ATTESTATION ENGAGEMENT

Prothonotary

Chester County, Pennsylvania

For the Period

January 1, 2008 to December 31, 2013

July 2015

Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General

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EUGENE A. DEPASQUALE
AUDITOR GENERAL

Independent Auditor's Report

The Honorable Eileen H. McNulty
Secretary
Pennsylvania Department of Revenue
Harrisburg, PA 17128

We have examined the accompanying statement of receipts and disbursements (Statement) of the Prothonotary, Chester County, Pennsylvania (County Officer), for the period January 1, 2008 to December 31, 2013, pursuant to the requirements of Sections 401(b) and 401(d) of *The Fiscal Code*, 72 P.S § 401(b) and § 401(d). The County Office's management is responsible for this Statement. Our responsibility is to express an opinion on this Statement based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included examining, on a test basis, evidence supporting the Statement and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

We are mandated by Sections 401(b) and 401(d) of *The Fiscal Code* to audit the accounts of each county officer to determine whether all moneys collected on behalf of the Commonwealth have been correctly assessed, reported and promptly remitted. *Government Auditing Standards* issued by the Comptroller General of the United States include attestation engagements as a separate type of audit. An attestation engagement performed pursuant to *Government Auditing Standards* involves additional standards that exceed the standards provided by the American Institute of Certified Public Accountants. Accordingly, this attestation engagement complies with both *Government Auditing Standards* and Sections 401(b) and 401(d) of *The Fiscal Code*.

In our opinion, the Statement referred to above presents, in all material respects, the operations of the County Officer as it pertains to receipts made on behalf of the Commonwealth for the period January 1, 2008 to December 31, 2013, in conformity with the criteria set forth in Note 1.

In accordance with *Government Auditing Standards*, we are required to report all deficiencies that are considered to be significant deficiencies or material weaknesses in internal control; fraud and noncompliance with provisions of laws or regulations that have a material effect on the Statement; and any other instances that warrant the attention of those charged with governance; noncompliance with provisions of contracts or grant agreements, and abuse that has a material effect on the Statement. We are also required to obtain and report the views of responsible officials concerning the findings, conclusions, and recommendations, as well as any planned corrective actions. We performed our examination to express an opinion on whether the Statement is presented in accordance with the criteria described above and not for the purpose of expressing an opinion on internal control over reporting on the Statement or on compliance and other matters; accordingly, we express no such opinions.

Our consideration of internal control over reporting on the Statement was for the limited purpose of expressing an opinion on whether the Statement is presented in accordance with the criteria described above and was not designed to identify all deficiencies in internal control over reporting on the Statement that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies listed below to be material weaknesses.

- Inadequate Segregation of Duties - Recurring.
- Missing Records.
- Inadequate Internal Controls Over The Computer System.

As part of obtaining reasonable assurance about whether the Statement is free from material misstatement, we performed tests of the County Office's 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 Statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our engagement, 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 are concerned that the County Officer failed to correct a previously reported finding regarding inadequate segregation of duties. The failure to implement an adequate system of internal controls over segregation of duties increases the risk for funds to be lost or misappropriated. The County Officer should strive to implement the recommendations and corrective action noted in this examination report.

This report is intended solely for the information and use of the Pennsylvania Department of Revenue, the Administrative Office of Pennsylvania Courts, and the County Officer and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the courtesy extended by the Prothonotary, Chester County, to us during the course of our examination. If you have any questions, please feel free to contact Michael B. Kashishian, CPA, CGAP, CFE, Director, Bureau of County Audits, at 717-787-1363.

March 18, 2015

Eugene A. DePasquale
Auditor General

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PROTHONOTARY
CHESTER COUNTY
STATEMENT OF RECEIPTS AND DISBURSEMENTS
FOR THE PERIOD
JANUARY 1, 2008 TO DECEMBER 31, 2013

Receipts:		
Writ Taxes	$	25,385
Divorce Complaint Surcharges		72,270
Judicial Computer System/Access To Justice Fees		1,148,155
Protection From Abuse Surcharges and Contempt Fines		1,550
Criminal Charge Information System Fees		19,506
Total Receipts (Note 2)		1,266,866
Commissions (Note 3)		(761)
Net Receipts		1,266,105
Disbursements to Commonwealth (Note 4)		(1,266,105)
Balance due Commonwealth (County) per settled reports (Note 5)		-
Examination adjustments		-
Adjusted balance due Commonwealth (County) for the period January 1, 2008 to December 31, 2013	$	-

Notes to the Statement of Receipts and Disbursements are an integral part of this report.

PROTHONOTARY
CHESTER COUNTY
NOTES TO THE STATEMENT OF RECEIPTS AND DISBURSEMENTS
FOR THE PERIOD
JANUARY 1, 2008 TO DECEMBER 31, 2013

1. Criteria

The Statement of Receipts and Disbursements provides a summary of receipts and disbursements by category. The categories and the amounts of taxes, surcharges, fines, and fees assessed are based on Pennsylvania laws and regulations.

The Statement was prepared in accordance with reporting requirements prescribed by the Pennsylvania Department of Revenue. Under this method, only the Commonwealth portion of cash receipts and disbursements are presented, revenues are recognized when received, and expenditures are recognized when paid.

