



Mecklenburg County
Department of Internal Audit

Register of Deeds
Report 1061
November 9, 2011

Internal Audit's Mission

Through open communication, professionalism, expertise and trust, Internal Audit assists executive management and the Audit Review Committee in accomplishing the Board's objectives by bringing a systematic and disciplined approach to evaluate the effectiveness of the County's risk management, control and governance processes in the delivery of services.

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MECKLENBURG COUNTY Department of Internal Audit

To: David Granberry, Register of Deeds
From: Joanne Whitmore, Director of Internal Audit
Date: November 9, 2011
Subject: Register of Deeds Audit Report 1061

The Department of Internal Audit has completed its audit of the Register of Deeds to determine whether internal controls over change funds, cash collections, purchasing, accounts payable, asset management, travel, time reporting, escrow accounts and system access controls effectively manage key business risks inherent to those activities.

The audit covered the period July 1, 2008 through January 31, 2010 for all areas except escrow accounts, which covered the period June 1, 2007 through June 30, 2010. Internal Audit interviewed key personnel, evaluated policies and procedures and observed and documented the above mentioned processes.

Internal Audit conducted this audit under the guidance of the International Standards for the Professional Practice of Internal Auditing. These standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

OVERALL EVALUATION

Overall, there were several control deficiencies that require immediate attention. Controls are insufficient over activities related to change funds, cash collections, purchasing, asset management, escrow accounts and system access. Accounts payable and time reporting controls are adequate but had opportunities for improvement. Capital assets are not always properly recorded. In addition, the lack of interfacing capability among the multiple systems impacts productivity and the ability to properly reconcile systems. Last, there are no formally documented department policies and procedures for several key business activities.

The issues listed below, as well as recommendations and management's responses, are discussed in detail in the attached document. Internal Audit will conduct a follow-up review at a later date to verify that recommendations are implemented and working as expected.

ISSUES

1. There are no formally documented department policies and procedures for several key business activities.
2. The Department does not have sufficient controls over its petty cash and change funds.
3. The Department has inadequate controls over cash collections.
4. The Department does not have sufficient cash reconciliation procedures.
5. The Department does not provide adequate oversight over escrow and voucher accounts.
6. Functionality and controls over some key systems impact business productivity and accuracy.
7. The Department lacks some controls over purchasing.
8. The Department does not always review supporting documentation before processing payment requests.
9. The Department does not always use proper capital asset account codes.
10. The Department does not always ensure that assets are properly safeguarded.
11. The Department lacks proper separation of duties over certain revenue and expenditure functions.
12. Physical security over some areas is lacking.
13. The Department does not perform post-payroll reviews.

We appreciate the cooperation you and your staff provided during this audit. Please feel free to contact me at 704-336-2575 if you have any questions or concerns.

cc: Harry Jones, County Manager
Michelle Lancaster, General Manager
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Board of County Commissioners
Audit Review Committee

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BACKGROUND

The Register of Deeds (the “Department”) acts as the custodian and manager of various public records filed in Mecklenburg County. Activities related to the public records include:

- recording, indexing and storing all real estate and business-related documents presented for registration
- issuing marriage licenses
- handling notary commissions and military discharge recordings
- providing certified copies of recorded documents, such as birth and death and any other official documents maintained
- collecting fees for services and copies
- collecting state excise tax on real estate transfers

The Register of Deeds mission statement states that it is “dedicated to providing superior customer service while maintaining the accuracy and integrity of Mecklenburg County’s valuable land and vital records”.

The Department currently employs 31 permanent staff members, including the Registrar, who is elected every four years. The current Registrar was elected in November 2008 and a new deputy division director was hired in anticipation of the prior deputy division director’s retirement in December 2009. All system generated and manual documents and the seal had to be updated to reflect the newly elected Registrar. In addition, a new system called viaWARP was instituted by the prior administration just before the current administration took office.

The Department has five service areas located among two floors.

DEPARTMENT SERVICE AREAS		
Floor	Area	Fees Collected for
First Floor	Marriage	<ul style="list-style-type: none"> • marriage licenses
	Customer Service	<ul style="list-style-type: none"> • assumed names for businesses • deed cancellation • other
	Recording	<ul style="list-style-type: none"> • deeds and other public documents
	Administrative	<ul style="list-style-type: none"> • notary • birth and death certificates • cash collection deposits • e-recording deeds
Second Floor	Customer Service	<ul style="list-style-type: none"> • maintenance of record books, some of which date back to 1763 • public assistance for record book retrieval • fees are not collected in this area

REVENUES

The Department's revenue comes from service fees and state excise tax on real estate transfers. Payments can be in the form of cash, checks or credit cards and this report will refer to all payment types as "cash". North Carolina General Statute (NCGS) §161-10 and -11 define the fee schedules for all documents and services provided to the public by the Department and sets aside a portion of fees for various state funds. For example, \$5 of each marriage license goes to the Children's Trust Fund and \$30 goes to the Domestic Violence Center Fund. State law also requires that fees be paid prior to services rendered, unless the service is allowed without charge by law. Advance payments are placed in an escrow account and, as of May 27, 2010, the Department had 983 established escrow accounts totaling \$101,900.

REVENUES		
Revenue Type	FY2009	Partial FY2010 (July 2009 – January 2010)
Deed Stamps	\$4,152,865	\$2,627,998
Recording Fees	\$3,281,996	\$1,696,164
Other Fees and Charges	\$434,223	\$250,980
Vital Records, Maps, Other Sales	\$277,311	\$138,010
General Charges	\$263,091	\$148,032
Marriage Licenses	\$128,514	\$65,916
Cost Reimbursements	\$83,508	\$53,265
Total	\$8,621,508	\$4,980,365

Source: Advantage financial system data

CASH RECEIPTS

Service fee payments are received in the Department's mailroom from the United States Postal Service (USPS) and in the administrative office from Federal Express (FedEx) and United Parcel Service (UPS). On rare occasions mail may contain currency. One mailroom staff opens all USPS mail and distributes it throughout the Department. When administrative staff receives payments through FedEx or UPS, they copy the shipping labels as proof of receipt before they distribute the mail.

Cashiers process fees with service requests that are received through the mail and receive cash directly from customers in the Register of Deeds Office. Fees are received for:

- recordation of legal documents, such as deeds of trust or mortgages
- copies of recorded documents, such as real property documents and certified birth and death certificates
- issuance of marriage licenses and commissioning notaries

Payment checks that do not clear the bank due to insufficient funds ("NSF checks") are returned by the County's bank to the Department of Finance ("Finance"). County policy requires departments to seek restitution for NSF checks within 90 days and payments must be cash, certified check, money order or a debit or credit card payment. If payment is not received, Finance will adjust revenues accordingly and take legal action if necessary. Notification of electronic check (e-check) reversals due to insufficient funds or other factors are sent by the processing vendor directly to the Department.

EXPENDITURES

The department expenditures are primarily payroll, equipment and maintenance.

