ALTA Best Practices Framework:

Assessment Procedures

Version 2.0

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ALTA Best Practices Framework

The ALTA Best Practices Framework has been developed to assist lenders in satisfying their responsibility to manage third party vendors. The ALTA Best Practices Framework is comprised of the following documentation needed by a company electing to implement such a program.

- ALTA Best Practices Framework: Title Insurance and Settlement Company Best Practices
- ALTA Best Practices Framework: Assessment Procedures
- ALTA Best Practices Framework: Certification Package (Package includes 3 Parts)

Version History and Notes

Date	Version	Notes
7/19/2013	2.0	Publication of the ALTA Best Practices Framework: Assessment Procedures, along with other documents in the ALTA Best Practices Framework, as approved by the ALTA Board on July 19, 2013. This is the first publication of the ALTA Best Practices Framework: Assessment Procedures.

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Please Note

Capitalized Terms:

- Capitalized Terms appearing in both these Assessment Procedures and the ALTA Title Insurance Settlement Company Best Practices (Best Practices) shall have the meanings set forth in the Best Practices document.

Documentation Guidelines:

- Detailed notes or documentation copies should be maintained for a minimum of five (5) years to support testing performed and testing exceptions for each procedure.

Testing Guidelines:

- Where possible, the same file sample may be used throughout the assessment to test multiple attributes.

Not Applicable (NA):

- Some of the Assessment Procedures will not be applicable to some agencies due to laws, regulations, or business model.

Assessment Procedures Marked with an Asterisk (*)

- Many of the Assessment Procedure Numbers are followed by an Asterisk (*). This indicates that a particular Assessment Procedure is a requirement and that a FAIL on that particular Assessment Procedure results in a FAIL for that Best Practice.

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Assessment Procedure Number	ALTA Best Practices Framework: Assessment Procedures	Assessment Recap
	ALTA Best Practice 1: **Establish and maintain current License(s) as required to conduct the business of title insurance and settlement services.**	***Overall Assessment Recap: If any individual procedure marked with an asterisk FAILS, Best Practice 1 FAILS.***
1.01*	Confirm the active status of the Company and/or individual Licenses/registrations for each state in which the Company conducts business. Validate compliance with ALTA Policy Forms Licensing Requirement. Documentation reviewed may include actual licenses, Department of Insurance or appropriate state regulatory agency websites/screenshots, Bar Association status, corporate or business registrations with the state and other documentation as applicable to state/license. Sample Selection: ♦ 100% of all required licenses and corporate registrations in all states in which Company operates on assessment date. ♦ View Company's active ALTA Policy Forms License or verify compliance on ALTA website.	PASS / FAIL

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Assessment Procedure Number	ALTA Best Practices Framework: Assessment Procedures	Assessment Recap
	ALTA Best Practice 2: **Adopt and maintain appropriate written procedures and controls for Escrow Trust Accounts allowing for electronic verification of reconciliation.** *Note: These procedures apply to all custodial or fiduciary accounts including closing and disbursement accounts, recording and tax accounts, construction disbursing accounts, underwriter remittance/premium accounts and other similar accounts.*	***Overall Assessment Recap: If any individual procedure marked with an asterisk FAILS, Best Practice 2 FAILS.***
2.01*	Obtain Company's written procedures and controls for Escrow Trust Accounts, hiring and training, and, at a minimum, verify all sections of ALTA Best Practice 2 are included.	PASS / FAIL / NA If no written procedures, Procedure 2.01 FAILS.
2.02*	Obtain a complete listing, certified by Company, of ALL open (active and inactive; escrow and non-escrow) bank accounts and authorized signers/ wire initiators and approvers on the accounts. Sample Selection: Select a minimum sample of 5 or 10%, whichever is greater, of authorized signers on Escrow Trust Accounts (maximum of 25). If total population is less than 5, select 100%. Perform the following: a. Compare against the active listing of employees to verify all signers, wire initiators and approvers are actively employed. b. If signatory stamps are being used to sign escrow checks, test to confirm only authorized signers have access to the stamp. c. Obtain evidence (invoice/documentation in personnel files, etc.) that 5 year Background Checks were conducted upon hiring or within the past 3 years. d. Verify compliance with the Company's process for training employees on management of escrow funds and Escrow Trust Accounts.	PASS / FAIL / NA If any exception is noted for any sub-procedure, Procedure 2.02 FAILS.

