

DUNBAR NEWSLETTER

LOOKING AHEAD



The past year has been anything but normal for most companies in the U.S. But while many businesses slowed or even stopped during the pandemic, the unclaimed property industry continued on.

States didn't delay or extend their account dormancy periods, and filing deadlines remained in place. Reports needed to be generated and sent. It was business as usual,

even if your teams had to conduct work remotely, finding new ways to operate and bridge any gaps. At times like these, our commitment to the people side of the business is more rewarding than ever. Across Dunbar, all of our teams have been honored to work closely with you to help get the necessary work done.

While we're not back to "normal" conditions yet, we think that now is an opportune time to look forward. Budgetary and fiscal constraints often lead to an increase in unclaimed property audits and legislation. With the pandemic having dampened the tax base for many states, a new wave of examinations may be forthcoming. It is an ideal time for firms of all types to re-examine their approaches to unclaimed property, exploring if their staffs, audit practices, and filing processes can scale to meet the complex mandates of varying state

regulations. In this newsletter we share ways in which you can be more proactive, highlighting points to consider as you assess your operations.

In closing, I'd like to offer my personal thanks for your continued business, and for the trust you place in Dunbar. The challenges of the past year have only strengthened our commitment to the companies and teams with whom we work.

Thank you.

**All the best,
Seth**

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PROACTIVE MEASURES

In a Fall 2020 study by the National Association of State Budget Officers (NASBO), 35 states reported general fund collections for fiscal 2020 from all sources came in lower than original budget projections.

While early 2021 figures show some improvement, the dampening effects of Covid-19 on some sectors of the economy continues to depress tax receipts and state revenues. What does this mean for unclaimed property?

If past trends are an indication, it could mean that states sharpen their focus on untapped sources of non-tax revenue in order to plug budget gaps. Unclaimed property is at the top of the list. Whether by reducing dormancy periods or increasing fines and penalties, it is expected that unclaimed property will play a role in the states' financial recovery.

Delaware is a case in point. The state has been issuing a series of Voluntary Disclosure Agreement (VDA) letters, effectively notifying companies that they are focused on unclaimed property, and that audits may follow. [See the Regulatory Alert piece in this newsletter to learn more.]

By far, the best way to proactively manage unclaimed property is to prevent it from becoming unclaimed. Companies are generally aware of reporting obligations and strive to be diligent in state due diligence reports, but the act of reporting does not equal compliance. And non-compliance can have serious and costly consequences.

Preparing for Audits

Now is an ideal time for companies of all types to review their unclaimed property processes and procedures. Periodic assessments can help to

identify gaps and areas of risk within the organization. Reviews also provide an opportunity to update policies and procedures for any state legislative or administrative changes.

Firms should ensure that the review is all-inclusive -- documenting procedures for any department that can generate unclaimed property in the form of uncashed checks, credit balances, uncashed wages, accounts payable, inactive accounts, or other outstanding obligations. There are over 100 property types that can be considered dormant property. Some states have different dormancy periods

"...the act of reporting does not equal compliance."

and reporting deadlines for the various property types. This is not a one-size-fits-all effort.

Especially when most firms use multiple, disparate systems to obtain and analyze data, a review can help identify missing data sets, incorrect fields, or other omissions. Updates applied across the organization will help ensure that state changes are documented and implemented to maintain compliance. As well, some degree of standardization can help improve the time and resources



needed to complete the work.

Best-in-Class Results

Incorporating procedures that go beyond basic compliance can improve results and success rates. For example, state mandated due diligence has, on average, a 30% success rate in reaching the customer and getting them to take action. Adding courtesy outreach to the process -- beginning twelve to eighteen months from the date of the obligation or account becoming inactive -- generates a success rate of 80% or more when coupled with address verification.

Dunbar works with firms of all sizes to assess unclaimed property readiness across a firm's people, processes, and technology. Our full-service solutions span all aspects of unclaimed property management. Consulting and advisory reviews can be broad or more narrowly target missing or inaccurate data elements. Dunbar also assists with reporting, owner location and dormant account reactivation, and corporate asset recovery.

CASE STUDY: PREPARING FOR GROWTH

A regional bank recently implemented their own internal review to tighten controls, identify, and then report dormant accounts. Dunbar was asked to assess the process' thoroughness and pinpoint potential problems.

With the bank's growth strategy reliant upon increasing its tri-state customer base and potentially engaging in various mergers and/or acquisitions, it was critical to confirm that sufficient – and complete – controls were in place prior to expansion.

Using data provided by the bank, Dunbar utilized our OPTIMIZE methodology, an adapted Capability Maturity Model (CMM) from Carnegie Mellon University. The maturity model is a set of defined levels that describe how well the behaviors, practices, and processes of an organization can reliably and sustainably produce required outcomes. The goal of OPTIMIZE is to provide a framework to help move an organization toward optimal performance, creating reliable environments where products, services and departments are scalable, proactive, and productive.

Approach and Findings

Through the CMM assessment, we prepared a multi-dimensional view of readiness across people, process, and technology. The bank indicated which departments should be included in the review, and Dunbar analyzed how they handled dormant accounts from the first day of dormancy to the reporting date. Each of the three areas was assessed on a scale from infancy to optimal stage, with a roadmap of how to progress to a base level of compliance.

