Case Study

Automate Escheatment Process (AP Checks) in Oracle E-Business Suite (EBS) R12 Payables

Naresh Kota

Independent Researcher, NC, USA.

Corresponding Author : kotanaresh2003@gmail.com

Abstract - *Escheatment [1] is a process where any institute or business entity turns over the unclaimed property to its state or authority after a certain amount of time. Escheatment can include bank accounts, shares, uncashed checks, and unclaimed wages. Oracle E-Business Suite (EBS) R12 Payables[4] application offers to process supplier payments via ACH and Check, but currently, it does not offer an automation process in Payables for Escheatment and is marked as a bug and an enhancement request [3] with Oracle. However, Oracle has provided a workaround in Payables, which involves the organizations spending much manual effort and is time-consuming. To fill the gap, organizations spend much effort identifying the escheatment checks and processing them manually to ensure accounting compliance. A custom process is required to automate, and this document helps to design the automation process to streamline the Escheatment in the Oracle EBS R12 Payables application.*

Keywords - *Escheatment, Oracle E-Business Suite (EBS) R12, Payables, Suppliers, Escheat checks.*

1. Introduction

Organizations render services with Suppliers issuing checks for their services. However, when checks issued for payments to suppliers or employees for expense payments have not been presented for clearing during a specific period, Organizations should escheat them and transfer the amount to the appropriate state or local authority.

The time frame, usually called the dormancy period, varies by state [2], and the process is called Escheatment [1].

State law requires[7] that organizations remind the suppliers about the uncashed checks; those checks remain uncashed after enough efforts are required to void the checks and remit the amount to the State or Local authority.

Currently, Oracle EBS R12 Payables does not have a functionality to automate the Escheatment of the checks issued to suppliers [3].

This document describes a viable option for achieving functionality/features in the Oracle EBS R12 Payables application.

2. Custom Process Designing Approach and Oracle Payables Configuration

2.1. Process Approach

Below is the comprehensive approach to achieving functionality.

- Identify the checks issued to suppliers that have not been cashed out / not presented in a bank by the beneficiary.
  - Run Unclaimed Property Report [4]
- Notify the Suppliers about the checks not being cashed out
- Create a profile option to identify the dormancy duration
- Send a reminder and final notice
- Perform a Void check process in Oracle EBS Payables
  - Create a new fund account for the unclaimed check amount
  - Create a new Descriptive Flex Field (DFF) and mark the check/invoices as escheat for reporting
- Create each escheat payment as a supplier site for authority
- Use the tax authority's name and address for the paysite
- Create a new invoice for the escheat payment and pay the authority
  - Create a new liability account for unclaimed tax authority
  - Sweep the amount from the unclaimed Fund account to the Liability tax authority account.
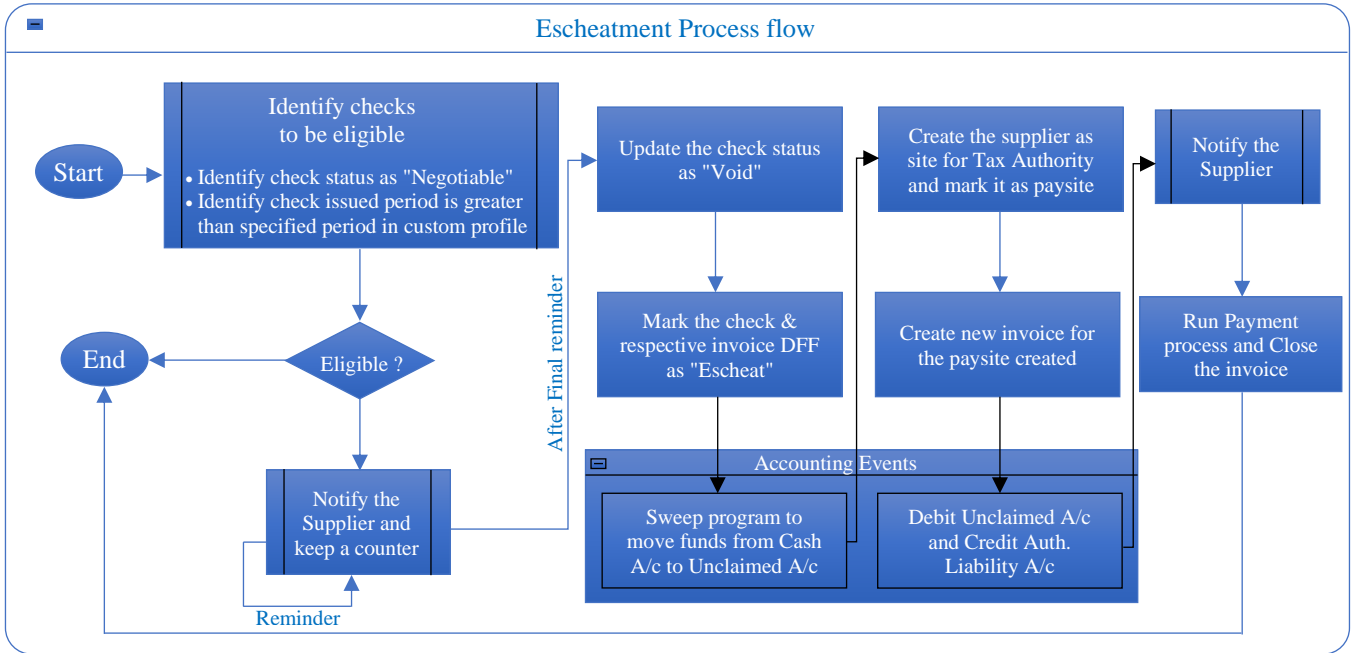- Notify the supplier about the Escheatment.

