

RECORDER OF DEEDS/
REGISTER OF WILLS

POTTER COUNTY

EXAMINATION REPORT

FOR THE PERIOD

JANUARY 1, 2004 TO DECEMBER 31, 2007

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Independent Auditor's Report

Mr. Stephen H. Stetler
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, Potter County, Pennsylvania (County Officer), for the period January 1, 2004 to December 31, 2007, 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*.

Independent Auditor's Report (Continued)

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, 2007, 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 deficiencies described in the findings below to be significant deficiencies in internal control over the reporting on the Statements:

- Receipts Were Not Always Deposited On The Same Day As Collected.
- Inadequate Accountability Over Funds Held In Escrow.

Independent Auditor's Report (Continued)

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 all the significant deficiencies described above to be material weaknesses.

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 previously reported findings regarding inadequate internal controls over receipts and inadequate accountability over funds held in escrow. These significant deficiencies increase the risk for funds to be lost, stolen, or misappropriated. The County Officer should strive to implement the recommendations and corrective actions 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.

September 8, 2008

JACK WAGNER
Auditor General



RECORDER OF DEEDS
POTTER COUNTY
REALTY TRANSFER TAXES
STATEMENT OF RECEIPTS AND DISBURSEMENTS
FOR THE PERIOD
JANUARY 1, 2004 TO DECEMBER 31, 2007

Receipts:

Realty Transfer Taxes (Note 2)	\$ 1,847,669
Disbursements to Commonwealth (Note 4)	<u>(1,847,669)</u>
Balance due Commonwealth (County) per settled reports (Note 5)	-
Examination adjustments	<u>-</u>
Adjusted balance due Commonwealth (County) January 1, 2004 to December 31, 2007	<u><u>\$ -</u></u>

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

RECORDER OF DEEDS
 POTTER COUNTY
 WRIT TAXES AND JUDICIAL COMPUTER SYSTEM/ACCESS TO JUSTICE FEES
 STATEMENT OF RECEIPTS AND DISBURSEMENTS
 FOR THE PERIOD
 JANUARY 1, 2004 TO DECEMBER 31, 2007

Receipts:

Writ Taxes	\$	9,503
Judicial Computer System/Access To Justice Fees		<u>139,700</u>
Total Receipts (Note 2)		149,203
Commissions (Note 3)		<u>(285)</u>
Net Receipts		148,918
Disbursements to Commonwealth (Note 4)		<u>(148,918)</u>
Balance due Commonwealth (County) per settled reports (Note 5)		-
Examination adjustments		<u>-</u>
Adjusted balance due Commonwealth (County) January 1, 2004 to December 31, 2007	\$	<u><u>-</u></u>

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

REGISTER OF WILLS
 POTTER COUNTY
 INHERITANCE TAXES AND
 JUDICIAL COMPUTER SYSTEM/ACCESS TO JUSTICE FEES
 STATEMENT OF RECEIPTS AND DISBURSEMENTS
 FOR THE PERIOD
 JANUARY 1, 2004 TO DECEMBER 31, 2007

Receipts:

Inheritance Taxes		\$ 2,772,383
Judicial Computer System/Access To Justice Fees		<u>2,340</u>
Total Receipts (Note 2)		2,774,723
Disbursements to Commonwealth (Note 4)		<u>(2,774,723)</u>
Balance due Commonwealth (County) per settled reports (Note 5)		-
Examination adjustments		<u>-</u>
Adjusted balance due Commonwealth (County) January 1, 2004 to December 31, 2007		<u><u>\$ -</u></u>

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

RECORDER OF DEEDS/
REGISTER OF WILLS
POTTER COUNTY
NOTES TO THE STATEMENTS OF RECEIPTS AND DISBURSEMENTS
FOR THE PERIOD
JANUARY 1, 2004 TO DECEMBER 31, 2007

1. Criteria

The Statements of Receipts and Disbursements (Statements) have been prepared in accordance with Section 401(b) of *The Fiscal Code*, 72 P.S § 401(b), which requires the Department of the Auditor General to determine whether all money collected on behalf of the Commonwealth has been remitted properly and to provide the Pennsylvania Department of Revenue (Department of Revenue) with a report to enable them to settle an account covering any delinquency.

The Statements were prepared in accordance with reporting requirements prescribed by the 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.

RECORDER OF DEEDS/
 REGISTER OF WILLS
 POTTER COUNTY
 NOTES TO THE STATEMENTS OF RECEIPTS AND DISBURSEMENTS
 FOR THE PERIOD
 JANUARY 1, 2004 TO DECEMBER 31, 2007

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:

<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

Recorder of Deeds commissions of \$18,477 for Realty Transfer Taxes and Register of Wills commissions of \$68,517 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.

RECORDER OF DEEDS/
 REGISTER OF WILLS
 POTTER COUNTY
 NOTES TO THE STATEMENTS OF RECEIPTS AND DISBURSEMENTS
 FOR THE PERIOD
 JANUARY 1, 2004 TO DECEMBER 31, 2007

4. Disbursements To Commonwealth (Continued)

Recorder Of Deeds (Continued)

Realty Transfer Taxes (Continued)

Total disbursements are comprised as follows:

Deposits into the Department of Revenue's cash management account	\$ <u>1,847,669</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>148,918</u>
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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	\$ 2,772,383
Checks issued to the Department of Revenue for Judicial Computer System/Access To Justice Fees	2,340
Total	\$ <u>2,774,723</u>

