



A. JOSEPH DeNUCCI  
AUDITOR

# The Commonwealth of Massachusetts

AUDITOR OF THE COMMONWEALTH

ONE ASHBURTON PLACE, ROOM 1819

BOSTON, MASSACHUSETTS 02108

TEL. (617) 727-6200

NO. 2000-5077-3

INDEPENDENT STATE AUDITOR'S  
STATEWIDE REPORT ON REVENUE  
PROCESSING BY THE  
COMMONWEALTH OF MASSACHUSETTS  
REGISTRY OF DEEDS OFFICES

OFFICIAL AUDIT  
REPORT  
AUGUST 14, 2002

---

## TABLE OF CONTENTS/EXECUTIVE SUMMARY

---

### INTRODUCTION

1

Chapter 36 of the Massachusetts General Laws (MGL) governs the Commonwealth of Massachusetts Registers of Deeds and their functions. The Registers, and the corresponding Registries of Deeds, are responsible for maintaining a permanent public record of all properly drawn legal documents submitted by the public relative to real estate, including deeds, mortgages, surveyor and architect plans, liens, certificates of title, and other records affecting title to property in the Commonwealth's 14 counties. The Registries of Deeds, via their statutory fees, are revenue-producing agencies. The total receipts during calendar year 2000 for the 10 registries audited were in excess of \$179 million. Chapter 151 of the Acts of 1996, Chapter 48 of the Acts of 1997, and Chapter 300 of the Acts of 1998 provide for the abolition of seven of 14 counties and the transfer of their functions to the Commonwealth. Chapter 300 of the Acts of 1998 removes from Suffolk County only the Registry of Deeds and gives the Secretary of State general superintendence over the Suffolk County Registry of Deeds. Eight counties' Registry of Deeds functions were transferred to the Office of the Secretary of State.

The objectives of our audit were to (a) review and analyze the internal control system in place for the receipt, recording, depositing, reporting, and safeguarding of fees; (b) determine the effectiveness of the internal control structure over revenues; (c) ascertain the causes of any system weaknesses; and (d) verify compliance with applicable laws, rules, and regulations. We conducted our review at the Berkshire, Essex, Hampden, Middlesex, Suffolk and Worcester registries, which are under the jurisdiction of the Office of the Secretary of State, as well as the Barnstable, Bristol, Norfolk, and Plymouth registries, which are under the jurisdiction of their respective county governmental authority.

---

### AUDIT RESULTS

4

#### 1. WRITTEN INTERNAL CONTROL POLICIES AND PROCEDURES NEEDED AT CERTAIN REGISTRIES OF DEEDS

4

Our review disclosed that nine of the 10 Registries tested did not have written internal control policies and procedures. The absence of a formalized system of internal controls can result in control lapses because of a lack of monitoring and increases the risk of financial variances and misuse of funds. Chapter 647 of the Acts of 1989 requires that state agencies develop and document an internal control plan that includes internal control procedures, internal control accountability systems, and identification of operating cycles. Even though the registries remaining under county control are not subject to Chapter 647, they can use it as a model for assessing risks and developing internal control plans.

---

**2. IMPROVEMENTS NEEDED IN INTERNAL CONTROLS OVER DAILY CASH TRANSACTIONS** **5**

---

Our review of the internal controls over revenue at registry locations revealed several shortcomings. Four registry locations were unable to reconcile daily deposits to the daily cash register summary of receipts because of check-cashing activities. Employees were allowed to cash personal checks for title researchers and attorneys and so were unable to use the daily cash-register reconciliation that provides cash proof for all transactions recorded and the type of payment (i.e., cash or check). Eight registry locations were unable to deposit daily receipts intact because cash funds were withheld for use at the start of the next day's activity. Five registry locations have multiple employees sharing cash registers, thus precluding an audit trail if an error in receipts were to be identified.

**3. IMPROVEMENTS NEEDED IN INTERNAL CONTROLS OVER PHOTOCOPIER RECEIPTS** **8**

---

We reviewed the registries' internal control procedures over photocopy revenues. Although counters were attached to photocopiers to determine the number of copies made, they were not used to verify the daily activity of the machines and the amount of revenue that should have been received. A further complication is the use of prepaid user cards in various denominations. Coin-operated machines also accept prepaid user cards. Our review indicated that no daily sales log is kept detailing the amount of prepaid user cards sold at any of the registries, with the exception of Dedham, and prepaid cards are not numbered. Therefore, without such internal controls, the registries cannot be assured that all cards have been accounted for and that the portion of the daily deposits associated with prepaid card sales accurately represents the cards sold. We also noted that personnel maintaining records of the copies made for clients were not retaining the original documentation for billings and receipts. Invoices for client billings were discarded; therefore, the registries had no supporting documentation and were unable to ensure that all revenues for billed invoices were collected.

**4. IMPROVEMENTS NEEDED IN INTERNAL CONTROLS OVER RECEIPTS AND BILLINGS FOR ONLINE SERVICES** **10**

---

Registries offer an online computer-access program through which clients have 24-hour access to information regarding deeds, mortgages, liens, etc. via computer terminals at the registries. Our review determined that improvements are needed regarding internal controls and the segregation of duties over online services. The duties of the computer-room employees are not adequately segregated. Specifically, one person at each location performs all of the following functions: reviews the computer-generated client usage report; computes the billing rates; generates and mails invoices; receives payments and applies them to customer accounts; and prepares the receipts for deposit. The person discards the original documentation at

