



A Report
to the
Board of
Supervisors

*Maricopa County
Internal Audit
Department*

Ross L. Tate
County Auditor

Recorder's Office

*Review of Selected Issues within the
Maricopa County Recorder's Office*

August ■ 2007

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The **County Auditor** is appointed by the Board of Supervisors. The mission of the Internal Audit Department is to provide objective, accurate, and meaningful information about County operations so the Board of Supervisors can make informed decisions to better serve County citizens.

The mission of Maricopa County is to provide regional leadership and fiscally responsible, necessary public services so that residents can enjoy living in a healthy and safe community.

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August 30, 2007

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We completed our review of the Maricopa County Recorder's Office, which was performed in accordance with the annual audit plan approved by the Board of Supervisors. The County Recorder is responsible for maintaining a perpetual, comprehensive set of public records. The Recorder's Office records over one million documents each fiscal year.

The Recorder's Office has strong controls over the safeguarding of recorded documents, and is a model of electronic recording innovations for other counties. Our review of the document recording operation found no exceptions.

Internal controls can be strengthened in the following areas:

- Customer accounts and cash receipting
- Asset capitalization and tracking
- Telecommunication monitoring and planning

We also reviewed controls over the Recorder's Office information technology. Overall, we found them to be adequate. However, several areas can be improved.

We reviewed this information with the Recorder's Office and with the Departments of Finance and Telecommunications. We appreciate the cooperation provided by management and staff. If you have any questions, or wish to discuss the information presented in this report, please contact Richard Chard at 506-7539.

Sincerely,

A handwritten signature in cursive script that reads "Ross L. Tate".

Ross L. Tate
County Auditor

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Executive Summary

Document Recordation (Page 9)

Recorder's Office staff accurately record documents as required by state statutes. We found adequate controls over recording documents and for ensuring that all documents were scanned. These controls ensure that a comprehensive set of public records is maintained so County citizens can conduct their personal and business activities.

Customer Accounts (Page 10)

Internal controls over customer accounts can be strengthened. Duties are not adequately segregated, and policies and procedures are lacking. As a result of these control weaknesses, 15% of the customer accounts were delinquent, and inactive accounts lacked attention. The Recorder's Office should work with the Department of Finance in developing written policies and procedures for managing customer accounts.

Cash Receipts Process (Page 13)

We reviewed cash receipts procedures at both Recorder's Office locations. Our reconciliations and verifications of change funds and cash receipts found no monies missing at either site; however, we observed control weaknesses at both locations. These control weaknesses increase the risk of fraud and theft at these locations, where approximately \$100,000 in cash receipts are processed daily. The Recorder's Office should implement procedures to safeguard cash receipts and strengthen controls over all cash handling activities.

Asset Capitalization and Inventory (Page 16)

Our review identified \$179,000 in assets that were not correctly capitalized and \$720,000 in assets that were not adequately tracked. Incorrect capitalization increases the County's risk of misreporting financial information, and failure to account for assets increases the likelihood of theft and misuse. The Recorder's Office should follow policies to reduce County risk and improve accountability and safeguarding of assets.

Telecommunications (Page 18)

Our review identified 63 wireless lines used by the Elections Department but funded by the Recorder's Office. When such costs are not correctly assigned, operating expenditures are overstated by the Recorder's Office and understated by Elections. We also found that wireless statements were not being reviewed. Proper monitoring of wireless usage helps avoid under-utilization of assets, and unnecessary costs. The Recorder's Office should analyze telecommunications activities and implement monitoring procedures as required by County policies.

Information Technology (Page 21)

The Recorder's Office appears to have adequate controls over its application security, information technology (IT) projects, and IT governance. Overall, general IT controls are adequate. However, end-user training, program change control, and system back-up controls need strengthening. Inadequate controls may lead to loss of data, system unavailability, or problems with data integrity. The Recorder's Office should strengthen controls in these areas.

Introduction

Background

Maricopa County Recorder's Office (Recorder's Office) operates under the authority granted by Arizona Revised Statutes (ARS), Titles 11, 38, 39, and 47. These statutes require the Recorder and the Recorder's Office staff to record, index, and preserve specific documents for public record. Documents that the Recorder's Office staff preserves include property deeds, federal and state liens, trust deeds, and many other items relating to real estate, and personal and governmental transactions.

In addition, the Recorder's Office operates under Title 16, which governs voter registration and early voting. These statutory requirements are not reviewed in this report. Internal Audit will review those requirements during an audit of the Elections Department.

The Recorder's Office also is mandated to include a \$4 surcharge on every document recorded. This surcharge goes into the Document Storage and Retrieval Maintenance Fund (Surcharge Fund). ARS requires that monies in this fund be used to help convert the manual process of recording documents to a digital, automated system.

Mission, Goals, and Performance Measures

As part of the County's Managing for Results (MfR) program, Recorder's Office management has developed a Strategic Plan. The plan includes the mission, vision, goals, and performance measures of the Recorder's Office.

