

**UNCLAIMED PROPERTY
HELD BY THE STATE OF MICHIGAN**

OIG File No. 21-0001-AUD



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EXECUTIVE SUMMARY

The Inspector General would like to thank the Detroit Treasury for its cooperation and assistance with these agreed upon procedures.

A. Conclusions

Based on information from the Detroit Treasurer and State, the OIG determined that the Detroit Treasury and the State did attempt to coordinate efforts to transfer the Unclaimed Property due to the City which is held by the State. Unfortunately, there were and still are several roadblocks that hinder their progress, as outlined below:

1. The checks/money orders related to the Unclaimed Funds were initially issued approximately three years prior to being submitted to the State. According to Michigan Law, any amount “unclaimed by the owner for more than 3 years after it becomes payable or distributable is presumed abandoned.”¹ Therefore, the City may no longer be owed certain funds because of the time that has passed. For example, if the funds are for the payment of City Property Tax that are now delinquent, those funds are payable to Wayne County on March 1st of the following year, therefore the City would not be the appropriate payee of delinquent property taxes.
2. The State’s Unclaimed Property staff cannot readily provide the City with specific information, (i.e., the name of the individual and/or property address for which the funds were initially issued.)

Since 2015, the Detroit Treasury initiated efforts to recover, reduce and prevent Unclaimed Property items transferred to the State of Michigan as follows:

1. Four Detroit Treasury employees are assigned to research the Unclaimed Property held by the State as well as unidentified checks recently received by City departments.
2. Detroit Treasury is working with the entities that have previously escheated Unclaimed Property to the State to prevent it in the future.
3. Detroit Treasury began collecting property taxes through DivDat² kiosks in 2015. In addition, Detroit Treasury established bank lockboxes to collect other amounts due to the City (e.g., income taxes, property taxes, etc.) Both of these services should reduce the number of items that result in Unclaimed Property held by the State in the future.

¹ Michigan Uniform Unclaimed Property Act, being Public Act 29 of 1995, as amended, § 567.223 Sec. 3

² DivDat is a collection of kiosks throughout the City of Detroit through which individuals can make income and property tax payments as well as other City related bills.

B. Findings

1. OCFO's current policies and procedures for addressing unclaimed funds does not include the requirement for departmental personnel, who open the mail for each department, to forward all checks and "written notices"³ related to unclaimed property to the OCFO.
2. Presently, companies that submit unclaimed property (i.e., cash for attempted payments to the City) to the State have been unable to provide the City Treasury with records and/or supporting documentation that would explain the original reasons for the payments that have become unclaimed property.

C. Recommendations

1. OCFO should implement a directive, including policies and procedures requiring non-financial personnel to send all checks to their ODFS agent.
2. Treasury should report the companies that have not maintained supporting documentation related to unclaimed property in compliance with State requirements to the State Unclaimed Property Department.

³Act 25 of 1995 Sec. 567.238 (5) Not less than 60 days or more than 365 days before filing the report required by this section, the holder in possession of property presumed abandoned and subject to the state's custody as unclaimed property under this act shall send written notice to the apparent owner at his or her last known address informing him or her that the holder is in possession of property subject to this act

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I. Audit Purpose

A. Objective

The objective of the Office of Inspector General's (OIG) agreed upon procedures with the City of Detroit Office of the Chief Financial Officer (OCFO) – Office of the Treasury Office (Detroit Treasury) was to assist the Treasury obtain Unclaimed Property funds payable to the City of Detroit held by the State of Michigan Treasurer (State).

B. Scope

The scope of the OIG's agreed upon procedures is limited to the items identified on the State's Unclaimed Property website totaling \$622,320.75, as of October 4, 2021. For this phase of the engagement, the scope focused on the items attributed to the City of Detroit on the State's Unclaimed Property List which were reported to the State between April 26, 2021 and August 17, 2021 totaling \$215,656.28.

C. Methodology

Detroit Treasury has agreed to and acknowledges that the procedures performed are appropriate to meet the intended purpose of collecting Unclaimed Property held by the State. Additionally, Detroit Treasury has agreed to and acknowledged that the procedures performed are appropriate to meet their purposes. This report may not be suitable for any other purpose. The procedures performed may not address all the items of interest to the user of this report and may not meet the needs of all users of this report. As such, users are responsible for determining whether the procedures performed are appropriate for their purpose.

