

Washington State

UNCLAIMED PROPERTY

Audits: Internal Control and Record Keeping

All organizations must report unclaimed property to the Department of Revenue each year by November 1. Adequate internal controls and complete records help safeguard potential unclaimed property. Written accounting procedures and internal controls provide documentation in case of an audit.

Auditing Overview

Department auditors examine the records of businesses for compliance with the Uniform Unclaimed Property Act. Audits may cover the last six reporting years. Audits are assigned for the following reasons:

- Not reporting expected property types
- Late reporting and improper aging of reported accounts
- Industry compliance verification emphasis
- Consumer complaints relating to unclaimed property
- Unverified account deductions

Large businesses can expect regular unclaimed property audits. Smaller businesses can reduce their audit frequency by:

- Reporting regularly
- Reporting expected property types

Once an examination is assigned to an auditor, the following occurs:

- The business is notified by phone or letter that they have been selected for examination.
- The auditor requests an opening conference to review the law, required records, typical property types, and to agree on the audit plan.
- The auditor begins the examination on the date agreed upon at the opening conference.

Each audit consists of the following stages:

- Opening conference
- On-site work
- Exit conference
- Closing conference

Opening Conference

The auditor contacts the business to arrange an opening conference with the company's authorized representative. The meeting is held at the company's place of business. The company is encouraged to invite all interested parties to this meeting.

During the conference:

- The auditor learns about the organizational structure and the location of records.
- An audit plan and type of audit are discussed.
- Participants may ask questions.
- An agreement is reached on the time and place of the examination.
- A business' liaison is appointed.
- A records request list is discussed and provided in writing to the business.

On-site Work

The examination is conducted at the business location. The on-site work may last a few hours or several months depending on:

- Size and type of organization
- Complexity of unclaimed property reporting
- Availability of records
- Number of unclaimed property auditors assigned to audit

Based on the auditor's initial review, audit work may be limited in scope to selected property types or reporting periods.

Exit Conference

After on-site work is completed, the auditor presents the preliminary findings at an exit conference.

The organization will be allowed to:

- Research the findings
- Issue refunds
- Develop adjustments to the preliminary findings

After the exit conference, the auditor may provide the business a draft examination report to fully explain the findings.

Closing Conference

The auditor schedules a closing conference to review any refunds and proposed adjustments to the findings. If there is agreement, the organization sends a consolidated unclaimed property report and remittance for the audit period.

The auditor issues a final examination report after receiving the report and remittance. The report lists any findings and indicates the organization is complying with the law. It may also contain appropriate management advisory comments for future assistance.

Estimations

Occasionally, the business and the Department may agree to estimations if developing actual account information would be impossible or impractical. By law, the Department may estimate the amount required to be reported if the business:

- Failed to report unclaimed property.
- Did not keep records necessary to prepare a report.

Charges, Interest, and Penalties

Unreported property may be charged late payment interest from the date the property was due until paid. The interest rate is set by statute and fluctuates with the United States Treasury rate.

The following charges may also be considered if the Department have evidence that an organization is not acting in good faith:

- A minimum fee of \$140 per auditor per day may be charged for each day of on-site work.
- A civil penalty of \$100 a day up to \$5,000 may be assessed for each day a report is willfully withheld or if other duties are not performed. Also, the penalty amount may include 100 percent of the value of the property not reported.

A person who intentionally refuses a written demand to pay or deliver property, or enters contracts to avoid the duties of this chapter, is guilty of a gross misdemeanor. If convicted, they may be subject to a maximum fine of \$1,000 and one year in jail.

Appeal Procedures

When there is disagreement on the audit findings or application of the law, the auditor issues a draft report and sends a formal demand letter for the property in question.

The business must send a letter explaining any disagreements or legal issues to the Department by the due date in the demand letter. The letter may be reviewed by the Assistant Attorney General, and the Department will respond in writing.

If the letter and response do not resolve the issues, a meeting is arranged with the business, their legal counsel, and the Unclaimed Property Audit Manager to clarify the issues and seek a resolution.

If the disagreement cannot be resolved, the Department may ask the Attorney General's Office to bring action in court to settle the dispute.