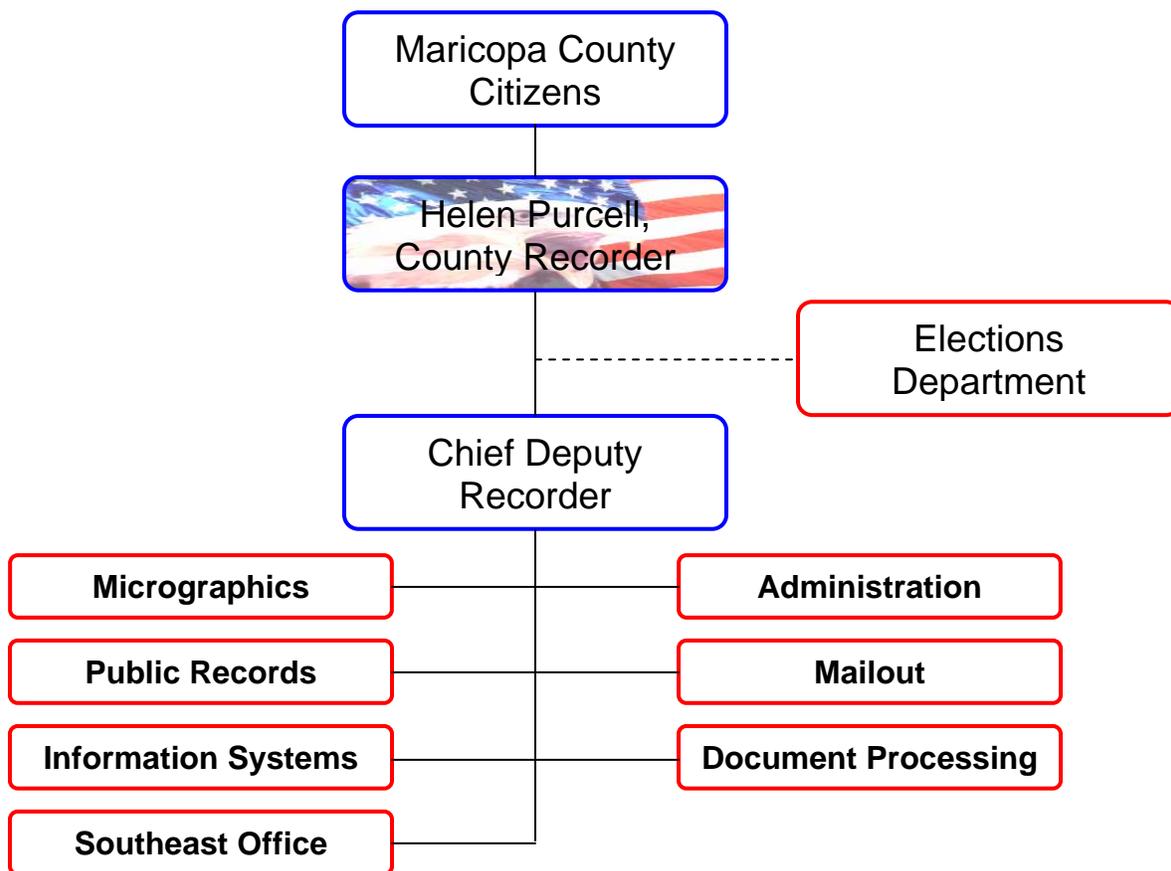
The mission of the Recorder's Office is to maintain a perpetual, comprehensive set of public records consisting of all documents appropriately presented for recording by the public. This permits members of the public to readily access the information to conduct their personal and business activities with the assurance that, where appropriate, privacy will be protected and their transactions executed in accordance with the law. In other words, the Recorder's Office keeps a record (now digital) of all mandated transactions and allows the public to access those records.

The Recorder's Office vision is to be the most productive recording office with the best customer service and the best solutions for recording documents and accessing public records. In order to achieve its vision, the Recorder's Office has two main strategic goals. The first goal was to increase the percentage of documents recorded from digital and electronic sources by 55% in fiscal year (FY) 06. During FY06 digital and electronic recording accounted for an average of 47% of total documents recorded. However, during the fourth quarter of FY06, digital and electronic recordings exceeded 50%. The second goal was to reduce the space needed for document storage (by storing more documents digitally) by 50% in FY06. As of the third quarter FY06, the Recorder's Election's Document Conversion Archival Project (REDCAP) converted 47 million out of approximately 68 million images to a digital format, substantially reducing space needed for document storage. REDCAP was designed to create digital images and indices of all documents recorded since 1871 by the end of calendar year 2006. The new completion date is the end of calendar year 2007.

Organizational Structure

The County Recorder, currently Helen Purcell, is an elected official with seven areas under her supervision. Those areas are: micrographics, administration, public records, mailout, information systems, document processing, and the Recorder's Southeast Office. The Recorder's Southeast Office is a satellite facility that provides most of the same services as the main office.

As of January 2007, 84.25 full time equivalents (FTEs) are authorized for the Recorder's Office; 44.25 funded by the General Fund and 40.00 funded by the Surcharge Fund. The number of authorized FTEs paid for by the Surcharge Fund has increased 11% over the last two years. Management states the increase is due to contract employees for the REDCAP project. However, permanent staff has remained constant during this period. The chart below depicts the Recorder's organizational structure.



In addition to being responsible for the Recorder's Office, the County Recorder is also administratively responsible for the Elections Department (Elections), which includes voter registration and early voting. Although Elections is a separate department, the Recorder's Office and Elections Department share some staff and services.

