

Delaware SOS VDA Program Best Practices Discussion



Webinar
April 12, 2022

Today's Presenters

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Agenda

- Delaware SOS VDA Program Overview
- Best Practices Discussion
 - Scoping
 - Account Identification
 - Property Type Review
 - Disbursements
 - Accounts Receivable
 - Equity/Other
 - Final Deliverable
 - Ongoing Compliance



VDA Program Overview

- Created in 2012 to be a business friendly and efficient means of coming into compliance with a company's unclaimed property reporting obligations
 - Tailored to each enrollee's facts and circumstances
 - Holders and State work together to reach agreement of quantification of liability
- Provides certainty for Holders
 - Holder has greater control over the scope and related liability, as well as the settlement amount.
 - State will release and discharge the Holder from any and all liability related to the entities and property types that were included in the VDA
- DE VDA program is not an audit. Enrollees are expected to conduct a thorough and detailed self-review of their books and records to determine their historic UP liability
- In order for VDA Program to maximize benefits and efficiency, it is critically important to continuously communicate as the self-review is ongoing

VDA Program Expectations

- VDA Program Self-Review Expectations:
 - Implementing Guidelines detailing expectations for a Holder's self-review were first published in 2013 and refreshed in 2017 and 2020. They can be found here: [SOS-VDA-Program-Guidelines-April-2-2020.pdf \(delaware.gov\)](#)
 - In addition, regulations were promulgated in 2017 and can be found here: [SOS VDA Regulations](#)
- The Implementing Guidelines and Regulations provide a broad frame of the State's expectations of a Holder's self-review.
- Over the past ten years of administering this program, some best practices have emerged
- Even so, hallmark of the SOS VDA Program is that each VDA should be tailored to specific facts and circumstances of each participant, so communication along the way is critical

Best Practices Discussion



Phases of a VDA

	STEPS	DESCRIPTION	
1	Initial Contact	“Holder” (i.e., the enrolling Company) initiates contact with DOS and submits a signed VDA-1 to proceed.	
2	General Company Information	Holder provides general company information to assigned vendor	
3	PHASE 1: SCOPING	The initial phase of the VDA process during which the Holder reviews its records to determine the entities, property types, availability of detailed records, and years to be included in the scope of the VDA.	
4	PHASE 2: RECORDS REVIEW/TESTING/REMEDICATION	Holder identifies transaction level detail for review, testing (as appropriate), and remediation to determine an initial potential liability.	
5	PHASE 3: DUE DILIGENCE & SETTLEMENT	Holder and state resolve open issues. Holder presents findings and enters into a settlement agreement with State, which includes indemnification.	
6	PHASE 4: PAYMENT ADMINISTRATION	Holder will render payment to the State; the State and Holder will execute VDA-2.	

Scoping

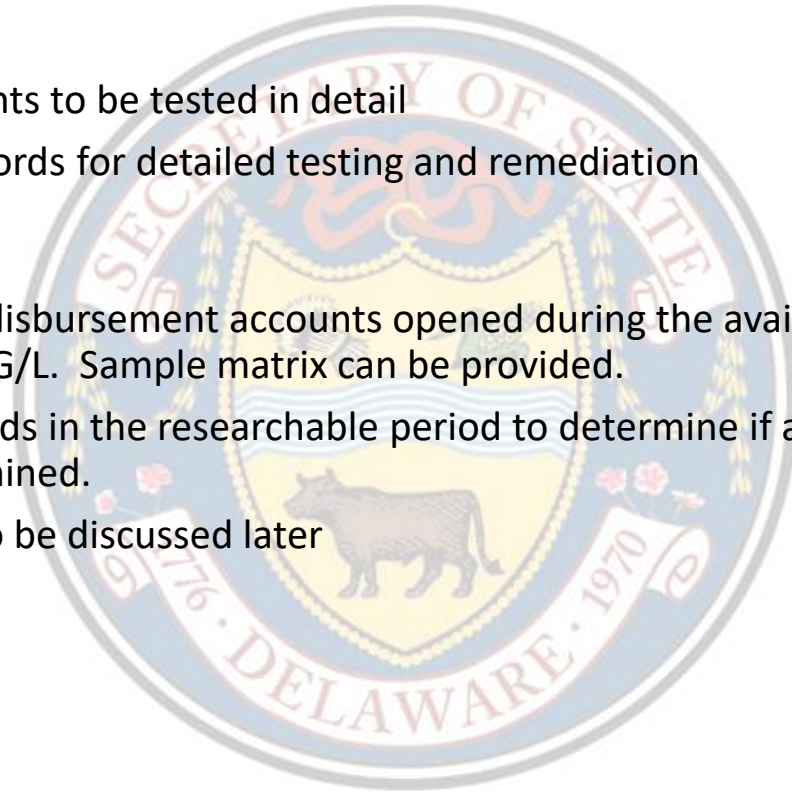
- Objective:
 - Identify the entities, property types and years included in the review and in turn the liability release and waiver of audit (VDA2).
 - Reach general agreement on scope before any significant review is completed or final deliverables provided.
- Records to review to determine scope:
 - Entities:
 - Organization chart at different points during the lookback period
 - Several years of tax returns
 - Need to account for all M&A activity for look back period (potentially 15 years from year of enrollment)
 - Property Types:
 - Knowledge of entire organizations business operations: Does/did company: issue gift cards, rebates, mineral rights, royalty payments
 - Holder should review historic Trial Balances to identify potentially relevant accounts

