



**RESULTS OF THE  
CONTRACT PERFORMANCE AUDIT  
OF THE UNCLAIMED PROPERTY  
CONTRACT AUDITOR—  
AUDIT SERVICES, U.S., LLC**

**PRESENTED TO:**

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**PRESENTED BY:**

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**MGT**   
**OF AMERICA, INC.**

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## **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 Audit Services, U.S., LLC, Inc. (ASUS) for the collection and remittance of unclaimed property to the state. The scope of the review was limited to ASUS compliance with its contract with SCO.

Although the audit revealed some instances where ASUS did not fully comply with contract requirements, the audit team found no evidence to indicate that ASUS was negligent on remitting unclaimed property to the state. However, the audit findings include:

- ◆ The appearance of a potential conflict between the two companies—ASUS and Abandoned Property Services (APS)—both owned by the principal of ASUS. Because APS provides unclaimed property services to property holders for a fee and ASUS provides unclaimed property services to states for a fee, the potential for a conflict of interest exists. However, the audit team did not find any evidence of transactions that would constitute a conflict of interest.
- ◆ The ASUS sometimes conducts audits and collects unclaimed property prior to receiving authorization to do so from SCO. However, this situation can and does occur while ASUS is conducting audits on behalf of other states and ASUS is obligated to identify and collect California unclaimed property—regardless of whether SCO granted its approval.
- ◆ The ASUS does not always obtain proof that holders have completed required due diligence efforts (attempts to notify owners of the existence of abandoned property).
- ◆ The ASUS does not notify holders in writing or obtain their acknowledgement of the holder's ongoing responsibility to file unclaimed property reports or responsibility for paying subsequent claims.

The audit team's complete findings and recommendations are in the *Audit Results* section of the report. The ASUS response to the audit is on pages 12 and 13.

## 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, defined as tangible and intangible property abandoned or left inactive by the owner, includes property such as 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 rightful owners, safeguarding properties from use by private interests for personal gain, and educating and notifying holders of obligations under the unclaimed property laws.<sup>1</sup>

As part of its effort to promote holder compliance with California's Unclaimed Property Law, the SCO contracts with vendors, including ASUS, for the identification and collection of the state's unclaimed property from holders whose principal place of business is outside of California. The ASUS is in its tenth year of service as an unclaimed property recovery agent. The company began operations in Ohio in November 1997 under the name of Audit Services, Ltd. This firm initially served as a contractor vendor to the State of Ohio to conduct unclaimed property audits of holders in Ohio. The same owners of Audit Services, Ltd. formed a second company, ASUS in Florida. In January 2002, Audit Services, Ltd. and ASUS formally merged. The surviving entity is ASUS.

As of November 2007, ASUS contracts with 46 states to perform unclaimed property audit services. The ASUS is under contract with the SCO to conduct both voluntary and involuntary audits. In a voluntary audit, ASUS first contacts and requests approval from the holder or holder's agent to conduct an audit. Then, ASUS requests approval from SCO to perform an audit on behalf of the state. In an involuntary audit, the state would request an audit of a particular holder on its behalf; however, the SCO did not request ASUS to conduct involuntary audits during the audit period. The SCO pays ASUS a percentage-based fee if ASUS identifies unclaimed property for California residents or companies. Audit firms can conduct audits on all property types; however, ASUS primarily conducts audits on securities.

According to its contract with SCO, entities subject to audits by ASUS 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.

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<sup>1</sup> 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 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 ASUS contract with SCO, the contract also includes several requirements for ASUS to communicate or provide information to the holder and for the holder to provide information or acknowledgments back to ASUS. These communications are discussed further in the *Audit Results* section of this report.

## **REQUEST FOR AUDIT**

The SCO requested that the audit team provide independent audit services to determine whether ASUS 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 attain the information necessary to accomplish the objectives of this audit. The SCO contract with ASUS specifies the procedures ASUS 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 ASUS management and staff and reviewed documentation such as contracts, initial proposals, ASUS and SCO files, and reports submitted to SCO by ASUS.

To understand the functional activities related to collecting unclaimed property better, the audit team reviewed SCO and 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 ASUS complied with the contract terms, the audit team reviewed and tested a sample of 43 ASUS holder audit files maintained by ASUS, and reviewed and validated required documentation and reports submitted by ASUS to SCO. The total dollar amount of collected unclaimed property included in the audit team's sample was \$9,510,971, and represents 44 percent of the \$21,764,739 collected by ASUS during the three-year audit period.

The audit team reviewed ASUS policies, processes, and procedures, and tested sample holder files to verify and confirm ASUS' 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

Jeri Birkes

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## AUDIT RESULTS

In the following sections, the audit team presents specific contract compliance provisions within the scope of the audit and its determination whether ASUS complied with these provisions during its audit contract period of March 19, 2004 to March 18, 2007.