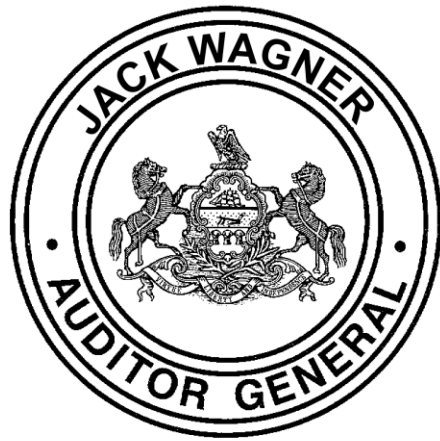
RECORDER OF DEEDS/
REGISTER OF WILLS
POTTER COUNTY
NOTES TO THE STATEMENTS OF RECEIPTS AND DISBURSEMENTS
FOR THE PERIOD
JANUARY 1, 2004 TO DECEMBER 31, 2007

5. Balance Due Commonwealth (County) For The Period January 1, 2004 To December 31, 2007

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

6. County Officer Serving During The Examination Period

Gary E. Kelsey served as Recorder of Deeds/Register of Wills during the period January 1, 2004 to December 31, 2007.



RECORDER OF DEEDS/
REGISTER OF WILLS
POTTER COUNTY
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2004 TO DECEMBER 31, 2007

Finding No. 1 - Receipts Were Not Always Deposited On The Same Day As Collected

Our examination disclosed that receipts were not always deposited on the same day as collected.

Recorder of Deeds

- Of the 60 receipts tested, 29 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 two to six days.

Register of Wills

- Of the 60 receipts tested, 33 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 two to eight days.

This condition existed because the office failed to establish and implement an adequate system of internal controls over receipts.

Good internal accounting controls ensure that all monies collected are deposited intact on the same day as collected.

Without a good system of internal controls over funds received by the office, the potential is increased that funds could be lost, stolen, or misappropriated.

This finding was cited in the prior audit for the period ending December 31, 2003 under the title "Inadequate Internal Controls Over Receipts."

Recommendation

We again recommend that the office deposit all receipts at the end of each day as required by good internal accounting controls.

RECORDER OF DEEDS/
REGISTER OF WILLS
POTTER COUNTY
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2004 TO DECEMBER 31, 2007

Finding No. 1 – Receipts Were Not Always Deposited On The Same Day As Collected
(Continued)

Management's Response

The County Officer responded as follows:

Many of our late deposits result in deposits taken to the bank the next business day after 2:00 PM thus reflecting late. (For example, Thursday collections deposited Friday after 2:00PM will show deposited on Monday.) Some late deposits are due to our busy office with a small staff.

Auditor's Conclusion:

The exceptions noted in this finding took into consideration the next business day deposits and are not considered exceptions. Additionally, although we recognize the county offices' concerns about staffing, it is imperative for adequate safeguarding of cash that deposits be made at the end of each day.

RECORDER OF DEEDS/
REGISTER OF WILLS
POTTER COUNTY
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2004 TO DECEMBER 31, 2007

Finding No. 2 - Inadequate Accountability Over Funds Held In Escrow

Our examination of the office disclosed that accountability over funds held in escrow was inadequate. At December 31, 2007, recorded obligations exceeded funds on hand by \$1,790.

This condition existed because the office failed to establish and implement an adequate system of internal controls over funds held in escrow.

Good internal accounting control procedures ensure that all obligations are accounted for and reconciled with the bank account monthly. Since the bank account of the recorder of deeds/register of wills 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 this control, the potential for errors or irregularities occurring and going undetected increases significantly.

This finding was cited in the prior audit for the period ending December 31, 2003.

Recommendations

We again recommend that the office attempt to identify the existing cash shortage. Any unidentified funds should be accounted for under normal escheat procedures. Furthermore, we again recommend that the office should ensure that reconciled cash equals unpaid obligations monthly.

Management's Response

The County Officer responded as follows:

The cash shortage is due to bank charges debited from our account. I discussed this with our county auditors' last audit and started reconciliations. I will bill the county and get reimbursement for expenses.

Auditor's Conclusion

We appreciate the office's effort to correct this condition. During our next examination, we will determine if the office complied with our recommendations.

RECORDER OF DEEDS/
REGISTER OF WILLS
POTTER COUNTY
COMMENT
FOR THE PERIOD
JANUARY 1, 2004 TO DECEMBER 31, 2007

Comment - Compliance With Prior Audit Recommendations

During our prior audit, we recommended:

- That the office require the vendor to obtain written authorization from the County before using any Data File Utility procedures.
- That the office consult with legal counsel about 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.
- That the County request that the vendor use unique User IDs for the employees who access the office's data.
- That the office require the vendor to provide monitoring reports which include the date, time, reason for change(s), change(s) made, and who made the change(s). The office should routinely review these reports to determine that access was appropriate and that data was not improperly altered.
- That the office require users to periodically change their passwords.
- That all receipts be issued in numerical sequence.
- That the computer system controls should not be overridden.

During our current examination, we noted that the office complied with our recommendations.

RECORDER OF DEEDS/
REGISTER OF WILLS
POTTER COUNTY
REPORT DISTRIBUTION
FOR THE PERIOD
JANUARY 1, 2004 TO DECEMBER 31, 2007

This report was initially distributed to:

Mr. Stephen H. Stetler
Acting Secretary
Pennsylvania Department of Revenue

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

Recorder of Deeds/Register of Wills
Potter County
Courthouse, Room 20
Coudersport, PA 16915

The Honorable Gary E. Kelsey

Recorder of Deeds/Register of Wills

The Honorable Kenneth J. Wingo

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.