

**UNCLAIMED PROPERTY AUDIT REPORT**  
**PHILADELPHIA HOUSING AUTHORITY**

**December 2011**

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Treasury Department  
Commonwealth of Pennsylvania  
Harrisburg, Pennsylvania 17120-0018

**THE TREASURER'S REPORT**

December 29, 2011

Philadelphia Housing Authority  
12 South 23<sup>rd</sup> Street  
Philadelphia, PA 19103

In accordance with the Pennsylvania Disposition of Abandoned and Unclaimed Property Act (DAUPA), 72 P.S. §1301.1-1301.28a, as amended, the Pennsylvania Treasury Department (Treasury) conducted an audit of the Philadelphia Housing Authority (PHA), relating to unclaimed property in its possession for the period January 1, 1997 to December 31, 2003 (January 1, 1997 to December 31, 2007 for unclaimed property specifically relating to payroll and wages).

The objectives of the audit were to determine compliance with DAUPA and whether adequate management controls were in place to ensure the proper identification and reporting of unclaimed property. Prior to the initiation of this audit, according to Treasury's records, the last time PHA reported unclaimed property was for the holder reporting year 1984. It is the responsibility of PHA to comply with the provisions of DAUPA.

The report identifies an existing unclaimed property liability in the amount of \$772,884. This amount is due and payable to Treasury within the 60-day time period as provided in DAUPA and regulations adopted by Treasury. The relevant provisions of DAUPA and regulations are set out in the Introduction and Background section of the report.

The report contains findings and recommendations related to the reporting of unclaimed property. A separate section of the report contains detailed payment and reporting instructions.

The results of the audit were discussed with representatives of PHA at which time they were given the opportunity to respond and comment. Management's response has been included in this report.

Thank you for your assistance and cooperation in this matter.

Sincerely,

Robert M. McCord  
State Treasurer

## **INTRODUCTION AND BACKGROUND**

The Pennsylvania Disposition of Abandoned and Unclaimed Property Act (DAUPA), 72 P.S. §1301.1-1301.28a, as amended, sets forth procedures for the disposition of abandoned and unclaimed property within the Commonwealth. The Pennsylvania Treasury Department (Treasury) is responsible for the administration of DAUPA. Relevant provisions of DAUPA provide for the following:

- Financial institutions, insurance companies, utilities, businesses, fiduciaries and all other legal entities, including courts, public authorities, state agencies and any political subdivisions, shall report abandoned and unclaimed property to Treasury.
- Any property for which there has been no contact or transaction initiated by the owner for a period of five years or more (two years or more for payroll and wages) is subject to the custody and control of Treasury.
- To ensure compliance, DAUPA provides Treasury with the responsibility and authority to examine the books and records of holders of abandoned and unclaimed property.

Pursuant to Treasury's responsibility and authority under DAUPA, Treasury's Bureau of Audits conducted an audit of PHA for the period January 1, 1997 to December 31, 2003 (January 1, 1997 to December 31, 2007 for payroll and wages).

*A Summary of Findings (p. 3) is included in this audit report. A Petition for Review of the Summary of Findings must be filed with Treasury within 30 days after the date of mailing of the audit report (the date of mailing is the date of the cover letter). If a Petition is not filed within the 30-day period, the Summary of Findings will be deemed to be a final demand due and payable within 30 days thereafter, pursuant to the regulations adopted by Treasury. 61 Pa. Code §951.*

**Philadelphia Housing Authority  
Summary of Findings**

**For the Period January 1, 1997 to December 31, 2003  
(January 1, 1997 to December 31, 2007 for payroll and wages)**

	<b>Supporting Schedule</b>	<b>Amount of Reportable Property</b>
Accounts Payable	A (p. 9)	\$ 417,874
Accounts Receivable	B (p. 11)	221,075
Payroll	C (p. 13)	81,298
Unredeemed Bonds	D (p. 15)	<u>52,637</u>
<b>Total Amount of Unclaimed Property, Reportable and Due</b>		<b><u><u>\$ 772,884</u></u></b>

## **ORGANIZATION PROFILE**<sup>1</sup>

Philadelphia Housing Authority (PHA) was established in 1937 to develop, acquire, lease, and operate affordable housing for Philadelphia residents with limited incomes. PHA is the nation's fourth largest housing authority. PHA houses approximately 81,000 people and employs approximately 1,400 people. PHA has an annual budget of approximately \$371 million, and receives its funding primarily from the federal government.

