



County of Allegheny

Office of the Controller

Allegheny County
Department of Real Estate
Report on Internal Controls Over
Off-Book Cash Accounts
For the Period
January 1, 2012 through June 30, 2013
(*Non-Audit Service*)

December 5, 2013

Chelsa Wagner
Controller

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CHELSEA WAGNER
CONTROLLER

COUNTY OF ALLEGHENY

OFFICE OF THE CONTROLLER

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October 30, 2013

Ms. Valerie McDonald Roberts
Manager
Allegheny County Department of Real Estate
County Office Building, Room 101
542 Forbes Avenue
Pittsburgh, PA 15219

Allegheny County Department of Real Estate
Report on Internal Controls Over Off-Book Cash Accounts
for the Period January 1, 2012 through June 30, 2013

Dear Ms. McDonald Roberts:

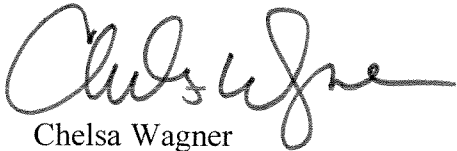
The Allegheny County Controller's Office performed procedures to identify and assess the effectiveness of the implementation of internal controls currently in place over the Department of Real Estate's administration of off-book cash accounts. Our procedures covered the period from January 1, 2012 to June 30, 2013. Our engagement was performed as a non-audit service. Therefore, our engagement was not performed in accordance with *Government Auditing Standards*.

The procedures we performed resulted in the identification of performance improvement opportunities for the Department of Real Estate. The results of our procedures are included in the attached report.

Ms. Valerie McDonald Roberts
October 30, 2013

We would like to thank the management and staff of the Allegheny County Department of Real Estate for their courtesy and cooperation during our engagement.

Kind regards,



Chelsa Wagner
Controller



Lori A. Churilla
Assistant Deputy Controller, Auditing

CW/lc

- cc: Honorable Charles Martoni, President, County Council
- Honorable Nicholas Futules, Vice-President, County Council
- Honorable Rich Fitzgerald, Allegheny County Executive
- Mr. William McKain, County Manager, Allegheny County
- Ms. Jennifer Liptak, Chief of Staff, County Executive
- Mr. Warren Finkel, Budget Director, Allegheny County
- Mr. Joseph Catanese, Director of Constituent Services, County Council
- Mr. Walter Szymanski, Budget Director, County Council

Executive Summary

Purpose

The Controller's Office has identified bank accounts and petty cash accounts that are maintained by certain County Departments for which the cash transactions that occur are not recorded in the County's JD Edwards (JDE) accounting software package (off-book accounts). For the year ended December 31, 2012, the Controller's Office identified a total of 191 such off-book accounts, comprised of 167 bank accounts and 24 petty cash funds. The aggregate bank balance of these off-book accounts at December 31, 2012 was \$21,329,967. Having the transaction activity in most of these cash accounts recorded in JDE and having as many of these accounts administered by the County Treasurer as possible would be beneficial to the County. In addition to providing for greater transparency and reducing the risks of fraud and abuse, such a transition would facilitate timely and accurate County financial reporting.

The objectives of our engagement included accumulating and reporting information that will enable those charged with governance to determine whether the off-book cash accounts administered by the Department of Real Estate can and should be brought "on-book", which would entail the recording of the transaction activity in JDE and the cash accounts being administered by the County Treasurer. We identified the purposes of the off-book cash accounts, and assessed the effectiveness of the internal controls currently in place over the Department of Real Estate's administration of the off-book cash accounts. We also considered any other advantages or disadvantages of bringing those accounts on-book that came to our attention.

Background

The Department of Real Estate currently maintains two off-book accounts with an aggregate bank balance of \$7,876,857 at December 31, 2012. The Department of Real Estate is the consolidation of the Office of the Recorder of Deeds and the mapping and ownership sections of the Office of Property Assessments. The Department of Real Estate is responsible for:

- Recording documents such as deeds, mortgages, and plans, as well as many other documents.
- Providing access to the public to all recorded documents.
- All phases of the notary process.
- Mapping all properties in the County and their respective addresses.
- Maintaining ownership records on all properties in the County.

Executive Summary

Results in Brief

The following is a listing of our findings and recommendations that resulted from the performance of our procedures:

Finding #1: The Accounting for Off-Book Cash Account Transactions Should Be Transitioned to JD Edwards

We noted that two off-book cash accounts have been utilized by the Department of Real Estate to record and disburse fees and realty transfer taxes. This has resulted in a lack of transparency and increased risks of fraud and abuse. It also resulted in more time being consumed in accumulating the accounting data necessary to generate complete and accurate County financial reports.

