual that retired during the audit period in question and has not been backfilled at this point in time. A new agency CLEAR Administrator has been appointed and she will distribute CLEAR reports to the division's manager responsible for randomly testing CLEAR searches for each employee on the report in the Wagers database to determine if the searches are related to claims. In addition, the division will review its policies and procedures as they relate to investigating Clear searches that are unrelated to claims on a quarterly basis.

Risk*	Remediation Owner	Estimated Completion Date
Moderate	Superintendent, Division of Unclaimed Funds	September 2016

Due to the limited nature of our audit, we have not fully assessed the cost-benefit relationship of implementing the observations and recommendations suggested above. However, these observations reflect our continuing desire to assist your department in achieving improvements in internal controls, compliance, and operational efficiencies.

* Refer to Appendix A for classification of audit observations.



Appendix A – Classification of Conclusions and Observations

Classification of Audit Objective Conclusions

Conclusion	Description of Factors
Well-Controlled	The processes are appropriately designed and/or are operating effectively to manage risks. Control issues may exist, but are minor.
Well-Controlled with Improvement Needed	The processes have design or operating effectiveness deficiencies but do not compromise achievement of important control objectives.
Improvement Needed	Weaknesses are present that compromise achievement of one or more control objectives but do not prevent the process from achieving its overall purpose. While important weaknesses exist, their impact is not widespread.
Major Improvement Needed	Weaknesses are present that could potentially compromise achievement of its overall purpose. The impact of weaknesses on management of risks is widespread due to the number or nature of the weaknesses.

Classification of Audit Observations

Rating	Description of Factors	Reporting Level
Low	Observation poses relatively minor exposure to an agency under review. Represents a process improvement opportunity.	Agency Management; State Audit Committee (Not reported)
Moderate	Observation has moderate impact to the agency. Exposure may be significant to unit within an agency, but not to the agency as a whole. Compensating controls may exist but are not operating as designed. Requires near-term agency attention.	Agency Management and State Audit Committee
High	Observation has broad (state or agency wide) impact and possible or existing material exposure requiring immediate agency attention and remediation.	Agency Management and State Audit Committee