



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

TO: Final Report Distribution
FROM: Thomas Slonaker, County Controller
DATE: September 8, 2008
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, 2006 and 2007. Our audit report number 08-64 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.
- Office operations are not adequately separated from outside access.

Attachment

AUDITS/DEEDS

COUNTY OF LEHIGH, PENNSYLVANIA

RECORDER OF DEEDS

Financial Audit
For the Years Ended December 31, 2006 and 2007

REPORT NO. 08-64

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. Documents processed for 2006 and 2007 amounted to 74,011 and 69,523 respectively.

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 Marie Dean was the elected Recorder of Deeds. Effective January 2008, Andrea Naugle took office as the elected Clerk of Judicial Records.



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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, 2006 and 2007 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, 2006 and 2007 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, 2006 and 2007, 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 September 4, 2008 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 Slopaker
County Controller

September 4, 2008
Allentown, Pennsylvania

xc: Board of Commissioners
Donald T. Cunningham, Jr., County Executive
Marie Dean – former Recorder of Deeds
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, 2006 and 2007
(NOTE 1)*

	<u>2006</u>	<u>2007</u>
RECEIPTS:		
Realty Transfer Taxes	\$47,416,211	\$40,405,737
Office Fees	2,540,070	2,363,874
Judicial Computer System/Access to Justice	687,910	648,980
Affordable Housing	481,655	405,398
Notary and Writ Taxes	44,879	41,490
Sales Tax	1,936	676
TOTAL RECEIPTS	<u>51,172,661</u>	<u>43,866,155</u>
DISBURSEMENTS:		
Commonwealth of Pennsylvania (NOTE 2)	24,409,350	20,876,729
Distributions to Other Taxing Authorities (NOTE 3)	23,265,111	19,814,722
County of Lehigh (NOTE 4)	3,498,195	3,174,863
TOTAL DISBURSEMENTS	<u>51,172,656</u>	<u>43,866,314</u>
EXCESS OF RECEIPTS OVER/(UNDER) DISBURSEMENTS	5	(159)
CASH BALANCE, JANUARY 1	533	538
CASH BALANCE, DECEMBER 31	\$ 538	\$ 379

The accompanying notes are an integral part of this statement.

COUNTY OF LEHIGH, PENNSYLVANIA
RECORDER OF DEEDS

Notes to Financial Statement

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICY

Basis of Accounting

The recorder of deeds maintains their records on the cash basis of accounting. Under this method, revenues are recognized when cash is received and expenditures are recognized when cash is disbursed. Generally accepted accounting principles applicable to governmental (fund) accounting promulgate the modified accrual basis whereby: revenues are recognized in the accounting period in which they become available and measurable; and expenditures are recognized in the accounting period in which the fund liability is incurred.

NOTE 2 COMMONWEALTH OF PENNSYLVANIA

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

	<u>2006</u>	<u>2007</u>
Realty Transfer Taxes	\$23,676,301	\$20,186,633
Judicial Computer System/Access to Justice	687,910	648,980
Writ Taxes	41,897	39,113
Sales Tax	1,936	676
Notary	1,306	1,327
 Total	<u>\$24,409,350</u>	<u>\$20,876,729</u>

NOTE 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.

NOTE 4 COUNTY OF LEHIGH

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

	<u>2006</u>	<u>2007</u>
Office Fees, Commissions, etc.	\$ 3,016,540	\$ 2,769,465
Affordable Housing	481,655	405,398
 Total	<u>\$ 3,498,195</u>	<u>\$ 3,174,863</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, 2006 and 2007 and have issued our report thereon dated September 4, 2008. 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 control deficiency 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 control deficiency, or combination of control deficiencies, that adversely affects the recorder of deeds' ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the recorder of deeds' financial statements that is more than inconsequential will not be prevented or detected by the recorder of deeds' internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the recorder of deeds' internal control.

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 the findings identified in 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 management and other affected county offices 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.

A handwritten signature in black ink, appearing to read 'T. Slonaker', with a long horizontal flourish extending to the right.

Thomas Slonaker
County Controller

September 4, 2008
Allentown, PA

COUNTY OF LEHIGH, PENNSYLVANIA
RECORDER OF DEEDS

Schedule of Audit Findings and Recommendations

1. Receipts Not Deposited

Condition: Payments received with rejected documents are not deposited and are returned to the sender with the documents. Effective cash handling control includes the deposit of all receipts on a daily basis.

This issue has been reported in prior audits.

Recommendation: The ideal approach (as noted above) would be to deposit all receipts and return fees via county check, or hold funds in escrow until corrected documents are provided. However, due to the volume of rejections (in excess of 400 per month based on our analysis of 2007 activity), this approach would have a significant impact on staff operations due to the added responsibilities.

A more pragmatic approach would be to revise the initial cash handling process. We recommend an employee without cash receipt access be assigned to open incoming mail and restrictively endorse all checks before distribution to recorders. Although not as effective it would reduce the risk that returned checks could be misappropriated.

2. Unauthorized Access

Condition: Office operations are not adequately separated from outside access, placing assets and documents at risk of theft. Assets and documents should be kept in a secure area with access limited to staff.

Recommendation: Management should investigate with the office of general services the feasibility of erecting a secured, physical barrier separating office operations from outside access or relocating operations to an existing facility that would provide adequate security.

At a minimum, signs stating “*authorized personnel only*” should be posted to discourage customers from entering restricted areas.

3. Lack of Accounts Receivable Control

Condition: Control over billings* and collections are inadequate. We found the process lacking in several areas:

- A. Billing and accounts receivable tracking duties are not segregated,
- B. An accounts receivable control total is not maintained,
- C. There is no management oversight.

Good control is enhanced when duties are segregated, unpaid invoices are matched to independently derived control totals, and management oversees the process.

*Billed services include faxing copies of documents and providing lists of real estate transactions.

Recommendation: Management has indicated they will discontinue providing service without payment in advance.

We support this approach and recommend controls be put in place to ensure payment is received before service is provided. We also advocate posting the new policy to the external Lehigh County web site and putting processing procedures in writing for staff reference.

Lehigh County Clerk of Judicial Records

Andrea E. Naugle
Lehigh County Courthouse
455 W. Hamilton Street, Room 132
Allentown, PA 18101-1614



Civil Division
Criminal Division
Recorder of Deeds Division
Register of Wills Division

September 4, 2008

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

RE: Recorder of Deeds' Audit – 2006 - 2007

Dear Mr. Slonaker:

I reviewed your audit of the Lehigh County Recorder of Deeds' Office for the years 2006 and 2007. As you already know, I was not the Recorder of Deeds during that time period since I did not take office as the Lehigh County Clerk of Judicial Records until January, 2008.

Please be advised, however, that I have already addressed or are in the process of working on resolving the issues raised in your audit report.

Thank you for your comments. I look forward to working with you.

Very truly yours,

A handwritten signature in cursive script that reads "Andrea E. Naugle".

Andrea E. Naugle
Lehigh County Clerk of Judicial Records