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2.03*	Obtain two month end Three-Way Reconciliations for each escrow or trust account and perform the following: *Note: Three Way Reconciliation documentation at a minimum includes bank statement, reconciliation sheet/summary page with book balance, outstanding deposits list/deposits-in-transit, open escrow file listing or trial balance and outstanding disbursements list, all as of the reconciliation date. All amounts should equal between the book balance, reconciled bank balance and trial balance*. Definition of Significant items: ♦ Individual transactions/file balances over $10,000 over 10 days old. ♦ Aggregate transactions over $10,000 for shortages. ♦ Outstanding checks depending on payee as noted in sub-procedure 2.03.k in excess of $5,000 over 180 days old, mortgage payoffs over 10 days old. Definition of Active versus Inactive/Dormant Accounts: ♦ Active Account - Used for current transactions. ♦ Inactive/Dormant Account ▪ No new incoming funds into account. ▪ No disbursements related to new closings from account. ▪ No activity through account in last six months (dormant). Sample Selection: ♦ Two months reconciliations for ALL Escrow Trust Accounts (also maintain for documentation). ♦ For a Company performing more than 100 transactions per month, perform sub-procedures 2.03.a through 2.03.f for all accounts for at least one of the two months. a. Verify that reconciliations were completed monthly and within 10 business days of the closing date of the bank statement.	**<u>Active Accounts</u>** If any individual sub-procedure FAILS for any account, Procedure 2.03 FAILS. **<u>Inactive/Dormant Accounts</u>** If sub-procedure 2.03.g FAILS, Procedure 2.03 FAILS; otherwise, revert to Active Account criteria for PASS/FAIL.

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Assessment Procedure Number	ALTA Best Practices Framework: Assessment Procedures	Assessment Recap
	b. Verify that daily and monthly reconciliations are prepared independently by someone not associated with the receipt and disbursement function. c. Verify that reconciliations are reviewed and signed off by management or a supervisor. d. Verify that reconciliations, bank statements and supporting documentation are accessible electronically by the Company's contracted underwriters. e. Determine whether accounts are in balance, contain all supporting reports, and that a proper three-way reconciliation is being produced. The book balance, reconciled bank balance and trial balance should be in agreement. f. Verify that the bank statements and account related documentation for each Escrow Trust Account is clearly labeled by the bank as an Escrow Trust Account and that the escrow checks and deposit tickets/records clearly identify the associated file numbers. g. Verify that for inactive/dormant accounts, senior management approval is required for any disbursement of funds. Sample Selection: ♦ For a Company performing 100 or more transactions per month, the following additional procedures must be performed on a sample of accounts representing at least 50% of the total number of accounts. ♦ For a Company performing fewer than 100 transactions per month, the following procedures must be performed on 100% of the total number of accounts. h. Agree opening bank and book balances to ending balance on prior month's reconciliation or differences are identified. i. Review bank statement activity noting bank charges, insufficient funds charges, negative daily balances, investigate and confirm resolution.	