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<sup>1</sup>Reference: <http://www.pha.phila.gov>

## **AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY**

### **Objectives**

The objectives of this audit were to determine compliance with DAUPA and to gain an understanding of the management controls as they relate to identifying and reporting unclaimed property. Accordingly, the audit objectives included obtaining an understanding of management controls, examination of evidence on a test basis, and other auditing procedures considered necessary to determine compliance with DAUPA.

### **Audit Scope**

The scope of the audit was for the period January 1, 1997 to December 31, 2003 (January 1, 1997 to December 31, 2007 for payroll and wages). During the planning of the audit, steps were taken to obtain an understanding of any procedures in place pertaining to unclaimed property. To determine property types in the custody of the holder with a high risk of being escheatable, personnel responsible for each accounting area were interviewed, and written policy and procedure manuals were examined where available. As a result of our obtaining an understanding of the entity's accounting practices, the following areas were deemed to have a potential exposure for the occurrence of unclaimed property: accounts payable, payroll, accounts receivable, and long term debt.

### **Methodology**

General ledger information, a chart of current accounts, and a chart of accounts for the audit period were requested for the years 1997 to 2006. Records relating to open and closed bank accounts and bank reconciliations were also requested. Additional record requests were made as necessary to verify the status of property identified as being reportable, unclaimed property. Testing methodologies included a selection of test data based upon the availability of records and a determination as to whether further fieldwork was warranted.

### **Reportable Property Subsequent to the Audit Period, Currently Due**

During the course of conducting our fieldwork, we identified unclaimed property not yet reportable during the scope of the audit period; however, all other factors remaining the same, such property identified possesses the characteristics of unclaimed property and, as such, must be reported upon the tolling of the appropriate dormancy period. Due to the passage of time between the initiation of the audit fieldwork and the issuance of the audit report, the dormancy period has expired for property dated 2004 and 2005, and is now due to be reported as unclaimed property. Treasury has identified transactions and amounts as unclaimed property; however, PHA has requested an opportunity to review the transactions and amounts identified. In lieu of delaying the results of this report, both parties agreed to such an extension and such unclaimed property is to be reported upon completion of the reconciliation.

## OVERVIEW OF TESTING PROCEDURES

### Accounts Payable

The accounts payable supervisor and accounting manager were interviewed to gain an understanding of the accounts payable system. Three separate and distinct checking accounts make up the accounts payable area: Operating, Utilities, and Section 8. Bank reconciliations and outstanding check lists for years 1997 to 2007 were requested. For the Operating and Utilities accounts, check registers identifying cleared, voided, or uncashed checks were provided for the period of September 2001 to December 2007. Records prior to September 2001 for the Operating and Utilities accounts were not maintained by PHA; at that time, a new accounting system was implemented. For the Section 8 account, PHA did maintain records prior to the system change and provided an outstanding check listing for transactions dating back to 1997.

For the records reviewed, outstanding checks for each year were identified as potential unclaimed property. PHA was provided the opportunity to obtain adequate supporting documentation to evidence that such transactions were no longer existing liabilities. In accordance with the rules for reporting unclaimed property, the last known address of the payee of an outstanding check was used to determine the appropriate state for unclaimed property to be reported. For documentation provided by PHA evidencing any checks as having been voided or reissued in the normal course of business, as well as any checks which were payee-addressed to another state, such checks were removed from consideration as unclaimed property reportable to Treasury. The remaining checks were deemed to be unclaimed property due to Treasury.

Notwithstanding Treasury's authority to estimate an unclaimed property liability for the years where records were not available, 72 P.S. §1301.23(b), an extrapolation to assess the unclaimed property liability was determined to be unwarranted.

### Payroll

The payroll manager for PHA was interviewed. The payroll system was evaluated through inquiry, testing, and a review of documentation. Payroll records including monthly bank statements, reconciliations, and outstanding check lists for the years 1997 to 2007 were requested. From this system, the payroll manager provided a listing of all payroll checks that were uncashed or voided from September 2001 to December 2007. The auditors concluded that this was a complete schedule. Records prior to September 2001 were not maintained by PHA; at that time, a new accounting system was implemented.

As with our fieldwork for accounts payable, PHA provided documentation evidencing those checks which were voided or reissued during the normal course of business. Such checks were removed from consideration as unclaimed property. The remaining checks were deemed an existing liability and, as such, unclaimed property.

