



Johnson County Audit Services

**Register of Deeds Internal Control
Follow-Up Review**

**Reviewing Implementation of Recommended
Internal Control Improvements**

**A Report to the Board of County Commissioners
By the Audit Services Department
Johnson County, Kansas**

August 2004

2004-01

Six Reasons Why You Should Bother With Procedures

1. Written procedures establish and enforce performance standards. They help ensure that the same job is consistently performed the same way each time.
2. Whether you're a new employee trying to learn the job or an experienced employee assigned to a different job, written procedures provide instructions.
3. It is difficult to remember every step involved in processing complex transactions. Written procedures provide a timesaving reference needed to make sure each step is carefully followed.
4. Written procedures have important control characteristics. They tell you what to look for when auditing and how to evaluate results for compliance.
5. Putting procedures in writing helps you review your process. You might identify bottlenecks or areas of vulnerability and may point out ways to strengthen controls.
6. Written procedures are the documentation for how you carry out certain operations. They are basic business documents that are critical to success.

Ulans, G., & Sherman, C. (2004). From Dusty Notebook to Web-Based Workflow Tools: Procedures Enter a New Era. *Journal of Government Financial Management, Vol 53, No. 2, p. 34*



Johnson County Audit Services

August 5, 2004

To: The Johnson County Board of County Commissioners

This report contains the findings, conclusions, and recommendations from our completed review, *Register of Deeds Internal Control Follow-Up: Reviewing Implementation of Recommended Internal Control Improvements*.

The key finding: **The Register of Deeds office has not established adequate, formal policies and procedures.**

Policies and procedures provide a direct managerial control over operations. Policies and procedures establish specific actions to be taken to ensure that objectives are identified and that desired results are achieved. This managerial control also provides assurances that unintended actions do not occur.

The report includes several recommendations for the Johnson County Register of Deeds to improve the internal and managerial controls operating in her office. We recommend the Register of Deeds:

- Establish and maintain adequate, formal policies and procedures that are designed to provide accurate financial reporting, effective and efficient operations, and clearly demonstrate compliance with statutes, laws, rules, regulations, and County policy.
- Establish and maintain sufficient separation of duties to reduce the opportunity for any person to be in a position to both perpetrate and conceal errors or irregularities in the normal course of that person's duties.
- Provide reconciling procedures, to demonstrate the validity of day to day accounting information.
- Adopt policies and procedures which will protect the integrity of the DTS data by controlling password access to the system.

Finally, we recommend that additional follow-up review work be scheduled to review the policies and procedures when they are adopted.

John Middleton
Interim County Auditor

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In August 2001, the Johnson County Audit Services Department completed a review of the internal controls utilized by the Johnson County Register of Deeds office. At the conclusion of that review we issued Report 2001-05, *Register of Deeds Internal Control Audit*. That report made four specific recommendations for improving the adequacy of managerial controls, policies, and practices within the Register of Deeds department.

The recommendations made in that audit were:

1. The Register of Deeds establish and maintain formal policies and procedures that are designed to provide accurate financial reporting, effective and efficient operations, and clearly demonstrate compliance with applicable statutes, laws, regulations, and County policies.
2. The Register of Deeds restructure her department to provide sufficient separation of duties to reduce the opportunity of any person to be in a position to both perpetrate and conceal errors or irregularities in the normal course of that individual's duties.
3. The Register of Deeds create and maintain appropriate physical controls to prevent misappropriation of Register of Deeds Assets.
4. The Register of Deeds modify the Phoenix system application to retain historic data and to sufficiently document any changes, corrections, or adjustments.

At the conclusion of the 2001 audit the Register of Deeds concurred with the recommendations and agreed to implement them.

***2004 Audit Services
Work Plan***

As part of the 2004 Audit Work Plan, the Johnson County Board of County Commissioners approved a follow-up review of the Register of Deeds Internal Controls in light of the earlier audit.

Review Design

This review was designed to answer these questions:

ROD: Register of Deeds

- 1. Does the ROD office have adequate written policies and procedures that are designed to provide accurate financial reporting, effective and efficient operations, and clearly demonstrate compliance with applicable statutes, laws, regulations, and County policies?**

2. Has the ROD office addressed the internal control deficiencies reported in 2001 to ensure there is adequate separation of duties and physical controls are effective in preventing the misappropriation of ROD assets?

