Audit Department

500 S Grand Central Pkwy Ste 5006 • PO Box 551120 • Las Vegas NV 89155-1120
(702) 455-3269 • Fax (702) 455-3893

Angela M. Darragh, CPA, CFE, CISA, Director

ADDENDUM

October 21, 2013

Additional information was obtained on October 21, 2013 related to the finding entitled "No Marriage Certificate Recording Fee Refund Process" in the Recorder's Office Internal Controls Over Cash Handling audit issued August 29, 2013. According to County Counsel, while NRS 247.305 (8) (b) requires the Recorder to refund fees collected that exceed the amount required by law to be paid by more than $5, there is no requirement that the Recorder or Clerk take affirmative actions to refund monies when the parties do not go through with their marriage. As such, the report is being amended through this addendum to remove that finding and associated recommendation.

Sincerely,

Angela M. Darragh, CPA
Audit Director

BOARD OF COUNTY COMMISSIONERS
STEVE SISOLAK, Chair • LARRY BROWN, Vice Chair
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DON BURNETTE, County Manager

AUDIT DEPARTMENT

Audit Report

Recorder's Office Internal Controls Over Cash Handling

August 2013

Angela M. Darragh, CPA, CISA, CFE
Audit Director

AUDIT COMMITTEE:
Commissioner Steve Sisolak
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Angela M. Darragh, CPA, CFE, CISA, Director

August 29, 2013

Mr. Don Burnette
Clark County Manager
500 South Grand Central Parkway, 6th Floor
Las Vegas, Nevada 89106

Dear Mr. Burnette:

We recently completed an audit of the County Recorder Internal Controls Over Cash Handling. The audit covers the transactions from July 1, 2012, to January 31, 2013. The last day of fieldwork was May 15, 2013. The objective of our audit is to determine whether internal controls over the cash handling process adequately safeguard assets, fees charged comply with Nevada Revised Statutes, and system user rights are appropriately assigned based on individual job functions.

The Recorder's Office has an overall system of internal controls in place. However, we found existing internal controls are not sufficient within certain operational processes, and could potentially lead to undetected errors and fraudulent transactions. We noted that manual and computer application controls are lacking in areas that leave cash transactions at risk. Specifically, the Recorder's Office does not reconcile marriage certificate recording fees collected to fees earned. Consequently, refunds to customers (for recording services not performed) are not being processed. In addition, the Recorder's Office controls in its safe, transactional, and deposit processes could be improved.

Based on our detailed testing of transactions, we found that the Recorder's Office is appropriately charging fees for the services it provides in accordance with Nevada Revised Statutes.

Finally, we are unable to fully conclude as to whether system user rights are appropriately assigned based on individual job functions, as detail of access rights to supervisor and administrative roles is not available.

A draft report was provided to the County Recorder for comment and her response is included. We appreciate the cooperation and assistance provided by the County Recorder and staff.

Sincerely,

Angela M. Darragh, CPA
Audit Director

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DON BURNETTE, County Manager

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BACKGROUND

According to Nevada Revised Statute NRS 247.010, County Recorders are elected every four years. Debbie Conway, the current County Recorder, began her first term on January 2007, and was re-elected in January 2011. The department consists of over 50 employees operating out of the Main Office located on the 2nd floor of the Government Center at 500 South Grand Central Parkway, Las Vegas, Nevada. The Recorder also has a Northwest Branch located on 3211 N. Tenaya Way, #118, Las Vegas, Nevada, which opened in March 2008.

The Clark County Recorder's Office is a public record office serving the cities of Las Vegas, North Las Vegas, Henderson, Boulder City, Laughlin, Mesquite, and other areas of Clark County. It also provides for subsequent retrieval of records for public viewing, produces copies and certification of records, and provides microfilm duplicates of records. In addition, it collects Real Property Transfer Tax (RPTT) on transfers of real property. Although documents can be purchased on-line and mailed, images are not available for viewing on-line.

