



Unclaimed Property Program: Building on the Current Audit Process

Matthew M. Davis, Assistant Division Director
South Carolina Treasurer's Office
February 5, 2018

Table of Contents

| | |
|----------------------------------|----|
| Problem Statement..... | 3 |
| Data Collection..... | 4 |
| Data Analysis..... | 6 |
| Implementation Plan | 11 |
| Evaluation Method | 12 |
| Summary and Recommendations..... | 12 |
| Appendix | 13 |

Problem Statement

The mission of the South Carolina Treasurer's Office (STO), led by State Treasurer Curtis M. Loftis, Jr., is to serve the citizens of South Carolina by providing transparent, accountable, and efficient banking, investment, and financial management services for South Carolina State Government.¹ The Unclaimed Property Program (UPP), which has been administered by the STO since 1996, serves as a mechanism for gathering unclaimed cash and securities that belong to South Carolinians and returning those assets to their rightful owners. The UPP is governed by Title 27, Chapter 18, of the South Carolina Code of Laws.² South Carolina Code Section 27-18-310 specifically grants authority for the STO to examine the records of a business to determine whether it is in compliance with South Carolina's unclaimed property laws.

The UPP audit program was created by the STO in 2012 upon the passing of General Appropriations Bill H. 4813 of 2012,³ which funded the program based on Proviso 76.14.⁴ The program is now funded by Proviso 98.11 of General Appropriations Bill H. 3720 of 2017.⁵

A business that may possess reportable unclaimed property is known as a holder. When the STO conducts a UPP audit, it generally utilizes one of two approaches:

1. **Desk Audit:** This is a traditional audit approach whereby all records are provided to the STO for review by its own staff. This approach tends to be more time-

¹ STO Fiscal Year 2016-2017 Accountability Report (<https://dc.statelibrary.sc.gov/handle/10827/25893>)

² SC Uniform Unclaimed Property Act (<https://www.scstatehouse.gov/code/t27c018.php>)

³ General Appropriations Bill H. 4813 of 2012 (https://www.scstatehouse.gov/sess119_2011-2012/appropriations2012/ta12ndx.php)

⁴ General Appropriations Bill H. 4813 of 2012, Proviso 76.14 (https://www.scstatehouse.gov/sess119_2011-2012/appropriations2012/tap1b.htm#s76)

⁵ General Appropriations Bill H. 3720 of 2017, Proviso 98.11 (https://www.scstatehouse.gov/sess122_2017-2018/appropriations2017/tap1b.htm#s98)

consuming, but it ensures that all past-due unclaimed property is identified and reported as a result of the examination.

2. **VDA Audit:** This is a self-audit approach whereby the holder reviews its own records while the STO serves as a guide throughout the audit process. By entering into a Voluntary Disclosure Agreement (VDA),⁶ the holder would have a one-time opportunity to report any past-due unclaimed property without incurring interest or penalties. This approach tends to be more focused and streamlined since the STO does not actually receive the records or conduct the examination.

There is a small number of STO staff dedicated to conducting UPP audits, and it is important to maximize effectiveness and efficiency in carrying out our statutory responsibilities. The purpose of the project is to identify the best approach for conducting UPP audits. In particular, the goal will be to determine how to yield the most reported unclaimed property in the most efficient manner.

Data Collection

All data was collected from the STO's unclaimed property system, and it includes details on all UPP audits conducted from the inception of the program in 2012 through December 31, 2017. For each UPP audit, the data includes the audit identification number, name and Federal

⁶ A holder must meet the following three criteria in order to qualify to participate in a VDA audit: 1) Holder is not currently under audit by the UPP or any of its contracted third-party audit firms; 2) Holder has not been notified of an upcoming audit by the UPP or any of its contracted third-party audit firms; and 3) Holder has not participated in a VDA audit in the past regarding the relevant property types.

Employer Identification Number of the auditee (i.e., the company being audited), and the audit approach used to conduct the examination. In addition, the data lists each audit's current status as well as the date it was opened and, if applicable, the date it was closed.

The data also contains the total amount of unclaimed property reported as a result of each UPP audit. This includes the count of reported properties, the amount of reported cash, and the number of reported shares of stock resulting from each examination.

