

A LIMITED REVIEW OF INTERNAL CONTROLS AND OPERATIONAL PROCEDURES AT THE ERIE COUNTY CLERK OFFICE

For the period January 1, 2012 through February 29, 2012



DAVID J. SHENK

ERIE COUNTY COMPTROLLER

Michael R. Szukala, MBA, CIA

Deputy Comptroller - Audit & Control

June 1, 2012

Honorable Members
Erie County Legislature
92 Franklin Street 4th Floor
Buffalo, New York 14202

Dear Honorable Members:

At the request of the Erie County Clerk, the Erie County Comptroller's Office has performed a limited review of the Erie County Clerk's Office Registrar Division for the period January 1, 2012 through February 29, 2012. Our objectives were to:

1. Determine whether sufficient internal control procedures are in place, properly designed and are operating effectively.
2. Review the current operating procedures, evaluate the processing of documents, assess the system in place and determine the existence of inefficiencies and weaknesses which may have attributed to the current backlogs.
3. Document our findings and provide recommendations for corrective action.

The following pages will detail our review, findings and recommendations.

A handwritten signature in blue ink, appearing to read "David J. Shenk".

David J. Shenk
Erie County Comptroller

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EXECUTIVE SUMMARY

I Review Initiative

At the request of the Erie County Clerk, the Erie County Comptroller's Office Division of Audit & Control (Audit) initiated a limited review of the internal controls regarding the financial operations of the Erie County Clerk's Office ("Clerk's Office"). In addition to this request we were asked to review the work production flow for the Clerk's Registrar Division; specifically that we address the backlog of documents within the department.

II Scope, Objective and Methodology

This review has been limited to the objectives requested by the County Clerk; specifically a review of the internal controls of the financial functions of the office and the operation of document processing through the Registrar Division of the Clerk's Office.

The primary objectives of the review:

- Internal Controls: Determine whether internal control procedures were in place. If so, were they properly designed to safeguard County assets and were the controls operating effectively?
- Document Processing: Review the current processing system, evaluate the backflow of documents, provide findings and recommend corrective actions.

The review focused primarily on the period of January 1, 2012 through February 29, 2012.

Our methodology for performing this review was to objectively review various forms of documentation; including written policies and procedures, financial information and various other forms of data. To observe the processes in place for performing the duties associated with the Registrar Division financial activities and process flow.

III Background

The Clerk's Office is organized into three divisions: the Registrar's Office, Actions and Proceedings, and the Auto Bureau Division. Our work was limited to the Registrar's Office.

The Registrar is the official repository for public records relating to business, property ownership (land records), assumed names certificates and all court-related documents for the Supreme and County Court of Erie County. The Registrar office is further divided into Cashiers operations, Scanning operations and Verification & Indexing operations.

The Registrar Division is responsible for recording, filing and maintaining records related to land transactions, real estate, and corporations.

Management change during 2011:

In May of 2011 the elected County Clerk resigned from Office and the first Deputy Clerk became the Interim County Clerk.

In November 2011 the current County Clerk was elected to the Position. He assumed the office in December 2011 at which point, he stated, he noted an excessive backlog of outgoing mail as well as a backlog of new mail awaiting processing.

Processing changes during 2011:

Prior to 2011 the Clerk's Office had processed land record documents in a systematic way that involved 4 main processes each performed by separate individuals:

- Recording—cashiers checked the documents for completion, recording the documents and collecting payment.
- Scanning—clerks scanned the paper documents and created an electronic version of the document, which would become available for public view.
- Indexing— the process of relating the parties of a transaction with the actual scanned version of the documents to allow ease of access when someone is searching the online records for the documents.
- Verification— a document clerk would verify that the documents were properly recorded, scanned and indexed before final acceptance.

In January 2011 the County Clerk implemented a new document processing system for the Registrar Division. This system assigned the first three steps of the above system to the cashiering clerks. In order to provide the personnel for this shift in workload, three employees in the verification & indexing operations were transferred to cashiering positions.

The new document processing system now required cashiers to perform the recording, scanning and indexing of documents. The plan was for verification/indexing to be reduced as a step in the process, along with the reduction in employees. The plan was not followed, and the verification process continued as before, even with the reduction in staffing. This was a contributing factor in the document backlog.

The new process was expected to save the County the postage needed to return the original documents, as they would be returned directly to the person recording them upon full implementation.

In the midst of the processing change in 2011 extensive software updates were installed on April 25, 2011. This upgrade required additional training for the cashiers to perform their assigned duties.