The OIG performed the following procedures on the Unclaimed Property that are attributed to the City that are currently held by the State:

1. Reviewed the State of Michigan Unclaimed Property list to determine the items that appear due to the City of Detroit.
2. Contacted the State to verify the City of Detroit as the payee and the purposes for the each identified payment (i.e., income taxes, property taxes, etc.)
3. Identified and documented the payers, purpose for payments and amounts of Unclaimed Property items.
4. Determined and coordinated efforts between the Detroit Treasury and the State to obtain the funds due and payable, now and in the future, to the City of Detroit.
5. Documented the process which can result in successfully obtaining funds payable to the City of Detroit from the State.
6. Provided recommendations to Treasury to ensure continued monitoring and collection of Unclaimed Property due to the City that is held by the State.

D. Standards

These procedures of engagement were conducted in accordance with the Generally Accepted Governmental Auditing Standards (GAGAS) issued by the Comptroller General of the United States. The GAGAS standards require that the OIG plans and performs the audit and non-audit procedures (i.e., agreed upon procedures) to obtain sufficient and appropriate evidence in support of the OIG findings and conclusions, as identified in our objectives.

E. Authority and Role

The OIG's authority to perform these procedures of engagement is established in the 2012 Charter of the City of Detroit,⁴ Section 7.5-306 which states in part:

The Inspector General shall:

- 1. Investigate any Public Servant, city agency, program or official act, contractor and subcontractor providing goods and services to the City, business entity seeking contracts or certification of eligibility for City contracts and person seeking certification of eligibility for participation in any city program, either in response to a complaint or on the Inspector General's own initiative in order to detect and prevent waste, abuse, fraud and corruption.*

The OIG performed these agreed upon procedures, with the Treasury, to detect and prevent waste. These procedures of engagement are therefore limited to reviewing funds held by the State that may be due to the City to determine whether and how the City can receive the unclaimed funds from the State more efficiently.

II. Background

A. Unclaimed Property

The State established a manual to "help organizations file unclaimed property reports."⁵ "Michigan's Unclaimed Property (UP) program is governed by the Michigan Uniform Unclaimed Property Act, Public Act 29 of 1995 (Act). The program is administered by the Michigan Department of Treasury and it serves as the State's central depository for abandoned and unclaimed property. The Michigan State Treasurer is the administrator of the Act and acts as custodian of the property on behalf of the owner."⁶ The State requires companies submitting unclaimed property to retain copies of reports and supporting records for ten years for items. Information on the unclaimed property report must be supported by an adequate audit trail.⁷ In addition, the manual states the dormancy period for items payable to a municipality

⁴ As adopted by a vote of the People November 8, 2011 effective January 1, 2012 Article 7.5 Independent Department's and Offices Chapter 3. Office of Inspector General.

⁵ State of Michigan Department of Treasury Unclaimed Property Manual for Reporting Unclaimed Property, Revised February 2021, pg., iv

⁶ Ibid, Notice to Holders, Page iv

⁷ Ibid, Chapter 1, General Information-Recordkeeping, Page 1-3

(i.e., city) is one year.⁸ The State maintains these funds and documents the payees of unclaimed funds on a database. By law, every 6 months, the State must publish the list of items held by the State in a newspaper that has state-wide circulation.⁹

According to Carrie Best, Michigan Departmental Analyst, as of October 4, 2021 the State was holding 651 items totaling \$622,320.75 that appear to be payable to the City¹⁰. Unfortunately, Ms. Best was unable to provide information (i.e., company check numbers, parcel numbers for property tax, social security numbers for income tax, etc.) that would assist the City to confirm that the properties held by the State belonged to the City. Specifically, the City stated without a person's name, address or the purpose of the payment, the City cannot determine the proper account to credit the payments once Detroit Treasury claims ownership.

B. City of Detroit Treasurer

According to the former City Treasurer Christa McLellan, the OCFO has attempted to collect unclaimed funds held by the State. She provided a form C7006¹¹ dated June 24, 2015. The form documents 339 items totaling \$432,256.10. The value of each item ranged from \$0.30 to \$14,051.87. However, the form does not provide specific information about the individuals, or property for which the payments were made and the reasons for the payments made to the City (i.e., property tax, income tax, etc.). Furthermore, there is no contact information (e.g., telephone numbers or addresses) that would allow Detroit Treasury to request the information. According to Ms. McLellan, due to the absence of this type of information, Treasury cannot determine how and where to record the funds in the financial records or to whom the payments should be attributed.