EXPENDITURES		
Description	FY2009	Partial FY2010 (July 2009 – January 2010)
Payroll Expenses	\$2,238,438	\$1,242,695
Equipment	\$1,244,492	\$209,914
Maintenance and Equipment Repairs	\$448,453	\$310,316
Other	\$332,316	\$74,258
Professional Fees	\$169,953	\$80,024
Assets Non-Capital	\$77,683	\$0
Maintenance and Repairs - Building	\$59,351	\$0
Total	\$4,570,686	\$1,917,207

Source: Advantage financial system data

SYSTEMS

The Department uses five primary systems to conduct its day-to-day business activities.

- A. ViaWARP is the system staff uses to electronically process credit/debit card and check payments. The system was purchased in January 2008 and implemented during the prior administration. Staff is directed to process checks through viaWARP, which marks the checks as processed and the checks are returned to the customer.
- B. Anthem is the system staff uses to electronically record, maintain and make available to the public all registered general instruments, deeds of trust and mortgages. Anthem can also process cash and check payments for service fees and escrow account activities, as well as those checks that cannot be processed in viaWARP because of their size or other factors. During processing, payment checks are restrictively endorsed for deposit.

Regardless of which system is used to process payments, all must be recorded in Anthem so they can be allocated to the appropriate revenue and liability codes. This recordation facilitates staff's cash collection data entry into Advantage, the County's financial management system.

Anthem creates a Cash Out Slip for each cashier to record the day's total cash, checks collected, e-checks and credit cards processed through viaWARP. Anthem also provides a Receipt Summary Report, which denotes cash and check payments processed and a Credit Transmittal Report, which denotes e-checks and credit card payments processed. The cashier must compare the two reports to ensure all payments collected are properly recorded.

- C. Advantage, the County's financial management system, integrates the budgeting, purchasing, accounts payable and capital asset management functions. Staff input revenues and account payables information into Advantage and management runs system financial reports to monitor department activity.

- D. High Tech Hecon Quick Key is a copy and print fee recordation system used to capture customer purchases of copies of public records. They can prepay charges by purchasing a Quick Key or they can accumulate fees and pay after copies or prints are made by using a Public Key. Customers using the Public Key must first provide department staff with collateral, such as a driver's license or car keys, which are returned once the key is returned and fees are paid. Quick Key customers can add additional value to their prepaid keys by inserting currency or coins into the Quick Key Revalue Station in the Customer Service area.
- E. The County's human resources management system, myHR, provides a self-service site for staff to enter time worked and for management to approve time and run reports.

ISSUES, RECOMMENDATIONS AND MANAGEMENT RESPONSES

County Manager's Overall Response to the Recommendations

The management of the Register of Deeds Office has provided a reasonable response for each finding that is consistent with the recommendations provided by the Internal Audit Department. Due to the significance of these action steps and the scope of the cumulative work involved in implementing these recommendations, the County Manager has directed the Chief Compliance Officer to establish a team of County employees, including staff of the Finance Department and the Business Support Services Agency's information technology staff and facility security staff, to collaborate with the Register of Deeds Office in developing an action plan and timeline to achieve and sustain the compliance objectives related to this Internal Audit report. This likely will include contracting with a third-party resource with financial management expertise, jointly overseen by the Finance Department and the Register of Deeds, to serve as project manager and consultant in developing the action plan.

Issue 1: There are no formally documented department policies and procedures for several key business activities.

Risk Observations

The Department does not have formal, documented department-level policies and/or procedures for the following business activities:

- a. change funds
- b. travel and entertainment expenses
- c. time reporting
- d. purchasing
- e. accounts payable
- f. cash collections
- g. electronically processed payment checks (e-checks)
- h. escrow accounts and escheats capital and non-capital asset management
- i. system access controls

Policies and procedures are important control activities to help ensure management's directives are carried out while mitigating risks that may prevent the organization from achieving its objectives. Policies and procedures include a range of activities, such as approvals, authorizations, verifications, reconciliations, operational reviews, asset security and separation of duties. Further, the Government Finance Officers Association (GFOA) indicates that documented accounting policies and procedures, along with staff training and periodic evaluations and updates, should provide management with a level of

assurance that internal control activities are functioning as intended. While the Department's intent is to use County policies and procedures, they would not always provide the necessary guidance and accountability specific to the Department's business activities.

Recommendations

Internal Audit recommends that the Register of Deeds create formal, documented department-level policies and procedures for change funds, travel and entertainment expenses, time reporting, purchasing, accounts payable, cash collections, e-checks, escrow accounts and escheats, asset management and system access controls. Staff should be trained on the new policies and procedures to ensure understanding and management should evaluate for compliance.

Management Response

Agree. We have implemented many new policies and procedures to address the majority of Internal Audit's recommendations. We have made major improvements in cash collection and change fund policy and procedures. We began changes in 2010 and established our basic procedure in March, 2011. For travel and education, we follow the set County policy. Most of our policies are based on general County policies but there are areas where business imperatives dictate that we handle some issues differently. We have added additional controls to purchasing and receiving. Additionally, having a fiscal analyst adds a new level of control to all financial processes. Assets have been tagged when possible. I have reviewed asset inventories, disposal reports, and invoices. We have cleared most of our outdated or misclassified capital items. In the prior administration, object codes were incorrect at the time of purchase and technical services and software were classified as capital items. We requested additional object codes to handle these purchases. We are upgrading our primary software package to take advantage of more sophisticated finance and audit features. One of these features will enable customers to check their escrow account activity online. We will also be able to email regular statements. The upgrade project is on track for a go live date in April 2012.

We were not aware of the escheat issue until it was reported by Internal Audit. Initially, we were given a 5 year inactivity term and did our first round of escheats based on that in 2010. For 2011, we determined that a 1 year inactivity term was the best statutory interpretation and this was confirmed by the North Carolina Department of Revenue and the Deputy County Attorney. We have completed escheats due by November 2011 based on the one year term. Part of our escheat policy is to notify account holders to close out inactive accounts or state a continued interest in the funds at least two months before the cutoff date. The escheated accounts are currently being zeroed and deactivated in our system.

We have two methods of system access controls. The first is the IST County account as approved by the director or deputy director. The second is the Anthem account as approved by the director or deputy director. Anthem cannot be accessed without first accessing the County network. Anthem also has workstation permission levels that override user permissions. We now use a written access request form for all internal Anthem users and for power user public accounts. All records made available to the public are considered public records, but use of vital records modules is only allowed on locked-down workstations and tracked in the system as a deterrent to identity theft. The upgraded software will have stronger password controls and better account and permission reporting.

Issue 2: The Department does not have sufficient controls over its petty cash and change funds.

