ABC's of the Three-Way Reconciliation

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How do you participate in your escrow accounting?

- PREPARE escrow reconciliations?
- REVIEW escrow reconciliations?

- Found bank errors personal or business?

Risk Assessment of the Real Estate Transaction

- Who is the highest paid party to the transaction?
- Who is the lowest paid party to the transaction?
- Who handles all the money?

Role of the three-way escrow reconciliation to mitigate risks

In my opinion, it is the most effective way to **mitigate risk of embezzlement, fraud, book errors and bank errors**

The only way to **prove the book and bank agree** and each file has been properly received and disbursed

Escrow Accounting Procedures:

SEGREGATION OF DUTIES –

- Staff are **limited** to the duties performed
- Deposits, disbursements, reconciliation and review are **separated**
- **Timely review** of reconciliations, wire activity and file activity by closer to ensure procedures are being followed and unusual items identified and resolved

Keys to a good Escrow Reconciliation review:

- Utilize a **written step by step** process
- Always **ask questions of** the preparer and closers
- **Pull at least one file** to double check procedures are being followed
- Always **sign and date** to indicate the review was done

The Escrow Bank Account

"Escrow account"

"Trust account"

- This allows FDIC coverage of up to $250,000 (until 12/31/2013) for EACH AGENT FILE balance so long as records are maintained to meet FDIC requirements
- Also puts the bank on notice the funds contained in the account are not company funds

The ABC's of Escrow Accounting

THE 3-WAY SUMMARY PAGE ABC'S

A. Ending Bank Balance
B. Trial Balance
C. Deposits in Transit
D. Outstanding Checks

A

ENDING BANK BALANCE PER BANK STATEMENT

=

RECONCILED BANK BALANCE ON THE 3-WAY SUMMARY PAGE

B

ESCROW TRAIL BALANCE

=

BOOK BALANCE ON 3-WAY SUMMARY PAGE

C

LIST OF DEPOSITS IN TRANSIT (if any)

=

DEPOSIT IN TRANSIT ON 3-WAY SUMMARY PAGE

D

LIST OF O/S CHECKS

=

OUTSTANDING CHECKS ON THE 3-WAY SUMMARY PAGE

Escrow Trial Balance

1. Scan the file balances for **negative files** and take corrective action if found
2. Review **file balances** for reasonableness
3. Scan the file numbers for unusual file numbers such as **miscellaneous, unknown**, etc.

Deposits in Transit

1. Any items in the DIT over **2 days old** is a problem
2. Review file numbers and/or names for reasonableness
3. **Follow up** on deposits in transit from last month to ensure they cleared the current month's bank statement

Outstanding checks

1. **Scan** the listing for **large amounts** and **older dates** of issuance and investigate the reason
2. For amounts issued to taxing authorities, banks, mortgage companies, insurance companies or any other vendor that could cause liens to be filed, **follow up** to ensure they received the check, if not, reissue
3. **Stale checks** submitted to the Director of Commerce as unclaimed funds – See Ohio Revised Code **169.03**

Cleared Deposits and Checks

1. **Scan** the bank statement and/or listing for **large amounts** and older dates and **investigate** the file to ascertain reasonableness
2. **Scan** activity for large amounts paid to **employees** or **suspicious customers** and follow up to ascertain reasonableness and validity

Tips for escrow accounting

- No miscellaneous files
- Settle monthly
- Inspire a culture of ethics
  “do the right thing”

Escrow Accounting Tips

- Positive Pay
- Daily Reconciliation
- Rynoh

Risks of Online banking

Prevention

- ***Disable all international wires***

- *Dual controls on wire initiation/release*
- Dedicate a computer for wire activity
- Text message to confirm transactions
- *Consider Ironkey or similar*

Risks of Online banking

Dodd-Frank - Banking Changes

- Review all bank/wire agreements
- Indemnities
- Notice of suspicious activity
- **UCC – “Ordinary care”**

Risks of Online banking

Mitigation

- **Fidelity Bond**
- **Internet security** part of Bus Liability coverage
- Utilize bank with more **advanced online platform** for wires and banking needs

Regulatory Environment

- NAIC & State DOI
- Secured Settlement
- Lender acceptance
- ALTA Best Practices

Questions?

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