Data Collection Methods and Goals:

1. Flowcharts were used to analyze the current procedures related to desk audits and VDA audits. The goal of collecting this data was to present a visual comparison of the two audit approaches to more easily identify opportunities to enhance procedural efficiency.
2. Histograms were used to present the duration of all desk audits and VDA audits. The goal of collecting this data was to determine whether, based on the selected audit approach, there is a material difference in the length of time required to complete the typical examination.
3. Runs were used to present the number of desk audits and VDA audits: 1) opened during each calendar quarter; 2) closed during each calendar quarter; and 3) active at the end of each calendar quarter. The goal of collecting this data was to determine whether there is a material difference in the manageable audit workload (i.e., the maximum capacity of active audits at any given time) based on the selected audit approach.

- Pie charts were used to present the aggregate amount of unclaimed property reported as a result of desk audits and VDA audits, and a column chart was used to present counts of desk audits and VDA audits that yielded any amount of unclaimed property. The goal of collecting this data was to determine whether the selected audit approach has a material impact on the amount of unclaimed property reported as a result of the typical examination.

Data Analysis

Analysis of Audit Procedures:

Figures 1 and 2 located in the Appendix depict the flow of the typical desk audit and VDA audit, respectively. Procedures for both audit approaches are generally and relatively efficient. However, there are clearly more points during a desk audit where the auditor is reliant upon an action by the holder, particularly the provision of audit records, in order to continue the audit process. There is an obvious reduction in process efficiency whenever the holder does not send in adequate records. Conversely, the holder is performing a self-audit of its own records during a VDA audit, and the necessary records should be more readily available in order to allow the process to continue moving along in an efficient manner.

Analysis of Audit Duration:

Figure 3 below depicts the frequency distribution of the duration (i.e., the length of time required to complete an audit) of all UPP audits. In total, there were 71 desk audits and 402

VDA audits. While the volume of VDA audits is considerably higher than the volume of desk audits, there was still enough of each audit approach to display meaningful trends.

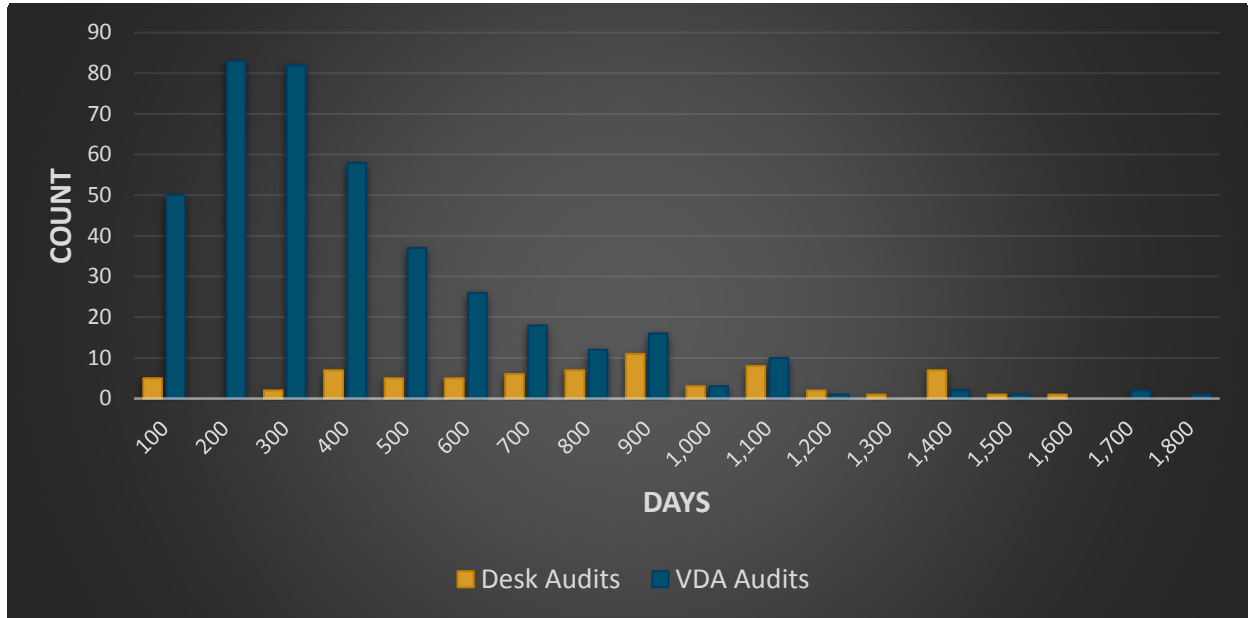


Figure 3. Frequency Histograms of Audit Duration.

The STO's goal is to complete a typical UPP audit in around 180 days. While each audit presents its own individual set of facts and circumstances, the VDA audit approach appears to clearly come closer to hitting that mark than the desk audit approach.

