



On the Front Lines with ALTA Best Practices Compliance Testing: The Daily Bank Reconciliation

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Imagine that it's Friday afternoon and you are packing up to leave the office for a weekend getaway. Just before you head out the door, you receive a phone call from your CPA with bad news. He explains that your company has just failed compliance testing in Pillar Two of ALTA Best Practices. How can this be? You just spoke to him yesterday, and he said everything was progressing well.

This scene isn't uncommon, as it has played out many times for closing attorneys and settlement agents across the country. The daily bank reconciliation, while seemingly only one small piece of the puzzle, is a critical component.

ALTA Best Practices assessment procedure Pillar 2.02 (p) requires that you "select a sample of three days within the assessment period for the escrow funding/settlement/disbursement accounts and verify the agent is performing, at a minimum, a daily reconciliation of the receipts and disbursements." Skip this step, and you could fail Pillar Two during compliance testing.

"Pillar Two is not as simple to follow as one would think, even when you believe you are on target. Early on, we worked with HA&W's ComplianceSuccess® Program to understand some of the more challenging pillars," said Joe O'Kelley, Jr., managing member at O'Kelley & Sorohan, Attorneys at Law, LLC. "As we began preparing to become compliant with ALTA Best Practices, we learned in early discussions with HA&W that the daily account reconciliation was required for all accounts within our firm, including those accounts with low activity and where daily bank information is not readily available. Reviewing checks cashed from dormant accounts is not sufficient; it's a more intensive daily reconciliation."

After testing more than 100 companies, HA&W has discovered that Pillar Two is presenting one of the biggest challenges for business owners to demonstrate compliance. Many cite reasons such as too much account volume, no access to daily bank activity and a limited number of employees available to do the work. These are



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valid explanations, but ironically, it is because of these reasons that this step must be done on a daily basis. In addition, dormant accounts should be reviewed daily to ensure that trust account funds are protected.

“The daily bank reconciliation is an incredibly important aspect of compliance with ALTA Best Practices,” said Lauren Kinard, Senior Vice President at First Excel Title, LLC. “Daily reconciliations provide you, as the business owner, with visibility into the flow of cash in and out of your accounts.”

Take some time today to investigate your firm’s daily reconciliation process for all trust accounts, including dormant accounts. Do daily receipts and disbursements in your trust accounts match what is happening in your general ledger? If not, there may be an issue.

If you have a high volume business, you should engage a third-party service provider to assist with the daily reconciliation process. If you have a small company, you can utilize HA&W’s ComplianceSuccess Toolkit at <http://www.compliancesuccess.com/toolkit/> to obtain a Daily Reconciliation Form. This is a standard form that you can use daily to meet the ALTA Best Practice requirement. Either way, you must establish a policy and procedure regarding daily reconciliations and include it in your manual.

Finally, document what you do each day. Retain the reports analyzed and generated, along with notations and results of discrepancies investigated.

Follow these steps, and the next time your CPA calls, there should be some good news for you!

About HA&W’s ComplianceSuccess Program:

HA&W is the leading CPA firm in the nation to provide ALTA Best Practices compliance benchmarking, readiness and certification reporting through its ComplianceSuccess Program. HA&W’s ComplianceSuccess Program provides independent third-party assurance using CPA professional standards on attestation reporting, trusted by banking and financial institutions. Our fast track approach will assess your current level of compliance and provide you with a remediation plan in three to five business days. Our process delivers the best price point to achieve compliance, offering complete compliance benchmarking and reporting across all seven ALTA Best Practices Pillars. To ensure our ComplianceSuccess Program is in lock step with industry standards and requirements, HA&W is actively involved at the highest level with ALTA, AICPA and the Mortgage Bankers Association.

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