



COUNTY OF WINNEBAGO

WINNEBAGO COUNTY AUDITOR

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Winnebago County Recorder's Office Internal Audit

Findings: 8
Recommendations: 8

The mission of the Winnebago County Auditor's Office is to safeguard Winnebago County assets and provide objective, accurate and meaningful information about County operations so that the County Board can make informed decisions to better serve County citizens.

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Nancy McPherson, Winnebago County Recorder
Members of the County Board

The Winnebago County Auditor's Office is required to perform several duties under Illinois Compiled Statute 55 ILCS 5/Div. 3.1. Sec. 3-1005. The Compiled Statute states that the County Auditor is required to "Maintain a continuous internal audit of the operations and financial records of the officers, agents or divisions of the County. The County Auditor shall have access to all records, documents, and resources necessary for the discharge of this responsibility".

We have recently completed an internal audit of certain aspects of the operation of the Winnebago County Recorder's Office. The primary responsibility of the Recorder's Office is to record, maintain and to retrieve all real estate records, documents and plats of subdivision in Winnebago County.

Our testing window for procedures generally consisted of activity from 1-1-17 to 6-30-2018. The areas examined were as follows:

- Departmental fees
- Cash receipt testing
- Internal control evaluation of the cash receipt process
- Accounts receivable procedures
- Purchasing card activity and policy adherence
- Statutory and County Ordinance adherence
- Secondary review of other departmental expenditures
- Inventory observation and asset tracking
- Recorder's Automation Fund expenditures
- Rental Housing Fee Fund
- Departmental budget adherence
- Decentralized checking accounts
- Accounting software permissions
- Miscellaneous – Comment on GIS fees

Our procedures, comments, findings and recommendations are below:

Departmental fees:

The purpose of this test is to determine if fees charged by the department are appropriate and properly authorized. Fees charged by the Recorder's Office are established by a combination

of Illinois State Statute and County Board Ordinance. To test if the appropriate fees were charged, the County Auditor's Office obtain the following documents:

- Applicable Winnebago County ordinances addressing Recorder fees
- 2014 cost study completed by MGT of America, Inc.
- Recorder departmental fee list
- Detail for 20 randomly selected daily cash receipts (1-1-17 through 6-30-18)

Fees charged by the Recorder are generally established by State Statute, however a certain degree of local discretion is available. For instance, State Statute indicates "The county board may, however, by ordinance or resolution, increase the fees allowed by this Section and collect such increased fees from all person and entities other than officers, agencies, departments and other instrumentalities of the State if the increase is justified by an acceptable cost study showing that the fees allowed by this Section are not sufficient to cover the cost of providing the service."

Winnebago County contracted cost studies in 1999 and 2014 that addressed fees in the Recorder's Office. The County Auditor's Office reviewed the 2014 study and compared the study findings with the County Board ordinances passed in 2015. We noted that the ordinances passed appeared properly supported by a cost study. Fees were also modified slightly in 2018 as a result of a change in State law requiring a "predictable fee schedule".

The County Auditor's office also compared the departmental fee list to the fee list approved by the County Board. We were able to agree all significant fees with the exception of certified copies as discussed in Finding 1.

Finally, the County Auditor selected 20 daily receipt batches. Each batch generally contained hundreds of individual receipts. We reviewed in detail all 20 daily receipt batches and noted that fees charged to customers agreed the Recorder departmental fee list without exception.

Finding 1:

The 2014 cost study recommended a fee for certified copies of \$17. The County Board approved the \$17 fee in 2015. The Recorder is currently charging \$35.

Recommendation 1:

Fees charged by the Recorder should be consistent with those approved by the County Board. Both the \$17 fee and the \$35 are within the parameters established by State Statute. We recommend the Recorder either charge \$17 for a certified copy or Winnebago County Ordinance be updated to reflect the \$35 currently charged.

Cash receipt testing:

In the previous section we determined that the fees charged for services were appropriate and properly authorized. The objective of our cash receipt testing was to reasonably support that the revenue generated from services provided to customers was properly accounted for and deposited with the County Treasurer's Office. We acquired the following information for testing:

- Detail of revenue stamp purchases from 1-1-17 to 6-30-2018.
- Accounting detail for revenue stamp sales from 1-1-17 to 6-30-2018.
- Invoices from 3rd party vendor utilized to archive documents for service periods 1-1-17 to 6-30-18.
- Accounting detail for Automation fund deposits from 1-1-17 to 6-30-2018.
- Document scanning invoices from outside vendor (Fidlar) from 1-1-17 to 6-30-2018.
- Various reports from the Fidlar Idocument software.

