



**RESULTS OF THE
CONTRACT PERFORMANCE AUDIT
OF THE UNCLAIMED PROPERTY
CONTRACT AUDITOR—
AFFILIATED COMPUTER SERVICES, INC.,
UNCLAIMED PROPERTY CLEARINGHOUSE**

PRESENTED TO:

**JOHN CHIANG
CALIFORNIA STATE CONTROLLER
P.O. Box 942850
SACRAMENTO, CA 94250-0001**

PRESENTED BY:

**MGT OF AMERICA, INC.
455 CAPITOL MALL, SUITE 600
SACRAMENTO, CALIFORNIA 95814
916-443-3411**

JANUARY 7, 2008

MGT 
OF AMERICA, INC.

TABLE OF CONTENTS

Executive Summary	1
Introduction	2
Request for Audit	3
Scope and Methodology	3
Audit Standards	3
Audit Scope.....	3
Audit Results.....	5
Recommendations	11
Affiliated Computer Services, Inc., Response to the Audit Report.....	13

EXECUTIVE SUMMARY

At the request of the California State Controller's Office (SCO), MGT of America, Inc., (audit team) conducted an independent review of contract compliance by Affiliated Computer Services, Inc. (ACS), Unclaimed Property Clearinghouse (UPCH) for the collection and remittance of unclaimed property to SCO. The scope of the review was limited to UPCH's contract compliance.

The audit team found no evidence to indicate that UPCH was negligent in remitting unclaimed property to the state. Although the audit revealed some instances where UPCH did not fully comply with certain contract requirements, most of these matters did not appear to have a material negative impact to the state. However, the audit findings include:

- ◆ The mutual clients and service offerings between subsidiaries of ACS have the appearance of and potential for a conflict of interest. In fact, the audit team found two instances where UPCH reported property to SCO for an unclaimed property holder that was also reporting voluntarily through another ACS subsidiary. Although the two entities appear to have been reporting different types of property, this arrangement appears to be an exception to the conflict-of-interest provisions of its contract. The audit team found another instance where an ACS subsidiary was acting as a liquidating agent for a holder and UPCH remitted the property to SCO for a fee—another apparent violation of its contract. In response to these issues, UPCH management offered to return to SCO the \$18,194 in fees it received for these transactions.
- ◆ The UPCH is not always diligent in communicating with holders the specific requirements defined in the contract regarding California's unclaimed property laws and obtaining written acknowledgments from the holders, such as acknowledgements that the holder attempted to notify owners of the existence of their property for the purposes of due diligence.
- ◆ The UPCH sometimes takes more than a year to conduct audits without requesting an extension from SCO—as required during the contract period March 19, 2004 to March 18, 2007.
- ◆ The audit team found one instance where UPCH inappropriately billed SCO \$605 for unclaimed property submitted on behalf of one holder.

The audit team's complete findings and recommendations are in the *Audit Results* section of the report and the UPCH response to the audit is on pages 13 and 14.

INTRODUCTION

As of June 30, 2007, the state of California received more than \$5.3 billion in unclaimed property from approximately 8.7 million individuals and organizations. Unclaimed property is defined as tangible and intangible property that have been abandoned or left inactive by the owner. Some common types of unclaimed property are bank accounts, cashier's checks, uncashed payroll checks, safe deposit boxes, stocks, mutual funds, bonds, dividends, money orders, certificates of deposit, matured or terminated insurance policies, and other types of intangible property. Entities known as "holders" that might have unclaimed property include, but are not limited to, corporations, business associations, financial institutions, and insurance companies. Fifty states as well as the District of Columbia and Puerto Rico require holders to submit unclaimed property. Most types of property escheat to the state when left abandoned or inactive for three years or more. The SCO administers the state's Unclaimed Property Law and is responsible for reuniting lost and abandoned property with their rightful owners, safeguarding these properties from being used by private interests for personal gain, and educating and notifying holders of their obligations under the unclaimed property laws.¹