2. Receipts

Receipts consist of monies collected on behalf of the Department of Revenue and the Administrative Office of Pennsylvania Courts. These include monies collected for the following taxes, surcharges, fees, and fines:

- Writ Taxes represent a $.50 or $.25 tax imposed on taxable instruments filed with the Prothonotary.

- Divorce Complaint Surcharges represent a $10 surcharge imposed on all divorce decrees.

- Judicial Computer System/Access To Justice Fees represent a $10 fee imposed for the filing of any legal paper to initiate a civil action or proceeding. These fees were increased to $23.50 for the period December 8, 2009 to December 31, 2014.

- Protection From Abuse Surcharges represent a $25 surcharge imposed against defendants when a protection order is granted as a result of a hearing. Effective May 9, 2006, the surcharge was increased to $100. Protection From Abuse Contempt Fines represent fines of not less than $100 nor more than $1,000 imposed against a defendant who is found to be in violation of a protection from abuse order. Effective May 9, 2006, the fine was increased to a minimum of $300 and maximum of $1000.

2. Receipts (Continued)

- Criminal Charge Information System Fees represent a fee imposed on all custody cases. Of the fee imposed, 80% is payable to the Administrative Office of Pennsylvania Courts (AOPC) and 20% is payable to the County in which the action took place. The fee was $7.00 for the period January 1, 2008 to December 31, 2010 and $7.50 for the period January 1, 2011 to December 31, 2013. The statement of receipts and disbursement only reflects the portion collected on behalf of the AOPC.

3. Commissions

Acting in the capacity of an agent for the Commonwealth, the Prothonotary is authorized to collect a commission of 3 percent on the Commonwealth portion of Writ Taxes. Accordingly, commissions owed the county are not included in the balance due the Commonwealth.

4. Disbursements

Total disbursements are comprised as follows:

Prothonotary checks issued to:

Department of Revenue	$	1,246,599
Adminstrative Office of Pennsylvania Courts		19,506
Total	$	1,266,105

5. Balance Due Commonwealth (County) For The Period January 1, 2008 To December 31, 2013

This balance reflects a summary of monthly transmittal reports as settled by the Department of Revenue. The balance also reflects a summary of receipts disbursed directly to the Administrative Office of Pennsylvania Courts.

6. Prior Examination Period Balance Due

We noted that there was a prior examination balance due the Commonwealth of $404 which was not paid as of the end of our current examination period.

7. County Officer Serving During Examination Period

Bryan D. Walters served as Prothonotary during the period January 1, 2008 to December 31, 2013.

Finding No. 1 - Inadequate Segregation Of Duties - Recurring

We cited the issue of inadequate segregation of duties in the prior examination report for the period January 1, 2005 to December 31, 2007. Our current examination found that the office did not correct this issue.

Our examination disclosed that one employee in the office was able to perform all the following functions:

- Collecting cash, entering collection information into the computer system, and issuing receipts.
- Summarizing accounting records.
- Making voided transaction adjustments.
- Reconciling collections to accounting records and/or receipts.
- Reconciling the bank accounts.
- Preparing the deposit slip.
- Reconciling the validated deposit slip to accounting records as to the mix of cash and checks collected.
- Preparing checks.

This condition existed because the office ignored our prior examination recommendation and failed to establish adequate segregation of duties.

A good system of internal controls requires adequate segregation of duties.

In order to achieve adequate segregation of duties, one employee should not have custody of cash and at the same time maintain the accounting records for the cash. These duties should be segregated and rotated daily. As an alternative control, someone independent from maintaining the accounting records and handling cash should review the employee's work daily. The reviewer should sign and date the records and documents reviewed.

Without adequate segregation of duties, the possibility of funds being lost or misappropriated increases significantly.

Finding No. 1 - Inadequate Segregation Of Duties - Recurring (Continued)

Recommendation

We strongly recommend that the office provide for greater segregation of duties within the office. This can be done by cross-training personnel and rotating job functions that include the handling of cash and maintaining the accounting records for the cash. As an alternative and/or additional control, someone independent from the handling of cash and the accounting records should review the employee's work at the end of each day. The reviewer should sign and date the records and documents reviewed.

Management's Response

No formal response was offered at this time.

Auditor's Conclusion

This is a recurring finding. We strongly recommend that the office comply with our recommendation.

Finding No. 2 - Missing Records

The Chester County Prothonotary's office discontinued its legacy computer system in October 2008 and implemented a new computer system. The office retained all receipt records created under the old legacy computer system as electronic back up as well as stored hard-copy, paper files.

During our examination, the office informed us that the hard-copy paper receipt files from the old legacy computer system had been destroyed and that the backup to the old legacy computer system was no longer maintained. According to the county information services department, the legacy computer system was discontinued in 2011 and it is no longer available to read the backup files. Therefore, the auditor was not able to examine any receipt records or reports created under the legacy computer system for the period January 1, 2008 to October 8, 2008.

Good internal accounting controls ensure that all records are properly accounted for and maintained. In addition, all documentation should be kept until audited by the Department of the Auditor General.