People

Dunbar discovered the bank's unclaimed property process was inadequately staffed for both current and future state

volumes. Staffing resources had minimal training and regulatory knowledge, and were not sufficient for the scope of the work. As well, the entire operation had minimal management oversight.

Process

A liability analysis revealed that the bank was not correctly applying the presumption of abandonment rules for the state of incorporation, resulting in a \$54 million exposure. The process review also identified heavy reliance

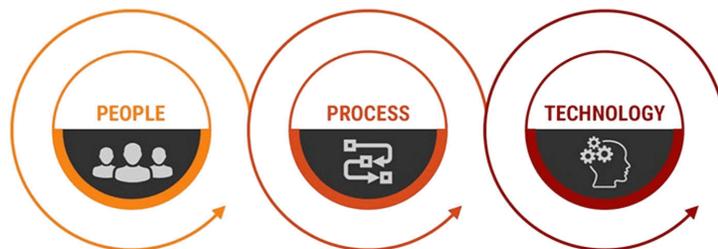
on manual processes. Policies and procedures lacked full-scope emphasis, had no segregation of duties, no management oversight, and created a heightened risk for internal fraud and misappropriation.

technology was being used to automate account identification, a significant gap was exposed. The online system was not linked to the core system, leading to incorrect activity updates and the escheatment of accounts that were active. Dunbar also discovered that the full capabilities of the reporting software were not being used, resulting in time-consuming, manual, unscalable and risky processes.

Recommendations

Along with a detailed finding report

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Technology

When evaluating how the bank's

that identified exposures, Dunbar provided recommendations on how to mediate the findings above. The CMM analysis also indicated how the client could migrate to a best-in-class status that would scale and adapt as the bank grew its asset and client base.

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CASE STUDY: PREPARING FOR GROWTH (CON'T)

Dunbar helped the bank mitigate the \$54 million liability by providing guidance on various state laws governing the presumption of abandoned property, and finding updated contact information to enhance reactivation efforts. The bank has also engaged Dunbar's Corporate Asset Recovery Services to locate unclaimed property reported in the name of the bank or any of its affiliates or acquired entities. To date, the value of the property found by Dunbar has exceeded what the total OPTIMIZE review cost the bank.

Dunbar spent four days on-site to interview team members and evaluate the process in more detail. The overall project -- including the final report and recommendations -- was completed within a few weeks, and cost significantly less than the bank expected.

In addition to identifying steps to remediate the \$54 million liability, the bank was able to limit the risks and expense of future audits which could have included fees for outside legal resource, fines and penalties, and reputational repercussions.

Firms of all types, and especially those who are in a growth mode, looking to expand into other states, or engaging in mergers and acquisitions (M&A), can use OPTIMIZE to gain visibility into their potential liabilities before they happen. Particularly with M&A, where liabilities from unreported dormant accounts can lay undiscovered until after the transaction is complete, a process review can be a critical tactical part to ensure success.

REGULATORY ALERT

On February 21, 2021, the Delaware Secretary of State's Office mailed a new tranche of letters to companies that are believed to be out-of-compliance with Delaware's unclaimed property law.

The letter is an "invitation" to join Delaware's Voluntary Disclosure Agreement (VDA) program. With a previous notice having been sent six months earlier (on August 21, 2020) to a different set of companies, Delaware is clearly focused on unclaimed property compliance. Under state law, Delaware must issue a VDA prior to initiating an audit. Responding to the letter can help companies reduce the significant time commitment and costs of an audit along with the additional risks and financial exposure of any adverse findings.

If your company is incorporated in Delaware or has a significant

business presence in Delaware, a letter could be coming your way. But don't assume that because it didn't come to you or your unclaimed property department, that a letter was not sent. Often, the letters are sent to the attention of the Chief Executive Officer, Chief Financial Officer, Controller, or others in the executive suite.

We urge companies who have received the note to take immediate action. Failure to do so will result in the initiation of an audit. Acknowledging receipt of the letter is just the first step. Firms should be ready to follow a specific set of actions and provide a series of estimates and reports.

If you receive a letter from the Delaware Secretary of State – or from any other State – Dunbar can partner with you to navigate the VDA process. Please contact **Maureen Ferrari Grollman, Dunbar's National Consulting Practice Leader at (610) 256-7931 or via email at mferrari@dunbargroup.com.**

SPOTLIGHT ON STEVE KELLY

Steve joined Dunbar in August, 2020 as Vice President of Sales.

His industry experience and passion for working closely with companies to find the right solution for their needs, makes him a perfect fit for Dunbar's people-centric philosophy.

Steve has been selling unclaimed property compliance solutions since 2012. What attracted him to Dunbar? "Dunbar is focused on providing customized solutions across a range of industries. But it's the people aspect – the quality of my internal colleagues and the company's commitment to building relationships with clients – that really makes me excited to be here." He looks forward to meeting (virtually for now!) with clients and prospects, in order to listen and learn about

their unique challenges and finding effective ways Dunbar can help.

Steve was born into a family of six kids and is right in the middle of two sets of twins. He is a Philadelphia sports fan, loves spending time in Avalon on the Jersey Shore, plays golf when he can, and likes to run a couple miles every morning before starting work. But aside from his hobbies, the thing that Steve loves most is spending



time with his beautiful wife Nicole and two awesome boys Cole (5) and Vincent (2).

Welcome Steve!

DUNBAR

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