Risk Observations

- A. When the transition between the prior and newly elected Register of Deeds occurred, the authorized change fund and petty cash were not counted and properly transferred to the new Register of Deeds, as required by County policy.
- B. The Department's petty cash fund is sent to the bank with the daily deposit to make change for the next business day. County policy, however, states that a petty cash fund is a fixed amount of money "for minor disbursements for which the issuance of a formal check would be too expensive and time consuming" and a change fund is an amount to make change for clients or customers.
- C. The Department did not have authorization forms for fifteen of 30 or 50% of its change funds to document each cashier's total change fund amount for which he or she is held accountable.
- D. Cashiers are not required to document the receipt and return of their change funds each business day to track funds and provide accountability.
- E. Cashiers are not required to record their daily beginning and ending change fund amounts to provide accountability and detect overages or shortages. As a result, overages and shortages due to errors, loss and theft could go undetected. Auditors found variances and undocumented monies in the change funds with an overall \$93 overage balance for which there is no reconciling documentation to explain the cause.
 - The petty cash fund contained \$10 extra
 - An unassigned change fund bag contained \$352 in cash
 - An auditor count of 31 change funds when compared to the total authorized change fund revealed a \$269 shortage
- F. Cashiers are not required to remove their change funds from the change fund bags and put them into their lockable cash drawers. Rather, the funds sometimes remain in the bag during business hours in an unlocked drawer. During testing, auditors observed 19 of 30 or 63% of change funds in use that day were not properly secured to protect against loss and theft.
- G. The change fund maintained by the prior deputy director was found secured in a locker rather than in the safe where the other change funds are kept when not in use.
- H. Cashiers are not required to document the exchange of cash when making change for large denomination currency. Without documentation, such as a transfer log or cash register receipt, there is no accountability in the event of errors, loss and theft.
- I. Auditors noted a 14-month lapse between reconciliations of the authorized change funds. County policy requires all departments to conduct two surprise reconciliations each year by an independent party to ensure all cash is accounted for. One of the two reconciliations should occur in June and all reconciliation results should be documented. Without such reconciliations, management may not timely detect errors, loss and theft.

Recommendations

Internal Audit recommends that the Register of Deeds:

- A. Review and follow County change fund policy.
- B. Work with Finance to reclassify the petty cash fund to an authorized change fund or return the fund to Finance.
- C. Ensure authorization forms that formally establish change fund assignments and amounts for each cashier are completed and retained.
- D. Require cashiers to document the receipt and return of their change funds each business day.
- E. Require cashiers to document their beginning and ending change fund cash counts each work day.
- F. Require cashiers to set up their cash drawers each morning and properly secure the funds throughout the business day.
- G. Require that all change funds are kept secure in the safe when not in use.
- H. Ensure cashiers document the exchange of cash when making change for large denomination currency. Documentation should include signatures of the persons exchanging cash and the date and amount of cash transferred.
- I. Follow County policy for surprise change fund reconciliations and document the results.

Management Response

Agree. We follow County change fund policy. Our petty cash fund was returned to Finance as of 09/13/2010. Our change fund was adjusted as of 09/12/2010 to reflect our current allocation. We use the standard Mecklenburg County change fund authorization form. We also have a separate form that each cashier must sign when a change fund is authorized. New procedure requires balance of change fund and deposit for every cashier on a daily basis. Change funds are to be secured at all times within a locked drawer or safe, and all funds are returned to a safe at the end of the day. We are testing new receipt printers that work better with our automated cash drawers. We created a cash exchange log sheet to note every transaction changing large denomination bills, signed by the cashier and designated change maker. Daily cash and change fund reconciliation procedures allow us to spot errors occurring from informal exchanges among cashiers. All change funds are to be reconciled for the end of the fiscal year, and at least two surprise reconciliations are to be done randomly. Failure to balance is noted and could result in disciplinary action. Individuals may be subject to special audits at any time. Gross or frequent errors may result in the loss of change fund privileges or termination.

Issue 3: The Department has inadequate controls over cash collections.

Risk Observations

- A. Staff does not document receipt of checks received in the mail, including FedEx and UPS express deliveries. Nor are checks restrictively endorsed for “deposit only” immediately upon receipt as required by County policy. Checks are, however, endorsed during processing in Anthem or are electronically processed in viaWARP.
- B. While the Department does not accept personal checks for NSF restitution, it does accept company checks. County policy, however, states that restitution for NSF checks must be made by cash, certified check or money order.
- C. Money orders, cashier checks and company checks accepted for NSF restitution are not restrictively endorsed until prepared for deposit. Thus, checks remain vulnerable to loss and theft until endorsed.
- D. The viaWARP vendor sends notification directly to the Department of any e-check payment reversals resulting from insufficient funds. The Department followed the previous administration’s process to track the reversals on a log and collect restitution from the customers and was uncertain what communication, if any, was provided to Finance. Yet, without appropriate communication, Finance may not be aware of the reversals to ensure they are reviewed for timeliness of collection and potential write-off. The Department began working with Finance to establish an appropriate communication process and with the Anthem vendor to address these issues in the future system upgrade.
- E. Cash collections and change funds do not have sufficient physical security to protect them from loss and theft.
- The combinations and keys that provide dual controls over the safes that hold daily cash collections and change funds are not changed when staff that had safe access leaves the department’s employ.
 - One safe holds daily cash collections and change funds, non-department monies, such as charity collections and non-monetary items like walkie-talkies. Comingling of funds and clutter in safes provides an opportunity for monies to become lost or stolen without immediate detection.
 - The bank bags with daily cash collections and petty cash fund are locked in a desk drawer, rather than the safe, while they await the armored car to take them to the bank. Furthermore, the bags are not sealed until the armored car picks them up to protect against loss and theft because cashiers may want to use the deposit to make change to set up the day’s cash drawers.
- F. Because daily deposits are picked up by armored car service, staff does not receive the bank confirmation until it is faxed the day after pick-up. The bank confirmation provides assurance that the amount submitted for deposit was received. County policy, however, requires staff to record the deposit in Advantage on the same day that the deposit is made to ensure Finance can timely approve the recording and complete the bank statement reconciliation. While the current process prevents staff from complying with the letter of County policy, deposits were also not always timely recorded once the bank confirmation was received. Of 40 deposits reviewed, two Cash Receipts (CR) were posted before the bank confirmation was received and 16 were posted 1 to 71 days after the bank confirmation. As a result, financial reporting did not accurately reflect revenues collected and deposited.

CASH RECEIPT POSTINGS			
Fiscal Year	Sample Size	Posted After Bank Confirmation Received	Posted Before Bank Confirmation Received
2010	16	3	2
2009	24	13	N/A

Source: Auditor analysis of original department documents

- G. Credit card and check payments electronically processed from October 2008 to April 2009 in the new viaWARP system were properly routed to the bank but staff did not timely process all CRs for the payments collected into Advantage. As a result, revenues did not get posted to the general ledger until May and June of 2009. The Department is working with Finance to properly post all payments from that period.
- H. Collateral, such as car keys and/or drivers' licenses, are required from customers to obtain a Public Key device that records their print charges for later payment. The collateral, however, is left unsecured and in the open, which exposes the items to loss and theft.
- I. Auditors sampled 250 recording area cashier daily reconciliation balances over 40 randomly selected days and noted 15 negative cash balances ranging from \$1 to \$13, which were a result of cashiers providing cash back from payment checks. The current director gave cashiers approval to return money on two pre-written checks that exceeded fees due and the other 13 occurred during the prior administration. County policy does not, however, allow cash back from check payments because it constitutes an improper loan of funds.