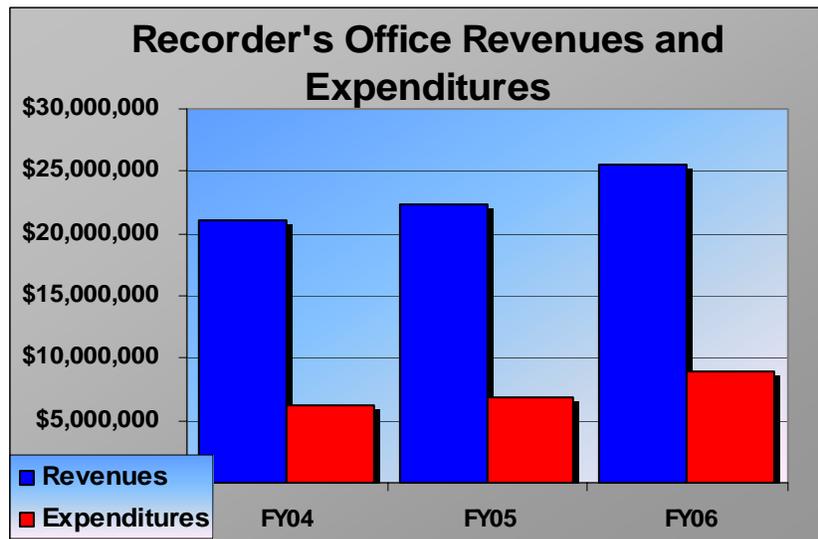
Operating Budget

The Recorder's Office FY07 budget projected \$19.5 million in revenues and \$8.8 million in expenditures. This compares with FY06 actuals of \$25.6 million in revenue and \$8.9 million in expenditures. Revenues come mainly from recording fees which are set by statute, including the \$4

surcharge. This surcharge has generated revenues in excess of \$6.5 million in each of the last three fiscal years. Fees charged for copying, searching, and mailing documents, in addition to interest earned on the Surcharge Fund balance; make up the remainder of the revenues.

Recorder’s Office management reported that revenues grew over the past few fiscal years primarily due to the housing boom. Numerous documents must be filed with each real estate transaction.

Even with the recent slowdown in the housing market, management expects the number of documents recorded in FY07 to be approximately 50,000 more than in the previous fiscal year. Also, management stated a portion of the revenue growth can be attributed to an increase in the average number of pages per document. Other revenue sources include interest income and grants.



Source: Advantage Financial System

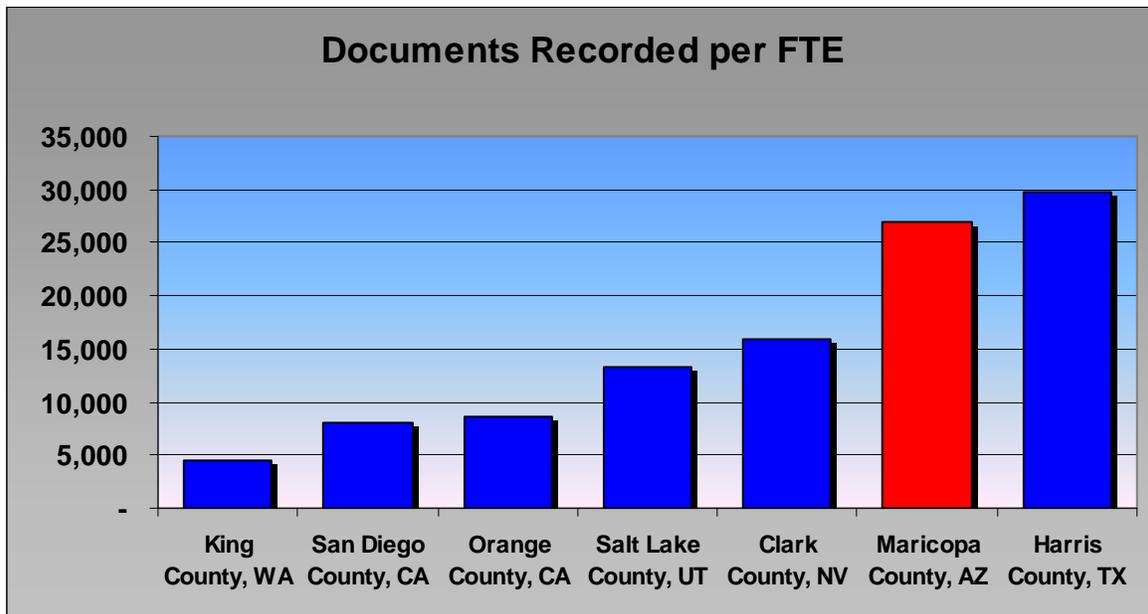
For FY06, approximately 75% of the Recorder’s Office expenditures were from the Surcharge Fund. Of those expenditures, over one third went to personnel and more than one half went to general expenditures, which include supplies, contracts, and other, non-capital equipment. The remainder of the expenditures from the Surcharge Fund went to capital equipment, mostly for servers and other computer equipment.

Projected expenditures for FY07 include nearly \$3 million for additional servers, a new back-up system, computers and printers, and temporary staff. The temporary staff is needed for quality control purposes, and to meet the demands on services related to REDCAP.

Benchmarking

We compared the Recorder’s Office operations with the six counties shown on the following chart (Clark County, NV; Harris County, TX; King County, WA; Orange County, CA; Salt Lake County, UT; and San Diego County, CA). We obtained benchmark information on these counties’ operations from telephone interviews and through internet inquiries with Recorder’s Office staff.

All of the counties, except for one, have an elected official as the Recorder. Three of the six fully utilize electronic recording. Staff members from one of the counties, which does not currently utilize electronic recording, stated that they will be modeling their implementation after Maricopa County and Orange County. We compared total documents recorded to total FTEs and found that the Recorder’s Office appears to be operating efficiently compared to benchmarks.