Recommendation: We recommend that the Department of Real Estate work with the Controller's Office to transition the accounting for its off-book accounts to the County's JD Edwards accounting software.

I. Introduction

For Allegheny County (County) bank accounts maintained by the County Treasurer, cash transactions that occur are recorded in the County's JDEdwards accounting software package (JDE). However, the County Controller's Office has identified bank accounts and petty cash accounts that are maintained by certain County Departments for which the cash transactions that occur are not recorded in JDE. Since the transactions that occur in these accounts are not recorded in JDE, these accounts maintained by County Departments are often referred to as "off-book" accounts.

The transaction activity that occurs in off-book accounts must be included in the County's Comprehensive Annual Financial Report (CAFR). To facilitate the inclusion of the transaction activity in the CAFR, the County Controller's Office requests information about the off-book accounts annually from every County Department. The County Controller's Office summarizes the account activity by reviewing the account statements, reconciliations, details of corresponding liabilities, and summaries of the monthly receipts and disbursements for the year.

For the year ended December 31, 2012, the Controller's Office identified a total of 191 such off-book accounts, comprised of 167 bank accounts and 24 petty cash funds. The aggregate bank balance of these off-book accounts at December 31, 2012 was \$21,329,967. The Department of Real Estate maintained two of those off-book accounts with an aggregate bank balance of \$7,876,857 at December 31, 2012.

The Department of Real Estate is the consolidation of the Office of the Recorder of Deeds and the mapping and ownership sections of the Office of Property Assessments. The Department of Real Estate is responsible for:

- Recording documents such as deeds, mortgages, and plans, as well as many other documents.
- Providing access to the public to all recorded documents.
- All phases of the notary process.
- Mapping all properties in the County and their respective addresses.
- Maintaining ownership records on all properties in the County.

The Department of Real Estate utilizes two off-book accounts:

- The Realty Transfer Tax account is used for depositing all realty transfer taxes collected and for disbursing the taxes to the Municipalities, School Districts, and the Commonwealth.
- The Fee account is the operating account in which all recording and notary fees collected are deposited. The collections are disbursed to the County Treasurer and to the Commonwealth.

Off-Book Account	Bank Balance @ 6/30/13
Realty Transfer Tax	\$7,148,054
Fee	<u>704,978</u>
Total	<u>\$7,853,032</u>

I. Introduction

The Realty Transfer Tax account and the Fee account are non-interest-bearing checking accounts which are both maintained at Citizens Bank. Citizens Bank has not assessed any account servicing or maintenance fees on these accounts, and interest is not earned on the funds on deposit. We considered whether the County could benefit from converting the accounts from non-interest-bearing checking accounts to interest-bearing accounts. We are aware that interest-bearing accounts are typically subject to account servicing/maintenance fees. In order for the County to realize a benefit on conversion of the accounts, the interest the County would earn would have to exceed the account servicing/maintenance fees that would be assessed on the accounts by the bank. We determined that the monthly interest earnings on the funds on deposit could be approximately \$6,192 on the Realty Transfer Tax account and \$1,179 on the Fee account, based on the average daily balances for the month of June 2013 and an estimated .15% rate of return on an interest-bearing account. However, since only a relatively small portion of the funds in the accounts belong to the County, only a relatively small portion of the interest earnings would actually belong to the County. In order to even determine the portion of interest earnings allocable to the County, the County would have to develop methodology to calculate the County's share, and perform those calculations on at least a monthly basis. Department of Real Estate personnel advised us that the accounts were interest-bearing accounts in the past, and that since the Department of Real Estate did not have a process in place to calculate the interest earned on State funds in the accounts, the State mandated that all interest earned on the funds on deposit in the accounts be remitted to the State. The accounts were subsequently converted to non-interest-bearing accounts because the County benefitted by eliminating the account servicing/maintenance fees. Although we were unable to obtain an estimate of the account servicing/maintenance fees that would be assessed on the accounts if they were converted to interest-bearing accounts, it is unlikely that the County's share of interest earnings would exceed such fees.

