

COMPLIANCE AUDIT

Recorder of Deeds Philadelphia County, Pennsylvania For the Period January 1, 2018 to December 31, 2020

April 2022



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

The Honorable C. Daniel Hassell
Secretary
Pennsylvania Department of Revenue
Harrisburg, PA 17128

We have conducted a compliance audit of the Recorder of Deeds, Philadelphia County, Pennsylvania (County Officer), for the period January 1, 2018 to December 31, 2020, pursuant to the requirements of Sections 401(b) and 401(d) of *The Fiscal Code*, 72 P.S. § 401(b) and § 401(d).

The objective of the audit was to determine whether all moneys collected on behalf of the Commonwealth have been correctly assessed, reported, and promptly remitted and to provide a report to the Department of Revenue to allow the Department of Revenue to state and settle the County Officer's account. Our audit was limited to areas related to the objective identified above and was not conducted, nor was it required to be, in accordance with Government Auditing Standards issued by the Comptroller General of the United States.

The County Officer is responsible for establishing and maintaining effective internal controls to provide reasonable assurance of compliance with state laws and regulations applicable to the collection of moneys on behalf of the Commonwealth, including whether they have been correctly assessed, reported, and promptly remitted. The County Officer is also responsible for complying with those laws and regulations. It is our responsibility to perform procedures to obtain sufficient, appropriate evidence to the extent necessary to satisfy the audit objective. We believe that our audit provides a reasonable basis for our conclusions.

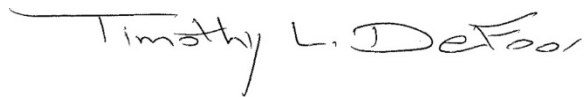
Based on our audit procedures, we conclude that, for the period January 1, 2018 to December 31, 2020, the County Officer, in all significant respects, complied with state laws and regulations applicable to the collection of moneys on behalf of the Commonwealth, including whether they have been correctly assessed, reported, and promptly remitted, except as noted in the findings listed below and discussed later in this report:

- Inadequate Internal Controls Over Realty Transfer Tax Payments Collected By Third Party Vendors - Recurring.
- Receipts Were Not Always Deposited The Same Day As Collected - Recurring.

This report includes a summary of the County Officer's receipts and disbursements of funds collected on behalf of the Commonwealth (summary). We obtained data representing the County Officer's receipts and disbursements from the Pennsylvania Department of Revenue, which obtains data from each of the Commonwealth's recorder of deeds offices, and used the data to create the summary in the format required by the Department of Revenue. We also evaluated the accuracy of the data as part of our audit to conclude on the County Officer's compliance with certain state laws and regulations as described in the previous paragraph. Any adjustments that we considered necessary based on our audit work are disclosed in the *Audit Adjustments* line of the summary; however, the scope of our audit does not include the issuance of an opinion on the accuracy of the amounts reported in the summary.

The purpose of this report is to determine whether all moneys collected on behalf of the Commonwealth have been correctly assessed, reported, and promptly remitted. This report is not suitable for any other purposes.

The contents of this report were discussed with the management of the County Officer and, where appropriate, their response has been included in the report. We appreciate the courtesy extended by the Recorder of Deeds, Philadelphia County, to us during the course of our audit. If you have any questions, please feel free to contact the Bureau of County Audits at 717-787-1363.

A handwritten signature in black ink that reads "Timothy L. DeFoor". The signature is written in a cursive style with a long horizontal line extending to the left of the first letter.

Timothy L. DeFoor
Auditor General
March 9, 2022

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RECORDER OF DEEDS
PHILADELPHIA COUNTY
BACKGROUND
FOR THE PERIOD
JANUARY 1, 2018 TO DECEMBER 31, 2020

The Department of Auditor General is mandated by Article IV, Section 401(b) and (d) of *The Fiscal Code* (Act of April 9, 1929, P.L.343, No. 176), 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.

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 of \$.50 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 of \$40.25 imposed on all petitions for grant of letters, and first filings in petitions concerning adoptions, incompetents' estates, minors' estates, and inter vivos trusts.

