



**Mecklenburg County
Department of Internal Audit**

Register of Deeds Follow-Up Audit
Report 1461

April 9, 2014

**Internal Audit's
Mission**

Through open communication, professionalism, expertise and trust, Internal Audit assists executive management and the Audit Review Committee in accomplishing the Board's objectives by bringing a systematic and disciplined approach to evaluate the effectiveness of the County's risk management, control and governance processes in the delivery of services.

Internal Audit Contacts

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**Staff
Acknowledgements**

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Danielle Taylor, CFE, CRMA

**Obtaining Copies of
Internal Audit Reports**

This report can be found in electronic format at
<http://charneck.org/mecklenburg/county/audit/reports/pages/default.aspx>



MECKLENBURG COUNTY
Department of Internal Audit

To: Dena Diorio, County Manager
From: Joanne Whitmore, Director, Department of Internal Audit
Date: April 9, 2014
Subject: Register of Deeds Follow-Up Audit Report 1461

The Department of Internal Audit completed follow-up procedures on reported issues from the Register of Deeds Audit Report 1061 issued November 9, 2011. The objective of the follow-up review was to determine with reasonable, but not absolute assurance, whether management took effective and timely action on the issues presented in the audit report.

Internal Audit interviewed key personnel, observed operations, reviewed written policies and procedures and other documents, and tested specific transaction activity where applicable. Internal Audit conducted this audit in conformance with The Institute of Internal Auditor's International Standards for the Professional Practice of Internal Auditing.

RESULTS

There were fifty-four recommendations in the Register of Deeds Audit Report 1061. Internal Audit determined in the Register of Deeds Follow-Up Audit Report 1361 that thirty-five recommendations were implemented, eighteen recommendations were partially implemented, and one recommendation was withdrawn.

As noted in the following **Follow-Up Results** section, Internal Audit has determined nine of the eighteen partially implemented recommendations noted in Follow-Up Report 1361 have been fully implemented and nine remain partially implemented.

Management indicates the recommendations are partially implemented due to the retirement of a key staff member and ongoing facility renovations that are currently in process. Their intention is to fully implement the recommendations by July 2014, and you have accepted this date.

Internal Audit will conduct a follow-up review at a later date to verify the partially implemented recommendations are fully implemented and working as expected.

The cooperation and assistance of the Register of Deeds staff are recognized and appreciated.

- c: Deputy County Manager
- Assistant County Managers
- Deputy County Attorney
- Senior County Attorney
- Board of County Commissioners
- Audit Review Committee
- Register of Deeds

**Follow-Up Results
Register of Deeds Report 1061**

- **Fully Implemented** – The audit issue has been adequately addressed by implementing the original or alternative corrective action (X).
- **Open/Partially Implemented** – The corrective action has been initiated but is not complete (P) or the audit issue has not been addressed but management fully intends to address the issue (O).
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Issue	Risk Observation	Recommendation	Corrective Action Taken			
			Fully Implemented	Open/Partially Implemented	Not Implemented	Withdrawn
2	D. Cashiers are not required to document the receipt and return of their change funds each business day to track funds and provide accountability.	D. Require cashiers to document the receipt and return of their change funds each business day.	X			
	E. Cashiers are not required to record their daily beginning and ending change fund amounts to provide accountability and detect overages or shortages. As a result, overages and shortages due to errors, loss and theft could go undetected. Auditors found variances and undocumented monies in the change funds with an overall \$93 overage balance for which there is no reconciling documentation to explain the cause. <ul style="list-style-type: none"> • The petty cash fund contained \$10 extra • An unassigned change fund bag contained \$352 in cash • An auditor count of 31 change funds when compared to the total authorized change fund revealed a \$269 shortage 	E. Require cashiers to document their beginning and ending change fund cash counts each work day.	X			
	F. Cashiers are not required to remove their change funds from	F. Require cashiers to set up their cash drawers each morning and properly		P		

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	the change fund bags and put them into their lockable cash drawers. Rather, the funds sometimes remain in the bag during business hours in an unlocked drawer. During testing, auditors observed 19 of 30 or 63% of change funds in use that day were not properly secured to protect against loss and theft.	secure the funds throughout the business day.				
3	<p>A. Staff does not document receipt of checks received in the mail, including FedEx and UPS express deliveries. Nor are checks restrictively endorsed for “deposit only” immediately upon receipt as required by County policy. Checks are, however, endorsed during processing in Anthem or are electronically processed in viaWARP.</p> <p>E. Cash collections and change funds do not have sufficient physical security to protect them from loss and theft.</p> <ul style="list-style-type: none"> • The combinations and keys that provide dual controls over the safes that hold daily 	<p>A. Ensure incoming mail is opened with two people present and that checks are documented. Also, checks should be restrictively endorsed immediately upon receipt or immediately processed for deposit in Anthem. If two people cannot be present, management should put other mitigating controls in place.</p> <p>E. Increase physical security over cash controls to include, at a minimum:</p> <ul style="list-style-type: none"> • periodic changing of safe combinations and keys to prevent access by unauthorized persons • removal of all non-County items 		P		
				P		