3. Have the reported information processing deficiencies been adequately addressed by the ROD office in order to retain historic data and to sufficiently document any changes, corrections or adjustments?

Scope of Review

To answer these questions Audit Services obtained and reviewed the ROD policies and procedures in effect as of May 15, 2004. We also reviewed a sample of 33 days' daily activity reports and cash reconciliations from the period from January 1, 2004 to April 30, 2004, interviewed staff at the Register of Deeds office, walked through the document processing and cash recording process, and reviewed the system documentation for the ROD Document Tracking System software.

In conducting this audit we followed the applicable governmental auditing standards set forth by the U. S. General Accounting Office except that Johnson County Audit Services has not had a peer review performed.

Question 1: Does the ROD office have adequate written policies and procedures that are designed to provide accurate financial reporting, effective and efficient operations, and clearly demonstrate compliance with applicable statutes, laws, regulations, and County policies?

The ROD office, in cooperation with the Information Technology Services department, commissioned a study of the ROD business processes and technology which was completed in February of 2003. This study produced excellent and very detailed documentation of the ROD office processes.

See Question 3 for a discussion of the password controls and periodic accounting and comparison with amounts shown on control totals.

In December 2003, ROD completed the installation of a new software processing system, Document Tracking System. As of the time of this review the system was in the final stages of acceptance testing.

As of this review in May 2004, the ROD office had not completed the translation of the business process analysis to conform to the newly installed software or to conform to the resulting enhanced business processes.

Our review did indicate that there has been an effort, through email and verbal communication, to keep the ROD staff advised about changes in the daily work flow. This method of communicating does not yet meet the requirements of formal policies and procedures.

Conclusion

In my opinion, the ROD office has not completed the objective of providing adequate, formal policies and procedures as recommended, and agreed to, in the audit of August 2001.

Recommendation

Establish and maintain adequate, formal policies and procedures that are designed to provide accurate financial reporting, effective and efficient operations, and clearly demonstrate compliance with statutes, laws, rules, regulations, and County policy.

Question 2: Has the ROD office addressed the internal control deficiencies reported in 2001 to ensure there is adequate separation of duties and physical controls are effective in preventing the misappropriation of ROD assets?

Physical Controls

There has been a substantial improvement in the control over physical access to the ROD office. During the prior audit we noted twelve serious lapses in physical controls. Ten of the twelve items listed in that report have been corrected.

- Much of the improvement in physical controls is due to the remodeling of the office.
- Access to the part of the office used for document processing is now restricted.
- Bank deposits are made on a daily basis. (There have been some lapses in the implementation of the daily deposit schedule as noted in the County's 2003 external audit report issued June 17, 2004.)
- Incoming mail is locked in the safe room and taken out only when it is ready to be processed.
- Bank reconciliations are performed by the Treasurer's office.

Physical Controls: The physical security of assets, including adequate safeguards, secured facilities, authorization for access to computer programs and data files, and periodic accounting and comparison with amounts shown on control records.

One of the remaining items, failure to change the combination to the safe, has been mitigated by locating the safe in a room that is always locked. However, the combination to the safe has not been changed.

See Question 3 for a discussion of the password controls and periodic accounting and comparison with amounts shown on control totals.

The last item was the failure to record an asset on the fixed asset listing. The asset questioned in the original audit has been identified and listed but, as noted in Question 1, there are no written policies or procedures which address the recording and tracking of assets within the ROD office.

Our review also noted that there are no policies for changing the password for access to the new ROD Document Tracking System software or for ensuring that the passwords selected are not easily guessed or frequently reused.

Segregation of Duties

The 2001 audit noted seven examples of inadequate segregation of duties. Four of the seven have been adequately addressed but the remaining three have not.

1. The daily reconciliation of receipts and the ROD's financial database system are performed by the same individual who counts the daily receipts.

2. The individual performing the daily reconciliation also has the ability to modify the historical information within the ROD's financial database system.

