



# Standard Procedures and Controls for the Title Industry

Prepared by the ALTA Internal Auditing Committee

ALTA

The American Land Title Association, founded in 1907, is the national trade association and voice of the abstract and title insurance industry. ALTA members search, review and insure land titles to protect home buyers and mortgage lenders who invest in real estate. ALTA is headquartered in Washington, DC.

The Standard Procedures and Controls for the Title Industry describe minimum internal control procedures that should be implemented within each title company to ensure efficiency, security, and safety in real estate transactions. These Control Standards are for voluntary adoption and use by ALTA members; however, ALTA encourages all of its members to incorporate these procedures and controls into their daily business practices.

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# STANDARD PROCEDURES AND CONTROLS FOR THE TITLE INDUSTRY

## Introduction

Title insurance agencies issue title insurance policies and provide services that vary from one area of the country to another and may include acting as escrow agent, obtaining lien releases, and conducting the actual closing or settlement. However, the essential purpose is the same, to assist the parties in real estate transactions by ensuring that the acquisition or transfer of property interest can be effected with a maximum degree of efficiency, security, and safety.

The Standard Procedures and Controls include minimum internal control procedures that should be implemented within each title agency to insure the above objective is met. These guidelines are a product of the ALTA Internal Auditing Committee, which is composed of the senior auditor from a number of title insurers.

In 1991, ALTA published a standard Agency Audit Program that was intended to be generic audit procedures around which any title insurance underwriter could build its agency audit program. But over the years, there has been considerable variation among the insurers in the application of the agency audit program for various reasons, not the least of which is the lack of common industry control standards for agencies. What is treated as a significant deficiency by one insurer may be treated as a medium or low priority matter by another. Lacking specific control standards, auditors are left to measure control adequacy judgmentally or against their company's expectations, which can be vague and vary widely among the insurers. Agency agreements between underwriters and agents usually do not speak to internal controls in any detail. And until now, other than the 2000 Escrow Internal Control Guidelines, ALTA has never issued a set of common agency control standards directed at the title agencies. These Standard Procedures and Controls are not designed to replace the 2000 Escrow Internal Control Guidelines but rather to be used in conjunction with them.

It will benefit the industry as a whole to have a set of Standard Procedures and Controls for the Title Industry. These guidelines will help improve the title industry by imposing consistent and fair standards against which every agency is measured and by making it more difficult for those who do not wish to meet the minimum standards to remain as active participants in the industry.

The control standards are organized within the following processes:

- General Agency Administration and Control
- Settlement / Closing Process
- Escrow Accounting
- Policy Production and Underwriting
- Policy Control and Administration
- Market Conduct

# STANDARD PROCEDURES AND CONTROLS FOR THE TITLE INDUSTRY

## Introduction

Within each process, the control standards are separated into two categories - Minimum Control Standards and Other Recommended Controls. Controls classified as Minimum Control Standards are critical controls that should be operating in every agency. The Other Recommended Controls are also important controls, but to a lesser degree, and may vary based on the agency's size and nature of operation.

The implementation of these controls helps achieve several important goals, including:

- Improved customer service.
- A reduction of errors.
- Protection of depositors' funds.
- Reduced potential for losses.
- More effective and efficient control of operations.

Agents are responsible for maintaining adequate procedures and internal controls considering the size and complexity of their operations and local statutes. The Standard Procedures and Controls for the Title Industry should be viewed as a control foundation, but not an all-inclusive list of internal control standards that would cover every risk of a particular agency operation.

# STANDARD PROCEDURES AND CONTROLS FOR THE TITLE INDUSTRY

## General Agency Administration And Control

### Minimum Control Standards

1. Maintain financial information or statements in a manner that will be provided to underwriter(s) upon request. The form of financial information provided to underwriters should be appropriate based on size and type of business organization and may include unaudited balance sheets, income statements and cash flow statements, tax returns and in some cases, audited financial statements.
2. Maintain the appropriate, valid license (including meeting any applicable education requirements) for all of the states where the agency conducts business to be provided to the underwriter(s) upon request.
3. Maintain current errors and omissions, malpractice, and fidelity insurance policies and surety bonds in accordance with state and underwriter(s) requirements.
4. Maintain a filing and file storage system that adequately safeguards the closing files and escrow records, whether paper based or electronic.
5. Maintain a document retention program that complies with applicable federal, state, and underwriter guidelines.
6. Maintain procedures to ensure compliance with underwriter(s) contracts.
7. Submit monthly escrow bank reconciliations to underwriter(s) upon request or as required by statute.
8. Immediately report to underwriter(s) any occurrence or suspected occurrence of fraud, embezzlement, or misappropriation of funds.

