



**ABANDONED PROPERTY SERVICES LLC**

## **THE AUDIT NOTICE - NEXT STEPS**

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The current economic situation has left many states' finances in poor condition. One way that states are augmenting their revenues is to step up unclaimed property non-compliance detection through increasing the number of audits they perform. Businesses discovered to be noncompliant not only have to pay the unclaimed property they owe but possibly costly penalties and interest charges. Further, consider that states don't have the resources now to hire more state employee auditors and are increasingly outsourcing audits to third party firms. In many cases, these firms are paid a percentage of the unclaimed property they collect as a result of the audit.

The audits are initiated via a written notice from the state sent to a business' chief executive officer or chief financial officer. If the audit is to be performed by a third party audit firm, it is likely that the firm will attempt to join other states to the audit, resulting in a multi-state audit.

Once a business is notified of the audit there are steps that should be taken to prepare and to develop the appropriate audit strategies.

### Understand the Audit and the Auditors

After receiving the audit notice, the business should consider the following:

- Is the audit being conducted by state-employed auditors or third party auditors hired by the state?
- If a multi-state audit, which states are involved?
- What is the scope of the audit? (How many years of records are included in the audit scope? What types of property/transactions are being reviewed?)
- When will the audit commence?
- What audit procedures will be used? (What procedures will be used when records are incomplete or nonexistent?)
- What are the auditors' schedules and site requirements?
- Will the state(s) or their agent sign a confidentiality agreement?
- Should legal counsel and outside expertise be retained to address audit issues?

### Assemble the Audit Defense Team

To appropriately prepare, strategize, and participate in the audit, it is essential for the business to create an audit committee or team. Of course, the auditors' point of contact (POC) within the business would be a member of the audit team and the POC should be given the authority to chair the audit team, request data from various departments and/or subsidiaries, convene team meetings and relay information to and from the auditor and any experts hired by the business to assist with the audit matriculation and defense.

Other members of the audit team should include:

- Corporate or outside counsel
- Key staff in such areas as:
  - Accounts Payable
  - Payroll
  - Accounts Receivable
  - Accounting/Treasury
  - Tax/Compliance
- Outside unclaimed property audit defense experts

If the business does not have centralized payroll, accounts payable and accounts receivable functions, it may be necessary for several people from these areas to be a part of the team or for one person from each area to coordinate with counterparts in other divisions or subsidiaries. Further, depending upon the nature and organization of the business, there may be specific disbursement accounts controlled by other areas of the business (even if they are outsourced to a third party administrator/payer) for which it may necessary to include a team liaison.

In addition, in order to insure that any potential securities-related unclaimed property is considered, one member of the team should serve as liaison with the business' securities transfer agent (stock/dividends) and//or corporate trust agent (bonds), if applicable.

#### Research the Business' Compliance Position

A preliminary step toward developing the appropriate audit strategy is to determine the business' current compliance position and the extent of any possible liability exposure. If unclaimed property reports have been filed in the past, the team should review these reports to determine if they include all applicable property types, were filed timely and included the appropriate remittance.

For time periods for which no unclaimed property reports were filed and/or if the team suspects deficiencies in previous filings, the team should perform an internal review including the following:

- Acquisitions and dispositions of divisions or related companies to determine the likelihood of liability
- The business' various disbursement accounts to determine the extent of unclaimed property exposure by account.
- The business' general ledger accounts for potential sources of unclaimed property.
- The business' policies and procedures associated with the relevant disbursement accounts.

The objective of the internal review is to estimate the business' exposure for all areas of unclaimed property as the basis for devising strategies to minimize or mitigate that exposure and for managing the audit.

*About Abandoned Property Services LLC (APS):* APS services the unclaimed property compliance needs of all types of businesses. APS provides policy /procedure and liability prevention consulting, audit defense and compliance maintenance via its annual reporting and due diligence services. Annual reporting and due diligence services are facilitated by APS' specially -devised and perpetually updated "in-house" systems.

APS, LLC was formed in 2003 with the mission of providing high quality, effective, efficient and affordable unclaimed property

compliance and audit support services to the business community. To this end, the ten (10) APS staffers have over 125 years of combined unclaimed property experience including unclaimed property consulting for big four accounting firms, and serving as unclaimed property officials for Illinois, New York, and Oregon. APS, LLC's principal office is located in New York, New York. For more information, please visit the APS LLC website at [www.abandonedpropertyervices.com](http://www.abandonedpropertyervices.com) or contact Karen Anderson at 317-577-9530 or [kanderson@apsescheat.net](mailto:kanderson@apsescheat.net)

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