Segregation of Duties: The managerial control of assigning different people the responsibilities of authorizing transactions, recording transactions, and safeguarding assets.

These two findings from the 2001 audit have not been adequately addressed. The ROD accounting manager has access to the daily receipts from the cash drawers, performs the daily reconciliation of the cash received, prepares the deposits, and can make changes to, or delete, the original entries in the Document Tracking System. The changes, or deletions, are noted in the system but there is no review of the action by others.

3. Batches of title company documents are delivered to the ROD's "Drop-Off" window for recording and billing. The fees for these documents are determined, recorded, and billed by one individual.

No change has been made in the process. Mail receipts are handled the same way. One person opens the mail, records the document, and bills the customer.

Conclusion

In my opinion, while substantial improvements have been made, there are still areas of risk in the processing and reconciliation of daily receipts. Physical controls are better but segregation of duties has not been adequately addressed.

Recommendations

Establish and maintain sufficient separation of duties to reduce the opportunity for any person to be in a position to both perpetrate and conceal errors or irregularities in the normal course of that person's duties.

Adopt additional policies and procedures which will address the tracking of assets within the ROD office.

Question 3: Have the reported information processing deficiencies been adequately addressed by the ROD office in order to retain historic data and to sufficiently document any changes, corrections or adjustments?

At the time of the prior audit, the ROD was using the Phoenix system to record documents and to provide internal accounting for the ROD. The Phoenix system was implemented to address problems with the ROD's previous software. The main issues noted in the prior audit were:

- Revenue reports printed at the end of a day's business did not match the information retained by the system 37% of the time.
- ROD staff had the ability to revise transaction dates in Phoenix and thus change daily revenue totals.
- ROD staff was unable to explain differences between printed reports and subsequently printed information.

The ROD implemented a new software system at the end of 2003. The new system, DTS, had a number of advantages to the older system. In addition, to controlling access to cash, speeding the recording of documents, and allowing for the use of scanned documents, it was intended to overcome the accounting problems noted above.

DTS: Document Tracking System

1. ROD staff provided a small sample of daily activity reports (10 business consecutive business days from March 29, 2004 to April 9, 2004). Of this sample of reports three (30%) had different totals for daily activity when the report was run on May 17, 2004 than was reported on the original day. (This sample was in addition to our original sample of 33 days' reports although there was a small overlap in the samples.)

The ROD staff was unable to identify the differences in the reports at the time of the audit field work. Subsequently, the ROD staff developed reports which help in identifying the differences, although a full reconciliation of the changes has not been made.

2. ROD staff has the ability to revise or delete transactions in the system. The change activity is documented in the system by date, change and individual making the change. However, there is no approval process for changes which would require that more than one individual concur with the change.

Suspense Account: Internal account within DTS that allows transactions to be suspended for up to 24 hours within the system.

Escrow Account: Amounts held by the ROD for customers. A regular customer, e.g. a title company, can then record documents and have the cost removed from their balance on hand. In ASPIRE, the County's financial accounting system, this is called the Held For ROD Clients account.

We also noted that the ROD did not reconcile or review the suspense account or the escrow account, in connection with the posting of daily activity.

During the course of discussions about the reconciliation process, the ROD staff developed a reconciliation procedure and reports showing the daily activity in the Escrow and Suspense accounts. This procedure, using the related reports, provided a reconciliation of the DTS Escrow account and the ASPIRE Held for ROD Clients account along with Adjusting Entries that need to be posted to the ASPIRE system although some small, unexplained differences remained.

3. As noted above, in reviewing the DTS documentation, we found that passwords are assigned to all DTS users. This provides security for the cash drawers as well as levels of security for access to the system functions such as data entry, verification, administration, and password management.

No policy or procedure has been adopted which regulates the format of the password or the time between changes in the passwords. Both the format of the password and timing of changes in the passwords are an integral part of system security.

Conclusion

In my opinion, the ROD Office has not adequately addressed the previously reported information processing deficiencies. In addition, new difficulties have been introduced by the suspense account activity and the password access to the system.

Recommendations

Provide reconciling procedures which are sufficient to demonstrate the validity of day to day accounting information.

Adopt policies and procedures which will adequately control access to the system by regularly changing the passwords.

