



**New Jersey State Legislature
Office of Legislative Services
Office of the State Auditor**

**Department of the Treasury
Unclaimed Property Administration**

July 1, 2014 to August 31, 2015

**Stephen M. Eells
State Auditor**

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New Jersey State Legislature

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Enclosed is our report on the audit of the Department of the Treasury, Unclaimed Property Administration for the period of July 1, 2014 to August 31, 2015. If you would like a personal briefing, please call me at (609) 847-3470.

Stephen M. Eells
State Auditor
December 28, 2015

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Scope

We have completed an audit of the Department of the Treasury, Unclaimed Property Administration (UPA) for the period July 1, 2014 to August 31, 2015. Our audit included financial activities accounted for in the state's General Fund, the Unclaimed Personal Property Trust Fund, the Unclaimed Child Support Trust Fund, the Unclaimed County Deposits Trust Fund, the Unclaimed Insurance Payments on Deposit Accounts Fund, and the Unclaimed Utility Deposits Trust Fund.

The prime responsibility of the UPA is to return abandoned or lost tangible and intangible property to its rightful owners or heirs. In fiscal year 2015, the cash value of unclaimed property received by the UPA was \$263.6 million and total claims paid were \$123.2 million. New Jersey Statutes require that 75 percent of all funds received in the Unclaimed Personal Property Trust Fund be transferred to the General Fund unless the administrator deems it prudent and advisable to do otherwise. The remaining funds are retained in the trust fund, invested, and used to pay claims. Transfers to the General Fund averaged \$229 million for fiscal years 2012 through 2014.

Objectives

The objectives of our audit were to determine whether financial transactions were related to the administration's programs, were reasonable, and were recorded properly in the accounting systems. An additional objective was to determine if the UPA was meeting its statutory responsibilities administering the program.

This audit was conducted pursuant to the State Auditor's responsibilities as set forth in Article VII, Section I, Paragraph 6 of the State Constitution and Title 52 of the New Jersey Statutes.

Methodology

Our audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In preparation for our testing, we studied legislation, the administrative code, circular letters promulgated by the Department of the Treasury, and policies of the UPA. Provisions we considered significant were documented and compliance with those requirements was verified by interview, observation, and through our testing of financial transactions. We also read the budget messages, reviewed financial trends, and interviewed agency personnel to obtain an understanding of the programs and the internal controls.

A nonstatistical sampling approach was used. Our samples of financial transactions were

designed to provide conclusions on our audit objectives as well as internal controls and compliance. Sample populations were sorted and transactions were judgmentally and randomly selected for testing.

Conclusions

We found the financial transactions included in our testing were related to the UPA's programs, were reasonable, and were recorded properly in the accounting systems. In making this determination, we have identified opportunities to enhance revenue and debt collection and improve unclaimed property reporting. We also noted a change in legislation could provide cost savings and the ability to increase outreach efforts. We also determined the UPA was meeting its statutory responsibilities administering the program; however, there is approximately \$38.6 million in cash property from out-of-state owners that should be returned to the respective states.

We also made an observation concerning the potential to increase life insurance distribution to beneficiaries or to escheat property to the UPA.

Outreach

Online Advertising

The UPA should report all eligible unclaimed property on the third-party website.

The Unclaimed Property Administration (UPA) provides the ability for potential owners to search for unclaimed property through the use of a third-party website. For unclaimed property to be reported on the website, it must either have a cash value of at least \$100 or consist of at least eight shares of stock. Property must have been previously advertised in the newspaper, the name and address must be listed, and the property must be marked as claimable in the system. A review of unclaimed property as of July 17, 2015 detailed up to 304,000 cash properties valued at \$274.4 million and up to 12,000 stock properties totaling 10 million shares that should have been included on the website, but were not. These properties were coded as not to be included in the web file when data was converted to a new computer application in 2005. As a result, owners are unable to search for these properties on the website. However, the unlisted properties would be included in claims processing if the owners had additional property for which they filed claims. A random sample of 33 properties on the excluded list disclosed 14 owners having other properties reported on the website.

Recommendation

We recommend the UPA include all eligible property excluded during the conversion on the website.

Newspaper Advertising

New Jersey Statutes require the UPA to advertise in newspapers even though readership has declined significantly.

New Jersey Statutes require the UPA to publish newspaper advertisements providing the name and address of the owner of newly reported unclaimed property no later than November 30, or in the case of life insurance property, no later than September 1. The UPA must advertise in each county's highest general circulation newspaper of the last known address of the reported owner. The UPA expended \$1.1 million on newspaper advertisements in fiscal year 2015.

Recent New Jersey Press Association (NJPA) and Audit Bureau of Circulation data disclosed that newspaper advertisements are reaching fewer people due to the declining circulation of newspapers. The data shows that newspaper circulation declined approximately 36 percent from 1993 to 2009. We analyzed United States Census Bureau and NJPA data and estimated that paid circulation to New Jersey residents over age 18 is between 12 percent and 14 percent per day.