IV Significant Control Weaknesses

Internal Controls:

Segregation of duties:

We noted material weaknesses in the internal control structure of the Clerk's Office in regards to a lack of segregation of duties of the Finance Deputy. The Finance Deputy is responsible for recording bank transactions, initiating and processing disbursements and performing bank reconciliations. Additionally checks and wire transfers require only his signature contrary to the preferred control mechanism of multiple signatories.

An effective system of internal controls requires segregation of duties. It is especially important that the functions of recording cash and checks, depositing receipts, initiating banking transactions, reconciling bank records, and maintaining accounting records be divided among several employees to reduce the risk of errors and fraudulent activities. No single individual should control most or all phases of a transaction.

Management oversight over financial records:

There is a lack of management oversight of the financial records. We found very little evidence of oversight by management in regards to the financial activities of the Clerk's office. In addition to this we noted that the Clerk's revenue records are completely separate from the County's financial system, SAP.

Review of activities by a supervisor or other senior staff member can be a vital mitigating control where adequate segregation is not obtainable. Management should evaluate the control functions on a regular basis. (See detail in Finding #1 below)

Unprocessed Document Backlogs:

Audit observed 30 boxes of unprocessed mail containing un-deposited checks and a room full of partially processed documents awaiting verification.

Incoming Mail

On January 30, 2012 there were 30 boxes of unprocessed mail containing un-deposited checks in the office of the Chief Document Clerk. We performed a sample count and extrapolated there to be approximately 10,923 un-deposited checks totaling approximately \$1,349,000 that had been unprocessed for as long as 72 days.

Verification & Outgoing Mailing

On February 17, 2012 there were 98,000 records in the queue to be processed according to the Supervisor of Records.

As of February 17, 2012 there were an undeterminable number of documents awaiting return to the customer via mail. These documents waiting to be returned dated back to May 25, 2011. (See detail in Finding #3 below)

OBSERVATIONS

The review team met with the County Clerk, and the First Deputy County Clerk at the start of our review to ascertain what issues that the County Clerk was intent on our review addressing.

As a result of this meeting we initiated our fieldwork with the above stated objectives.

Observations of Financial Internal Controls

We interviewed the County Clerk, the First Deputy and Finance Deputy to gain an understanding of the flow of financial information within the organization. Audit noted the County Clerk's Office maintains several bank accounts completely separate from the County's financial system, SAP. At any given time, the Clerk had in excess of a million dollars on deposit. The total revenue receipts in a month are normally in excess of five million dollars (\$5,000,000). The Finance Deputy was responsible for all bank deposits and reconciliations, internal and external wire transfers between the bank accounts and State agencies, with little or no oversight or review by a senior staff member.

We performed a process walk through and documented the finance procedures within the Registrar Division.

We reviewed the financial reports and the reconciliations among the revenue recipients. We performed detail tests of daily transactions per the Registrar Division's land records software system (New Visions) and the Finance Deputy's Excel spreadsheets for the last day of the month. We reviewed month end disbursements and the related remittances to County and State agencies.

Observations of Document Flow within the Clerk's Office

To gain an understanding of the office processes we performed a walk through and documented the operating procedures of the County Clerk's Registrar Division.

Upon initiation of our review we were informed of, and shown, a backlog in the processing of incoming documents of several weeks and over a year of documents still in process waiting for verification by the clerk's staff.

On January 30, 2012 there were 30 boxes of unprocessed mail containing un-deposited checks in the office of the Chief Document Clerk. These boxes contained mail dating from December 5, 2011 through January 31, 2012. Outside her office on a cart was an additional 3 boxes of unprocessed mail from November 21, 2011 through December 2, 2011, which was being processed by the cashiers as time allowed during the course of their work day.

In addition to the unprocessed mail backlog, we observed another room containing bins of documents that had been processed by cashiers, scanned and indexed dating back to February 3, 2011. It was explained to us that these items were awaiting verification. Through interviews we learned that some of the items in this room were complete but would not be released until the entire day of transactions were caught up.

While we initially wanted to determine the total number and amount of the un-deposited checks, the sheer volume of the unprocessed mail precluded us from performing an exact count. We instead counted the checks and amounts for several of the boxes of mail and extrapolated the average of the total amount of checks for those boxes over the total number of boxes and approximated the amount of un-deposited checks. We found that there were approximately 10,923 un-deposited checks totaling approximately \$1,349,000 that have been unprocessed for as long as 72 days.

These backlogs, compounded by a lack in historical or statistical data hindered our ability to assess the effectiveness of the department's document process flow.