the completion of the process. Primary principles in any internal control structure are adequate segregation of duties, to ensure that checks and balances exist and one individual does not control an entire transaction, in addition to maintaining adequate documentation to support all transactions.	
<b>5. IMPROVEMENT NEEDED FOR THE BONDING OF EMPLOYEES HANDLING \$107.7 MILLION IN REVENUES</b>	<b>12</b>
Of the \$179 million in revenue generated at the 10 registries audited, we determined that six registries, with combined revenues of approximately \$107.7 million, did not have adequate bonding coverage for the employees who daily handle receipts. Our review disclosed that at the six registries no written internal control policy exists regarding surety bonding for those employees who handle cash. Chapter 36, Section 3, of the General Laws requires that all Registers be bonded. By virtue of their positions as public officials, Registers and Assistant Registers are bonded; however, they are minimally involved in cash transactions. Therefore, because employees who actually participate in the processing of receipts and the depositing of cash are not bonded, those six registries are exposed to potential loss, theft, or misuse of funds without subsequent recourse.	
<b>APPENDIX I</b>	<b>14</b>
<b>REVENUES OF AUDITED REGISTRIES OF DEEDS, JANUARY 1 TO DECEMBER 31, 2000</b>	<b>14</b>
<b>APPENDIX II</b>	<b>15</b>
<b>REGISTRY OF DEEDS INTERNAL CONTROL AUDIT RESULTS BY CATEGORY</b>	<b>15</b>
<b>APPENDIX III</b>	<b>16</b>
<b>REGISTRY OF DEEDS REVISED FEE SCHEDULE, AS OF DECEMBER 13, 2000</b>	<b>16</b>
<b>APPENDIX IV</b>	<b>18</b>
<b>REGISTRY OF DEEDS REVENUES, JULY 1, 1999 TO JUNE 30, 2000</b>	<b>18</b>
<b>APPENDIX V</b>	<b>19</b>
<b>CHAPTER 647, ACTS OF 1989, AN ACT RELATIVE TO IMPROVING THE INTERNAL CONTROLS WITHIN STATE AGENCIES</b>	<b>19</b>

---

<b>APPENDIX VI</b>	<b>22</b>
<b>CHAPTER 647 AWARENESS LETTER FROM THE STATE AUDITOR AND THE STATE COMPTROLLER</b>	<b>22</b>

---

## INTRODUCTION

### *Background*

The Commonwealth of Massachusetts Registers of Deeds, governed by Chapter 36 of the Massachusetts General Laws, are responsible for maintaining a permanent public record of all properly drawn legal documents submitted by the public relative to real-estate transactions, including deeds, mortgages, surveyor and architect plans, liens, certificates of title, and other records affecting title to property located in the Commonwealth's 14 counties. Deeds are records of land ownership; according to law, they are recorded in the courthouses of the counties in which the transaction took place. The Register of Deeds is an elected official with a term of six years, and by virtue of the office is also an Assistant Recorder of the Massachusetts Land Court. All deed transactions recorded in the Land Court section of the Registries of Deeds pertain to registered land, the title to which is insured by the Commonwealth.

Chapter 151 of the Acts of 1996, Chapter 48 of the Acts of 1997, and Chapter 300 of the Acts of 1998 provide for the abolition of seven of 14 counties and the transfer of their functions to the Commonwealth. Chapter 300 of the Acts of 1998 removes from Suffolk County only the Registry of Deeds and authorizes the Secretary of State to have general superintendence over the Suffolk County Registry of Deeds. The functions of the seven abolished registries (those in Franklin, Middlesex, Hampden, Worcester, Hampshire, Essex, and Berkshire counties) were also transferred to the Office of the Secretary of State. The Barnstable, Bristol, Dukes, Nantucket, Norfolk, and Plymouth Registries of Deeds remain within the county-government structure.

Some counties have more than one Registry of Deeds location. Accordingly, there are 21 Registry of Deeds offices.

The revenues for the 10 registries that we audited for the calendar year ended December 31, 2000 were more than \$179 million. Of that amount, 84%, or approximately \$152 million, consisted of deeds excise taxes and approximately \$27 million was from fees collected for deed and mortgage recordings, excise tax stamps, copies, and other registry services (see Appendix I).

For the state-controlled registries, revenue received for any type of service is considered income to the Commonwealth, and the funds are forwarded to the Department of Revenue (DOR). In the case of county-controlled registries, 57.5% of income generated through the imposition of the Deed Excise Tax is forwarded to the Commonwealth via DOR, and the county keeps the balance of 42.5%.

With the passage of the Community Preservation Act (Chapter 267, Acts of 2000), communities are allowed to preserve open space, historic sites, and affordable housing through a surcharge added to filing fees at the Registries of Deeds. The following fees are subject to a surcharge effective December 13, 2000: recorded land, registry plans, registry copies, registered land, Uniform Commercial Code instruments, federal tax liens, state tax liens, and remote-access account charges (see Appendix III). All surcharges on these fees collected at the Registries of Deeds are forwarded to the Massachusetts Community Preservation Trust Fund, which is in the custody of the Office of the State Treasurer. Registry offices also offer online computer access to registry records, allowing registered users 24-hour access to the registry data banks (for title searchers, etc.).

For the fiscal year ended June 30, 2000, DOR collected approximately \$154.6 million (see Appendix IV) in gross receipts from state- and county-controlled registries, and for the fiscal year ended June 30, 2001 DOR collected approximately \$165.9 million.

### ***Audit Scope, Objectives, and Methodology***

In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, we conducted a review of Registries of Deeds in the Commonwealth for the 12-month period ended December 31, 2000. We tested six of the eight state-controlled registries (seven locations), and four of the six county-controlled registries (six locations). Our review encompassed 10 Registries of Deeds at 13 locations with revenues of \$179.4 million during the audit period. Our review was conducted in accordance with applicable generally accepted government accounting standards. The audit objectives were to (a) review and analyze the internal control structure in place for the receipt, recording, depositing, reporting, and safeguarding of fees; (b) determine the

effectiveness of the internal control structure over revenues; (c) determine the causes for any system weaknesses; and (d) determine compliance with applicable laws, rules, and regulations.

