

ATTESTATION ENGAGEMENT

Prothonotary Northampton County, Pennsylvania For the Period January 1, 2012 to December 31, 2015

November 2016



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, Northampton County, Pennsylvania (County Officer), for the period January 1, 2012 to December 31, 2015, 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, 2012 to December 31, 2015, in conformity with the criteria set forth in Note 1.

Independent Auditor's Report (Continued)

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 Internal Controls Over Receipts - Recurring.
- Inadequate Internal Controls Over 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*.

Independent Auditor's Report (Continued)

We are concerned that the County Office failed to correct the previously reported finding regarding the inadequate internal controls over receipts. The failure to implement an adequate internal controls over receipts increases the risk for funds to be lost or misappropriated. This condition had been cited in the county office's prior examination report. It is imperative that the County Office implement the recommendation and corrective action noted in this 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, Northampton 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.



Eugene A. DePasquale
Auditor General

September 9, 2016

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PROTHONOTARY
 NORTHAMPTON COUNTY
 STATEMENT OF RECEIPTS AND DISBURSEMENTS
 FOR THE PERIOD
 JANUARY 1, 2012 TO DECEMBER 31, 2015

Receipts:

Writ Taxes	\$ 17,932
Divorce Complaint Surcharges	34,280
Judicial Computer System/Access To Justice Fees	669,913
Protection From Abuse Surcharges and Contempt Fines	38,685
Criminal Charge Information System Fees	<u>12,784</u>
Total Receipts (Note 2)	773,594
Commissions (Note 3)	<u>(539)</u>
Net Receipts	773,055
Disbursements to Commonwealth (Note 4)	<u>(773,055)</u>
Balance due Commonwealth (County) per settled reports (Note 5)	-
Examination adjustments Note 6)	<u>(24)</u>
Adjusted balance due Commonwealth (County) for the period January 1, 2012 to December 31, 2015	<u><u>\$ (24)</u></u>

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

PROTHONOTARY
NORTHAMPTON COUNTY
NOTES TO THE STATEMENT OF RECEIPTS AND DISBURSEMENTS
FOR THE PERIOD
JANUARY 1, 2012 TO DECEMBER 31, 2015

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 \$23.50 fee imposed for the filing of any legal paper to initiate a civil action or proceeding. Effective July 10, 2014, Act 126 increased the fee to \$33.50. Effective August 8, 2014, Act 113 increased the fee to \$35.50.
- Protection From Abuse Surcharges represent a \$100 surcharge imposed against defendants when a protection order is granted as a result of a hearing. Protection From Abuse Contempt Fines represent fines of not less than \$300 nor more than \$1,000 imposed against a defendant who is found to be in violation of a protection from abuse order.
- 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 \$7.50 for the period January 1, 2012 to December 31, 2013 and was \$8.00 for the period January 1, 2014 thru December 31, 2015. The statement of receipts and disbursements only reflects the portion collected on behalf of the AOPC.

PROTHONOTARY
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NOTES TO THE STATEMENT OF RECEIPTS AND DISBURSEMENTS
FOR THE PERIOD
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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	\$ 760,271
Administrative Office of Pennsylvania Courts	<u>12,784</u>
Total	<u>\$ 773,055</u>

5. Balance Due County For The Period January 1, 2012 To December 31, 2015

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. It does not reflect adjustments disclosed by our examination. Refer to Exhibit 1.

6. Examination Adjustment

The examination adjustment represents an overpayment of \$24 to the Department of Revenue in October 2014.

7. County Officer Serving During Examination Period

Holly Ruggiero served as Prothonotary during the period January 1, 2012 to December 31, 2015.

PROTHONOTARY
NORTHAMPTON COUNTY
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2012 TO DECEMBER 31, 2015

Finding No. 1 - Inadequate Internal Controls Over Receipts - Recurring

We cited the issue of inadequate internal controls over receipts in the prior examination report for the period January 1, 2007 to December 31, 2011. Our current examination found that the office did not correct this issue.

The office contracted with a computer software vendor for a computer software program for receipts. Our examination disclosed the following deficiencies in the internal controls over receipts generated by the office's computer software program:

- The office's computer software program would only use a limited range of receipt numbers between 1,000 to 5,000. The computer software would start generating receipts at number 1,000. Once the software issued receipt number 5,000, the software would then revert back to receipt number 1,000 again.
- The computer software program could not assign certain receipt numbers. The system would generate an error message and use the next available receipt number.
- Of 50 receipts tested, 17 were not deposited on the same day as collected. The time lapse from the date of receipt to the subsequent date of deposit ranged from 2 days to 8 days.