Source: Audit Benchmarking Study

All counties, except for Salt Lake, charge a surcharge fee. Maricopa County and Salt Lake County are the only counties that do not handle marriage records or vital records. The Deputy Recorder stated, and we confirmed, that due to varied recorder responsibilities around the country, detailed benchmarking comparisons are difficult to perform.

Information Technology

The Recorder’s Information Services Center (RISC) is responsible for maintaining both the Recorder’s Office and Elections’ information systems. RISC has 32 full-time positions supporting system applications, help desk functions, web site design, and database administration for both Recorder’s Office and Elections. The Recorder’s Office key applications include the Recorder’s Document Information System (RDIS) and the Solomon General Ledger.

Developed in-house in 1991 by RISC, RDIS is the primary application used by the Recorder’s Office for processing recordings. Originally, RDIS was developed on a mainframe AS400 platform; in 1999 it was moved to a PC server platform. RISC analysts continue to develop new functionality for RDIS to suit business needs and to comply with changes in regulatory requirements.

The Solomon application is used for managing accounts receivable balances and for issuing refunds to customers who may have over-paid their balances. An automated interface imports transaction data from RDIS into Solomon.

Scope and Methodology

The objectives of this audit were to determine that:

- Recorder's Office complies with state statutes and department policies for accurately recording documents
- Controls are adequate to ensure fees are collected timely, account receivables are monitored, reconciled, aged, and written-off when uncollectible
- Adequate controls exist for refunding monies to customers who have not had any recent account activity
- Controls over cash receipts are effective, and that staff follow County and department policies and procedures when handling change funds and collecting recording fees
- Assets are capitalized and accounted for according to County policies
- Telecommunication expenditures comply with County policies
- Controls are adequate over application security, information technology (IT) projects, and IT governance

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Recorder's Office Reported Accomplishments

Maricopa County Recorder's Office provided the following information for inclusion in this report.

In 1996, the Maricopa County Recorder's Office was the first office in the Country to provide images of recorded documents online.

Over the course of many years the Maricopa County Recorder's Office has received numerous awards for their outstanding programs for recording documents, microfilming, digital recording, design and implementation of a recording system, military and overseas voter project, language assistance proficiency assurance, board worker voter assistance enhancement program, online redistricting system, vote by mail and our GIS system from both the Computerworld Smithsonian and the National Association of Counties. In addition, our County Recorder Helen Purcell has been appointed to serve on several National committees. Her expertise in the recording and election field is well sought after.

In July 2004, the National Association of Counties had their conference in Phoenix and many of the clerks and recorders from throughout the United States toured our office to see how the premier recording office runs.

The Maricopa County Recorder's Office was among the first to accept electronic/digital recordings in the United States. Currently our electronic/digital recording clients submit over 50% of their documents through this program.

In 2001, the recorder's office created a program that allows for our customers to view or purchase recorded documents online. We also allow for the purchase of a certified copy. Again we were among the first to provide this service.

In 2004, the Maricopa County Recorder's Office took on the challenge of doing a back file conversion of recorded documents back to the year of 1871, which is the year the County started. This was a huge undertaking. There were approximately 62,800,000 images to be converted either from paper, roll film or microfiche. We have performed quality assurance on each image and they will be available on our website in the near future.

This year a revision of law was passed to allow for more of our customers to submit documents electronically/digitally. This will increase our percentage of digital/electronic documents by at least 25%. The Recorder's Office was instrumental in this legislation. This process will allow for us to restructure our office to provide more efficiency in the future.

In 2006 there was much talk about identity theft in Arizona. Many state legislators felt that information provided on public websites was contributing to this issue. The Maricopa County Recorder's Office decided to be proactive and redact social security numbers from all documents currently on their website and those scheduled to be displayed. The vendor was selected in January 2007 and the project was started in February 2007, and will be completed by October of 2007. Legislation was passed in 2007 requiring redaction of social security numbers going back to 1935. These additional documents were added to the project and will also be completed by October of 2007.

Issue 1 Document Recordation

Summary

Recorder's Office staff accurately record documents as required by state statutes. We found adequate controls over recording documents and for ensuring that all documents were scanned. These controls ensure that a comprehensive set of public records is maintained so County citizens can conduct their personal and business activities.

Mandated Duties

Arizona Revised Statutes (ARS) mandate that Recorder's Office record, index, and preserve documents as a permanent public record. Documents the Recorder's Office must preserve include: property deeds, federal and state liens, trust deeds, and many other items relating to real estate, and personal and governmental transactions. ARS specifies requirements for documents to be recorded. The Recorder's Office is mandated to ensure all recorded documents meet these specifications.

Document Recordation Process

During our observation of the document process, we selected a sample of 14 documents to ensure proper recording. We observed the documents from the time they were initially presented through the entire recordation process to online viewing.

When documents were presented for recording, Recorder's Office staff ensured the document met all mandated specifications. If the document met specifications, staff created a recording number and affixed a sticker to the document with that recording number. The recording number is used to track the document throughout the process and for reconciliation purposes. After all information about the document was entered into the Recorder's Document Information System (RDIS), the document is scanned into RDIS.

As documents are scanned into RDIS, several reconciliations are performed to ensure all documents, and every page of each document, are recorded in RDIS. In addition, reconciliations are performed between what is received at the front counter and scanned into RDIS.



Scanners used to image recorded documents

Recommendation

None, for information only.

Issue 2 Customer Accounts

Summary

Internal controls over customer accounts can be strengthened. Duties are not adequately segregated, and policies and procedures are lacking. As a result of these control weaknesses, 15% of the customer accounts were delinquent, and inactive accounts lacked attention. The Recorder's Office should work with the Department of Finance in developing written policies and procedures for managing customer accounts.