To accomplish our objectives, we interviewed key registry personnel, reviewed the internal controls over registry revenues and funds management, reviewed month-end and year-end reports and reconciliations, and tested selected deposit data. Except as noted in the Audit Results section of this report for the areas tested, the Registries of Deeds have complied with all applicable laws, rules, and regulations governing their operations, and have an internal control structure in place for the receipt, recording, depositing, reporting and safeguarding of cash receipts.

---

## AUDIT RESULTS

### 1. WRITTEN INTERNAL CONTROL POLICIES AND PROCEDURES NEEDED AT CERTAIN REGISTRIES OF DEEDS

Our audit revealed that nine of the 10 registries tested did not have written internal controls. The state-controlled registries of Berkshire, Essex, Hampden, Middlesex, Suffolk, and Worcester; and the county-controlled registries of Barnstable, Bristol, and Norfolk. The county-controlled Plymouth Registry of Deeds was the only registry in our review that had such a plan.

An internal control plan is essential to any financial operation in that it helps to identify areas of financial and operational risk that should be addressed through financial and operations policies and procedures. Chapter 647 of the Acts of 1989 (see Appendices V and VI), related to improving the internal controls in state agencies, establishes the minimum level of quality acceptable for internal control systems at state agencies. The act establishes standards for internal controls and management's corresponding responsibilities, as follows:

*Internal control systems of the agency are to be clearly documented and readily available for examination. Objectives for each of these standards are to be identified or developed for each agency activity and are to be logical, applicable and complete. Documentation of the agency's internal control systems should include (1) internal control procedures, (2) internal control accountability systems and (3), identification of the operating cycles. Documentation of the agency's internal control systems should appear in management directives, administrative policy, and accounting policies, procedures and manuals.*

The act also requires each agency to maintain "written documentation of its internal accounting and administrative control system" and to "annually, or more often as condition warrant, evaluate the effectiveness of the agency's internal control system and establish and implement changes necessary to ensure the continued integrity of the system." In addition, The Office of the State Comptroller has issued an Internal Control Guide to explain key internal control concepts and provide specific objectives and activities to assist agencies in complying with the requirements of Chapter 647 of the Acts of 1989.

The Registry of Deeds is where the public registers and records deeds, mortgages, and other land records, primarily to protect prospective purchasers by providing a means of verifying

the title status of real property. Recent legislative acts, along with an escalation of property values, have created a substantial increase in Registry revenues. Therefore, it is imperative that each registry have a written internal control plan.

Although the county registries are not controlled by the state and are therefore not subject to Chapter 647, they can use it as a model for assessing risk and developing an internal control plan. When we brought this issue to the attention of state and county Registers, all of them agreed that written internal control procedures are necessary.

***Recommendation***

The state-controlled registries should adhere to the Office of the Comptroller's "Internal Control Guide" as well as Chapter 647 of the Acts of 1989. The county-controlled registries should develop internal control plans consistent with the spirit and guidelines of Chapter 647.

**2. IMPROVEMENTS NEEDED IN INTERNAL CONTROLS OVER DAILY CASH TRANSACTIONS**

Without proper internal controls, registries cannot ensure that funds are properly safeguarded and all revenues are properly recorded and deposited. Our review of the internal controls over revenue received at registry locations revealed several deficiencies related to Chapter 647 of the Acts of 1989, which requires the following:

*All transactions and other significant events are to be promptly recorded, clearly documented and properly classified. Documentation of a transaction or event should include the entire process or life cycle of the transaction or event, including (1) the initiation or authorization of the transaction or event, (2) all aspects of the transaction while in process and (3), the final classification in summary records.*

**a. Reconciliation of Daily Deposits**

Three registries were unable to reconcile daily deposits to the daily cash register summary of receipts because of check-cashing activities. Registry employees at Bristol County's New Bedford and Fall River locations and at the Barnstable and Norfolk registries were allowed to cash personal checks for title researchers and attorneys. Consequently, the registries were

unable to use the daily cash-register summary tape that provides evidence of all recorded transactions and the type of payment made (i.e., cash or check).

During our review of daily deposits at these registries, we noted variances between the recorded cash and checks and the cash register tapes as well as between the recorded cash and checks and the actual amount of cash and checks being deposited—although the total amount was accurate. The discrepancies were the result of the personal checks cashed for registry clients.

When notified of this issue, the Registers agreed that the practice of check cashing was not a sound internal control practice and stated that they would notify registry clients that the practice would be discontinued.

**b. Deposits of Daily Receipts**

Eight registry locations did not deposit daily receipts intact; rather, to have cash on hand for the next day's cash transactions, some funds were withheld. The New Bedford, Fall River, Lawrence, Boston, Salem, Springfield, Pittsfield, and Plymouth registries did not have an established imprest cash fund for the start of the next day's transactions. Instead, funds were withheld from the previous day's deposit. Registries have been using this process for several years, and registry staff members were not able to identify the origin of the cash funds used for the start of the next day's transactions. The Registers at the state-controlled registries were not aware that they could obtain funds through the Commonwealth's Office of the State Comptroller by requesting a cash advance to establish a cash-change fund. At the county-controlled locations, the absence of a change-cash fund has been a continuing practice.

The Registers of the state-controlled registries agreed that daily deposits should be made intact and stated that they would implement a change-fund through an advance from the Commonwealth. The Registers of the county-controlled locations also agreed that deposits should be made intact and stated that they would discuss the establishment of a change-cash fund with their respective County Treasurers.