Our testing procedures were as follows:

- Compared real estate transfer tax stamp expenditures with the associated revenue. The recorder of deeds or registrar of titles in each county collects the tax through the sale of revenue stamps which counties purchase from the Department of Revenue. The stamps from the Department of Revenue cost Winnebago County .50 for every \$500 of property transferred. The County collects the tax by selling the same stamps for .75 for every \$500 of property transferred.

The cost of the revenue stamps to Winnebago County is reflected in the Miscellaneous County department and totaled \$1,188,480 from 1-1-17 through 6-30-2018. The revenue that was deposited with the Winnebago County Treasurer from 1-1-17 through 6-30-18 was \$1,781,447 which is within our expectations based on the 50% markup.

- Compared document quantity information for vendor scanning and indexing invoices to amounts deposited with the County Treasurer into the General Fund and Recorder's Automation Fund. Fidlar invoices the County monthly for receipting and indexing based on the number of documents recorded. This invoicing process acts similar to a third party confirmation in developing our expectations of County revenue from recording documents.

From the time period 1-1-17 through 6-30-2018 the revenue deposited into the General Fund was within expected revenue based on the number of recorded documents and other items. We were also able to reconcile revenue in the Recorder's

Automation Fund by combining the expected revenue based on the number of recorded documents and miscellaneous revenue from internet access to public records.

- Examined all Munis reversals and unfinished receipts for any unusual transactions or activity. We noted several transactions that were reversed. The reversals all appeared to be clerical errors during the daily bulk cash receipt process which were corrected on the same day.

In our view, our test results and observations appeared to support that the revenue from services provided to customers was deposited in full with the County Treasurer's Office during the time period under examination. We did however have concerns with the actual cash receipt process as discussed in finding 3 that could potentially decrease the reliability of certain data used in this test.

Additionally, our research indicates that certain revenues potentially should be deposited into a different fund than is currently being done.

Finding 2:

55 ILCS 5/5-1106.1 allows the Winnebago County Recorder to collect a fee for "the dissemination of the electronic data in bulk or compiled form". The County Recorder's Office receives approximately \$200,000 - \$250,000 annually from this revenue stream which has historically been **deposited into the Recorder's Automation Fund.**

55 ILCS 5/5-1106.1 states that "the fee must be paid to the county treasurer and deposited into a fund designated as the **County Automation Fund;** except that in counties with a population exceeding 3,000,000, the fee shall be paid into a fund designated as the **Recorder's Automation Fund.**

The position of the County Auditor's Office is that a strong case could be made that the revenues from the sale of electronic data should be deposited into a separate special revenue fund titled "County Automation Fund" which could be used for countywide automation projects rather than restricted the Recorder's Office related expenditures. The revenues from the statutory filing fees should continue to be deposited into the Recorder's Automation Fund.

We presented this issue to the State's Attorney's Office. This issue is currently being reviewed internally within the office. However, the State's Attorney's Office and County Auditor's Office staff have surveyed several Illinois counties and noted varying practices in handling the proceeds from sale of electronic data such as:

- Depositing funds into the General Fund
- Depositing funds into a countywide Automation Fund

- Depositing funds into the Recorder’s Automation Fund

Recommendation 2:

We recommend that the proceeds from the sale of electronic data in bulk or compiled form be deposited into a separate fund titled “County Automation Fund” going forward and possibly retroactively. This fund could be used for general automation projects within Winnebago County government.

Additionally, we recommend that County Administration and the County Recorder seek a formal opinion on this issue from the State’s Attorney Office.

Internal control evaluation of the cash receipt process:

In the two previous sections we examined the appropriateness of the fees charged to customers and if these fees were properly deposited with the County Treasurer in their entirety.

The primary objective of our internal control evaluation was to determine if there are significant risks of assets being misappropriated as a result of weaknesses in the cash receipt control structure. To accomplish this objective, we physically observed a cradle to grave cash receipt for a document fee in the County Recorder’s Office.