Recommendations

Internal Audit recommends that the Register of Deeds:

- A. Ensure incoming mail is opened with two people present and that checks are documented. Also, checks should be restrictively endorsed immediately upon receipt or immediately processed for deposit in Anthem. If two people cannot be present, management should put other mitigating controls in place.
- B. Ensure staff accepts only cash, certified checks or money orders as restitution for NSF checks.
- C. Ensure money orders and cashier checks are restrictively endorsed immediately upon receipt.
- D. Continue to work with Finance to establish an appropriate and effective tracking and communication process for e-check reversals.
- E. Increase physical security over cash controls to include, at a minimum:
- periodic changing of safe combinations and keys to prevent access by unauthorized persons
 - removal of all non-County items from the safes
 - labeling and securing each change fund in the safe
 - sealing bank bags immediately after the deposit is prepared and keeping them properly secured until pick up by the armored car

- F. Comply with County policy to record the deposit in Advantage on the same day that the deposit is made. Alternatively, work with Finance to obtain a waiver of compliance to permit the Department to record cash receipts into Advantage the same day as the bank confirmation is received and ensure staff follows this practice.
- G. Continue working with Finance to ensure all payments from October 2008 to April 2009 are properly posted to the general ledger.
- H. Establish a secure area for customer collateral taken in exchange for the Public Key device and train staff to consistently use the secure area.
- I. Comply with County policy that prohibits giving change back from payment checks.

Management Response

Agree Items A-I.

Item A: We do not have the manpower to have two people present to open mail. By statute, we cannot process the check until we are prepared to file the document or perform the service. We may not know whether our service can be performed until the documents are examined and the fee presented is correct. Therefore, checks cannot be immediately processed when the mail is opened. Mail must be routed to the proper area, and specialists in each area process different mail requests that include checks. Check numbers are logged in Anthem when a check is processed, and verified in the deposit preparation process. The check information is logged into a spreadsheet when a real estate document and the recording check is rejected and returned to the customer. This gives us an audit trail on the majority of checks, especially those that go through the most processing steps. We are open to a cost effective solution, perhaps with scanning the checks and part of the accompanying documents. Our software upgrade includes additional scanning capabilities and rejection tracking which may be suitable. NCGS 161-10(c) states: These fees shall be collected in every case prior to filing, registration, recordation, certification or other service rendered by the register of deeds unless by law it is provided that the service shall be rendered without charge.

Item B: While cash, money orders and certified checks are the preferred means of restitution, we will continue to accept certain checks at the discretion of the director or deputy director based on customer history, the reason for the NSF, and the type of account. Many of our customers have a very long history of doing business with the department so we may take that into consideration. We treat attorney trust account checks differently than attorney operating account checks. Attorney trust accounts are highly regulated and generally considered to be as good as cash in the mortgage, real estate and banking industries. The funds remitted to us by an attorney on behalf of a client may be required by law to come from a trust account. We started a tracking database for NSF items in August 2011 and work with Finance to ensure prompt collection and proper updates in Advantage. Our software upgrade includes the ability to update a receipt as NSF or charge-back, which backs out the revenue in each sub-account. The upgrade also includes the ability to track and report them for collections and reconciliation.

Item C: Policy: any form of restitution payment must be restrictively endorsed immediately by the person assigned to collections processing.

Item D: We are eliminating the e-check as an accepted payment method

Item E: It is now policy to change safe combinations if a person having that information leaves for any reason. We are working on better physical and electronic key control. Actually rekeying is problematic as the entire building key system is related. We have cleaned the safes and all change funds not in use are

kept in a locked safe. The deposit bags should be sealed, but the armored car schedule is so erratic that we cannot seal the change fund deposit. We essentially trade out the master change fund every day, and must use the old fund until the new one is delivered.

Items F and G: We have worked with Finance to fix these issues. We also hired a fiscal analyst to ensure that everything is entered into Advantage in a timely and proper manner.

Item H: We use a separate locked cash drawer for any item we are holding for customer as our temporary solution. We are still working on a solution that does not involve holding collateral.

Item I: Giving cash back on a check requires director or deputy director approval, and we avoid it whenever possible. In some cases, the potential risk of not recording a document from both the County's and Register's perspectives may outweigh the risk incurred by returning up to \$10 change on a (generally trust account) check. We provide escrow accounts for customers to handle overages or shortages in fees. We are working to start using ACH¹ payments which may help. The North Carolina Vital Records Unit is allowed by statute to retain small overages, and the State of Georgia authorizes the Real Estate Clerk to retain overages up to \$15.00. Seeking similar legislation may be a possibility.

Issue 4: The Department does not have sufficient cash reconciliation procedures.

Risk Observations

- A. The Cash Out Slip, an Anthem document used by cashiers to record currency denominations and check and credit transaction totals, does not require cashiers to record necessary information to facilitate a complete reconciliation and the supervisor's subsequent review. Missing information includes, at a minimum:
- beginning change fund amount
 - end of day change fund amount
 - voided transactions
 - no sale transactions
 - no fee transactions
 - overages or shortages
 - reviewing supervisor signature

Without sufficient information, errors and fraud could go undetected. For example, if cashiers do not record their beginning and ending change fund amounts on the Cash Out Slip, they could use change funds to cover any daily shortages or keep any overages without immediate detection.

- B. Cashiers do not consistently sign the Cash Out Slip or the Receipt Summary Report to document who prepared the reconciliation documents. Of 782 reconciliations reviewed, 322 or 41% were not signed. As a result, there is no attestation of the amounts cashiers submitted for deposit.

¹ Automated Clearing House

- C. The Department does not require the recording area cashiers to complete a Cash Out Slip or comparable document. The prior administration felt it was not necessary because the majority of fees collected in the recording area were made by checks, not cash.
- D. Supervisors are not required to review and approve cashiers' daily Cash Out Slips and reconciliations. Rather, management directs a cashier to request a supervisor's review of his or her reconciliation only when there is a variance noted between the Cash Out Slips and the Anthem reports. Of 782 cashier reconciliations reviewed, 79 or 10% had variances that were not identified until the depositor prepared the deposit. Without an independent review of each cashier's daily reconciliation, management cannot ensure that cash submitted for deposit agrees with supporting documentation.
- E. Each cashier wraps his or her cash collections within a Receipt Summary Report, which are then combined into two bank bags before being verified by the depositor. Further, the bags are transferred several times between staff before the depositor receives the cash collections. As a result, it would be difficult to establish accountability in the event of errors or missing funds.
- F. Management does not conduct timely verifications of the bank validated deposit amount to the depositor's reconciliation worksheet until after amounts are recorded in the general ledger. As a result, errors and omissions may not be timely detected.
- G. The Department does not have a process in place to ensure all Hecon Quick Key print and copy fees are entered into Anthem. Fees for the audit period totaled \$215,171.

