



**INDEPENDENT
AUDITOR'S REPORT
ON APPLYING
AGREED-UPON
PROCEDURES For
ESCHEAT FUNDS
FOR FISCAL YEARS
ENDED JUNE 30,
2020, 2019 AND 2018**

City Auditor, Josh Pasch

December 30, 2021



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Office of the Comptroller

Josh Pasch, City Auditor

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Baltimore, Maryland 21202

**INDEPENDENT AUDITOR'S REPORT ON APPLYING
AGREED-UPON PROCEDURES For ESCHEAT FUNDS FOR FISCAL YEARS
ENDED JUNE 30, 2020, 2019 AND 2018**

To Director of Department of Finance,

We have performed the procedures enumerated on page 3, which were agreed to by the Department of Finance (DOF) solely to assist you in evaluating the Baltimore City's (City) compliance with State of Maryland (State) requirements for reporting the Escheat Funds, and if there are documented policies and procedures in place to track potential escheat funds to comply with the State reporting and remittance requirements for the periods ended June 30, 2020, 2019 and 2018. The DOF management is responsible for the items listed in the Report (see page 3). The sufficiency of these procedures is solely the responsibility of the DOF management. Consequently, we make no representation regarding the sufficiency of the procedures enumerated on page 3 either for the purpose for which this report has been requested or for any other purpose.

This agreed-upon procedures engagement was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States, except for peer review requirements. We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on the City's compliance with the State of Maryland requirements for reporting the Escheat Funds. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

We are required to be independent of DOF and to meet our ethical responsibilities, in accordance with the relevant ethical requirements related to our agreed-upon procedures engagement.

Independent Auditor's Report On Applying Agreed-Upon Procedures for Escheat Funds

This report is intended solely for the information and use by the honorable members of the Board of Estimates, City Council, and management and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully,

Josh Pasch

Josh Pasch, CPA
City Auditor Baltimore City, Maryland
December 30, 2021

Cc:

- Honorable Members of the Board of Estimates
- Christopher Shorter, City Administrator

**Results of Applying Agreed-Upon Procedures for Escheat Funds for
Fiscal Years Ended June 30, 2020, 2019 and 2018**

Agreed-Upon Procedures	Results	Comments
<p>1. Verify that the department controls all escheat funds through separate accounts that are subject to a high level of internal control.</p>	<p>Exception was noted as a result of applying the procedure. The DOF does not control escheat funds through separate General Ledger accounts that are subject to a high level of internal control.</p> <p>We reviewed the transactions in the accounts provided by both Bureau of Revenue Collections (BRC) and Bureau of Accounting and Payroll Services (BAPS) and found that transactions recorded in the accounts were not exclusively escheat fund transactions but also included transactions for various types of overpayments and credits (i.e. tax credits, tax abatements, property tax re-assessments).</p>	<p>The cause of the noted exceptions are DOF does not have formal policies and procedures for escheat funds. Formal policies and procedures promote compliance, accountability, consistency, and sustainability.</p> <p>In accordance with the Government Finance Officers Association's (<i>GFOA Best Practices, Policies and Procedures Documentation, Best Practices</i>), "GFOA recommends that every government should document its accounting policies and procedures. It should delineate the authority and responsibility of all employees, especially the authority to authorize transactions and the responsibility for the safekeeping of assets and records. Likewise, the documentation of accounting policies and procedures should indicate which employees are to perform which procedures."</p>
<p>2. Verify that the current controls require that all transactions in and out of the accounts have supervisor review and approval.</p>	<p>Exception was noted as a result of applying the procedure. Neither BRC nor BAPS had evidence that all transactions in and out of the accounts have supervisor review and approval.</p>	<p></p>
<p>3. Verify that current processes require the capture and retaining of sufficient data on the name, last known address, last transaction date payment was due, identifying number e.g. check number of the escheat funds owner to enable the</p>	<p>No exception was noted as a result of applying the procedure.</p>	<p>We recommend the Director of DOF establish and implement formal (written, approved, dated) policies and procedures that include the following but are not limited to:</p>

