RECORDER OF DEEDS/
REGISTER OF WILLS

PIKE COUNTY

EXAMINATION REPORT

FOR THE PERIOD

JANUARY 1, 2008 TO DECEMBER 31, 2008

CONTENTS

Page

Independent Auditor's Report 1

Financial Section:

Statements Of Receipts And Disbursements:

Recorder Of Deeds

Realty Transfer Taxes 5

Writ Taxes And Judicial Computer System/Access To Justice Fees 6

Register Of Wills

Inheritance Taxes And Judicial Computer System/Access To Justice Fees 7

Notes To The Statements Of Receipts And Disbursements 8

Finding And Recommendations:

Finding - Inadequate Internal Controls Over The Computer System – Register Of Wills 13

Report Distribution 17

Independent Auditor's Report

Acting 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, 2008 to December 31, 2008, pursuant to the requirements of Sections 401(b) and 401(d) of *The Fiscal Code*, 72 P.S § 401(b) and § 401(d). These Statements are the responsibility of the county office's management. 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. An examination includes 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 ended December 31, 2008, in conformity with the criteria set forth in Note 1.

In accordance with *Government Auditing Standards*, we are required to report findings of significant deficiencies in internal control, violations of provisions of contracts or grant agreements, and abuse that are material to the Statements and any fraud and illegal acts that are more than inconsequential that come to our attention during our examination. We are also required to obtain the views of management on those matters. 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 the internal control over reporting on the Statements or on compliance and other matters; accordingly, we express no such opinions.

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 County Officer's ability to initiate, authorize, record, process, or report data reliably in accordance with the applicable criteria such that there is more than a remote likelihood that a misstatement of the County Officer's Statements that is more than inconsequential will not be prevented or detected by the County Officer's internal control. We consider the deficiency described in the finding below to be a significant deficiency in internal control over reporting on the Statements:

- Inadequate Internal Controls Over The Computer System – Register Of Wills.

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 Statements will not be prevented or detected by the County Officer's internal control. Our consideration of the internal control over reporting on the Statements would not necessarily disclose all matters in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We consider the significant deficiency described above to be a material weakness.

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 in light of the County Officer's failure to correct a previously reported finding regarding inadequate internal controls over the computer system. These significant deficiencies increase 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.

August 26, 2009

JACK WAGNER
Auditor General

JACK WAGNER

AUDITOR GENERAL

RECORDER OF DEEDS
PIKE COUNTY
REALTY TRANSFER TAXES
STATEMENT OF RECEIPTS AND DISBURSEMENTS
FOR THE PERIOD
JANUARY 1, 2008 TO DECEMBER 31, 2008

Receipts:	
Realty Transfer Taxes (Note 2)	$ 3,345,232
Commissions (Note 3)	(33,452)
Net Receipts	3,311,780
Disbursements to Commonwealth (Note 4)	(3,311,780)
Balance due Commonwealth (County) per settled reports (Note 5)	-
Examination adjustments	-
Adjusted balance due Commonwealth (County) January 1, 2008 to December 31, 2008	$ -

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, 2008 TO DECEMBER 31, 2008

Receipts:	
Writ Taxes	$ 8,653
Judicial Computer System/Access To Justice Fees	134,160
Total Receipts (Note 2)	142,813
Commissions (Note 3)	(260)
Net Receipts	142,553
Disbursements to Commonwealth (Note 4)	(142,553)
Balance due Commonwealth (County) per settled reports (Note 5)	-
Examination adjustment (Note 6)	303
Adjusted balance due Commonwealth (County) January 1, 2008 to December 31, 2008	$ 303

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

REGISTER OF WILLS
PIKE COUNTY
INHERITANCE TAXES AND
JUDICIAL COMPUTER SYSTEM/ACCESS TO JUSTICE FEES
STATEMENT OF RECEIPTS AND DISBURSEMENTS
FOR THE PERIOD
JANUARY 1, 2008 TO DECEMBER 31, 2008

Receipts:	
Inheritance Taxes	$ 2,168,120
Judicial Computer System/Access To Justice Fees	1,670
Total Receipts (Note 2)	2,169,790
Disbursements to Commonwealth (Note 4)	(2,169,790)
Balance due Commonwealth (County) per settled reports (Note 5)	-
Examination adjustments	-
Adjusted balance due Commonwealth (County) January 1, 2008 to December 31, 2008	$ -

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, 2008 TO DECEMBER 31, 2008

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 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.

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.

2. Receipts (Continued)

Register Of Wills (Continued)

- Judicial Computer System/Access To Justice Fees represent a $10 fee imposed for the initiation of any civil action or legal proceeding, including the filing of petitions for grants of letters, and first filing in petitions concerning adoptions, incompetents' estates, minors' estates, and inter vivos trusts.

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:

Tax	Commission
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 $28,341 for Inheritance Taxes were paid to the County by the Department of Revenue, which are not reflected in the Statements.

4. Disbursements To Commonwealth

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	$ 3,311,780

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	$ 142,553

4. Disbursements To Commonwealth (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	$ 2,168,120
Checks issued to the Department of Revenue for Judicial Computer System/Access To Justice Fees	1,670
Total	$ 2,169,790

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

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

6. Examination Adjustment - Recorder of Deeds - Writ Taxes And Judicial Computer System/Access To Justice Fees

The examination adjustment represents interest earned on Commonwealth funds during the examination period that was not remitted to the Department of Revenue.

7. County Officer Serving During Examination Period

Sharon Schroeder served as Recorder of Deeds/Register of Wills during the period January 1, 2008 to December 31, 2008.

JACK WAGNER

AUDITOR GENERAL

Finding - Inadequate Internal Controls Over The Computer System – Register Of Wills

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 is using group user IDs and passwords instead of unique user IDs and passwords for each employee. Use of the group user IDs eliminates the ability to isolate and track the Vendor employee(s) who changed the County's data.

- 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.

- County's users are not required to periodically change their passwords after initial password selection.

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.

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

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

A similar finding was cited in our last three audit periods, the most recent ending December 31, 2007.

Recommendations

We again 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 should 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 CERT Security Module entitled:

  Outsourcing Managed Security Services
  (http://www.cert.org/archive/pdf/omss.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 - Inadequate Internal Controls Over The Computer System - Register Of Wills (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.

- That the County office users be required to periodically change their passwords.

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 recommendations.

JACK WAGNER

AUDITOR GENERAL

RECORDER OF DEEDS/
REGISTER OF WILLS
PIKE COUNTY
REPORT DISTRIBUTION
FOR THE PERIOD
JANUARY 1, 2008 TO DECEMBER 31, 2008

This report was initially distributed to:

Acting Secretary
Pennsylvania Department of Revenue

The Honorable Zygmont Pines
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 Richard Caridi	Chairman of the Board of Commissioners

This report is a matter of public record. Copies of this report may be obtained from the Pennsylvania Department of the Auditor General, Office of Communications, 318 Finance Building, Harrisburg, PA 17120. To view this report online or to contact the Department of the Auditor General, please access our web site at www.auditorgen.state.pa.us.