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Unclaimed Property Specialists

6 Most Important Ways to Avoid an Unclaimed Property Audit

The processing of unclaimed property seems like a behind-the-scenes function that should be managed quietly by finance directors and accounting managers. In past years, unclaimed property and escheatment efforts did take a back seat to more important priorities, in part because states did not audit as frequently as they do today. In recent years, though, this seemingly minor business function has popped up on the radar of even C-suite executives.

State unclaimed property administrators in every American state and territory (and even Quebec, Alberta, and British Columbia are starting to follow suit), along with third-party auditors looking for a cut of the action, are conducting what amounts to a mass crackdown on unclaimed property and escheatment compliance. An increasing number of organizations are being targeted for compliance audits, and the criteria used to identify audit candidates is not always clear.

Unclaimed property audits are not all bad

Escheatment laws originally were designed to protect consumer property from being unfairly withheld, and audits help assure this happens. That's a good thing. Not only that, the possibility of being audited often helps organizations tighten policies and processes in such a way that the entire organization benefits. In spite of these positives, organizations dread being targeted for audit because the cumulative costs of unclaimed property audits for property holders can be shockingly high.

Unclaimed property audit costs potentially include hefty fees, penalties, interest and extrapolation of escheatment amounts owed from past years. In some cases, especially when unclaimed property has been neglected intentionally, costs can exceed original escheatment amounts by devastating percentages. The audit process itself can take many staff hours and possibly years to resolve.

It's not surprising you've downloaded this white paper to find out how to avoid an unclaimed property audit.

After having assisted hundreds of Fortune 100 to midsize firms in facing the challenges of unclaimed property and escheatment, we have determined the following six priority tactics for reducing the likelihood your organization will be targeted for audit. If you and your team take these actions, we believe administrators and third-party unclaimed property auditors will be more likely to turn their attention to other organizations for audit instead of yours.

1. Communicate promptly and clearly with states and the auditors who represent them.

» Respond immediately to inquiries from any state or auditor asking questions about your unclaimed property holdings and practices. Avoid the temptation to allow notifications to sit in someone's inbox until you decide what to do. The consequences of delay could be more serious than it seems.

» It's important to cooperate with any state or auditor inquiry. However, interaction with states and auditors must be handled carefully and correctly to minimize your organization's liability. If someone in your company received a notification and is preparing to respond, it's a good time to engage the services of expert advisors in the unclaimed property industry, so you can avoid making costly mistakes and take advantage of opportunities you and your staff may not know about.

2. Properly age accounts and maintain accurate, complete records.

» Require the establishment of best-practices-based business processes in all divisions to assure proper documentation of account activity. This will allow your unclaimed property team to correctly mark the beginnings of dormancy periods and avoid misreporting.

» Assign staff to study dormancy requirements for each state and schedule reporting accordingly. This time-consuming, complex task is often outsourced.

» Small reporting mistakes can trigger attention from state administrators and third-party auditors. Challenge personnel responsible for unclaimed property in your organization to ensure all records are complete and accurate. Even small mistakes such as missing owner names and gaps in account records can mark your organization as a potential audit candidate.

» Establish regular checks and balances to identify any records irregularities that need to be remediated.

» Direct personnel to avoid writing off unclaimed property as income or otherwise dispersing it within other accounts. States can discover this unacceptable practice through tax records and other means.

3. Report correctly.

» Never having filed a report is one of the most common reasons companies are audited. If you haven't filed before, begin the process now of bringing your organization into compliance and seek amnesty and voluntary disclosure agreements in the states with those programs to reduce liabilities.

» Ensure your organization is reporting property types that states will expect an organization of your size, in your industry, and with your circumstances to report. Your staff might need assistance from experts to determine what those expectations are.

» Order an in-depth survey of accounts and transactions in all business units to determine where unclaimed property resides within your organization. You might find it in unexpected places, such as credits generated in accounts receivable when clients overpay.

» Do not report zero unclaimed property (a negative report), unless you have thoroughly examined all applicable records and can provide solid documentation to verify you have not generated any unclaimed property that must be reported.

