



COUNTY OF LEHIGH
OFFICE OF THE CONTROLLER

LEHIGH COUNTY GOVERNMENT CENTER
17 SOUTH SEVENTH STREET
ALLENTOWN, PA 18101-2400
(610) 782-3082 FAX: (610) 820-3335

THOMAS SLONAKER
COUNTY CONTROLLER

JOHN A. FALK
DEPUTY CONTROLLER

TO: Final Report Distribution
FROM: Thomas Slonaker, County Controller
DATE: June 3, 2010
RE: Audit of Recorder of Deeds

A handwritten signature in black ink, appearing to be "T. Slonaker", is written over the "FROM:" line of the memo.

We have completed our audit of the recorder of deeds office for the years ended December 31, 2008 and 2009. Our audit report number 10-9 is attached.

The results of our audit are:

- The County of Lehigh received the proper fees and costs due from the recorder of deeds office.
- Adequate internal control would require additional separation of duties for checks received in the mail.

Attachment

AUDITS/DEEDS

COUNTY OF LEHIGH, PENNSYLVANIA

RECORDER OF DEEDS

Financial Audit
For the Years Ended December 31, 2008 and 2009

REPORT NO. 10-9

COUNTY OF LEHIGH, PENNSYLVANIA
RECORDER OF DEEDS

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COUNTY OF LEHIGH, PENNSYLVANIA
RECORDER OF DEEDS

Background

Operations

The Recorder of Deeds' Office is responsible for recording documents pertaining to real estate, (including deeds and mortgages), miscellaneous papers, powers of attorney, secured transactions, preferential assessments (Act 319 & 515), commissions, maps, and military discharges. Records date back to 1812, the year Lehigh County was founded. These records are permanently maintained in book form for all documents recorded up to and including 4/19/2002, and on computer images for documents recorded 4/22/2002 and after.

Elected Official

In November 2006 the voters of Lehigh County approved a referendum consolidating elected row officers for Clerk of Courts, Recorder of Deeds, and Register of Wills into one elected office, Clerk of Judicial Records, effective January 2008.

For the audit period covered in this report Andrea Naugle was the elected Clerk of Judicial Records.

Prior Audit Findings

On September 8, 2008, the office of the controller issued audit report #08-64, a financial audit of the recorder of deeds office for the years ended December 31, 2006 and 2007. All prior audit issues have been resolved by recorder of deeds management. We appreciate the continuing cooperation of the clerk of judicial records and the management and staff of the recorder of deeds division.



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Andrea E. Naugle, Clerk of Judicial Records
Recorder of Deeds Division
Lehigh County Government Center
17 South Seventh Street
Allentown, PA 18101-2400

We have audited the accompanying Statement of Receipts, Disbursements, and Changes in Cash Balances of the recorder of deeds for the years ended December 31, 2008 and 2009 as listed in the Table of Contents. The financial statements are the responsibility of the recorder of deeds' management. Our responsibility is to express an opinion on the Statement of Receipts, Disbursements, and Changes in Cash Balances based on our audit.

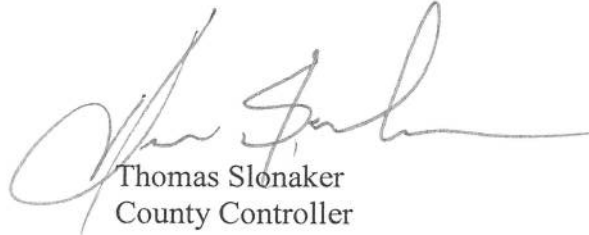
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles.

Also, as discussed in Note 1, the financial statements present only the recorder of deeds financial activity and does not purport to, and does not, present fairly the assets, liabilities, and results of operations of the County of Lehigh for the years ended December 31, 2008 and 2009 in conformity with the cash receipts and disbursements basis of accounting.

In our opinion, the Statement of Receipts, Disbursements, and Changes in Cash Balances referred to above presents fairly, in all material respects, the financial activity arising from cash transactions of the recorder of deeds for the years ended December 31, 2008 and 2009, on the basis of accounting described in Note 1. However, we noted control deficiencies or other-management issues that are described in the accompanying "Schedule of Audit Findings and Recommendations".