### Other Recommended Controls

9. Exercise diligence in hiring practices including policies regarding background investigations. It is recommended that background investigations and credit checks be conducted for agent employees responsible for handling funds.
10. Provide appropriate training to employees on matters including underwriting, escrow administration, and fraud prevention.
11. Design accounting processes with the appropriate level of internal controls and management oversight. This includes a design of business processes to maintain an appropriate segregation of duties. For example, an employee should not initiate and authorize the same transaction. Perform internal quality control reviews regularly.
12. Utilize sound information technology practices. These include appropriate access controls (e.g., passwords) and procedures for granting and terminating access, as well as procedures to back up data on a periodic basis and send to an off-site storage location. Additionally, maintain a plan to restore operations in the event of a disaster ("Business Resumption Plan").

# STANDARD PROCEDURES AND CONTROLS FOR THE TITLE INDUSTRY

## Settlement / Closing Process

### Minimum Control Standards

1. Follow all lenders' closing instructions.
2. A signed settlement statement that totals properly and is supported by written instructions for all amounts (i.e., closing instructions, invoices, written payoffs, etc.) is to be included in each closing file. If a settlement requires changes, a copy of the new statement with changes clearly documented is to be maintained in the file.
3. Include in each closing file an accounting ledger/disbursement sheet that details all receipts (form of payment, date, and amount) and disbursements with date, transaction type, check number, payee, amount, and file's ending balance.
4. All receipts and disbursements are to agree to the final signed settlement statement.
5. All files are to balance to zero. If any balance remains, the date, reason for the balance, and to whom the balance belongs should be clearly documented within the file.
6. All receipts are to be supported by a copy of the check, wire confirmation, or numbered cash receipt, and deposited prior to or on the day of closing.
7. All disbursements are to be made only after "good funds" (according to each state's requirements) have been established.
8. Ensure that all commitment requirements are satisfied.
9. Record all documents for the transaction (mortgages, deeds, releases, etc.) with the proper authority in a timely manner.
10. Maintain appropriate supporting documentation in all closing files, including, but not limited to the following:
  - Valid identification of parties to the transaction
  - Properly executed affidavits, where required
  - Documentation that Privacy statement(s) were provided to the appropriate parties (residential transactions only)
  - Documentation that the Patriot Act requirements have been met (Sanctions List)
  - FIRPTA requirements

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## Settlement / Closing Process

### Other Recommended Controls

11. Any funds held after closing are to be held and disbursed in accordance with a formal escrow agreement executed by the appropriate parties. Include specific instructions as to when and how these funds are to be released in the agreement.
12. Maintain an anti-fraud program.

# STANDARD PROCEDURES AND CONTROLS FOR THE TITLE INDUSTRY

## Escrow Accounting

**This section specifically references escrow accounts. In addition to escrow accounts, the controls in this section apply to any custodial or fiduciary accounts including closing and disbursement accounts, recording and tax accounts, construction disbursing accounts, underwriter remittance accounts and other similar accounts.**

### Minimum Control Standards

1. Prepare a monthly escrow trial balance for each escrow account (and any other fiduciary account) which, at a minimum, lists all open escrow balances.
2. Perform a monthly three-way reconciliation of bank balance, book balance, and escrow trial balance for each escrow bank account (and any other fiduciary account). Escrow reconciliations are to contain at a minimum, a summary page with figures showing the account is in balance, an outstanding deposits list, outstanding checks list, trial balance (list of files with balances) as of the period being reconciled, and a detailed adjustment list, if adjustments are needed to bring the account in balance. Complete each three-way reconciliation within forty-five (45) days from the closing date of the bank statement of the account.
3. Include the following procedures in the three-way reconciliation:
  - Research and resolve any stale dated outstanding deposits as listed on the outstanding deposit report immediately.
  - Any unusual outstanding checks require immediate attention and resolution such as:
    - *Checks payable for recordings outstanding > 30 days*
    - *Payoff outstanding > 14 days*
    - *Taxes and hazard insurance payments outstanding > 30 days*
    - *Underwriter premium outstanding > 60 days*
    - *Other checks outstanding > 90 days*

Require management approval for the void and reissuance of any outstanding checks.