Examples of typical recorded documents include: land records, financing documents, unpatented mining claim records, military discharge papers, homestead declarations, mechanics' liens, federal tax liens, marriage certificates, and real property transfer tax**.** Documents not recorded by the Recorder's Office include: negotiable instruments (stocks, bonds), vital records such as birth or death certificates, passports, citizenship papers, copyrights, and trademarks.

The Recorder's current recordation application, OnCore, was implemented in August 2009. The latest version was upgraded in October 2012.

According to statistics on the Recorder's website, the Recorder's Office recorded 762,874 official records and 84,627 marriage licenses in 2012. It collected approximately $75 million in RPTT and $17.4 million in recording and technology fees in the same time period.

For the audit period covering July 1, 2012, through January 31, 2013, the Recorder's Office collected approximately $46 million in RPTT fees and $11.1 million in recording and technology fees.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objective of this audit is determine whether;

- Internal controls over cash handling processes adequately safeguard assets.
- Fees charged comply with NRS regulations.
- System user rights are appropriately assigned based on individual job functions.

Our procedures consisted of interviews with management and staff, observations, walkthroughs, examination of documentation, and performance of detailed tests and analyses. We compared OnCore user rights with employee information from SAP to determine whether employees with access were actively employed within the Recorder's Office. We also reviewed system access in relation to job function and searched for duplicate and generic user accounts (IDs). We agreed OnCore fee tables to NRS and to published fees. We then reconciled fee revenue from OnCore to monthly Board of County Commissioners fee reports and to SAP. We examined two daily deposits from three separate months, verifying completeness, accuracy, and timeliness of deposits and recording onto SAP.

We judgmentally selected five individual fee transactions from each deposit reviewing source documents, tracing transactions into OnCore, recalculating fees, and confirming the appropriate designation of "no-fee" documents where applicable. We also selected 10 original documents from the mailroom and traced the documents to OnCore. We recalculated the fees charged on each transaction and traced the amounts to deposit transactions and to recordation on SAP. We tested 10 refund and 10 void transactions, reviewing documentation, supervisory approval and recordation onto SAP. We also selected 18 transactions recorded on-line and 18 escrow transactions (transactions with pre-paid accounts), reviewing documentation and recalculating fees charged. For escrow transactions, we also verified that sufficient account balances existed. Finally, we reviewed four non-sufficient fund (NSF) check transactions, reviewing bank and OnCore documentation, confirming recordation on SAP and tracing subsequent payment (as applicable) to OnCore, SAP and the bank.

Our scope included transactions processed between July 1, 2012, and January 31, 2013 and processes in place through the end of fieldwork. The last day of fieldwork was May 15, 2013.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

RESULTS IN BRIEF

The Recorder's Office has an overall system of internal controls in place. However, we found existing internal controls are not sufficient within certain operational processes, and could potentially lead to undetected errors and fraudulent transactions. We noted that manual and computer application controls are lacking in areas that leave cash transaction at risk. Specifically, the Recorder's Office does not reconcile marriage certificate recording fees collected to fees earned. Consequently, refunds to customers (for recording services not performed) are not being processed. In addition, the Recorder's Office controls in its safe, transactional, and deposit processes could be improved.

Based on our detailed testing of transactions, we found that the Recorder's Office is appropriately charging fees for the services it provides in accordance with Nevada Revised Statutes.

Finally, we are unable to fully conclude as to whether system user rights are appropriately assigned based on individual job functions, as detail of access rights to supervisor and administrative roles is not available.

DETAILED RESULTS

No Marriage Certificate Recording Fee Refund Process

The Recorder's Office does not have procedures in place to monitor marriage certificate recording fees collected by the Clerk's Office on its behalf. If a customer purchases a marriage license, but does not use it within a year, it expires. In that case, there is no document to record, although the fee for recordation was already received. When this occurs, the Recorder's Office may be retaining recording fees ($10 per license) not earned and should potentially be refunding such fees in accordance with NRS 247.305.8b.

