

**TEXAS DEPARTMENT OF INSURANCE
TITLE INSURANCE AGENCY AUDIT PROGRAM**

AGENCY	REPORT #
AUDITOR	DATES OF AUDIT

OBJECTIVES

- To determine that the title insurance agent is in compliance with Title 11 of the Texas Insurance Code as well as other rules and regulations adopted by the Texas Department of Insurance.
- To determine that the escrow accounting system meets the minimum requirements of the Texas Department of Insurance and that adequate controls and records exist to prevent material escrow shortages or irregularities.
- To determine that escrow transactions are funded in accordance with Section 2651.202 as implemented by Procedural Rule P-27.
- To determine that the abstract plant is in compliance with the requirements of Section 2501.004 of the Texas Insurance Code and Procedural Rule P-12.

AUDIT PREPARATION

	Yes	No	Initials	Date
1. From TDI database, obtain agent's exact dba name, active underwriters and license numbers.				
2. From TDI database, obtain list of currently licensed escrow officers.				
3. Prepare basic report in computer with data from step #1.				
4. Prepare document request, going concern questionnaire, market conduct questionnaire, & escrow accounting procedures questionnaire.				
5. <i>For team audits only:</i> Contact other team members. Designate one person to handle preparation work and entrance interview. Decide how field work will be divided and what each person's responsibilities will be.				

ENTRANCE INTERVIEW

1. Explain purpose and scope of audit.				
2. Complete going concern questionnaire.				
3. Obtain information needed for abstract plant worksheet (items 1-3).				
4. Present agency information sheet for completion.				
5. Present market conduct questionnaire for completion.				
6. Present escrow accounting procedures questionnaire for completion.				
7. Present document request.				

ABSTRACT PLANT

<i>If complete abstract plant test is required:</i>				
1. Select sample of legal instruments relating to real property transactions from records maintained by county clerk.				
a) Select <u>minimum</u> of 10 test instruments for the <i>geographic</i> indices. Include instruments to test for current indexing. Enter on abstract plant worksheet.				
b) Select <u>minimum</u> of 4 test instruments for the <i>alphabetic</i> indices. Include instruments to test for current indexing. Enter on abstract plant worksheet.				
2. Provide property descriptions, alphabetical names, and dates from test instruments to agent.				
3. Evaluate results of information/records provided by agent. Make determination if abstract plant is in legal compliance with Section 2501.004 and Procedural Rule P-12.				

ESCROW ACCOUNTING

	Yes	No	Initials	Date
1. Use completed escrow accounting procedures questionnaire to help assess risk for integrity of escrow funds and determine sample of escrow bank accounts to be tested.				
2. List escrow bank accounts selected for auditing on section index page and assign reference numbers.				
3. Obtain three-way reconciliations and supporting documentation for the three most recent months for each bank account to be audited.				
4. Prepare bank confirmation letter for each account to be audited or all accounts, based on auditor's judgment. Obtain agent's authorization on each letter and post with U.S. Postal Service.				
5. Complete an escrow bank account review worksheet for at least three of the most recent months.				
6. Annotate violations page for each worksheet when it is completed.				

GUARANTY FILES

1. Present guaranty file request form(s) as needed as audit progresses.				
2. List guaranty files selected for auditing on section index page and assign reference numbers.				
3. Verify sample of file balances on escrow trial balance for each escrow bank account by agreeing to accounting data in actual file. Were the agency's escrow trial balances considered to be reliable?				
4. Complete a guaranty file review worksheet for each file audited. Choose a sample from as many individual closers, branch offices, and fee attorney offices as feasible.				
5. From the agent's list of files with directly issued policies for the past 6 months, select a reasonable sample to audit. Complete Directly Issued Policy File Checklist for each one. (These files may be part of the files for step #4 above.) Check for violations of Sections 2502.051, 2704.001, and P-22.				
6. Annotate violations page for each worksheet when it is completed.				

INVESTED ESCROW ACCOUNTS

1. List invested escrow accounts and related guaranty file numbers selected for audit on section index page and assign reference numbers.				
2. For each invested escrow account to be tested, obtain and review its related guaranty file and complete an escrow investment account review worksheet.				
3. Annotate violations page for each worksheet when it is completed.				

OPERATING ACCOUNTS

1. List operating bank accounts selected for audit on section index page and assign reference numbers.				
2. For each operating bank account to be audited, obtain canceled checks or bank photocopies or checks, bank statements and deposit tickets for the three most recent months and any other months at auditor's discretion.				
3. Complete operating bank account review worksheet for each month audited.				
4. Does agent prepare balance sheets and income statements? If yes, obtain copies of most recent ones.				
5. Scrutinize financial statements for unusual items or ratios. Analyze financial condition. Is agent solvent? If no, include this fact in report.				
6. Annotate violations page for each worksheet when it is completed.				

MISCELLANEOUS FIELD WORK

	Yes	No	Initials	Date
1. Compare list of escrow officers furnished by agent to list from TDI database. Document any discrepancies and investigate if necessary.				
2. Review bonds provided by agent for compliance with Section 2651.101 and /or 2652.101. Document any discrepancies and investigate if necessary.				
3. Most recent escrow audit report:				
a) Investigate any receivables shown as uncleared at date of report.				
b) Determine if any irregularities shown in report need investigation. If so, expand field work to include these items.				
4. Check compliance with Procedural Rule P-28 (Take a random sample of the agency's senior escrow officers to confirm that each met their continuing education requirement as of the last renewal date).				
5. Investigate complaint(s), if any, referred by Title Section.				

UNDERWRITER PREMIUM REMITTANCES

(if assigned or if audit evidence indicates possible problem in this area)

1. Complete underwriter remittances worksheet.				
2. Determine if agent is in violation of Rate Rule R-2.				
3. Prepare list of delinquencies noted. Include name of each underwriter, amount of delinquency, and length of delinquency.				

STATISTICAL REPORT

(if assigned)

1. Complete statistical report limited review worksheet. (Be sure report reviewed is the most recent one available.)				
2. Prepare violations page from worksheet and workpapers.				

REBATING AND FEE SPLITTING

1. Assess responses on market conduct questionnaire. Conduct any investigation deemed necessary by responses.				
2. (If assigned) Complete rebating and fee splitting worksheet.				
3. Prepare violations page from worksheet and workpapers.				

AUDIT CONCLUSION

1. Conduct exit interview. Encourage agent to ask questions. Provide file numbers and bank account references where violations were observed.				
2. Have agent sign exit interview acknowledgment form.				
3. Finalize audit report.				
4. PROOFREAD AUDIT REPORT CAREFULLY.				
5. Save on n:\field\reports subdirectory.				
6. Complete audit report summary page.				
7. Bind workpapers and forward to Austin.				