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	Verify that all bank charges are funded by the Company's operating account within 30 days from reconciliation. j. Test significant outstanding deposits listed on the most current reconciliation, investigate and verify resolution. k. Determine Company's process for follow up on outstanding checks. Verify clearing or adherence to follow-up process for significant outstanding checks including but not limited to checks to recording clerk, tax collector, hazard insurance checks, underwriter checks or checks for mortgage payoffs and any other high risk items. l. Review the Trial Balance and test significant file shortages, dormant funds (significant file balances over 180 days), and significant miscellaneous files to verify documentation of their status and that shortages were funded within 5 days of completion of reconciliation. m. Review and test adjustments (reconciling items) needed to bring the account in balance and verify their validity. n. Verify that the Company is not comingling fiduciary funds, including underwriter premium, with operating funds. o. From a review of cancelled checks or disbursement registers, select a sample, maximum of 25, and test checks, if any, that may require further review, such as checks going back into escrow, paid to cash or employees, transferred between accounts, suspicious payees, multiple checks to the same payees, and any other questionable disbursement. These disbursements should be agreed to a closing file and settlement statement. p. Select a sample of three days within the assessment period for the escrow funding/settlement/disbursement accounts and verify agent is performing, at a minimum, a daily reconciliation of the receipts and disbursements.	
2.04*	Select a minimum of 5 or 10% of all interest bearing escrow or trust accounts, whichever is greater, (maximum of 25). If total population is less than 5, select 100%.	PASS / FAIL / NA If 25% or more of items tested FAIL, Procedure

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	Verify that the Company maintains records/documentation supporting activity for interest bearing (customer investment) escrow accounts.	2.04 FAILS If NA, PASS
2.05*	For ALL Escrow Trust Accounts, determine whether the Escrow Trust Accounts are maintained at Federally Insured Financial Institutions unless directed by the beneficial owner.	PASS / FAIL
2.06*	Sample Selection: Select a sample of 5 files or 100% of closed files, whichever is less, during the assessment period and perform the following: a. Compare the settlement statement and file ledger and investigate differences. Review closed file for supporting documentation for disbursements over $1,000 listed on the settlement statement. Investigate any unsupported disbursements. b. Verify disbursement and receipt dates and amount on the file ledger with the bank statement or copies of cleared checks, to determine timely clearance. Verify funds were received/ deposited prior to disbursement. c. For outgoing wire transfers, verify compliance with Company's policy for initiation and approval.	PASS / FAIL / NA If 20% or more of items tested for any sub-procedure FAIL Procedure 2.06 FAILS. If NA, PASS
2.07*	For accounts reviewed in Assessment Procedure 2.03, verify that the Company utilizes Positive Pay or Reverse Positive Pay, ACH and international wire blocks, if available in Company's marketplace, to protect against unauthorized transactions. Review bank documentation such as monthly account analysis statement or bank positive pay entitlement documentation.	PASS / FAIL / NA If NA, PASS

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Assessment Procedure Number	ALTA Best Practices Framework: Assessment Procedures	Assessment Recap
	ALTA Best Practice 3. **Adopt and maintain a written privacy and information security plan to protect Non-public Personal Information as required by local, state and federal law.**	***Overall Assessment Recap: If any individual procedure marked with an asterisk FAILS, Best Practice 3 FAILS.***
3.01*	Obtain the Company's information security program/policy to protect its Non-public Personal Information and verify that the program/policy is reviewed and updated at least annually, as necessary.	PASS / FAIL If no written procedures, Procedure 3.01 FAILS.
3.02*	Select a sample of 25 employees who have access to Non-public Personal Information (or 100% if fewer than 25 employees). Obtain evidence that they were trained in the Company's information security program/policy to protect Non-public Personal Information.	PASS / FAIL If 20% or more of items tested FAIL, Procedure 3.02 FAILS
3.03*	Obtain the Information Security Risk Assessment, including the risk ranking of information systems. Review the Company's process for assessing risk to its customer information and verify that it includes the following: a. Locations, systems, and methods for storing, processing, transmitting, and disposing of its customer information. b. Potential internal and external threats that could result in unauthorized disclosure, misuse, alteration, or destruction of Non-public Personal Information or customer information systems and assessments of the likelihood and potential damage to the Company and its customers of these threats.	PASS / FAIL If no written Information Security Risk Assessment, Procedure 3.03 FAILS.

