



RECORDER OF DEEDS

LEBANON COUNTY

AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2002 TO DECEMBER 31, 2005

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Independent Auditor's Report

The Honorable Gregory C. Fajt
Secretary
Department of Revenue
Harrisburg, PA 17128

We have audited the accompanying statements of receipts and disbursements – cash basis of the Recorder of Deeds, Lebanon County, Pennsylvania (County Officer), for the period January 1, 2002 to December 31, 2005, pursuant to the requirements of Sections 401(b), 401(d), and 902 of *The Fiscal Code*. These financial statements are the responsibility of the county office's management. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described more fully in Note 1, the accompanying financial statements were prepared using accounting practices prescribed by the Pennsylvania Department of Revenue, which practices differ from accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material. The financial statements present only the Commonwealth portion of cash receipts and disbursements and are not intended to present fairly the financial position and results of operations of the County Officer, in conformity with accounting principles generally accepted in the United States.

Independent Auditor's Report (Continued)

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the County Officer, as of December 31, 2005, the changes in its financial position, or where applicable, its cash flows for the period then ended.

In our opinion, the financial statements referred to above present fairly, in all material respects, the operations of the County Officer as it pertains to receipts made on behalf of the Department of Revenue, for the period January 1, 2002 to December 31, 2005, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 15, 2006, on our consideration of the County Officer's internal control over financial reporting and on our tests of its compliance with certain provisions of laws and regulations. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

This report is intended solely for the information and use of the Pennsylvania Department of Revenue and the County Officer and is not intended to be and should not be used by anyone other than these specified parties.

September 15, 2006

JACK WAGNER
Auditor General

RECORDER OF DEEDS
 LEBANON COUNTY
 REALTY TRANSFER TAXES
 STATEMENT OF RECEIPTS AND DISBURSEMENTS – CASH BASIS
 FOR THE PERIOD
 JANUARY 1, 2002 TO DECEMBER 31, 2005

Receipts:

Realty Transfer Taxes (Note 2)	\$ 17,086,607
Commissions (Note 3)	<u>(170,866)</u>
Net receipts	16,915,741
Disbursements to Department of Revenue (Note 4)	<u>(16,915,741)</u>
Balance due Department of Revenue (County) per settled reports (Note 5)	-
Audit adjustments	<u>-</u>
Adjusted balance due Department of Revenue (County) for the period January 1, 2002 to December 31, 2005	<u>\$ -</u>

Notes to the financial statements are an integral part of this report.

RECORDER OF DEEDS
 LEBANON COUNTY
 WRIT TAXES AND JUDICIAL COMPUTER SYSTEM/ACCESS TO JUSTICE FEES
 STATEMENT OF RECEIPTS AND DISBURSEMENTS – CASH BASIS
 FOR THE PERIOD
 JANUARY 1, 2002 TO DECEMBER 31, 2005

Receipts:

Writ Taxes	\$	63,782
Judicial Computer System/Access To Justice Fees		<u>866,480</u>
Total receipts (Note 2)		930,262
Commissions (Note 3)		<u>(1,914)</u>
Net receipts		928,348
Disbursements to Department of Revenue (Note 4)		<u>(928,348)</u>
Balance due Department of Revenue (County) per settled report (Note 5)		-
Audit adjustments		<u>-</u>
Adjusted balance due Department of Revenue (County) for the period January 1, 2002 to December 31, 2005	\$	<u><u>-</u></u>

Notes to the financial statements are an integral part of this report.

RECORDER OF DEEDS
LEBANON COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD
JANUARY 1, 2002 TO DECEMBER 31, 2005

1. Summary Of Significant Accounting Policies

Basis Of Presentation

The financial statements were prepared in accordance with the requirements of the Pennsylvania Department of Revenue. These financial statements are not intended to present either financial results of operations or financial position in conformity with generally accepted accounting principles.

Basis Of Accounting

The financial statements were prepared on the cash basis of accounting. Under this method, revenues were recognized when received and expenditures were recognized when paid.

Audit Requirement

The financial presentation has been prepared in accordance with Title 72 P.S. Section 401 (b) of *The Fiscal Code*, 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 Department of Revenue with a report to enable them to settle an account covering any delinquency. A statement of assets and liabilities was not a required part of the financial presentation because of the limited reporting scope by the Recorder of Deeds. Therefore, a statement of assets and liabilities was not audited and is not a part of this report.

2. Receipts

Receipts consist of monies collected on behalf of the Department of Revenue. 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, for filings after November 1, 2002, imposed for each filing of a deed, mortgage, or property transfer.

RECORDER OF DEEDS
LEBANON COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD
JANUARY 1, 2002 TO DECEMBER 31, 2005

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%

4. Disbursements To Department Of Revenue

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.

