



**AGENCY  
AUDIT SERVICES**



**INDIANA  
AGENCY**

### Avoiding Risk-Based Audit Findings

This Bulletin is to highlight the top risk-based audit findings the Agency Audit Services group are currently seeing as part of their audits and how to avoid these findings.

We define a risk-based finding as one that may result in a claim either against you, our agent, or against Fidelity National Financial (FNF). These topics and recommended business practices are in line with ALTA Best Practices.

#### **Escrow Bank Accounts**

- **Shortages.** All closings/closing files must contain enough money to support ALL disbursements. If a file reveals any type of shortage, the agent must deposit the necessary funds to ensure a zero-balance ledger. **Note:** In those states requiring good funds, you must ensure immediate availability at disbursement.
  - All shortages must be funded from the operating account immediately, upon validation;
  - Review the trial balance and outstanding credit reports weekly, if not daily to identify a shortage;
  - Review banking activity daily and investigate bank errors and transactions that may cause a shortage for immediate correction (i.e., duplicate payment, etc.); and
  - Require bank to debit operating account for service charges.
- **Inaccurate and/or delayed preparation of reconciliations.** All escrow accounts should be 3-way reconciled; Adjusted bank balance, Book balance, and Trial balance totals should all match. Any variation should be investigated immediately.
  - “Research” and/or miscellaneous named ledgers should be used minimally. Any funds in these ledgers should be addressed weekly, if not daily to ensure all funds are properly identified on a per closing file basis;
  - Review file ledgers that show an out-of-balance amount and correct immediately;
  - Reconciliations should be prepared daily, if possible, or monthly, at the latest;

- Obtain positive pay to automate the prevention/identification of fraudulent disbursements;
- If there is a change in escrow software programs, open a new escrow account and do not transfer funds from an old system to new system; and
- Ensure adequate segregation of duties – reconciler should not be a signatory and/or be authorized to disburse wired funds or make escrow deposits.

### **Real Estate Closing Function**

- **Timely clearance of liens/mortgages per the commitment.** Items such as mortgage payoffs, taxes and other lienable items such as Homeowner's Association fees, homeowner's/property insurance, water/sewer charges, etc. may result in a claim if it is not paid in a timely manner.
  - Review all outstanding items over 120 days as part of the monthly reconciliation process;
  - Ensure all commitment requirements and loan closing instructions are addressed and satisfied;
  - If software allows, set parameters to highlight lienable transactions for immediate attention; and
  - Become familiar with your state's unclaimed funds/property reporting requirements.
- **Recording documents in a timely manner**
  - Submit documents for recording within 2 days of closing, or receipt of documents, if performing title-only transactions and
  - Consider contracting with an E-Recording vendor to streamline the process.
- **Accurate calculation of title Insurance premiums**
  - Ensure software premium calculation rate tables are routinely updated.
  - Utilize the FNF rate calculator as necessary and;
  - Retain a copy of the rate calculation worksheet in the file for audit purposes.
- **Timely preparation of title insurance policies**
  - Install internal procedures for timely policy preparation and remittance reporting
    - Use Agent TRAX for all policy preparation and remittance steps, including High Liability Approvals.

As we strive to continue to provide information in understanding potential risks to your escrow account and closing processes, we encourage you to create a Quality Assurance File Review Program. This will ensure all closing tasks, including receipting and disbursing escrow funds, recording documents timely, correction calculation of title premium, and timely policy preparation and remittance, is properly executed and tracked.