Delaware SOS VDA Program AR Review Procedures

Holders are expected to identify dormant customer credit balances and credit transaction write-offs (i.e., credits removed/adjusted from customer accounts) through the AR review. There are two SOS VDA approved AR review methodologies, both of which are described below. The Holder may select either approach for the AR review based on the nature of the Holder's operations and record availability, in consultation with the VDA Administrator.[1] No matter the path selected, Holders must discuss their intended approach with the Administrator throughout the review process. **Any deviations from the below procedures must be approved by the VDA Administrator.**

Before you Begin

- Determine what years in the lookback period are complete and researchable,
- Obtain all policy and procedure documents relating to the Holder's AR process, **and**
- Interview AR personnel to identify any variances from the policies or common undocumented practices.

Approved Procedure 1: Tracer Review and Write-Off Accounts

Step 1 - Tracer Selection and Identification of G/L Write-Off Accounts
- Goal: Identify G/L account(s) to which AR transactions are removed/adjusted from customer accounts (i.e., write-off accounts).
- Process: Obtain detailed AR aging reports from two year-ends, at least two years apart (e.g., 12/31/2015 and 12/31/2017), to identify potential Tracer transactions. A potential Tracer is an aged credit transaction identified on the earlier aging report that is not on the later aging report. In other words, the credit transaction "fell off" in the period between the aging reports.
    - Depending on the volume of Tracers identified, the 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.
        - The State expects the Holder to focus on potential Tracers with the highest likelihood of representing a write-off (i.e., single aged credit transaction associated with an inactive customer).
        - VDA Administrator may request that additional items from the population be tested, and request support for any transaction.
        - Accordingly, if a probe sample is used for the tracer testing, the Holder should check in with the Administrator prior to going to step 2.
- Holder must communicate the approach and findings to the Administrator before advancing to step 2.

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[1]Administrator shall refer to the Department of State and/or its outside vendor and vendor's assignees assisting the Department of State with a review of the SOS VDA Submission packages.

Step 2 -Netting Transactions from G/L Write-off Accounts in Step 1

- Goal: Identify customer credit transactions written off.
- Process: Obtain and review transaction-level detail for each write-off account identified in Step 1.
    - Identify a base period that must consist of at least the two earliest continuous, dormant, complete and researchable years for each account.
    - Any dormant year after the base period must also be reviewed for Delaware reportable actuals.
    - Populate a detailed list of all customer-related base period transactions posted to each account. If transactions are batched, they should be unbatched before continuing the analysis.
    - Identify customers in a net credit write-off position by netting all transactions within the base period by customer.
    - Given that the populations created in Step 2 are derived from disposition accounts, remediation is not expected, however, the credit write-off transactions identified may be researched further by the Holder and any remediation support shall be provided in full.
- Extrapolation: Calculated for periods not deemed researchable/reviewed in this step. The error rate should be calculated using the base period's unremediated credit-write off transactions as well as any credit transactions reported as unclaimed property.

Step 3 - Review of most current A/R Aging

- Goal: Identify customers in a net credit position containing dormant credits reportable to Delaware (for entities incorporated in Delaware this includes customers with a Delaware, foreign, or unknown address; for entities formed outside of Delaware this includes customers with a Delaware address).
- Process: Obtain the most recent detailed AR aging report. Net all open transactions by customer to identify customers in a net credit position.
    - Net credit position customers with dormant (5+ years aged) credits should be reviewed further to determine if reporting is necessary.
    - Customers in a net credit position comprised only of non-dormant credits do not require further research; however, the Holder should track such credits for potential future reporting.
- Extrapolation: Extrapolation is unnecessary in Step 3, as incomplete periods are accounted for within the write-off analysis in Step 2.

Approved Procedure 2: Quarterly Aging Review

Step 1 - Identify aged credits from each quarterly aging report.
- Goal: Identify potential unclaimed credit transactions.
- Process: Review dormant period quarterly detailed AR aging reports to identify customers in a net credit position at quarter-end.
    - Identify complete and researchable years. Obtain quarterly aging reports from a dormant period (e.g., if review is conducted in 2023, agings from 2015 and 2016 should be reviewed). At a minimum, the two earliest continuous dormant years will serve as the base period. Any dormant year after the base period must also be reviewed for Delaware reportable actuals.
    - Base period must be the same as the period of source documents being reviewed.
    - Each detailed quarterly aging report should be reviewed individually.

- First, remove all transactions (debits and credits) that predate the base period from the analysis. The review should only include transactions with dates within the base period.
  - To account for the 90 day aging criteria, the quarterly aging reports need to be a quarter ahead. For example, if the two earliest continuous years are 2015 and 2016, the first reviewed quarterly report should be June 2015 and the last reviewed quarterly report should be March 2017.
- Then, identify customers in a net credit balance position for each quarterly aging. The netting should take place within that quarterly aging only.
- Finally, schedule all credit transactions aged 90 or more days for each customer in a net credit position for each quarterly aging.
- For validation purposes, the analysis workbook should include a separate tab for each quarterly aging.

Step 2 - Refine the population and conduct research.
- Goal: Identify the total research population of aged credit transactions.
- Process: Combine all credit transactions from each quarterly aging analysis into a single population.
  - Review the combined credit transactions, identifying and removing any duplicate transactions.
  - Discuss the proposed base period and refined population with the Administrator before conducting research and remediation.
  - The Administrator may request source documentation for validation purposes (including the analysis workbook with each quarterly aging).
  - Perform research and remediation. Depending on the volume of credits identified, the Holder will research:
    - All transactions, or
    - A statistically valid sample. The State's standard for determining a statistically valid sample is 90% Confidence Level and 10% Margin of Error.
      - If a statistical sample is reviewed the Holder must also review all customers from the full population that are in a net credit position with dormant credits reportable to Delaware (for entities formed in Delaware this includes customers with a Delaware, foreign, or unknown address; for entities formed outside of Delaware this includes customers with a Delaware address).
  - Each credit should be researched to actual disposition (e.g., applied, refunded, escheated, written off) and the support gathered by the Holder.
  - Demonstrating that a customer is in a net debit position is insufficient to remediate a credit balance using this approach. Instead, the Holder is expected to determine the actual disposition of each credit in the population (or sample, where applicable).
  - If it is determined a credit was written off, was reported as unclaimed property, or otherwise remains unresolved, the credit must be included in the numerator of the error rate for extrapolation.
- Extrapolation: Calculated for in-scope periods with incomplete records. Calculate the error rate using the base period's unremediated credit transactions, which includes credit transactions reported as unclaimed property.

All deviations from the above procedures must be discussed with the Administrator in advance.