As a part of its effort to promote holder compliance with California's Unclaimed Property Law, SCO contracts with vendors, including UPCH of ACS, for the identification and collection of the state's unclaimed property from holders whose principal place of business is outside of California. Founded in 1988, ACS is a *Fortune 500* company that is included in the Standard and Poor's 500, operates 750 global locations, and employs more than 58,000 people. Acquired by ACS in 1998, UPCH staffing consists of approximately 150 full-time employees and consultants, and is the largest reporter of unclaimed property in the nation. The UPCH contracts with nearly all 50 states, Washington D.C., and Puerto Rico to perform unclaimed property auditing services. These contract-auditing services include UPCH initiated holder records processing or "voluntary" audits and state initiated audits or "involuntary" audits. In a contract voluntary audit, UPCH first contacts and receives approval from the holder to process records and identify unclaimed property. If the holder maintains California property, UPCH requests approval from SCO to collect and submit the property on behalf of the state. In a contract involuntary audit, the state requests an audit on its behalf. The UPCH has performed both voluntary and involuntary contract audits for SCO and SCO pays UPCH a percentage basis fee if it identifies unclaimed property for California residents or companies.

According to its contract with SCO, entities subject to audits by UPCH on behalf of SCO must be incorporated and meet the following conditions:

- ◆ Have its principal place of business and records outside the state of California.
- ◆ Have its principal place of business located in the state of California but maintains and stores its records outside the state of California.
- ◆ Have its principal place of business located outside the state of California but maintains and stores its records within the state of California.

¹ California Code of Civil Procedure, Title 10, Chapter 7—Unclaimed Property Law, Section 1500 et seq. and related statutes.

Additional conditions include:

- ◆ Where the last known address of the apparent owner—according to the books and records of the property holder—is in the state of California, the property shall be deemed reportable to the state of California.
- ◆ If the holder has never maintained records setting forth the last known address of the apparent owner, the property shall be deemed reportable to the state of incorporation of the holder.

Although the identification and reporting of unclaimed property is the key provision in the UPCH contract with SCO, the contract also includes several requirements for UPCH to communicate or provide information to the holder and for the holder to provide information or acknowledgments back to UPCH. These communications are discussed further in the *Audit Results* section of this report.

REQUEST FOR AUDIT

The SCO requested that MGT provide independent audit services to determine whether UPCH complied with its audit contract requirements during the contract period March 19, 2004 to March 18, 2007, and to provide a summary report of findings and recommendations.

SCOPE AND METHODOLOGY

AUDIT STANDARDS

We conducted the audit in accordance with generally accepted government auditing standards promulgated by the Comptroller General of the United States. These standards pertain to the auditor's professional qualifications, the quality of the audit effort, and the characteristics of professional and meaningful audit reports. By following these standards, the audit team ensured the independence and objectivity of the audit team, the analysis, and the resulting findings and recommendations offered in this report. The audit team limited its review to the areas specified in the following scope section.

AUDIT SCOPE

In general, the audit team applied a number of approaches to obtain the information necessary to accomplish the objectives of this audit. The SCO contract with UPCH specifies the procedures UPCH must follow when identifying and collecting unclaimed property. The contract contains specific rules related to receiving SCO authorization for processing records, conducting due diligence in collecting and remitting property, maintaining appropriate custody of unclaimed property, paying claims, remitting unclaimed property, and delivering information to the state.

To develop an in-depth understanding of the issues and potential outcomes pertaining to each task, the audit team interviewed SCO and UPCH management and staff; reviewed documents such as contracts, proposals, reports; and both UPCH and SCO files.

To understand the functional activities related to collecting unclaimed property, the audit team reviewed SCO and the National Association of Unclaimed Property Administrators (NAUPA) guidelines.

To gain an industry perspective the audit team reviewed Internet resources, national standards, and news articles for areas that fell within the scope of the audit.

To determine whether the contractor complied with the contract terms, the audit team reviewed and tested a sample of 41 holder audit files maintained by UPCH for compliance with contract terms, and reviewed and validated required documentation and reports submitted by UPCH to SCO. The total dollar amount of escheated property included in the audit team's sample was \$98,351,623 and represents 41.3 percent of the \$237,995,622 escheated to SCO by UPCH during the three-year contract period.