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3.04*	Verify that key controls, systems and procedures of the information security program are regularly tested by qualified independent staff in accordance with the risk assessment. Specifically, review that the following are included in the testing: a. Management's documented approach for testing the information security program and evidence of testing. b. Frequency of testing of the information security program. c. Documentation of approach for tracking and remediating exceptions and/or control gaps.	PASS / FAIL
3.05*	Verify employees are required to complete an acceptable use of information technology assets agreement at least annually (e.g., acceptable use of the Internet, email, and Company information resources). For the sample of employees tested in Assessment Procedure 3.02 above, review the signed Acceptable Use Policy.	PASS / FAIL If 20% or more of items tested FAIL, Procedure 3.05 FAILS
3.06*	Obtain and review written policies and procedures to verify logical access to information systems (i.e., network, data base, and application layers) containing Non-public Personal Information is restricted to authorized persons only.	PASS / FAIL If no written procedures, Procedure 3.06 FAILS.

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3.07*	a. For the sample of employees tested in Assessment Procedure 3.02 above, test the user access provisioning process to determine if access is approved in accordance with policy prior to granting. o Obtain evidence (invoice/documentation in personnel files, etc.) that 5 year Background Checks were conducted upon hiring or within the past 3 years. b. Select a sample of 5 terminated employees or 100% if less than 5 within the assessment period. o Verify the user access de-provisioning process to determine if access for terminated employees was removed per policy. c. Verify administrative access rights (i.e., ability to add, modify and remove user access) to systems containing Non-public Personal Information are not assigned to personnel performing business transactions within the system. d. Verify access review is being performed by management at least annually to confirm that only required employees have access to customer information or customer information systems necessary to perform job functions. e. Verify that logical access controls (e.g., unique User ID's, complex passwords, etc.) to the network and information systems containing Non-public Personal Information are in place. o Obtain listing of user ID's for systems with Non-public Personal Information. Verify ID's are unique and assigned to specific users. o Test password configuration controls in accordance with policy.	If 20% of sub-procedures 3.07.a or 3.07.b FAIL, the sub-procedure FAILS If sub-procedure 3.07.c, 3.07.d, or 3.07.e FAIL, the applicable sub-procedure FAILS <u>Overall</u> If any individual sub-procedure FAILS, Procedure 3.07 FAILS

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3.08*	a. Review documented policies regarding the use of removable media (e.g., restricting the use of USB ports, CD/DVD writable drives, etc.). b. Obtain evidence of system configuration settings demonstrating the restriction of removable media in accordance to policy.	PASS / FAIL If sub-procedure 3.08.b FAILS, Procedure 3.08 FAILS. If sub-procedure 3.08.a FAILS, but 3.08.b PASSES, then Procedure 3.08 PASSES.
3.09*	Inquire of management to determine if the Company: a. Provides encryption of electronically transmitted or stored Non-public Personal Information. b. Can provide evidence of system configuration settings demonstrating the use of encryption.	PASS / FAIL If sub-procedure 3.09.b FAILS, Procedure 3.09 FAILS. If 3.09.a FAILS, but 3.09.b PASSES, then Procedure 3.09 PASSES
3.10*	a. Obtain and review documented procedures for monitoring, detecting attacks/intrusions into customer information systems, and responding to incidences. If monitoring of external threats has been outsourced, obtain evidence of reporting and subsequent management review. b. Obtain a sample of 5 or 10%, whichever is greater, of notifications of security alerts (maximum of 25) and verify management's follow-up activity. c. Obtain and review documented procedures for security breach notification, including evidence of program review at least annually.	PASS / FAIL If no written procedures, Procedure 3.10 FAILS. If any individual sub-procedure FAILS, Procedure 3.10 FAILS.
3.11*	a. Verify access to physical locations containing customer information, such as buildings, computer facilities and record storage facilities, is limited to authorized personnel only. Inspect physical locations to verify that they are secured and access is limited to authorized personnel.	PASS / FAIL If any individual sub-procedure FAILS, Procedure 3.11 FAILS.

