

ATTESTATION ENGAGEMENT

Recorder of Deeds Lackawanna 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 statements of receipts and disbursements (Statements) of the Recorder of Deeds, Lackawanna 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 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, 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 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.

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. 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 Statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency listed below to be a material weakness.

- Inadequate Accountability Over The Bank Account.

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*.

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.

Independent Auditor's Report (Continued)

We appreciate the courtesy extended by the Recorder of Deeds, Lackawanna 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.

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

November 4, 2016

Eugene A. DePasquale
Auditor General

CONTENTS

	<u>Page</u>
Financial Section:	
Statements Of Receipts And Disbursements:	
Realty Transfer Taxes	1
Writ Taxes And Judicial Computer System/Access To Justice Fees	2
Notes To The Statements Of Receipts And Disbursements	3
Finding And Recommendation:	
Finding - Inadequate Internal Controls Over The Bank Account	5
Report Distribution	7

RECORDER OF DEEDS
 LACKAWANNA COUNTY
 REALTY TRANSFER TAXES
 STATEMENT OF RECEIPTS AND DISBURSEMENTS
 FOR THE PERIOD
 JANUARY 1, 2012 TO DECEMBER 31, 2015

Receipts:

Realty Transfer Taxes (Note 2)		\$ 19,455,402
Commissions (Note 3)		<u>(194,554)</u>
Net Receipts		19,260,848
Disbursements to Commonwealth (Note 4)		<u>(19,260,848)</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, 2015		<u><u>\$ -</u></u>

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

RECORDER OF DEEDS
 LACKAWANNA 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, 2015

Receipts:

Writ Taxes	\$	61,216
Judicial Computer System/Access To Justice Fees		<u>2,275,807</u>
Total Receipts (Note 2)		2,337,023
Commissions (Note 3)		<u>(1,836)</u>
Net Receipts		2,335,187
Disbursements to Commonwealth (Note 4)		<u>(2,335,187)</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, 2015	\$	<u><u>-</u></u>

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

RECORDER OF DEEDS
LACKAWANNA COUNTY
NOTES TO THE STATEMENTS OF RECEIPTS AND DISBURSEMENTS
FOR THE PERIOD
JANUARY 1, 2012 TO DECEMBER 31, 2015

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

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 \$23.50 fee imposed for each filing of deeds in any form, mortgages, mortgage assignments, mortgage releases, mortgage satisfaction pieces, installment sales agreements, leases for a term of 30 years or longer, and easements. 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 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%

RECORDER OF DEEDS
LACKAWANNA COUNTY
NOTES TO THE STATEMENTS OF RECEIPTS AND DISBURSEMENTS
FOR THE PERIOD
JANUARY 1, 2012 TO DECEMBER 31, 2015

4. Disbursements

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>\$ 19,260,848</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>\$ 2,335,187</u>
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5. Balance Due Commonwealth (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.

6. County Officer Serving During Examination Period

Evie Rafalko McNulty served as Recorder of Deeds during the period January 1, 2012 to December 31, 2015.

RECORDER OF DEEDS
LACKAWANNA COUNTY
FINDING AND RECOMMENDATION
FOR THE PERIOD
JANUARY 1, 2012 TO DECEMBER 31, 2015

Finding - Inadequate Internal Controls Over The Bank Account

Our examination of the accounting records for the office disclosed the following deficiencies in the internal controls over the bank account:

- Monthly bank reconciliations were not prepared since November 2014.
- There was no accountability over undisbursed funds. The office did not maintain a schedule of cash liabilities.

A good system of internal controls ensures that:

- Bank statements are properly reconciled to the book balance on a monthly basis and any discrepancies are immediately investigated and resolved.
- The ending adjusted bank balance is reconciled with liabilities on a monthly basis and any discrepancies are immediately investigated and resolved. Since the office bank account is essentially an escrow account on behalf of the Commonwealth, County, and other participating entities, all available funds on hand should equal unpaid obligations.

Without a good system of internal controls over the bank account, the possibility of funds being lost or misappropriated increases significantly.

These conditions existed because the office failed to establish adequate internal controls over its bank account.

Recommendation

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

RECORDER OF DEEDS
LACKAWANNA COUNTY
FINDING AND RECOMMENDATION
FOR THE PERIOD
JANUARY 1, 2012 TO DECEMBER 31, 2015

Finding - Inadequate Internal Controls Over The Bank Account (Continued)

Management's Response

The County Officer responded as follows:

I reviewed the account as well as the work I had done to try to reconcile the account and was advised to do the following:

1. Stop using this account and create another account. As of August 1, 2016 all deposits were being made to the new account.
2. The original account will remain open and we will continue to rectify the problems.
3. All checks and deposit books were destroyed.
4. After several months I will proceed with removing any balance into the new account.
5. This can only be done after the interest payments due to the county are made.

Auditor's Conclusion

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

RECORDER OF DEEDS
LACKAWANNA 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 Evelyn Rafalko-Mcnulty
Recorder of Deeds

The Honorable Gary Dibileo
Controller

The Honorable Patrick M. O'Malley
Chairman 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.