



# Unclaimed Property Compliance General Overview and Industry Update

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## Agenda

- Unclaimed Property Overview
- Unclaimed Property Compliance
- Unclaimed Property Exemptions
- Unclaimed Property Audits
- Unclaimed Property Checklist

## Unclaimed Property Overview: What is Unclaimed Property?

- Unclaimed property and the term escheat originated in feudal England in the 12<sup>th</sup> century.
- Today unclaimed property refers to the transferring of abandoned property to the state custodian for owners that cannot be located after a certain amount of time.
- All 50 states as well as D.C., Guam, Puerto Rico, and the Virgin Islands have enacted unclaimed property laws.
- Common types of unclaimed property:
  - Accounts Payable
  - Payroll
  - Accounts Receivable
  - Rebates
  - Customer Refunds
  - Gift Cards

## Unclaimed Property Overview: Who governs U.P.?

- The Uniform Disposition of Unclaimed Property Act originated in 1954; with subsequent revisions in 1966, 1981, and 1985.
- The Acts were originally intended to guide the states as they drafted and adopted their own unclaimed property laws.
- The Uniform Acts were intended to promote uniformity, however, the laws that each state has accepted vary in their degree of adherence to the Uniform Acts.

# Unclaimed Property Overview: Definitions

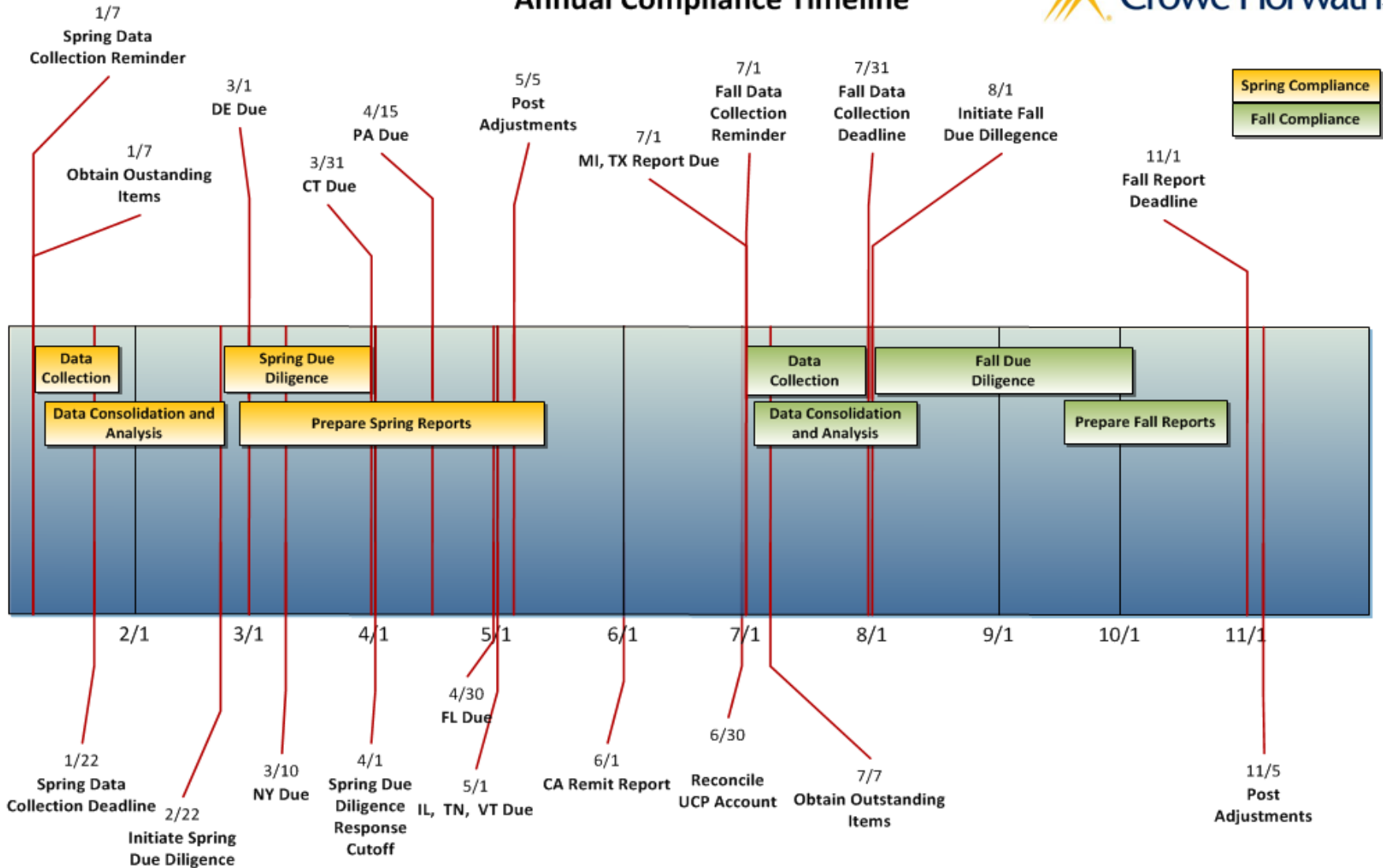
- **Unclaimed or Abandoned Property**
  - The owner has not during a certain period of time specified by the state, taken any action to indicate his/her ownership, interest, or awareness of their right to a property
  - Once this property reaches “dormancy”, it is subject to escheat laws
- **Escheatable**
  - The point when the burden of being the custodian of unclaimed property shifts to the state
- **Owner**
  - The person or company that owns the right to the property
- **Holder**
  - The entity that holds property owed to another
- **Custodian**
  - The entity or governmental unit that maintains the property for safekeeping
- **Dormancy**
  - The period of time that a company can hold a liability before it is considered escheatable
- **Exemptions**
  - Items that are statutorily excluded from qualifying as unclaimed property