Recommendation

1. Utilize the detailed breakdown of marriage certificate information from the Clerk's Office to monitor and reconcile marriage certificate recording fees to marriage certificates recorded.

2. Refund recording fees not earned to customers per NRS 247.305.8b, which states that refunds over $5 shall be returned to the customer.

3. Alternatively, the Recorder could consider obtaining legislative approval to amend NRS statutes whereby marriage certificate recording fees are not collected until such time that marriage certificates are presented to the Recorder's Office to record.

4. Another consideration may be to obtain legislative approval to amend NRS 247.305.8b by increasing the refund amount to over $10 (from over $5), or making the marriage certificate recording fee non-refundable.

No Monthly Reconciliation

Although the Recorder's Office performs daily reconciliations between the bank statement and OnCore, it does not reconcile monthly fee revenue between the bank, OnCore, SAP, and the reports generated for the Board of County Commissioners. In performing this function, we found differences in each of the seven months of the audit period between revenue amounts reported.

Recommendation

1. Develop, implement, and monitor monthly receipt reconciliation procedures between information recorded in OnCore and SAP, and reported by the bank and to the Board of County Commissioners.

2. Research and resolve any differences or reconciling items.

Other Control Issues

Existing internal controls within certain operational processes could be strengthened to further help prevent and detect errors and fraudulent transactions. The following issues were identified during our testing:

- The Recorder has safes at both locations. The safe combination at the northwest location has not been changed since 2008. Although the main employee at this location has not changed, her back-up (when she is out of the office) has. In addition, the safe combinations at both locations are known by five or more employees.
- Current deposit procedures allow one employee to process fee transactions, prepare the daily deposit, reconcile deposits between Bank of America and OnCore, prepare reports used to record fees onto SAP, and enter fee revenue onto SAP. Although there are mitigating controls such that a second person verifies the cash portion of the daily deposit, and a second person usually enters the fee revenue onto SAP, the one employee does have the access and authority to perform all these functions. Additionally, current processes allow a person originating a transaction to process and approve a void of the transaction without mitigating controls.
- Independent verification of the entire daily deposit is not being performed, and the sequential and appropriate use of OnCore receipts is not being confirmed.
- The process of producing a certified copy of a document is manual in nature. A deputy physically places a signature stamp and embosses a document when producing a certified copy of a document.

In each of the areas identified above, the lack of controls could lead to errors or misappropriation of funds that is not detected.

Recommendation

1. Create and implement standard procedures for periodically changing the combinations to safes and limiting the number of employees with knowledge of the combination.

2. Restructure functions so that no one person would have the ability to collect, secure, monitor, account and record assets, and the access to void out transactions. Alternatively, adequate monitoring and reviewing procedures may be implemented. Implement procedures to include a comprehensive verification of daily deposits, as well as confirmation that all receipts (comprising a deposit) are accounted for.

3. The Recorder's systems administrator should assess the feasibility of its OnCore application to automate the certified copy process.

No Board of County Commissioner Approval of Write-Offs

NRS 354.255-6 provide guidelines on procedures for collecting delinquent accounts receivable. These guidelines include: transferring the accounts to the district attorney's office to pursue; using an outside agency to collect on delinquent accounts; and working with the County Comptroller to obtain Board of County Commissioner approval to write of uncollectible accounts.

When the Recorder receives confirmation from the bank of a non-sufficient funds (NSF) check, it records this event as a direct reduction of revenue, which does not follow NRS guidelines. An accounts receivable is not created. Additionally, the Recorder does not track accounts receivable activity in OnCore. During the audit period, the Recorder only logged eight returned checks amounting to $2,698.

Recommendation

1. Rather than recording NSF activity as a reduction of revenue, the Recorder's Office should establish accounts receivable accounts for these items.

