

ATTESTATION ENGAGEMENT

Recorder of Deeds/
Register of Wills
Pike County, Pennsylvania
For the Period
January 1, 2012 to December 31, 2014

July 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 McNulty
Secretary
Pennsylvania Department of Revenue
Harrisburg, PA 17128

We have examined the accompanying statements of receipts and disbursements (Statements) of the Recorder of Deeds/Register of Wills, Pike County, Pennsylvania (County Officer), for the period January 1, 2012 to December 31, 2014, 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 these Statements. Our responsibility is to express an opinion on these Statements 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 Statements 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 Statements referred to above present, 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, 2014, 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 Statements; 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 Statements. 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 Statements are presented in accordance with the criteria described above and not for the purpose of expressing an opinion on internal control over reporting on the Statements or on compliance and other matters; accordingly, we express no such opinions.

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 Statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a 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.

Our consideration of internal control over reporting on the Statements was for the limited purpose of expressing an opinion on whether the Statements are presented in accordance with the criteria described above and was not designed to identify all deficiencies in internal control over reporting on the Statements that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our engagement we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the finding listed below, that we consider to be a significant deficiency:

- Inadequate Internal Controls Over Computer System - Register of Wills - Recurring.

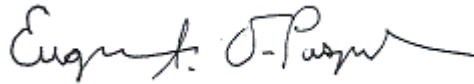
As part of obtaining reasonable assurance about whether the Statements are free from material misstatement, we performed tests of the County Office's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect 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 office failed to correct a finding that was cited in the previous five examination reports regarding inadequate internal controls over the computer system. These significant deficiencies increase the risk for funds to be lost or misappropriated. It is imperative that the office strive to implement the recommendations and corrective actions 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 Recorder of Deeds/Register of Wills, Pike 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

May 4, 2016

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RECORDER OF DEEDS
PIKE COUNTY
REALTY TRANSFER TAXES
STATEMENT OF RECEIPTS AND DISBURSEMENTS
FOR THE PERIOD
JANUARY 1, 2012 TO DECEMBER 31, 2014

Receipts:

Realty Transfer Taxes (Note 2)	\$ 6,692,259
Commissions (Note 3)	<u>(66,923)</u>
Net Receipts	6,625,336
Disbursements to Commonwealth (Note 4)	<u>(6,624,682)</u>
Balance due Commonwealth (County) per settled reports (Note 5)	654
Examination adjustments (Note 6)	<u>1,068</u>
Adjusted balance due Commonwealth (County) for the period January 1, 2012 to December 31, 2014	<u>\$ 1,722</u>

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

RECORDER OF DEEDS
 PIKE COUNTY
 WRIT TAXES AND JUDICIAL COMPUTER SYSTEM/ACCESS TO JUSTICE FEES
 STATEMENT OF RECEIPTS AND DISBURSEMENTS
 FOR THE PERIOD
 JANUARY 1, 2012 TO DECEMBER 31, 2014

Receipts:

Writ Taxes	\$	19,308
Judicial Computer System/Access To Justice Fees		<u>863,447</u>
Total Receipts (Note 2)		882,755
Commissions (Note 3)		<u>(579)</u>
Net Receipts		882,176
Disbursements to Commonwealth (Note 4)		<u>(882,701)</u>
Balance due Commonwealth (County) per settled reports (Note 5)		(525)
Examination adjustments (Note 7)		<u>520</u>
Adjusted balance due Commonwealth (County) for the period January 1, 2012 to December 31, 2014	\$	<u><u>(5)</u></u>

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

REGISTER OF WILLS
 PIKE COUNTY
 STATEMENT OF RECEIPTS AND DISBURSEMENTS
 FOR THE PERIOD
 JANUARY 1, 2012 TO DECEMBER 31, 2014

Receipts:	
Inheritance Taxes	\$ 5,981,942
Judicial Computer System/Access To Justice Fees	<u>13,108</u>
Total Receipts (Note 2)	5,995,050
Disbursements and credits to Commonwealth (Note 4)	<u>(5,995,050)</u>
Balance due Commonwealth (County) per settled reports (Note 5)	-
Examination adjustments	<u>-</u>
Adjusted balance due Commonwealth (County) for the period January 1, 2012 to December 31, 2014	<u>\$ -</u>

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

RECORDER OF DEEDS/
REGISTER OF WILLS
PIKE COUNTY
NOTES TO THE STATEMENTS OF RECEIPTS AND DISBURSEMENTS
FOR THE PERIOD
JANUARY 1, 2012 TO DECEMBER 31, 2014

1. Criteria

The Statements of Receipts and Disbursements provide a summary of receipts and disbursements by category. The categories and the amounts of taxes and fees assessed are based on Pennsylvania laws and regulations.