Notwithstanding Treasury's authority to estimate an unclaimed property liability for the years where records were not available, 72 P.S. §1301.23(b), an extrapolation to assess the unclaimed property liability was determined to be unwarranted.

## **OVERVIEW OF TESTING PROCEDURES (CONTINUED)**

### **Accounts Receivable**

The accounting manager was interviewed to gain an understanding of the accounts receivable accounting system. Records in the area of accounts receivable were requested for the years 1997 through 2007. PHA provided a current accounts receivable schedule. This schedule included credit balances owed to customers for transactions dating back to 1971. Through inquiry, PHA asserted that credit balances were never written off. Based on our inquiries and walk-through of the accounts receivable accounting program, we relied upon accounts receivable schedules produced through this system. Through inquiry, PHA asserted that existing credit balances on its books of account were not offset against subsequent invoices or otherwise returned to the rightful owner. As a result, the identification of such credit balances were deemed an existing liability and reportable to Treasury as unclaimed property.

### **Debt**

The accounting manager was interviewed to determine the risk for the occurrence of unclaimed property in the form of unredeemed bonds in connection with any debt issuances. During the course of a delay in fieldwork in connection with resolving a legal issue, PHA identified unclaimed property in this area and presented such property to Treasury.

### **U.S. Department of Housing and Urban Development (HUD)**

At the time the audit was initiated, PHA contended that it was exempt from the obligation to report unclaimed property. PHA based its contention, in part, on the assertion that HUD maintains a continuing interest in all funds it grants to the PHA and such funds, including unclaimed property, are not subject to the Commonwealth's custody and control. Without delving into the legal arguments, Treasury disagreed.

In light of the fundamental issue as to whether any unclaimed property identified would be subject to reporting, and taking into account that the opinion of HUD would be a significant factor in the consideration of potential legal proceedings, both parties agreed to suspend fieldwork until HUD offered its opinion on this issue. In its response, Regional Counsel for HUD did not agree with PHA's contention that it is exempt from reporting unclaimed property. Subsequent to receiving this response, both parties agreed to resume audit fieldwork.

Nearing the close of audit fieldwork, PHA submitted a request for reconsideration to HUD, setting forth an argument not previously addressed. Both parties agreed to again suspend the completion of fieldwork until HUD provided its response. In its response, Regional Counsel for HUD again did not agree with PHA's contention that it is exempt from reporting unclaimed property. Subsequent to this response, Treasury contacted PHA and completed the audit fieldwork.

## **FINDINGS AND RECOMMENDATIONS**

### **Finding No. 1 – Unclaimed Accounts Payable Checks**

PHA did not report and remit property in accordance with the provisions of DAUPA. Our audit identified \$471,874 within the accounts payable records as unclaimed property as set out in Schedule A (p. 9). Unsatisfied accounts payable obligations held by an entity for a period of five years or more must be reported and remitted to Treasury as unclaimed property. Accordingly, PHA must remit \$471,874.

PHA did not implement policies and procedures to identify and report unclaimed property. Management did not establish procedures designed to recognize checks that remained outstanding for over five years as potential unclaimed property. Consequently, due diligence procedures designed to return outstanding checks to the rightful owners were not performed. Accounting procedures, such as establishing liability and suspense accounts to record and age unclaimed property, were not created. Management personnel acknowledged that their unfamiliarity with the provisions of DAUPA contributed to not reporting unclaimed property when due.

### **Recommendation**

We recommend PHA remit \$471,874, along with a reconciled holder report. In addition, we recommend that management controls be implemented at PHA to ensure that unclaimed property is properly identified and reported. Procedures should be established to identify outstanding checks greater than six months old and to properly document the disposition of the checks as voided, reissued, or still outstanding and due.

Written policies must be prepared to ensure that due diligence procedures are performed to help identify and return uncashed accounts payable checks to the rightful owner in a timely fashion. These funds must be held in a liability account until they are returned to the payee or reported to Treasury at the expiration of the five-year holding period.