- *Shortages or unusual balances on the trial balance require immediate attention. Shortages are to be funded from operating funds.*
  - *Research adjustments that were required to bring the account in balance. Post corrections to the proper file so the adjustment can be cleared on the next reconciliation.*
4. Assign a unique sequential number or unique identifier to each closing file.
  5. All bank accounts must be styled as “Escrow” or “Trust”. “Escrow account” or “trust account” must appear in the signed bank agreement, on the bank statement, and on disbursement checks and deposit slips. Such accounts are only to be utilized for escrow or trust transactions. Operating funds are never to be comingled with escrow funds.

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## Escrow Accounting

6. Maintain documentation for the reasons for escrow file balances held longer than six months. Require management approval for disbursements from these files.
7. Require management approval for any transfers of funds between closing files or escrow accounts. Document transfers between closing files in both files.
8. Include related file numbers directly on all escrow checks and deposit slips to provide a clear and direct connection between the documents and the related file.
9. Reimburse all escrow receivables and other escrow shortages from the escrow agent's operating account immediately upon discovery.
10. Include copies of all checks, wire documentation, deposit slips, and receipt items with the escrow reconciliations. If a bank does not return actual canceled checks with bank statements, then copies of all checks must be available in agency records, or the agency must obtain a signed acknowledgement that they will be provided upon request, and must meet the following criteria:
  - • *The copies of checks must be clearly legible.*
  - • *Include both sides of every check so that endorsements can be verified; and*
  - • *Ensure that it is unmistakable which front and back images belong together.*
11. Maintain all escrow funds, including sweep accounts, in financial institutions whose deposits are federally insured or invested in United States government backed securities.
12. Hold underwriter premiums in trust and do not commingle with the agency operating accounts.
13. For attorney agents, maintain separate real estate and non-real estate trust accounts. If separate accounts are not maintained, underwriter's transactions must be determinable and available for review.

### Other Recommended Controls

14. Three-way reconciliations are to be prepared by someone unassociated with the receipt or disbursement function.
15. A manager or supervisor is to approve each three-way reconciliation. If this is not possible or practical, each reconciliation is to be reviewed by another employee, at a minimum.
16. Safeguard unused check inventory in a secure location such as a locked room or filing cabinet. Limit access to authorized individuals.
17. Two signatures are recommended on all escrow checks. Avoid the use of signature stamps.

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## Escrow Accounting

18. An interest-bearing (investment) escrow account must meet the following criteria:

- *The investment account must be styled in the name of the owner/beneficiary of the escrow funds, with the escrow agent named as trustee or escrow agent.*
- *The escrow agent must receive written instructions from the owner/beneficiary of the escrow funds to open an investment account. Such written instructions must be maintained in the escrow agent's records.*
- *The tax Identification number used to open the interest-bearing escrow account must be that of the owner/beneficiary of the funds, not that of the escrow agent.*
- *The interest-bearing escrow account must be included on a control ledger or trial balance that identifies all interest-bearing accounts. The interest must be posted to the escrow account timely following receipt of the statement or other documentation reporting the interest accrued.*

19. Adhere to state escheatment laws.

20. Remove signature blocks from voided checks or otherwise render them ineffective.

21. Discourage the receipt of cash. If cash is received, issue a signed, pre-numbered receipt.

22. Utilize effective internal controls over wire transfers, including at a minimum: proper segregation of authorization, initiation and verification; review of supporting documentation (e.g., written escrow agreement, closing statements, instructions, etc.) prior to execution of wire outs; immediate verification of bank advices against escrow authorization and instructions; use of personal identification numbers; and independent call backs.