In accordance with *Government Auditing Standards*, we have also issued our report dated June 2, 2010 on our consideration of the recorder of deeds' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



Thomas Slonaker
County Controller

June 2, 2010
Allentown, Pennsylvania

xc: Board of Commissioners
Donald T. Cunningham, Jr., County Executive
Brian L. Kahler, Fiscal Officer

COUNTY OF LEHIGH, PENNSYLVANIA
RECORDER OF DEEDS

*Statement of Receipts, Disbursements, and
Changes in Cash Balances
For the Years Ended December 31, 2008 and 2009
(NOTE 1)*

	<u>2008</u>	<u>2009</u>
RECEIPTS:		
Realty Transfer Taxes	\$28,800,343	\$21,503,531
Office Fees	1,542,438	1,480,900
Judicial Computer System/Access to Justice	480,450	490,798
Affordable Housing	288,087	271,734
Notary and Writ Taxes	33,300	32,059
NSF Fees	200	420
TOTAL RECEIPTS	<u>31,144,818</u>	<u>23,779,442</u>
 DISBURSEMENTS:		
Commonwealth of Pennsylvania (NOTE 2)	14,748,890	11,148,795
Distributions to Other Taxing Authorities (NOTE 3)	14,122,744	10,553,315
County of Lehigh (NOTE 4)	2,273,354	2,077,541
TOTAL DISBURSEMENTS	<u>31,144,988</u>	<u>23,779,651</u>
 EXCESS OF RECEIPTS OVER/(UNDER) DISBURSEMENTS	(170)	(209)
 CASH BALANCE, JANUARY 1	379	209
 CASH BALANCE, DECEMBER 31	\$ 209	\$ 0

The accompanying notes are an integral part of this statement.

COUNTY OF LEHIGH, PENNSYLVANIA
RECORDER OF DEEDS

Notes to Financial Statement
For the Years Ended December 31, 2008 and 2009

1. **Summary of Significant Accounting Policies**

A. Reporting Entity

A portion of the recorder of deeds' financial activity is a part of the County of Lehigh's reporting entity, included in the general fund and is subject to annual financial audit by external auditors. The remaining financial activity is part of other governmental entities. This report is only for internal audit purposes.

B. Basis of Accounting

The accounting records of the County of Lehigh and the Statement of Receipts, Disbursements, and Changes in Cash Balances for the recorder of deeds are maintained on the cash receipts and disbursements basis of accounting. Under this basis of accounting, revenue is recognized when cash is received and expenditures are recognized when paid. This differs from Generally Accepted Accounting Principles (GAAP) which requires the accrual basis of accounting.

2. **Commonwealth of Pennsylvania**

Disbursements to the Commonwealth of Pennsylvania are broken down into the following categories:

	<u>2008</u>	<u>2009</u>
Realty Transfer Taxes	\$14,235,933	\$10,626,655
Judicial Computer System/Access to Justice	480,450	490,798
Writ Taxes	31,137	29,963
Notary	<u>1,370</u>	<u>1,379</u>
Total	<u>\$14,748,890</u>	<u>\$11,148,795</u>

3. **Distribution to Other Taxing Authorities**

Disbursements of realty transfer taxes are made monthly to cities, boroughs, townships, and school districts located within the boundaries of Lehigh County.

4. **County of Lehigh**

Disbursements to the County of Lehigh are broken down into the following categories:

	<u>2008</u>	<u>2009</u>
Office Fees, Commissions, etc.	\$ 1,985,267	\$ 1,805,807
Affordable Housing	<u>288,087</u>	<u>271,734</u>
Total	<u>\$ 2,273,354</u>	<u>\$ 2,077,541</u>



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Andrea E. Naugle, Clerk of Judicial Records
Recorder of Deeds Division
Lehigh County Government Center
17 South Seventh Street
Allentown, PA 18101-2400

We have audited the financial statements of recorder of deeds for the years ended December 31, 2008 and 2009 and have issued our report thereon dated June 3, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

In planning and performing our audit, we considered recorder of deeds' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the Statement of Receipts, Disbursements, and Changes in Cash Balances, but not for the purpose of expressing an opinion on the effectiveness of the recorder of deeds' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the recorder of deeds' internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

A material weakness is a deficiency, or combination of deficiencies, in internal control, such as there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

As part of obtaining reasonable assurance about whether recorder of deeds' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of recorder of deeds in a separate section titled "*Schedule of Audit Findings and Recommendations*".