The Department of Real Estate utilizes the system installed by a service provider, Affiliated Computer Services, Inc. (ACS), to record all transactions. County municipalities and school districts rely on timely remittance of the realty transfer taxes that the Department of Real Estate collects on their behalf. It appears that the Department of Real Estate's primary objective is to ensure that the fees collected and realty transfer tax receipts are properly recorded and remitted to the County Treasurer or appropriate tax jurisdiction in a timely fashion. It also appears that the ACS system has been specifically designed to enable that to happen.

The Department of Real Estate has engaged in two separate contracts with ACS for the use of its system. One contract covers the accounting and imaging components and the other covers the internet search access component of the system. Although there are two separate contracts, the ACS system cannot be separated into two separate components. The original agreement for the accounting and imaging component was for the five year period ending June 30, 2008 at a cost of \$1,875,000, or \$31,250 per month. The agreement was renewed for the eighteen month period from July 1, 2008 through December 31, 2009 at a cost of \$562,500, or \$31,250 per month. The agreement was also subsequently renewed for the five year period from January 1, 2010 through December 31, 2014 at a cost of \$1,680,360, or \$28,006 per month. The original agreement for the internet search access component was for the five year period ending June 30, 2008 at a cost of \$449,280, or \$7,488 per month. The agreement was renewed for the eighteen month period from July 1, 2008 through December 31, 2009 at a cost of \$134,784, or \$7,488 per month. The

I. Introduction

agreement was also subsequently renewed for the five year period from January 1, 2010 through December 31, 2014 at a cost of \$419,280, or \$6,988 per month. The aggregate cost of the system from its installation through December 31, 2014 will be \$5,121,204. ACS provides the equipment, including periodic updates and training, under its contract with Real Estate. ACS maintains responsibility for the effective operation of the equipment, which includes two servers, 65 PCs, and 17 laser printers. Some of the equipment is provided for use by the public. Five key administrative employees also utilize County-provided PCs.

The Department of Real Estate typically processes from a few hundred to over 1,000 receipts each business day. The variance in the transaction volume of daily receipts is generally unpredictable, except that the transaction volume tends to be higher towards the end of each month. County fees collected are disbursed via a check to the County Treasurer on a daily basis, while realty transfer taxes are remitted to the applicable municipalities and school districts within the County on a monthly basis via ACH transfers.

The system makes use of an internal database which includes all of the County municipalities and school districts and applicable tax rates. ACS updates this database when the tax rates change. The ACS system is capable of generating daily reports which would enable Real Estate to prepare a “report of collections” as other County Departments with “on-book” accounts do. Real Estate uses these reports for the daily balancing of cashier drawers. The system is also capable of generating reports that show the amounts due to the state, municipalities, and school districts at any given time. These reports make it relatively easy to resolve any discrepancies/disputes about amounts due to specific tax jurisdictions.

II. Scope and Methodology

We performed procedures to identify and assess the effectiveness of the implementation of internal controls currently in place over the Department of Real Estate's administration of off-book cash accounts. Our procedures covered the period from January 1, 2012 through June 30, 2013.

Specifically, we performed the following procedures:

- Obtained a listing of all off-book cash accounts and documented the purpose of each account.
- Interviewed Real Estate personnel to gain an understanding of and document the internal control policies and procedures pertaining to the administration of the off-book cash accounts. This included an analysis of the segregation of duties.
- Reviewed supporting documentation relating to the custodians, authorized signers, reconcilers, and authorized amounts for each of the off-book accounts.
- Tested samples of receipts that were deposited in the bank accounts for validity and proper supporting documentation.
- Tested samples of disbursements that cleared the bank for authorization and proper supporting documentation.
- Tested samples of bank reconciliations for accuracy.
- Verified that checks were being properly secured when not in use and that the checks were not pre-signed or pre-stamped.
- Considered whether the off-book accounts should be brought on-book based on the results of our other procedures and other information that may have come to our attention.

We performed these procedures from August through September of 2013. We provided a draft copy of this report to the Manager of the Department of Real Estate. Her response to the findings and recommendations begins on page 11.

III. Observations and Recommendations

Finding #1

The Accounting for Off-Book Cash Account Transactions Should Be Transitioned to JD Edwards

Having the transaction activity in most of the County's cash accounts recorded in JDE and having as many of those accounts administered by the County Treasurer as possible would be beneficial to the County. In addition to providing for greater transparency and reducing the risks of fraud and abuse, such a transition would facilitate timely and accurate County financial reporting.

