

case study:

PROACTIVE COMPLIANCE PRESERVES REVENUE REPUTATION



Keane
Beyond Compliance

While news headlines aggressively trumpet every known corporate scandal, an important basic fact often goes unreported: most companies go above and beyond to comply with the law. From executives to chief compliance officers to operations managers, companies are aggressively considering any opportunity to demonstrate the integrity of their business practices. Unfortunately, the complex and dynamic laws of unclaimed property have left many well-intentioned companies out of compliance and staring at financial and reputational risk. That situation confronted one mutual fund complex when serious holes were identified in their uncashed check reporting process. They turned to Keane's Unclaimed Property Services Division (UPSD) to define the risk and develop a solution to get them into compliance.

As is common, management became aware of their compliance issue as a result of acquiring another company. During the due diligence phase, it became evident that the acquired company had a clearly different set of internal controls for identifying and reporting unclaimed shares and undeliverable or uncashed checks. What executives didn't know was how important the differences were and if these differences were placing them at risk. To clarify the true reporting requirements, the firm asked the UPSD team to analyze their situation and help them quantify their unclaimed property exposure. Through a step-by-step diagnostic process, UPSD revealed several gaps that placed the company at serious risk of a multi-state audit.

Quantifying Risk

Like any corporation that manages large volumes of accounts or issues large volumes of checks, mutual fund complexes are prime breeding grounds for unclaimed property. In this specific case, over six thousand uncashed dividend and disbursement checks—some dating back over ten years—were still being held. In addition, the firm's shareholder service group was still maintaining over four thousand accounts for which there had been no activity and no current address for at least seven years. To compound matters, the company had been misinterpreting the unclaimed property laws since their jurisdictional inception, and had only submitted reports to the states that proactively contacted them.

Keane's Chief Compliance Officer, Debbie L.

Zumoff, led the effort to minimize the fund's risk of facing an audit. "After the initial analysis was complete, and

the exposure became clear, we immediately worked to create an initial compliance strategy," she said. "The first step in the initial compliance process was to look at the laws, state-by-state, for each of the property types that had not been reported. That allowed us to precisely define each of the client's outstanding obligations."

All told, the analysis identified over \$8 million in past-due unclaimed property that was owed to state unclaimed property offices. Additionally, given the length of time that the bulk of the property had been owed, the fund faced an additional \$4 million to \$8 million in state fines, penalties, and interest.

Preserving Your Brand

While this reality certainly raised concern about a state unclaimed property audit, the management team was more concerned about fulfilling their obligations to and protecting the fund's reputation with its investors. With the obligation quantified, UPSD initiated a due diligence outreach program to locate and alert property owners that without action on their part the property would soon be remitted to the states as unclaimed property. Beyond identifying past-due obligations, UPSD also helped the firm take advantage of voluntary reporting opportunities offered by the states to avoid fines and penalties. "The value Keane brings to clients is that we serve as a holder advocate," Zumoff added. "Our primary goal is to legitimately minimize the obligation and, where possible, have fines and penalties

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mitigated or waived altogether." In this case, through relationships established with the state unclaimed property offices, fines and penalties were all but eliminated. UPSD voluntarily reported and remitted the property, bringing the mutual fund into first-time compliance with 42 different states. "Keane did an excellent job of preparing us," said one of the company's directors. "Initial compliance is a lot of work but worth it. I cannot fathom doing it without Keane's help."