Agreed-Upon Procedures	Results	Comments
<p>department to properly report the escheat funds to the state.</p>		
<p>4. Verify that current processes require follow up on outstanding checks after six months or on more regular basis through prescribed due diligence letter by first class mail (not after two or three years when the trail is cold).</p>	<p>Exception was noted as a result of applying the procedure. Treasury, BAPS and BRC do not require follow-up on outstanding checks after six months or on a more regular basis through prescribed due diligence letters by first class mail. Also, BAPS did not send prescribed due diligence letters, which are legal requirements, to:</p> <p>(1) Fiscal Year 2020 - all owners of payroll escheated funds; and</p> <p>(2) Fiscal years 2018 through 2020 - 23 of 30 selected owners tested.</p>	<ul style="list-style-type: none"> Account for all escheat fund transactions in a separate set of General Ledger accounts to ensure that transactions in and out of the accounts are properly identified and that access to such accounts are limited to those responsible for properly identifying and processing escheat fund transactions; Delineate the authority and responsibility of all employees, especially the authority to authorize transactions and the responsibility for safekeeping of assets and records;
<p>5. Verify that the department maintains all records for escheat funds for eight years in compliance with State statute of limitations.</p>	<p>Exception was noted as a result of applying the procedure. Neither BAPS nor BRC were able to provide any record retention policy for escheat funds for eight years as required by State statute of limitations. This is a legal requirement.</p>	<ul style="list-style-type: none"> Follow up on outstanding checks after six months or on a more regular basis rather than its current policy to only send due diligence letters after three years of dormancy;
<p>6. Verify that the department has filed timely annual escheat funds reports including negative reports (if any) certifying they have no escheat funds for Fiscal Years ended June 30, 2020, 2019 and 2018.</p>	<p>Exception was noted as a result of applying the procedure. The DOF did not timely file BAPS' and Payroll's annual escheat funds reports for Fiscal Years ended June 30, 2020.</p>	<ul style="list-style-type: none"> Maintain all records for escheat funds for eight years in accordance with the State of Maryland Unclaimed Property

Agreed-Upon Procedures	Results	Comments
	<p>In accordance with the <i>State of Maryland Unclaimed Property Division, Holder Reporting Manual</i>, "For the period ending June 30th, the report is due October 31st of the same year." The BAPS Unclaimed Property File Upload for Fiscal Year ended June 30, 2020 was dated December 28, 2020 and the payment check in the amount of \$146,710.83 was dated December 29, 2020; nearly two months past due. In addition, the Payroll Unclaimed Property File Upload for Fiscal Year ended June 30, 2020 was dated May 3, 2021 and the payment check in the amount of \$70,555.24 was dated March 31, 2021; payment five months past due and the report six months late.</p>	<p>Division's Holder Reporting Manual; and</p> <ul style="list-style-type: none"> Outline specific timelines and dates for each step in the escheatment process to be completed.
<p>7. Verify that all checks and wire transfers for escheat funds were made payable to the Comptroller of the State of Maryland, correct web address and to the correct bank account.</p>	<p>No exception was noted as a result of applying the procedure.</p>	
<p>8. Verify the penalty payable to the Comptroller of the State of Maryland, if any, for failure to comply the escheat funds statutes.</p>	<p>No exception was noted as a result of applying the procedure. Although DOF did not timely file its BAPS escheat funds report for Fiscal Years ended June 30, 2020 and the Payroll annual escheat fund report for the Fiscal Year ended June 30, 2020, the Comptroller of Maryland did not assess a penalty for either BAPS or Payroll.</p>	

Management's Response

Date: December 13, 2021

To: Josh Pasch, City Auditor

Subject: Management Response to Independent Auditor's Report on Applying Agreed-Upon Procedures for Escheat Funds for Fiscal Years Ended June 30, 2020, 2019, and 2018

Our responses to the agreed-upon procedures findings and recommendations are as follows:

Recommendation # 1

We recommend the Director of DOF establish and implement formal (written, approved, dated) policies and procedures that include the following but are not limited to:

- Account for all escheat fund transactions in a separate set of General Ledger accounts to ensure that transactions in and out of the accounts are properly identified and that access to such accounts are limited to those responsible for properly identifying and processing escheat fund transactions;
- Delineate the authority and responsibility of all employees, especially the authority to authorize transactions and the responsibility for safekeeping of assets and records;
- Follow up on outstanding checks after six months or on a more regular basis rather than its current policy to only send due diligence letters after three years of dormancy;
- Maintain all records for escheat funds for eight years in accordance with the State of Maryland Unclaimed Property Division's Holder Reporting Manual;
- Outline specific timelines and dates for each step in the escheatment process to be completed.

Management Response / Corrective Action Plan

Agree **Disagree**

- BAPS Accounting Manager will establish a segregated General Ledger account to ensure escheated funds are clearly distinguished from other refund payments made by DOF and transactions will be approved by supervisor prior to posting.
- The DOF will clarify lines of authority and responsibility for roles within the process between BAPS, BRC and Treasury Management. Supervisors in BAPS will clearly sign-off and document all payment of funds to the State of Maryland.
- The BAPS will work with Treasury Management to review the current proposed Workday configuration in order to identify and timely process due diligence letters as recommended.

- The BAPS will work with Baltimore City Information Technology to establish a centralized repository (or electronic folder) to consolidate records associated with escheated funds year by year.
- The DOF will develop the workflow and timeline for steps in the escheatment process by January 15, 2022.

Implementation Date: July 1, 2022

Action Plan Milestone(s):

- Develop the workflow and timeline for steps in the escheatment process – January 15, 2022
- Review current proposed Workday configuration in order to identify and timely process due diligence letters as recommended. – April 30, 2022
- Finance will work with BCIT to establish a centralized repository to consolidate escheatment records - April 30, 2022
- Finance will establish a segregated General Ledger account – July 1, 2022

Responsible Personnel:

- Karen Tolley, Chief of BAPS, DOF