1. Just over 33% of VDA audits were completed within 200 days, and just over 7% of desk audits were completed in the same time frame.
2. Just over 53% of VDA audits were completed within 300 days, and just under 10% of desk audits were completed in the same time frame.
3. Just over 91% of VDA audits were completed within 800 days, and just over 52% of desk audits were completed in the same time frame.
4. Just under 99% of VDA audits were completed within 1,300 days, and just over 87% of desk audits were completed in the same time frame.

The mean and median durations also support the above finding that the typical VDA audit is shorter than the typical desk audit. The mean and median desk audit durations are 757 days and 778 days, respectively. The mean and median VDA audit durations are 360 days and 272 days, respectively. Based on the collected data, the audit duration appears to be considerably longer for the typical desk audit than for the typical VDA audit.

Analysis of Audits Opened, Closed, and Active:

Figure 4 below depicts the number of audits opened during each calendar quarter. The UPP audit program was created in 2012, so there was understandably a spike in audit openings in 2013. STO audit staff initiated more than 70 desk audits that year, and it took them quite a long time to ultimately obtain and review all of the records associated with those desk audits. As a result, no desk audits were opened from 2013 to 2017 while the number of VDA audit openings remained relatively consistent from quarter to quarter.

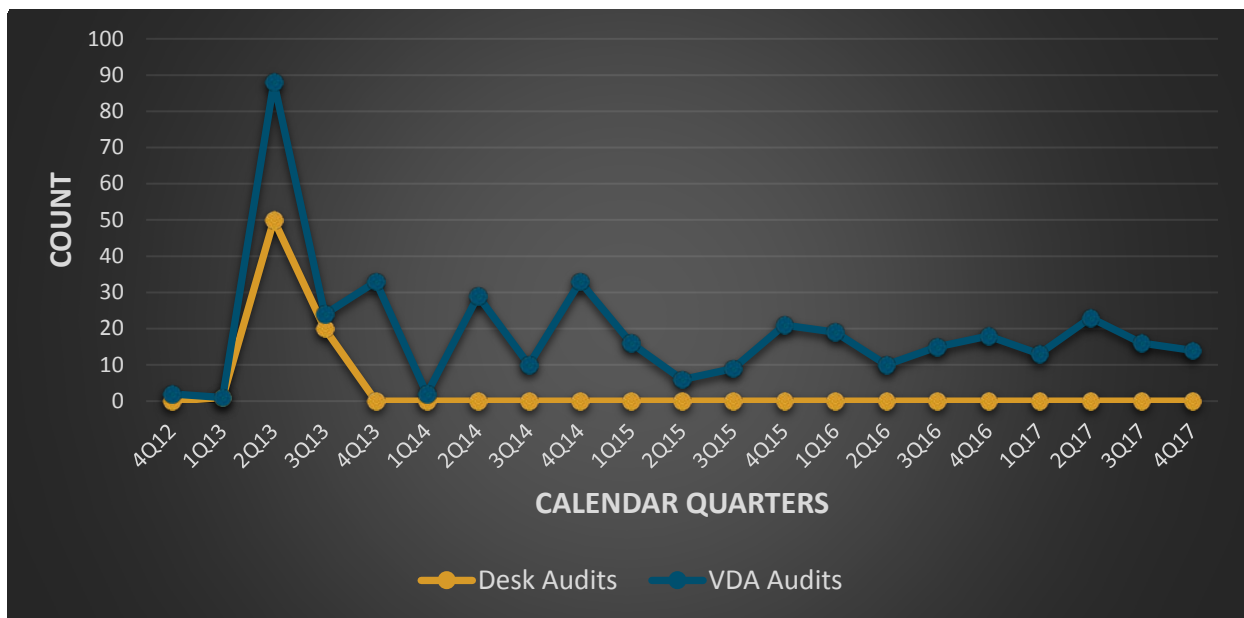


Figure 4. Audits Opened Over Time.

Figure 5 below depicts the number of audits closed during each calendar quarter. The STO placed a clear focus on closing UPP audits in 2016 and 2017, which explains the spikes in desk audit and VDA audit closings during those years. However, the number of VDA audit closings appears to have remained consistently higher than the number of desk audit closings from quarter to quarter. There was an average of three desk audits closed per quarter and an average of 16 VDA audits closed per quarter.