The Statements were 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

Recorder Of Deeds

Receipts consist of monies collected on behalf of the Commonwealth. These include monies collected for the following taxes and fees:

- The Pennsylvania Realty Transfer Tax is a documentary stamp tax of 1 percent on the value of the interest in real property transferred by deed.
- Writ Taxes represent a \$.50 tax imposed on various types of documents and a \$10 tax on notary public commissions processed through the office.
- 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 July 9, 2014. Effective July 10, 2014, Act 126 increased the fee to \$33.50. Effective August 8, 2014, Act 113 increased the fee to \$35.50.

Register Of Wills

Receipts consist of monies collected on behalf of the Commonwealth less commissions on these monies. These include monies collected for the following taxes and fees:

- Inheritance Taxes represent inheritance taxes filed with the Register of Wills.

RECORDER OF DEEDS/
 REGISTER OF WILLS
 PIKE COUNTY
 NOTES TO THE STATEMENTS OF RECEIPTS AND DISBURSEMENTS
 FOR THE PERIOD
 JANUARY 1, 2012 TO DECEMBER 31, 2014

2. Receipts (Continued)

Register Of Wills (Continued)

- 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 July 9, 2014. Effective July 10, 2014, Act 126 increased the fee to \$33.50. Effective August 8, 2014, Act 113 increased the fee to \$35.50.

3. Commissions

Acting in the capacity of an agent for the Commonwealth, the Recorder of Deeds/Register of Wills is authorized to collect a commission on the Commonwealth portion of taxes as follows:

<u>Tax</u>	<u>Commission</u>
Realty Transfer	1%
Writ	3%
Inheritance	4.25% \$1.00 to \$200,000.00 1.75% next \$800,000.00 .50% thereafter

Register of Wills commissions of \$82,409 for Inheritance Taxes were paid to the County by the Department of Revenue, which are not reflected in the Statements.

RECORDER OF DEEDS/
REGISTER OF WILLS
PIKE COUNTY
NOTES TO THE STATEMENTS OF RECEIPTS AND DISBURSEMENTS
FOR THE PERIOD
JANUARY 1, 2012 TO DECEMBER 31, 2014

4. Disbursements And Credits

Recorder Of Deeds

Realty Transfer Taxes

The Recorder of Deeds participates in the Department of Revenue's cash management system for Realty Transfer Taxes. Under this system, the "Agent" deposits Realty Transfer Tax collections to a local account approved and established in the name of the Department of Revenue, thereby eliminating the need for the agent to issue a check to disburse these taxes.

Total disbursements are comprised as follows:

Deposits into the Department of Revenue's cash management account	<u>\$ 6,624,682</u>
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Writ Taxes And Judicial Computer System/Access To Justice Fees

Total disbursements are comprised as follows:

Recorder of Deeds checks issued to:

Department of Revenue	<u>\$ 882,701</u>
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RECORDER OF DEEDS/
REGISTER OF WILLS
PIKE COUNTY
NOTES TO THE STATEMENTS OF RECEIPTS AND DISBURSEMENTS
FOR THE PERIOD
JANUARY 1, 2012 TO DECEMBER 31, 2014

4. Disbursements And Credits (Continued)

Register Of Wills

Inheritance Taxes

The Register of Wills participates in the Department of Revenue's cash management system for Inheritance Taxes. Under this system, the "Agent" deposits Inheritance Tax collections to a local account approved and established in the name of the Department of Revenue, thereby eliminating the need for the agent to issue a check to disburse these taxes.

Total disbursements are comprised as follows:

Deposits into the Department of Revenue's cash management account	\$ 5,980,060
Credits issued by the Department of Revenue	1,882
Checks issued to the Department of Revenue for Judicial Computer System/Access To Justice Fees	<u>13,108</u>
Total	<u>\$ 5,995,050</u>

5. Balance Due Commonwealth (County) For The Period January 1, 2012 To December 31, 2014

This balance reflects a summary of monthly transmittal reports as settled by the Department of Revenue.