Audit noted that many of the processing areas are just keeping pace with the daily activity without decreasing the backlog (i.e. they go back to work on two or three days of unprocessed transactions from weeks or months in the past and then fall two or three days behind in their current work). From our perspective, by continuing the current processing methodology, some processes may never actually be current on processing the documents presented to the Clerk's Office.

In an effort to gain a better understanding of these bottlenecks in the system we analyzed the operating process and the key changes in the system over the past year. It appeared evident to us that the system that the previous County Clerk initiated in early 2011 was in the implementation stages and not completed when she left the position. The first deputy became the interim County Clerk and was awaiting the appointment of a successor. It appears that there was a breakdown in communication and system support during this time.

Additionally we noted a major transfer of mortgages by HSBC in late 2011 had an adverse effect on the processing of incoming mail in the Registrar Division and the processing of incoming mail. As a result of the abnormally large amount of mortgage assignments beginning in October 2011 the Clerk's office developed an excessive backlog of unprocessed mail.

It appears the following events contributed to the backlogs:

- Unprecedented increase in incoming mortgage assignments in late 2011 (incoming mail only.)
- Lack of continuity and monitoring of the new processing system.
- Management change.
- Absence of management's plan to address backlogs or unforeseen results.
- Attrition vacancies (promotion, retirement) are filled by new employees requiring extensive training.
- Implementation of new software slowed down processing of documents creating additional backlog.
- Full verification continued with reduced staffing.

FINDINGS AND RECOMMENDATIONS

Review Objective # 1 Findings & Recommendations

Finding (1) Internal Controls:

The internal controls surrounding the Clerk's Office's cash receipts, revenue disbursements, accounting, and reconciliation functions were inadequate. All key duties are performed by one person, the Finance Deputy, with no supervisory oversight or review by senior staff. Effective internal controls reduce the possibility that errors or irregularities will occur or go unnoticed. Without proper controls, the accounting for and reporting of transactions may be materially misstated, resulting in erroneous disbursements to the State, the County and local municipalities.

During our review, we found no evidence of any secondary review of the tasks performed by the Finance Deputy. The Finance Deputy had control over all phases of financial transactions and there was little or no oversight of these responsibilities. The segregation of duties within the Clerk's accounting department was inadequate to such a degree as to create a material weakness. Under those conditions, it was not possible to reasonably ensure that assets were safeguarded and transactions were properly and accurately reported.

Recommendation:

Segregation of duties is a key element in an effective internal control environment, which is primarily intended to provide reasonable assurance regarding the prevention or detection of unauthorized transactions or fraudulent activity. No one person should have control over all phases of a transaction. It is especially crucial that finance-related duties be segregated so that if controls are circumvented, errors or fraudulent activity may be detected on a timely basis and corrective action may be initiated.

Another important element of an effective internal control system is the monitoring and review of transactions, procedures and activity by various levels of supervisory staff. Management is responsible for internal controls. Increased review of activities by a supervisor or other senior staff member can be a mitigating control where adequate segregation is not obtainable. Management should evaluate the control functions on a regular basis.

The Clerk's Office should:

- Review and implement the directives outlined in the **"Accounting Procedures for County Clerks," "Standards for Internal Control in New York State Government"** and **"Local Government Management Guide – Internal Controls"** issued by the New York State Comptroller.

- Reassign some of the duties performed by the Finance Deputy to ensure the adequate segregation of duties, particularly to segregate the cash receipts, disbursements, accounting and reporting functions and reconciliation processes.
- Establish a system of checks and balances in the office, whereby any transaction processed, recorded, or approved by one employee is reviewed by a supervisor or senior staff member.
- Cross-train staff so that in the absence of one individual, the duties can be performed by another.

Finding (2) Systems and System Reporting:

The Clerk's Office does not utilize a double entry accounting system. Due to the absence of a general ledger system the Clerk's office relies heavily on Excel spreadsheets to maintain financial records. The current system does not allow for an audit trail and provides little if any assurance of reliability as the spreadsheets can easily be manipulated.

The New Visions software system which the Clerk's Office uses to record the land records transactions was not designed to meet the specific accounting needs of the Clerk's Office.

Recommendation:

The Clerk's Office should consider utilizing the County SAP system, which uses a double entry accounting system, and maintains an audit trail of transactions. Presently, SAP does not include many functions within the New Visions software, and would require programming from the County Department of Information Support Systems.

The Clerk's Office needs to work with the software provider to ensure useful reporting is maintained. Financial reports should be designed to assist in the financial aspects of the Clerk's Office.