Segregation of Duties

The State and Local Government Committee of the American Institute of Certified Public Accountants (AICPA) recommends the following segregation of duties:

- Billing services from collection and accounting
- Maintaining detail accounts receivable records from collections and general ledger posting
- Collecting, controlling, and depositing funds from maintaining accounting records
- Posting entries in the cash receipts records from posting ledger entries

We found the Recorder's Office did not segregate incompatible accounting duties. The Accounting Coordinator handles all duties related to customer account functions. The coordinator creates customer accounts in Solomon General Ledger application, contacts customers regarding account status, manages the billing and accounting, maintains records, and collects monies. In addition, the coordinator closes customer accounts, and approves and requests refund checks with no supervisor approval. All customer account checks, credit card payments, and wire transfers for depositing money go through the Accounting Coordinator. The coordinator's responsibilities include reconciling all account checks, credit card payments, and wire transfers to RDIS reported amounts. The coordinator also handles all monies deposited for customer accounts and makes general ledger entries.

A lack of segregation of duties for creating, collecting, dispersing funds, and reconciling customer accounts, increases the risk of fraud, waste, and abuse. Not monitoring customer accounts in a timely manner also increases this risk.

Accounts Receivables

County Policy A2501 (Uncollectible Accounts Receivable) states that County Departments or Elected Offices who generate account receivables should:

- Develop internal policies and procedures regarding uncollectible accounts
- Review all accounts to determine those that become past due or delinquent, and determine their collectibility
- Maintain an Accounts Receivable Aging Report to monitor/track collection activities

The Recorder's Office has not developed formal, written policies and procedures for administering accounts receivables generated by customer accounts. However, staff does follow unwritten procedures.

When customer accounts are created, the credit limit must be set for customers; such limits vary between \$0.00 and \$99,999.99. The upper limit of \$99,999.99 is to allow major County customers to continue recording documents while checks are in transit to the Recorder's Office. Because the Recorder's Office allows credit while checks are in transit, 85 out of 579 (15%) customers had a credit balance and owed the County \$106,600 for services rendered as of March 14, 2007. Also, 20 of the 85 accounts were over 90 days past due.

The Recorder's Office does not have an internal policy for determining the number of days that accounts receivable transactions have been unpaid. Terms for accounts receivable have not been defined as required by County policy. As of January 17, 2007, 87 customer accounts were delinquent owing the County \$148,400. By March 14, 2007, the following had occurred:

- 20 delinquent customers recorded more documents, increasing the amount owed to the Recorder's Office
- 23 delinquent customers had no activity
- 43 delinquent customers deposited money, decreasing the amount owed to the Recorder's Office
- One delinquent account was closed

The Accounting Coordinator does contact customers to collect money owed. In January 2007, based on our recommendation, the coordinator started documenting all attempts to contact customers. We contacted a sample of 14 active account customers to verify monitoring procedures. We found:

- 13 account customers checked their balance at least once a week
- 11 accounts had accrued a negative balance at some point
- The coordinator contacted 9 of the 11 accounts when their balance was negative

Inactive Accounts

Although the Recorder's Office account application states that accounts inactive for one year or longer will be terminated, we found that staff closes an account only when customers request the closure. The Accounting Coordinator does contact some of the customers with inactive accounts to suggest they use or close the account. The customer must then submit a "Request for Refund" letter to receive the refund.

Years Inactive	# of Accounts	Balance
1 - 2	26	\$ 15,419
2 - 3	13	\$ 2,367
3 - 4	9	\$ 10,315
4 - 5	5	\$ 476
5+	15	\$ 3,578
Total	68	\$ 32,155

As of March 14, 2007, we noted 110 customer accounts were inactive for at least one year. Of those accounts, 68 were considered deferred revenue, which created a County liability. Per Recorder's Office policy, staff should close all inactive accounts listed in the table above and refund \$32,155 to the customers.

If the Recorder's Office is unable to contact any of the account customers, monies should revert to the County according to County policy and applicable state statutes.

Refunds

Between July 1, 2006, and March 14, 2007, the Recorder's Office staff issued 7,129 refund checks. We tested a statistical sample of refund checks to determine if refunds were appropriate. We found no exceptions and no checks payable to the Recorder's Office personnel. However, a lack of segregation of duties in the refund process creates an increased risk of fraud and abuse.

In addition, we noted controls over the account closure process were weak. Between January 17, 2007 and March 14, 2007, we identified 18 customers that closed inactive accounts. We contacted 6 out of 18 customers and were told that:

- One account customer was due a \$4 refund. We were unable to determine if the customer received the refund.
- One account customer mentioned problems with his balance. He believed money was missing prior to the employment of the current Accounting Coordinator managing the accounts.
- One account customer was unaware the account existed or that the account had a \$158 balance. The customer's account has been credited \$158 and has recent activity.

We referred the above issues to the Recorder's Office staff for follow up.

Recommendation

Recorder's Office management should:

Work with the Department of Finance in developing written policies and procedures for managing customer accounts. These policies and procedures should include such duties as account authorization and set-up, credit limits, reconciliations, account closing, customer refunds, and escheatment. Adequate segregation of customer account duties should also be included.