23. Verify receipts posted to the validated deposits daily.

24. When available, utilize positive pay or reverse positive pay for bank accounts.

25. Research inactive/old escrow accounts to ensure all funds are properly disbursed to the appropriate parties and the account can be closed. Funds transferred to active accounts are to be done on an individual file basis to ensure the funds are kept in their respective files. Request a final statement showing a zero balance and "closed account" from the bank if one is not sent to the agency.

26. Consider a new escrow/trust account anytime the agency utilizes a new closing software system or changes closing software systems. This will help ensure the accounts can be reconciled properly.

# STANDARD PROCEDURES AND CONTROLS FOR THE TITLE INDUSTRY

## Policy Production And Underwriting

### Minimum Control Standards

1. Maintain either manual or automated systems to verify premiums, fees, and endorsement calculations for transactions. Maintain documentation supporting charges in the closing file.
2. Comply with current filed or promulgated rates and/or rates established by the underwriter or rating bureau in each state.
3. Comply with each title insurance company's current underwriting policies and procedures manual, and bulletins.
4. Comply with underwriting authority limits and obtain written underwriter approval on all policies over the set liability limit prior to issuance and retain approval in the file.
5. Utilize an adequate system to track the status of all orders.
6. Conduct title searches and updates in accordance with underwriter and state insurance department requirements utilizing current and accurate title evidence.
7. Review title commitments and policies for accuracy prior to issuance. Title commitments and policies shall be:
  - In the proper currently filed form
  - Neat and free from typographical errors
  - Complete, containing all schedules and incorporating all information and instructions as required by the insurance company.
  - Produced timely and accurately

### Other Control Recommendations

8. Establish a quality control program for regular review of files, including underwriting and closing practices.

# STANDARD PROCEDURES AND CONTROLS FOR THE TITLE INDUSTRY

## Policy Control And Administration

### Minimum Control Standards

1. Maintain a master title policy log and track policy jackets that are assigned within the office or to branch offices. Include the following in the tracking system or master title policy log:
  - a) The date the policies are received or assigned
  - b) The date when removed from unused inventory
  - c) The file to which the policy was assigned
  - d) Voided policies
  - e) Unused policies returned to underwriter
2. Assign individual policy jackets to files only after the file has closed and the policy is ready to be issued.
3. Permit only authorized employees to sign the title policy. Signature stamps are not to be used.
4. After the policy is created, maintain a copy for the agency's file and provide a copy to the underwriter if required.
5. Provide the original policy to the customer in a timely manner.
6. Report the title policy and premium remitted to the underwriter in accordance with underwriter's contract and state requirements.
7. Utilize a tracking system that identifies files that have closed and for which policies have not been issued.
8. Secure unused policy jackets.
9. Limit access to computers or software modules that are used to generate title policies to authorized employees. Keep passwords confidential, and change passwords on a regular basis.

### Other Recommended Controls

10. Clearly assign responsibility to monitor the unused inventory supply and order new policies.
11. When paper policy jackets are received, compare the policy numbers received to the policies listed on the packing slip. Report any differences to the underwriter immediately.
12. Maintain a reconciliation of amounts due per policies reported and premiums remitted. Compare these records to underwriter account statements. Report any discrepancies to the underwriter immediately.
13. Maintain evidence of all voided policies or unused policies returned to the underwriter.

# STANDARD PROCEDURES AND CONTROLS FOR THE TITLE INDUSTRY

## Market Conduct

### Minimum Control Standards

1. Comply with current promulgated rates and/or rates established by the underwriter or rating bureau in each state. Provide customers with the appropriate credits/rate reductions and disclosures where applicable (e.g. re-issue, new construction, first time homebuyer).
2. Charge the appropriate non-title and escrow fees.
3. Comply with RESPA and other applicable federal and state requirements.
4. Comply with Federal and State guidelines for affiliated business arrangements (“AfBAs”).
5. Comply with applicable underwriter bulletins, policies and procedures, and utilize the appropriate forms filed by the underwriter.
6. Report the receipt of claims or similar demands immediately to the applicable underwriter. Comply with the applicable state requirements for processing claims and provide reasonable assistance to the underwriter in defending claims.