Review Objective # 2 Findings & Recommendations

Finding (3) Workflow Backlogs and Bottlenecks:

During our review we observed a room containing over 30 bins of unprocessed mail. We reviewed the documents and noted that the unprocessed mail dated back in excess of 45 days. This mail was opened but had yet to be processed. Management provided us with an estimate of \$2,000,000 in revenues sitting in this area; however we found no listings or reports detailing this inventory. Per discussion with the supervisors we noted over the past month they had begun to process mail which included stale dated checks (checks older than 90 days from the date they

were issued). This coincided with the receipt of multiple assignments (as noted above) related to the major sale of mortgages by HSBC.

Additionally we observed another room containing partially processed documents dating back to February 3, 2011. It was explained to us that these items were awaiting verification. Through interviews we learned that some of the items in this room were complete but would not be released until the entire day of transactions were caught up.

We asked for reports on the size or composition of the document backlog. They were not provided to us. This causes us to question how the backlog was managed.

Recommendation:

First and foremost we recommend assigning staff members exclusively to the pending incoming mail documents. This should be on a full time basis, without exception. Assigning at least two additional employees to the backlog of incoming documents should resolve this issue in the short term.

We suggest utilizing the knowledge of the staff to address the current backlogs. It is our understanding that several cashiers, especially the most recent appointees, have extensive experience and knowledge of the verification process. These employees should not be covering the customer service desk at various times during the week, but should be assisting in resolving the verification backlog. Customer service should not be covered by cashiers.

Once these recommendations are in place the Clerk's Office should monitor the activities levels to assure the corrective actions are indeed helping to resolve the backlogs. The monitoring should include compiling statistical information and tracking the backlog processing.

Finding (4) Statistical and Supportive Data:

There exist no analytical or statistical information to assist management in making educated decisions regarding the processing of these documents. When we inquired as to the error rate realized, the discrepancies observed and the normal backlog levels the Clerk's Office could not provide us with any detail. In order to properly schedule workloads, and monitor activities in a processing system analysis needs to be performed. Tracking current backlog inventories and historical trends could ensure resources are utilized effectively.

Through statistical analysis educated decisions regarding the multiple handling of documents, reassignment of duties or necessity of certain operations (such as full verification) can be made.

It is important to know what activity levels to expect at specific times (morning or afternoon, summer or winter, Monday or Friday).

Recommendation:

By taking a scientific approach the Clerk's Office should be able to develop a system that detects errors and irregularities, and provides feedback for corrective action.

The Clerk's Office should track document flow levels as they occur. Data for transactions processed by day or employee are available from the processing software, however incoming and outgoing document levels should also be tracked.

Benchmarking other counties would be very beneficial to the Clerk's Office. By observing established procedures in other counties alternative process methodology can be learned and, if applicable, applied to the Clerk's Office.

Additionally we recommend that management of the Clerk's Office evaluate the cost benefit of their ongoing verification process and consider viable options to allow outgoing mail be released. This process appears redundant, and is a main contributor to the current document backlog.

CLOSING

The Erie County Comptroller's Office wishes to thank the County Clerk, and his staff for their cooperation. This project required the assistance of so many of his staff during a period when demands on their time were many.

On February 27, 2012, the new County Comptroller officially assumed his office. Prior to his appointment, the Deputy Comptroller for Accounting and Finance was the acting Comptroller for the period January 1, 2012 through February 26, 2012.

In March 2012, the former Finance Deputy for the County Clerk was hired by the Comptroller's Office to work within the Division of Audit and Control as an Accountant Auditor. He did not perform fieldwork for this project. He was, however, consulted as the final report was developed.

It is important that the Clerk's Office implement our recommendations or develop their own solutions to correct the findings within this document. We will continue to support the Clerk's Office in the future. A follow-up review to this document will take place within the next nine to twelve months.

cc: Hon. Mark C. Poloncarz, County Executive
Robert W. Keating, Director, Budget and Management
Erie Fiscal Stability Authority

DEPARTMENT RESPONSE



10-17-11
12 MAY 11 PM 3:45

COUNTY OF ERIE
CHRISTOPHER L. JACOBS
COUNTY CLERK

May 11, 2012

The Honorable
Erie County Legislature
92 Franklin Street – 4th Floor
Buffalo, New York 14202

RE: Response to the Comptroller's Limited Review of
Internal Controls and Operational Procedures at the
Erie County Clerk's Office – January 1, 2012-February 29, 2012

Dear Honorable Members:

Soon after taking office, I became concerned with antiquated systems currently in place in terms of financial management in the Clerk's Registrar Division. Considering the significant amount of money processed in this Division, I made a request to the Interim Comptroller asking them to conduct an analysis of our internal control procedures. Shortly thereafter, I also identified the severity of the process breakdown in the Land Records Division. This breakdown, which had gone unaddressed for some time, was causing a backlog with mail processing, check cashing and the return of documents to customers. After discussions about this with the Comptroller's Office, they agreed to expand the scope of their analysis to look at the procedures in the processing of these transactions and documents.