Overall, the audit team found that ASUS did not fully comply with several provisions of its SCO contract. The ASUS principal acknowledged noncompliance with some contract areas and stated that ASUS does not meet some requirements because they are unique to California, and ASUS typically conducts its audits on behalf of many states. The principal also stated that ASUS attempts to comply with all state contracts realizing that each state contract is unique in some way. He also stated that ASUS looks to federal case law, state law, and the NAUPA guidelines for consistency.

**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 ASUS 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 ASUS—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.”
- ◆ “Engaging or entering 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 ASUS “maintain independence in mental attitude in accordance with 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.

The audit team found that a relationship between ASUS and an affiliated company gives the appearance of a potential conflict of interest and is a situation that may lead others to doubt ASUS's independence.

The principal and owner of ASUS also owns APS. The APS Web site describes why companies are audited by states (companies are not in full compliance with abandoned property laws) and how APS negotiates with states to resolve audits or past-due liabilities. In addition, the Web site reports that APS' services include voluntary disclosure, due diligence, and report processing. While APS' role is to protect companies from potential abandoned property liabilities from state audits and to assist in voluntary disclosure, ASUS serves in the capacity of identifying, processing, and collecting unclaimed property on behalf of states. The APS Web site indicates that the principal consults with both client and APS staff on issues that are uncovered during the engagements. The principal's ownership and activities concerning these two companies could result in situation where a conflict of interest occurs.

During our initial meeting with the principal, he confirmed that he owns both companies but told the audit team he believes there have been no actual conflicts of interest, and that APS runs without his involvement. However, when asked for a statement regarding the principal's relationship with ASUS and APS, he declined and stated that he did not wish to provide a statement on an issue that did not exist and may be misinterpreted by the reader [of the report].

When we asked the principal if there might be shared clients between the two companies, or if either company ever performed audits, reviews, or work for the same client, he stated that there are no shared clients or sharing of staff or records between the companies. He also stated that if we contacted companies audited by ASUS that the companies would say that they had never heard of APS.

To determine whether APS is contracting with holders while ASUS is also under contract with SCO to audit the holder, the SCO contacted ASUS and requested APS' complete client list during the audit period. The principal responded that APS could not provide its client list because it would violate confidentiality agreements, may cause harm to those clients, and may subject APS to legal action.

In conclusion, while the common ownership between ASUS and APS could lead to situations that potentially violate the conflict-of-interest provisions of the ASUS contract with SCO the audit team could not determine whether any instances of an actual conflict of interest exists.

***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 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 ASUS and SCO outlines the requirements ASUS must follow in order to obtain authorization from SCO to process records or conduct a voluntary audit for California unclaimed property. Although ASUS consistently requested authorization to conduct audits from SCO, in some instances, ASUS conducted audits and received unclaimed property prior to this authorization. Moreover, in some cases, ASUS conducted audits without SCO authorization even though the 60-day period expired.

Specifically, in 29 of 43 audit files tested, the audit team found that the holder transferred unclaimed property to ASUS prior to ASUS obtaining authorization from SCO to conduct the audit. The principal of ASUS told the audit team that this situation sometimes occurs while ASUS conducts audits on behalf of other states and where the audit also identifies California unclaimed property. Moreover, in eight of 43 audit files tested, ASUS continued to conduct or completed its audit without SCO authorization even after the 60-day period expired. In these instances, the ASUS principal stated that when SCO did not respond to an ASUS request for an audit within the 60-day period, even with a second reminder by ASUS within the time frame, there was nothing else that ASUS could do to elicit a response from SCO.

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 paid the appropriate fees to ASUS. In fact, SCO chief legal counsel told the audit team that the contract obligates ASUS 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 ASUS conducted audits on behalf of other states and identified California property, these specific approval procedures are irrelevant.

**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 audit team tested most holder audit files for compliance with the provisions of contract Sections III.A and IV. However, the SCO chief legal counsel subsequently advised the audit team that these provisions only apply to involuntary audits. Therefore, because ASUS did not complete any involuntary audits during the contract period, these provisions do not apply. The audit team notes that the contract is not clear in evidencing that the requirements of Sections III.A and IV only apply to involuntary audits.

**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 ASUS and SCO specifically requires ASUS to ensure each holder confirms *in writing* that due diligence provisions have been carried out. The contract requires ASUS 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.

Of the 43 audit files tested, the audit team found that 39 files lacked written due diligence confirmation from the holder. Of these 39, none included evidence that ASUS notified SCO of the lack of due diligence or the lack of written due diligence confirmation.

