

# The Value of Electronic Verification of Reconciliation



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Absolute Financial Protection

When the American Land Title Association (ALTA) published its Best Practices for title insurance and settlement companies, it indicated that the seven pillars were meant to be guidelines to help the industry meet market requirements and protect consumers. Although these guidelines are voluntary, many in the real estate settlement service industry are meeting and exceeding these benchmarks in order to ensure compliance with regulatory and industry standards.

One of ALTA's most critical best practice standards is Pillar No. 2:

**“Adopt and maintain appropriate written procedures and controls for Escrow Trust Accounts allowing for electronic verification of reconciliation.”**

Something you may not realize is that the key words contained in Pillar No. 2 are “electronic verification of reconciliation.”

The focus of this pillar is that it is absolutely critical to safeguard client funds. The loss of client funds could mean the closure of your business, and because of the increase in online scams, it is becoming more difficult to protect your accounts. According to ALTA, one of the ways to ensure compliance with Pillar No. 2, and the protection of your clients' funds, is to make certain your escrow trust accounts are reconciled on a daily basis. In addition, a three-way reconciliation should be performed at least once a month. Most importantly, the results of the reconciliations should be accessible for verification electronically.

### **LET'S START WITH DEFINING RECONCILIATION.**

Reconciliation is a way to compare receipts and disbursements to make sure they are consistent with each other. This is an important way to identify any escrow account problems – whether they are due to an error or other nefarious causes, such as theft, fraud or compliance violations. The idea is similar to balancing your personal checkbook each month – you are looking for errors or problems in your account that need to be fixed. If reconciliation shows that your escrow account is short funds, you then take steps to find out where the funds have gone and why. It is important that the reconciliation of accounts is performed by someone who does not have disbursement authority



over the account. This is because escrow account theft is not only conducted by cyber thieves, who have no relationship with the company, it can also be done by employees who have access to accounts. This is why reconciliation is so crucial – theft can come from a variety of places and it is sometimes very difficult to detect. Reconciliation ensures escrow account accuracy and allows for detection of irregularities so that you can rectify them quickly.

Three-way reconciliation is similar but more critical as it compares the bank statement, check book and escrow trial balance to ensure consistency. If, after a reconciliation, the numbers do not pan out, you know that you need to investigate and correct the problem, which, again, could be an error, evidence of a security breach, or even fraud.

It is also critical to make sure that evidence of your reconciliation is reliable and accessible electronically. What this means is that the complete reconciliation should be available in an electronic format so that you can verify it, access it, and keep it for your own records.

“Electronic verification of reconciliation is an important element within the recommendations of ALTA’s Best Practices Pillar Number Two,” Dick Reass, founder and chief executive officer of RynohLive said. “In fact, I’d argue that it is the most important element. Many times, companies do not understand how critical this

element is or why it is so essential, and, unfortunately, electronic verification of reconciliation is frequently misunderstood.”

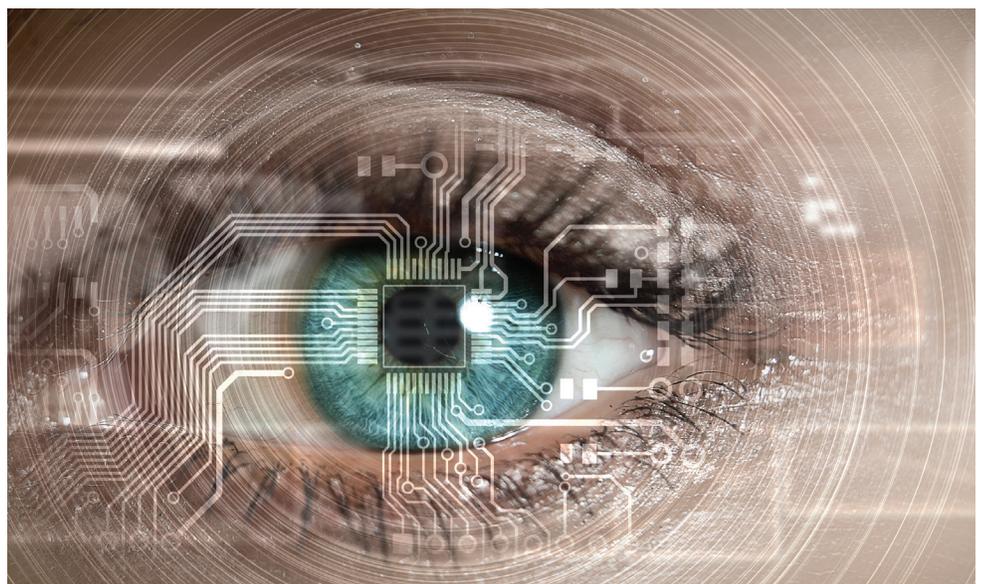
It is often thought that a PDF version of an agent’s reconciliation is sufficient to comply with ALTA’s Best Practices. However, that is not the case. It is vital that agents provide proof of electronic verification of their reconciliation or proof of the underlying data that comprise the reconciliation.