Analyze the Escrow Account and verify its balance and content against the ASPIRE system on a regular, at least monthly, basis.

Appendix A

Register of Deeds Response

On July 6, 2004, the Internal Auditor provided copies of this report to the Register of Deeds office. The Register of Deeds' response was received via email on July 14, 2004 and is attached in this appendix.

Overview

The review of policies and procedures and internal controls addressed in this report are related to the basic aspects of public service, governance and stewardship. The Internal Auditor spent over two months meeting with representatives of the ROD office and reviewing the materials prepared and presented by the ROD office. The conclusions reached were based on a reasonable understanding of the ROD operation as described and presented by the ROD staff.

The questions asked were fairly simple. For instance, "Based on the ROD office agreement in August of 2001 to prepare a formal policies and procedures, can I see the policies and procedures?" (governance) and "Can one person, without the concurrence or review by a second person, make changes in financial information for public funds?" (stewardship) The answers should also have been simple: "Yes, here it is." or "No, that cannot happen because...." This report, with its findings and recommendations, is based on the answers provided over several weeks by the ROD office.

I understand the ROD office has gone through a substantial transition over the past three years. However, in my opinion, no increases in efficiency or productivity can outweigh the basic responsibilities we have to manage the assets that have been entrusted to us. In my opinion, the lack of formal policies and procedures coupled with inadequate internal controls, is a contributing cause of the ROD findings by both the Legislative Post Audit Division (April 2004) and the County's external auditor, Allen, Gibbs, and Houlik (June 2004).

Specific Comments

Policies and Procedures

The ROD office indicates that a series of policies and written guidelines were completed May 15, 2004. (Response, first bullet points, pages 1 and 2) All of these relate specifically to the operation of the new recording system and are part of the operators manual for that system. I have reviewed these procedures, and while they are fine for operating the system, they do not cover the broader aspects of governing the ROD office, such as compliance with state law or county policy. I also reviewed the documents listed in the second set of bullet points (page 2). These were developed by consultants as a description of the ROD office practices. They were never formalized or distributed to the staff a procedures.

The Internal Auditor reiterates that formal policies and procedures are needed.

Segregation of Duties

1. The daily reconciliations are only occasionally performed by the same individual.
2. Only the three ROD deputies can make changes to the system.

Adequate internal control procedures require supervision, review and approval, that is, more than one person should see and approve of every transaction. In both of the instances noted, one person, with no required approval, performs financial activities.

The ROD office maintains that the DTS system maintains a record of the changes including who made them and when, but there is no procedure for regular review of the system change logs.

3. The ROD department has not billed title companies since December 2003.

The Internal Auditor believes that the term ‘bill’ encompasses both ‘mailing out a bill’ and the internal act of offsetting a charge against a customer’s prepaid account. In fact, the latter has weaker internal controls since the client/customer does not have the opportunity to review the billing statement prior to payment. The point of the audit finding is not that the item is ‘billed’ or not but that the entire process is handled by one individual.

The Internal Auditor maintains that no one person should be able to perform a financial activity without adequate concurrence and review by a second person.

Reconciling Procedures

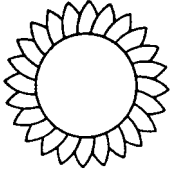
1. “...until the most efficient processes and practices are fully established...it does not make sense to formalize all our policies and procedures.”

First of all, most of the needed policies and procedures do not relate to the new system at all, for example: compliance with statutes, compliance with County policy, and reporting.

Second, The Internal Auditor has been involved with four major system implementations. One of the most important aspects of that process is to have established procedures against which the new system and its results can be tested.

I noted in documents presented by the ROD office on July 6, 2004 that within the prior week reports had been generated for the Escrow and Suspense accounts from the DTS system. As a result of these reports, the ROD office was preparing journal entries for the ASPIRE system which covered three closed accounting periods including January of 2004.

In my opinion, progress has been made in the ROD office toward adequately reconciling the accounting information and I reiterate the need for procedures to complete the process and demonstrate the validity of the accounting data.