Recorder of deeds' response to our audit is included in this report. We did not audit recorder of deeds' response and, accordingly, we do not express an opinion on it.

This report is intended solely for the information and use of the recorder of deeds management and others within the entity, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Thomas Slonaker
County Controller

June 2, 2010
Allentown, PA

COUNTY OF LEHIGH, PENNSYLVANIA
RECORDER OF DEEDS

Schedule of Audit Findings and Recommendations

1. Control over checks received in the mail

Condition: Deeds personnel are instructed to endorse (*for deposit only*) each check received in the mail. A sole individual is assigned to open the mail and stamp the checks. During our audit of void transactions, we noted that some cancelled invoices could not be traced to a subsequent recorder of deeds transaction. Unprocessed deeds paperwork (due to error conditions) is normally monitored using the reject letter system in-place. We were unable to verify that checks received in the mail for cancelled invoices were properly handled. Checks received by mail could be intentionally misdirected without knowledge of deeds management.

Recommendation: Cancelled invoices should be accounted for using the Reject Function in LANDEX. Furthermore, management should track incoming checks, via a check log, and assign two employees to open mail in order to reduce the susceptibility of lost or stolen checks.

2. Revenue adjustment for bad (NSF) checks

Condition: Management does not notify the fiscal office to remove/re-record payments that have been deemed to be NSF from the county General Ledger. Failure to make adjustments for bad checks could result in overstatement of revenue reported.

Recommendation: All NSF's and repayment of NSF's should be recorded in the county General Ledger by the fiscal office as the transactions occur.

Andrea E. Naugle

**Lehigh County Government Center
17 S. Seventh Street – Room 350
Allentown PA 18101-2400**

**Deborah A. Casciotti
Chief Deputy**

June 2, 2010

Mr. Thomas Slonaker
Lehigh County Controller
Lehigh County Government Center
17 South Seventh Street
Allentown 18101-2400

Dear Mr. Slonaker:

In response to your recent audit of the Lehigh County Clerk of Judicial Records – Recorder of Deeds Division, covering the years ended December 31, 2008 and 2009, we offer the following comments.

With respect to the finding listed as “Control over checks received in the mail”, it is management’s decision that the current procedure of assigning a supervisory staff person to open the mail and endorsing every check, *For Deposit Only County of Lehigh Recorder of Deeds*, is sufficient to maintain control over tracking checks. With the reduction of employees by six (6) in the last two years, it would not be efficient for the operation of the office to adopt your recommendation of assigning two employees to open the mail. In addition, your suggestion to maintain a check log would add a cumbersome task to their already numerous job responsibilities which we feel is unnecessary.

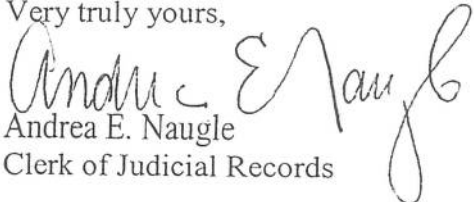
As to the accounting of cancelled invoices using the Rejection Function, effective June 3, 2010 the Rejection Function will be used for all cancelled invoices.

With respect to the finding listed as “Revenue adjustment for bad (NSF) checks”, we instituted a procedure as of May 25, 2010 to notify the fiscal office to make the necessary adjustments to the General Ledger for NSF checks and the repayment of NSF checks. This is in compliance with the County’s current policy.

Since the Controller’s Office is able to offer an outside expert opinion with respect to certain office functions and procedures, we appreciate the comments and suggestions made by the audit.

We also would like to compliment your staff, especially Stephen Berndt, on the professional and courteous manner in which they perform their duties while conducting the audit. Mr. Berndt, even though he is not a senior auditor, offered good comments and suggestions to streamline some of our procedures. He is an asset to your office.

Very truly yours,


Andrea E. Naugle
Clerk of Judicial Records