The MGT audit team reviewed UPCH's policies, procedures and processes, and tested a sample of holder files to verify and confirm contractor activities related to:

- ◆ Identifying and collecting unclaimed property.
- ◆ Authorization of records processing.
- ◆ Use of due diligence—holders of property are required to notify owners that their property is in danger of being handed over (escheated) to the state.
- ◆ Preparation of unclaimed property reports and monthly cumulative status reports.
- ◆ Use of safekeeping custodial services/custody of unclaimed property.
- ◆ Remittance of unclaimed property.
- ◆ Delivery of unclaimed property information to the state.

AUDIT TEAM

Tyler Covey, CPA, CMA, Partner-in-Charge

Faye Borton

Loretta Hall, CISA, CISSP

Candice King

Nori Hirasuna

AUDIT RESULTS

In the following sections, the audit team presents specific contract compliance provisions within the scope of the audit and its determination whether UPCH complied with these provisions for the period March 19, 2004 to March 18, 2007. Overall, the audit team found that UPCH complied with most but not all of the provisions of its SCO contract.

Contract Requirement—Special Contract Terms—Conflict of Interest. The contractor or any affiliated company are prohibited from contracting with a holder for abandoned property services while the contractor is providing services on behalf of SCO to that holder, until the complete delivery of any unclaimed property to SCO.

Exhibit D of the contract between UPCH and SCO addresses conflicts of interest and describes the nature of an affiliated company as a company that is “under common control with, controlled by or controlling.” Specifically, this section prohibits UPCH—or any affiliated company—from:

- ◆ Contracting “with a holder to provide unclaimed property processing services required to assure ongoing annual compliance with the statute for a fee payable by such holder during the time that the contractor is processing records relating to property of such holder for a fee payable by the State hereunder.”
- ◆ “Engage or enter into a contract with a potential unclaimed property owner identified in the records of the holder for a fee.”
- ◆ “Contracting with (or otherwise attempting to sell to) a holder for abandoned property services while the contractor is providing services on behalf of SCO to that holder, until the complete delivery of any unclaimed property due the state of California has been made.”
- ◆ Entering “into any agreements with the holder that are adverse to the interests of the state.”

The section further requires that UPCH “maintain independence in mental attitude in accordance with the AICPA Professional Standards AU Section 220.” The contractor should not only be independent in fact, but should avoid situations that may lead others to doubt its independence.

Finally, the contract states, “The prohibitions contained in this section apply with equal force to any entity affiliated with the contractor. The contractor will not be permitted to identify and collect unclaimed property from any affiliated entity or any holder from whom an affiliated entity provides shareholder, accounting, or consulting services to the holder pursuant to this contract.”

In summary, these provisions are necessary to provide accountability and mitigate the potential for conflicts of interest that may be adverse to the interests of the state. However, the relationship between UPCH and two affiliated companies gives the appearance of a potential conflict of interest and is a situation that may lead others to doubt UPCH’s independence.

As noted earlier, UPCH provides unclaimed property for the state of California and all other states. However, another ACS subsidiary, Unclaimed Property Recovery and Reporting (UPRR) also provides services to holders to assist in the voluntary identification and remittance of unclaimed property to the state of California. A third ACS subsidiary, ACS Securities, on at least

one occasion has acted as a liquidating agent under agreement with the general partner of a limited partnership.