Finding 3:

We noted the following conditions with the current cash receipt process:

- Cash collection at the customer counter is completed using a manual process
- No permanent electronic accounting entry is created at the point of sale
- Receipts are handwritten and are not electronically produced
- No cash registers are used so there is no reliable ability to reconcile daily cash collections in total
- A single clerk enters the manually produced cash receipt data in the accounting / I-DOC system at some point that same day after the sale has been completed and the customer has left. The same clerk also has custody of all customer recorded documents, cash and checks during this process.

Recommendation 3:

- Several other Winnebago County offices use the Munis accounting system at the point of sale. We recommend that the County Recorder consider implementation of this practice.

Implementation of this point would create a permanent accounting record at the point of sale and effectively make misappropriation of cash or checks significantly more difficult compared to current system. Additionally, electronic receipts could be generated.

- A potential alternative would be to consider having clerks working the counter use the I-DOC system at the point of sale to enter cash receipts and generate receipts. This would also create a permanent accounting record at the point of sale. However we not familiar with the security and permissions available with this system.
- Restrict the clerk that enters cash receipts in the accounting / I-DOC system from having custody of customer cash and checks at all points during the receipt process.

Accounts receivables procedures:

Revenue that is billed and then subsequently received is a significant revenue source in the Recorder's Office. The two significant categories of accounts receivable are as follows:

- Subscription services for online records and prints
- Document recording fee revenue primarily from title companies and municipalities

Finding 4:

The County Auditor's Office reviewed the accounts receivable balances as of June 30th, 2018 the associated procedures and noted the following conditions:

- Internal controls associated with the billing and receivable process are poor. The three incompatible core functions of billing, recording and depositing funds are all performed by the same person.
- There is a high volume of accounting activity necessary to track document recording fee revenue receivable. The accounting activity (billings and receipts) is currently being tracked by one individual using an excel schedule.

- The accounts receivable excel document for recording fee revenue indicated a balance due to the County of approximately \$125,000 as of June 30th, 2018. The Recorder's Office was unable to produce a detailed listing of the composition of the entire receivable balance.
- The Recorder's Office bills approximately 60 subscribers monthly for online access to records and prints made. No receivable list is maintained to track billings and receipts for subscriptions.

Recommendation 4:

We have 3 recommendations relating to the accounts receivable process as follows:

- Develop a starting balance for all receivable balances including subscriptions and investigate any old outstanding amounts if they are able to be identified.
- Utilize an appropriate software package to issue and record billings and to track receipts. The countywide Munis accounting software should be considered.
- Segregate the incompatible duties of billing, recording and depositing in the accounts receivable process.

Purchasing card activity and policy adherence:

The County has established a purchasing card program which allows employees to utilize a County issued credit card to make certain departmental purchases. An informal policy is currently maintained by the Purchasing Director which details the acceptable uses and procedures associated with the purchasing card program.

The purchasing card activity is monitored monthly by the County Auditor's Office. For the purpose of this internal audit, we re-examined the departmental purchasing card activity from the period 1-1-17 through 6-30-18. Our observations are as follows:

- Access to purchasing card use is appropriately limited to the Recorder (\$2,000 limit) and the Deputy Recorder (\$1,000 limit)
- Use of departmental purchasing cards was done so in accordance with the purchasing card policy. During the above time period we noted only minor deviations consisting of 4 occurrences of a cardholder omitting the required initials on the supporting invoices or receipts.

- All purchases conducted by the Recorder's Office from 1-1-17 through 6-30-18 utilizing the County credit card appear to be for a legitimate business purpose.

Statutory and County Ordinance adherence:

The County Auditor's Office examined any large purchases and contracts that may be subject to the guidelines established in the County Purchasing Ordinance or by Illinois State Statute. We noted one large multi-year contract for imaging, indexing and electronic access to documents that was entered into unilaterally by the current Recorder. The term of this contract also extends past the term of the current Recorder. We consulted with the State's Attorney's Office on two primary questions:

- Does the County Recorder have the authority to unilaterally enter into a contract as described above without County Board approval?
- Does the County Recorder have the authority to unilaterally enter into a contract as described above for a term that extends past the term of the current Recorder?

Finding 5:

Based on input from the State's Attorney's Office and our own research we have concluded that County Recorder does possess the authority to unilaterally enter into a no-bid contract without the approval of the County Board. However this authority does not extend past the term of the current elected office holder.

To remedy this issue, the State's Attorney's office has recently worked with the vendor to prepare a revised contract which limits the duration of the agreement to be within the current Recorder's term.