Rebecca L. Davis, Register of Deeds, Johnson County, Kansas

TO: John Middleton, Interim County Auditor

FROM: Rebecca L. Davis, Johnson County Register of Deeds

SUBJECT: Register of Deeds Follow-Up Audit

CC: Annabeth Surbaugh, Chairman of the Board
Don Jarrett, Chief Legal Counsel

I appreciate the opportunity to respond to your follow-up internal audit report of the Register of Deeds department, received in my office on July 8, 2004. I believe my comments will serve to clarify and explain a number of issues that you have raised.

Question 1 - Recommendation

Establish and maintain adequate, formal policies and procedures that are designed to provide accurate financial reporting, effective and efficient operations, and clearly demonstrate compliance with statutes, law, rules, regulations, and County Policy.

As Johnson County Register of Deeds, it is my firm position that the Register of Deeds office provides accurate financial reporting, effective and efficient operations, and complies with Kansas Statutes, laws, rules, regulations, and all Johnson County policies and procedures.

Since December 1, 2003, my office has gone through a major process revision with the implementation of a new computer system that greatly improves how we do business. We are currently in the process of preparing for final acceptance of this system. At the time of your review, we were still completing phase three of the project.

I agree that once the new system is fully implemented that policies and procedures need to be finalized. However, until the most efficient processes and practices are fully established within our new system it does not make sense to finalize all of our policies and procedures at this time.

Your written comments leave the impression that no progress has been made toward establishing and formalizing policies and procedures in the Register of Deeds Office. This implication is grossly inaccurate and wildly misleading.

The following policies and written guidelines were completed as of May 15, 2004, during the time of your review:

- Deleting a Document from TRAK RECORD/LIS II,
- Cashiering a Document,
- Procedures for Daily Deposits for Register of Deeds,
- Front Counter/Customer Service Guidelines,
- Emergency Mail Procedures,
- Mortgage Recording Memo,
- Pictures of Record Guidelines,
- Process for Scanning Documents,
- Procedure for Voiding a Document,
- Process for Taking Escrow Accounts,
- Steps for Cashing Out,
- TRAK RECORD Training manual,
- TRAK RECORD Overview of system,
- TRAK RECORD Document Processing,
- TRAK RECORD Reports,
- Document Recording Requirements (comprehensive rejection list as set forth by ALL pertaining state statutes),
- Open Records Guidelines,
- Temporary Employee Guidelines for Data Entry, and
- Process Development Guidelines for Mail-Out and Title Company Cashiering.

I anticipate having the final formal policies and procedures completed by December 1, 2004.

As I stated in the previous quarterly audit responses, with support for completion of the ROD's formal policies and procedures, my office secured a consultant who helped complete a manual for all of our business processes. This manual was fully completed by February 14, 2003, and included the following procedures and workflow charts:

- Front Counter Operations and Uniform Commercial Codes,
- Mail Intake,
- First Desk,
- Fee Error Processing, Post Deposit,
- Plat Processing,
- PHOENIX Data Entering,
- PHOENIX Data Verifying,
- ROD Accounting,
- Outbound Mail,
- Document Scanning, and
- Board of Tax Appeal; ROD managed process.

Again, as I stated earlier, the Register of Deeds office follows all County policies and procedures.

Question 2 - Recommendation

Establish and maintain sufficient separation of duties to reduce the opportunity for any person to be in a position to both perpetrate and conceal errors or irregularities in the normal course of business.

I believe that sufficient separation of duties currently exist and will address the Interim County Auditor's specifically stated concerns below.

Adopt additional policies and procedures which will address the tracking of assets within the ROD office.

The Register of Deeds Office follows existing County policies and procedures for asset tracking.

Physical Controls

The Interim County Auditor's draft report noted that ten of twelve physical control findings had been resolved. In my opinion, the remaining two findings have also already been resolved.

First, changing the combination lock to the safe. After requesting the 2001 Internal Audit and reviewing the Internal Auditor's recommendations at that time, I made a management decision that it was more cost-efficient and secure to lock the entire safe room than it was to change the combination to a very old safe. I have also now taken into account that the current Interim County Auditor did not recommend replacing the safe, as support for my decision.