**c. Segregation of Duties**

The Plymouth, Hampden, and Berkshire registries, and Bristol registry's Fall River and Taunton locations, did not provide adequate segregation of duties for staff dealing with revenue. That is, there is no clear accountability when revenue is received. First, employees at these registry locations have unlimited access to shared computer terminals or cash registers without passwords or identification codes. Second, one employee is responsible for an entire transaction, as follows: As customers present documents to be recorded, the registry employee reviews the documents to ensure that they are complete and accurate; enters each transaction into a computer terminal or cash register, indicating the type of transaction and whether cash or check was received; collects the revenue; provides the customer with a receipt; and places the revenue in a cash drawer. Thus, one person is responsible for the entire transaction.

A detailed report is then printed for each transaction entered into the computer terminal or cash register. At the close of the business day, the lead clerk, who also handles the daily transactions on a shared computer terminal or cash register, removes the cash from the drawer and reconciles the receipts with the transaction tape—again, not an independent reconciliation because of the lack of segregation of duties.

We notified registry employees that as a result of more than one employee's working out of each cash drawer it would be difficult to determine, in the event of a shortage of funds, which employee is responsible for the shortage. Registry employees acknowledged that there is a need for improvement in the way receipts are processed.

The fundamental premise of segregation of duties is that an individual or small group of individuals not be in a position to initiate, approve, record, and review the same transaction. Examples of sound internal control practices, including the segregation of duties, can be found at the Norfolk and Worcester registry locations, where employees assist customers in a similar manner but have a distinct segregation of duties. After reviewing the document to ensure that they are complete and accurate, employees at the Dedham and Worcester locations forward the documents to a data-entry section that enters the documents into the

computer and at the same time forward the cash or check for the transaction to a cashier. The documents are entered into a computer terminal later in the day, and at the close of business cashiers reconcile the cash with the transaction tapes generated by the computer.

***Recommendation***

Registries that have employees sharing a register or cash drawer should consider using one person as a cashier, separate from employees who deal with clients at the counter. In smaller locations, the cashier could also assist in the daily counter functions. Also, registries should implement a system of identification codes for employees when they enter documents and receipts into the system; moreover, the registries should discontinue the practice of cashing personal checks. In addition, Registers of state-controlled registries should turn in all receipts intact to the Commonwealth and request an advance to establish a petty-cash fund.

**3. IMPROVEMENTS NEEDED IN INTERNAL CONTROLS OVER PHOTOCOPIER RECEIPTS**

All of the Registry of Deeds locations provide photocopying services to their clients through revenue-producing photocopiers. Various methods of recording revenues from those machines are employed. In addition to the cash-operated photocopiers, registries have photocopiers that accept prepaid control cards, and the Norfolk County Registry uses coupon books, which are worth \$37.50 each. Users purchase the prepaid cards for varying amounts, depending on the number of copies to be made. The cards are inserted into the copy machine, and the value of the card is reduced each time a copy is made. In addition, at the Worcester and Barnstable county registries, registry personnel make copies for users and periodically bill them (weekly or monthly).

During our review of the registries' internal control procedures over photocopier revenues, we noted the following:

- Copiers have counters attached to them to determine the number of copies made. At the close of the business day, registry personnel open the copy machines, count the money, and prepare a deposit ticket. However, the counters are not used to verify the amount of revenue that should have been received. Specifically, we noted that these counters do not differentiate between cash and prepaid card payments for copies made. Accordingly, there is

no way to determine whether the daily cash revenue is correct. Thus, the counters are an ineffective internal control device for balancing and verifying cash receipts and deposits.

- Prepaid-card values range from \$2 to \$100. When the card value is nearly or fully depleted, the user can purchase additional value levels from a registry employee. In addition, users can increase the value of prepaid cards by inserting money in the cash-operated copy machines. With the exception of Dedham, no registry site kept daily sales logs that detail the amount of prepaid user cards sold; moreover, at all registries tested, none of the prepaid cards are numbered. Therefore, without such internal controls, the registries cannot be assured that all cards sold have been accounted for or that the portion of the daily deposits associated with prepaid card sales accurately represents the cards sold.
- In the case of photocopy billing procedures, we noted that records are not maintained for copies made for clients. Also, the original billing documentation is not retained. In addition, generally one employee is responsible for the billing, collecting, and bank-deposit preparation. After client payments are received, at the end of the day the copy room employee prepares the daily deposit. However, original documents are discarded, and no records are maintained to record the original transaction. Because those documents are the only original information to support billings and revenues received, without any other record of the services rendered and the amount paid, there is no assurance that the daily receipts are accounted for and the correct amount for provided services has been deposited.

***Recommendation***

To establish better control over the use of photocopiers and the revenues they produce, the registries should designate machines to accept either cash or prepaid cards, but not both. An alternative would be to install dual counters (one for cash and one for pre-paid cards), if in consultation with the copy machine manufacturers doing so is determined feasible. This would enable the counters to accurately record the amount of cash that should be in the cash-only machines and could be used to verify the daily deposit. A sales log and prenumbered receipts should also be used to document the amounts received for prepaid control cards and additional payments to replenish card values. This system would allow the verification of sales and reconciliation with the daily deposit. In addition, Registry officials should ensure that all supporting documentation for copy-room billings and revenues are retained, including the original invoices for services rendered and other recorded transactions.

---

**4. IMPROVEMENTS NEEDED IN INTERNAL CONTROLS OVER RECEIPTS AND BILLINGS FOR ONLINE SERVICES**

Registries offer an online computer-access program through which clients may have 24-hour access to information regarding deeds, mortgages, liens, etc. via computer terminals at the registries. This system also allows clients to have copies of documents mailed or faxed to them. Clients wishing to participate in the online services program pay a one-time registration fee ranging from \$25 to \$100 and a usage fee of \$.50 per minute. Charges for copies and faxes are billed at the set fee of each registry. A built-in mechanism denies access to any client account with an outstanding balance of more than 60 days. However, our review determined that improvements are needed regarding the internal controls and segregation of duties over management of online services.

