



Internal Audit Report

LCCC Tax Deed Sales



Report Number: 2019.13
Date: December 2, 2019



LCCC Tax Deed Sales



To: The Honorable Linda Doggett, Lee County Clerk of the Circuit Court & Comptroller

From: Tim Parks, Chief Internal Audit Officer/Inspector General

Date: December 2, 2019

Re: LCCC Tax Deed Sales Audit

Dear Ms. Doggett,

The Inspector General Department has completed an audit of LCCC Tax Deed Sales. Lihong Xia, CPA, Senior Internal Auditor/Project Coordinator conducted this review.

This audit activity conforms to the Institute of Internal Auditor's (IIA) *International Standards for the Professional Practice of Internal Auditing (Red Book)* and the Association of Inspectors General (AIG) *Principles and Standards for Offices of Inspector General (Green Book)*.

The audit client's response is attached to this report. We wish to express our appreciation for the cooperation and assistance provided us by management and staff during this review.

This report will be posted to the Clerk of Courts website, www.leeclerk.org, under Inspector General Audit Reports. A link to this report has been sent to the appropriate parties.

Should you have any questions, please do not hesitate to contact me.

Sincerely,

A handwritten signature in blue ink that reads "Tim Parks".

Tim Parks, CIA, CIG, CIGI
Chief Internal Audit Officer/Inspector General
Inspector General Department

TJP/GK



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Executive Summary

The audit of the Lee County Clerk of Court (LCCC) Tax Deed Sales was included in the 2019 LCCC Annual Audit Plan. A risk assessment project was completed for all LCCC business units prior to creating the audit plan.

A meeting was held with management to discuss the audit objective and scope and to solicit information regarding risks.

The objective of the LCCC Tax Deed Sales audit was to evaluate risk exposures relating to tax deeds sales, and determine the adequacy of the internal control structure of the Courts Department.

Our conclusion is that the Courts Department has met its overall objectives in timely and accurately processing tax deed sales. Recommendations were offered to management to add value and enhance the Department's functions.

We believe that enhancements can be made in terms of:

- Improving internal controls on change access management
- Timely updating the standard operating procedures for tax deed sales team
- Completing and implementing a department wide document retention policy and retention schedule covering tax deed sales
- Improving the handling process for large cash receipts
- Working with LCCC Department of Innovation and Technology (DoIT) on best process for software function development or improvement
- Enhancing communications with the LCCC DoIT Department
- Working with Finance Department on transaction back up document details

Background

The LCCC Courts Department is responsible for timely and accurately processing Lee County tax deed sales, including:

- Setting up tax deed sales
- Conducting auctions online
- Receiving and depositing winner bids or redemption payments
- Distributing the tax deeds sale and surplus funds to appropriate parties according to the laws and regulations



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- Reconciling transactions between the financial system Enterprise One (E1), the LCCC bank statement, and the tax deed sales operating software

The Courts Department's Customer Service, Court Intake, and Court Fiscal teams are responsible for the work process.

The Courts Department uses a web-based software provided by RealAuction.com, which hosts three websites: lee.RealTDM.com for internal tax deed sales team workflow processing, lee.realtaxdeed.com for public accessing, and lee.realforeclose.com for online auction bidding and foreclosure processing. The DoIT manages the contract with RealAuction.com. The Courts Department Process Improvement Analyst is the contact with the vendor on user function development and improvement, as well as user access verifications and changes.

Objective, Scope, and Methodology

The objective of the LCCC Tax Deeds Sale audit was to evaluate risk exposures relating to tax deeds sales, and determine the adequacy of the internal control structure of the Courts Department.