Recommendations

Internal Audit recommends that the Register of Deeds:

- A. Work with the Anthem system vendor to modify the Anthem Cash Out Slip so that it will provide cashiers the ability to properly document and reconcile their daily cash collection to beginning balances.
- B. Train staff to consistently sign the Cash Out Slip or the Receipt Summary Report to document who prepared the reconciling documents.
- C. Require all department cashiers, including those in the recording area, to complete a reconciliation of daily cash collections. The reconciliation should include the Cash Out Slip with overages and shortages noted, as well as cashier and reviewing supervisor signatures.
- D. Require supervisors to review and approve cashiers' Cash Out Slip reconciliation to ensure that cash submitted for deposit agrees with supporting documentation.
- E. Require each cashier to secure the day's cash collections in an individual, locked money bag before submitting them to the depositor.
- F. Require management to conduct timely verifications of the bank validated deposit amount.
- G. Establish a process to ensure all Hecon Quick Key print and copy fees are entered into Anthem.

Management Response

Agree. Items A through E are covered by new policy and procedures. We use Anthem reports “revenue account summary” and “receipt summary”, along with a special daily reconciliation worksheet designed by the Finance Department. A Finance staff member is assigned as our primary liaison. Our employee must sign the worksheet, and may not leave until a supervisor has checked, recounted, and signed the worksheet. The supervisor places the funds and reports in the master area bag, which is then locked and placed in a safe. The person opening the safes gives the master bags to the person who prepares the deposit, who then unlocks them to begin her process. We have hired a fiscal analyst that checks the physical deposit and Advantage entries, and then verifies and reconciles the bank validated deposit data. We have changed our Quick Key System. The new system provides many reports and can easily be reconciled with Anthem. The new system also provides real time data on exactly how much liability exists on the buttons and how many copies are made or printed. This system is set on an IST database server and is scalable should any other department decide to utilize it.

Issue 5: The Department does not provide adequate oversight over escrow accounts.

Risk Observations

- A. NCGS §116B requires properties abandoned for a specified period of time be escheated, or returned, back to the State. Relevant to escrow accounts, NCGS §116B-53 (c)(12) states that “property held by a court, government, governmental subdivision, agency, or instrumentality” is deemed abandoned if unclaimed “one year after the property becomes distributable”. Owners with an account balance of \$50 or more should be notified of a pending escheat and accounts with less than \$50 should be reported in the aggregate to the State.

At the time of the audit, the Department had 983 escrow accounts used to ensure fees are obtained prior to the execution of services rendered, in accordance with NCGS §161-10 (c). Of those accounts, 439 with a total value of \$34,530 had no documented activity for over one year and were not properly addressed. As a result of this audit, management has begun working with Finance to ensure statutory compliance escheat requirements.

- B. Unless requested, escrow account owners are not issued periodic statements to inform them of their account activity. As a result, posting and other errors, as well as missing funds, could go undetected by customers.
- C. Although staff records into Anthem the day’s individual escrow activities, because Anthem does not interface with Advantage, staff must also manually record the liability for these pre-paid accounts in Advantage. The day’s pre-paid amounts are not, however, recorded individually but as a net amount into a single liability account. The Department does not conduct a daily reconciliation between the two systems’ total balances and, as of May 27, 2010, there was a \$50,963 variance. Moreover, because the Advantage liability is recorded as a single net amount, variances due to errors or other factors are difficult to detect and resolve.
- D. Auditors observed that staff inappropriately recorded Quick Key Revalue Station print and copy fees to an escrow account, rather than to a revenue account, which understates revenue and overstates escrow account balances.

- E. The Department followed the prior administration's practice to post cashier overages to a pre-paid liability account established solely for escrow funds. One Cash Out Slip showed a \$5 overage with management instructions to add the overage to that account if the customer did not return within 24 hours. A \$44 total overage discovered in a surprise change fund audit was also posted to that account.
- F. An active escrow account in Anthem believed to have been established for system testing purposes had as of July 1, 2010 a balance of \$2,384. The monies were from non-testing transactions, such as deposits and escrow account transfers. Allowing a testing account to remain active could provide an opportunity to commit fraud.
- G. Before November 1998 when the Department established escrow accounts in Anthem, voucher accounts were used. Because Anthem did not restrict charges against a voucher account even when the balance was insufficient, as of May 27, 2010 there were 189 accounts with a total negative balance of \$4,820.

Recommendations

Internal Audit recommends that the Register of Deeds:

- A. Continue to work with Finance to bring the escrow accounts into compliance with NCGS §116B and ensure that going forward the accounts are routinely monitored and abandoned accounts appropriately addressed.
- B. Issue escrow account owners periodic statements detailing their account transaction activity and balance.
- C. Work with Finance to resolve the current variance between the Anthem total escrow account balance and the Advantage liability account balance. Further, ensure staff enters the day's individual escrow payments and amounts used. Management should conduct monthly reconciliations to maintain agreement between the two balances.
- D. Ensure staff properly records print and copy fees in the correct general ledger account.
- E. Ensure staff records cash overages as "other revenue" and records shortages as "other expenditures". Management should identify and address any trends for cashiers with frequent and/or high dollar overages and shortages.
- F. Research and resolve the remaining escrow testing account balance and transfer the funds to the appropriate accounts. In addition, remove the escrow testing account from the Anthem production environment.
- G. Work with Finance to appropriately address the negative voucher account balances that remain in Anthem.

Management Response

Agree. With the completion of our current batch of escrow account escheats, we are in compliance with the proper 1 year cycle. We are upgrading our software system to facilitate the emailing of escrow statements and enabling customers to check their account activity online. The new key printing system gives us the ability to ensure that copy fees received match those entered in Anthem. We cleared most of

the escrow test account errors – some were not traceable. We monitored this account for further errors until it was disabled. We have cleared all the old voucher accounts. The escrow account reconciliation will be done after the escheated accounts are cleared and disabled. Our fiscal analyst is very helpful, as is advice and assistance from Finance.

Issue 6: Functionality and controls over some key systems negatively impact business productivity and accuracy.