Total disbursements for the audit period are comprised as follows:

Realty Transfer Taxes

Deposits into the Department of Revenue's cash management account	<u>\$ 287,710,573</u>
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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. This balance reflects a summary of monthly transmittal reports as settled by the Department of Revenue. The balance does not reflect adjustments disclosed by our audit.

Writ Taxes And Judicial Computer System/Access To Justice Fees

Recorder of Deeds checks issued to:

Department of Revenue	<u>\$ 17,938,854</u>
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This balance reflects a summary of monthly transmittal reports as settled by the Department of Revenue.

RECORDER OF DEEDS
PHILADELPHIA COUNTY
BACKGROUND
FOR THE PERIOD
JANUARY 1, 2018 TO DECEMBER 31, 2020

James P. Leonard served as Recorder of Deeds during the period January 1, 2018 to December 31, 2020.

The summaries 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 summaries 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.

Audit Adjustment – Realty Transfer Taxes Summary

The \$21,001 audit adjustment represents the difference between the Department of Revenue's settled monthly deposits and our audit's reconciliation of deposits for the months of May 2018, October 2018, and January 2019.

RECORDER OF DEEDS
PHILADELPHIA COUNTY
BACKGROUND
FOR THE PERIOD
JANUARY 1, 2018 TO DECEMBER 31, 2020

Receipts:

Realty Transfer Taxes	\$ 287,775,205
Disbursements to Commonwealth	<u>(287,710,573)</u>
Balance due Commonwealth (County) per settled reports	64,632
Audit adjustments	<u>(21,001)</u>
Adjusted balance due Commonwealth (County) for the period January 1, 2018 to December 31, 2020	<u>\$ 43,631</u>

RECORDER OF DEEDS
 PHILADELPHIA COUNTY
 WRIT TAXES AND JUDICIAL COMPUTER SYSTEM/ACCESS TO JUSTICE FEES
 SUMMARY OF RECEIPTS AND DISBURSEMENTS
 FOR THE PERIOD
 JANUARY 1, 2018 TO DECEMBER 31, 2020

Receipts:

Writ Taxes	\$	279,198
Judicial Computer System/Access To Justice Fees		<u>17,668,032</u>
Total Receipts		17,947,230
Commissions		<u>(8,376)</u>
Net Receipts		17,938,854
Disbursements to Commonwealth		<u>(17,938,854)</u>
Balance due Commonwealth (County) per settled reports		-
Audit adjustments		<u>-</u>
Adjusted balance due Commonwealth (County) for the period January 1, 2018 to December 31, 2020	\$	<u><u>-</u></u>

RECORDER OF DEEDS
PHILADELPHIA COUNTY
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2018 TO DECEMBER 31, 2020

**Finding No. 1 - Inadequate Internal Controls Over Realty Transfer Tax Receipts Collected
By Third Party Vendors - Recurring**

We cited the issue of inadequate internal controls over realty transfer tax receipts collected by third party vendors in the four prior audits, with the most recent being for the period April 1, 2016 to December 31, 2017. Our current audit found that the officeholder did not correct this issue.

The Department of Records (office) has contracted with three third party vendors to collect Real Estate Transfer Taxes (RTT) fees thru electronic transactions. The third party vendors collected 91 percent of RTT fees. The third party vendors obtain approval from the office for all transactions prior to collecting RTT fees. After approval, the office records the electronic transactions through the office's computerized receipting system prior to sending these transactions back to the applicable third party vendor for processing. Once the third party vendor processes the transaction, the vendor then deposits all RTT fees directly into a Commonwealth controlled bank account.

Our audit disclosed the following deficiencies in the internal controls over the Commonwealth Realty Transfer Tax Receipts collected by third party vendors:

- The office does not reconcile the approved daily third party vendor transaction report to deposits made by the vendors.
- Of the 50 receipt dates tested there were 45 in which the amount per the office's third party vendor report did not agree with the amount deposited into the Commonwealth's bank account. The differences ranged from a shortage of \$508,668 to an overage of \$134,683.