The audit scope focused on the Department's operational activities including:

- Test internal controls for access to and protection of confidential electronic records
- Identify any financial issues/concerns pertaining to the business unit under review
- Review change access management
- Review record retention policies and procedures
- Review the Real Auction contract
- Review Real Auction systems user access
- Review the tax deed sales payment process
- Test the tax deed sales reconciliation (Real Auction systems interface with financial system E1)
- Review the surplus handling process

The audit methodology was comprised of four steps:

- Preliminary Risk Assessment: A meeting was held with management to discuss the audit objective and scope and to solicit information regarding risks
- Planning: Audit procedures were developed based upon research, audit objective, scope, and the preliminary meeting
- Field Work: Managers and employees were interviewed for insights on the operations. Evaluations and tests were conducted on operations and procedures to address and complete the audit fieldwork



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- Wrap-up: An Exit Conference was held with management to discuss the audit results

Observations and Recommendations

Change Access Management:

- *Lack of written policies and procedures*

The Courts Department did not have formal written policies and procedures on change access management. Courts Department relies on DoIT to handle the termination of user access upon resignation/termination/retirement. According to DoIT, they do not handle external software access changes; the user department is responsible for access management.

Recommendation

We recommend that the Courts Department complete a written SOP on change access management, clarifying the authority and responsibilities to ensure sufficient controls.

- *Real Auction software user access report verification*

The vendor provides a user list for verification approximately once a year. We noted that the last time the vendor sent a user access report to the Courts Department for verification was on February 5, 2019. Without timely reporting and verification, users that are terminated between the annual report periods may not be timely identified and deactivated.

We noted that the Courts Department managers were not involved in signing off the verification. The users on the report are not limited to Courts Department. The user list includes employees in several LCCC departments; Finance, Records, and DoIT, plus vendor users.

Recommendation

We recommend that the Courts Department:

- Require more frequent periodic user reports from the vendor; for example on a quarterly basis
- Have the vendor generate a separate user report for each LCCC user department
- Have each Courts Department manager sign off the user verification for their own employees
- *Terminated LCCC employee access not being disabled from vendor system timely and completely*



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Courts Department received a user access report from Real TDM on January 22, 2019, and a user access report from Real Auction sale sites on February 5, 2019. The auditor requested and received a separate report from the vendor for both sites user access on August 16, 2019.

We noted from the January 22, 2019 Real TDM user access report that out of 43 active LCCC users, two former employees were terminated as of the report date, but their access was not disabled. Per the vendor, they received the disabling request from the Courts Department to disable one of these employees from the Real Auction sale sites and completed it as of November 7, 2016. They did not receive the disabling request for that employee's access to the Real TDM site. The other employee's access was not disabled because of an unintentional omission due to the vendor's report query issue.

We tested 21 LCCC users from the February 5, 2019 Real Auction sale sites user access report and noted that eight former employees were still on the list:

- Three former employees were terminated as of the report date, but their access was not disabled. These employees did not log into the site after termination.
- Five former employees did log into the sites after their employment was terminated. Of the five:
 - Four had their access disabled
 - One access was not disabled

We did further testing based upon the August 16, 2019 Real TDM and Real Auction sale sites user access reports and noted that:

- The two former employees with access to the Real TDM site as of the January 22, 2019 report still had access.
- The four former employees in Real Auction sale sites as of the February 5, 2019 report still had access.

The vendor indicated that they did not receive verification feedback or correction instructions regarding the user list sent on February 5, 2019.

Recommendation

We recommend that the Courts Department:

- Ensure the two terminated employees that still have access to Real TDM and the four employees that have access to Real Auction sale sites all have their access terminated immediately



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- Ensure that terminated employees have their access disabled from all Real Auction systems (including all three websites) in the change access management SOP
 - Specify the required timeline (for example, two business days) for disabling a terminated user in the change access management SOP
 - Have management sign off on reviewing the user list and sending timely feedback to the vendor regarding any actions to be taken after receiving the user access report
 - Request the vendor to send back an updated user list after a disabling request is completed
- ***Terminated LCCC employee access not being disabled timely from internal network folders, including confidential information folder***

We noted that four terminated LCCC employees' access were not disabled to an internal folder for tax deed sales that contained confidential information. Untimely removing of former employees from the users list is a potential risk for unauthorized access to confidential or exempt information when employees terminate, change departments, or change roles within LCCC.