Twenty-three states do not require owners of unclaimed property to be reported in newspaper

advertisements. Changing the statutory requirement would allow the UPA to use additional funds for other forms of outreach.

Recommendation

We recommend the UPA consider seeking statutory changes to redefine the requirement of newspaper publications associated with the New Jersey Statute. Savings could enable the UPA to pursue other means of outreach.

Identifiable Owners

The UPA should perform additional outreach to locate property owners.

A review of the unclaimed property database as of July 17, 2015 disclosed properties with owners listed as state universities and colleges, counties, and hospitals. A search of the unclaimed property database using key terms such as the state university and college name, county name, or “hospital” noted \$4.3 million in unclaimed property to these owners. Owners of these properties should be relatively easy to locate with additional effort.

Recommendation

We recommend that the UPA periodically search for easily identifiable owners and perform additional outreach to reunite them with their properties.

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Holder Reports

The UPA should enhance its efforts to obtain holder reports and balance holder reports in a timely manner.

Holder reports are submitted to the Unclaimed Property Administration (UPA) detailing properties that have been abandoned based on time periods listed in the New Jersey Statutes. Businesses that are incorporated in New Jersey or have a business presence in New Jersey are required to submit holder reports annually. UPA policy states that businesses not remitting unclaimed property in a given year must submit a negative report indicating that they do not possess New Jersey unclaimed property. Many of these entities would also be required to file New Jersey Corporate Business Tax (CBT) returns.

The UPA received approximately 29,000 holder reports with a cash value of \$508.9 million during fiscal years 2014 and 2015. Our match of reports submitted in those two fiscal years to businesses that filed New Jersey CBT returns for tax year 2014 noted 116,000 businesses that did not submit a report, of which 32,600 had gross receipts greater than \$1 million. The UPA has a 13-person audit unit that searches for unclaimed property not previously reported. During

fiscal year 2015, 178 audits were completed whereby \$44.8 million in unclaimed property was found. However, considering the number of businesses not submitting reports, there is significant risk that material unclaimed property remains outside the trust funds.

Our review of holder reports submitted between July 1, 2013 and December 31, 2014 noted 127 reports totaling \$1.2 million that had not yet been properly balanced as of May 20, 2015. We had included fiscal year 2013 in our review as a measure to determine if holder report balancing was untimely. A report is balanced when the summary of the report agrees with a detailed listing of the property on the report, and the property reported agrees to the property remitted by the holder. Claims cannot be paid or advertised if the holder report is not balanced. After informing the UPA of our results, they balanced these holder reports.

Recommendation

We recommend the UPA work with the Division of Revenue and Enterprise Services to obtain a listing of businesses that are registered with the State of New Jersey and enforce the requirement to submit holder reports. We also recommend that the UPA ensure that holder reports are balanced timely.



Out-of-State Property

Approximately \$39 million in cash property is being held for owners not residing in New Jersey.

A Supreme Court of the United States decision in 1965 established that unclaimed property is first escheated to the state of the owner's last known address. If the owner's address is not known, the property will be escheated to the state of incorporation of the holder. The UPA estimated \$38.6 million in cash property belonging to owners whose last known address was out-of-state was being held in their trust funds as of August 17, 2015. Additionally, these properties are not listed on the third-party website. These properties should be transferred to the respective states.

Recommendation

We recommend the UPA comply with the Supreme Court decision and return the unclaimed property to the states of the owners' last known address.



Debt Recovery

The UPA can increase state debt collection by matching claimants to SOIL records.

The Department of the Treasury, Division of Taxation Set-Off of Individual Liability (SOIL) program withholds payments to taxpayers who have outstanding tax debts, obligations to other state agencies, or debt to the federal government. The Unclaimed Property Administration (UPA) is not required to verify if claimants have any state or federal debt. A review of the SOIL database noted that up to \$1.3 million of claims paid in fiscal year 2015 could have been recovered for outstanding SOIL debt had a match been completed. Of the \$1.3 million, \$152,000 was paid in interest.

Recommendation

We recommend the UPA match owners with Taxation's SOIL records and, prior to payment, withhold any amounts these owners owe. The UPA should seek legislation if it is determined they do not have the authority to offset these debts.



Observation

Life Insurance Policies

New Jersey does not have a law that requires insurance companies to perform a match with the Social Security Administration's Death Master File (DMF) to determine if life insurance policy holders are deceased in order to distribute money to beneficiaries. A 2015 legislative update by the National Association of Unclaimed Property Administrators indicates that 18 states have passed legislation requiring this match to be performed. A 2011 investigation by the State of New York resulted in approximately 89,000 payments totaling \$665.7 million to beneficiaries who were unaware of these policies. Of the \$665.7 million, payments of \$206.2 million were made to residents of New York.

