



## **Preventing Escrow Fraud: Escrow Fraud Awareness Tips**

There is no foolproof way to prevent fraud, but awareness is the best defense. Please review our tips below, and use your best judgment in all transactions.

We have all heard of someone in our industry that has been taken advantage of by an employee. Someone that has been with them for years, who you'd least suspect. But times are tough and people are doing things that are out of their normal character. Are you doing everything you should be to protect the OPM (other people's money)?

Here are a few points to consider when it comes to your staff. Do not have the same person responsible for the tasks below:

- ✓ Ordering Checks
- ✓ Signing Checks
- ✓ Disbursing Files
- ✓ Escrow Reconciliations

It would be very easy for someone to commit fraud if they are the only one managing these responsibilities.

A dear friend of mine had his accounting gal responsible for all the items above and she decided she needed a new car, a new house and a few other things, so she took the checks she had been authorized to order, changed the address and ordered new ones through one of the online services, moved the account and had been depositing company funds into it over a couple of years. She ended up with around \$675,000.00 by the time they caught her.

Another area to keep a watchful eye on is the disbursing. Pay debts are often times paid through settlement. But do you, as the owner, have your disbursing staff bring you the original signed settlement statement with the checks to insure the payee's haven't changed? It would be very easy to change one of the debts from Capital One to Chase Visa without you knowing. Think its farfetched, I personally know of a company that this happened to over a couple of years and this staff member, paid off her own home, bought another one, paid off about \$80,000.00 in personal debt and had stolen from her employer around \$300,000.00. She had been employed there for a number of years. She then left that employer before they found out and started doing it again with another company. Don't think it can't happen to you. Pick up The Title Report or any industry publication. It's happening almost daily.

Here are a few more tips to implement in your office to protect your Agency:

- ✓ Under no circumstances do you allow ACH's on any of your accounts.

- ✓ This is a payment that is authorized to be deducted directly from your account each month. I have assisted with audits that the Owner had spent the payoff funds and was making the monthly payments on each of the client's mortgages through ACH along with her personal bills.
- ✓ Insist your bank gives you access to all accounts online in real-time.
- ✓ Including, copies of cleared checks, deposits, etc. We were able to catch some fraudulent checks that came through one of our escrow accounts because we insisted we received copies of all cancelled checks. The loss was minimal and the bank reimbursed us because we reported it within the 45 day time frame our bank honors.
- ✓ Use a neutral 3rd party when it comes to your escrow reconciliations.

Times are tougher right now and many folks are pulling in many of the services they used to outsource. But this shouldn't be one of them. The 3rd party is unbiased and will look out for your finances. As always, insure they are reliable, check their references and for goodness sakes read the reports they supply you. I have worked with numerous clients that after the reconciliations are done; they think they are also done. This is normally not the case. There may be files out of balance, shortages that need to be addressed or outstanding deposits that need to be located. Reviewing this report and cleaning up outstanding issues when they happen is much easier to do then waiting until the week before your audit and going back months trying to fix things that are now costing you not only your time, but lots more money.

- ✓ Review your voided check register monthly.

Here's a good one to watch. An employee disburses a file and pays off some debts for a borrower. They provide you with the checks along with the settlement statement and you sign them all. The file is then complete, so you think. A couple of days later the employee brings you a single check and says, " this was made out to the wrong party, so I re-cut it", you sign it and off it goes to pay off one of the employees personal debts. Remember once you re-cut/void a check that number is now live and it can be used somewhere else. Most computer systems will not show it out of balance because the original check had been voided and it will not show up as a red flag because the payee changed. Be very aware of this. Maintain a folder with all voided checks so you can go back and review should the need arise.

Put these systems in place to protect yourself now, you'll be thankful you did.