This review was conducted by staff of the Erie County Comptroller's Office with the findings presented to the Erie County Clerk's Office on April 26, 2012. We are grateful that the Comptroller's Office was able to assign staff to conduct this review, and we recognize that the report was somewhat delayed as a result of Comptroller Sherk being appointed in the middle of the review.

Concurrent with my request for the Comptroller's review, I established a Registrar Re-engineering Working Group charged with doing an in-depth analysis of the back-log issue and identifying process improvements to address the current backlog and corrective actions to prevent future backlogs of this magnitude. Many of the recommendations in the Comptroller's Review have already been addressed by the Working Group and, where appropriate, are noted throughout this document.

On the following pages you will find the Erie County Clerk's Office general comments and our response to the specific findings contained in the Comptroller's Review.

General Comments

On April 26, the Deputy Comptroller for Audit met with the Clerk's Office to conduct an Exit Meeting and asked for our comments and concerns as they related to factual statements in the review. We expressed concern on several areas, and were advised that the Deputy Comptroller would discuss with Comptroller Shenk and make changes if they were in agreement. While some of the statements were revised, some were not, which we agree was within their purview. For the record, following are areas that we expressed concern over or asked the Comptroller to change that were not included in the final report.

- We registered strong objections to Comptroller Shenk requesting the former Finance Deputy for the Clerk's Office to "consult" on the final report and I have sent a letter directly to Comptroller Shenk in this regard. The employee in question, Mark Adamchick, CPA, was released of his duties in the Clerk's Office in March of 2012, at which time he went to work for the Comptroller. It is my opinion that asking for his input into the review violated several ethical and professional rules of conduct. While Mr. Adamchick was still employed as the Finance Deputy he met at length with the auditors to provide any information they required, as well as, his perspective on the operation, which I believed to be appropriate. As stated in the written report, during the period of the review the Finance Deputy had control over all phases of financial transactions and there was little or no oversight of these responsibilities. Essentially it was Mr. Adamchick's work that was the subject of the review. Mr. Adamchick, as a licensed CPA, should have been aware that reviewing one's own work violates Rule 101 (Independence) of the American Institute of Certified Public Accountants Code of Professional Conduct. Additionally, the Institute of Internal Auditors (IIA) Code of Ethics, rule 2.1, forbids participating in activities that may impair or be presumed to impair unbiased assessment. Since we were not made aware of Mr. Adamchick's involvement in the review until the Exit Meeting when we were presented with a draft report, we have no idea what the report may or may not have said prior to Mr. Adamchick's input.
- The Clerk's Office felt strongly that any review of our processes needed to acknowledge the statutory and legal obligation the Clerk has to maintain records in a manner complying with the legal obligations regarding accuracy of the records. The County Clerk's Office is a constitutionally mandated office with statutorily specified duties, not the least of which is to "accept those instruments for recording that are entitled to be recorded" (County Law §25). In effecting the recording of instruments, the clerk is charged with, among other necessary functions to determine the entitlement of the instrument to be recorded, indexing the information in "proper record books...so as to afford correct and easy reference to the records in the office." (Real Property Law §316). Although the Review acknowledged the specific objective of addressing the backlog of documents within the department (page 4), the assessment of processes was completed without reference to the legal mandates upon the office and without assessment of proficiency in fulfilling the legal mandates of the office.
- The Comptroller's Review referenced the unprecedented increase in incoming mortgage assignments in late 2011 as a major contributor to the backlog, however, did not include those documents in the count when they referenced the mail backlog dates.
- The Review recommends the use of SAP to better maintain the financial records of the Office. It does not, however, include an acknowledgement by the Comptroller's Office that SAP cannot currently be used for this purpose, and a software redesign would be a time consuming and, most likely, cost prohibitive undertaking as they acknowledged in the Exit Meeting.

Review Objective #1 (Page 2) – “Determine whether sufficient internal control procedures are in place, properly designed and operating effectively.”

