



RECORDER OF DEEDS/
REGISTER OF WILLS

MONTOUR COUNTY

EXAMINATION REPORT

FOR THE PERIOD

JANUARY 1, 2003 TO DECEMBER 31, 2006

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Independent Auditor's Report

The Honorable Thomas W. Wolf
Secretary
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, Montour County, Pennsylvania (County Officer), for the period January 1, 2003 to December 31, 2006, 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 Pennsylvania Department of Revenue and other state agencies for the period ended December 31, 2006, in conformity with the criteria set forth in Note 1.

In accordance with *Government Auditing Standards*, we are required to report findings of 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 the Statements or on compliance and other matters; accordingly, we express no such opinions. Our examination disclosed certain findings that are required to be reported under *Government Auditing Standards* and those findings, along with the views of management, are described in the Findings and Recommendations section of the report.

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. The County Officer should strive to implement the recommendation and corrective action noted in this examination report. Additionally, during our current examination, we noted several significant weaknesses in the internal controls over receipts. These significant deficiencies increase the risk for funds to be lost, stolen, or misappropriated.

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 7, 2007

JACK WAGNER
Auditor General

RECORDER OF DEEDS
 MONTOUR COUNTY
 REALTY TRANSFER TAXES
 STATEMENT OF RECEIPTS AND DISBURSEMENTS
 FOR THE PERIOD
 JANUARY 1, 2003 TO DECEMBER 31, 2006

Receipts:

Realty Transfer Taxes (Note 2)	\$ 1,956,862
Commissions (Note 3)	<u>(19,569)</u>
Net Receipts	1,937,293
Disbursements to Department of Revenue (Note 4)	<u>(1,937,242)</u>
Balance due Department of Revenue (County) per settled reports (Note 5)	51
Examination adjustments	<u>-</u>
Adjusted balance due Department of Revenue (County) for the period January 1, 2003 to December 31, 2006	<u><u>\$ 51</u></u>

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

RECORDER OF DEEDS
 MONTOUR COUNTY
 WRIT TAXES AND JUDICIAL COMPUTER SYSTEM/ACCESS TO JUSTICE FEES
 STATEMENT OF RECEIPTS AND DISBURSEMENTS
 FOR THE PERIOD
 JANUARY 1, 2003 TO DECEMBER 31, 2006

Receipts:

Writ Taxes	\$ 8,797
Judicial Computer System/Access To Justice Fees	<u>136,920</u>
Total Receipts (Note 2)	145,717
Commissions (Note 3)	<u>(264)</u>
Net Receipts	145,453
Disbursements to Department of Revenue (Note 4)	<u>(145,453)</u>
Balance due Department of Revenue (County) per settled reports (Note 5)	-
Examination adjustments	<u>-</u>
Adjusted balance due Department of Revenue (County) for the period January 1, 2003 to December 31, 2006	<u><u>\$ -</u></u>

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

REGISTER OF WILLS
 MONTOUR COUNTY
 INHERITANCE TAXES AND
 JUDICIAL COMPUTER SYSTEM/ACCESS TO JUSTICE FEES
 STATEMENT OF RECEIPTS AND DISBURSEMENTS
 FOR THE PERIOD
 JANUARY 1, 2003 TO DECEMBER 31, 2006

Receipts:

Inheritance Taxes	\$ 4,478,366
Judicial Computer System/Access To Justice Fees	<u>3,280</u>
Total Receipts (Note 2)	4,481,646
Disbursements to Department of Revenue (Note 4)	<u>(4,481,646)</u>
Balance due Department of Revenue (County) per settled reports (Note 5)	-
Examination adjustments	<u>-</u>
Adjusted balance due Department of Revenue (County) for the period January 1, 2003 to December 31, 2006	<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
MONTOUR COUNTY
NOTES TO THE STATEMENTS OF RECEIPTS AND DISBURSEMENTS
FOR THE PERIOD
JANUARY 1, 2003 TO DECEMBER 31, 2006

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 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.

Register Of Wills

Receipts consist of monies collected on behalf of the Department of Revenue 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
MONTOUR COUNTY
NOTES TO THE STATEMENTS OF RECEIPTS AND DISBURSEMENTS
FOR THE PERIOD
JANUARY 1, 2003 TO DECEMBER 31, 2006

2. Receipts (Continued)

Register Of Wills (Continued)

- Judicial Computer System/Access To Justice Fees represent fees (\$5.00 for filings prior to November 1, 2002 and \$10.00 for filings afterwards) 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

Register of Wills commissions of \$91,777 for Inheritance Taxes was paid to the County by the Department of Revenue and is not reflected in the Statement.

RECORDER OF DEEDS/
REGISTER OF WILLS
MONTGOMERY COUNTY
NOTES TO THE STATEMENTS OF RECEIPTS AND DISBURSEMENTS
FOR THE PERIOD
JANUARY 1, 2003 TO DECEMBER 31, 2006

4. Disbursements To Department Of Revenue

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	<u>\$ 1,937,242</u>
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Writ Taxes and Judicial Computer System/Access To Justice Fees

Total disbursements are comprised as follows:

Checks issued to the Department of Revenue	<u>\$ 145,453</u>
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RECORDER OF DEEDS/
REGISTER OF WILLS
MONTOUR COUNTY
NOTES TO THE STATEMENTS OF RECEIPTS AND DISBURSEMENTS
FOR THE PERIOD
JANUARY 1, 2003 TO DECEMBER 31, 2006