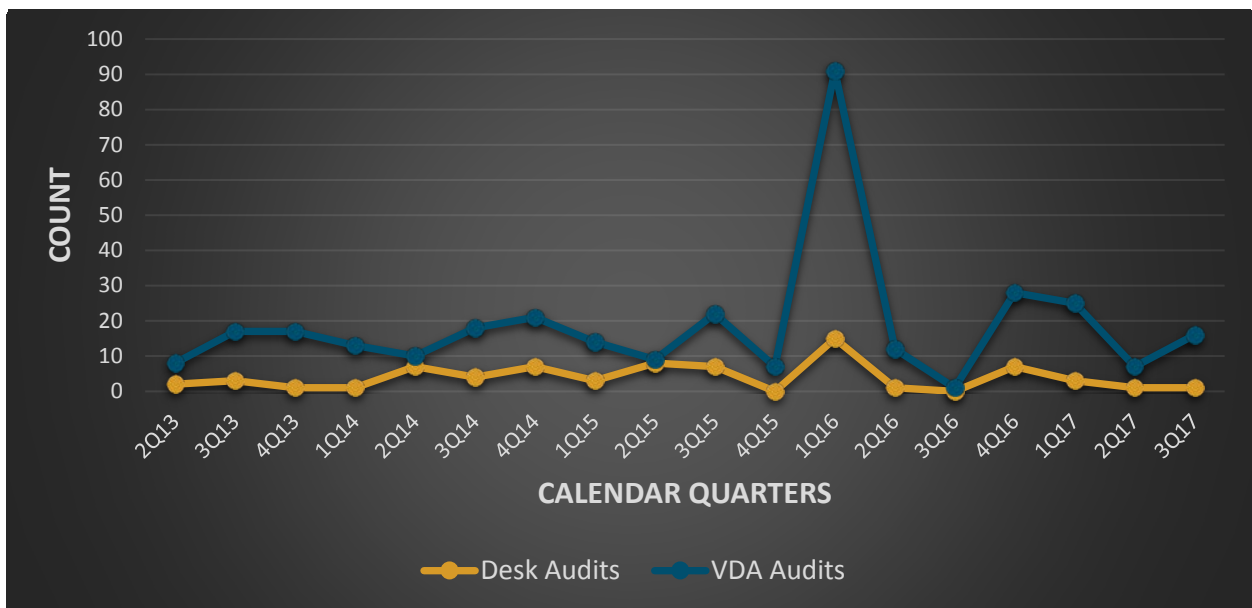


Figure 5. Audits Closed Over Time.

Figure 6 below depicts the number of active audits at the end of each calendar quarter. For the reasons described above, there were sharp upward spikes in 2013 and downward spikes in 2016. However, the rate of closings was more subtle for desk audits than for VDA audits since STO audit staff spent a great deal of its time from 2013 to 2017 steadily reviewing the backlog of audit records that had been sent in by the holders.