Risk Observations

- A. The viaWARP, Anthem and Advantage systems do not interface with each other, staff must conduct labor intensive workarounds to ensure all payments are posted to the general ledger. Staff manually inputs the customer name and payment amount into both viaWARP and Anthem to ensure the customer receives credit. Staff also manually inputs the day's total revenue into Advantage so it will post to the general ledger.
- B. Because the Hecon Quick Key and Anthem systems do not interface, staff must manually enter into Anthem any pre-paid fees and Public Key charges processed in Hecon Quick Key. Recordation in Anthem facilitates the allocation of all payments to the appropriate account codes for subsequent recording in Advantage.
- C. Because viaWARP and Anthem systems do not interface, staff must manually record on a tracking log any variances between the two systems. Auditors reviewed 40 random days of cash collection activity and noted 14 variances. One \$10 variance was not recorded on the log and two log entries did not indicate the variance amount. Overall, as of June 2010, the log contained 85 unresolved variances from the period of November 2008 through August 2009 with a net balance of \$874 owed to the County.
- D. The Department has inadequate controls in place to ensure Anthem system access approvals are appropriate and adequately documented. Inappropriate access to key systems could result in unauthorized data or software program changes, improper disclosure of confidential data, as well as the introduction of viruses and other malware. The Department does not have:
 - a. a designated security administrator to ensure access permissions are properly implemented, promptly updated and in line with current job duties and that system access logs are reviewed and any issues reported
 - b. proper separation of duties between the person authorizing system access permissions and the person implementing, monitoring and updating permissions
 - c. categorization of data and software based on sensitivity and criticality levels to protect them from unauthorized users
 - d. written documentation of approved staff's access to various data and software
 - e. a process in place to promptly deactivate user accounts for terminated, transferred or reassigned employees. Two ex-employees with last employment dates of April 2 and April 30 2010 still had active system access to Anthem as of June 30, 2010. Upon notification during the audit, management deactivated their user accounts.
- E. The Department does not routinely monitor the Anthem, viaWARP and High Tech systems for unauthorized access. When access controls are not implemented, unauthorized or unusual access to

critical or confidential resources, such as data files, application programs and equipment, may go undetected.

- F. Anthem users are not required to periodically change their system access passwords, although to gain access to Anthem staff must first access the County network with a password that County policy does require to be changed every 90 days. Failure to periodically change passwords increases the likelihood of unauthorized access.

Recommendations

Internal Audit recommends that the Register of Deeds:

- A. Work with viaWARP and Anthem vendors to create an interface between the systems. Further, when any Anthem upgrades are made, work with the County Information Systems and Technology Department (IST) to determine whether an interface or other automated process can be developed to exchange data with Advantage.
- B. Work with the Anthem and Hecon vendors to create an interface between the two systems.
- C. Ensure staff accurately completes the variance log and work with Finance to resolve all outstanding variances between viaWARP and Anthem.
- D. Increase controls over Anthem system access by, at a minimum:
 - a. designating a security administrator
 - b. properly separating duties between staff authorizing access permissions and staff implementing, monitoring and updating permissions
 - c. categorizing data and software based on sensitivity and criticality levels
 - d. documenting individual staff access to various data and software
 - e. developing and implementing a process to ensure user accounts of terminated, transferred or reassigned employees are promptly deactivated
- E. Evaluate the feasibility of designing and implementing a process to monitor the Anthem, viaWARP and High Tech systems for unauthorized access.
- F. Require staff to periodically change their Anthem system log-on passwords.

Management Response

Agree. Our software upgrade includes integration with a merchant services application such as viaWarp. The Hecon system has been replaced with a more robust Quick Key system that tracks the real time balance on every key. It also has reporting by cashier on copy key valuations that can easily be reconciled to Anthem reports on copy payment transactions. Payment options for copies have been standardized and restricted in Anthem for ease and accuracy in reporting. Our software upgrade will provide a better method for the staff printing of certified copies where payment must be received before the document prints. Working with Finance, we have determined the amount and root cause of variances between Anthem, viaWarp and Advantage revenue. Our fiscal analyst will be reconciling the details at the conclusion of the escrow account project. We will probably incur a substantial charge-off against FY2012 revenue. The actual shortage occurred for FY2009, so we are working with Finance to determine how to handle this. The software upgrade will allow for better controls in our primary software. The password features are more robust, including forced changes and better encryption. We have a new employee leave procedure that includes notifying IST and our software support. On a termination, all access is revoked

before the employee can get to their workstation to retrieve personal items. Both Anthem and the upgrade “A2” (now called GRM Recorder) allow for real time monitoring of who is on the system. As the custodian of data, I exclusively determine the access that anyone has to Anthem or the underlying database. Keep in mind that Anthem first requires access on the County network and either physical access or authorized County VPN² access. Servers require high level administrative logons. The only issue we really have is when employees do not properly secure their workstations, and another employee takes over that station without properly logging in. Support administrators are allowed to access any workstation if necessary to resolve an issue. Creating any record in Anthem or under someone else’s login is prohibited.

Issue 7: The Department lacks some controls over purchasing.

Risk Observations

- A. Auditors noted that 23 of 29 or 79% of purchase orders reviewed were not encumbered or the purchase orders were not created until after the invoices were received. Yet, NCGS §159-28(b) states that bills, invoices, or other claims against a local government or public authority may be approved if the amount is payable, authorized and has been encumbered or has an unencumbered balance sufficient to pay the amount due.
- B. Management does not use the online Outstanding Purchase Order Report to monitor the status of open, partially expended and/or modified purchase orders, except at year-end to notify Finance of purchase orders that extend into the next fiscal year. As a result, purchase orders that should be closed remain open, overstating liabilities and unnecessarily encumbering funds.

Recommendations

Internal Audit recommends that the Register of Deeds:

- A. Ensure staff comply with NCGS §159-28(b) for proper encumbrance of planned purchases.
- B. Utilize the online Outstanding Purchase Order Report to routinely monitor and manage the Department’s purchase orders.

Management Response

Agree. All planed purchases are encumbered as soon as it is feasible. We are utilizing the PO 610 report from InfoAdvantage, and periodic monitoring has been assigned to our fiscal analyst. We have 1 outstanding item for \$0.88 from FY2011 that we are working to clear. We monitor the encumbrances for our multiyear fund and release them as necessary.

² Virtual private network

Issue 8: The Department does not always review supporting documentation before processing payment requests.

Risk Observations

- A. The Department had been erroneously charged for and paid an expense that should have been charged to another department. In addition, the expense was miscoded as supplies rather than professional services. As a result, the other department's professional service expense was understated and Register of Deed's supplies expense was overstated. Management approved the payment during their review because the previous administration had approved and paid it the five previous years. Acceptance of charges without confirmation could result in future errors and fraud. As a result of this audit, however, the Department will receive an adjustment of \$1,701 and charge the correct department for the services.
- B. Staff requested a payment for a printer valued at \$17,940 using a General Accounting Expenditure (GAX) instead of using a Commodity-based Payment Request (PRC). The County's Asset and Procurement Management group set up a purchase order to encumber the funds for the printer but, because department staff paid for the printer with a GAX, the encumbrance was not reduced. As a result, the encumbrance restricted the use of those funds, which could have been used for other needs.

Recommendations

Internal Audit recommends that the Register of Deeds:

- A. Confirm charges against supporting documentation to ensure they are appropriate.
- B. Train and monitor staff to ensure they comply with Finance purchasing practices.