We found that in registries other than in Norfolk and Plymouth, usually one person is responsible for billing, receiving revenues, and adjusting client accounts. No independent review process or checks and balances are in place to ensure against loss or misuse of funds.

We estimate that at the registries that maintain a separate account, these revenues amounted to approximately \$300,000 during the audit period. However, Registers anticipate the online program to grow significantly, with a resultant decrease in photocopier revenue. As more people use this service and revenues increase, the need for cash controls and segregation of duties will become greater.

Internal controls are essential for maintaining full accountability for resources and achieving management objectives in the most effective and efficient manner. A primary principle in any internal control plan is the segregation of duties among a number of individuals to ensure effective checks and balances. In an automated environment, the principle of segregation of duties is critical, because it ensures the separation of different functions (such as data preparation, input, and review) and defines authority and responsibility over transactions.

Our review indicated that the Norfolk and Plymouth registries had adequate controls over their online services. Norfolk County has a service contract with NYNEX that allows users

access to registry records through a dedicated phone line for a one-time registration fee of \$25. NYNEX tracks the online usage and bills the users directly; the registry is not directly involved in issues of billing, collections, or refunds. At the end of the billing cycle, in accordance with its contract, NYNEX retains a percentage of the usage revenues and remits the remainder to the Register of Deeds. The revenue is then transferred to the County Treasurer. At the Plymouth Registry of Deeds, duties are distinctly segregated. The individuals responsible for mailing the bills are not involved with accounts-receivable records, and the individuals maintaining the accounts-receivable records are not involved in revenue collection or the preparation of daily deposits.

However, duties at the other registries were not adequately segregated. Specifically, one person at each location performs all of the following functions: reviewing the computer-generated client usage report; computing the billing rates; generating and mailing invoices; receiving payments and applying them to customer accounts; and preparing the receipts for deposit. At the completion of the process, that person discards the original documentation.

Without proper internal controls, including adequate segregation of duties, the registries cannot be assured that revenues are properly safeguarded, deposits are correct, and accounting data are accurate and reliable.

***Recommendation***

The Registries of Deeds identified as having inadequate internal controls over online service (see Appendix II), especially the larger registries, such as Middlesex, Worcester, Hampden, Barnstable, and Bristol's Taunton location, can resolve the segregation-of-duties issue by having a service contract similar to the one Norfolk County has with NYNEX, or by assigning specific and distinct duties and responsibilities to a number of registry employees, thus ensuring effective checks and balances. For the smaller registries, such as Bristol's Fall River location, Berkshire, and Bristol's New Bedford location, a service contract such as the one in use at the Dedham Registry of Deeds is the most efficient and least intrusive way to implement internal controls for segregation of duties.

---

**5. IMPROVEMENT NEEDED FOR THE BONDING OF EMPLOYEES HANDLING \$107.7 MILLION IN REVENUES**

Of the \$179 million in revenue generated at the 10 registries audited, we determined that six registries, with combined revenues of approximately \$107.7 million, did not have adequate bonding coverage for the employees who daily handle receipts. We also determined that three state-controlled registries (Suffolk, Hampden, and Worcester) have adequate employee bonding, as does the county-controlled Norfolk Registry. Of the six registries that do not have adequate bonding, three are state controlled (Berkshire, Essex, and Middlesex), and three are county controlled (Bristol, Barnstable, and Plymouth). Without fidelity bond or dishonesty insurance, the six registries are not protected against the loss of funds resulting from theft or employee dishonesty.

Our review disclosed that at the six Registry locations in question no written internal control policy exists regarding surety bonding for those employees who handle cash, and the employees who daily handle cash are not bonded against loss or theft. Chapter 36, Section 3, of the MGL's requires all Registers to be bonded. By virtue of their positions as public officials, Registers and Assistant Registers are bonded. However, they are minimally involved in cash transactions. Therefore, because employees who actually participate in the receipt, processing, and depositing of cash are not bonded, the six registries are exposed to potential loss, theft, or misuse of funds without subsequent recourse. Sound business practices advocate that, to guard against employee theft, forgery, or other defalcation, employees who handle cash be bonded. The common practice at Commonwealth agencies is that such employees be bonded under a blanket bond insurance policy. Moreover, the Secretary of State's Office has notified all state-controlled registries that they should purchase surety bonds for employees who handle cash.

***Recommendation***

The Secretary of State's Office should implement written policies and procedures for all state-controlled Registries of Deeds regarding the bonding of employees who handle cash. The Registers of Deeds at the county-controlled locations should implement similar policies and procedures.

***Auditee's Response:***

In response to the issues disclosed in our report, the Office of the Secretary of State, which is responsible for the operations of the Berkshire, Essex, Hampden, Middlesex, Suffolk, and Worcester registries reviewed during our audit, stated, in part:

- 1. We have filed with the State Comptroller's Office our Internal Controls that include the aforementioned Registries under our general superintendancy. This internal control meets with all the guidelines as stipulated under law and with the audit.*
- 2. Our current policy stipulates that all accounts must reconcile daily their cash and check transactions to their register receipts. We will retrain all registry staff to insure that they follow our procedures, particularly those stipulated by your office.*
- 3. We will incorporate more internal controls, especially those stated in your report before we "bid" out our copier service. Further, we will immediately start balancing copier accounts daily.*
- 4. With the ongoing technological improvements in the state registries, all online activity will cease to exist. Further, all online applications will be Web-based, and all monetary activity will be included in our internal controls.*
- 5. All registry employees who handle cash are currently bonded as part of our blanket contract with Quincy Insurance Co.*

