

Date: July 3, 2003

To: Lee Deviney

From: T.C. Mallett

Subject: **Recommendations on Uncashed Checks**

**Background:**

The following text is from the "Project List" memo dated July 2, 2003 which was given to Gary Grief and discussed in an update meeting with him on the same date. The subject is uncashed checks. Additional information can be found in the folder titled "Uncashed Checks".

4. **Uncashed checks**—it has been noted that the checks issued to winners of lottery games are sometimes not cashed. A portion of the uncashed amounts have been turned over to the Comptroller's office as unclaimed property, while the majority of the uncashed items remain in the account. There are a number of issues that need legal guidance before resolution and a new procedure can be prepared. An opinion for legal guidance on these issues was sent to Kim Kiplin on May 9, 2003.

*Kevin Oldham has been assigned the legal issues. He has promised to meet with me during the week of June 16<sup>th</sup> for detailed discussions.*

**July 2, 2003 update:**

**A legal opinion was received on June 17<sup>th</sup> and discussed with Kevin Oldham. His conclusions are that the uncashed checks should be turned over to the Comptroller as unclaimed property in the same manner as any other bank account.**

**Unfinished business includes writing and/or revising procedures. (The new procedure implemented by the Claims Center addresses only the checks returned in the mail) Also, only checks returned in the mail have been turned over to the Comptroller. A large number of checks since the inception of the Lottery have never been turned over and this needs to be done. Financial Administration staff need to work with Lori Vogel to actually transfer the funds to the Comptroller and make the necessary accounting records for all of the old items. Then each year the new process needs to be followed.**

**Additionally, the new procedure must reflect that a replacement check for an uncashed item cannot be issued after an item is turned over as unclaimed property.**

**Note: The legal opinion did not recommend an expiration time for replacement checks be implemented in a procedure or rule. Therefore, although checks expire in 180 days, they could continue to be cashed by the bank or replaced up until the time the money is turned over as unclaimed property.**

**Recommended Action Plan:**

1. **Staff responsibilities**--A staff person from Financial Administration Division should be assigned the project. Ben Navarro would probably be the ideal candidate due to his position as the lead person on General Ledger and accounting entries. This project will require the cooperation and assistance of Lottery Operations Division staff in order to achieve the desired results. Lori Vogel in the Claims Center has the most knowledge and interest in resolving the situation.
2. **Outstanding and uncashed checks**
  - a. All checks that have never been cashed since the beginning of the use of a bank account for prize winners need to be identified. It is my understanding that only the checks that were returned in the mail have been turned over to the Comptroller's Office as unclaimed property. I believe the remaining uncashed checks may have been "written off" somehow and the reimbursement to the bank account from the GR Lottery Account 5025 was offset by the amount written off. Otherwise, the current balance in the bank account would/should include a higher than needed balance.
  - b. The amount of the checks that meet the criteria for transfer as unclaimed property needs to be transferred to the Comptroller's Office. In order to accomplish this, accounting entries will probably need to be made to draw additional funding from the GR Lottery Account 5025 for those that have previously been "written off" (see a. above), otherwise the bank account would be out of balance. Note that the current procedure in use by Lottery Operations is turning over only those checks that have been returned in the mail. Other checks that have not been cashed have not been included in the procedure.
3. **Procedures** will need to be written and updated relating to the issue of a replacement check for anyone that presents a request for payment for an uncashed check. TLC should only replace checks that have not yet been turned over to the Comptroller's Office as unclaimed property (36 months after issue). After that, all such persons should be directed to the Comptroller for possible payment for an uncashed check. Additional procedures will need to be written for Financial Administration regarding the transfer of unclaimed property.

4. **Bank reconciliation**--I highly recommend that stringent procedures be implemented to reconcile the bank account in light of the recommendations above. From previous conversations it was somewhat unclear as to how the uncashed checks were written off and what records were maintained. In order to turn the money over to the Comptroller it will be necessary to include the owner name and amount and date in order for the unclaimed property staff to have adequate information. Once all the transfers are made, the monthly reconciliation of the bank account should not be very difficult. Only the prior 36 months would need to be maintained as uncashed checks.

The intended result of these actions would be to clear up the records for TLC and serve the prize winners in a manner consistent with business practices elsewhere and as required by the statutes. There will be an affect on the Foundation School Fund as a result of the unclaimed amounts that transfer directly to the General Revenue Fund. However, this will be in accordance with the legal opinion on the proper way to handle these items.

Tcm

Cc: Gary Grief  
Mike Anger  
Ben Navarro  
Lori Vogel  
Kevin Oldham

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