The SCO, on behalf of the audit team, requested a list of UPRR clients so the audit team could determine whether UPCH and UPRR conducted unclaimed property reviews for the same clients. Upon comparison, the audit team identified 27—of the 95 companies provided on the UPRR client list—that appear to have received services from both UPCH and UPRR. The audit team reviewed the property submissions for 2 of the 27 holders and found in both instances that UPRR and UPCH each reported property to SCO. The managing director of UPCH confirmed that both UPRR and UPCH worked with the same holders, but he stated that UPCH was unaware of the UPRR contracts until we brought it to their attention. In addition, he stated that each company reviewed and reported on different types of property—the UPRR contracts are for nonsecurities and the UPCH only reviewed securities. He further stated that the property types listed on the UPRR reports were incorrectly marked as securities related property. However, the SCO could not confirm that the type of property listed on the UPRR reports was in error because UPRR submitted the property in cash. The managing director of UPCH told the audit team that he believes that UPCH provided value-added services and that although no actual conflict of interest exists, he could understand how the arrangement could be viewed as inconsistent with the spirit of the contract. He offered to refund the collection fees if the SCO so desired. Based on SCO files, the collection fees paid to UPCH for these two reviews totaled \$6,532.

The audit team also found instances in which ACS Securities appeared to be acting as the transfer agent for property holders audited by UPCH. For the two examples we pursued, UPCH's vice president of contract management explained that one was a reporting error and that ACS Securities was not the transfer agent. He explained that the reporting error was due to a transfer agent using ACS Securities' software to perform certain services for the holder—making it appear as if ACS Securities completed the work. However, in the second example, the vice president explained that ACS Securities was acting as the liquidating agent for a holder. When the time came to remit unclaimed property, the holder no longer existed. As a result, ACS Securities engaged UPCH to file the subject report to the states, including SCO. The vice president acknowledged the error and reported that UPCH will promptly return the \$11,662 fee to SCO or issue a fee credit, and pay interest since the date of the payment. Although the vice president contends that UPCH reviewed every other audit for the subject contract period to ensure that there were no other instances where ACS Securities was the agent or provided accounting, shareholder, or consulting services, the audit team did not verify his assertions.

Contract Requirement Section—Authorization of Records Processing. The contractor shall request authorization from SCO to identify, process, and collect unclaimed property from a holder for any and all categories of unclaimed property in a format set forth by the SCO. The SCO will attempt to approve or deny the contractor's request within 60 days. If the contractor is not notified in writing of SCO's decision within the 60-day period, the request is deemed denied.

Section III.B. of the contract between UPCH and SCO outlines the requirements UPCH must follow in order to obtain authorization from SCO to process records or conduct a voluntary audit for California unclaimed property. The UPCH consistently requests authorization from SCO in the format required. Specifically, for each applicable audit file reviewed, the audit team found that UPCH submitted the authorization forms in the format required.

However, the audit team reviewed 36 voluntary audits for timing of approval and collection of property and for four of them UPCH instructed the holders to remit property to UPCH prior to obtaining approval from SCO. Further, for these four audits conducted in 2004, UPCH actually received the California property from the agent prior to obtaining approval to represent SCO in the matter and conduct the audit. According to the UPCH managing director, UPCH procedures were inconsistent prior to 2005 for seeking SCO approval; but UPCH has since tightened its procedures and the problem was rectified.

Although, the contract does not prohibit conducting audits and remitting property prior to SCO authorization, the contractor is at risk that SCO may not pay for the audit in such circumstances. However, the audit team did not find any instances where SCO took exception to the conduct of these audits and SCO paid the appropriate fees to UPCH. In fact, the SCO chief legal counsel told the audit team that the contract obligates UPCH to collect and deliver any California unclaimed property it identifies because the property escheats by operation of law once the conditions for escheatment are met. Therefore, in cases where UPCH conducted audits on behalf of other states and identified California property, these specific approval procedures are irrelevant. According to a UPCH vice president, these approval requirements are unique to California, as no other state requires UPCH to submit approval forms for unclaimed property it identifies through voluntary audits.

Contract Requirement—Identification and Collection Procedures. Contractor shall identify, process reports, collect, and deliver all types of SCO-approved unclaimed property from persons, firms, and entities that are holding unclaimed property subject to report and delivery to California.

