



ABANDONED PROPERTY SERVICES LLC

## UNCLAIMED PROPERTY AUDITS

### Questions and Answers

**1. Question: How do states select organizations for audit?**

**Answer: Many states have criteria for audit selection which may include the following triggers:**

- a. **Holder has presence in state but no reports filed**
- b. **Holder incorporated in state but no reports filed**
- c. **Lack of filing of negative reports**
- d. **Company is significant size to warrant scrutiny by state of incorporation that could result in extrapolated findings of past non-compliance**
- e. **Reports do not include all likely property types**
- f. **Amounts reported appear too small for size of company**
- g. **Reports are inconsistent with property being reported by other companies in same industry**
- h. **Unlawful deductions in previously filed reports**
- i. **Gaps in reporting history**
- j. **Large aggregate amounts in previously filed reports**
- k. **Errors in reporting / wrong codes**
- l. **Unlawful deductions in previously filed reports**
- m. **No reach back on initial reporting**
- n. **Inadequate due diligence (i.e., high rate of claims when information posted by states)**
- o. **History of mergers, acquisitions, reorganizations, liquidations, dissolutions, incorporations**
- p. **A specific period of time has passed since a previous audit**

**Consider that states want to ensure that organizations that are required to report unclaimed property begin and continue to annually report and remit unclaimed property. Audits are one of the methods states use to ensure compliance.**

**2. Question: How do states notify organizations that they have been selected for audit?**

**Answer: Generally, states notify organization via mail and include a time and date for the initial audit meeting plus a list of records they would like to review.**



The notification will disclose if contracted, third-party auditors will be conducting the audit.

3. **Question: Do states perform audits using “in-house” state-employed staff or do they hire third-party firms to perform audits?**  
**Answer: Both.** Some states have “in-house” state-employed audit staff (i.e., California and New York, etc.) and others do not. However, even those states with an audit staff usually do not use those auditors to perform audits outside of the borders of their state and contiguous states. States that do not have “in-house” staff or that choose to audit an organization located outside their state’s borders, or that join an audit being conducted by several states (“multi-state” audit), hire a third-party audit firm. States sometimes perform joint audits whereby several states participate in the audit using one of the participating state’s in-house auditors.
4. **Question: If a state hires a third-party firm to perform an audit, how is the audit firm paid?**  
**Answer: Normally,** these firms are paid a percentage of the total amount of past due unclaimed property they discover and report to the state. In some cases, they are paid an hourly rate.
5. **Question: Considering the scope of the audit, for how many years can an auditor request records?**  
**Answer: Generally,** most states use a 10 year “reach back” period but some state escheat laws permit going back as far as the initiation of their unclaimed property statute. In unclaimed property audits performed by Delaware or its third party audit contractors the reach back is 20 reporting years.
6. **Question: What if the auditor requests records for years that the organization no longer has records or has inadequate records?**  
**Answer: The auditor likely will estimate the past due unclaimed property for those years by using an extrapolation technique based on a review of the available records and corresponding past due liability for recent years.**
7. **Question: How should an organization prepare for an audit once it has received an audit notice?**  
**Answer: The organizations should begin by forming an Audit Team comprised of in-house counsel and pertinent staff from areas that have disbursement responsibilities (i.e., A/P, HR) and A/R. Then, the Audit Team should perform a thorough internal review (“self audit”). The self audit should identify any potential past due liability an auditor may discover and opportunities for mitigation through reversal of accounting errors, making permissible offsets or taking applicable exemptions and/or by contacting owners to confirm obligations, etc.**



Second, the Audit Team should begin gathering the data the auditor has requested such as:

- a. the organization chart
- b. the chart of accounts
- c. merger and acquisition history
- d. documentation of reversals of accounting errors
- e. unclaimed property reports filed in previous years

Further, the organization should consider the value of hiring an expert to assist you with developing the appropriate audit strategy and if necessary, defending your organization in the audit.

8. **Question:** In the initial audit meeting, what are some of the questions an organization should ask?

**Answer:** Clarify the scope (years, business entities) of the audit and which states are involved. Request that prior to audit commencement the state(s) and the auditors sign an agreement with regard to confidentiality and the audit scope. In addition, the organization should request copies of formal notices from any state that is participating in the audit.

9. **Question:** What are some best practices when working with a state or their audit agents during an audit?

**Answer:** Be cooperative but cautious! Require a Confidentiality and Scope limitation Agreement prior to providing any records.

- a. **If you have a history of reporting:**
  1. Show your compliance commitment via your written procedures and report files
  2. If checks reversed are questioned, provide UP Officials with statistics regarding the checks that have been reversed due to your research and procedures
- b. **If you have no history of reporting:**
  1. Are there names and addresses available for all potential liabilities?
  2. Consider all of your compliance alternatives.