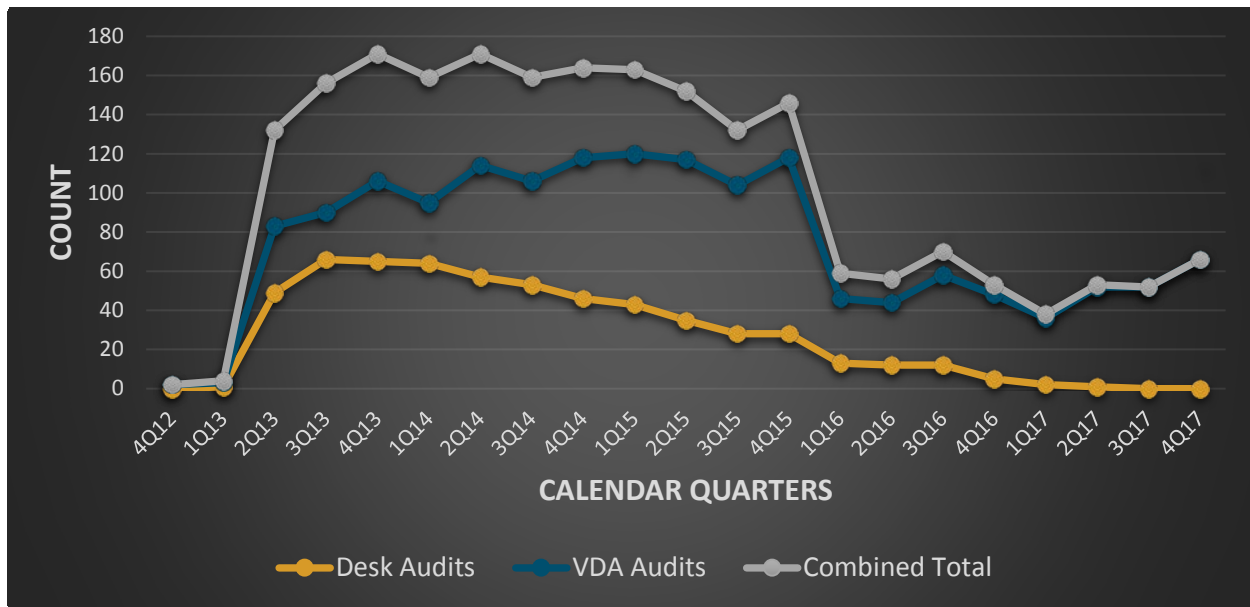


Figure 6. Active Audits Over Time.

As described above, there were several events and factors that caused volatility in UPP audit volume from 2012 to 2017. This makes it difficult to determine the manageable audit workload based on the collected data. However, the data does reveal that there were consistently higher rates of audit openings and closings when utilizing the VDA audit approach.

In general, the desk audit approach requires STO audit staff to review the holder’s records while the VDA audit approach places that responsibility on the holder. This naturally indicates that STO audit staff would be able to manage more VDA audits than desk audits at any given time, and the data does not appear to refute that assumption.

Analysis of Reported Unclaimed Property:

Figures 7 and 8 located in the Appendix depict the aggregate amount of unclaimed property reported as a result of desk audits and VDA audits. While more than 90% of this unclaimed property was reported as a result of VDA audits, the discrepancy in reported

amounts between the two audit approaches is due, in large part, to the fact that there were so many more VDA audits than desk audits.

Figure 9 located in the Appendix depicts the counts of desk audits and VDA audits that yielded any amount of unclaimed property. There were 29 desk audits that yielded unclaimed property, which represents just under 41% of all desk audits. There were 250 VDA audits that yielded unclaimed property, which represents just over 62% of all VDA audits. From the 29 desk audits that yielded unclaimed property, the average amount of reported cash was \$20,301. From the 250 VDA audits that yielded unclaimed property, the average amount of reported cash was \$21,262. Based on the collected data, the selected audit approach does not appear to have a material impact on the amount of unclaimed property reported as a result of the typical examination.

Implementation Plan

Since the UPP audit program already employs both the desk audit and VDA audit approaches, there would be virtually no work, time, or cost involved with utilizing one approach over the other one. There would be no meaningful obstacles to overcome since STO audit staff and leadership are familiar with both audit approaches, and any required resources are already in place. STO leadership would need to review and approve any proposed changes to how the UPP audit program generally approaches and conducts its audits. If that approval is granted, it would simply be a matter of documenting and incorporating this new audit philosophy into our current UPP policies and procedures.

Evaluation Method

The STO already generates monthly reports that include counts of UPP audits based on the audit approach and status. In addition, these monthly reports contain totals of property reported as a result of each audit approach during the time period. These reports already contain the information necessary to monitor and measure the results of the proposed process improvement. It would simply be a matter of compiling these monthly values and reviewing them on a semi-annual basis.

Summary and Recommendations

By selecting the VDA audit approach as the default and predominant method for conducting UPP audits, it should be possible to shorten the duration of the typical UPP audit without materially reducing the amount of unclaimed property reported as a result of the examination. This process improvement should allow STO staff to conduct more audits during a given time period and improve the overall effectiveness of the UPP audit program.

The desk audit approach should remain available for times when the STO believes a holder is unwilling and/or unable to conduct a self-examination of its records, but this approach should be utilized sparingly since it tends to extend the time necessary to complete the examination. In addition, the desk audit approach would be required if a holder is not eligible to participate in a VDA audit. Coupling the VDA audit approach with a continued focus on holder education and outreach should only help to build upon an already sound audit process.