In addition, the payments are believed to be from 3 to 13 years old when the State receives them. Therefore, Detroit Treasury cannot claim some of the funds because they are no longer payable to the City. For example, the State is currently collecting municipal income taxes, including delinquent taxes. Additionally, delinquent property taxes become payable to Wayne County (County) on March 1st of each year. Therefore, any payments for these transactions would not be City property. Treasury believes it would be inappropriate for the City to collect funds that are due to the County or State.

On May 24, 2018, the OCFO issued a directive¹² with the purpose of establishing “policies regarding the collection, custody and deposit of monies and to outline[ing] specific cash handling procedures for departmental use.” The “Scope” identified by the directive is, “...all City of Detroit locations where payments are accepted.” However, based on the OIG’s understanding of the circumstances that result in

⁸ Ibid, Chapter 2, Reporting Specific Property-Governmental Agencies/Authorities, Public Schools, Courts, Page 2-3

⁹ Michigan Uniform Unclaimed Property Act (Act), being Public Act 29 of 1995, as amended, § 567.239 Sec.

¹⁰ State of Michigan form 5634, Claim ID: 3249685 dated October 04, 2021.

¹¹ A form produced by the Department of Treasury listing the unclaimed property held by the State of June 15, 2015.

¹² City of Detroit Office of the Chief Financial Officer CFO Directive No. 2018-109-001, Purpose

Unclaimed Funds, the issue arises when City of Detroit departmental staff that is not responsible for accepting payments receive checks without forward the checks to a location that is equipped to accept and process the funds.

Justin Bahri, Interim Deputy CFO/Treasurer, indicated that he had contact information for six of the organizations who had reported 49 items totaling \$105,116.86. Based on the OIG's review of the State's Manual regarding Unclaimed Property, "Copies of reports and supporting records must be kept for ten years. Information on the unclaimed property report must be supported by an adequate audit trail."¹³ Therefore, when these companies transfer funds which belongs to the City to the State, the companies should have information or documentation which Detroit Treasury needs to determine whether or not to collect the funds from the State.

In addition, in 2018 the Treasury has created a procedure to ensure checks ODFS staff receives are handled properly, therefore reducing the risk of Unclaimed Funds in the future. Mr. Bahri provided a flowchart of the process related to the "Treasury Check Identification and Processing Procedure" (TCIPP). As a result of the issuance of this directive and TCIPP, the CFO has received 20 unidentified checks from various City departments and was able to successfully determine the appropriate purposes for the payments. The City was able to ensure the proper disposal of two checks and the deposit of the remaining 18 checks totaling \$115,150.72. These checks possibly could have resulted in Unclaimed Funds in coming years if not properly researched and deposited.

III. Agreed Upon Procedures

A. Review of Unclaimed Property List

The OIG initiated this engagement based on its identification of 49 items that appeared payable to the City on the State's Unclaimed Property website. The website did not include the monetary value of the items. Upon the OIG's request, Detroit Treasury provided a list it received from the State upon a previous inquiry. The list is dated June 24, 2015, and documents 340 items totaling value of \$432,256.10.

B. Coordination with the State of Michigan

The OIG contacted the State Treasury for an updated Unclaimed Property list for the City. Ms. Best provided an updated list, dated October 4, 2021. The new list documented 651 items totaling \$622,320.75. The individual amounts of the items ranged from \$0.02 to \$37,229.63.

Ms. Best reviewed State information in an attempt to assist Detroit Treasury with the determination of whether funds belong to the City. Unfortunately, she was unable to

¹³ State of Michigan Department of Treasury Unclaimed Property Manual for Reporting Unclaimed Property, Revised February 2021, Recordkeeping, page 1-3.

provide much information that would be useful for the collection of the Unclaimed Property payable to the City.

C. Classification of Unclaimed Property

Due to the large number of items, the OIG and Treasury agreed to focus on the 215 items reported to the State in 2021. The OIG categorized the items by the 11 “Type of Property” codes identified by the State as follows:

Type of Property	Quantity	Value
Accounts Payable	55	\$51,472.61
Cashier Checks	108	\$65,419.42
Credit Balance – Accounts Receivable	1	\$3.25
Customer Overpayment	1	\$1,000.00
Escrow Accounts	9	\$1,965.22
Individual Policy Benefit/CLM	5	\$896.00
Misc. Outstanding Checks	3	\$1,829.31
Money Orders	1	\$46.50
Outstanding Official Check	9	\$1,058.68
Premium Refunds	1	\$488.00
Vendor Checks	17	\$89,384.33
Warrants – State of Michigan ¹⁴	5	\$2,092.96
Total	215	\$215,656.28

When presented with this information, Treasury identified 40 items for which they had contact information to follow up with the payers.