**APPENDIX I****Revenues of Audited Registries of Deeds,  
January 1 to December 31, 2000**

	Recording Fees	Land Court Fees	Deeds Excise Tax	Community Preservation Surcharge	Other*	Total
<b>State Controlled</b>						
Berkshire County						
Pittsfield	\$ 522,364	\$ 16,470	\$ 1,198,371	\$ 26,720	\$ 48,971	\$ 1,812,896
Essex County						
Lawrence	543,386	68,299	3,894,481	25,300	90,008	4,621,474
Salem	2,014,983	332,264	13,832,896	88,350	252,024	16,520,517
Hampden County						
Springfield	1,220,766	121,507	4,427,673	58,680	275,530	6,104,156
Middlesex County						
Cambridge	3,523,226	1,022,779	38,980,135	177,920	673,281	44,377,341
Suffolk County						
Boston	1,938,327	436,762	24,306,652	102,830	106,750	26,891,321
Worcester County						
Worcester	2,364,816	63,750	12,361,775	120,080	501,248	15,411,669
<b>County Controlled</b>						
Barnstable County						
Barnstable	1,344,210	1,004,024	13,949,221	91,620	638,233	17,027,308
Bristol County						
Fall River	293,589	20,315	1,129,146	17,590	43,657	1,504,297
New Bedford	486,361	67,096	1,888,453	26,400	58,347	2,526,657
Taunton	883,358	73,344	4,501,512	43,466	214,313	5,715,993
Norfolk County						
Dedham	1,999,341	24,301	20,459,082	108,550	702,833	23,294,107
Plymouth County						
Plymouth	<u>1,774,099</u>	<u>513,169</u>	<u>10,596,231</u>	<u>102,560</u>	<u>603,477</u>	<u>13,589,536</u>
Total	<u>\$18,908,826</u>	<u>\$3,764,080</u>	<u>\$151,525,628</u>	<u>\$990,066</u>	<u>\$4,208,672</u>	<u>\$179,397,272</u>

\* Includes revenue from the following: faxes, online services, postage, photocopies, plans, interest, and tax liens

## APPENDIX II

### Registry of Deeds Internal Control Audit Results by Category

	Inadequate Internal Controls over Cash	No Written Internal Control Procedures	Lack of Segregation of Duties	Inadequate Internal Controls over Online Service	Inadequate Internal Controls over Copy-Room Revenue	No Imprest Fund	Inadequate Bonding of Employees
<b>State Controlled</b>							
Berkshire County							
Pittsfield	x	x	x	x	x	x	x
Essex County							
Lawrence		x			x	x	x
Salem	x	x	x		x	x	x
Hampden County							
Springfield	x	x	x	x	x	x	
Middlesex County							
Cambridge	x	x	x	x	x	x	x
Suffolk County							
Boston	x	x	x		x		
Worcester County							
Worcester	x	x	x	x	x		
<b>County Controlled</b>							
Barnstable County							
Barnstable	x	x	x	x	x	x	x
Bristol County							
Fall River	x	x	x	x		x	x
New Bedford	x	x	x	x		x	x
Taunton	x	x	x	x		x	x
Norfolk County							
Dedham	x	x	x			x	
Plymouth County							
Plymouth	x		x			x	x
Total	12	12	12	8	8	11	9

### APPENDIX III

#### Registry of Deeds Revised Fee Schedule, As of December 13, 2000

Document	Filing Fee	Community Preservation Act Surcharge	Total Fees
Recorded Land			
Deed (4 Pages)	\$25.00	\$20.00	\$45.00
Mortgage (4 Pages)	\$20.00	\$20.00	\$40.00
Foreclosures Deed (4 Pages)	\$35.00	\$20.00	\$55.00
Mortgage Discharge (4 Pages)	\$10.00	\$20.00	\$30.00
Municipal Lien Certificate	\$4.00	\$10.00	\$14.00
Declaration of Homestead	\$10.00	none	\$10.00
All Other Instruments (4 Pages)	\$10.00	\$20.00	\$30.00
All Instruments, Additional Pages over 4 pages	\$1.00	none	\$1.00
Marginal References (Non-Statutory)	\$1.00	none	\$1.00
Registry Plans			
Filing a Plan 9 1/2 x14 or Less	\$10.00	\$20.00	\$30.00
For Each Additional Square Foot or Any Part Thereof	\$3.00	none	\$3.00
Registry copies/Instrument Copies			
Recorded or Registered Copies with or without Attestation (Per Page)	\$0.75	none	\$0.75
Ordering Deed Copies	\$2.00	none	\$2.00
Certified Copies (Not Including Per-Page Fee) Plus Copy Fee	\$10.00	none	\$10.00
Plan Copies			
8 1/2 x 11	\$0.75	none	\$0.75
11 x 17	\$1.00	none	\$1.00
18 x 24	\$2.00	none	\$2.00
24 x 36	\$4.00	none	\$4.00
Full Size	\$4.00	none	\$4.00
Registered Land			
Decree (Original Certificate)	\$50.00	\$20.00	\$70.00