Appendix

| | |
|--|----|
| Figure 1. <i>Flowchart of Desk Audit Procedure</i> | 14 |
| Figure 2. <i>Flowchart of VDA Audit Procedure</i> | 15 |
| Figure 7. <i>Aggregate Reported Unclaimed Property Count</i> | 16 |
| Figure 8. <i>Aggregate Reported Unclaimed Property Cash</i> | 16 |
| Figure 9. <i>Audit Yield of Unclaimed Property</i> | 16 |

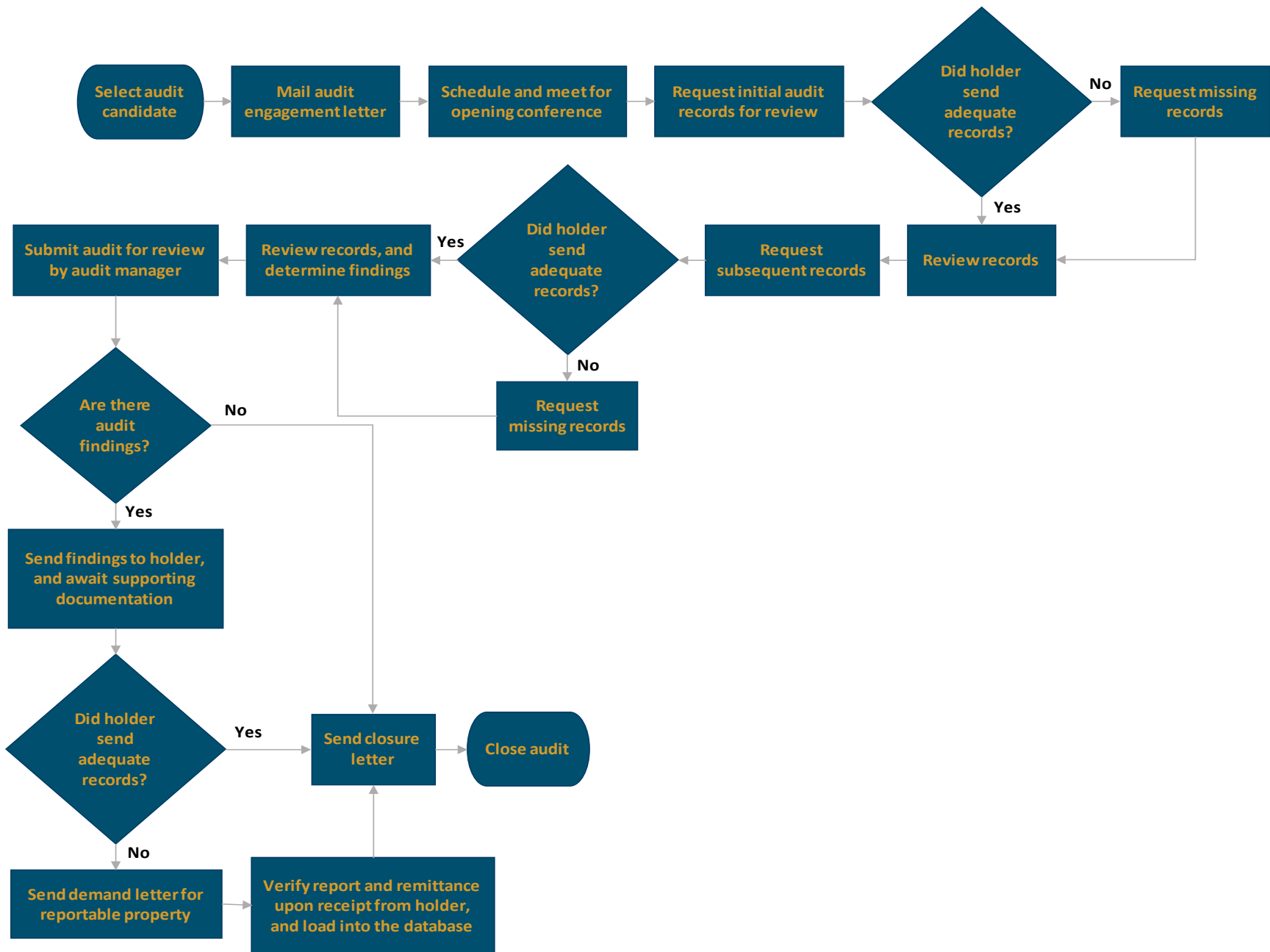


Figure 1. Flowchart of Desk Audit Procedure.