Issue 3 Cash Receipts Process

Summary

We reviewed cash receipts procedures at both Recorder's Office locations. Our reconciliations and verifications of change funds and cash receipts found no monies missing at either site; however, we observed control weaknesses at both locations. These control weaknesses increase the risk of fraud and theft at these locations, where approximately \$100,000 in cash receipts are processed daily. The Recorder's Office should implement procedures to safeguard cash receipts and strengthen controls over all cash handling activities.

Safeguards and Controls

The State and Local Government Committee of the American Institute of Certified Public Accountants (AICPA) recommends forty safeguards and procedural controls over cash receipts. Six of the most important controls are:

- Duties of cash collection, receipts, deposit preparation, and recording should be adequately segregated
- Incoming checks should be restrictively endorsed when received
- Cash receipts should be controlled by cash register, pre-numbered receipts, or other equivalent means if made over the counter
- Cash receipts should be deposited in a timely manner; any cash not yet deposited should be adequately secured
- Cash receipts should be balanced to cash collections on a daily basis
- Physical safeguards should be in place surrounding cash funds

In addition, County and Recorder's Office policies set forth specific guidelines for handling change funds, performing reconciliations, and safeguarding cash receipts.

Cash Counts

The Recorder's Office generates approximately \$100,000 a day in revenue. Based on December statistics, 89% of revenue is received as cash and checks.

We performed surprise cash counts at the Recorder's Main and Southeast Mesa Offices and reviewed cash receipts totaling \$8,059 received by nine cashiers. In addition, we observed the fee assessment and deposit processes. Although all money was accounted for and recording fees were assessed accurately during our visits, we noted the following cash control weaknesses.

Segregation of Duties

Southeast Office:

- The team leader verifies cash and checks of other cashiers against the RDIS Cash Receipts Summary report; however, her cash is not verified by anyone else

- The team leader verifies cash every evening, and then prepares the deposit every other morning

Lack of segregation of duties increases the risk of theft and loss if the same employee handles, verifies, and records cash.

Receipting

Main Office:

- Checks are not restrictively endorsed until they are processed
- Checks to be processed the next morning are left unsecured on cashiers' desks or floor

Southeast Office:

- Checks are not restrictively endorsed until the following business day
- Large account customer checks are sent to the Main Office via courier service without being restrictively endorsed

Unsecured and unendorsed checks increases the possibility that such checks could be lost, or stolen and improperly negotiated.

Generally, as an initial control, checks should be endorsed immediately to the County's bank accounts to deter possible misappropriation. However, management reports immediate check endorsement is not practical because a determination should first be made by the Recorder's Office that documents meet specified requirements for recording before accepting payment. In some cases, documents and checks may be returned to the submitter. Given this situation, other safeguards become more important.



Unlocked safe at Southeast Office

Depositing

Main Office:

- The Office Assistant made change using her own bank account

Southeast Office:

- Deposit process is completed in an unsecured area
- Deposit is walked outside in an unguarded public area

Commingling personal and County funds increases the risk of loss. In addition, not safeguarding the deposit increases the risk of theft.

Safeguarding

Main Office:

- Three cashiers placed their individual safe keys into an unlocked drawer at the counter
- Cashiers take custody of cash receipts after midday and end-of-day reconciliations and supervisor verification, and then place the cash receipts with their change funds in the safe
- Each cashier unlocks his or her drawer in the safe and removes his or her change fund in the morning; they do not sign for their change fund. During this process, the cash receipts, which the supervisor has verified and signed for from the previous day, are still in the drawer.
- Mail, which may include checks, is left in a basket on the floor from the previous day
- Customers drop off checks and documents in a large hole at the front counter that anyone can access
- Checks from account customers are left in a basket on top of the safe and are not restrictively endorsed

Southeast Office:

- All cashiers and the change fund custodian share one compartment in the safe; the other three compartments are unused
- The safe and the top compartment (where the change fund and all cash and check deposits are kept) are left unlocked and open during the day
- The key was left in the lock of an active cash register drawer; we were able to gain access to the change fund
- Mailed-in checks are left on the counter where the public could access them
- The public could reach one cash register; it is only secured by a half cubicle wall

Risk

When duties are not segregated, required cash-receipting procedures are not followed, and physical safeguards are lacking, approximately \$100,000 in daily cash receipts are vulnerable to loss, fraud, and theft.

Recommendations

Recorder's Office management should:

- A. Establish written procedures and controls to safeguard cash receipts at all times, requiring that reconciling activities be segregated from handling and depositing funds.
- B. Update procedures to safeguard customer checks when received.

Issue 4 Asset Capitalization and Inventory

Summary

Our review identified \$179,000 in assets that were not correctly capitalized and \$720,000 in assets that were not adequately tracked. Incorrect capitalization increases the County’s risk of misreporting financial information, and failure to account for assets increases the likelihood of theft and misuse. The Recorder’s Office should follow policies to reduce County risk and improve accountability and safeguarding of assets.

Asset Capitalization

The Recorder’s Office does not consistently follow County policy for capitalization of assets. In our sample, all 47 assets followed the capitalization policy. However, in reviewing expenditures, we found four instances of incorrect capitalization. This resulted in nearly \$179,000 of assets incorrectly classified, as shown in the following table.

Description	FY05	FY06
Number of equipment purchases (sample)	15	6
Number of incorrect capitalization (sample)	2	2
Item percentage	13.3%	33.3%
Total dollar amount of equipment purchases (sample)	\$ 372,337	\$ 153,518
Dollar amount of incorrect capitalization (sample)	\$ 135,057	\$ 43,477
Dollar percentage	36.3%	28.3%

The lack of effective oversight increases the risk of stolen or misdirected assets. When fixed assets are not capitalized and reported correctly, financial information used in reports is inaccurate.