It should be noted that the testing of the receipts indicated that the total amount receipted equaled the total amount deposited.

These conditions existed because the office failed to establish adequate internal controls over its receipts as recommended in our prior examination report.

A good system of internal controls ensures that:

- The range of numbers used for receipts is not limited to a certain range.
- The computer software program cannot skip over receipt numbers and all receipts should be issued in numerical sequence.
- All monies collected are deposited intact at the bank on the same day as collected.

Without a good system of internal controls over funds received by the office, the possibility of funds being lost or misappropriated increases significantly.

PROTHONOTARY
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FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2012 TO DECEMBER 31, 2015

Finding No. 1 - Inadequate Internal Controls Over Receipts - Recurring (Continued)

Recommendation

We strongly recommend that the office establish and implement an adequate system of internal controls over receipts as noted above.

Management's Response

The County Officer responded as follows:

There have been several flaws with the cashiering software which causes receipt numbers to be skipped. The Prothonotary's Office does have adequate segregation of duties and proper internal controls, however, agrees with the findings of the Audit. This was a written finding on the previous audit to which we responded that we would be searching for a new vendor. We have purchased new court software which incorporates the financial records. This system will eliminate the skipped receipt numbers and provide more detailed reports for management.

Auditor's Conclusion

This is a recurring finding. It is imperative that the office take all steps necessary to comply with our recommendation. During our next examination, we will determine if the office complied with our recommendation.

PROTHONOTARY
NORTHAMPTON COUNTY
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2012 TO DECEMBER 31, 2015

Finding No. 2 - Inadequate Internal Controls Over Computer System

The Prothonotary uses software purchased from and supported by an outsider service organization (Vendor) to account for transactions. The Vendor has remote access to the Office's computer system and data. The County initiates and approves transactions from remote terminals in the Office. These transactions are then transmitted electronically to the Vendor's computer system. The Vendor is responsible for processing all of the transactions and producing the necessary reports and accounting entries to record the receipt and distribution of funds and to prepare the financial statements.

During discussions with Prothonotary personnel, we learned that the Vendor has the ability to make changes to the Office'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 Vendor has unmonitored access to the Office's data.
- Office users are not required to periodically change their passwords after initial password selection.
- The Office does not maintain a list of which vendor or county employees have access to the computer system data.

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. Furthermore, to ensure confidentiality, passwords should be changed periodically and not exchanged between employees.

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.

PROTHONOTARY
NORTHAMPTON COUNTY
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2012 TO DECEMBER 31, 2015

Finding No. 2 - Inadequate Internal Controls Over 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.
- 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>)

- 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 NIST 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.

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Finding No. 2 - Inadequate Internal Controls Over 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.
- Always maintain an updated contract so as to provide appropriate legal recourse in the event of disputes with the Vendor.
- Office users be required to periodically change their passwords.

Management's Response

The County Officer responded as follows:

The County's IT department is responsible for all controls with regard to the computer system. The finding has been discussed with the IT department. We have now implemented a process when any vendor gains access to the server, the IT department must log the access through their tracking system. This will automatically notify the manager of that department and will create a complete tracking report for auditing purposes.

Auditor's Conclusion

During our next examination, we will determine if the office complied with our recommendations.

PROTHONOTARY
NORTHAMPTON COUNTY
SUMMARY OF PRIOR EXAMINATION RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2012 TO DECEMBER 31, 2015

Summary of Prior Examination Recommendations

During our prior examination, we recommended that the office:

- Establish and implement an adequate system of internal controls over receipts.
- Obtain a validation from the bank as to the mix of cash and checks deposited. We further recommended that the validation is reconciled to receipts by someone other than the person preparing or making the deposit.

During our current examination, we noted that the office complied with our second bulleted recommendation. However, the office did not comply with our first bulleted recommendation. Please see Finding No. 1 for additional information.

PROTHONOTARY
NORTHAMPTON COUNTY
REPORT DISTRIBUTION
FOR THE PERIOD
JANUARY 1, 2012 TO DECEMBER 31, 2015

This report was initially distributed to:

The Honorable Eileen H. McNulty
Secretary
Pennsylvania Department of Revenue

The Honorable Thomas B. Darr
Court Administrator of Pennsylvania
Supreme Court of Pennsylvania
Administrative Office of Pennsylvania Courts

The Honorable Holly Ruggiero
Prothonotary

The Honorable Stephen Barron
Controller

The Honorable John Cusick
President of the County Council

This report is a matter of public record and is available online at www.PaAuditor.gov. Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 229 Finance Building, Harrisburg, PA 17120; via email to: news@PaAuditor.gov.