Therefore, we could not determine if the Commonwealth received all RTT funds due.¹

These conditions existed because the office failed to implement adequate internal controls over the deposit and settlement of Commonwealth RTT moneys received from third party vendors as recommended in our four previous audit reports.

¹ We were able to conclude that the Commonwealth received RTT funds due in all significant respects. However, we could not determine whether all RTT funds due to the Commonwealth were received.

RECORDER OF DEEDS
PHILADELPHIA COUNTY
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2018 TO DECEMBER 31, 2020

**Finding No. 1 - Inadequate Internal Controls Over Realty Transfer Tax Receipts Collected
By Third Party Vendors - Recurring (Continued)**

Good internal accounting controls ensure that:

- All collections are reconciled by the office to the approved daily third party vendor transaction daily report totals and should match the totals remitted the Commonwealth to ensure that all funds collected have been properly recorded and deposited.
- All deposits are reconciled timely and discrepancies are immediately investigated and resolved.

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

Recommendations:

We again strongly recommend that the office establish and implement an adequate system of internal controls over the deposit of state RTT moneys into the Commonwealth's bank account. It is imperative that the office reconciles all third party vendor collections daily to ensure that all RTT funds are properly accessed, collected, and remitted.

Management's Response

The County Officer responded as follows

DOR [Department of Records], as well as third party e-recording entities, have always made and will continue to make a concerted effort to provide the Commonwealth with the necessary reports and documentation to settle the Realty Transfer Tax as efficiently, accurately and quickly as possible.

RECORDER OF DEEDS
PHILADELPHIA COUNTY
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2018 TO DECEMBER 31, 2020

**Finding No. 1 - Inadequate Internal Controls Over Realty Transfer Tax Receipts Collected
By Third Party Vendors - Recurring (Continued)**

Management's Response (Continued)

As the largest city in the Commonwealth, we currently permit three (3) third party e-recording entities to e-record with the County. Over ninety (90%) percent of all recordings are e-recorded annually, which includes the collection of associated State Realty Transfer Tax. While we respect the State's recommendation for third party e-recording entity collections to be reconciled daily, the largest third-party e-recording entity makes deposits on the third business day, while the remaining two third-party e-recording entities make deposits on the next business day. As a large department working with three (3) third party e-recording entities, there are often adjustments that need to be reconciled due to over and underpayments. The process for reconciling adjustments after researching questionable transactions normally takes several weeks to resolve, thereby making it more efficient, practical and accurate to reconcile after the month has ended.

Additionally, the State Realty Transfer Tax historically has been deposited into a State bank account, which restricts any access or knowledge the County may have regarding any type of transactions that are made within this account. Real Estate Transfer Tax have never been deposited into a Philadelphia County bank account. Implementation of this recommendation would create a significant delay in transmitting funds to the State.

Auditor's Conclusion

It is the responsibility of the Department of Records' office to ensure proper accountability over all funds due the Commonwealth. This includes reconciling all collections received by third party vendors to deposits. Our reconciliation of third party vendor bank deposits had a range of variances that could not be explained. The internal controls weaknesses described in the finding prevented us from determining whether all RTT funds due to the Commonwealth were received. This is a recurring finding. It is imperative that the office take all steps necessary to comply with our recommendations. During our next audit, we will determine if the office complied with our recommendations.

RECORDER OF DEEDS
PHILADELPHIA COUNTY
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2018 TO DECEMBER 31, 2020

**Finding No. 2 - Receipts Were Not Always Deposited The Same Day As Collected -
Recurring**

We cited the issue of receipts were not always deposited on the same day as collected in the six previous audits, with the most recent being for the period April 1, 2016 thru December 31, 2017. Our current audit found that the officeholder did not corrected this issue.

Our audit disclosed that receipts were not deposited on the same day as collected. Of the 50 office deposits tested, all 50 were not deposited the same day as collected. The time lapse from the date of receipt to the subsequent date of deposit for electronic third party vendor transactions ranged from 2 to 45 days.

This condition existed because the officeholder failed to establish adequate internal controls over its receipts as recommended in the six prior audit reports.