The Unclaimed Property Administration is currently auditing several life insurance companies to determine if these companies have unclaimed life insurance proceeds that can be turned over to New Jersey beneficiaries or escheated to the state. Our analysis of holder reports noted \$41.6 million and \$60.5 million submitted by life insurance companies in fiscal years 2014 and 2015, respectively. If state law required life insurance companies to perform matches to the DMF, additional property would be distributed to beneficiaries or escheated to the state.





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December 17, 2015

Mr. John J. Termyna, Assistant State Auditor
Office of the State Auditor
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Trenton, New Jersey 08625-0067

Dear Mr. Termyna:

This is in response to your letter dated November 30, 2015 concerning the Office of Legislative Services, Office of the State Auditor (OSA) draft audit report for the Unclaimed Property Administration (UPA) for the period of July 14, 2014 through August 31, 2015. The UPA appreciates the opportunity to review and respond to the draft audit report.

The UPA would like to take this time to thank the OSA. OSA's professional approach and intensive review of the UPA's operations and policies has provided the UPA with opportunities to improve and advance our mission of collecting, managing, and returning unclaimed property to its rightful owners.

The main objective of the audit was to determine whether the UPA's financial transactions were reasonable and recorded properly within the State's accounting system, New Jersey Comprehensive Financial System (NJCFS). Additionally, the audit sought to determine whether the UPA was meeting its statutory responsibilities in administering the unclaimed property program.

The UPA is pleased the audit concluded that the UPA was not only meeting its statutory responsibilities but that all financial transactions were reasonable and properly recorded within NJCFS.

Notwithstanding the above, the draft audit report identified a few areas which could provide the UPA an opportunity for improvement.

The UPA has outlined the recommendations and provided a response below:

OUTREACH

Online Advertising

Recommendation:

We recommend the UPA include all eligible property excluded during the conversion on the website.

UPA Response:

The UPA agrees with this recommendation and has already taken the steps needed to add this data to our partner website, missingmoney.com. The resulting property can now be located through a name search on the website.

Newspaper Advertising

Recommendation:

We recommend the UPA consider seeking statutory changes to redefine the requirement of newspaper publications associated with the New Jersey Statute. Savings could enable the UPA to pursue other means of outreach.

UPA Response:

The UPA supports this recommendation and has discussed various solutions to this concern in years past. Legislative support would be needed to move this recommendation into action.

Identifiable Owners

Recommendation:

We recommend that the UPA periodically search for easily identifiable owners and perform additional outreach to reunite them with their properties.

UPA Response:

The UPA is dedicated to reuniting as much property as possible with its rightful owners. The UPA is currently working on an outreach effort with those affected by Superstorm Sandy. The UPA Outreach unit is committed to identify creative ways to locate property owners.

HOLDER REPORTS

Recommendation:

We recommend the UPA work with the Division of Revenue and Enterprise Services to obtain a listing of businesses that are registered with the State of New Jersey and enforce the requirement to submit holder reports. We also recommend that the UPA ensure that holder reports are balanced timely.

UPA Response:

The UPA supports this recommendation and is also committed to ensuring that all holder reports are balanced timely.

OUT-OF-STATE PROPERTY

Recommend:

We recommend the UPA comply with the Supreme Court decision and return the unclaimed property to the states of the owners' last known address.

UPA Response:

The UPA is aware of the obligation and is currently working on exchange agreements with the States for which the UPA received property for owner(s) where the reported address is not a NJ address.

DEBT RECOVERY

Recommendation:

We recommend the UPA match owners with Taxation's SOIL records and, prior to payment, withhold any amounts these owners owe. The UPA should seek legislation if it is determined they do not have the authority to offset these debts.

UPA Response:

While the UPA has discussed and would be amenable to such actions, the nature of the Unclaimed Property Statute is such that the UPA hold unclaimed funds in a custodial manner and do not have the authority to send the funds to others agencies where the property owner(s) has a debt obligation. Legislative action would be necessary to provide this ability to the UPA.

OBSERVATION

Office of the State Auditor:

New Jersey does not have a law that requires insurance companies to perform a match with the Social Security Administration's Death Master File (DMF) to determine if life insurance policy holders are deceased in order to distribute money to beneficiaries.

If state law required life insurance companies to perform matches to the DMF, additional property would be distributed to beneficiaries or escheated to the state.

UPA Response:

The UPA supports this observation. Legislative support would be necessary to pursue this action.

In closing, the UPA appreciates the opportunity to respond and again, thank you to your audit staff for their diligence and professionalism.

Sincerely,



Steven R. Harris
Administrator

c: Ford M. Scudder, Acting State Treasurer
Steven M. Petrecca, Associate Deputy State Treasurer