

New Brokers-in-Charge Should Review Trust Accounts When Taking Control

A new broker-in-charge for a firm that has trust accounts becomes responsible for those accounts from the date the BIC declaration form is signed. Before taking over as BIC of a firm with existing trust accounts, you should first ensure that the accounts are properly reconciled and fully funded. The following are some steps to take to get you started “on the right foot”:

At a minimum, the following trust account records should be present for each trust or escrow account maintained by the previous broker-in-charge:

- Receipts for cash payments of trust funds
- Deposit tickets
- Cancelled checks
- Journal or check stubs
- Sales transaction ledgers and/or property or owner ledgers for rentals
- Monthly bank reconciliations
- Monthly ledger trial balance

Obtain the most current trust account bank reconciliation.

The most current trust account bank reconciliation should have been prepared by the previous BIC for the prior month, taking into consideration that the company may not receive the monthly trust account bank statement until several days into the current month. If the accounts have not been reconciled, you must do so immediately.

Examine the most recent trust account reconciliation for correctness and accuracy.

- Make sure that the beginning bank balance on the bank reconciliation agrees with the ending balance on the trust account bank statement. Check the math for accuracy.
- Also check to be sure that the reconciled trust account bank balance on the bank reconciliation agrees with the journal balance and/or check stub balance as of the same cutoff date.
- Verify that any deposits-in-transit on last month’s bank reconciliation have cleared the bank.
- Examine the outstanding checks for checks older than three months.
- Make sure there is a trial balance of the ledgers prepared as of the same cut-off date as the reconciled trust account bank balance. The total on the trial balance should agree with the trust account reconciled bank balance and with the journal and/or check stubs of the same cutoff date. Verify that there are ledgers for each line item on the trial balance.
- Examine the ledgers to determine the nature of funds on deposit, such as earnest money deposits, landlord rents, tenant security deposits or owner reserves. Are there unidentified funds in the account?
- Are there any ledgers with negative balances indicating deficit spending (spending more on a particular owner than what that owner has on deposit)? If so, this must be corrected immediately.

Examine transaction files.

- Review open sales transaction files to ascertain if required documents such as listing agreement, buyer agency and dual agency agreements (if applicable), *Residential Property and Owners’ Association Disclosure Statements* and *Working With Real Estate Agents* acknowledgments are in the files and completed properly.
- Do the offers state that the firm is holding the earnest money deposit? If so, are there ledgers for each of the sales transactions where the firm is holding earnest money?
- Are there copies of the earnest money deposit checks and due diligence checks?

Review rental property management files to make certain they contain required documents.

Property management files should include:

- Property management agreements.
- Property management statements accounting to the owner for rents. (These may be kept in the firm's trust accounting software. If so, a hard copy need not be in the owner's file as long as the statements are accessible.)
- Copies of invoices, bills and contracts paid from the trust account for the rental owner.
- Lease agreements.
- Security deposit checks received after April 1, 2013. (Commission rules changed on April 1, 2013 to require the retention of copies of security deposit checks.)

Verify the vendor list to ensure all are legitimate.

- Do any vendors have a post office box and no physical address?
- Are there disbursements to vendors for round figures?
- Are there work orders and invoices for each disbursement to a vendor?
 - Does the firm have staff in-house maintenance?
- Are there receipts for purchases and expenditures?
- Are there work orders and documentation (pictures, receipts, etc.) for maintenance performed?
- Do invoices fully document repairs and maintenance performed?

If you have problems performing the above procedures yourself, you may want to consider hiring an outside accountant or CPA to assist you. Make sure that the accountant or CPA you hire understands the Commission rules.

If you decide to become a BIC of a firm with inadequate trust account records, you must immediately perform these procedures and correct any deficiencies! You don't want any problems you inherit from the previous broker-in-charge to carry over and continue into your tenure as the broker-in-charge.

If further assistance is needed, do not hesitate to contact the Commission.

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