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	<p>cash collections and change funds are not changed when staff that had safe access leaves the department’s employ.</p> <ul style="list-style-type: none"> • One safe holds daily cash collections and change funds, non-department monies, such as charity collections and non-monetary items like walkie-talkies. Comingling of funds and clutter in safes provides an opportunity for monies to become lost or stolen without immediate detection. • The bank bags with daily cash collections and petty cash fund are locked in a desk drawer, rather than the safe, while they await the armored car to take them to the bank. Furthermore, the bags are not sealed until the armored car picks them up to protect against loss and theft because cashiers may want to use the deposit to make change to set up the day’s cash drawers. 	<p>from the safes</p> <ul style="list-style-type: none"> • labeling and securing each change fund in the safe • sealing bank bags immediately after the deposit is prepared and keeping them properly secured until pick up by the armored car. 				

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4	<p>A. The Cash Out Slip, an Anthem document used by cashiers to record currency denominations and check and credit transaction totals, does not require cashiers to record necessary information to facilitate a complete reconciliation and the supervisor’s subsequent review. Missing information includes, at a minimum:</p> <ul style="list-style-type: none"> • beginning change fund amount • end of day change fund amount • voided transactions • no sale transactions • no fee transactions • overages or shortages • reviewing supervisor signature <p>Without sufficient information, errors and fraud could go undetected. For example, if cashiers do not record their beginning and ending change fund amounts on the Cash Out Slip, they could use change funds to cover any daily shortages or keep any overages without immediate</p>	<p>A. Work with the Anthem system vendor to modify the Anthem Cash Out Slip so that it will provide cashiers the ability to properly document and reconcile their daily cash collection to beginning balances.</p>	X			

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	detection. E. Each cashier wraps his or her cash collections within a Receipt Summary Report, which are then combined into two bank bags before being verified by the depositor. Further, the bags are transferred several times between staff before the depositor receives the cash collections. As a result, it would be difficult to establish accountability in the event of errors or missing funds.	E. Require each cashier to secure the day’s cash collections in an individual, locked money bag before submitting them to the depositor.	X			
5	B. Unless requested, escrow account owners are not issued periodic statements to inform them of their account activity. As a result, posting and other errors, as well as missing funds, could go undetected by customers.	B. Issue escrow account owners periodic statements detailing their account transaction activity and balance.	X			
6	D. The Department has inadequate controls in place to ensure Anthem system access approvals are appropriate and adequately documented. Inappropriate access to key systems could result in unauthorized data or software program changes, improper	D. Increase controls over Anthem system access by, at a minimum: a. designating a security administrator b. properly separating duties between staff authorizing access permissions and staff implementing, monitoring and		P		

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	<p>disclosure of confidential data, as well as the introduction of viruses and other malware. The Department does not have:</p> <p>a. a designated security administrator to ensure access permissions are properly implemented, promptly updated and in line with current job duties and that system access logs are reviewed and any issues reported</p> <p>b. proper separation of duties between the person authorizing system access permissions and the person implementing, monitoring and updating permissions</p> <p>c. categorization of data and software based on sensitivity and criticality levels to protect them from unauthorized users</p> <p>d. written documentation of approved staff’s access to various data and software</p> <p>e. a process in place to promptly deactivate user accounts for terminated, transferred or</p>	<p>updating permissions</p> <p>c. categorizing data and software based on sensitivity and criticality levels</p> <p>d. documenting individual staff access to various data and software</p> <p>e. developing and implementing a process to ensure user accounts of terminated, transferred or reassigned employees are promptly deactivated</p>				