**Schedule A**  
**Summary of Accounts Payable (Operating, Utilities, and Section 8 accounts)**  
For the period January 1, 1997 to December 31, 2003

<u>Year</u>	<u>Operating</u>	<u>Utilities</u>	<u>Section 8</u>
1997 and Prior	-	-	\$ 35,228
1998	-	-	77,884
1999	-	-	23,333
2000	-	-	2,696
2001	\$ 22,917	\$ 17,147	245
2002	40,860	56,728	17,320
2003	<u>51,833</u>	<u>68,179</u>	<u>3,504</u>
	<u>\$ 115,610</u>	<u>\$ 142,054</u>	<u>\$ 160,210</u>

**Accounts Payable (Operating, Utilities, and Section 8 accounts)**  
**Total Amount of Unclaimed Property, Reportable and Due**

**\$ 417,874**

## **FINDINGS AND RECOMMENDATIONS (CONTINUED)**

### **Finding No. 2 – Unclaimed Accounts Receivable Credit Balances**

PHA did not report and remit property in accordance with the provisions of DAUPA. Our audit identified \$221,075 within the accounts receivable records as unclaimed property as set out in Schedule B (p. 11). Outstanding accounts receivable credit balances held by an entity for a period of five years or more must be reported and remitted to Treasury as unclaimed property. Accordingly, PHA must remit \$221,075.

PHA did not implement policies and procedures to identify and report unclaimed property. Management did not establish procedures designed to recognize existing credit balances that remained outstanding for over five years as potential unclaimed property. Consequently, due diligence procedures designed to return such credit balances to the rightful owners were not performed. Accounting procedures, such as establishing a suspense account to record aged accounts receivable credit balances, were not created. Management personnel acknowledged that their unfamiliarity with the provisions of DAUPA contributed to not reporting unclaimed property when due.

### **Recommendation**

We recommend PHA remit \$221,075, along with a reconciled holder report. In addition, we recommend that management controls be implemented at PHA to ensure that unclaimed property is properly identified and reported. Procedures should be established to identify existing credit balances owed to customers and to properly document the disposition of the credit balance as returned, offset against a subsequent invoice, or still outstanding and due.

Written policies must be prepared to ensure that due diligence procedures are performed to help identify and return credit balances to the rightful owner in a timely fashion. These funds must be held until they are returned to the customer or reported to Treasury at the expiration of the five-year holding period.

**Schedule B**  
**Summary of Accounts Receivable**  
For the period January 1, 1997 to December 31, 2003

<u>Year</u>	<u>Credit Balances</u>
1997 and Prior	\$ 166,727
1998	9,397
1999	7,096
2000	6,386
2001	9,530
2002	11,337
2003	<u>10,602</u>
<b>Accounts Receivable, Total Amount Reportable and Due</b>	<b><u><u>\$ 221,075</u></u></b>

## **FINDINGS AND RECOMMENDATIONS (CONTINUED)**

### **Finding No. 3 – Unclaimed Payroll Checks**

PHA did not report and remit property in accordance with the provisions of DAUPA. Our audit identified \$81,298 within the payroll records as unclaimed property as set out in Schedule C (p. 13). Uncashed payroll checks held by an entity for a period of two years or more must be reported and remitted to Treasury as unclaimed property. Accordingly, PHA must remit \$81,298.

PHA did not implement policies and procedures to identify and report unclaimed property. Management did not establish procedures designed to recognize uncashed payroll checks that remained outstanding for two years or more as potential unclaimed property. Consequently, due diligence procedures designed to return outstanding checks to the rightful owners were not performed. Accounting procedures, such as establishing liability and suspense accounts to record and age unclaimed property, were not created. Management personnel acknowledged that their unfamiliarity with the provisions of DAUPA contributed to not reporting unclaimed property when due.

### **Recommendation**

We recommend PHA remit \$81,298, along with a reconciled holder report. In addition, we recommend that management controls be implemented at PHA to ensure that unclaimed property is properly identified and reported. Procedures should be established to identify uncashed payroll checks greater than six months old and to properly document the disposition of the checks as voided, reissued, or still outstanding and due.

Written policies must be prepared to ensure that due diligence procedures are performed to help identify and return uncashed payroll to the employee in a timely fashion. For the checks that are unable to be returned, a liability account should be set up to record such checks until they are claimed by the employee or reported to Treasury at the expiration of the two-year holding period.

**Schedule C**  
**Summary of Payroll**

For the period January 1, 1997 to December 31, 2007

<u>Year</u>	<u>Uncashed Payroll Checks</u>
1997 - 2000	-
2001	\$ 2,053
2002	3,815
2003	13,795
2004	4,320
2005	18,514
2006	3,782
2007	<u>839</u>
Payroll, Subtotal	<u>\$ 47,118</u>
Wage Compliance *	<u>34,180</u>
<b>Payroll,</b>	
<b>Total Amount Reportable and Due</b>	<b><u>\$ 81,298</u></b>

\* During the course of a delay in fieldwork in connection with resolving a legal issue, PHA identified unclaimed property in this area and presented such property to Treasury.