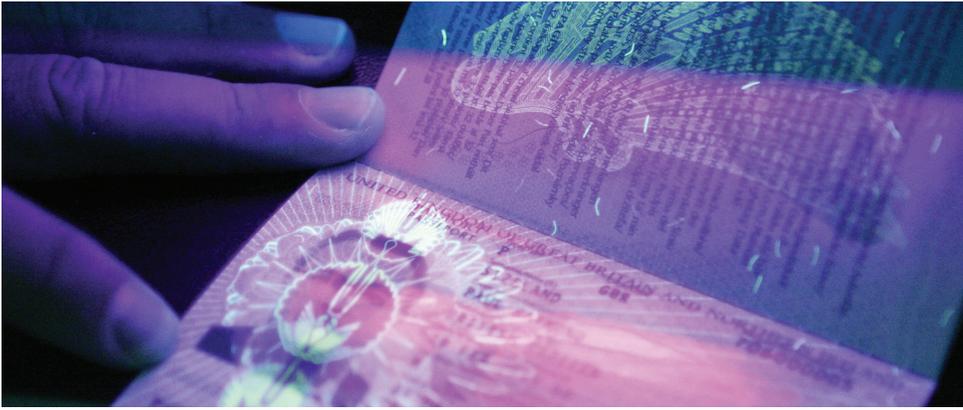
“Sending a copy of your monthly reconciliation to an underwriter by email is not electronic verification of your reconciliation, nor is it providing electronic access to your underwriter,” Reass said. “Emailing is simply sending a piece of paper in electronic format. Only by providing the underwriter access into your accounting system, and the corresponding transactional data processed by your bank, can the underwriter truly electronically verify that the reconciliation being presented is accurate.”

“There must be a way for the underwriter to dig into the data, so this means that you need to provide access to the rawest data possible,” Steve Gottheim, Legislative and Regulatory Counsel said. “You need to be able to duplicate the data that you are presenting to underwriters.”

You are probably wondering why sending a PDF version of the reconciliation is not sufficient.

The concept is best understood by looking at the verification process for passports and visas in the United States. No longer is it a matter of physically reviewing the passport or visa that is being presented. It is now a process of electronically scanning the item and comparing it with the underlying data held by the Department of Homeland Security. You can take a look at the passport/via program by clicking this link <http://goo.gl/4GImm3> to get a better understanding of the process.





So, for example, providing a PDF version of the reconciliation for verification is comparable to providing a hard copy of a passport for verification. It provides the surface information but does not get to the underlying data. Scanning the passport allows for access to in-depth information and a more thorough verification. It is the same idea with reconciliations – getting to the underlying data is critical for complete, accurate verification.

Only by providing electronic access into your accounting system and banking transactions will your agency truly be compliant with ALTA Best Practices No. 2.

Another example of electronic verification comes from companies that conduct security and background checks for businesses. These companies conduct verification of a person's identification by utilizing government databases in order to crosscheck background information and search for warning signs that the person is not who he says he is. In other words, an individual can provide you with his identification, resume and past work information, but more is

needed for a thorough background check. You need to verify that the information is accurate by searching for more data that can provide you with the individual's full story.

Underwriters are also looking for access to the full story. They need more than just a paper copy of the reconciliation. They need the underlying data in order to complete a true and accurate verification.

Finding a way to provide the correct information to your underwriter does not have to be difficult. In fact, RynohLive is a great example of an avenue that allows you to easily and accurately get the correct data to your underwriter.

RynohLive, the industry standard for escrow and financial management software for the settlement industry, exceeds the guidelines set forth in Pillar No. 2. Rynoh is a patented financial management and fraud prevention system that provides daily three-way reconciliation of escrow accounts. Moreover, Rynoh has the ability to verify reconciliation electronically because it integrates the bank data with the agent's escrow accounting software data. More specifi-

cally, RynohLive connects to your banking data (READ ONLY access) and your settlement software in a secure, cloud-based environment and then automatically generates reports that allow you to reconcile your accounts on a daily basis.

Going back to the passport example, it is clear why integrating banking data with the settlement account software is so important – it provides the underwriter with more than an emailed piece of paper. RynohLive allows for true electronic verification of reconciliation because it assimilates the underlying data.

“With RynohLive's patented solution, your underwriter isn't simply getting a PDF reconciliation with superficial information,” Reass said. “Only Rynoh can offer true compliance with Pillar Number 2 because we integrate the critical underlying data, which is necessary for accurate electronic verification.”

In such a competitive industry, it is important not only to meet, but also to exceed, market standards. It is critical to be at the top of your game, and one way to do that is to ensure you are reconciling and verifying your accounts with accuracy.

To find out more about RynohLive's escrow reconciliation process, go to <http://www.rynoh.com/how-it-works/>. Or click this link <http://www.rynoh.com/contact/> to contact Rynoh for more information.