Common Errors Found in Audits

Some common problems found in audits include:

- Small credit balance write-offs were not reported as required.
- Property was not aged correctly for abandonment.
- Some disbursement accounts were not reviewed for unclaimed checks.
- Inactivity fees were taken incorrectly and were disallowed.
- Stock and dividends held at the transfer agent were not reported.
- Reportable property was not properly transferred during mergers or computer conversion.

Types of Audits

Rather than a “one size fits all” approach, we often tailor our audit work so we can determine business compliance in the most effective, efficient manner. Below are types of examinations we use.

Regular field audit for complete audit period

- Auditor performs all records review and testing.
- Penalty and interest assessed if property was not reported.

Holder self-audits

- Holder is given the opportunity to review their records and report missed property.
- Penalty and interest is forgiven on self-audit report.
- Self-audit report and related work is subject to auditor review.
- Auditor may conduct additional audit procedures as necessary.
- Auditor’s additional findings may be subject to interest or penalties.

Managed audits

- May be offered when there are numerous records to be tested.
- Holder is given the opportunity to perform preliminary audit work.
- Auditor may perform additional testing and records review.
- Penalty and interest may be forgiven for cooperation.

Limited scope audits

- Auditor reviews business records for selected property types or reporting periods.
- Penalty and interest is assessed.

Vendor audits

- Contracted agent for Department, often called a vendor; conducts audit of company located in another state.
- Usually part of multiple state compliance review.
- Contracted agent subject to same training, expertise and confidentiality standards as our audit staff.
- Penalty and interest may be forgiven for cooperation.

Internal Control

Abandoned property presents a strong temptation for embezzlement and fraud. Because the lost owner is unlikely to monitor the funds, adequate internal controls are needed to safeguard the unclaimed property prior to reporting.

Businesses sometimes shortcut the needed internal controls because:

- The unclaimed property amounts are considered immaterial.
- They believe their normal internal controls are adequate.

When the owner is missing, normal controls may not be enough to prevent embezzlement and fraud. Some ways to avoid possible embezzlement or fraud:

- Move stale-dated checks and aged customer credits to an unclaimed property liability account.
- Create procedures to provide management control over transactions entering and exiting the unclaimed property liability account(s).
- Have a second person independently reconcile the account on a regular basis and test the validity of refunds from the account if necessary.
- Have two employees approve refunds or other transactions from unclaimed accounts.
- Separate the duties of tracking and reporting unclaimed property from issuing refunds.

Ask your accountant or internal auditor to help design your internal control plan. Consider periodic internal control reviews. These may include:

- Verifying the amounts held in your unclaimed property liability account back to the source records.
- Tracing other aged accounts not associated with your liability account forward from source records to disposition. For example:
 - Was the account refunded?
 - Was it reported on your unclaimed property report?

Each organization should assess its own risk and resources, and plan accordingly. Companies who suffer embezzlement often underestimated the risk, or shortcut adequate internal controls, in the name of efficiency.

Need Help? On-site Assistance is Available

For holders located in Washington, Unclaimed Property representatives are available for consultation visits:

- Representatives answer your unclaimed property reporting questions.
- There is no charge for the visit.
- It helps you avoid mistakes.
- It reduces your likelihood of being selected for an audit.

Record Retention

RCW 63.29 requires all organizations to keep copies of the unclaimed property reports and supporting detail for six years after the filing date.

If you sell travelers' checks, money orders, or similar instruments, you must maintain a record of those items for three years after you report. Your records must show:

- The state where the instrument was issued.
- Issue date.

Insurance companies should keep the following information whenever there is a change of beneficiary under life insurance, endowment policies, or annuity contract:

- Beneficiary name
- Address
- Relationship to the insured

Local governments should follow the record retention guidance in the Local Government Reporting Guide.

Other than the above, follow your normal record retention requirements.

As an audit trail and internal control measure, consider keeping documentation supporting any refund or adjustment to your unclaimed property liability account for six years.

Unclaimed Property Contact Information

Main Phone: (360) 705-6706
(Press "0" for assistance)

Toll Free: 1-800-435-2429
(Washington State only)

Fax: (360) 586-2163

E-mail: ucp@dor.wa.gov

**Mail: Washington State
Department of Revenue
Unclaimed Property Section
PO Box 47489
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