

Performance Audit

Office of the Register of Deeds Cash Handling Practices and Procedures

April 2008

Durham County Audit Department

Durham County

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. The Audit Committee authorized this audit in October 2007.

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 cash handling controls and practices. The report answers the following question:

- Are management controls for accounting, safeguarding, and depositing cash receipts adequate to mitigate inherent risks of cash handling, and
- 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 March 4, to April 17, 2008. The audit covered the Register of Deeds current cash handling practices. The audit included cash management process from the point revenue is generated to the point revenue reports are submitted to the County's Finance Department. The practices and procedures audited included provisions for:

- Receiving cash,
- Recording cash transactions,

¹ Comptroller General of the United States, *Government Auditing Standards*, Washington D.C: U.S. Governmental Accountability Office, 2007, p.17

- Preparing and depositing receipts, and
- Reconciling deposits and receipts.

Audit methods included:

- Interviewing officials responsible for cash handling and employees engaged in the cash handling process.
- Reviewing the status of current cash handling policy, procedures, and practices.
- Comparing the Register of Deeds cash handling practices with best practices established by several universities.
- Observing the cash handling operation.

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. 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. Additionally, the office administers the oath to notaries public, and issues marriage licenses and delayed birth certificates.² The Office charges a fee for most of the services it provides.

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. The cost is twelve dollars for the first page and three dollars for each additional page. A fee of \$50 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 statute does not allow the Register to set fee schedules for any services.

State statutes also dictate that specific amounts of some fees will be directed to specific accounts. For example, five dollars of each marriage licensing fee is forwarded to the State's Children's Trust Fund, while \$20 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, ten percent of revenue earned by the Office is earmarked for the Automation Enhancement and Preservation Fund. This fund is set aside to help the Office keep pace with technical and modernization needs. The Automation fund is kept in a separate account and can only be used for technical and modernization needs.

In fiscal year 2007 the Office reported collections of approximately \$4,124,993 from its various revenue sources. Revenue operations are divided into two areas, Real Estate and Vital Records. The Real Estate area handles matters such as recording deeds. All other services not related to real estate are handled by the Vital Records area.

² Durham County, North Carolina *Fiscal Year 2007-2008 Approved Annual Operating Budget*

Most of the Office's revenue is generated in the real estate area. I could not obtain a breakdown of revenue by transaction type for this report because the Office's recording system does not have the capability. However, for the purpose of providing perspective, I calculated the revenue for a two week period in March 2008 for the two areas. During that two week period, the Real Estate area earned approximately 91 percent of the Office's revenue of \$168,924.10. The Vital Records area earned \$15,572.50 during that period.³ A representative of the Office said this spread of revenue collection is typical for the two areas.

Findings and Analysis

Summary

Cash handling processes in the Register of Deeds office meet best practice standards and are in compliance with State and County laws and policies. During the audit I reviewed calculations to determine if statutory deductions were accurately made to mandated funds and if payment was received before services were performed or products provided. In both instances the mandates were met by the office. To a large degree the Office's automated system assures compliance with State statutes regarding the amount set aside for various funds as well as the requirement that payment is received before services are provided. In other cash handling areas, such as segregation of duties, supervision, safeguarding cash assets, the Office's practices and procedures were effective.

Automated system assures that transactions are accounted for

The office has designed its cash handling system around automation. The office obtained its automated system in 1999 and incorporated real estate transactions into the process. In 2007, the Office incorporated vital records transactions into the automated process.

The core of the Office's cash handling process is dictated by the State. As stated earlier, state statutes require payment before services and transactions can be performed. The automated system assures compliance with that requirement. For example when a customer requests a birth certificate, the teller will enter the code for the type of transaction 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 printed. The system is then enabled to print out a birth certificate for the customer.

³ This calculation was not a scientific statistical exercise and projections cannot be made nor am I attempting to make a projection with this information.