2.2. Process Flow

Fig. 1 Escheatment process flow briefly

3. Escheatment Configuration

3.1. Profile Option to Hold Dormancy Period

Create a new custom profile in Oracle EBS R12 to hold the dormancy period and set a default value (identified by the organization).

Define profile value to keep the number of months (convert the organization-identified dormancy period years into months)
Navigate Oracle EBS -> Application developer -> Profile.

3.2. Create a New Account for Unclaimed Funds

Oracle processes the accounting events when the check is issued to the supplier; the check amount as liability gets debited from the Supplier A/c and credits the organization's Cash/Cash clearing A/c. Create a new account[10] to hold the funds to sweep from the initially credited cash/cash clearing account, and this solves the problem of reporting if any funds are held temporarily during the escheat process.

Navigate General Ledger responsibility->Setup -> Financials->Key Flexfield->Values

Create an Accounting combination and enable the posting.
Navigate General Ledger responsibility->Setup -> Financials->Accounts->Combinations

3.3. Create a New Liability Account for Tax Authority

Create a new liability account for the Tax authority
Navigate General Ledger responsibility->Setup -> Financials->Key Flexfield->Values

Create an Accounting combination and enable the posting
Navigate General Ledger responsibility->Setup -> Financials->Accounts->Combinations

3.4. Create a Custom Program to Create a Supplier Site for the Escheatment Paysite

Design a new custom program to allow the Escheat process to create the identified supplier on the fly as a paysite for the Tax Authority. Replicate the full supplier content to the newly created paysite[9], enabling the organization to see the suppliers' complete details on the new paysite.

3.5. Enable New DFFs on Invoice and Checks

To identify the transaction and the check in the system, enable a new Descriptive Flex Field (DFF) on the checks and AP transactions(invoice) screen to identify the transaction is processed part of Escheatmentm; this enables the organizations for better reporting at a given time.
Navigate Application developer->Flexfield->DFF

4. Accounting Events

Oracle EBS triggers various accounting events for any financial activity [5]. Below are the summary accounting events for the activity, from the initial check payment to the Escheatment.

Table 1. Accounting events

Event	Debit	Credit
Payment Processed	Supplier Liability A/c	Clearing A/c
A/c Sweep	Clearing A/c	Unclaimed A/c
Escheat	Unclaimed A/c	Auth. Liability A/c

5. Reports

Create a new report to identify the transactions marked as Escheatment. For better reporting, the report should list the original paid transaction, the payment check details, and their escheated details.

6. Tax Authority Compliance

The law requires all business entities to validate their accounting periodically to identify if they have any dormant unclaimed property[6]; if there are any, the company must file a report with their state.For instance, the Unclaimed Property Division of the NC Department of State Treasurer says that failure to file an unclaimed property report and properly remit can result in interest charges and civil penalties on the value of the unreported property [6]. For additional terms and conditions, as well as escheatment laws for different accounts and assets, contact your State Department of Unclaimed Property [8]

7. Conclusion

The escheatment process is a complex and tedious activity for any organization, especially for larger organizations dealing with hundreds of vendors and thousands of payment transactions yearly in more than one state.

The legal obligations will be more challenging to identify a standard dormancy period to satisfy organization goals and tax reporting compliance.

However, with the introduction of the custom escheatment process in Oracle EBS R12 Payables application the business team can achieve better compliance, streamlining the payables and reducing manual efforts.

References

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