

Performance Audit

**Office of the Register of Deeds
Cash Handling Practices and Procedures**

**Durham County Audit Department
Durham County**

August 31, 2015



Richard Edwards
Internal Audit Director
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Audit Committee:
Harrison Shannon
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Michael Page
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August 31, 2015

Mr. Wendell Davis,
County Manager

Dear Mr. Davis:

Internal Audit has completed its follow-up audit of the Register of Deeds' cash handling process controls. The follow-up focused on recording, reconciling, depositing, reporting, and security of cash.

Cash handling controls were in place and operating effectively with one exception that has been corrected. Security was enhanced by denying work area access to personnel that deliver packages and mail. Because of the controls in place this report does not include recommendations.

I appreciate the cooperation and assistance Register of Deeds staff provided during the audit engagement.

Sincerely,

Richard Edwards,
Internal Audit Director

CC: Willie Covington, Register of Deeds
Audit Oversight Committee
Board of County Commissioner
George Quick, Finance Officer

Introduction

This audit of the Durham County Office of the Register of Deeds cash handling practices and procedures was conducted pursuant to the September 12, 2005 Audit Department Charter which establishes the Audit Oversight Committee and the Audit Department and outlines the internal auditor's primary duties.

A performance audit is an engagement that provides assurance or conclusions based on an evaluation of sufficient, appropriate evidence against stated criteria, such as specific requirements, measures, or defined business practices. Performance audits provide objective analysis so that management and those charged with governance and oversight can use the information to improve program performance and operations, reduce costs, facilitate decision making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability.¹

Audit Objective

This audit reports on the Register of Deeds' current cash handling controls and practices. The report answers the following question:

- Is management controls for accounting, safeguarding, and depositing cash receipts adequate to mitigate inherent risks of cash handling?
- Are controls adequate to assure that financial reports are reasonably accurate and reliable?

Scope and Methodology

I conducted this performance audit in accordance with Generally Accepted Government Auditing Standards. Those standards require that I plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives. I believe the evidence obtained provides a reasonable basis for the findings and conclusions based upon the audit objectives.

I conducted my fieldwork from August 6, 2015 to August 21, 2015. The audit included the cash management process from the point revenue is generated to the point revenue reports are submitted to the County's Finance Department. It also reviewed the accounting for funds expended from customer escrow accounts.

¹ Comptroller General of the United States, *Government Auditing Standards*, Washington DC: U.S. Governmental Accountability Office, 2011, pp. 17

Specific focus was given to processes for;

- Receiving cash,
- Recording cash transactions,
- Preparing and depositing receipts,
- Reconciling deposits and receipts, and
- Managing customer escrow accounts.

Audit methods included;

- Interviewing officials responsible for cash handling and employees engaged in the cash handling process,
- Reviewing current cash handling policy, procedures, and practices,
- Observing the cash handling operation,
- Testing the data generated by the automated system, and
- Reviewing calculations to determine if statutory deductions were accurately made to mandated allocations.

Background

The mission of the Office of Register of Deeds (Office) is to act as the legal custodian of all land title and land transaction documents in Durham County. The Register of Deeds is also the custodian of Vital Records documents for marriages, births, and deaths in the County.² The Register of Deeds operates under NC Statute 161 and charges fees in accordance with that statute.

Land transactions (Real Estate) and Vital Records are the two sources of revenues for Office. In fiscal year 2015 the Office reported collections of approximately \$5,878,939 from its various revenue sources. As legal custodian, the Office of the Register of Deeds records and files deeds, deeds of trust, maps, assumed name certificates for corporations and for partnerships, and military records. Service fees are established by the state either by type of document, cost per page, or service provided. For example the state has set a fee to register a deed of trust or mortgage at \$56 dollars for the first 15 pages and four dollars for each additional page. A fee of \$60 dollars has been set by the state to issue a marriage license. Other services such as issuing a birth certificate have fees set by the state as well.