## **FINDINGS AND RECOMMENDATIONS (CONTINUED)**

### **Finding No. 4 – Unredeemed Bonds**

PHA did not report and remit property in accordance with the provisions of DAUPA. In connection with our audit, PHA identified \$52,637 of unclaimed property in the form of unredeemed bonds as set out in Schedule D (p. 15). Unredeemed bond obligations held by an entity for a period of five years or more must be reported and remitted to Treasury as unclaimed property. Accordingly, PHA must remit \$52,637.

PHA did not implement policies and procedures to identify and report unclaimed property. Management did not establish procedures designed to recognize unredeemed bonds that remained outstanding for over five years as potential unclaimed property. Consequently, due diligence procedures designed to return outstanding bond obligations to the rightful owners were not performed. Accounting procedures, such as establishing liability and suspense accounts to record and age unclaimed property, were not created. Management personnel acknowledged that their unfamiliarity with the provisions of DAUPA contributed to not reporting unclaimed property when due.

### **Recommendation**

We recommend PHA remit \$52,637, along with a reconciled holder report. In addition, we recommend that management controls be implemented at PHA to ensure that unclaimed property is properly identified and reported. Procedures should be established to identify unredeemed bonds and to properly document the disposition of the bonds as returned to the rightful owner or still outstanding and due.

Written policies must be prepared to ensure that due diligence procedures are performed in concert with a transfer agent, if applicable, to help identify and return unredeemed bonds to the rightful owner in a timely fashion. Unredeemed bonds must be held in a liability account until they are returned to the rightful owner or reported to Treasury at the expiration of the five-year holding period.

**Schedule D**  
**Summary of Bonds**

For the period January 1, 1997 to December 31, 2003

<u>Year</u>	<u>Unredeemed Bonds</u>
1997 - 2003 *	\$ <u>52,637</u>
<b>Bonds, Total Amount Reportable and Due</b>	<b>\$ <u><u>52,637</u></u></b>

\* During the course of a delay in fieldwork in connection with resolving a legal issue, PHA identified unclaimed property in this area and presented such property to Treasury.

## **AUDITEE'S RESPONSE**

On May 11, 2011, the Philadelphia Housing Authority provided the following response via electronic mail:

The Philadelphia Housing Authority (PHA) agrees that there were no policies and procedures in place at the time of the audit pertaining to reporting and remitting unclaimed property in accordance with the provisions of the Pennsylvania Disposition of Abandoned and Unclaimed Property Act (DAUPA). Since then, PHA has established policies and procedures for escheated liabilities. PHA has also established liability accounts that are tracked through our current financial system.

## **PAYMENT AND REPORTING INSTRUCTIONS**

Along with a reconciled holder report, a remittance in the amount of \$772,884, made payable to the Pennsylvania Treasury Department, should be sent to the following address:

Commonwealth of Pennsylvania  
Unclaimed Property  
P O Box 8500-53473  
Philadelphia, Pennsylvania 19178-3437

The amount due may be submitted via wire transfer to Treasury's concentration account at the address listed below:

Bank: Wachovia Bank, N.A.  
Philadelphia, Pennsylvania  
ABA #: 031201467  
Account #: 20003446481  
Title: Commonwealth of Pennsylvania  
Attention: Bureau of Unclaimed Property  
Reference: Philadelphia Housing Authority, Inc.  
Audit Number 0607-0437  
EIN: 23-6003266

The full amount of \$772,884 is due by no later than 60 days from the date of the mailing of this letter. Enclosed is a form, "Verification of Remittance." At the time of payment, this must be completed and forwarded to Treasury's Bureau of Unclaimed Property at the above stated address. Unpaid balances may be subject to interest and additional penalties as provided by DAUPA.

As stated above, a holder report reconciled to the amount of the remittance must be submitted. Holder reporting instructions and electronic forms may be downloaded from Treasury's website at [www.patreasury.org](http://www.patreasury.org).

In the event a Petition for Review is to be filed, please submit the Petition to:

Office of Chief Counsel  
Pennsylvania Treasury Department  
Attn: Docket Clerk  
127 Finance Building  
Harrisburg, PA 17120