Document	Filing Fee	Community Preservation Act Surcharge	Total Fees
Deed (New Certificate)	\$40.00	\$20.00	\$60.00
Mortgage	\$30.00	\$20.00	\$50.00
Mortgage Discharge	\$30.00	\$20.00	\$50.00
Foreclosure Deed, Affidavit	\$70.00	\$20.00	\$90.00
Order of Court (New Certificate)	\$40.00	\$20.00	\$60.00
Notice of Adverse Claim	\$40.00	\$20.00	\$60.00
Certificate of Change of Address	\$20.00	\$20.00	\$40.00
Municipal Lien Certificate	\$4.00	\$10.00	\$14.00
Declaration of Homestead	\$30.00	none	\$30.00
Notation of a Document on a Separate, Additional Certificate	\$30.00	\$20.00	\$50.00
Sewer Assessment	\$20.00	none	\$20.00
\$3.00 for Each Additional Certificate	\$3.00	none	\$3.00
All Other Instruments	\$30.00	\$20.00	\$50.00
Uniform Commercial Code Instruments (Massachusetts General Laws, Chapter 106)			
Financing Statement	\$10.00	\$20.00	\$30.00
Continuation Statement	\$10.00	\$20.00	\$30.00
Amendment	\$10.00	\$20.00	\$30.00
Assignment of Financing Statement	\$4.00	\$20.00	\$24.00
Termination Statement	\$4.00	\$20.00	\$24.00
Federal Tax Liens and Releases (Massachusetts General Laws, Chapter 36)			
Tax Lien	\$5.00	none	\$5.00
Release	\$5.00	none	\$5.00

Note: As a result of the passage of Chapter 267, Acts of 2000 (Community Preservation Act), and Sections 38 and 39 of Chapter 262 of the Massachusetts General Laws, fees in this Appendix are subject to surcharge under Section 8 of Chapter 44B of the General Laws and came into effect on December 13, 2000.

**APPENDIX IV****Registry of Deeds Revenues, July 1, 1999 to June 30, 2000**

	Receipts
<b>State Controlled</b>	
Berkshire County	
Pittsfield*	\$ 1,216,337
Adams	445,539
Great Barrington	456,693
Essex County	
Lawrence*	3,749,521
Salem*	12,839,326
Franklin County	
Greenfield	1,718,914
Hampden County	
Springfield*	4,683,442
Hampshire County	
Northampton	1,669,804
Middlesex County	
Lowell	6,284,698
Cambridge*	38,663,634
Suffolk County	
Boston*	20,051,038
Worcester County	
Worcester*	11,951,149
Fitchburg	1,161,691
<b>County Controlled</b>	
Barnstable County	
Barnstable*	8,257,888
Bristol County	
Fall River*	1,078,827
New Bedford*	1,939,890
Taunton*	5,007,590
Dukes County	
Edgartown	1,996,911
Nantucket County	
Nantucket	2,591,077
Norfolk County	
Dedham*	18,912,238
Plymouth County	
Plymouth*	9,970,975
	<u>\$154,647,182</u>

\*Registry locations audited

## APPENDIX V

## Chapter 647, Acts of 1989, An Act Relative to Improving the Internal Controls within State Agencies

H 5

Chapter 647

THE COMMONWEALTH OF MASSACHUSETTS

*In the Year One Thousand Nine Hundred and Eighty-nine*

AN ACT RELATIVE TO IMPROVING THE INTERNAL CONTROLS WITHIN STATE AGENCIES.

*Be it enacted by the Senate and House of Representatives in General Court assembled, and by the authority of the same, as follows:*

Notwithstanding any general or special law to the contrary, the following internal control standards shall define the minimum level of quality acceptable for internal control systems in operation throughout the various state agencies and departments and shall constitute the criteria against which such internal control systems will be evaluated. Internal control systems for the various state agencies and departments of the commonwealth shall be developed in accordance with internal control guidelines established by the office of the comptroller.

(A) Internal control systems of the agency are to be clearly documented and readily available for examination. Objectives for each of these standards are to be identified or developed for each agency activity and are to be logical, applicable and complete. Documentation of the agency's internal control systems should include (1) internal control procedures, (2) internal control accountability systems and (3), identification of the operating cycles. Documentation of the agency's internal control systems should appear in management directives, administrative policy, and accounting policies, procedures and manuals.

(B) All transactions and other significant events are to be promptly recorded, clearly documented and properly classified. Documentation of a transaction or event should include the entire process or life cycle of the transaction or event, including (1) the initiation or authorization of the transaction or event, (2) all aspects of the transaction while in process and (3), the final classification in summary records.

(C) Transactions and other significant events are to be authorized and executed only by persons acting within the scope of their authority. Authorizations should be clearly communicated to managers and employees and should

**Chapter 647, Acts of 1989, An Act Relative to Improving the Internal Controls within State Agencies**

H 5

include the specific conditions and terms under which authorizations are to be made.

(D) Key duties and responsibilities including (1) authorizing, approving, and recording transactions, (2) issuing and receiving assets, (3) making payments and (4), reviewing or auditing transactions, should be assigned systematically to a number of individuals to ensure that effective checks and balances exist.

(E) Qualified and continuous supervision is to be provided to ensure that internal control objectives are achieved. The duties of the supervisor in carrying out this responsibility shall include (1) clearly communicating the duties, responsibilities and accountabilities assigned to each staff member, (2) systematically reviewing each member's work to the extent necessary and (3), approving work at critical points to ensure that work flows as intended.

(F) Access to resources and records is to be limited to authorized individuals as determined by the agency head. Restrictions on access to resources will depend upon the vulnerability of the resource and the perceived risk of loss, both of which shall be periodically assessed. The agency head shall be responsible for maintaining accountability for the custody and use of resources and shall assign qualified individuals for that purpose. Periodic comparison shall be made between the resources and the recorded accountability of the resources to reduce the risk of unauthorized use or loss and protect against waste and wrongful acts. The vulnerability and value of the agency resources shall determine the frequency of this comparison.