6. Examination Adjustment - Recorder of Deeds - Realty Transfer Taxes

The examination adjustment of \$1,068 consists of the following

The office erroneously deposited Inheritance Tax collections of \$1,050 into the Realty Transfer Tax account in June 2012. This error was corrected in August 2012.

In August of 2013, there was a bank deposit error of \$18.

RECORDER OF DEEDS/
REGISTER OF WILLS
PIKE COUNTY
NOTES TO THE STATEMENTS OF RECEIPTS AND DISBURSEMENTS
FOR THE PERIOD
JANUARY 1, 2012 TO DECEMBER 31, 2014

7. Examination Adjustment - Recorder of Deeds - Writ Tax And Judicial Computer System/Access to Justice Fees.

There was \$520 of interest earned on Commonwealth funds during the examination period that was not remitted to Revenue.

8. County Officer Serving During Examination Period

Sharon Schroeder served as Recorder of Deeds/Register of Wills during the period January 1, 2012 to December 31, 2014.

RECORDER OF DEEDS/
REGISTER OF WILLS
PIKE COUNTY
FINDING AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2012 TO DECEMBER 31, 2014

**Finding - Inadequate Internal Controls Over Computer System - Register Of Wills -
Recurring**

We cited the issue of inadequate internal controls over the computer system in the five prior examinations, with the most recent for the period January 1, 2009 to December 31, 2011. Our current examination found that the office once again did not correct this issue.

Pike County uses a service organization (Vendor) as an Application Service Provider (ASP) to account for transactions in several offices, including the Register of Wills (County). The County initiates and approves transactions from remote terminals in the County. 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 office personnel, we learned that the Vendor has the ability to make changes to the County's data using a procedure called a Data File Utility (DFU). Use of this utility would not be recorded through the normal accounting processes and, therefore, would not generate a normal examination trail.

We also noted the following weaknesses:

- Changes made by the vendor are not requested in writing by the office.
- 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, "The client agrees that [Vendor] shall not be held liable for direct, indirect, incidental, or consequential damages arising from the use or inability to use the software."
- The Vendor has unmonitored access to the County's data. The County was not monitoring the vendor's access, nor were they receiving reports to show what data may have been altered and/or accessed.

These conditions existed because the County failed to establish adequate internal controls over its computer system and take appropriate action as recommended in our prior five examination reports.

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.

RECORDER OF DEEDS/
REGISTER OF WILLS
PIKE COUNTY
FINDING AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2012 TO DECEMBER 31, 2014

**Finding - Inadequate Internal Controls Over Computer System - Register Of Wills -
Recurring (Continued)**

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.

Recommendations

We strongly recommend that the office:

- 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/fibs200/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 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.

RECORDER OF DEEDS/
REGISTER OF WILLS
PIKE COUNTY
FINDING AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2012 TO DECEMBER 31, 2014

**Finding - Inadequate Internal Controls Over Computer System - Register Of Wills -
Recurring (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.

Management's Response

The County Officer responded as follow:

[These] issues will be discussed with [the computer vendor].

Auditor's Conclusion

This finding was also cited in the previous five examination reports. We strongly recommend that the office take all steps necessary to comply with our recommendations. During our next examination, we will determine if the office complied with our recommendations.

RECORDER OF DEEDS/
REGISTER OF WILLS
PIKE COUNTY
SUMMARY OF PRIOR EXAMINATION RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2012 TO DECEMBER 31, 2014

Summary Of Prior Examination Recommendations

During our prior examination, we again recommended that the office:

- Require users to periodically change their passwords.
- 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.
- 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.
- Always maintain an updated contract so as to provide appropriate legal recourse in the event of disputes with the Vendor.

During our current examination, we noted that the office complied with our first bulleted recommendation. However, the office did not comply with the remaining four bulleted recommendations. Please see the current year finding for additional information.

RECORDER OF DEEDS/
REGISTER OF WILLS
PIKE COUNTY
REPORT DISTRIBUTION
FOR THE PERIOD
JANUARY 1, 2012 TO DECEMBER 31, 2014

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 Courts
Administrative Office of Pennsylvania Courts

The Honorable Sharon Schroeder
Recorder of Deeds/Register of Wills

The Honorable Matthew M. Osterberg
Chairperson of the Board of Commissioners

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.