The ASUS principal acknowledged that ASUS failed on this provision but stated that holders are generally not going to put anything in writing related to due diligence and that there is no penalty against a holder for the lack of due diligence. He did state that, in most cases, ASUS verbally reminds the holder or its agent of their due diligence responsibility. The ASUS chief operating

officer confirmed these assertions. The ASUS principal added that the United States Securities and Exchange Commission requires holders to perform at least two due diligence attempts for all security-related issues and that transfer agents strictly adhere to the due diligence requirements. He also stated that several holders hire outside firms to do an additional search prior to transferring files to ASUS.

Nevertheless, ASUS is contractually required to obtain written holder confirmation of their attempts to locate and contact owners of unclaimed property or to notify SCO if it has not or has not occurred or been documented in writing.

**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.

Sections III.C, III.E, and Exhibit C. of its contract with SCO requires ASUS to provide monthly cumulative status reports as well as cumulative aggregate reports during the reporting cycle; submit amounts in proper formats; and notify holders in writing of their reporting responsibilities. The ASUS must also instruct holders to file negative reports even when no reportable unclaimed property exists during a reporting period. The audit revealed that ASUS does not always comply with these reporting requirements.

The audit team reviewed a sample of 13 monthly status reports submitted by ASUS to SCO and found none to be in a cumulative format. Specifically, ASUS does not list all completed audits or those pending approval from SCO. The ASUS principal acknowledged the deficiency but stated that ASUS recently began submitting its reports in the proper format.

The contract also requires ASUS to notify holders—in writing—of the holder's responsibility of filing unclaimed property reports to SCO. The audit team found no evidence of this in its testing and the ASUS principal confirmed that ASUS does not inform the holder of these requirements in every instance. In addition, the contract also requires ASUS to obtain the holders' acknowledgement of their responsibility to file unclaimed property reports and to maintain this acknowledgement and make it available to SCO upon request. Again, the audit teams testing of files did not reveal any evidence that ASUS complies with these provisions. In response to our queries, the ASUS principal stated that California Code does not require this documentation and that holders would never sign such a statement upon advice of counsel. However, the ASUS contract with SCO does require these notifications and statements.

**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 ASUS and its custodians to provide safekeeping custodial services and requires ASUS to obtain approval from SCO prior to entering into any contractual relationship with a custodian. The contract prohibits co-mingling California unclaimed property with any other property that may be in safekeeping. In addition, neither ASUS nor its custodian can pledge, assign, hypothecate (pledge), encumber, or take ownership of any property without SCO's written consent.

The ASUS principal informed the audit team that the company's cash custodian is Citibank and the security custodian is Mellon Security Services. ASUS received inherent approval of the custodians from SCO via their inclusion in the ASUS contract proposal to the SCO, and the SCO's acceptance of that proposal.

The ASUS principal also confirmed that all states funds were in lump sum operating and trust accounts. He stated that ASUS uses QuickBooks to segregate each state's receipts into subaccounts. The principal told the audit team that California is the only state that has this requirement and that separate accounts would be extremely costly and make the cash control process more difficult.

**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 ASUS 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 the SCO database, and verified by SCO. The contract requires this written understanding before ASUS processes a holder's unclaimed property records. The contract also requires ASUS 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.

None of the 43 files included this written acknowledgement from the holder. In addition, none of the files included documentation that ASUS informed the holder of reimbursement procedures. Similar to his explanation noted earlier, the ASUS principal stated that he believes he cannot make holders provide written acknowledgements. He also stated that they do not remind holders to seek reimbursement because this process is already in place. He did add that a concern of some holders is that if SCO reimburses a holder in cash instead of securities, there will be a valuation difference. This concern reinforces the need for ASUS to notify holders of reimbursement procedures. Moreover, despite the principal's explanations, ASUS's contract requires these notifications and acknowledgements.

**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.

Section III.H. of the contract requires ASUS to deliver property within one year from SCO authorization of an audit and includes reconciliation and notice provisions for the delivery of property, the amount of interest to be paid, and the name under which ASUS must register certificates for securities. The ASUS also must inform the holder that SCO has regulations related to submission of noncertificate positions (securities) and maintain certain information about the certificates.

The ASUS does not always complete the identification and delivery of property within one year of SCO authorization—as required in the contract. Of the 43 audit files tested, the audit team found four instances where ASUS submitted the unclaimed property it collected to SCO more

than one year after SCO authorized the audit. In each of these four instances, ASUS did not obtain a contract extension from SCO. The ASUS principal acknowledged this issue and stated that the holder can sometimes delay audits with legal challenges or that difficult reconciliation processes or other issues can also create extended delays. However, he also stated that submitting property beyond the one-year period is a practice that ASUS will attempt to correct. Exhibit B of the ASUS contract with SCO states that SCO will reduce the fee paid on unclaimed property not delivered within one year from audit authorization from 11 percent to 9 percent, regardless of whether it granted an extension. Of the four files tested where ASUS submitted the unclaimed property more than one year after audit authorization, the audit team found one submission where SCO inadvertently paid ASUS an 11 percent commission instead of the required 9 percent—or \$120 more than ASUS was due.