Fixed Assets Inventory

The Department of Finance (DOF) developed a Capital Asset Policy (A2507) and manual for fixed asset tracking and accounting. The County policy and manual sets out certain guidelines that help ensure all assets are tracked and safeguarded against theft. In addition, the manual outlines the accounting policies required to ensure all assets are reported correctly on the County’s financial statements.

We found that the Recorder’s Office does not follow County policy for tracking capital assets. With the assistance of Recorder’s Office staff, we attempted to locate a sample of 47 assets worth \$1.5 million, which represents 5% of all surcharge-funded capital assets. We were unable to locate 34 (72%) of the assets, valued at approximately \$720,000.

The capital asset steward maintains an inventory control log. However, the log did not identify the current location of all capital assets sampled. Additionally, the log had many assets reported as disposed with no supporting documentation.

In addition, Elections uses 22.5% of the capital assets funded by the Recorder’s Office, which accounts for over \$900,000 in original costs. The Recorder’s Office inventory control log lists Elections’ assets. The following table shows the original cost and net book value (NBV = cost - depreciation) of all surcharge-funded assets and those used by Elections.

	Number	Cost	NBV
All Surcharge Assets	956	\$ 6,928,825	\$ 3,544,616
Used by Elections	215	\$ 900,808	\$ 328,192
Percentage	22.5%	13.0%	9.3%

The DOF manual requires that when an asset is transferred to another department, the transferring department should remove the asset from their books. An accurate fixed asset inventory ensures correct information is reported on the County’s financial statements.

Recommendations

Recorder’s Office management should:

- A.** Follow County policies for capitalizing, tracking, disposing, and transferring assets, and update its inventory control log with all capital asset locations.
- B.** Reconcile an inventory listing of capitalized assets to the Department of Finance listings, and complete and return appropriate disposition and transfer paperwork.

Issue 5 Telecommunications

Summary

Our review identified 63 wireless lines used by the Elections Department but funded by the Recorder's Office. When such costs are not correctly assigned, operating expenditures are overstated by the Recorder's Office and understated by Elections. We also found that wireless statements were not being reviewed. Proper monitoring of wireless usage helps avoid under-utilization of assets, and unnecessary costs. The Recorder's Office should analyze telecommunications activities and implement monitoring procedures as required by County policies.

Annual Costs

County Policy A2503 (Accounting for Expenditures) provides procedures to ensure all financial activity is accounted for in an accurate and timely manner, as set forth in the adopted budget. The policy prohibits the reclassification of expenditures between funds and charging special revenue funds for inappropriate expenditures. Allocated expenses and any administrative overhead must be reclassified to the appropriate fund and agency monthly. Any change in funding source of planned expenditures must have prior approval of the Office of Management and Budget (OMB) and DOF.

We estimated \$61,102 in annual telecommunications costs for the Recorder's Office based on an average of monthly charges from July 2006 to January 2007. Although 87% (\$53,120) of the annual cost is attributable to Elections, the Recorder's Office is funding all charges.

Wireless Lines	Recorder's Office		Elections		Total	
	# of lines	Annualized	# of lines	Annualized	# of Lines	Annualized
Cell Phones	8	\$ 7,981	24	\$ 21,103	32	\$ 29,084
Data Cards	0	\$ -	39	\$ 32,017	39	\$ 32,017
Total	8	\$ 7,981	63	\$ 53,120	71	\$ 61,101

When actual wireless costs are not reported correctly, operating expenditures are overstated by the Recorder's Office and understated by Elections.

Usage

The Telecommunications Department developed a policy to ensure County cell phones (wireless lines) are used to support County business strategies and department goals. Elected officials are responsible for developing internal procedures to allow both employees and management the opportunity to review all telecommunication reports to monitor usage and control overall costs.

The Recorder's Office management approves new cell phone purchases. However, management does not evaluate usage and monitor costs as required by County policy to determine if cell phones and rate plans need adjusting. Of the 71 wireless lines assigned to the Recorder's Office, 67% (48 of 71) had limited (less than five minutes of air time) or no usage during the non-

elections months reviewed. During an election month 33% (24 of 71) of wireless lines had limited or no usage.

The average annual cost of lines with no or limited use (including September, an elections month) was \$16,500. Excluding September, we estimated \$34,160 is spent annually on lines with no or limited use.

	Recorder's Office		Elections		Total	
	# of lines	Monthly Cost	# of lines	Monthly Cost	# of lines	Monthly Cost
All wireless lines	8	\$ 665	63	\$ 4,427	71	\$ 5,092
Without Elections Month						
Usage	3	\$ 265	20	\$ 1,580	23	\$ 1,845
No/Limited Usage	5	\$ 400	43	\$ 2,847	48	\$ 3,247
With Elections Month						
Usage	4	\$ 351	43	\$ 3,050	47	\$ 3,401
No/Limited Usage	4	\$ 314	20	\$ 1,377	24	\$ 1,691

Our review of September 2006, an elections month, showed different trends for both the Recorder's Office and Elections:

- 14 lines had no usage (Elections – 11 / Recorder - 3)
- 10 lines had limited usage (Elections – 9/ Recorder – 1)
- 11 Elections' data cards had limited or no usage

The Recorder's Office could reduce monthly costs by as little as \$784 for 11 Elections' wireless lines with no usage during an election month to as much as \$4,427 for 63 Elections wireless lines.