The UPCH is subject to specific contract requirements on involuntary audits for identifying, collecting, and remitting property to SCO. Specifically, Sections III.A and IV of its contract with SCO require UPCH to:

- ◆ Prepare and submit unclaimed property reports and transfer securities in accordance with SCO requirements.
- ◆ Instruct holders and/or their agents to relinquish property.
- ◆ Maintain working papers for each holder reviewed.
- ◆ Advise holder(s) that all property reported and remitted must conform to the California Code of Civil Procedure, Section 1500 et seq., and that the holder is not exempt from any section of this Unclaimed Property Law.
- ◆ Obtain a letter of authorization confirming the engagement of the contractor from each holder, and *not* the holder's agent, prior to requesting records from the holder or its agent.
- ◆ Notify holder(s) in writing of penalties for willfully refusing to pay or deliver escheated property.
- ◆ The review period shall consist of a minimum of the current and ten prior reporting cycles.²

² A reporting cycle is generally a one-year period.

- ◆ If the amount of reportable property cannot be ascertained from the books and records of the holder, statistical estimation techniques may be used for such periods. All sampling and statistical estimation techniques used by the contractor shall be in accordance with professional standards (for example, Statement of Auditing Standards No. 39, promulgated by the American Institute of Certified Public Accountants).

The audit team found that for the audit files tested, UPCH met many of the contract requirements for identifying and collecting unclaimed property. For example, UPCH collects authorized property types and submits required reports to SCO. According to UPCH procedures and the files tested, UPCH only conducts audits on holders meeting geographic location, business incorporation, and record maintenance requirements; and only collects unclaimed property with the last known address of the owner being in California. The UPCH also forwards reports and property to SCO and transfers securities appropriately.

Although UPCH was largely compliant with the requirements for these sections, UPCH does not always inform the holder in writing of penalties for willfully refusing to pay or deliver unclaimed property to the state as required in its contract with SCO for involuntary audits. Specifically, only two of the five involuntary audit files reviewed contained notification letters and these letters came directly from the state, not UPCH.

Contract Requirement—Due Diligence. The contractor shall advise each holder of the provisions in law for attempting to notify owners of unclaimed property. The contract requires each holder to confirm in writing that these (due diligence) provisions have been carried out, prior to demanding any property.

Section III.D of the contract between UPCH and SCO specifically requires UPCH to ensure each holder confirms in writing that due diligence provisions have been carried out. The contract requires UPCH to obtain this signed statement from the holder prior to demanding the property or to notify SCO if the holder did not conduct due diligence, or if there is no holder confirmation letter on file.

Although UPCH generally notifies holders or their agents of due diligence requirements and requires them to confirm in writing that due diligence has been carried out prior to demanding property, it does not always retain these certifications on file or notify SCO when it does not obtain them. According to UPCH staff, for six of the 41 audits we reviewed, it determined that due diligence was unnecessary because of the lack of property owner addresses or because it conducted the audit using statistical analysis. However, for ten of the remaining 35 audits, signed statements confirming that due diligence was performed were not on file. Further, the audit files did not contain any evidence that UPCH notified SCO of these instances of noncompliance, as required. After the audit team brought these items to their attention, UPCH staff contacted holders and obtained statements that due diligence was performed prior to escheatment for four of the ten audits. For the other six audits, UPCH staff provided other evidence such as unsigned statements or acknowledgements that due diligence would be performed; however, it could not provide signed statements that due diligence had been performed. According to the managing director of UPCH, its policy is to confirm that due diligence has been completed prior to starting an examination and he believes due diligence was performed in these cases. Obtaining a signed statement from the holder that it attempted to locate and contact lost owners is a contract requirement—regardless of other UPCH documentation of or knowledge that due diligence was performed.

Contract Requirement—Provision of Unclaimed Property Reports and Monthly Cumulative Status Reports. The contractor shall provide a monthly cumulative status report listing all holders identified by the contractor and from whom the contractor collected or is in the process of collecting unclaimed property. The contractor shall also notify holders in writing and obtain the holders' acknowledgment of their ongoing responsibility to file unclaimed property reports directly to SCO.

The UPCH is required to provide specific unclaimed property and cumulative monthly status reports in accordance with Section III.C of its contract with SCO. Specifically, UPCH is required to provide monthly cumulative status reports as well as cumulative aggregate reports; submit reports in proper formats; and notify holders in writing of reporting responsibilities.