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	b. Obtain and review the Clean Desk Policy and verify compliance through inspection.	
3.12*	a. Obtain and review change management procedures when technology and business function changes are made. b. Verify procedures are in place to determine that systems modifications (hardware and software) are consistent with the approved security program. Specifically, test a sample of 5 or 10%, whichever is greater (maximum 25) of hardware or software changes to verify that they are documented, tested and approved.	PASS / FAIL If sub-procedure 3.12.b FAILS, Procedure 3.12 FAILS. If sub-procedure 3.12.a FAILS, but 3.12.b PASSES, then Procedure 3.12 PASSES
3.13*	Obtain management's procedure for data and system backup and business resumption to protect against destruction, loss, or damage of information from potential environmental hazards, such as fire and water damage or technological failures.	PASS / FAIL
3.14*	Determine whether the Company provides Non-public Personal Information to any other party or whether any other party has access to Non-public Personal Information through service provided directly to the Company. a. Verify and obtain evidence that Company conducted due diligence in selecting its service providers and taking information security into consideration. b. Verify that Company has controls to monitor security procedures of service providers to safeguard customer information (i.e. review the results of audits, security reviews or tests, intrusion logs, or other evaluations).	PASS / FAIL If any individual sub-procedure FAILS, Procedure 3.14 FAILS.
3.15*	Verify whether Company provides Privacy Policy to customers. Obtain and inspect evidence of notification using the same sample as in Assessment Procedure 2.06 above.	PASS / FAIL If 20% or more of items tested FAIL, Procedure 3.15 FAILS

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3.16*	Determine through inquiry of management whether the Company maintains a website. If so, inspect the Company's website and verify the following: a. The website includes a privacy statement. b. The website's privacy statement accurately discloses what Non-public Personal Information is obtained on the site.	PASS / FAIL If any individual sub-procedure FAILS, Procedure 3.16 FAILS.
3.17*	a. Obtain and inspect policies and procedures over record retention and disposal. Verify procedures are in place for disposal of Non-public Personal Information. b. If document/electronic media disposal services are provided by a third party, obtain evidence of the contract agreement/SLA and a recent document disposal certificate from the vendor.	PASS / FAIL If any individual sub-procedure FAILS, Procedure 3.17 FAILS.

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	ALTA Best Practice 4 **Adopt standard real estate settlement procedures and policies that help ensure compliance with Federal and State Consumer Financial Laws as applicable to the Settlement process.**	***Overall Assessment Recap: If any individual procedure marked with an asterisk FAILS, Best Practice 4 FAILS.***
4.01*	Obtain and/or document Company's written procedures to maintain compliance with established rates and legal and contractual requirements for recording documents.	PASS / FAIL / NA If no written procedures, Procedure 4.01 FAILS.
Sample Selection Instructions for Next Two Assessment Procedures	Sample Selection for Assessment Procedures 4.02 and 4.03: Based on Company's process (centralized versus decentralized), select sample as follows: Centralized: • 25 files or 100% of last 3 months of closed files, whichever is less. Decentralized: • At least 1 file per state in which Company writes (a minimum of 25 files in total) or 100% of last 3 months of closed files, whichever is less.	

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4.02*	For sample selected as noted above, confirm the following: a. Documents were submitted or shipped for recording to the county recorder (or equivalent) or the person or entity responsible for recording within two (2) business days of the later of (i) date of Settlement, or (ii) receipt by the Company if Settlement is not performed by the Company. Documents are tracked and recording information retained. b. If recording was rejected, item was addressed within two (2) business days of receipt of the rejected documents. Documents and corrective actions, including resubmission, are tracked. In no instance should resubmission take more than 30 days.	PASS / FAIL If 25% or more of items tested for any sub-procedure FAIL or any one file takes more than 30 days to be submitted/shipped/resubmitted, Procedure 4.02 FAILS.
4.03*	For sample selected as noted above, perform the following: a. Test compliance with current filed or promulgated rates, endorsements, and/or rates established by the Company's title insurance underwriter(s) or rating bureau in each state, and where overpayments occurred, verify that refunds are issued upon discovery. b. Ensure discounted/reissue rates are calculated and charged when appropriate. c. Test transactions to determine whether non-title insurance rates for services provided by the Company agree with the Company's established rates. d. Document the Company's quality review process to ensure compliance with underwriter and/or agent established rates as determined by state law and where overpayment occurred, that refunds are issued upon discovery.	PASS / FAIL If 10% or more of items tested for any sub-procedure FAIL, Procedure 4.03 FAILS.