Recommendation 5:

While State Illinois Statute exempts certain elected county office holders from being subject the County Purchasing Ordinance approved by the County Board, in many cases we wouldn't recommend it. Our recommendations in regards to large purchases in the Recorder's Office are as follows:

- Work with vendor to revise contract so that the term of the agreement does not extend past the term of the current elected office holder. (completed)
- Submit all contracts to the State's Attorney's Office for review prior to ratification.

- Consider utilizing the Purchasing Office for all major purchases even though not required by Illinois State Statute.
- Consider conforming to the County Purchasing Ordinance for the next renewal of the imaging and indexing contract. This would require an open bid process with approval of the County Board.

Secondary review of departmental expenditures:

For the purposes of this internal audit, “other departmental expenditures” consists of all other expenditures that were neither applicable to the special requirements of statute, County purchasing ordinance or the purchasing card policy.

The County Auditor’s Office reviews and recommends for payment invoices submitted by all County Departments on a monthly basis. A typical invoice submitted for payment from the Recorder’s Office is well documented and appropriately authorized. For the purposes of this internal audit, the County Auditor’s Office re-examined all other departmental expenditures for the Winnebago County Recorder’s Office from 1-1-17 through 6-30-18. Our observations are as follows:

- Invoice approval permissions are as follows:
 - Recorder – Unlimited
 - Deputy Recorder - \$15,000
 - Administrative Assistant -\$15,000
- Invoices are well documented, appropriately authorized by departmental personnel according to the guidelines set by the County Recorder and appear to be for a valid County purpose.
- Revenue received from Fidlar for electronic document searches is being recorded improperly as a reduction to expense.

Finding 6:

As discussed in our cash receipt testing section, the County Recorder is receiving revenue for electronic access to records. Some of this revenue is billed and collected by the Recorder and some is collected by the County’s imaging and indexing vendor (Fidlar) and a portion remitted back to the County in the form of credits. These credits are charged as a reduction of expense by the County. This practice distorts the true nature of the activity between the County and the vendor.

Recommendation 6:

Credits for electronic access revenue from Fidlar should be classified as revenue. As noted in finding 2, we believe this revenue should be deposited into a newly created fund called designated as the County Automation Fund.

Inventory observation and asset tracking

The intent of this test is primarily to examine the departmental procedures for tracking inventory and equipment, physically observe inventory included on department inventory lists or historical accounting records and to examine documentation for any missing, disposed or sold items.

To test inventory in the Recorder's Office, the County Auditor's Office generated a report from the Munis accounting software searching for all historical asset purchases in excess of \$500 from October 2011 through May 2018. Our population consisted of 28 computers.

During our unannounced inventory observation the Recorder's Office staff were able to quickly identify all 28 computers for our visual inspection.

Recorder's Automation Fund Expenditures

The Recorder's Automation Fund currently receives \$9.50 for the recording of any real estate related document. The breakout of the \$9.50 fee per document is as follows:

- \$8 - Recorder's Automation
- \$.50 - Recorder's Automation
- 1\$ - Recorder's Geographic Information System

The acceptable uses of these funds are follows:

Recorder's Automation related revenue - (1) for a document storage system to provide the equipment, materials and necessary expenses incurred to help defray the costs of implementing and maintaining such a document records system and (2) for a system to provide electronic access to those records.

Recorder's Geographic Information Systems related revenue - to defray the cost of implementing or maintaining the county's Geographic Information System and to defray the cost of providing electronic access to the county's Geographic Information System records.

The County Auditor's Office reviewed the activity in the Recorder's Automation Fund from 1-1-2017 to 6-30-2018. In our opinion, the expenses paid from the Recorder's Automation were appropriate.

The 2018 budget in the Recorder's Automation Fund includes a \$300,000 transfer to the General Fund. On the surface, a \$300,000 transfer to the General Fund appears to be potentially outside the permissible use of the fund. However, the underlying nature of the transaction is to reimburse the General Fund for permissible expenses originally paid in the General Fund.

The 2019 budget was formulated and approved to only directly charge expenditures to the Recorder's Automation Fund which is appropriate in our opinion.

Rental Housing Fee Fund

As required by statute, the County Recorder collects \$9 surcharge for the recording of any real estate related document. This \$9 surcharge is deposited into the Rental Housing Fee Fund on a daily basis. The Recorder is required to turn over the monthly collections from the \$9 surcharge to the Illinois Department of Revenue by the 15th day of the following month. The County Auditor's Office reviewed the activity in the Rental Housing Fee Fund from 1-1-17 to 6-30-18. During our testing period we noted that the \$9 fee appeared to be properly collected, deposited and turned over to the Illinois Department of Revenue on or prior to the 15th of the following month.

