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| **#2 Trust Account Controls** |

| **Assessment****Procedure****Number** | **ALTA Best Practices Framework: Assessment Procedures** | Assessment Recap |
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|  | **ALTA Best Practice 2:****Adopt and maintain appropriate written procedures and controls for Escrow Trust Accounts allowing for electronic verification of reconciliation.** *Note: These procedures apply to all custodial or fiduciary accounts including closing and disbursement accounts, recording and tax accounts, construction disbursing accounts, underwriter remittance/premium accounts and other similar accounts.*  | ***Overall Assessment Recap: If any individual procedure marked with an asterisk FAILS, Best Practice 2 FAILS.***  |
| 2.01\* | Obtain Company’s written procedures and controls for Escrow Trust Accounts, hiring and training, and, at a minimum, verify all sections of ALTA Best Practice 2 are included. | PASS / FAIL / NAIf no written procedures, Procedure 2.01 FAILS. |
| 2.02\* | Obtain a complete listing, certified by Company, of ALL open (active and inactive; escrow and non-escrow) bank accounts and authorized signers/ wire initiators and approvers on the accounts. Sample Selection:Select a minimum sample of 5 or 10%, whichever is greater, of authorized signers on Escrow Trust Accounts (maximum of 25). If total population is less than 5, select 100%. Perform the following:a. Compare against the active listing of employees to verify all signers, wire initiators and approvers are actively employed.b. If signatory stamps are being used to sign escrow checks, test to confirm only authorized signers have access to the stamp. 1. Obtain evidence (invoice/documentation in personnel files, etc.) that 5 year Background Checks were conducted upon hiring or within the past 3 years.
2. Verify compliance with the Company’s process for training employees on management of escrow funds and Escrow Trust Accounts.
 | PASS / FAIL / NAIf any exception is noted for any sub-procedure, Procedure 2.02 FAILS. |
| 2.03\* | Obtain two month end Three-Way Reconciliations for each escrow or trust account and perform the following: *Note: Three Way Reconciliation documentation at a minimum includes bank statement, reconciliation sheet/summary page with book balance, outstanding deposits list/deposits-in-transit, open escrow file listing or trial balance and outstanding disbursements list, all as of the reconciliation date. All amounts should equal between the book balance, reconciled bank balance and trial balance*. Definition of Significant items:* Individual transactions/file balances over $10,000 over 10 days old.
* Aggregate transactions over $10,000 for shortages.
* Outstanding checks depending on payee as noted in sub-procedure 2.03.k in excess of $5,000 over 180 days old, mortgage payoffs over 10 days old.

Definition of Active versus Inactive/Dormant Accounts:* Active Account - Used for current transactions.
* Inactive/Dormant Account
	+ - No new incoming funds into account.
		- No disbursements related to new closings from account.
		- No activity through account in last six months (dormant).

Sample Selection:* Two months reconciliations for ALL Escrow Trust Accounts (also maintain for documentation).
* For a Company performing more than 100 transactions per month, perform sub-procedures 2.03.a through 2.03.f for all accounts for at least one of the two months.
1. Verify that reconciliations were completed monthly and within 10 business days of the closing date of the bank statement.
2. Verify that daily and monthly reconciliations are prepared independently by someone not associated with the receipt and disbursement function.
3. Verify that reconciliations are reviewed and signed off by management or a supervisor.
4. Verify that reconciliations, bank statements and supporting documentation are accessible electronically by the Company’s contracted underwriters.
5. Determine whether accounts are in balance, contain all supporting reports, and that a proper three-way reconciliation is being produced. The book balance, reconciled bank balance and trial balance should be in agreement.
6. Verify that the bank statements and account related documentation for each Escrow Trust Account is clearly labeled by the bank as an Escrow Trust Account and that the escrow checks and deposit tickets/records clearly identify the associated file numbers.
7. Verify that for inactive/dormant accounts, senior management approval is required for any disbursement of funds.

Sample Selection:* For a Company performing 100 or more transactions per month, the following additional procedures must be performed on a sample of accounts representing at least 50% of the total number of accounts.
* For a Company performing fewer than 100 transactions per month, the following procedures must be performed on 100% of the total number of accounts.
1. Agree opening bank and book balances to ending balance on prior month’s reconciliation or differences are identified.
2. Review bank statement activity noting bank charges, insufficient funds charges, negative daily balances, investigate and confirm resolution. Verify that all bank charges are funded by the Company’s operating account within 30 days from reconciliation.
3. Test significant outstanding deposits listed on the most current reconciliation, investigate and verify resolution.
4. Determine Company’s process for follow up on outstanding checks. Verify clearing or adherence to follow-up process for significant outstanding checks including but not limited to checks to recording clerk, tax collector, hazard insurance checks, underwriter checks or checks for mortgage payoffs and any other high risk items.
5. Review the Trial Balance and test significant file shortages, dormant funds (significant file balances over 180 days), and significant miscellaneous files to verify documentation of their status and that shortages were funded within 5 days of completion of reconciliation.
6. Review and test adjustments (reconciling items) needed to bring the account in balance and verify their validity.
7. Verify that the Company is not comingling fiduciary funds, including underwriter premium, with operating funds.
8. From a review of cancelled checks or disbursement registers, select a sample, maximum of 25, and test checks, if any, that may require further review, such as checks going back into escrow, paid to cash or employees, transferred between accounts, suspicious payees, multiple checks to the same payees, and any other questionable disbursement. These disbursements should be agreed to a closing file and settlement statement.
9. Select a sample of three days within the assessment period for the escrow funding/settlement/disbursement accounts and verify closing attorney is performing, at a minimum, a daily reconciliation of the receipts and disbursements.
 | **Active Accounts** If any individual sub-procedure FAILS for any account, Procedure 2.03 FAILS. **Inactive/Dormant Accounts**If sub-procedure 2.03.g FAILS, Procedure 2.03 FAILS; otherwise, revert to Active Account criteria for PASS/FAIL. |
| 2.04\* | Select a minimum of 5 or 10% of all interest bearing escrow or trust accounts, whichever is greater, (maximum of 25). If total population is less than 5, select 100%. Verify that the Company maintains records/documentation supporting activity for interest bearing (customer investment) escrow accounts.  | PASS / FAIL / NAIf 25% or more of items tested FAIL, Procedure 2.04 FAILS If NA, PASS |
| 2.05\* | For ALL Escrow Trust Accounts, determine whether the Escrow Trust Accounts are maintained at Federally Insured Financial Institutions unless directed by the beneficial owner.  | PASS / FAIL |
| 2.06\* | Sample Selection:Select a sample of 5 files or 100% of closed files, whichever is less, during the assessment period and perform the following:1. Compare the settlement statement and file ledger and investigate differences. Review closed file for supporting documentation for disbursements over $1,000 listed on the settlement statement. Investigate any unsupported disbursements.
2. Verify disbursement and receipt dates and amount on the file ledger with the bank statement or copies of cleared checks, to determine timely clearance. Verify funds were received/ deposited prior to disbursement.
3. For outgoing wire transfers, verify compliance with Company’s policy for initiation and approval.
 | PASS / FAIL / NAIf 20% or more of items tested for any sub-procedure FAIL Procedure 2.06 FAILS.If NA, PASS |
| 2.07\* | For accounts reviewed in Assessment Procedure 2.03, verify that the Company utilizes Positive Pay or Reverse Positive Pay, ACH and international wire blocks, if available in Company’s marketplace, to protect against unauthorized transactions. Review bank documentation such as monthly account analysis statement or bank positive pay entitlement documentation.  | PASS / FAIL / NAIf NA, PASS |