Finding (1): Internal Controls (page 11)

“The internal controls surrounding the Clerk’s Office’s cash receipts, revenue disbursements, accounting, and reconciliation functions were inadequate. All”

Recommendation (Page 11):

“The Clerk’s Office should:

- *Review and implement the directives outlined in the “Accounting Procedures for County Clerks,” “Standards for Internal Control in New York State Government” and “Local Government Management Guide-Internal Controls” issued by the New York State Comptroller.*
- *Reassign some of the duties performed by the Finance Deputy to ensure the adequate segregation of duties, particularly to segregate cash receipts, disbursements, accounting and reporting functions and reconciliation processes.*
- *Establish a system of checks and balances in the office, whereby any transaction processed, recorded, or approved by one employee is reviewed by a supervisor or senior staff member.*
- *Cross-train staff so that in the absence of one individual, the duties can be performed by another.”*

Response:

We agree with the auditors’ comments, and will take the following actions to improve the situation: Where possible, duties will be segregated to provide assurances against unauthorized transactions or fraudulent activity; Procedures will be put in place to have multi-level approval and supervisory review of all financial transactions; Staff will obtain copies of the publications identified by the auditors, for review and implementation of best practices as appropriate.

Finding (2): Systems and System Reporting (Page 12)

“The Clerk’s Office does not utilize a double entry accounting system. Due to the absence of a general ledger system the Clerk’s Office relies heavily on Excel spreadsheets to maintain financial records. The current system does not allow for an audit trail and provides little if any assurance of reliability as the spreadsheets can be easily manipulated.”

Recommendation (Page 12):

“The Clerk’s Office should consider utilizing the county SAP system which uses a double entry accounting system, and maintains an audit trail of transactions. Presently SAP does not include many functions within the New Vision software, and would require programming from the County Department of Information and Support Services.

The Clerk’s office needs to work with the software provider to ensure useful reporting is maintained. Financial reports should be designed to assist in the financial aspects of the Clerk’s Office.”

Response:

We agree with the auditors’ comments. A double-entry system would provide necessary safeguards to detect bookkeeping errors, provide for financial reporting and a greater ability to detect fraud.

As acknowledged by the Comptroller's Office in our Exit Meeting and mentioned elsewhere in this document, SAP does not have an appropriate module to accommodate the needs of the Clerk's Office. In addition, converting to SAP would most likely be time consuming and, ultimately, cost prohibitive. We will work with the Comptroller's Office to purchase acceptable software within our budget constraints. One alternative suggested by the Comptroller's Office during the Exit Meeting was QuickBooks, which may be a viable, more cost effective, alternative and will be explored and approval sought from the Comptroller.

Furthermore, I have asked my staff to reach out to other County Clerk Offices throughout New York State to determine what double-entry accounting packages are in use and meet the needs of County Clerk financial reporting.

Our software provider for the Registrar Division, New Vision, is not a financial software package. However, we will also consult with them on the development of reports, within our budgetary constraints that could assist in the financial aspects of the Clerk's Office.

Review Objective #2 (Page 2) – "Review the current operating procedures, evaluate the processing of documents, assess the system in place and determine the existence of inefficiencies and weaknesses which may have attributed to the current backlogs."

Finding (3): Workflow backlogs and bottlenecks (page 12)

"During our review, we observed a room containing 30 bins of unprocessed mail and reviewed the documents and noted that the unprocessed mail dated back in excess of 45 days. Management provided us with an estimate of \$2,000,000 in revenues sitting in this area; however we found no listings or reports detailing this inventory. Per discussion with supervisors we noted over the past month they had begun to process mail which included stale dated checks (checks older than 90 days from the date they were issue).. Additionally, we observed another room containing partially processed documents dating back to February 3, 2011. It..."

Recommendation (Page 13):

"First and foremost we recommend assigning staff members exclusively to the pending incoming mail documents. This should be on a full time basis, without exception. Assigning at least two employees to the backlog of incoming documents should resolve this issue in the short term.

We suggest utilizing the knowledge of the staff to address the current backlogs. It is our understanding that several cashiers, especially the most recent appointees have extensive experience and knowledge of the verification process. These employees should not be covering the customer service desk at various times during the week, but should be assisting in resolving the verification backlog. Customer service should not be staffed by cashiers.

Once these recommendations are in place the Clerk's Office should monitor the activities levels to assure the corrective actions are indeed helping to resolve the backlogs. The monitoring should include compiling statistical information and tracking the backlog processing."

Response:

The Clerk acknowledges that upon taking Office the backlogs were extensive and is on record as stating that was one of the primary concerns when we requested the Comptroller review operations. However, the reviewers failed to note that multiple cashiers are, and always had been, assigned to open and process the pending and incoming mail.)