Without a good system of internal controls over record retention, the potential for fraud or misappropriation is increased.

This condition existed because the office failed to establish and implement an adequate system of internal controls over records. The office holder indicated that they did not order the destruction of the records and no documentation could be located to determine who was responsible for destroying the records.

Recommendation

We recommend that office establish and implement procedures to ensure that all records are properly accounted for and maintained. In addition, all documentation should be kept until audited by the Department of the Auditor General.

Management's Response

No formal response was offered at this time.

Finding No. 3 - Inadequate Internal Controls Over Computer System

The Chester County Prothonotary (County) uses software purchased from and supported by an outside service organization (Vendor) to account for transactions. The vendor has remote access to the County's computer system and data.

During discussions with County personnel, we learned that the Vendor has the ability to make changes to the County's data in a manner that would not be recorded through the normal accounting processes and, therefore, would not generate a normal examination trail.

We also noted the following weaknesses:

- The contract agreement between the County and the Vendor relieves the Vendor of any liability concerning loss of data or system functionality that may be caused by the Vendor's actions. The contract states in part, "In no event shall the [Vendor] be liable for any….. damages arising out of or in connection with this Agreement, including by not limited to lost revenue, lost profits, replacement goods, loss of technology rights or services, loss of data, or interruption or loss of use of software or any portion thereof, even if advised of the possibility of such damages."

- The Vendor has unmonitored access to the County's data. The County was not monitoring the Vendor's system accesses, nor were they receiving reports to show what data may have been altered and/or accessed.

- No formal risk assessment has been performed for the security settings (ie. changing passwords periodically, updated lists of individuals who have access and authority to enter the system etc.).

Effective security policy and practice requires the County's approval and monitoring of any computer data changes made by the Vendor, particularly because of the Vendor's access to critical applications.

According to the Computer Emergency Response Team (CERT) of Carnegie Mellon University, inadequate contractor security policies and practices can result in undetected intrusions or security violations, lack of data integrity, and loss of privacy.

Further, CERT documents also caution that a system might experience loss of confidentiality and integrity due to the contractor using an unsecure method of remote access. This may result in intruders gaining unauthorized access to, modifying, or destroying the County's information systems and assets; deliberately introducing security vulnerabilities or viruses; and launching attacks on other systems from the County's network and perhaps making the County liable for damages.

Finding No. 3 - Inadequate Internal Controls Over The Computer System (Continued)

These conditions existed because the County failed to establish adequate internal controls over its computer system.

Recommendations

We recommend:

- That the County establish procedures to periodically generate monitoring reports that include the date, time, reason for change(s), change(s) made, and who made the change(s). The County should routinely review these reports to determine that access was appropriate and that data was not improperly altered.

- That the County continue to take prudent steps to properly secure their production servers from unauthorized access using the remote access software installed on their system. We recommend consideration of security practices published by respected authorities in the field, such as the NIST Federal Information Processing Standards Publication entitled:

  Minimum Security Requirements for Federal Information and Information Systems
  (http://csrc.nist.gov/publications/fips/fips200/FIPS-200-final-march.pdf)

- That the County negotiate an updated contract and software maintenance agreement with the Vendor. During this process the County's legal counsel should consider how to protect the County's interests in the event that errors or fraud occur as a result of Vendor employees accessing the County's data. Further, in accordance with the CERT document cited above, the following computer security issues should be considered for inclusion in the contract:

  - Assurances that vulnerabilities to known forms of attack have been addressed in the contractor software (i.e., all security patches have been updated and applied), assertions that contractor software is installed and configured to operate securely, and warranties that no malicious code (i.e., Trojan Horses) or viruses exist in contractor software.

Finding No. 3 - Inadequate Internal Controls Over The Computer System (Continued)

Recommendations (continued)

- The remote access method, the user authentication process, and a requirement that the contractor communicate securely with the County's site when operating remotely.

- The ability to restrict systems administrator-level access to authorized users, as well as the ability to log appropriate activities for purposes of detecting intrusions and attempted intrusions.

- A recently completed security evaluation of the contractor encompassing the technology being selected.

- A non-disclosure agreement if the contractor may encounter proprietary information on the County's systems.

· That the County always maintain an updated contract so as to provide appropriate legal recourse in the event of disputes with the Vendor.

Management's Response

No formal response was offered at this time

PROTHONOTARY
CHESTER COUNTY
REPORT DISTRIBUTION
FOR THE PERIOD
JANUARY 1, 2008 TO DECEMBER 31, 2013

This report was initially distributed to:

The Honorable Eileen H. McNulty
Secretary
Pennsylvania Department of Revenue

The Honorable Zygmont Pines
Court Administrator of Pennsylvania
Supreme Court of Pennsylvania
Administrative Office of Pennsylvania Courts

The Honorable Bryan D. Walters	Prothonotary
The Honorable Norman MacQueen	Controller
The Honorable Terence E. Farrell	Chairperson of the Board of Commissioners

This report is a matter of public record and is available online at http://www.PaAuditor.gov. Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 231 Finance Building, Harrisburg, PA 17120; via email to: news@PaAuditor.gov.