The UPCH is not fully compliant with these reporting requirements. Although UPCH reports aggregate amounts on the SCO required form for each remittance and notifies SCO in writing of the aggregate amounts for each reporting cycle, it does not send cumulative reports that include all holders approved for audit—as required by the contract. The UPCH staff stated that they have worked for years with SCO to develop the reports and that they would be happy to provide cumulative reports if SCO desires.

The contract also requires UPCH to obtain the holders' acknowledgment of their responsibility to file unclaimed property reports. The contract requires UPCH to maintain this acknowledgment and to make it available to SCO on request. However, for two of the 41 files reviewed, no such acknowledgment was in place. According to a UPCH vice president, the holder and SCO communicated directly concerning the ACS voluntary audit and issues were resolved between the SCO and holder, so UPCH did not obtain the acknowledgment.

Contract Requirement—Custody of Unclaimed Property (Safekeeping Custodial Property). The contractor shall obtain approval from SCO prior to entering into a contractual relationship with any custodian.

Section III.F of its contract requires UPCH and its custodians to provide safekeeping custodial services and for UPCH to obtain approval from SCO prior to entering into any contractual relationship with a custodian. The contract also requires the custodian to segregate California's unclaimed property into a separate account for SCO and to acknowledge that the provisions are for the benefit of SCO. As such, the contract prohibits UPCH from commingling funds with any other unclaimed property that may be in safekeeping. In addition, UPCH or its custodian cannot pledge, assign, hypothecate, encumber, or take ownership of any securities.

According to UPCH staff, UPCH's cash custodian is Mellon Bank and security custodian is Mellon Security Services. UPCH received inherent approval of the custodians from SCO via their inclusion in the UPCH contract proposal to the SCO, and the SCO's acceptance of that proposal.

Contract Requirement—Payment of Claims. The contractor shall obtain holder's written understanding that the holder is responsible for paying all owner claims up to the time of successful delivery to SCO. This understanding and acknowledgement is a condition precedent before SCO authorizes the contractor to process a holder's unclaimed property records. Additionally, the contractor shall notify the holder that SCO will reimburse claims paid by the holder subsequent to the contractor's delivery of property to SCO and reimbursement may be cash in lieu of securities.

Section III.G of its contract with SCO requires UPCH to obtain the holder's written understanding that the holder is responsible for paying all owner claims up to the time a completed unclaimed property delivery has been made, successfully uploaded on SCO database, and verified by SCO. The contract requires this written understanding before UPCH processes a holder's unclaimed property records. The contract also requires UPCH to inform the holder that SCO will make reimbursements for claims paid by the holder subsequent to the contractor's delivery of property to SCO, but that these reimbursements may be cash in lieu of securities.

In the 41 audit files reviewed, the audit team found no evidence of acknowledgements from the holder that the holder is aware of its responsibility for paying claims up to the time the property is delivered to SCO or that UPCH informed the holder about the reimbursement process. According to the managing director of UPCH, the staff works closely with SCO and holders to ensure property is in fact returned to owners that reappear to claim their property from the time UPCH receives the property until it is delivered to SCO. He also explained that UPCH devotes resources to assisting owners in recovering property collected by UPCH, even after UPCH transfers the property to SCO. UPCH's failure to follow this process is a violation of its contract terms and may result in misunderstandings from holders seeking reimbursement, who are not aware that the escheated securities may be liquidated and that the price at liquidation may be lower than the price at the time the holder requests reimbursement.

Contract Requirement—Remittance of Unclaimed Property. The contractor is required to deliver property within one year, reconcile the amounts of delivery, and inform holders of certificate requirements.

Sections III.H of UPCH's contract with SCO requires it to deliver property within one year from SCO authorization unless an extension has been granted by SCO, and contains reconciliation and notice provisions for the delivery of property. The contract also contains a provision for the reporting and payment of interest to SCO for the time elapsed between collection of cash funds and remittance to SCO. The UPCH must also inform the holder of SCO regulations related to submission of stock and maintain certain information about the equities escheated. Finally, the contract requires UPCH to notify SCO one day in advance of any fund transfers.

