

ABC's of the Three-Way Reconciliation

Presented by:

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OHIO LAND TITLE ASSOCIATION

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**

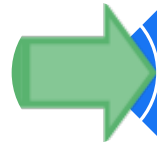
The only way to **prove the book and bank agree** and each file has been properly received and disbursed

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

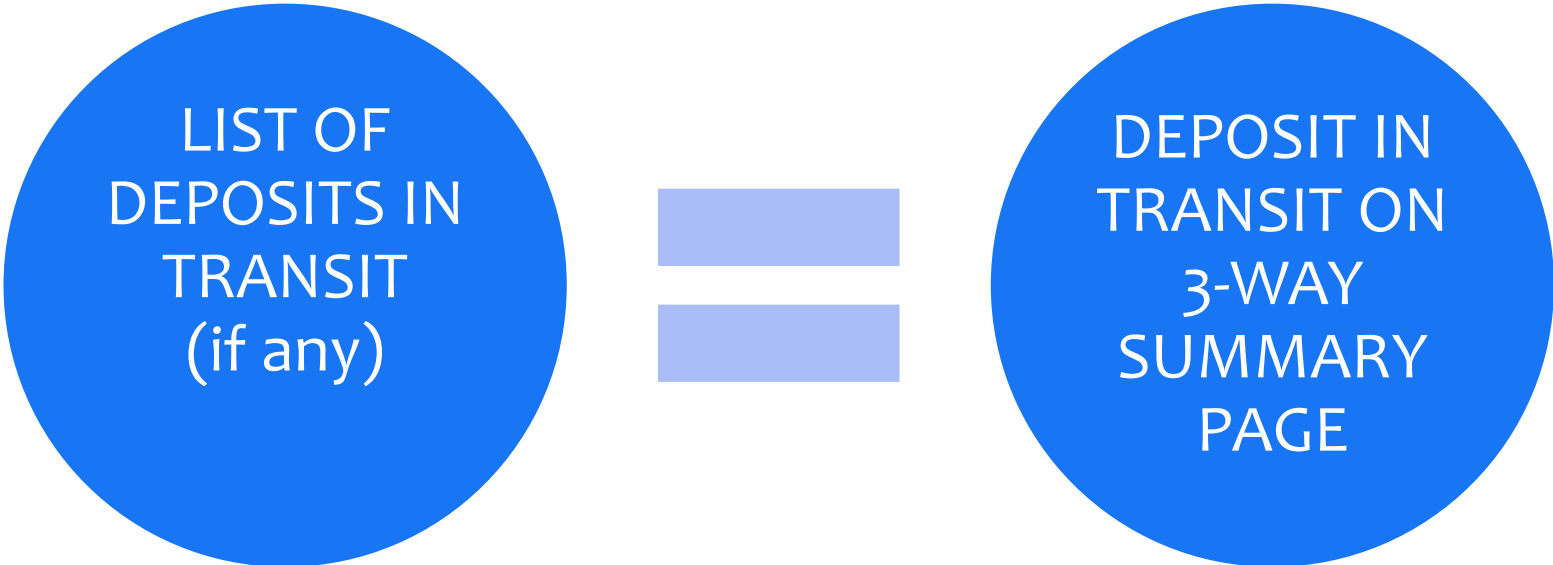
ESCROW
TRAIL
BALANCE



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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