

How to have a successful Real Estate Settlement Agent Audit

Description



Once a year you get notified that the agency's RESA audit is due to be conducted. What will the auditor be looking for? According to the Virginia Code § 55-525.24(A): All funds deposited with the settlement agent in connection with an escrow, settlement, or closing shall be handled in a fiduciary capacity!

What does fiduciary capacity look like in terms of monthly reconciliations?

The following are items your underwriter auditor will be looking for during the annual Virginia RESA audit:

- Monthly Reconciliations of all escrow accounts to be balanced and fully funded. This means 3-way reconciled with positive file balances. All escrow accounts include other state accounts, and dormant accounts. The monthly reconciliation requirement applies to e-recording accounts as well. The bank statement should be reconciled upon receipt, or once available on-line.

Note: E-recording accounts must be separate by jurisdiction. Virginia recording funds cannot be comingled with any other state recording funds.

- Reconciliations are to be performed by someone with no escrow authority meaning someone who cannot sign checks, and has no wire authority. Note: the reconciliation provider should be reliable monthly. On occasion a provider is out sick, or on vacation and the report cannot be prepared

timely. According to the Bureau of Insurance, it is the responsibility of the agency to ensure that the reconciliation reports are prepared and reviewed monthly. RynohLive is highly recommended for their daily reconciliation services and easy to read reports.

- The final reconciliation report is to be reviewed for accuracy and signed off by agency management, and, consistent with proper checks and balances, should not be someone who prepared the report. Note that the sign off requirement comes from the Bureau of Insurance.

When reviewing the reconciliation report ask yourself the following questions to ensure accuracy:

Does the ending bank balance match the bank statement ending balance?

Do the bank statement dates match the escrow software dates?

Did the correct debit and deposit amounts clear in the report?

Does the ending bank balance cover the outstanding disbursements and file balances?

What items need to be addressed to make the report whole? Ask yourself the following questions:

What deposits have yet to post?

What files have positive file balances and why?

Are there negative file balances that need to be funded from operating?

What checks remain to be cashed? Pay close attention to high priority items such as payoffs, recordings, real estate taxes, title premium and other lien items.

Note: Any, and all file shortages and outstanding deposits are to be funded within two (2) days per the Bureau of Insurance [Common Problems](#).

The bank statement review will look at any interest being earned, any negative daily bank balances, and bank fees. A note of when the reconciliation report was prepared will be made. The auditor will also look at the escrow account name. Escrow accounts should be styled as such i.e. trust or escrow. A review of the cancelled checks will address if any signature stamps are used and verify the escrow signatories.

The above covers the bank statement reconciliations only and what the auditor will be reviewing. The full RESA audit will also include settlement files review, and an underwriter audit will cover policy inventories, insurance bonds and licenses. And in closing in the words of my co-worker Bruce Weinstein, "An audit is not an exercise to discover wrong doings but rather discover areas that need improvements." If you are aware of the above referenced items your agency audit will be fine, relax, breathe.



Yolanda M. Lemus-Castro | Agency Auditor

OLD REPUBLIC NATIONAL TITLE INSURANCE COMPANY

7960 Donegan Drive | Suite 247 | Manassas, VA 20109

Office: 703.365.2300 ext. 10757 | Cell: 571.762.3254 | Fax: 703.991.2674

ylemus@oldrepublictitle.com

oldrepublictitle.com/VA

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Author

vltaexaminer

VLTA Examiner