2. In addition, an accounts receivable report on OnCore should be developed and utilized to monitor accounts receivable activity.

3. Once, all options per NRS 354 have been exhausted, the Recorder's Office should take necessary steps to obtain BCC approval to write off any delinquent accounts as required by statute.

OnCore Improvements, Additions & Changes

OnCore, the Recorder's recordation program, may be further utilized to improve and enhance existing procedures as follows:

- OnCore password creation and controls do not comply with the Clark County Technology Security Policy which may make unauthorized access to the system easier to accomplish and go undetected.
- There is no report or manual to help determine the extent of an individual's access based on the fields (i.e. administrative rights, supervisory rights) that are accessible by user. Without field parameter details, assessing that OnCore user access is appropriate on an individual basis is not easily determinable.
- There are nine active generic user accounts (IDs) in OnCore. Clark County Technology Directive 1.IV.C.1 allows for generic user accounts, but requires department head and Clark County Chief Information Officer (CIO) approval, which was not obtained for these accounts. In addition, we found two generic accounts that were created to process overrides on transactions. Sensitive transactions should not be performed with generic accounts, as it is difficult to attribute actions taken on generic accounts with a specific individual.
- The OnCore Fee table contains fee rates that are charged to customers. The current fee table contains ten fees that were discontinued, three fees that were "one-time" charges, and one fee reversal that does not tie to a specific fee and has

never been used, but still remained active in the system (available for charging customers) and could potentially be used erroneously.

- Non-sufficient fund (NSF) check activity is being captured and monitored on an Access spreadsheet, and not within OnCore which appears to be less efficient and lends itself to potential input errors.
- We found an employee's access remained active for a year after being transferred to the Department of Aviation (DOA) which could potentially lead to unauthorized system access.

Recommendation

1. Review current OnCore parameters to ensure that password configuration, generic IDs, and fee tables comply with County policy and Nevada Revised Statute (NRS).

2. Request a detailed "user table" field parameter report or manual from OnCore vendor, and reassess existing individual OnCore user access for appropriateness based on job function(s).

3. Eliminate generic user accounts and have override transactions processed by specific user assigned accounts in order to provide accountability.

4. Obtain approval by the County Recorder and the Chief Information Officer for any generic user accounts that are deemed necessary.

5. Implement a procedure to immediately change user information when an employee no longer has a business need for access.

6. Explore the feasibility of creating user groups within OnCore, a field access parameter report, an interface between OnCore and SAP, and NSF activity tracking tools within OnCore.

7. Employee information on OnCore should also be periodically reviewed and updated as necessary.

MANAGEMENT'S RESPONSE

OFFICE OF THE COUNTY RECORDER

Debbie Conway
Recorder

TO: Angela M. Darragh, Audit Director

FROM: Deborah Conway, County Recorder

SUBJECT: **Management Response To The Internal Controls Over Cash Handling Audit**

DATE: August 23, 2013

No Marriage Certificate Recording Fee Refund Process:
Recommendations 1 & 2 - The detailed marriage certificate information received from the Clerk's Office can only provide a starting point. The marriage license does not expire until after 1 year from date of issue. Therefore we can calculate an estimate of the prepaid recording fees collected. This comparison information can only provide the net amount between recording fees collected against the total of marriage certificates recorded. Prior to any Marriage Certificate refund being initiated a query program must be written to compare the license issue date against the recorded marriage certificate information with an exception report that will indicate those licenses that have expired with no marriage certificate recorded within the license year. Once the exception report is extracted then the information must be verified to ensure that the marriage certificate had not been recorded. Then the customer address information must be retrieved from the Marriage Bureau maintained at the Clerk's Office before the refund amounts can be initiated and processed. Because couples move so frequently and they have 1 year to use the license, it is often not feasible to contact the parties.

Recommendation 3- This recommendation would require additional research and coordination with the County Clerk's Office to determine the effects of any revisions since current statute requires the County Clerk to collect the marriage certificate recording fee when the marriage license is applied for and issued. Upon completion of this research, a bill draft request to introduce the legislation change would need to be completed during the next legislative session in 2015.