As mentioned earlier, the Registrar Re-engineering Working Group was conducting a simultaneous assessment of processes and many of the recommendations for this finding had been implemented prior to release of this report.

- Staff was reassigned (additional cashiers were assigned) to concentrate on the mail, and the backlog was eradicated. The backlog no longer exists; mail is currently being opened and processed within 3-5 business days.
- To address the verification backlog, data was collected to study error rates and error types; as a consequence, supervisory staff has revised how work is assigned in the verification queues, and we are testing dual monitors to improve productivity.
- Once the mail was current, staff was reassigned to concentrate on the verification backlog.
- Management continues to monitor and adjust staff assignments to stay current with the mail, and service walk-in customers in a timely basis.

We do not agree with the recommendation that Cashiers ("have extensive experience and knowledge of the verification process") should not staff Customer Service, since many of the transactions handled at Customer Service require both an understanding of the office as well as particular problem solving skills, In addition to the processing of payments and acceptance of cash. In accordance with Civil Service rules, only certain titles can handle cash receipts and in the Recording Office, those persons holding such titles would be our Cashiers. We feel this recommendation would actually weaken the customer service of the Clerk's Office.

Finding (4): Statistical and Supportive Data (Page 13)

"There exist no analytical or statistical information to assist management in making educated decisions regarding the processing of these documents. When we inquired as to the error rate realized, the discrepancies observed and the normal backlog levels the Clerk's office could not provide us with any detail. In order to properly schedule workloads, and monitor activities in a processing system analysis needs to be performed. Tracking current backlog inventories and historical trends could ensure resources are utilized effectively.

Through statistical analysis educated decisions regarding the multiple handling of documents, reassignment of duties or necessity of certain operations (such as full verification) can be made. It is important to know what activity level to expect at specific times (morning or afternoon, summer or winter, Monday or Friday)."

Recommendation (Page 14):

"By taking a scientific approach the Clerk's Office should be able to develop a system that detects errors and irregularities and provides feedback for corrective action.

The Clerk's Office should track document flow levels as they occur. Data for transactions processed by day or employee are available from the processing software, however incoming and outgoing document levels should also be tracked.

Benchmarking other counties would be very beneficial to the Erie County Clerk's office. By observing established procedures in other counties alternative process methodology can be learned and, if applicable, applied to the Erie County Clerk's Office.

Additionally we recommend that management of the Erie County Clerk's Office evaluate that cost benefit of their ongoing verification process and consider viable options to allow outgoing mail be released. This process appears redundant, and is a main contributor to the current document backlog."

Response:

We agree that tracking data and analyzing the results can drive operational efficiencies. The Registrar Re-engineering Working Group did just that as one part of their process. Through the collection and analysis of this data close to 20 opportunities for improvement were identified and we are currently in the process of finalizing implementation plans for each opportunity.

The Clerk's Office has reached out to our counterparts throughout the state to collaborate on best practices. We recently visited the Office of the Westchester County Clerk to observe their processes and gain valuable information. Our focus is on creating a system that will increase operational efficiency, reduce the number of rejected documents and shorten recording time for land records.

We do not agree that we should evaluate the cost benefit of our verification process inasmuch as document verification is not an option. Because the Clerk's Office is statutorily mandated to create indices and provide correct reference to the instruments recorded in the public records, liability to the county as a result of errors is not quantifiable and cannot be scientifically measured. Redundancy is a part of the verification process. We do believe that through training, technology improvements and hands-on management the backlog can be eradicated and processes put in place to keep it from reoccurring.

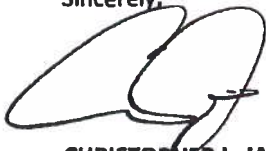
In closing, while we regret that the apparent conflict of interest with Mr. Adamchick's involvement in the final report compromises the validity of the internal controls portion of this report, we recognize and agree that we must implement stricter internal controls over our financial records. We will work with the Comptroller's Office to accomplish this goal.

While we strive to provide efficient, cost-effective customer service, we acknowledge the need to implement process improvements to reduce the current backlog in our Land Records Division and take the necessary steps to ensure that it does not happen again. At the same time, we need to look ahead and prepare for process changes that are certain to be passed at the State level, including legislation

mandating electronic recording of land records. This is much needed legislation that will radically change and improve the way we record documents, however, it will require planning and close management oversight. The challenges are many, but with these challenges come opportunity for improved services and operational efficiencies.