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## Unclaimed Property Compliance: Reporting Jurisdictions

- All healthcare providers are subject to escheat laws as well as any business that cuts checks, receives checks, has employees, or vendors
- First Priority Rule: Unclaimed property is reportable to the state of the owner's last known address
- Second Priority Rule: In the absence of an address, property is due to the state of incorporation of the holder

## Annual Compliance Timeline



## Unclaimed Property Compliance: Example Dormancy Periods

	Filing Date	Payroll	Accounts Payable	Accounts Receivable	Miscellaneous	Year End
<b>Illinois</b>	<b>5/1</b>	1	5	5	5	30-Jun
<b>Indiana</b>	<b>11/1</b>	1	3	3	3	30-Jun
<b>Kentucky</b>	<b>11/1</b>	3	3	3	3	30-Jun
<b>Michigan</b>	<b>7/1</b>	1	3	3	3	31-Mar
<b>Ohio</b>	<b>11/1</b>	1	3	3	3	30-Jun
<b>Pennsylvania</b>	<b>4/15</b>	2	5	5	5	31-Dec
<b>Tennessee</b>	<b>5/1</b>	1	5	5	5	31-Dec
<b>Wisconsin</b>	<b>11/1</b>	1	5	5	5	30-Jun



# Unclaimed Property Compliance: How to Apply Dormancy Periods and Determine Report Dates

	<b>Example 1</b>	<b>Example 2</b>
Property Type	Payroll	A/P Check
State	IN	IL
Original Check Date	2/15/2009	2/15/2004
Dormancy Period	1 year	5 years
Dormancy Date	2/15/2010	2/15/2009
Cutoff	30-Jun	31-Dec
Report Period	1-Nov	30-Apr
<b>Report Date</b>	<b>11/1/2010</b>	<b>4/30/2010</b>



## Unclaimed Property Exemptions: What are they?

- An exempt property is one that does not qualify as escheatable to the state based on specific statutory guidelines
  - Business to Business
  - DeMinimis
  - Gift Card
  - Rebate
  - Industry Specific
    - Florida Managed Care
    - Kentucky Not-For-Profit
- Unclaimed Property Exemptions vary from state to state, much like dormancy periods and report guidelines
- Exemption criteria such as amount, property type, and age also vary from state to state