The Department of Real Estate maintains two off-book cash accounts which had an aggregate bank balance of \$7,853,032 at June 30, 2013. We noted that the bank does not charge fees for servicing these accounts. The Department of Real Estate utilizes a customized accounting system which has been developed and installed by Affiliated Computer Services Inc. ("ACS"), an external service provider, to account for all of the transactions in the off-book accounts. The primary objective of this customized system is to ensure that fees and realty transfer tax receipts are properly recorded and remitted to the County Treasurer or appropriate tax jurisdiction in a timely fashion. The Department of Real Estate utilizes this system because County municipalities and school districts rely on timely remittance of the realty transfer taxes that the Department collects on their behalf.

The Department of Real Estate was formerly a Row Office under the direction of an elected official, and as such, was not required to follow directives issued by the County's administration. This is likely the reason that JD Edwards has not been utilized to record the transactions that occur in fee and realty transfer tax bank accounts. Utilizing off-book accounts has resulted in a lack of transparency and increased risks of fraud and abuse. It has also resulted in more time being consumed in accumulating the accounting data necessary to generate complete and accurate County financial reports.

It appears that the Department of Real Estate should be able to transition the accounting for the transactions in its off-book accounts to JDE without abandoning the ACS system it currently uses. The Department of Real Estate could utilize the same process it currently uses for cash receipts, except for the actual deposit of daily receipts. If a Department of Real Estate clerk prepared a report of collections for the daily receipts and submitted the report and receipts to the Treasurer's Office, the Treasurer's Office would be able to post the daily receipts in JD Edwards and make the deposit. The Department of Real Estate could also utilize the same process it currently uses for disbursements, except for the issuance of the disbursements of realty transfer tax remittances to the municipalities and school districts. The Controller's Office Accounting Division could record the disbursements in JDE from the vouchers provided by the Department of Real Estate, and if a Department of Real Estate clerk provided the Accounting Division with disbursement instructions, the Treasurer's Office could issue the disbursements via check or wire.

III. Observations and Recommendations

Recommendation

We recommend that the Department of Real Estate work with the Controller's Office to transition the accounting for its off-book accounts to the County's JD Edwards accounting software.



COUNTY OF ALLEGHENY

RICH FITZGERALD
COUNTY EXECUTIVE

December 2, 2013

Honorable Chelsa Wagner
Allegheny County Controller
104 Courthouse
436 Grant Street
Pittsburgh, PA 15219

RE: Response to 'Report on Internal Controls Over Off-Book Cash Accounts'

Dear Ms. Wagner,

Historically, many independently elected county row offices, particularly the office of the Recorder of Deeds, legally held bank accounts in the office's name as depositories until remittance of funds to the state, county, municipalities and school districts could be made. A fiduciary bond was held for the Recorder of Deeds officer guaranteeing at minimum levels the county fees and realty transfer taxes paid to the Recorder of Deeds. In January 2008 when the elected Recorder of Deeds Office was changed by voter referendum to an appointed county administrative office named Department of Real Estate (DRE), the banking accounts remained unchanged, audited by the state and County Controller within their respective schedules with no finding that the bank accounts were "off book accounts" nor recommendation to change them. In 2013, the County Controller made finding that the DRE bank accounts were "off book cash accounts" and recommended that the bank accounts be consolidated within the county JD Edwards financial and accounting system.

A directive of review to explore the possibility to bring DRE off book accounts through the County's accounting system was initiated at the direction of the current administration in a continuing effort to strengthen controls and better safeguard assets. DRE contacted recording software vendor ACS/XEROX to review the logistics of any changes to its fiscal reporting as part of its integrated recording process.

VALERIE McDONALD ROBERTS, MANAGER
DEPARTMENT OF REAL ESTATE

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PHONE (412) 350-4226 • FAX (412) 350-3787 • WWW.ALLEGHENYCOUNTY.US



The Department of Real Estate agrees with the County Controller's findings and recommendation to transition the accounting of the DRE bank accounts to the County's JD Edwards accounting software to facilitate timely and accurate county financial reporting to the Controller's Office. The DRE will expeditiously work with the Controller's Office and software vendor ACS/XEROX to accommodate any necessary technical changes to implement this change.

Sincerely,

A handwritten signature in black ink, appearing to read 'Valerie McDonald Roberts', written in a cursive style.

Valerie McDonald Roberts
Manager

Cc: Honorable Rich Fitzgerald, Allegheny County Executive
William McKain, County Manager
Jennifer Liptak, Chief of Staff to County Executive
Stephen Pilarski, County Deputy Manager