Management Response

Agree. We have modified our purchasing and accounts payable procedures. In FY2011, we were able to catch an erroneous invoice from one vendor, and so far in FY2012 have caught an invoice from another that appeared to be in excess of contracted amounts. Our primary purchaser has received additional training. We have requested additional object codes so that all purchases from any fund can be classified properly. Our fiscal analyst provides input and assists in monitoring purchases.

Issue 9: The Department does not always use proper capital asset account codes.

Risk Observations

A review of 147 expenditures \$5,000 or greater for unrecorded capital assets revealed that three expenditures were not properly capitalized, which understated both capital assets and depreciation expense related to those assets.

Further, one department fund established for computer and imaging technology and other associated needs to preserve and store public records had only one available accounting code. The code was for capital assets, although non-capital expenditures were permitted to be paid by the fund. As a result, 17 of

20 or 85% of expenditures reviewed were miscoded. Effective April 2010, Finance set up additional accounting codes for the fund to allow proper coding for all expenditures.

Recommendations

Internal Audit recommends that the Register of Deeds work with Finance to train relevant Register of Deeds staff to increase their general accounting knowledge. Management should correct the account errors noted during this audit and ensure the assets are listed in Advantage.

Management Response

Agree. The director, top level management and fiscal support administrators have worked closely with Finance and taken additional training in finance in general. The addition of a fiscal analyst with prior County experience gives us someone with proper accounting educational credentials and expertise in County policy and procedure. We have cleared most of our asset inventory issues.

Issue 10: The Department does not always ensure that assets are properly safeguarded.

Risk Observations

- A. During a physical inventory of capital assets within the Department, auditors could not locate or verify 19 of 39 or 49% of the items recorded on the Capital Asset Inventory list.
- five items had serial numbers that matched those on the asset list but did not have property tag numbers
 - nine items did not have asset tags or did not have tags within view due to their size, location, et cetera
 - five items could not be located

In addition, two newly acquired printers valued at \$17,940 each and two file cabinets valued at \$5,803 each were not on the FY2009 Capital Asset Inventory list.

Capital assets were defined by County policy at the time of this audit as assets that cost \$5,000 or more and having a useful life of more than one year.³ Policy states that each department should ensure all capital assets are tagged and all additions, disposal and transfers are recorded on the Capital Asset Inventory list. Departments should conduct an annual inventory and report any variances to Finance. Policy also states that each department is accountable for the physical custody of both its capital and non-capital assets.

- B. The Department does not maintain a record of high resale value non-capital assets such as laptops, camera equipment and telecommunication items, which are prone to theft. Further, auditors could not locate one of 13 laptops shown by County IST as located at the Register of Deeds. Management indicated the remaining laptop was transferred back to IST but did not have documentation to support the transfer.

³ The updated Capital Asset Policy revised June 2010 changes the useful life to two years.

- C. The Department does not provide sufficient control over bank note paper stock inventory. Cashiers print birth, death and marriage licenses on serialized bank note paper stock. These official documents are used for personal identification to conduct various legal activities. For that reason, documentation of the serial numbers, distribution of stock in numerical sequence and management oversight for use, inventory balance and security are important controls to prevent against loss and theft.
- a. Management does not document the bank note paper stock certification numbers received from the vendor to track the inventory and issuance of certification numbers to cashiers, which would provide necessary information to conduct a reconciliation of the inventory.
 - b. Management typically records the beginning and ending certification numbers for packs of bank note paper stock when distributed to cashiers but seven of 25 packages recorded were not issued in sequence by certification numbers to help track inventory.
 - c. Seven of 12 cashiers were issued bank note paper stock that was not on management's record of stock issued.
 - d. Three of 12 cashiers issued the bank note paper stock to customers out of sequence with the certification numbers.
 - e. Cashiers often maintain a stock of bank note paper at their workstations for use during the day but do not have the ability to secure the stock in a locked device to help prevent loss and theft.
 - f. Management does not ensure that cashiers return their bank note paper stock to the vault at the end of the business day to help prevent loss and theft.

Recommendations

Internal Audit recommends that the Register of Deeds:

- A. Conduct an annual inventory of department capital assets and report any variances to Finance. Ensure all capital assets, including the two printers and two file cabinets, are properly tagged and included on the Capital Asset Inventory list. The five missing items should be located and the Capital Asset Inventory list should be updated accordingly.
- B. Maintain a detailed record of all high resale value non-capital assets, annually review the physical existence of those assets and update the records accordingly.
- C. Provide proper security and accountability over bank note paper stock that include, at a minimum:
 - a. management documentation of all bank note paper stock certification numbers for all stock numbers received from the vendor
 - b. management issuance in sequential order by certificate number all bank note paper stock packs given to the cashiers
 - c. management recordation of all paper stock issued to cashiers
 - d. cashier usage in sequential order by certification number
 - e. cashier security of bank note paper stock in a lockable device at their workstations
 - f. cashier security of bank note paper stock in the vault at the end of the each business day

Management Response

Agree. Most of these concerns date back to the previous administration. We have worked to clear as many issues with our asset inventory as we could. Some items cannot be conclusively determined. There were actually 4 items not located. Of those, 3 were outdated servers dating back to May 2002. Asset number 67726, a high capacity duplex scanner was located at the County Vital Records Office. The Vital Records office performs some functions that are statutory duties of a Register of Deeds. We share the same software platform and use the same specialized equipment. This unit was traded for a non-functional unit.

The unit is now obsolete but works better with our software than our newer units. The missing laptop was reportedly turned in to IST but has never been found.

Policy on high risk non-capital items is still under development. We will have a laptop issue form for each staff member to sign as replacement laptops are issued. For disposal of capital or high resale value assets, a detailed description is required for every item picked up by the County's contracted property disposal/recycle vendor or IST. I noted in the disposal/recycle vendor report from November 13, 2008 that the prior administration disposed of property with the description "two thousand pounds / 10 big file cabinets" that would appear to be part of two electronic moving file systems that are current open issues. We have the one filing system listed, but the asset number does not match. As to the other items listed as untagged, the microfilm reader printers were tagged before the completion of the audit. In this case, we are actually referring to a system that incorporates software, special boards installed in County personal computers (PC), and special boards installed in microfilm reader printers. The best representation and licensing unit is the PC, so that is where the tags were placed. We have tried to tag all our servers – policy is to tag it as soon as it is installed in the rack.

Review of invoices to reconcile assets revealed that the previous administration bought a computer server shipped to an unusual location – Piney Flats, Tennessee at the offices of Business Information Services. This server holds the images and data for our Historic Documents website. I would have been unaware of this particular asset if not for research conducted to reconcile audit issues.

We have incorporated new procedures with our bank note certificate paper. We record the serial numbers sequentially assigned to each employee. Paper is to be used in sequential order. Misprints or other voided certificates are logged as well. Each employee has a locked portable box for transporting their assigned notes within the office. These boxes are further secured in locked room. At the workstations, the bank notes are secured in a locked drawer. Unissued paper is stored in special secured lockers in sequential order. Our software upgrade includes more sophisticated tracking control of the serial numbers, and the serial numbers are tied to the document printed and the receipt. The software project is on track for a go live date in April, 2012.