## Unclaimed Property Exemptions: What are they?

- **Business to Business** – Statutes adopted by various states which generally state that the owner or payee is responsible for obtaining their funds from the holder within a certain period of time. If the owner fails to attempt to claim their funds, the obligation is no longer considered to be reportable as unclaimed property
- **DeMinimis** – Statutes adopted by various states which generally state that items below a specified dollar threshold are not reportable as unclaimed property
- **Gift Card** – Statutes adopted by various states which generally state that unredeemed gift card balances are not reportable as unclaimed property. Some gift card exemptions apply to the entire balance, while others apply a percentage
- **Industry Specific** – Statutes adopted by various states which apply to very specific subsets of data within an industry; such as the Florida Managed Care rule, or the Kentucky Not-For-Profit rule

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## Unclaimed Property Audits: Why is it being discussed?

- Many states across the country are ramping up unclaimed property audits as an alternative means of generating revenue
- An unclaimed property audit can be costly and can drain resources
- Exposure amounts can become material over several years of non-compliance
- Unclaimed property audits tend to focus on an industry at a time and are currently fairly concentrated in healthcare

## Unclaimed Property Audits: State Targets

- Due to the nature of unclaimed property audits, nearly any company can be a target but the following are risk factors:
  - Incorporated in CA, DE, MI, MA, NJ, NY, PA, or TX
    - This is also applicable if you have any associated entities incorporated in these states
  - Have a high turnover or transient work force
  - Have a large customer or vendor base
  - Write a large number of disbursement checks
  - Decentralized systems or controls

## Unclaimed Property Audits: Penalties and Interest

CA	\$5,000-\$50,000
FL	\$500/day; \$5,000 max
IL	Class B Misdemeanor; each day new charge
IN	10% of property value
MI	25% of property value
NY	\$100/day; plus 10% per annum of property value
OH	1% per month
SC	25% of properties value
TN	\$25/day up to \$1,000 plus additional penalties if audit performed by a contract auditor

# Unclaimed Property Audits: Sample Liability Estimation

Facility	Recorded Liability	Unrecorded Liability			Total	Total without Penalties / Interest
	Dormant	Estimated	Penalties	Interest		
Hospital A	\$224,859	\$0	\$0	n/a	<b>\$224,859</b>	\$224,859
Hospital B	\$92,013	\$23,122	\$0	n/a	<b>\$115,135</b>	\$115,135
Hospital C	\$12,590	\$7,487	\$0	n/a	<b>\$20,077</b>	\$20,077
Hospital D	\$11,052	\$39,054	\$17,527	n/a	<b>\$67,633</b>	\$50,106
Hospital E	\$0	\$17,636	\$500	\$3,733	<b>\$21,870</b>	\$17,636
Hospital F	\$0	\$0	n/a	n/a	<b>\$0</b>	\$0
Hospital G	\$300,361	\$62,738	\$50,000	n/a	<b>\$413,100</b>	\$363,100
Hospital H	\$23,023	\$560,142	\$292,000	\$96,200	<b>\$971,365</b>	\$583,165
	<b>\$663,899</b>	<b>\$710,179</b>	<b>\$360,527</b>	<b>\$99,933</b>	<b>\$1,834,038</b>	<b>\$1,374,078</b>



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## Unclaimed Property Audits: Healthcare Risk Factors

- Credit Balances linger on balance sheet
- Physician practice and hospital integrations
- Patient accounting system conversions
- Third party billing
- Third party audits by states

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## Unclaimed Property Checklist

- Have you ever filed an unclaimed property return?
- What is your policy for treatment of outstanding checks?
- Who cuts refunds?
- What is your process for sun-setting a patient accounting system?
- What is your policy for treatment of aged AR credit balances?
- Do you have a small balance write-off policy that is applied to credit balances?
- How do you handle any un-discharged obligations in an acquisition?
- Is unclaimed property addressed in your third party billing contracts?

# Questions?



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