In a similar way, real estate transactions are controlled. A customer who wants to have a deed registered must present the document to the teller who counts the number of pages and enters this information into the system. The system then establishes a fee based upon the transaction information entered by the clerk. The fee is collected and a receipt printed for the customer. The customer leaves the document with the clerk for processing. Along with the receipt are bar code strips that are attached to each individual document. The documents are later scanned and the bar codes read. The scanning process verifies that the number of pages was counted correctly. If an error message comes up during the scanning process, the scanner operator can determine if the pages were counted incorrectly or if the scanner malfunctioned. Upon resolution of the error message, the system will process a transaction report. This report provides a mechanism to reconcile transactions with sales receipts.

Limited errors occur in the system. There are two possibilities for errors in the Office's processes. One possible error is incorrect page counts of real estate documents submitted for processing. If an undercounting error is made, the three dollar cost for the number of pages omitted in the count is forfeited by the county. If an over-count error is made, the Office can adjust the customer's escrow account if one has been set up, otherwise the customer will not receive an adjustment. I randomly selected seven days to determine the miscount error rate. The office processed 906 pages of real estate transactions on those days. The counting process was carried out correctly 99.89 percent of the time. One page was incorrectly counted for a loss of three dollars of revenue.

The other example of in which an error could occur is if a teller incorrectly counted change to a customer. In such a case the machine recordings and printouts would not reconcile to the amount of money in the drawer. Because the money is counted by each cashier and the supervisor at the end of each day, any shortages would be identified immediately. Additionally, any loss can be quickly pointed to the cashier station where the loss occurred. In discussing the possibility of a loss with one cashier, the cashier said she felt she was personally responsible for accounting for and safeguarding the funds collected at her station.

Security has been considered and is a factor in operations. The office has paid attention to providing security for its cash revenues and personnel. The Office has security cameras installed in strategic areas as well as a gate to keep unauthorized persons from entering the work area. The clerks are situated behind a counter much in the same way as a bank, allowing the clerks to interact with customers while maintaining a barrier between the customers, clerks, and the cash drawers. Each clerk is responsible for safekeeping of the moneys they collect and each maintains a key they keep attached to their persons at all times while on duty. My observation is that each clerk generally kept their key on a band around their wrists and if they left their area for

any reason, the key was with them. Upon observing the area several times, the clerk's station was always attended by at least one clerk.

In discussing security with one supervisor, the supervisor said many of their customers are repeat customers, thus they are familiar to the clerks. The supervisor also stated that clerks are on the lookout for suspicious acting customers and customers they do not recognize.

Revenue designated to specific fund accounts were allocated properly. Fifty percent of the \$50 marriage license fee is designated to the Children's Trust Fund and the Domestic Violence Fund. Another ten percent of all retained revenue is designated to the Automation Fund. I reviewed several days' activity to determine if the monies designated for funds were properly transacted and deposited to these accounts. They were all properly deposited and easy to track primarily because the recording system has been programmed to set aside these funds automatically and show it on its daily reports. The amounts set aside could be easily reconciled to the receipts and the reports clearly showed the categories of each deposit for the set asides as well as the County's general fund.

Conclusion

The Office of the Register of Deeds relies heavily on its automation to sustain effective and efficient cash handling operations. The system has been designed in such a way that it complies with State and County laws and regulations and includes sound cash handling principles and practices. Losses, if they were to occur, can be quickly identified at the point at which they occurred. Supervision and segregation of duties is such that the risk of on-going fraud or misconduct is limited. Recording and reporting has several built in checks and is reasonably accurate and reliable.

APPENDIX 1
AUDIT RESPONSE – OFFICE OF THE REGISTER OF DEEDS



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MEMORANDUM

To: Richard C. Edwards,
Durham County Audit Director

From: Willie L. Covington,
Durham County Register of Deeds

Date: April 22, 2008

Re: Register of Deeds Audit Report

Mr. Edwards,

I want to take this opportunity to thank you for your professionalism and diligence in conducting and compiling the subject audit of our area. It was a pleasure working with you in this endeavor, and we thank you for making the experience a pleasant one.

I have read and agree with the findings as stated in this audit report. We appreciate the insight and recommendations you made.

If this office can be of further assistance please do not hesitate to contact us. Again, on behalf of my staff and me, Thank you!

Respectfully,

Willie L. Covington

Durham County Courthouse, 200 E. Main St., Ground Floor, Durham, N.C. 27701
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<http://www.co.durham.nc.us/rgds>