A good system of internal controls ensures that all monies collected are deposited intact at the bank on the same day as collected, with allowance for establishing a daily afternoon cutoff time for which subsequent transactions could be recorded and deposited with the next day's deposits.

Without a good system of internal controls over funds received by the office, the possibility of funds being lost or misappropriated increases significantly.

Recommendation:

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

Management's Response

The County Officer responded as follows

As the recorder of deeds for Philadelphia County, our hours of operation must align to support the constituents and business communities we serve. While we respect the State's finding, depositing moneys on the same day would require DOR to close its public recording operation several hours earlier each day in order for moneys to be reconciled and then deposited on the same day. Given the extremely high volume of recording in the County, this would lead to significant delays in recording, which would have detrimental effects on our ability to effectively and efficiently serve the public.

RECORDER OF DEEDS
PHILADELPHIA COUNTY
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2018 TO DECEMBER 31, 2020

**Finding No. 2 - Receipts Were Not Always Deposited The Same Day As Collected -
Recurring (Continued)**

Management's Response (Continued)

While we do not have the flexibility to change our hours of operations to the degree necessary to attempt to make same day deposits, we take seriously the State's finding in this and previous audits. Accordingly, we continue to pursue changes to improve the speed with which moneys are deposited.

1. As indicated in our response to your office's last audit, our team now uses check scanners to deposit checks remotely in the bank; this scanned deposit typically occurs the day following the day on which the transaction is processed. Prior to scanned check deposits, the deposit would occur two days following the day on which the transaction was processed. This process reduces the time frame for deposits and improves efficiency of operations.
2. As indicated in our response to your office's last audit, we continue to work closely with the City's depository bank to improve deposits. In the City's fiscal year 2023, we anticipate that the bank will provide DOR with remote deposit safes to secure cash and check deposits. (This effort has been ongoing since your office's last audit, but was delayed due to COVID-19.) When cash is deposited in these safes the deposit will be made into the appropriate account. We expect that this will improve cash deposits from two days to one day following the date on which the transaction is processed. The bank secured safes will serve as a device for all cash and check receipts to be maintained until they are retrieved by armored car service to transport to the bank. This new process will provide a more efficient and seamless system to reduce risk for exposure to theft.

Auditor's Conclusion

It is the responsibility of the Department of Records' office to ensure proper accountability over all funds due to the Commonwealth. Deposits should be made at the end of every business day or, for funds received after a daily cutoff time, the very next business day, which is done by the majority of recorder of deeds' offices in other counties. Deposits held for more than a day increases the possibility that funds may be lost or misappropriated.

This is a recurring finding. It is imperative that the office take all steps necessary to comply with our recommendations. During our next audit, we will determine if the office complied with our recommendations.

RECORDER OF DEEDS
PHILADELPHIA COUNTY
SUMMARY OF PRIOR AUDIT RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2018 TO DECEMBER 31, 2020

Summary Of Prior Audit Recommendations

During our prior audit, we recommended that the office:

- Establish and implement an adequate system of internal controls over the deposit of state RTT funds into the Commonwealth's bank account. The office should reconcile all third party vendors collections daily to ensure that all RTT funds are properly assessed, recorded, and remitted.
- Establish and implement an adequate system of internal controls over receipts. The office should establish a cutoff time in the afternoon to record and deposit the majority of that day's collections prior to the close of business.

During our current audit, we noted that the office did not comply with our recommendations. Please see the current year findings for additional information.

RECORDER OF DEEDS
PHILADELPHIA COUNTY
REPORT DISTRIBUTION
FOR THE PERIOD
JANUARY 1, 2018 TO DECEMBER 31, 2020

This report was initially distributed to:

The Honorable C. Daniel Hassell
Secretary
Pennsylvania Department of Revenue

The Honorable H. Geoffrey Moulton, Jr.
Court Administrator of Pennsylvania
Supreme Court of Pennsylvania
Administrative Office of Pennsylvania Courts

The Honorable James P. Leonard, Esquire
Recorder of Deeds

The Honorable Rebecca Rhynhart
Controller

The Honorable Darrell L. Clarke
President of City Council 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.