We want to thank Comptroller Shenk for prioritizing this Review upon taking office and we want to acknowledge the staff of the Comptroller's Office Audit Division for their professionalism in conducting this Review. The auditors worked cooperatively with our staff and were mindful of schedules and staff responsibilities. We are appreciative of this spirit of cooperation.

Sincerely,

A handwritten signature in black ink, appearing to read 'C. Jacobs', written over a large, stylized, circular scribble.

CHRISTOPHER L. JACOBS
Erie County Clerk

C: Hon. David J. Shenk, Comptroller
Hon. Mark Poloncarz, County Executive
Erie County Fiscal Stability Authority



COUNTY OF ERIE

**DAVID J. SHENK
COMPTROLLER**

May 16, 2012

Hon. Christopher L. Jacobs
Erie County Clerk
92 Franklin Street
Buffalo, NY 14202

RE: Comptroller Consultation of Former Clerk Employee

Dear County Clerk Jacobs:

In response to your letter attached, I must disagree with your assessment.

The Comptroller General of the United States oversees the General Accounting Office ("GAO"). The GAO publishes the "Yellow Book" standards, the standards used by the Comptroller's Division of Audit and Control. The Yellow Book standards define an audit. The work done for your office was NOT an audit. The report states, at several points, that this is not an audit.

Please note that the work performed by the Division of Audit and Control was in fact performance of **consulting work at the request of the Clerk** and not an audit. This project was a review, and was performed as such. As per the 2011 Yellow Book Standards a review consists of testing to express a conclusion on conformity with specific guidelines or an assertion from the entity under review (see below).

"Types of Generally Accepted Government Auditing Standards ("GAGAS") Audits and Attestation Engagements

2.02 This section describes the types of audits that audit organizations may perform in accordance with GAGAS. This description is not intended to limit or require the types of audits that may be performed in accordance with GAGAS.

2.09 b. Review: Consists of sufficient testing to express a conclusion about whether any information came to the auditors' attention on the basis of the work performed that indicates the subject matter is not based on (or not in conformity with) the criteria or the assertion is not presented (or not fairly stated) in all material respects based on the criteria. "

It was with this in mind that the Deputy Comptroller – Audit reasonably assessed that there was no expressing of a conclusion about the reliability of an assertion associated with this project.

After I became Comptroller, and this office had retained the services of Mr. Adamchick, I met with the Deputy Comptroller – Audit and Mr. Adamchick to discuss the work being performed at your request and if any potential conflicts existed. Both Mr. Adamchick and the Deputy Comptroller – Audit assured me that the work was a consulting engagement and the issues of independence and conflict of interest were not a concern.

You asked, as we state in the report, that the Division of Audit and Control:

- Determine whether internal control procedures were in place. If so, were they properly designed to safeguard County assets and were the controls operating effectively?
- Review the current processing system, evaluate the backflow of documents, provide findings and recommend corrective actions.

Neither of these requests included any criteria or assertions by which to express any conclusion. Both requests asked the Division of Audit and Control to use professional judgment in evaluating the current systems in place and make recommendations to improve those systems.

I was aware that allowing Mr. Adamchick, the former Finance Deputy, to review his own work would be improper. The Deputy Comptroller – Audit agreed and stated categorically that at no time did Mr. Adamchick ever review his own work. The internal controls of any organization are the responsibility of management, and it was the internal controls of the Clerk's Office that were evaluated - not the quality or integrity of the work performed by the former Finance Deputy.

I was aware of the possibility that Mr. Adamchick's involvement in this project could raise questions of independence. The Deputy Comptroller – Audit has assured me that Mr. Adamchick was not involved in the financial internal controls findings in any way. Our recommendations in that area were based on discussions Frank Belliotti, CPA, had with the Clerk's staff while doing fieldwork at the Clerks' Office.

Both Frank Belliotti, CPA, and David Kinda, an employee with over thirty years of government auditing experience, recognized several control issues when they interviewed the then Finance Deputy. The problems became obvious quickly. They are documented in our report.

Your suggestion that Mr. Adamchick's presence in the office "impaired unbiased assessment" or violated Rule 101 is inaccurate: no assessment was performed. The work performed by the Division of Audit and Control was based on a request from the Clerk to observe procedures and make recommendations for those procedures. **It was a request for consulting work, and not an audit.**

Sincerely Yours,



David J. Shenk
Erie County Comptroller

cc: Hon. Mark Poloncarz, Erie County Executive
Members, Erie County Legislature
Erie County Fiscal Stability Authority