Escheatment Issues and Best Practices

Unclaimed property is an issue that is often not addressed until state auditors present a demand for back payments and penalties. This has become a more frequent event because cash-strapped states see unclaimed property and failure to escheat as an easy source of funds and aggressively audit companies across the country that do business in their states. The following issues and best practices can ensure that your company doesn't fall victim to the states' quest for funds.

Issues

Do you escheat outstanding checks on a regular basis? What about any dividend payments?

Outstanding checks are the most common form of unclaimed property and you are required to track, report and escheat based on the state of residence of the payee. If you are still paying dividends by check, they are also subject to unclaimed property laws.

Does A/R track open credits and escheat where required?

Checks are not the only form of unclaimed property. States also look at other assets such as open credits on company accounts receivable. Does your system enable you to recognize the difference between an open item that needs to be escheated and a duplicate credit that you could take back into income?

Do you issue gift certificates and stored value cards? They can be subject to escheatment as well.

Gift certificates and stored value cards, such as gift or refund cards, are popular with businesses and consumers and are a target of opportunity for state auditors. Laws vary so it is important to fully understand your obligations. Does your company have a group responsible for managing the escheat requirements?

Do you have a full and accurate list of the states in which your company must file escheat reporting?

This is usually the state of the last known address of the payee or owner of any escheatable funds. But laws vary and the chances are good that you need to track and report in multiple states.

How do you contact owners of unclaimed property and document your due diligence?

Most states have requirements about attempting to contact the owner of any escheatable funds before they are transmitted to the state. Do you have procedures in place to do this and how do you track and document your compliance? Requirements vary by state so this is not a simple issue and failure to perform proper due diligence can be an expensive mistake.

Do you keep full records of all of your escheat reports and escheated funds?

Many companies only keep records for seven years, but many states require that you keep escheatment compliance records for at least ten years or longer. Further, if your company is subject to an audit there is often no time limit on how far back the state may demand records.

What are the accounting procedures for potential unclaimed property?

These vary by company but best practice is to move potentially unclaimed funds, such as unpaid checks, to a separate account for tracking and control purposes.

Does the company have an unclaimed property accounting and reporting policy?

Policies are easy to put in place and serve two purposes: guiding staff on company policy and demonstrating due diligence to auditors. A formal unclaimed property and escheatment policy is considered to be best practice.

Best Practices

Understand the escheat reporting and compliance deadlines for your state and the states where you do business.

Reporting deadlines vary by state. With 54 potential reporting jurisdictions you need to be aware of filing requirements in all jurisdictions that may affect your company. Remember, the state that has jurisdiction over the property controls filing requirements, not your state of residence or incorporation.

Unclaimed property reporting should be reconciled on a regular basis.

Unclaimed property accounts and related escheat reporting should be reconciled on a regular basis to ensure accuracy of your reports, verify compliance and ensure proper control over the assets. Monthly reconcilement is considered to be best practice.

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