



DEPARTMENT OF RECORDS

PHILADELPHIA COUNTY

EXAMINATION REPORT

FOR THE PERIOD

JANUARY 1, 2004 TO DECEMBER 31, 2007

CONTENTS

| | <u>Page</u> |
|---|-------------|
| Independent Auditor's Report..... | 1 |
| Financial Section: | |
| Statements Of Receipts And Disbursements: | |
| Realty Transfer Taxes | 5 |
| Writ Taxes And Judicial Computer System/Access To Justice Fees | 6 |
| Notes To The Statements Of Receipts And Disbursements | 7 |
| Exhibit 1 - Schedule Of Reporting Errors And Examination Adjustments - Realty Transfer Taxes | 12 |
| Finding And Recommendation: | |
| Finding - Receipts Were Not Always Deposited On The Same Day As Collected | 13 |
| Comment..... | 14 |
| Report Distribution | 15 |

Independent Auditor's Report

The Honorable Stephen H. Stetler
Secretary
Pennsylvania Department of Revenue
Harrisburg, PA 17128

We have examined the accompanying statements of receipts and disbursements (Statements) of the Department of Records, Philadelphia 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 deficiency described in the finding below to be a significant deficiency in internal control over the reporting on the Statements:

- Receipts Were Not Always Deposited On The Same Day As Collected.

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 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 receipts. This significant deficiency increases the risk for funds to be lost, stolen, or misappropriated. The County Officer should strive to implement the recommendation 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.

November 25, 2008

JACK WAGNER
Auditor General



DEPARTMENT OF RECORDS
PHILADELPHIA 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) | \$ 270,209,524 |
| Disbursements to Commonwealth (Note 4) | <u>(270,209,929)</u> |
| Balance due Commonwealth (County) per settled reports (Note 5) | (405) |
| Examination adjustments (Exhibit 1) | <u>(919)</u> |
| Adjusted balance due Commonwealth (County) January 1, 2004 to December 31, 2007 | <u><u>\$ (1,324)</u></u> |

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

DEPARTMENT OF RECORDS
 PHILADELPHIA 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 | \$ | 590,529 |
| Judicial Computer System/Access To Justice Fees | | 9,126,720 |
| Interest earned on Commonwealth funds | | <u>36</u> |
| Total Receipts (Note 2) | | 9,717,285 |
| Commissions (Note 3) | | <u>(17,717)</u> |
| Net Receipts | | 9,699,568 |
| Disbursements to Commonwealth (Note 4) | | <u>(9,699,568)</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.

DEPARTMENT OF RECORDS
PHILADELPHIA 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 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 \$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.

3. Commissions

Acting in the capacity of an agent for the Commonwealth, the Department of Records 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% |

Commissions of \$2,702,095 for Realty Transfer Taxes were paid to the County by the Department of Revenue which is not reflected in the Statement.

DEPARTMENT OF RECORDS
PHILADELPHIA COUNTY
NOTES TO THE STATEMENTS OF RECEIPTS AND DISBURSEMENTS
FOR THE PERIOD
JANUARY 1, 2004 TO DECEMBER 31, 2007

4. Disbursements To Commonwealth

Realty Transfer Taxes

The Department of Records 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>\$ 270,209,929</u> |
|--|-----------------------|

Writ Taxes And Judicial Computer System/Access To Justice Fees

Total disbursements are comprised as follows:

Department of Records checks issued to:

| | |
|-----------------------|---------------------|
| Department of Revenue | <u>\$ 9,699,568</u> |
|-----------------------|---------------------|

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. It does not reflect a credit for \$1,324 taken in January 2008. The balance also does not reflect adjustments disclosed by our examination. Refer to Exhibit 1.

DEPARTMENT OF RECORDS
 PHILADELPHIA COUNTY
 NOTES TO THE STATEMENTS OF RECEIPTS AND DISBURSEMENTS
 FOR THE PERIOD
 JANUARY 1, 2004 TO DECEMBER 31, 2007

6. Reconciliation Of Settled Reports - Realty Transfer Taxes

The following presents a reconciliation of monthly reports settled by the Department of Revenue for the period January 1, 2004 to December 31, 2007:

| Date of Summary of Collections Report | Balance Due Settled Reports Commonwealth (County) | Adjustments | Adjusted Balance Due Commonwealth (County) |
|---|--|-------------|---|
| 2004 | | | |
| January | \$ - | \$ - | \$ - |
| February | - | - | - |
| March | - | - | - |
| April | - | - | - |
| May | - | - | - |
| June | - | - | - |
| July | - | - | - |
| August | - | - | - |
| September | - | - | - |
| October | - | - | - |
| November | - | - | - |
| December | (3,880) | - | (3,880) |
| 2005 | | | |
| January | - | - | - |
| February | - | - | - |
| March | 3,880 | - | 3,880 |
| April | - | - | - |
| May | - | - | - |
| June | - | - | - |
| July | - | - | - |
| August | - | - | - |
| September | - | - | - |
| October | - | - | - |
| November | - | - | - |
| December | - | - | - |

DEPARTMENT OF RECORDS
 PHILADELPHIA COUNTY
 NOTES TO THE STATEMENTS OF RECEIPTS AND DISBURSEMENTS
 FOR THE PERIOD
 JANUARY 1, 2004 TO DECEMBER 31, 2007