The audit team found that in most instances tested, UPCH met the contract terms. For example, UPCH appropriately paid interest on every applicable invoice reviewed (where UPCH held cash funds) and UPCH informs the holders of SCO regulations related to the remittance of equities. However, UPCH does not always complete the identification and delivery of property within one year. Specifically, for 15 of the 41 audit files the audit team reviewed, UPCH submitted property to SCO more than one year after SCO authorized UPCH to conduct the audit. In addition, no request for audit extension was on file for nine of the 15 that exceeded the one-year period. For the seven files containing an extension letter, the letter was undated. Although UPCH was not in strict compliance with this requirement for the contract period tested, in its subsequent contract with SCO, the SCO eliminated the requirement for the extension to be "in writing."

The UPCH staff confirmed that their process did not always include requesting extensions from SCO because when audits take more than one year, UPCH simply reduces its fees accordingly. Exhibit B of the UPCH contract with SCO states that the fee paid on property not delivered within one year from SCO's authorization will be reduced regardless whether an extension has been granted. Of the 15 submitted beyond one year, all were paid at the required reduced rate.

The audit team found an instance where UPCH inappropriately billed the SCO for unclaimed property submitted on behalf of one holder. Specifically, although UPCH was entitled to bill SCO a \$158 fee for the first year submission in 2004, it failed to do so. According to the UPCH managing director, in 2006, staff erroneously billed SCO a fee of \$763 for additional property submitted. He further stated that UPCH will refund or provide a fee credit to SCO—for the difference between the \$158 it should have billed and the \$763 it actually billed—and that his review of records revealed no similar occurrences. Finally, the audit team found that UPCH generally sends the wire transfer notice on the day of the actual wire transfer instead of the day before—as required by the contract.

Contract Requirement—Delivery of Unclaimed Property Information to the State.

The contractor is required to report unclaimed property successfully to SCO before delivery is considered complete.

The UPCH is required to provide documentation for the complete delivery of unclaimed property in accordance with Section III.I. The SCO ensures that UPCH completely delivers all property and required documentation and does not pay UPCH until after approval of each submission.

RECOMMENDATIONS

To mitigate the potential for UPCH violations of the conflict-of-interest provisions of the contract, SCO should modify the terms of the contract to contain provisions relating to co-ownership of firms that contract with both the state and the holders, including provisions to protect the state's best interests.

The UPCH should promptly reimburse SCO for the estimated \$6,532 in fees identified in this report and any others that it or the SCO subsequently identifies.

To determine whether UPCH had actual conflicts of interest, the SCO should conduct a detailed review of the property submissions from the other 25 identified holders that worked with both UPCH and UPRR.

To better ensure contract compliance and accountability to SCO, UPCH should:

- ◆ Consistently obtain and retain evidence of the completion of due diligence procedures and notify SCO in writing about any exceptions.
- ◆ Be diligent in communicating with holders the specific requirements defined in the contract regarding California's unclaimed property laws and retaining written acknowledgements from holders, such as acknowledgements that holders are aware of their responsibility to continue to file unclaimed property reports.
- ◆ Attempt to complete, where within the control of UPCH, all audits within specified time limits.
- ◆ Obtain and retain written holder acknowledgement regarding potential penalties for involuntary audits.
- ◆ Ensure that it does not submit property on behalf of any one holder to SCO for a fee for more than one year.

*Results of the Contract Performance Audit of the Unclaimed Property Contract Auditor –
Affiliated Computer Services, Inc., Unclaimed Property Clearinghouse*

- ◆ Reimburse SCO for erroneous billings or provide a fee credit for the \$11,662 and \$605, plus interest, identified in this report.
- ◆ Send cumulative reports that include all holders approved for audit.
- ◆ Send wire transfer notices the day before the wire transfer occurs.