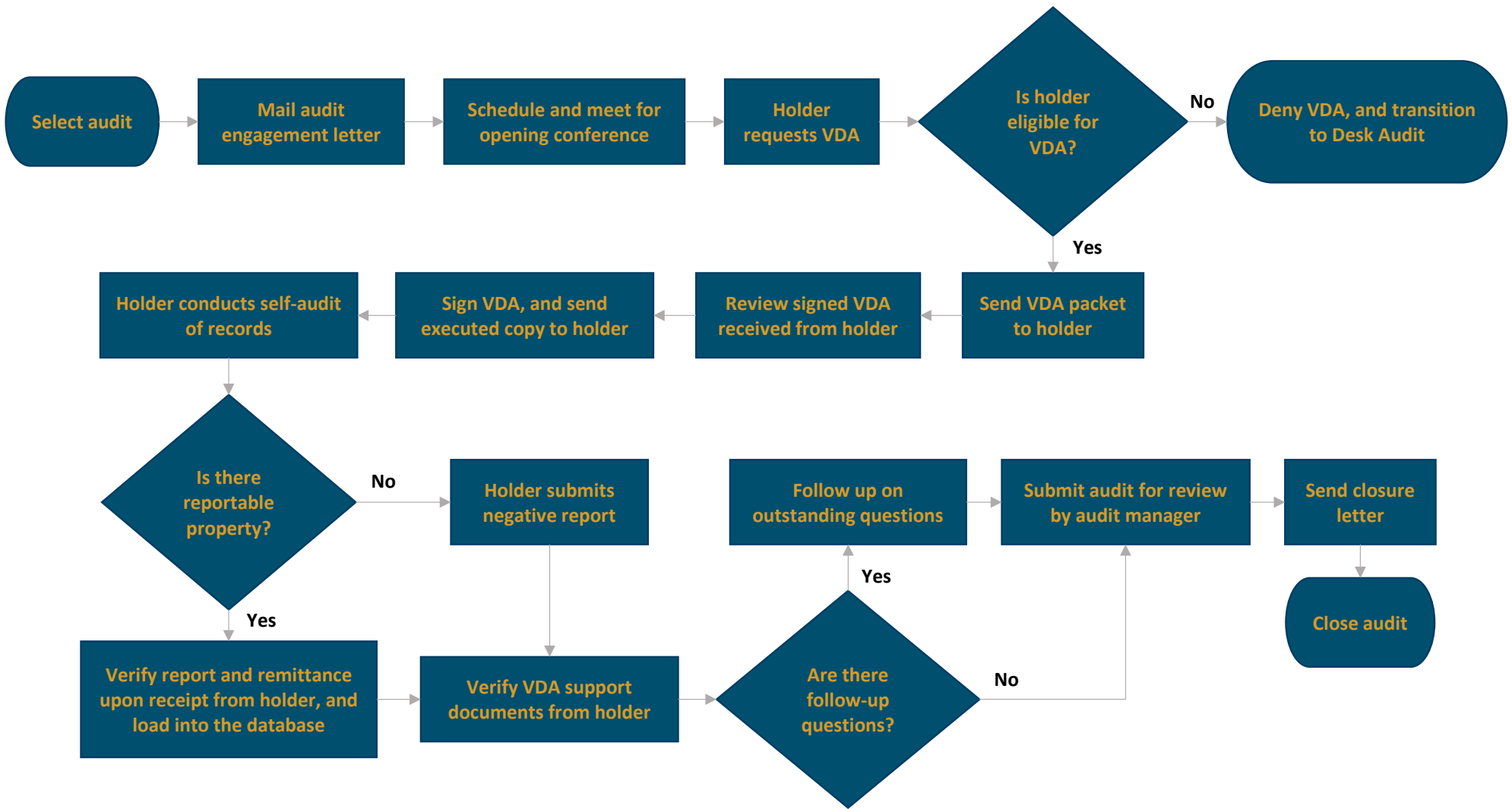


Figure 2. Flowchart of VDA Audit Procedure.