We also reviewed cell phone statements for the eight Recorder's Office wireless lines and found:

- Five lines had limited or no usage
- One line had \$7.65 in usage charges, including 14 text messages, long distance, and roaming charges
- One line had a monthly charge of \$11.99 for text messaging service, yet still had a \$0.10 charge for a text message

We also found that the Recorder's Office staff is currently evaluating 15 pagers' usage and is switching them out for cell phones. When numerous employees obtain wireless lines (cell phones and data cards) under-utilization occurs and costs increase.

Policy Compliance

County Policy A1202 (Telephony) requires Elected Officials or designee to review and approve wireless statements monthly. Our review of December 2006 and January 2007 wireless (cell phones and data cards) statements showed Recorder's Office staff did not properly review, approve, and sign monthly wireless statements. When employees and management do not review cell phone statements, additional charges and overpayments can occur.

We were unable to identify any personal usage during the same period. Therefore, we could not determine if the Recorder's Office management seeks reimbursement from staff for personal charges.

Recommendations

Recorder's Office management should:

- A.** Inform the Telecommunications Department to bill Elections for assigned cell phones' and data cards' usage currently funded by the Recorder's Office.
- B.** Evaluate all cell phone and data card plans to determine if plans need to be adjusted or canceled.
- C.** Review wireless statements, seek reimbursement for any personal usage, and sign for approval.

Telecommunications should update County Policy A1202 to address wireless services such as data cards and text messaging.

Issue 6 Information Technology

Summary

The Recorder's Office appears to have adequate controls over its application security, information technology (IT) projects, and IT governance. Overall, general IT controls are adequate. However, end-user training, program change control, and system back-up controls need strengthening. Inadequate controls may lead to loss of data, system unavailability, or problems with data integrity. The Recorder's Office should strengthen controls in these areas.

IT Criteria

Internal Audit used the IT Governance Institute's Control Objectives for Information and related Technology (COBIT) as a framework for IT best practices.

Application Security Controls

The security for software in use by County departments includes appropriate user account management and segregation of duties. Adequate user account management refers to controlling user access to an application through properly establishing, modifying, and closing user accounts. Appropriate segregation of duties refers to limiting a user's access to an application to only those functions necessary to perform the user's job responsibilities. Strong application security controls can minimize the business impact of security vulnerabilities and deter incidents such as system unavailability, loss of data, or incorrect transaction processing.



REDCAP staff evaluating documents

In reviewing the RDIS and Solomon General Ledger applications, the Recorder's Office appears to have established effective application security controls over:

- Account management through proper user approval or termination procedures
- Application duty segregation through the use of assigned system roles based on user job functions
- System administrator access, which is limited to four people
- Interfaces between RDIS and Solomon

IT Project Controls

All IT projects should have an established program and project management framework which includes prioritization of projects, assignment of resources, user approval, and formal testing. Appropriate IT project controls help to reduce the risks of unexpected costs, improve user involvement, and improve the quality of the overall project.

The County recently moved from Chase Bank to Bank of America for point-of-sale (POS) transaction processing, including credit card authorization and processing. As a result, the Recorder's Office was required to make appropriate changes to its POS processing. Furthermore, the Recorder's Office is in the process of redacting all Social Security Numbers (SSNs) from its recorded documents before making them generally available over the Internet.

In reviewing controls over both the POS project and the redaction project, we noted that these IT projects were properly approved, governed, and executed; and, appropriate planning and testing was performed.

IT Governance Controls

IT Governance includes defining organizational structures, processes, leadership, roles and responsibilities to ensure that enterprise IT investments are aligned and delivered in accordance with enterprise strategies and objectives.

The Recorder's Office has established an IT Steering Committee to oversee its IT functions. The committee meets monthly to discuss and prioritize business objectives which are developed into a yearly IT work plan. In addition, the Recorder's Office establishes an IT Strategic Plan which is updated each year.

IT General Controls

IT general controls refer to controls over information technology that should be implemented in every IT environment, no matter what systems or applications are in use. IT general controls include controls over access to computer systems and data, physical access to equipment, development of new systems or changes to existing systems and computer operations (including job scheduling and backups). Strong IT controls provide reasonable assurance over data integrity, availability, and confidentiality.

The Recorder's Office appears to have adequate overall IT general controls. However, controls should be strengthened in three areas:

- End-user training--The Recorder's Office does not have formal policies and procedures for providing training to RDIS end-users, which could lead to inefficiencies and incorrect transaction processing.
- Developer lack of duty segregation--The Recorder's Office has one system developer who has the ability both to make program changes and to move those changes to production. This could result in unauthorized or incorrect changes being implemented into the RDIS production environment. Unauthorized or incorrect changes could result in system unavailability, loss of data or incorrect transaction processing. Changes could jeopardize system and data integrity.
- Restoration testing--The Recorder's Office does not have formal procedures for performing periodic restoration tests from backup tapes. This could result in data unavailability in the event of a system outage or loss of data.

Recommendations

The Recorder's Office management should:

- A.** Implement formal policies for providing training to end-users, including training new users on existing functionality, and training existing users on any significant system changes.
- B.** Implement procedures for segregating code migration functions from code development functions. Alternatively, the Recorder's Office could implement a formal procedure for reviewing code migrations to determine if only authorized changes have been migrated into the production environment. This function should be performed by someone who does not have application development responsibilities.
- C.** Implement formal procedures for testing whether data can be recovered from backup tapes. This can be performed as part of the periodic disaster recovery testing. Results of the test should be documented and reported to management, and any issues should be investigated and resolved.

Recorder's Response