Recommendation 4- The recommendation to make marriage recording fees non-refundable appears to be the most feasible recommendation to consider since the refund reconciliation process can be labor intensive and not cost effective to pursue since customers have the tendency to relocate without a forwarding address. Additional research will be completed to prepare the bill draft request for the next legislative session in 2015 which we verified with the Clerk's Office and will be a joint effort supported by both the Clerk and the Recorder.

No Monthly Reconciliation:
Recommendation 1- The Daily reconciliations are reviewed and reconciled against the SAP postings completed by the Treasurer's Office. These daily totals are used to calculate the monthly figures that are reported in the Board of County Commissioners' (BCC) monthly report. Procedures have been modified to compare the information generated in the OnCore Recording system, SAP and the completed BCC Monthly report. Additionally the daily revenue reports have been modified to reflect the actual daily revenue to include non-sufficient funds that are not included in the Bank confirmed deposit.

Recommendation2- Differences are researched and reconciled to include notes to the financial reports to explain the reconciled amounts.

Other Control Issues:
Recommendation 1- All safe combinations have been changed and Standard Operating Procedures have been created to ensure that safe combinations are changed periodically every six months or when a safe combination

holder is no longer employed by the Recorder's Department or is no longer required to access the safes. The number of employees with knowledge of the combination is limited to the number of employees that serve as backups when the primary employee is unavailable due to illness or vacation. Corrective action completed on August 6, 2013.

Recommendation 2- Functions have been modified to insure that no one person would have the ability to collect, secure, monitor, account and record assets, and to void out transactions. Procedures to verify daily deposits and receipts totals have been revised to ensure that all receipts are accounted for and reconciled.

Recommendation 3- The process to electronically certify copy orders had already been a work-in-process prior to the audit commencing and is already being used in the Marriage Certificate Kiosk. The final stage is being tested to ensure the interface with the OnCore recording system is working properly to implement the electronic process with copy orders for official records. Anticipated implementation date is November 1, 2013.

No BCC Approval of Write-Offs:

Recommendation 1- The Daily Revenue report is modified to account for the NSF activity and all NSF activity will be accounted for and monitored through an Excel Aging Schedule and Accounts Receivable Spreadsheet until the NSF activity can be accounted for directly into the OnCore Recording system.

Recommendation 2- We will continue to work on developing an accounts receivable report in OnCore to monitor the accounts receivable activity.

Recommendation 3- Write off procedures will incorporate the procedures outlined by the BCC resolution currently the only NSF pending write-off amount is for a $15 check from a customer who is from Hong Kong.

OnCore Improvements, Additions, & Changes:

Recommendation 1- Working with County IT to review and evaluate the Recorder Department OnCore parameters to ensure that password configuration, generic IDs, and fee tables comply with County policy and Nevada Revised Statute.

Recommendation 2- Requests have been sent to the OnCore system vendor for a detailed "user table" field parameter report.

Recommendation 3- Working with County IT to review and evaluate generic user accounts to identify and determine whether specific user accounts can be created to provide better accountability.

Recommendation 4- Approvals are being requested from the County Chief Information Officer for generic user accounts that are deemed necessary.

Recommendation 5- Procedures have been developed and user access will be changed to prevent access to Recorder Department applications when the employee action forms are submitted for final review and close out.

Recommendation 6- A review is underway to determine feasibility of user groups for use within the OnCore Recording system and the feasibility for an interface between OnCore and SAP and NSF activity tracking tools within the OnCore Recording

Recommendation 7- Recorder employee information in OnCore is reviewed periodically and updated when necessary on a monthly basis or when an employee is no longer employed in the Recorder Department.

500 South Grand Central Pkwy • Box 551510 • Las Vegas, Nevada 89155-1510 • (702) 455-4336