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	ALTA Best Practice 5 **Adopt and maintain written procedures related to title policy production, delivery, reporting and premium remittance.**	***Overall Assessment Recap: If any individual procedure marked with an asterisk FAILS, Best Practice 5 FAILS.***
5.01*	Obtain Company's written procedures and controls for title policy production, delivery, reporting and premium, and, at a minimum, ensure all sections of ALTA Best Practice 5 are included.	PASS / FAIL / NA If no written procedures, Procedure 5.01 FAILS.
5.02*	Using the sample selected above for Assessment Procedures 4.02 and 4.03, perform the following: a. Verify title insurance policies are issued and delivered to customer within 30 days of Settlement if terms and conditions of title insurance commitment have been satisfied. b. If terms and conditions of title insurance commitment were not satisfied at Settlement, verify policy was sent within 30 days from the date on which all terms and conditions of commitment were satisfied. c. Compile a list of the sample selected and provide to applicable underwriter for written confirmation of receipt of policy, accuracy of premium remitted including split, in accordance with the Company's agency contract, and date when premium was received. d. The correct portion of the premium collected was remitted to the underwriter by the last day of the month following the month in which the insured transaction was settled.	PASS / FAIL If 10% or more of items tested for any sub-procedure FAIL, Procedure 5.02 FAILS.

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Assessment Procedure Number	ALTA Best Practices Framework: Assessment Procedures	Assessment Recap
	ALTA Best Practice 6 **Maintain appropriate professional liability insurance and fidelity coverage.**	***Overall Assessment Recap: If any individual procedure marked with an asterisk FAILS, Best Practice 6 FAILS.***
6.01*	a. Obtain a list of the Company's current professional liability insurance, errors and omissions insurance, fidelity insurance policies and surety bonds including coverage amounts and expiration dates. Verify accuracy of the list by comparison to policy declaration pages. b. Verify that Company maintains professional liability insurance or errors and omissions insurance. c. Obtain written confirmation from each underwriter regarding the acceptability of the coverage and that the coverage is in accordance with the Company's underwriting agreement(s). d. If coverage is required by state law, verify that coverage meets minimum requirements for each state in which the Company is licensed.	PASS / FAIL / NA If any exception is noted for any sub-procedure, Procedure 6.01 FAILS.

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	ALTA Best Practice 7 **Adopt and maintain written procedures for resolving consumer complaints.**	***Overall Assessment Recap: If any individual procedure marked with an asterisk FAILS, Best Practice 7 FAILS.***
7.01*	Obtain written policies and procedures for tracking and resolving consumer complaints. Verify that the following are included: a. A standard complaint form is utilized that identifies information that connects the complaint to a specific transaction and provides information to understand the nature and scope of the complaint. b. A single point of contact and/or department has been established for consumer complaints. c. Procedures have been established for forwarding complaints to appropriate personnel. d. A written log of consumer complaints is maintained that includes whether resolution is necessary and how resolved.	PASS / FAIL If no written procedures or written procedures do not include all sub-procedures, Procedure 7.01 FAILS.
7.02*	Obtain the consumer complaints log for a period of 1 year immediately preceding the assessment and verify that the Company followed the procedural guidelines for addressing complaints. Sample Selection: Select 25% of the complaints. The sample should contain a minimum of 3 and a maximum of 25.	PASS / FAIL If 10% or more of items tested FAIL, Procedure 7.02 FAILS.

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