

THREE-WAY RECONCILIATIONS

The Texas Department of Insurance requires a monthly three-way reconciliation of every escrow bank account. The three parts of this requirement are the escrow trial balance, the book balance and the reconciled bank balance. The three individual balances must be compared. If all three parts do not agree, the difference must be investigated and corrected.

The purpose of the three-way reconciliation is to discover any shortages (intentional or otherwise), bank charges that must be reimbursed or any type of errors or omissions that must be corrected. If the three individual reconciliations are not prepared correctly, the three-way comparison will be ineffective in detecting a true out-of-balance condition.

Three-way component #1 - *escrow trial balance*

1. This should be one of the first two components that an agent prepares since it comes entirely from internal accounting data. It should be prepared independently of the other two components.
2. The escrow trial balance should reflect the actual escrow liability of the agent. It must, therefore, include *only* funds related to *specific guaranty files*. There must be no unidentified amounts, no dummy files, no adjustments for bank charges and no operating funds. All of these items will be dealt with in the bank reconciliation.
3. An escrow trial balance is obtained by listing all open guaranty file numbers and their related balances. The total of the individual file balances is the escrow trial balance.

Three-way component #2 - *book balance*

1. This should be one of the first two components that an agent prepares since it comes entirely from internal accounting data. It should be prepared independently of the other two components.
2. The book balance must contain only entries related to specific guaranty files. No entries may be made to adjust for bank charges or operating funds. These items will be dealt with in the bank reconciliation.
3. A book balance is obtained by totaling entries in both the receipts journal and the disbursements journal or obtaining the total amounts from computer data. The receipts are added to the previous month's ending book balance, and the disbursements are subtracted. The result is the current book balance.
4. A checkbook register (if current and complete) qualifies as a book balance.

Three-way component #3 - **bank balance**

1. The reconciled bank balance is the last component prepared because it is obtained by reconciling uncleared items to the ending balance on the bank statement. Deposits-in-transit are added to the bank statement balance, and outstanding checks are subtracted from it.
2. Both deposit-in-transit lists and outstanding checklists must be accurate for the reconciled bank balance to reflect the true cash position of the account at the end of the month. This is called the *actual available cash balance*.
 - a) Each item listed as a deposit-in-transit must appear on the next bank statement within the first several days of the month.
 - b) Each check listed as outstanding should appear as cleared on the next bank statement.
3. Care must be exercised to assure that bank charges and fees have not been added back into the bank balance total causing the true cash position to be overstated.

Three-way reconciliation

1. A three-way reconciliation is not complete until differences between the three component balances have been investigated and corrected as necessary.
 - a) If operating funds are maintained in the escrow bank account, the bank balance will be more than the other two balances.
 - b) If funds were deposited into this account that should have gone into a different account, the bank balance will be more than the other two balances.
 - c) If the account was debited for bank charges such as wire fees or printed checks, the bank balance will be less than the other two balances.
 - d) If funds were disbursed from this account but deposited into another bank account, the bank balance will be less than the other two balances.
2. If a three-way reconciliation revealed shortages in an escrow bank account, those shortages must be reimbursed to the account within 45 days of the date of the bank statement.