Writ Taxes And Judicial Computer System/Access To Justice Fees

All disbursements of Writ Taxes and Judicial Computer System/Access To Justice Fees are made by check to the Department of Revenue on a monthly basis.

5. Balance Due Department Of Revenue (County) For The Period January 1, 2002 To December 31, 2005

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

6. County Officer Serving During Audit Period

Donna J. Lutz served as Recorder of Deeds during the period January 1, 2002 to December 31, 2005.

Report On Compliance And On
Internal Control Over Financial Reporting

The Honorable Gregory C. Fajt
Secretary
Department of Revenue
Harrisburg, PA 17128

We have audited the statements of receipts and disbursements – cash basis of the Recorder of Deeds, Lebanon County, Pennsylvania (County Officer), for the period January 1, 2002 to December 31, 2005, and have issued our report thereon dated September 15, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the County Officer’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the County Officer’s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over

Report On Compliance And On
Internal Control Over Financial Reporting (Continued)

financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the County Officer's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition described in the finding is as follows:

- Unmonitored System Access.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

This report is intended solely for the information and use of the Pennsylvania Department of Revenue and the County Officer and is not intended to be and should not be used by anyone other than these specified parties.

September 15, 2006

JACK WAGNER
Auditor General

RECORDER OF DEEDS
LEBANON COUNTY
FINDING AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2002 TO DECEMBER 31, 2005

Finding - Unmonitored System Access

Lebanon County uses software purchased from and supported by an outside service organization (Vendor) to account for transactions in the Recorder of Deeds' office (County). The Vendor has remote access to the County's computer system and data.

During discussions with County 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 audit trail.

We also noted the following weaknesses:

- The contract agreement between the County and the Vendor limits the Vendor of any liability concerning loss of data or system functionality that may be caused by the Vendor's actions. The maintenance agreement states, in part, "punitive damages in any way arising out of or relating to the contractual relationship, whether the claim alleges tortious conduct (including negligence) or any other legal theory. In addition, [Vendor's] liability shall be limited to the amount paid by the [County] hereunder."
- The Vendor has unmonitored access to the County's data. The County Offices were not monitoring the Vendor's system accesses, nor were they receiving reports to show what data may have been altered and/or accessed.

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.

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.

Further, CERT documents also caution that a system might experience loss of confidentiality and integrity due to the contractor using an unsecure method of remote access. This may result in intruders gaining unauthorized access to, modifying, or destroying the County's information systems and assets; deliberately introducing security vulnerabilities or viruses; and launching attacks on other systems from the County's network and perhaps making the County liable for damages.

RECORDER OF DEEDS
LEBANON COUNTY
FINDING AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2002 TO DECEMBER 31, 2005

Finding - Unmonitored System Access (Continued)

The County was unaware of the fact that monitoring reports should be required to monitor the Vendor's activity and the limited liability of the Vendor concerning loss of data or system functionality that may be caused by the Vendor's action.

Recommendations

We recommend the following:

- 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/security-improvement/modules/m03.html>

- 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.
 - The remote access method, the user authentication process, and a requirement that the contractor communicate securely with the County's site when operating remotely.

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LEBANON COUNTY
FINDING AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2002 TO DECEMBER 31, 2005

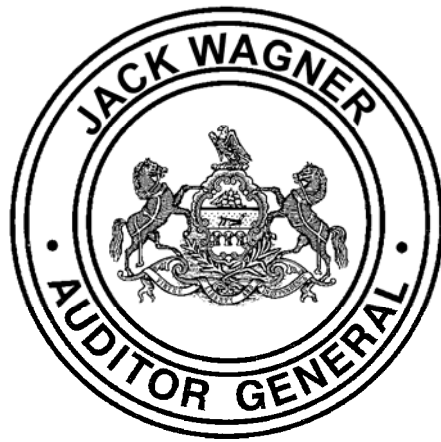
Finding - Unmonitored System Access (Continued)

Recommendations (Continued)

- 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.

Auditee's Response

No formal response was offered at this time.



RECORDER OF DEEDS
LEBANON COUNTY
REPORT DISTRIBUTION
FOR THE PERIOD
JANUARY 1, 2002 TO DECEMBER 31, 2005

This report was initially distributed to:

The Honorable Gregory C. Fajt
Secretary
Department of Revenue

Recorder of Deeds
Lebanon County
Lebanon County Courthouse
Lebanon, PA 17042

The Honorable Donna J. Lutz	Recorder of Deeds
The Honorable Robert Mettley	Controller
The Honorable William Carpenter	Chairperson of the Board

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. If you have any questions regarding this report or any other matter, you may contact the Department of the Auditor General by accessing our website at www.auditorgen.state.pa.us.