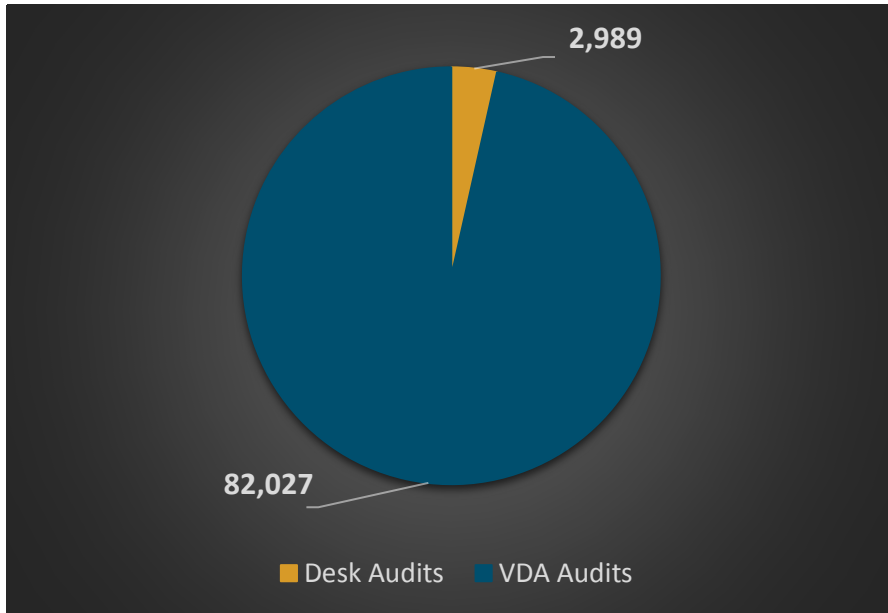


Figure 7. Aggregate Reported Unclaimed Property Count.

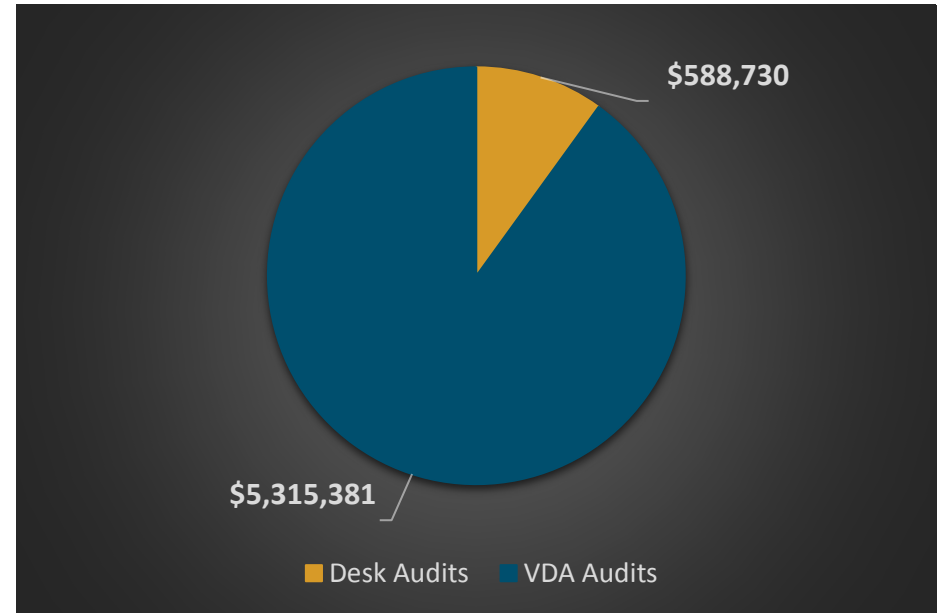


Figure 8. Aggregate Reported Unclaimed Property Cash.

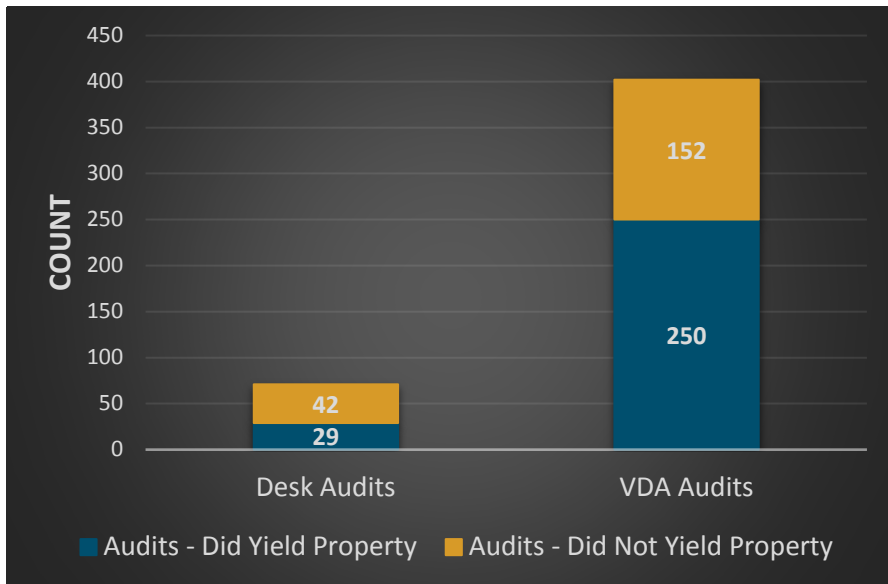


Figure 9. Audit Yield of Unclaimed Property.