» Centralize finances and records to support consistency in accounting practices and avoid underreporting. Centralizing records also can produce other benefits across your organization.

» Report to all states associated with dormant account holders, shareholders and other unclaimed property owners as defined in statutes as well as your state of incorporation with any unknown address records.

» Make sure reports are consistent in format and cover the same property types from year to year. Avoid gaps in filing history.

» Set up internal processes to match statutory guidelines, so you can streamline reporting and reduce the time and dollars you must spend on compliance. Work with a reputable unclaimed property consulting company to identify best practices for your firm.

4. Reduce consumer complaints.

» When consumers complain about the handling of their accounts, states are more likely to mark holders of the disputed property for audit. For that reason, it is important to complete due diligence early and return property to rightful owners as soon as possible.

» Respond to owner inquiries and complaints promptly and professionally to build positive customer relationships.

5. Keep up with unclaimed property news and requirements specific to your industry.

- Ensure your firm's unclaimed property reports are consistent with reports from other companies in the same industry.
- If your industry or the types of unclaimed property your organization holds are being targeted, find out what is being used as criteria, then preempt identification of your organization as a target for audit by correcting those conditions immediately. Always stay within the boundaries of the law.

6. Make it known unclaimed property assessment is part of any major change in your company.

- Add unclaimed property assessment to reorganization, merger and acquisition procedures.
- Payroll changes are a common unclaimed property audit trigger. Note in your processes that you have installed special procedures to ensure every terminated employee will receive his or her last paycheck. This proactive effort will reduce the likelihood that state administrators and auditors believe you could be mishandling payments to terminated employees and generating unclaimed property.
- Be forthcoming about any large increases in revenue. If auditors believe you could have achieved increases through misappropriated unclaimed property, they might target you for audit.
- When any major change takes place at your organization, ask the question: Does this change either overtly or inadvertently produce unclaimed property? If the answer is yes, make it publicly clear how you intend to record and process or report the unclaimed property.

CAN ODDS OF UNCLAIMED PROPERTY AUDIT BE COMPLETELY ELIMINATED?

If you take the measures listed above, our experience tells us you will be less likely to be marked for audit. However, independent auditors and state administrators might still identify your organization as a candidate for audit if you fall into a particular category they are targeting. They may target you based on any criteria they decide to use; state law includes a provision to audit, but doesn't define when or what criteria must be used to determine when to audit unclaimed property holders.

Some situations inherently mark your firm as an audit candidate. For example, the risk of audit is always greater for larger companies, because auditors know the same amount of effort could net them larger proceeds than when they audit smaller companies.

For all of those reasons, it's probably not possible to avoid audit altogether. However, even if or when you are notified you will be audited, you will be able to minimize the potential negative impact of the audit if you have taken the steps above to bring your organization into compliance and create a "culture of compliance" before notification.

Often, if you find yourself in negotiation with state administrators, the fact that you have made an effort to establish permanent and comprehensive compliance processes within your organization might reduce the aggressiveness of auditors and potentially reduce penalties and look-back assessments.

Think of it this way: All the things you need to do to avoid audit and reduce unclaimed property liability are inherently good for your organization, so even if you aren't audited it is not time wasted.

WHAT'S NEXT?

Once you have ensured you are complying correctly with unclaimed property statutes, while avoiding being marked as an easy target for audit, the next step is taking action to minimize potential liability in the event you are audited.

This involves activities such as identifying exemptions and deductions to reduce the amount of unclaimed property you must escheat, as well as minimizing the potential for interest and penalties.

PUT UNCLAIMED PROPERTY BACK BEHIND THE SCENES!

With a little effort from your staff and help from trusted unclaimed property and escheatment experts, your organization can quickly and effectively overcome and/or meet the stringent requirements of state administrators and independent auditors.

Once you have brought your firm into compliance and established solid, best-practices-based policies and processes to govern future handling of unclaimed property and escheatment, you will confidently send unclaimed property back into the quiet realm of finance directors and accounting managers.