Second, the draft report states, "...there are no written policies or procedures which address the recording and tracking of assets within the ROD office." As I explained, the ROD office follows the existing County asset tracking policy.

Lastly, the draft report also states "that there are no policies for changing the password for access to the new ROD Document Tracking software." The Register of Deeds employees all have a unique password to gain access to our new system. This system has only been in place since December. Although, the county does not have a policy on password maintenance, I agree that it is a good management control to change passwords periodically. The Register of Deeds office will establish this guideline.

Segregation of Duties

- 1. "The daily reconciliation of receipts and the ROD's financial database system are performed by the same individual who counts the daily receipts."**

Contrary to the tenor of your allegation, the reconciliation process is not routinely performed by the same individual. Our accounting procedures dictate that daily reconciliation and deposits are to be performed by separate individuals. As a result of unscheduled staffing shortages, the same person has done the reconciliation and

depositing for the department on a few occasions. The ROD's office has requested additional FTE's to help resolve potential staffing issues.

- 2. "The individual performing the daily reconciliation also has the ability to modify the historical information within the ROD's financial database system."**

In order to comply with statutory requirements, TRAK RECORD does allow for the modification of recorded documents. This is an essential function that the Register of Deeds must have the capability to perform. Our new system allows, properly, for this correction through administrative controls. It tracks all modifications and provides a full and a complete audit trail when performing these functions. Individuals performing daily reconciliations do not make these changes. The Register of Deeds three deputies are the only personnel to make these changes.

- 3. "The fees for these (title company) documents are determined, recorded, and billed by one individual. No change has been made in the process."**

As I stated earlier, the Register of Deeds department has gone through a major process revision starting December 1, 2003. Virtually every process in the ROD's office has undergone a complete process change, with the greatest improvements occurring specifically in the relationship between how we record documents and collect fees and our ability to audit this function within the system. Our new system determines and records the fees, tracking every keystroke from the moment a ROD employee logs into the system.

I take strong exception to your statement that "fees...are determined, recorded and billed by one individual." The Register of Deeds department has **not** billed title companies since December 2003. Instead we implemented the TRAK RECORD's escrow account functionality, which allowed us to be more compliant with KSA 28-115.

Question 3 - Recommendation

- 1. Provide reconciling procedures which are sufficient to demonstrate the validity of day to day accounting information.**

By February 13, 2003, the Register of Deeds had complete Accounting procedures, which documented the daily reconciling procedure for that time. As I previously noted, since December 1, 2003, my office has gone through a major process revision with the implementation of a new computer system that greatly improved how we do business. We currently have desk procedures in place, "Procedures for Daily Deposit for Register of Deeds," written by Miller, Haviland, Ketter PC, PA, in February of 2003.

Again, to reiterate, until the most efficient processes and practices are fully established, and we have fully accepted our new system, it does not make sense to finalize all our policies and procedures. I anticipate having the final formal policies and procedures completed by December 1, 2004.

2. Adopt policies and procedures which will adequately control access to the system by regularly changing the passwords.

I believe that the access to the ROD's system is adequately controlled. However, as I have previously stated, regularly changing passwords is a good policy and will be implemented.

3. Analyze the Escrow Account and verify its balance and content against the ASPIRE system on a regular, at least monthly, basis.

Starting in May of 2004, the escrow accounts have been balanced monthly. During phase four of the implementation of TRAK RECORD, which was completed May 2004, we were working with DTS to provide additional reports for reconciling the escrow accounts. The Register of Deeds department is currently writing procedures to perform this reconciliation bi-weekly.

I hope my written comments have assisted in providing the Interim County Auditor with a greater understanding of my office's operations. I am still concerned that several conclusions in this audit do not accurately reflect the operations of the Register of Deeds department. Our office procedures have changed dramatically since I requested an internal audit in January of 2001. I feel that our department has done an exceptional job over the last three years to not only improve and establish fundamental internal control policies and practices, but to correlate these changes with an overall transformation in our processes. This accomplishment is evidenced by the 300% overall departmental increase in efficiency, which is allowing us to provide same day recording service to the citizens of Johnson County.

Again, thank you for this opportunity to respond.

Sincerely,

Rebecca L. Davis
Johnson County Register of Deeds