Scoping (continued)

- Records to review to determine scope:
 - Record Availability / Researchability (look back could be as far back as 15 transaction years):
 - Company-wide document retention policy
 - Identify what is available electronically, what is available on-site/off-site
 - Ultimate goal to determine what periods holder can research the final disposition of an item
 - Estimated Liability:
 - If Holder does not have researchable records for the entire lookback period, estimation of liability is expected.
 - In building an estimation:
 - Base period must be two oldest years have researchable records
 - Sampling for base period UP liability absolutely permitted (90/10 basis)
 - Provide support for denominator inputs (typically revenue – so 1120s/financial statements)
 - Work with vendor to discuss/ agree on estimation methodology prior to commencing work

Records Review / Testing

- Objective:
 - Identify the relevant accounts to be tested in detail
 - Pull appropriate source records for detailed testing and remediation
- Account Identification:
 - Bank account matrix of all disbursement accounts opened during the available/researchable period – include closed date, and tie out to G/L. Sample matrix can be provided.
 - Review TBs at various periods in the researchable period to determine if any other relevant accounts for investigation can be determined.
 - AR account identification to be discussed later



Records Testing (cont)

- Property Type Review Best Practices
 - Disbursements
 - System generated void checklist for checks voided 90+ days after issuance; and outstanding checklist from first quarter – end after the review period (note: review period could be last year of review or last year of base period depending if reviewing for actual vs. estimated liability)
 - Other potentially acceptable review practices: quarter-end bank reconciliations; quarterly outstanding checklists for entire review period and first quarter end after review period
 - For TPA issued disbursements (Payroll): provide TPA generated uncashed/stale-dated payroll check reports AND documentation from any manual (internal) payroll account review.
 - Accounts Receivable:
 - Two components to the review: aged credit balances and write-offs. Both must be accounted for in VDA submission
 - Aged credit balances can be determined by reviewing recent AR aging and reviewing for aged credit balances (5+ years) with Delaware, Foreign, Unknown Address.
 - Write-off review:
 - Best practice is a “tracer” analysis (see next slide)

AR Testing - Tracers

Accounts Receivable Tracer Analysis:

- Objective: Identify the G/L accounts that credits and debits are being adjusted to from the A/R account.
- Process:
 - Compare the transactions from two year-end aging reports that are at least two years apart (i.e. 12/31/2014 and 12/31/2016).
 - Identify credit transactions that “fall off”
 - Depending on the volume of transactions that “fall off” holder will research:
 - All transactions; or
 - Use of a full statistical sample with a probe sample selected. A probe sample is a subset of the statistical sample that can be used for attribute sampling, but cannot be used for a calculated liability.
 - Purpose is solely to identify relevant write-off account(s)
 - Once W/O Accounts identified, holder will review disposition account detail, net credits/debits by customer, and ultimately researched for UP liability

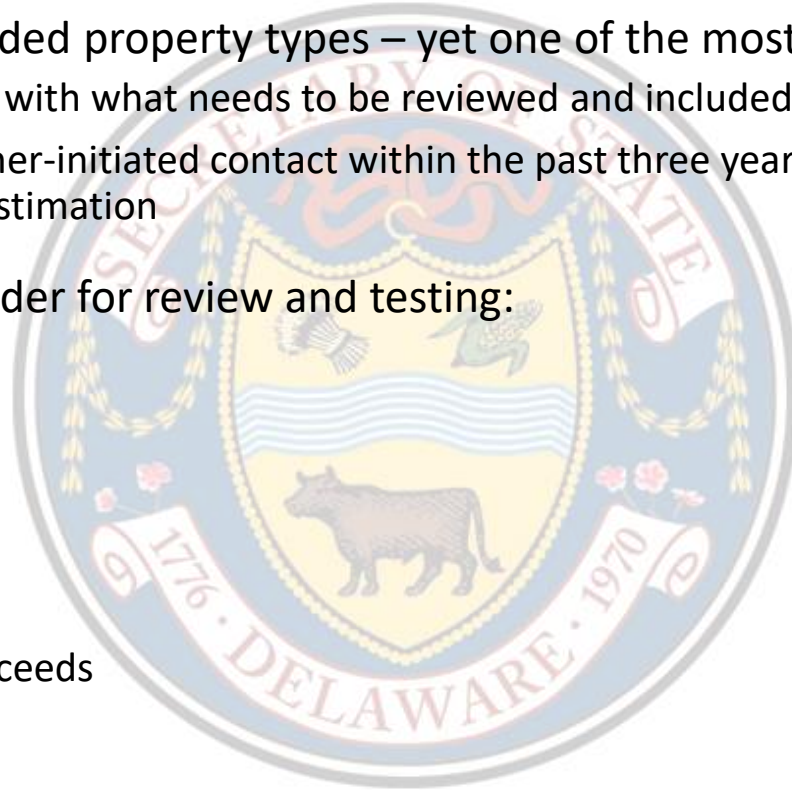
AR Testing – Quarterly Aging

Potential Alternatives to Tracer Analysis:

- Write-off account detail can be difficult to analyze due to sheer volume of data, batching, etc.
- Alternatively, holders could perform a quarterly aging review to identify write-offs:
 - Quarterly AR aging reports are retrieved for the entire review period
 - AR credits are netted by customer
 - **ALL** (or statistical sample of all) credits aged 90 days or greater researched to final disposition.
- Best practice is for Holder and their advocate to create an AR testing approach based on these two methods and then discuss with vendor prior to commencing the review.

Property Type Testing: Equity and Others

- Equity: One of the least included property types – yet one of the most straightforward:
 - Transfer agents are familiar with what needs to be reviewed and included as part of holder’s self-review
 - Dormancy triggered by owner-initiated contact within the past three years, which means as a result – very unlikely that there will be estimation
- Other property types to consider for review and testing:
 - Gift Cards
 - Rebates
 - Royalties
 - Mineral rights proceeds
 - Self-insured benefits
 - Class action settlement proceeds
 - Etc.

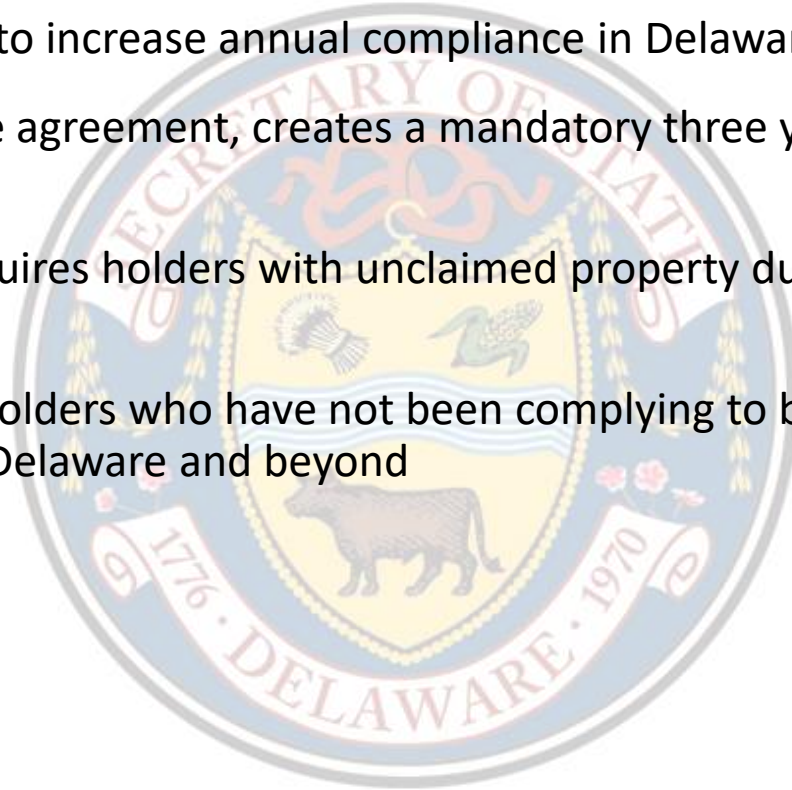


Final Deliverable

- Objective: Provide narrative memo, schedules and relevant workpapers detailing the findings and supporting the holder's self-review
 - Narrative memo:
 - Clear/concise write-up of the procedures performed
 - Include any adjustments / additional review required by VDA vendor
 - Schedules / Workpapers
 - Should be presented to permit sorting/filtering and review
 - Quantification schedules should include entire populations selected for research with resolution
 - Records Certification / Management Representation Letter
 - Every VDA submission must include a sworn representation/certification as to the period of available/researchable records
 - Management representation letters may also be utilized to support the submission on certain core issues
 - Best practice is to finalize any management representation letter (including record certification if one document) only after the VDA is closed.

Ongoing Compliance

- Main goal of VDA program is to increase annual compliance in Delaware
- VDA2 Settlement and Release agreement, creates a mandatory three year post VDA annual filing requirement
- Regardless, Delaware law requires holders with unclaimed property due and payable to the state to file annually
- Completing opportunity for holders who have not been complying to build practices/procedures to ensure future compliance in Delaware and beyond



Thank You For Attending!

Today's Presenters:

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Please send questions to:
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