4. Disbursements To Department Of Revenue (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:

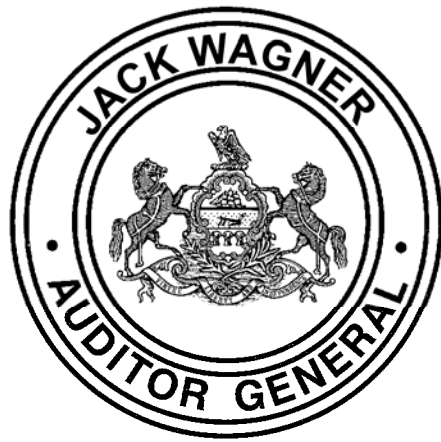
Deposits into the Department of Revenue's cash management account	\$ 4,478,366
Checks issued to the Department of Revenue for Judicial Computer System/Access To Justice Fees	<u>3,280</u>
Total	<u><u>\$ 4,481,646</u></u>

5. Balance Due Department Of Revenue (County) For The Period January 1, 2003 To December 31, 2006

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

6. County Officer Serving During Examination Period

Linda Weaver served as Recorder of Deeds/Register of Wills during the period January 1, 2003 to December 31, 2006.



RECORDER OF DEEDS/
REGISTER OF WILLS
MONTOUR COUNTY
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2003 TO DECEMBER 31, 2006

Finding No. 1 - Inadequate Internal Controls Over Computer System

Montour County uses a service organization (Vendor) as an Application Service Provider (ASP) to account for transactions in several offices, including the Recorder of Deeds and Register of Wills (County). Montour 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 Vendor 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:

- 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 to limit [Vendor's] liability to the correction of the application software. In the event [Vendor] cannot, within a reasonable period of time, affect an adequate software correction, the client may opt to terminate this agreement. However, [Vendor] shall not be liable for direct, indirect, incidental, or consequential damages arising from the use or the inability to use the software or service herein described. Neither shall [Vendor] be responsible for the loss of data, the cost of data recovery, or the loss of profit or revenue."
- 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.
- County users are not required to periodically change their passwords after initial password selection.

RECORDER OF DEEDS/
REGISTER OF WILLS
MONTOUR COUNTY
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2003 TO DECEMBER 31, 2006

Finding No. 1 - Inadequate Internal Controls Over Computer System (Continued)

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.

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.

This finding was cited in the prior audit period ending December 31, 2002.

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/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:

RECORDER OF DEEDS/
REGISTER OF WILLS
MONTOUR COUNTY
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2003 TO DECEMBER 31, 2006

Finding No. 1 - Inadequate Internal Controls Over Computer System (Continued)

Recommendations (Continued)

- 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.
- 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.

RECORDER OF DEEDS/
REGISTER OF WILLS
MONTOUR COUNTY
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2003 TO DECEMBER 31, 2006

Finding No. 2 - Inadequate Internal Controls Over Receipts

Our examination revealed significant weaknesses in the internal controls over receipts. We noted the following discrepancies:

- Sixty out of 60 Recorder of Deeds' cash receipts tested had a mix of cash and checks recorded on the deposit slips that did not agree with the mix of cash and checks recorded on the accounting records.
- Twenty out of 60 Register of Wills' cash receipts tested had a mix of cash and checks recorded on the deposit slips that did not agree with the mix of cash and checks recorded on the accounting records.

It should be noted that the testing of the Recorder of Deeds' and Register of Wills' receipts indicated that the total amount receipted equaled the total amount deposited.

The office holder stated that when miscellaneous fees are collected, the money is set aside and receipted at the end of the day. One receipt is prepared for all miscellaneous collections and is recorded as a cash payment regardless of the actual form of payment.

Good internal accounting controls ensure that:

- All cash, checks, and money orders collected for a day equal the cash, checks, and money orders deposited. Any discrepancies should be immediately investigated and resolved.
- Receipts should be coded in the same manner as payment was received (i.e., cash, check, money order).

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.

Recommendation

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

Management's Response

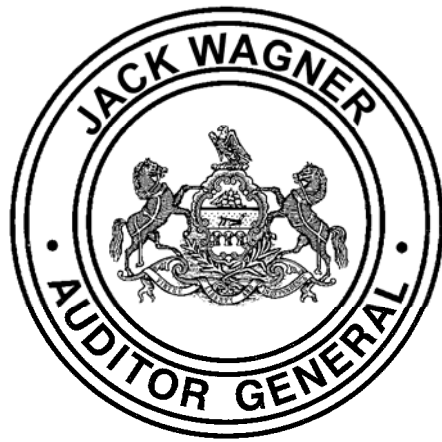
Unfortunately, when an attorney brings a document in and he is short, I cannot break the receipt down to cash and check.

RECORDER OF DEEDS/
REGISTER OF WILLS
MONTOUR COUNTY
FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD
JANUARY 1, 2003 TO DECEMBER 31, 2006

Finding No. 2 - Inadequate Internal Controls Over Receipts (Continued)

Auditor's Conclusion

As cited above, good internal controls require that receipts should be coded in the same manner as payment was received to ensure that all cash reported on the income records agree to the validated deposit slips.



RECORDER OF DEEDS/
REGISTER OF WILLS
MONTOUR COUNTY
REPORT DISTRIBUTION
FOR THE PERIOD
JANUARY 1, 2003 TO DECEMBER 31, 2006

This report was initially distributed to:

The Honorable Thomas W. Wolf
Secretary
Department of Revenue

The Honorable Zygmunt Pines
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Supreme Court of Pennsylvania Courts
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Recorder of Deeds/Register of Wills
Montour County
29 Mill Street
Danville, PA 17821

The Honorable Linda Weaver

Recorder of Deeds/Register of Wills

The Honorable Harold Hurst

Chairperson 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.