State statutes dictate that specific amounts of some fees be directed to specific accounts. For example, five dollars of each marriage licensing fee is forwarded to the State's Children's Trust Fund, and thirty dollars is forwarded to the Domestic Violence Fund. Excluding monies collected for the County Excise Tax, none of which is retained by the County, and the contribution to the two funds mentioned above, the Office is allowed to retain a portion of fees to offset the cost of automation and preservation. That amount is ten percent for some specific transactions and six dollars and twenty cents for other specific transactions. The

² Mission information taken from 2014–2015 Approved Budget.

Automation fund is a non-reverting fund kept in a separate account and can only be used for technical and modernization needs.

Findings and Analysis

Summary

Cash handling processes in the Register of Deeds' office comply with State Statutes that determine fees and dictate financial reporting to the County's Finance Director. Additionally, all calculations of withholdings from and disbursements of receipts were accurate as of the day they were tested. Also, best practices for cash handling policies were in place and operating for the period observed. Cash handling practices are almost entirely directed by the financial software and limits the errors clerks can make in ordinary transactions.

One opportunity presented itself for improvement. Package and postal delivery persons had access to the clerk's work area. The mail deposit slot was inside the work area and a well-known parcel delivery person general walked into the area to deliver parcels. Once brought to the attention of management that the practice of allowing non-employees access to the work area diminished physical security, the practice was immediately stopped and deliveries are now made through the windows customers use.

Automated system a primary factor in cash handling effectiveness

The Office relies heavily on its automated system for cash handling and financial reporting compliance. The Office obtained its automated system in 1999, first incorporating real estate transactions and subsequently incorporating Vital Records 2007.

Funds taken at the windows, including cash delivered through the mail, is recorded in the system. That system allows financial reports to be generated and printed upon command. Additionally, it maintains a record of all transactions and allows for queries for historical transactions. Charges and fees established and allowed by State Statute are programmed into the system. Clerks collecting fees at the windows have only to identify the appropriate account, enter the type of transaction, and if necessary for certain transactions, count the number of pages in the document. The system will then generate and communicate the fee. The clerk must act in concert with the automated system or the system will not process the transaction and generate a receipt.

For example, when a customer requests a birth certificate, the teller will enter the code for birth certificates into the system. The system will

determine the fee to be received for that service and the clerk asks for and receives the payment. When the payment is received from the customer, the payment is entered into the system and a receipt is generated and printed. The system is then enabled to print out a birth certificate for the customer. Real estate transactions are controlled in a similar manner. A customer that presents a mortgage deed for registration presents the document to the teller who counts the pages and enters the page count and type of transaction into the system, along with other account identification information. The system then establishes a fee based upon the transaction information entered by the clerk. The fee is collected and entered into the system and the system generates and prints a receipt for the customer. The receipt information remains in the system and at the end of the day, all receipts, and transactions are printed out for reconciliation purposes.

As any system whereby humans make mechanical entries, mistakes and errors are a risk. I did not observe erroneous entries, however; in discussing the potential for risks with clerks and the supervisor, I was informed that errors occur from time to time. For example, the clerk could miscount the pages in a document, or use the wrong account number to conduct a transaction. While these errors can occur, other processes will discover them. For example, documents left for filing are run through a scanner and if the clerk miscounted the number of pages, the scanner will identify the errors because it counts the pages also. For erroneous account numbers, the system will try to correct and change names and when the receipt is printed, simple observation will show both the customer and the entry clerk that an error was made. These errors can be immediately corrected by a supervisor. The system will not allow the entry clerk to make the correction.

Revenue designated to specific fund accounts were allocated properly

Cash taken in by clerks are allocated to several categories. For example, half or \$30 of the \$60 marriage license fee is designated to the Domestic Violence Fund with an addition \$5.00 designated to the Children's Fund. Also, ten percent or \$6.20 in the case of fees collected for the first page of a deed of trust or mortgage is reserved for Office automation. Additionally, excise fees and other allocations are taken from the cash collections.³ I manually calculated the fees for one day to determine if the system was calculating them correctly. All the allocations were correct on the day reviewed.

Revenue reported to the Finance Department was accurate

Each day's receipts are reported to the County Finance Department with bank deposits attached. Again, a report of daily receipts is printed from the system and matched with the cash register receipts provided by clerks. On the day of review, the receipts, revenue report, and deposit slips matched.