6. Reconciliation Of Settled Reports - Realty Transfer Taxes (Continued)

| Date of Summary of Collections Report | Balance Due Settled Reports Commonwealth (County) | Adjustments | Adjusted Balance Due Commonwealth (County) |
|--|--|-------------|---|
| 2006 | | | |
| January | \$ - | \$ - | \$ - |
| February | (1,895) | - | (1,895) |
| March | - | - | - |
| April | (2,264) | - | (2,264) |
| May | - | - | - |
| June | - | - | - |
| July | (1,125) | - | (1,125) |
| August | 179,411 | - | 179,411 |
| September | (183,821) | - | (183,821) |
| October | 1,125 | - | 1,125 |
| November | 583 | - | 583 |
| December | (308) | - | (308) |
| 2007 | | | |
| January | (123) | - | (123) |
| February | 799 | - | 799 |
| March | - | - | - |
| April | 1,500 | - | 1,500 |
| May | (1,500) | - | (1,500) |
| June | (2,360) | - | (2,360) |
| July | 6,164 | - | 6,164 |
| August | 2,049 | - | 2,049 |
| September | (7,321) | - | (7,321) |
| October | 12,905 | - | 12,905 |
| November | (2,900) | - | (2,900) |
| December | (1,324) | - | (1,324) |
| Balance due Commonwealth (County) per settled reports | | | (405) |
| Examination adjustments (Exhibit 1) | | | (919) |
| Adjusted balance due Commonwealth (County) January 1, 2004 to December 31, 2007 | | | <u>\$ (1,324)</u> |

DEPARTMENT OF RECORDS
PHILADELPHIA COUNTY
NOTES TO THE STATEMENTS OF RECEIPTS AND DISBURSEMENTS
FOR THE PERIOD
JANUARY 1, 2004 TO DECEMBER 31, 2007

7. County Officer Serving During Examination Period

Joan T. Decker served as Commissioner of the Department of Records during the period January 1, 2004 to December 31, 2007.

DEPARTMENT OF RECORDS
 PHILADELPHIA COUNTY
 EXHIBIT 1
 FOR THE PERIOD
 JANUARY 1, 2004 TO DECEMBER 31, 2007

Exhibit 1 - Schedule Of Reporting Errors And Examination Adjustments - Realty Transfer Taxes

| <u>Month</u> | <u>Day</u> | <u>Year</u> | <u>Examination Adjustments</u> | <u>Explanation</u> |
|--------------|------------|-------------|------------------------------------|--------------------|
| 03 | 08 | 2006 | \$ 1,895 | 1 |
| 04 | 12 | 2006 | 2,100 | 1 |
| 04 | 12 | 2006 | 695 | 1 |
| 04 | 07 | 2006 | (531) | 1 |
| 12 | 21 | 2006 | 4,410 | 2 |
| 02 | 02 | 2007 | (950) | 1 |
| 07 | 03 | 2007 | 355 | 1 |
| 07 | 10 | 2007 | (4,159) | 3 |
| 08 | 03 | 2007 | (1,423) | 1 |
| 09 | 18 | 2007 | 89 | 1 |
| 10 | 01 | 2007 | <u>(3,400)</u> | 1 |
| Total | | | <u>\$ (919)</u> | |

Note: The Department of Records subcontracts to [Vendor] who receives all payments for the office. The Vendor only accepts credit card payments. The Vendor remits collections to the office in lump sums as the payments are posted, rather than what was collected for the day. Consequently, there can be timing differences due to some credit card payments being processed faster than others. Also, an occasional error of double posting of payments can occur.

- 1 - Adjustment to correct credit card payment timing differences.
- 2 - Adjustment for a December 2006 debit adjustment that was not reflected in the monthly report by the Department of Revenue.
- 3 - Adjustment for an erroneously recorded deed.

DEPARTMENT OF RECORDS
PHILADELPHIA COUNTY
FINDING AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2004 TO DECEMBER 31, 2007

Finding - 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. Of 60 receipts tested, 58 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 21 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 our last two audit periods, the most recent ending December 31, 2003.

Recommendation

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

Management's Response

The Commissioner of Records responded as follows:

The Department makes every effort to deposit all receipts within 24 hours of reconciliation; however, due to large volumes of recordings and the fact that during the period of the audit we had a daily second shift that worked until 6:30 PM as well as issues regarding reconciliation of receipts, bank deposits may be delayed. Please note that we follow best business practices and perform a quality control process on all collections and reconciliations prior to deposit. Additionally, all receipts are maintained in secured and controlled environments.

Auditor's Conclusion

Although we recognize the department's concern over the volume of recordings, it is imperative that receipts be deposited on a timely basis to prevent the increased potential for funds to be lost, stolen, or misappropriated.

DEPARTMENT OF RECORDS
PHILADELPHIA 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 ensure that Judicial Computer System/Access to Justice Fees are assessed in accordance with Pennsylvania laws and regulations.
- That the office take the necessary steps to identify the difference between the ending cash balance and liabilities.
- That the office establish and maintain an adequate system of escrow accountability.

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

DEPARTMENT OF RECORDS
PHILADELPHIA COUNTY
REPORT DISTRIBUTION
FOR THE PERIOD
JANUARY 1, 2004 TO DECEMBER 31, 2007

This report was initially distributed to:

The Honorable Stephen H. Stetler
Secretary
Pennsylvania Department of Revenue

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

Department of Records
Philadelphia County
City Hall, Room 156
Philadelphia, PA 19107

| | |
|------------------------------|---|
| Ms. Joan T. Decker | Commissioner of the Department of Records |
| The Honorable Alan Butkovitz | Controller |
| The Honorable Anna C. Verna | Chairwoman of the Board of Commissioners |

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