Payee	Count	Value
DFCU Financial	5	\$1,462.61
DTE Energy Company	5	\$78,411.29
Greektown Casino LLC	8	\$16,084.00
Olympia Entertainment Inc	1	\$1,200.00
State of Mi-DMB	5	\$2,092.96
Vanguard Health Systems Inc.	25	\$5,866.00
Total	49	\$105,116.86

Detroit Treasury has committed to contacting these organizations to determine the purposes of the payments. Once the identification of the items that are due to the City, Detroit Treasury will contact the State to obtain or decline the funds.

¹⁴ The October 2021 list provided by the State documents 13 items, including the 5 in 2021, with a value of \$23,072.88 as Warrants from the State of Mi-DMB.

D. Obtaining funds from the State

Ms. Best provided an updated list of items that appear to be payable to the City. However, as of the time of this report, the OIG and Detroit Treasury have not been able to collect any funds from the State. Unfortunately, neither the State nor the City has the information necessary to confirm which items on the list are actually payable to the City, or the debt or revenues to which they are related. Ms. Best indicated that once the City determines and requests the items that are payable to the City, she will process payment of the funds to the City.

According to the State manual related to Unclaimed Property, the companies that turn funds over to the State must maintain copies of records to provide an adequate audit trail related to Unclaimed Property. OIG recommends that Detroit Treasury consider this in its efforts to retrieve information regarding Unclaimed Property.

E. Documenting the Process for Collecting Unclaimed Property

To date, the OIG and Detroit Treasury have not successfully collected any funds from the State. However, as mentioned above, Treasury has identified organizations for which they have contact information and are actively contacting them to obtain the purposes for the payments.

Unfortunately, the checks and money orders that were escheated to the State in 2021 were initially issued in 2018. Once the organizations escheat the funds to the State, they no longer record the payments in their financial records. However, the State requires the companies to maintain an adequate audit trail and supporting documentation for the items they turn over. Therefore, the companies should be able to provide the information necessary for Detroit Treasury to collect the funds that are due to the City.

The Unidentified Check Process that Detroit Treasury has developed is a good blueprint for the Unclaimed Property Process once Detroit Treasury determines the items that belong to the City.

V. Findings and Recommendations

A. Policies and Procedures for Non-Financial Personnel

Finding

The “Scope” of CFO Directive No. 2018-109-001 indicates the directive applies to all City of Detroit locations where payments are accepted. However, unclaimed property items frequently do not come through the locations where payments are traditionally accepted by the City. Therefore, it is important that City employees who are not responsible for accepting payments but receive checks through the mail, are instructed to send any checks they receive to the ODFS. The City of Detroit Charter

requires the Finance Director to direct and coordinate financial activities of the Detroit Treasury and other OCFO divisions.

Recommendation

The CFO should establish policies and procedures instructing non-OCFO departmental personnel who are not generally responsible for accepting payments to forward all checks and the accompanying envelope and supporting documentation, when appropriate, to the ODFS.

B. Absence of Supporting Documentation for Unclaimed Property

Finding

Although Detroit Treasury has attempted to contact some companies on the list, the companies have indicated they are not aware of the details related to the amounts turned over to the State. However, according to the State Unclaimed Property Manual:

- a) Copies of reports and supporting records must be kept for ten years. Information on the unclaimed property report must be supported by an adequate audit trail.
- b) Under the Michigan Uniform Unclaimed Property Act, the Michigan Department of Treasury has authority to examine the books/records of entities, their subsidiaries, and affiliates, to determine whether they are compliant with the Act. The examination will relate to all property subject to escheat under the Act, spanning the previous ten reporting years.

Recommendation

The OIG recommends that Detroit Treasury inform the State Unclaimed Property Department that a selected list of companies are not in compliance with the State's Unclaimed Property requirements, as they have not been diligent in their record keeping practice which essentially resulted in the City's inability to verify and claim the money that is due to the City.

VI. Response from OCFO/Treasurer

The OCFO/Treasurer administration provided input as to the agreed upon procedures performed as well as the information in this report.