Within each agency there shall be an official, equivalent in title or rank to an assistant or deputy to the department head, whose responsibility, in addition to his regularly assigned duties, shall be to ensure that the agency has written documentation of its internal accounting and administrative control system on file. Said official shall, annually, or more often as conditions warrant, evaluate the effectiveness of the agency's internal control system and establish and implement changes necessary to ensure the continued integrity of the system. Said official shall in the performance of his duties ensure that: (1) the documentation of all internal control systems is readily available for examination by the comptroller, the secretary of administration and finance and the state auditor, (2) the results of audits and recommendations to improve departmental internal controls are promptly evaluated by the agency management, (3) timely and appropriate corrective actions are effected

Chapter 647, Acts of 1989, An Act Relative to Improving the Internal Controls within State Agencies

H 5

by the agency management in response to an audit and (4), all actions determined by the agency management as necessary to correct or otherwise resolve matters will be addressed by the agency in their budgetary request to the general court.

All unaccounted for variances, losses, shortages or thefts of funds or property shall be immediately reported to the state auditor's office, who shall review the matter to determine the amount involved which shall be reported to appropriate management and law enforcement officials. Said auditor shall also determine the internal control weaknesses that contributed to or caused the condition. Said auditor shall then make recommendations to the agency official overseeing the internal control system and other appropriate management officials. The recommendations of said auditor shall address the correction of the conditions found and the necessary internal control policies and procedures that must be modified. The agency oversight official and the appropriate management officials shall immediately implement policies and procedures necessary to prevent a recurrence of the problems identified.

House of Representatives, December 21, 1989.

Passed to be enacted, *George Luvaan*, Speaker.

In Senate, December 22, 1989.

Passed to be enacted, *William W. Budge*, President.

January 3, 1990.

Approved, *Richard H. Kiah* Governor.

---

## APPENDIX VI

### Chapter 647 Awareness Letter from the State Auditor and the State Comptroller



## The Commonwealth of Massachusetts

Office of the State Auditor  
State House  
Boston, MA 02133

Office of the Comptroller  
One Ashburton Place  
Boston, MA 02108

September 19, 2000

Legislative Leadership  
Judicial Branch Administrators  
Elected Officials  
Secretariats  
Department Heads

The State Auditor and the Comptroller are both committed to departmental improvements in the Internal Control structure of the Commonwealth. A good system of controls, as you know, assists management in meeting objectives while avoiding serious problems. Chapter 647 of the Acts of 1989, *An Act Relative To Improving Internal Controls Within State Agencies*, establishes acceptable Internal Control systems for state government operations and constitutes the criteria against which we will evaluate internal controls. With the passage of this law, we began a campaign to educate all department staff on the significant role of internal controls in department operations.

In the past few years, departments have made significant progress in the area of internal controls. Every department has certified that they have documented internal controls in the form of an Internal Control Plan. In Fiscal Year 2001, we are focusing our Internal Control Campaign on the review of department risk assessments, as documented within the departments' internal control plans. Internal control plans must, of course, include all aspects of a department's business, programmatic operations as well as financial.

A major requirement of Chapter 647 is that "an official, equivalent in title or rank to an assistant or deputy to the department head, shall be responsible for the evaluation of the effectiveness of the department's internal controls and establish and implement changes necessary to ensure the continued integrity of the system". This official, whom we refer to as the Internal Control Officer, is responsible for ensuring that the plan is evaluated annually or more often as conditions warrant.

During this annual Statewide Single Audit, we continue with our review of the Commonwealth's internal controls. We analyze and evaluate information obtained during the audit process in our continuing effort to educate agencies regarding both the need for internal controls and the risks of not having adequate internal controls in place.

## Chapter 647 Awareness Letter from the State Auditor and the State Comptroller

To assist departments with this effort, we provide the following support activities:

- ◆ The Office of the Comptroller offers departments free monthly training on internal controls. These classes are listed in the *OSC Training Bulletin*.
- ◆ The Office of the Comptroller provided a new document entitled the *Internal Control Guide for Managers* on the Office of the Comptroller's Web page: <http://www.osc.state.ma.us/>. Part II of the guide will be available shortly and will replace the current *Internal Control Guide for Departments*, currently available on the Web.
- ◆ Upon request, the Office of the Comptroller provides assistance to departments in the process of redefining or reviewing their internal control plans.
- ◆ As part of the Statewide Single Audit, auditors will review and comment upon departments' internal control plans, risk assessments, and the reporting level of the Internal Control Officers.
- ◆ We have updated and automated the Internal Control Questionnaire (ICQ) for easier submission. These changes to the ICQ will enable OSA and OSC to evaluate department internal controls and monitor their progress.

Chapter 647 also requires that "all unaccounted for variances, losses, shortages, or thefts of funds or property be immediately reported to the Office of the State Auditor" (OSA). The OSA is required to determine the amount involved and the internal control weaknesses that contributed to or caused the condition, make recommendations for corrective action, and make referrals to appropriate law enforcement officials. In order to comply with this law instances must be reported on the *Report on Unaccounted for Variances, Losses, Shortages, or Thefts of Funds or Property* and be submitted to the OSA. Reporting forms can be obtained by contacting the Auditor's office, Room 1819, McCormack State Office Building, or Web Site:

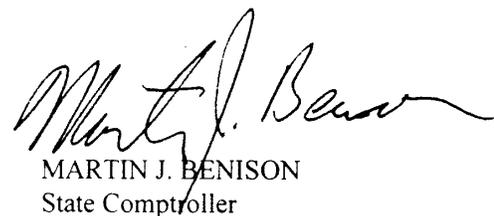
<http://www.magnet.state.ma.us/sao/>.

In conjunction with the above requirement, please note that management is responsible for financial records and systems and must inform, disclose and make representations to the auditors with regards to their management of funds, account activities, programs and systems.

The Offices of the State Comptroller and the State Auditor are committed to the goal of improving the Internal Control structure of the Commonwealth. Thank you for your cooperation and attention on this worthwhile task. Please do not hesitate to call upon the staff of either office for assistance.



A. JOSEPH D. NUCCI  
Auditor of the Commonwealth



MARTIN J. BENISON  
State Comptroller