Issue 11: The Department lacks proper separation of duties over certain revenue and expenditure functions.

Risk Observations

The Department has several areas that lack proper separation of duties. When one person is responsible for two or more related functions, such as cash collections, deposit preparation and reconciliation, the potential exists for undetected errors, lost or misappropriated cash and inaccurate application of cash receipts to department accounts.

For example, one staff conducts the following related cash collection functions:

- receives, endorses and processes checks in the Anthem system
- receives cash for inclusion in the deposit
- conducts reconciliations of cash collections to the Anthem receipt records
- prepares the daily deposit
- verifies the bank deposit acknowledgement
- enters and approves cash receipts into Advantage

A second staff member conducts the following related business functions:

- manages the authorized change funds
- creates and approves purchase orders
(A total of 54 purchase orders totaling \$873,411 were created during the audit period. Auditors sampled 29 totaling \$658,140 and 23 or 79% of the purchase order, which totaled \$273,234, were created and approved by this person.)
- both receives the goods ordered and inputs the invoice payment request in Advantage, although a different staff member approves the invoice payment request
- orders, receives, distributes and tracks the inventory use of pre-numbered bank note paper documents used by the cashiers to issue certified birth and death certificates and marriage licenses

A recording area staff member that collects recording fees also receives and reconciles all of the recording area's cashier collections against Anthem reports rather than requiring a person independent of the collection process to conduct the reconciliations. Further, a supervisory review does not occur to ensure it is accurate and complete and there is no evidence of loss or theft.

Two staff members who collect cash or checks for pre-paid print and copy fees also serve as back-up for the depositor. As a result, when acting as back-up staff would both reconcile and prepare the deposit that includes his/her cash collections, which provides an increased opportunity for errors and fraud.

Recommendations

Internal Audit recommends that the Register of Deeds provide adequate separation of duties in the cash handling, purchasing, disbursement and inventory functions so that one staff does not have two or more related functions, such as authorization, recordation, asset custody and reconciliation. If staff resources are limited, management should implement mitigating controls to reduce the risk of undetected errors and fraud.

Management Response

Agree. We have added controls with different people in the process. The person preparing the deposit is never a cashier. The deposit is reviewed by a third party. The supervisors signing off on daily deposits may process e-recorded documents where automated payments are made from escrow accounts, but will not cashier any other transaction. Our purchasing and receiving processes include much more oversight. One party creates the order, another approves it, and a third reviews it. For commodity items, the purchaser may be the receiver, but capital or more valuable deliveries require validation from the director or deputy director.

Issue 12: Physical security over some areas is lacking.

Risk Observations

- A. The public can view cash being handled at most cashier areas. Although cashier counter walls are high, a person with sufficient height could reach down and remove cash and/or confidential documents. While cashiers have cash drawers in which they can securely store payments, auditors observed a cashier placing cash on the desk during a transaction. Further, one cash area has a public

entrance door in an isolated area of the building where some staff members handle cash. Moreover, cashiers do not have a panic button to press in the event of an imminent threat. While some video surveillance is in place throughout the Department in the event of a theft or other security threat, the accessibility of cashiers puts them, cash and confidential information at risk.

- B. In order to carry out their duties, certain supervisors and housekeeping staff have keys to high risk areas, such as rooms with safes or confidential information. Yet, the Department does not monitor keyholders to ensure staff members leaving County employment return all keys in their possession. The County's Facility Security Plan states that any department should designate an Access Control Custodian to be responsible for maintaining the inventories that will account for all keys. Lack of controls over key areas could subject cash and/or confidential information to loss, theft or unauthorized access.
- C. The Department's facility is under the jurisdiction of the property management company contracted by the County's Real Estate Services Department who confirmed that the building has a fire alarm system for the smoke detectors throughout the building but it does not have water sprinklers and alarms for abnormal water activity, such as burst pipes. Without proper controls in place to protect against fire and water damage, irreplaceable hard copy documents and computer equipment that store confidential data could be damaged or destroyed.
- D. The current evacuation plan has not been updated to reflect changes over the years to the Department's physical layout. Nor has the plan been posted for staff to view.
- E. During a recent arson attempt, the video surveillance recording device in that area failed although the recording device was replaced and the suspect was successfully captured on video during a second arson attempt.

Recommendations

Internal Audit recommends that the Register of Deeds:

- A. Consult with the Department of Real Estate Services to determine whether physical security of cashier areas can be increased.
- B. Follow the County Facility Security Plan to ensure the Access Control Custodian to appropriately maintain key inventories that will account for all keys.
- C. Work with the Department of Real Estate Services to ensure that the property management service adequately protects the Register of Deed's building from water damage, fire or other threats. Also ensure that the physical safeguards used to protect computer resources, documents and data are commensurate with the risks of intentional or unintentional destruction or impairment.
- D. Update the evacuation plan, post it where staff can view it and train staff on the plan.
- E. Periodically test and repair or replace as necessary the video surveillance equipment to ensure that the system is working properly.

Management Response

Agree. We have secured funding for building renovations primarily related to security issues. Customer service will also be enhanced in most areas. The project is under way with the architect working on drawings. We really should have a vault for book and microfilm storage that is water and fire resistant. That is unlikely until the next major County court complex building is constructed, which hopefully will contain a purpose-built Register of Deeds Office. We will be seeking funding for a dry fire suppression system along with a system to detect and mitigate the risk of water damage in the historic records rooms. The security and evacuation plan for the entire building needs to be updated. We need to re-assign our security and evacuation leaders to reflect changes in the department. We have added offsite tape backup in addition to our mirror site data backup. Physical security of our servers has improved with fitting the main door with a usable lock and adding camera surveillance. We maintain a very complex camera surveillance system.

We are working with the County's Department of Real Estate Services and our building maintenance vendor to improve cooling and airflow in the video room. We lose DVR equipment every year because the hard drives in the DVRs overheat. In one case, DVR failure meant the difference between an arson suspect getting convicted of only count of arson in the building instead of the two counts he was charged with. We now monitor the equipment more closely and have the ability to detect drops in performance that generally show before total failure.

Issue 13: The Department does not perform post-payroll reviews.

Risk Observations

Supervisors review myHR system Time Reports prior to submitting them to process payroll but do not follow County policy to review the reports after payroll has been processed to ensure salaries were appropriately paid.

Recommendations

Internal Audit recommends that the Register of Deeds ensure supervisors and staff comply with County policy and review myHR Time Reports both before and after payroll is processed.

Management Response

Agree. At this time, we monitor the salary budget for anomalies. We have little control of the payroll process after approving time or pay increases. We plan to have all supervisors get updated training in myHr so that they understand how to pull and review the management time reports. The topic was mentioned at our last management meeting and is on the agenda for our next meeting. Our fiscal analyst can provide salary budget reports for comparison.