³ See appendix I for the fee schedule and appendix II for allocation of fees.

Daily receipts include customer escrow account usage. Escrow accounts are set up by customers so they do not have to make a cash payment each time they require a service. When a service is used, the cost of the service becomes Office revenue. I did not test to determine if the correct account was charged when escrow account were used. However, I tested to determine if funds were being deducted from escrow accounts and shown as Office revenue as such transactions occurred. Escrow accounts were charged and the Office correctly gained revenue in these transactions accordingly.

Security was improved during the audit

The improvement came via discontinuing the practice of allowing package and mail delivery personnel access to the clerk's work area. Clerks keep their daily intake of cash in locked drawers at their individual stations. They keep the keys to the drawers in their possession.

Access to the work area by persons other than employees increases cash handling security risks. Upon discussion of the risk, management denied access to the area by persons other than employees. Packages and mail are now being delivered to areas outside the clerk's work area, thus enhancing security.

Clerks clear their cash drawers at the close of the business day and deposit it in combination safe that is maintained in a more secure area behind a door that requires a code to enter. The cash remains there until it is deposited. This process meets best practices for cash handling.

Conclusion

The Office of the Register of Deeds has adequate functioning management controls for accounting, safeguarding, and depositing cash receipts. Controls are adequate to assure that financial reports are reasonably accurate and reliable. The automated system is reliable, incorporating a structure that assists in sustaining effective and efficient cash handling operations. The system is designed in such a way that when programmed appropriately it maintains data and can report that data in a manner that facilitates compliance with State Statutes and County policy and procedures for revenue reporting. When errors occur they can be quickly identified at the point of occurrence. Supervision and segregation of duties is such that the risk of on-going fraud or misconduct is limited.

Appendix I
Management Comments



Register of Deeds

Willie L. Covington
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Memorandum

To: Richard C. Edwards
Durham County Audit Director

From: Sharon A. Davis
Chief Assistant Durham County Register of Deeds

cc: Willie L. Covington
Durham County Register of Deeds

Date: August 31, 2015

Re: Register of Deeds Audit Report

A handwritten signature in black ink, appearing to be 'S. Davis', written over the 'From' line of the memorandum.

Mr. Edwards,

We have read the audit report submitted to our office on August 31, 2015. We agree with the findings stated and have made the recommended changes regarding deliveries. We strive to follow all county government procedures as we undertake our daily operations and we welcome suggestions which will lead to adherence to the standards for a successful audit.

We realize that the audit is a tool that we can use to improve our operations and greatly appreciate your service, time and diligence shown in performing this task. Please contact us if you need any further assistance.

Appendix II: Fee Schedule

FEES SCHEDULE – EFFECTIVE OCTOBER 1, 2011

Recording Real Estate Instruments

- Instruments except deeds of trust and mortgages \$26.00 first 15 pages /\$4 each add'l page
- Deeds of trust and mortgages \$56.00 first 15 pages / \$4 each add'l page
- Plats \$21.00 each sheet
- Nonstandard document \$25.00
- Multiple instruments as one, each \$10.00
- Satisfaction instruments No fee
- Add'l subsequent instrument index reference, each \$25.00

UCC Records

- One or two pages in writing \$38.00
- More than two pages in writing \$45.00 up to 10 pages / \$2 each page over 10
- Filed electronically if permitted \$30.00
- Response to written request for information \$38.00
- Response to electronically request if permitted \$30.00
- Copy of statement \$ 2.00 each page

Vital Records (Birth/Death/DD214/Notary/Marriages)

- Marriage license \$60.00
- Delayed marriage certificate, with one certified copy \$30.00
- Application or license correction w/one certified copy \$20.00
- Marriage license certified copy \$10.00
- Recording military discharge No fee
- Military discharge certified copy as authorized No fee
- Birth certificate certified copy \$10.00
- Death certificate certified copy \$10.00
- Notary public oath \$10.00
- Delayed Birth certificate (after one year or more) Call 560-0495
- Birth record amendment Call 560-0495
- Death record amendment Call 560-0495
- Legitimations Call 560-0495

Other Services

- Comparing copy for certification \$ 5.00