The audit team found ASUS in compliance with the interest requirements of the contract. The ASUS paid interest on the property it collected and remitted for all 43 audit files tested and the amount of interest paid matched the audit team's calculations of the amounts due.

When the audit team asked the ASUS principal for evidence ASUS informed holders about SCO regulations allowing holders to remit certain positions (securities) in noncertificate form whether ASUS informs holders of the requirement to comply with these regulations, the ASUS principal stated this is not mandated and that most securities are delivered in a noncertified format because the Depository Trust Company (DTC) requires it.

Regarding the requirement to notify SCO 24 hours in advance of wire transfers, the audit team tested 43 files for the inclusion of both a wire notice to the SCO and a corresponding wire model transaction. For the 41 files requiring these notices, the audit team found ASUS met the 24-hour notice requirement in 30 of the transactions. For those 11 not meeting the requirement, the transfer occurred either on the same day as the notice (one file), within two days (nine files), or within four days (one file).

***Contract Requirement—Delivery of Unclaimed Property Information to the State.***  
The ASUS is required to report unclaimed property successfully to SCO before delivery is considered complete.

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

## **RECOMMENDATIONS**

To mitigate the potential for ASUS 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.

To ensure contract compliance and to improve accountability to the public, ASUS should:

- ◆ Consistently obtain SCO approval of contract exceptions.
- ◆ Ensure it receives authorization from SCO to conduct an audit prior to beginning the engagement or accepting unclaimed property.

- ◆ 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 the delivery of property within the specified time limits; or if unable to comply, request an extension of time from SCO.
- ◆ Send cumulative reports that include all holders approved for audit.
- ◆ Maintain separate accounts for California property or request approval from SCO for a revision or an exception to the contract.
- ◆ Send wire transfer notices the day before the wire transfer occurs.
- ◆ Repay or provide a fee credit for the \$120 fee overcharge identified in this report.



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## AUDIT SERVICES, U.S. LLC RESPONSE TO THE AUDIT REPORT

December 13, 2007

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

Dear Mr. Covey:

This is in response to your draft report of the Unclaimed Property Contract between the State of California (SCO) and Audit Services U.S., LLC (ASUS) dated December 4, 2007. I am responding to the original draft report with the understanding that MGT of America, Inc. (MGT) has given verbal assurance that this draft will be amended due to additional documentation and statements provided by ASUS.

ASUS has fully cooperated with and provided MGT of America, Inc. with every record requested where ASUS was not barred by confidentiality.

Comments to Recommendations:

- While I concur with the recommendation for SCO to modify the terms of the contract to mitigate the potential of a violation of the conflict-of-interest provision, I would like to point out that at the time of the submission of The ASUS response to the SCO RFP and award of the contract effective March 19, 2004, Abandoned Property Services LLC did not have any employees or clients.
- ASUS will increase its efforts to comply with all aspects of the contract and request exceptions to SCO when they occur.
- ASUS will ensure, with the help of SCO, that it receives authorization from SCO to conduct an audit prior to beginning the engagement or accepting any California unclaimed property.
- ASUS will consistently obtain and retain evidence of the completion of due diligence procedures and notify SCO in writing about any exceptions. Furthermore, ASUS will add to its procedures a letter to the holder: (1) notifying them of their due diligence



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requirements, (2) recommend that they file a negative report in any year that there is no property to report, (3) requesting them to acknowledge responsibility to file future

reports, (4) inform them that SCO will make reimbursements for claims paid by the holder subsequent to the delivery of property to SCO, and such reimbursements may be in cash in lieu of securities, (5) that they should, where applicable, remit securities in noncertificated form.

ASUS intends to add this procedure for all of its contract states.

- ASUS will request an extension of time from the SCO in those cases where the delivery of property may not be achieved within the required time frame.
- As of November 2007, ASUS has the capability of sending cumulative reports of all holders approved for audit. This was a system design that ASUS was working on prior to the audit.
- Due to the additional expense of maintaining separate accounts for SCO, ASUS will request SCO's approval to maintain its property in our Custodians Trust Accounts.
- ASUS will attempt to improve its process of sending wire transfer notices to SCO within 24 hours.
- ASUS will provide a credit on its net invoice to SCO for the \$120 fee overcharge.

Sincerely,

Robert Griffin  
Principal  
ASUS