Finding 7:

There is currently a \$50,000 negative fund balance in the Rental Housing Fee. Since this fund is used only to collect a surcharge which is remitted monthly to the Illinois Department of Revenue, the accrual basis fund should generally be zero or close to zero.

Examination of the historical fund activity indicates that in fiscal year 2011 and several years prior, the County budget included an allocation of approximately \$10,000 in Recorder personnel costs. We believe this allocation has resulted in the current negative fund balance of approximately \$50,000.

Recommendation 7:

The aforementioned allocations of \$10,000 had the impact of reducing personnel costs in the General Fund. We recommend a one-time transfer be made from the General Fund to the Rental Housing Fee Fund in the amount of approximately \$50,000 to reverse the impact of the personnel allocations in fiscal years 2011 and prior.

We presented this issue to the Winnebago County Finance Director who initiated a transfer to correct this issue. As indicated in Finding 8, we recommend a housekeeping budget amendment be requested to appropriate funds for this transfer.

Departmental budget adherence

The Winnebago County Board appropriates an annual budget for the Recorder's Office in the General Fund and in the Recorder's Document Storage Fee Fund (Automation Fund). The department has historically demonstrated excellent budget adherence. Historical expenditures as a percentage of appropriations are as follows:

General Fund:

- FY 2015 - 99.1%
- FY 2016 - 99.0%
- FY 2017 - 90.2%

Recorder's Document Storage Fee Fund (Automation Fund):

- FY 2015 - 62.8%
- FY 2016 - 56.2%
- FY 2017 - 85.7%

Finding 8:

Fiscal year 2018 is not closed at the time of the audit report but it appears the Recorder's Office will incur approximately the following budget overages:

- General Fund – Supplies and Services overage by approximately \$2,000 (personnel budget dollars are available to offset overage)
- General Fund – Transfers overage of \$51,600 (to address issue in finding #7 to fund correction of prior year activity in the Rental Housing Fee Fund)
- Recorder's Document Fee Fund (Automation Fund) – Supplies and Services overage of approximately \$70,000 (overage is only due to timing differences between fiscal years of a major multi-year imaging project)

Recommendation 8:

We recommend that County Recorder present a budget amendment to the County Board to address any 2018 budget overages.

Decentralized checking accounts

The County Auditor's Office made inquiries into the departmental use of decentralized accounts outside the County Treasurer. The department currently doesn't maintain any such accounts.

The department formerly maintained a checking account solely for the purpose of paying dues and memberships. Documentation was provided to the County Auditor's Office that indicated that this account had been closed on 3-17-17. Only 2 transactions occurred in the account from 1-1-17 to 3-17-17 which included a payment for a membership and closing out the residual balance. The County Auditor noted that the residual balance in the account was deposited in the County General Fund.

Accounting software permissions

Munis is a software application that serves as the County's primary accounting and payroll system. During the performance of a previous audit, the County Auditor's office noted that many County employees in several departments possessed Munis rights that were significantly in excess of their job requirements. County Administration has since responded by correcting the excessive Munis rights and also implementing a process for granting user rights.

As part of this internal audit, the County Auditor's Office requested the detailed individual user rights directly from the Department of Information Technology for all employees of the County Recorder's Office.

There are currently 4 employees in the Recorder's Office with Munis access. After reviewing the job responsibilities for these 4 employees, we noted that the current Munis access granted appears appropriate.

Miscellaneous – Comment on GIS Fees

In 2004 the County Board approved Ordinance No. 2004-CO-8 establishing a "Geographic information system maintenance fee" of \$9 filing of every instrument, paper, or notice. In Winnebago County this fee is assessed on approximately 40,000 or more documents annually. This fee is collected by the County Recorder and in accordance with State Statute "must be

used solely for the equipment, materials, and necessary expenses incurred in implementing and maintaining a Geographic Information System and in order to defray the cost of providing electronic access to the county's Geographic Information System records.”

It is possible that the current \$9 fee is not recovering all the eligible costs to provide the geographic information system. We noted that several other Counties have increased this fee to as high as two or three times the current fee charged by Winnebago County. We recommend that Winnebago County Administration consider evaluating these fees with an appropriate cost study.