Lynden Lyman
*Senior Vice President
& Managing Director*

December 21, 2007

Mr. Tyler Covey
Principal
MGT of America, Inc.
455 Capitol Mall
Suite 600
Sacramento, CA 95814

RE: ACS RESPONSES TO AUDIT

Dear Tyler:

ACS appreciates the professionalism and open-mindedness with which MGT performed this audit. The audit process was constructive in that it did identify a few areas where procedures could be improved upon. ACS will carefully consider the audit findings, together with the recently completed SAS 70 report as compiled by Grant Thornton (see below). ACS is committed to continuous process improvement and will generally implement all recommendations made by ACS.

AVOIDANCE OF CONFLICTS OF INTEREST

It has been the practice at ACS to avoid any exchange of client information between the UPRR and UPCH groups. As a result, the lack of communication between UPRR and UPCH could result in actions being independently undertaken which, although unintended, might be inconsistent with conflict of interest provisions such as those contained in the contract with the California State Controller's Office. Accordingly, ACS will be implementing policies and procedures to facilitate the cross-referencing of UPRR and UPCH work to check for potential conflicts of interest before new projects are undertaken.

PERFORMANCE OF DUE DILIGENCE

UPCH takes due diligence very seriously and insures that due diligence was adequately performed before requesting the delivery of examinations findings are requested. In the instances where there was no written confirmation from the holder that due diligence was performed on file, ACS nonetheless can demonstrate that a due diligence mailing was in fact undertaken, and the owners located as a result of the mailing removed from the examination report. Although ACS has consistently confirmed for each project that due diligence is performed, going forward ACS will take steps to make certain that due diligence mailings are better documented.

GRANT THORNTON SAS 70

UPCH previously retained Grant Thornton LLP ("GT") to conduct a SAS 70 audit of the description of controls of ACS UPCH as they relate to the examination, collection and reporting of unclaimed property for its state customers. UPCH began meeting and working with GT in June of 2007 to design the SAS 70 objectives, description of controls and the testing of the key controls. The onsite audit work was conducted between August and September and the draft audit report was circulated throughout September and October. The SAS 70 audit work was completed with approximately 750 hours of GT partner and associate time spent on the job resulting in a 57 page audit report (the significant amount of time was necessitated because the scope of examination covered work performed under approximately 50 state contracts and a comprehensive review of all UPCH escheatment operations). On November 20, 2007 Grant Thornton released a final SAS 70 report to UPCH. This SAS 70 report was recently submitted by UPCH to MGT of America, Inc. and to the California State Controller's Office.

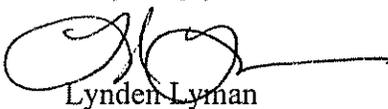
The SAS 70 report describes the control structure of the ACS UPCH as it relates to the examination, collection and reporting of unclaimed property for all contracting states as of September 30, 2007 and included tests of operating effectiveness for the period from October 1, 2006 to September 30, 2007.

The GT auditors opined that: (1) the description of controls of UPCH contained in the SAS 70 report presents fairly, in all material respects, the relevant aspects of UPCH controls that had been placed in operation as of September 30, 2007; (2) the controls as described in the SAS 70 report are suitably designed to provide reasonable assurance that the specified control objectives would be achieved if the described controls were complied with satisfactorily and the user organizations applied the controls contemplated in the design of the ACS UPCH controls; and (3) the UPCH controls that were tested were operating with sufficient effectiveness to provide reasonable assurance that the related control objectives were achieved during the period from October 1, 2006 to September 30, 2007.

The GT audit report contains only two test result exceptions to the 61 key controls that were tested and those exceptions were not material in nature. In the first exception, four files were missing an instruction sheet or the sheet was not initialed out of the 60 sampled files reviewed. In the second exception, a pre-employment drug consent form was missing from one of the 13 employee files reviewed. In both exceptions, the auditor noted that based on the nature of the testing exception and the results of additional testing performed by the service auditor, the control objective was, in fact, achieved.

Thank you for all of your courtesies.

Very truly yours,



Lynden Lyman
Managing Director