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	reassigned employees. Two ex-employees with last employment dates of April 2 and April 30 2010 still had active system access to Anthem as of June 30, 2010. Upon notification during the audit, management deactivated their user accounts. E. The Department does not routinely monitor the Anthem, viaWARP and High Tech systems for unauthorized access. When access controls are not implemented, unauthorized or unusual access to critical or confidential resources, such as data files, application programs and equipment, may go undetected.	E. Evaluate the feasibility of designing and implementing a process to monitor the Anthem, viaWARP and High Tech systems for unauthorized access.	X			
7	A. Auditors noted that 23 of 29 or 79% of purchase orders reviewed were not encumbered or the purchase orders were not created until after the invoices were received. Yet, NCGS §159-28(b) states that bills, invoices, or other claims against a local government	A. Ensure staff comply with NCGS §159-28(b) for proper encumbrance of planned purchases.	X			

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	<p>or public authority may be approved if the amount is payable, authorized and has been encumbered or has an unencumbered balance sufficient to pay the amount due.</p> <p>B. Management does not use the online Outstanding Purchase Order Report to monitor the status of open, partially expended and/or modified purchase orders, except at year-end to notify Finance of purchase orders that extend into the next fiscal year. As a result, purchase orders that should be closed remain open, overstating liabilities and unnecessarily encumbering funds.</p>	B. Utilize the online Outstanding Purchase Order Report to routinely monitor and manage the Department’s purchase orders.		P		
8	A. The Department had been erroneously charged for and paid an expense that should have been charged to another department. In addition, the expense was miscoded as supplies rather than professional services. As a result, the other department’s professional service expense was understated and Register of	A. Confirm charges against supporting documentation to ensure they are appropriate.		P		

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	Deed’s supplies expense was overstated. Management approved the payment during their review because the previous administration had approved and paid it the five previous years. Acceptance of charges without confirmation could result in future errors and fraud. As a result of this audit, however, the Department will receive an adjustment of \$1,701 and charge the correct department for the services.					
10	<p>A. During a physical inventory of capital assets within the Department, auditors could not locate or verify 19 of 39 or 49% of the items recorded on the Capital Asset Inventory list.</p> <ul style="list-style-type: none"> • five items had serial numbers that matched those on the asset list but did not have property tag numbers • nine items did not have asset tags or did not have tags within view due to their size, location, et cetera • five items could not be located. In addition, two 	A. Conduct an annual inventory of department capital assets and report any variances to Finance. Ensure all capital assets, including the two printers and two file cabinets, are properly tagged and included on the Capital Asset Inventory list. The five missing items should be located and the Capital Asset Inventory list should be updated accordingly.		P		

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	<p>newly acquired printers valued at \$17,940 each and two file cabinets valued at \$5,803 each were not on the FY2009 Capital Asset Inventory list.</p> <p>Capital assets were defined by County policy at the time of this audit as assets that cost \$5,000 or more and having a useful life of more than one year.¹ Policy states that each department should ensure all capital assets are tagged and all additions, disposal and transfers are recorded on the Capital Asset Inventory list. Departments should conduct an annual inventory and report any variances to Finance. Policy also states that each department is accountable for the physical custody of both its capital and non-capital assets.</p> <p>B. The Department does not maintain a record of high resale value non-capital assets such as</p>	<p>B. Maintain a detailed record of all high resale value non-capital assets, annually review the physical</p>	X			

¹ The updated Capital Asset Policy revised June 2010 changes the useful life to two years.

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	laptops, camera equipment and telecommunication items, which are prone to theft. Further, auditors could not locate one of 13 laptops shown by County IST as located at the Register of Deeds. Management indicated the remaining laptop was transferred back to IST but did not have documentation to support the transfer.	existence of those assets and update the records accordingly.				
12	C. The Department’s facility is under the jurisdiction of the property management company contracted by the County’s Real Estate Services Department who confirmed that the building has a fire alarm system for the smoke detectors throughout the building but it does not have water sprinklers and alarms for abnormal water activity, such as burst pipes. Without proper controls in place to protect against fire and water damage, irreplaceable hard copy documents and computer equipment that store confidential data could be damaged or destroyed.	C. Work with the Department of Real Estate Services to ensure that the property management service adequately protects the Register of Deed’s building from water damage, fire or other threats. Also ensure that the physical safeguards used to protect computer resources, documents and data are commensurate with the risk of intentional or unintentional destruction or impairment.		P		

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	D. The current evacuation plan has not been updated to reflect changes over the years to the Department’s physical layout. Nor has the plan been posted for staff to view.	D. Update the evacuation plan, post it where staff can view it and train staff on the plan.	X			
13	Supervisors review myHR system Time Reports prior to submitting them to process payroll but do not follow County policy to review the reports after payroll has been processed to ensure salaries were appropriately paid.	Internal Audit recommends that the Register of Deeds ensure supervisors and staff comply with County policy and review myHR Time Reports both before and after payroll is processed.		P		