Recommendation

We recommend that Courts Department create and implement a change access management policy, to include working with DoIT and Court Operation Support for timely removal of inactive users from accessing internal network folders containing confidential information.

- ***Periodic user password change is not required***

The Real Auction system does not require periodic user password changes. We requested a user password change report from the vendor. As of the reporting date of August 16, 2019, out of the 49 active tested users:

- Thirty-one users had no record of changing password since being added as a user
- Sixteen users changed their passwords over 90 days ago
- Two users changed their passwords within 90 days

IT best practice suggests maximum password age of 90 days.

Recommendation

We recommend that the Courts Department work with DoIT and the vendor to implement a built-in control in the system to require user password change at least every 90 days.



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- *Vendor employees' user set up*

Four former Real Auction employees (current access disabled) were set up using their personal email addresses for accessing the systems. By using personal email addresses instead of company email addresses, there are security risks that confidential information may be sent to those personal email accounts.

Recommendation

We recommend that the Courts Department and DoIT work with Real Auction to:

- Ensure that current and future users are set up using only Real Auction Company's secured email addresses.
- Receive periodic vendor users' verification information for the Courts Department and DoIT to review.

Real Auction software function development

We noted that Courts Department users wish to add or improve some functions to the Real Auction software, including the following.

Court Intake:

- Surplus processing with detailed procedures
- Setting up document retention period following GS11
- Enforcing periodic users password change as a security control

Court Customer Service:

- Visual differentiation between sales website and foreclosure website log in page and receipts generated
- More detailed filter functions for transaction search

Courts Department currently has a Process Improvement Analyst working directly with the vendor on improvement. However, DoIT policies and procedures expect the user department to submit MITS tickets in order to work with the vendor on software development.

Recommendation

We recommend that the Courts Department management:



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- Determine user desired software functions and their priorities and expected completion timelines
- Work with DoIT on the best process to address the desired changes

Lack of written SOP for Court Intake Tax Deed Sales team

We noted that Court Intake Tax Deeds sales and surplus teams have their internal procedures and are training the staff on the procedures. The Court Intake Process Improvement Analyst has updated the written policies and procedures for tax deed surplus process during the audit. However, there is lack of written procedures for tax deed sales team process, because the system is still upgrading and expanding.

Recommendation

We recommend that the Court Intake Unit completes a written SOP for tax deed sales and updates the SOP timely on a continuous basis as the system function upgrades or expands.

Lack of Department wide policy and retention schedule related to tax deed sales

The Courts Department lacks a department wide policy and retention schedule related to tax deed sales.

Recommendation

We recommend that the Department create, implement, and maintain a department wide document retention policy and schedule that covers tax deed sales.

Large amount of cash receipts and manual counting at the customer service counter

The customer service staff periodically counts large amounts of cash. We tested the August 2019 tax deed sales and redemption cash receipt transactions. During 16 out of 22 days (or 73 percent of working days in August), there were cash payments at the counter. During five days (or 38% of total working days in August 2019), cash receipts were between \$5K and \$10K each day; and seven days (or 32% of total working days in August), cash receipts were over \$10K each day. There was no quality cash-counting machine at the customer service area, so the two cashiers had to manually count the cash. This process is very time consuming, potentially subject to errors, and may impede other customer services. The large amount of cash stored in the cashier's drawer also adds security risk.



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Recommendation

We recommend that the Courts Department:

- Purchase a quality cash counting machine for the customer service area
- Install security cameras at the customer service area

Transaction back up details for Finance Department

During the transaction reconciliations, the Court Fiscal team takes considerable time to manually search for backup details for each batch of transactions from the Real Auction website. The transactions journal entry accounts are automatically set up by the E1 and Real Action interface, and the transaction details are all inside the Real Auction website. It is unclear if Finance Department or E1 users need all the operational details related to each batch of transactions as backups.

Court Fiscal team will have to request the vendor to improve the filter types of transaction search functionality of the software based on Finance Department's needs for multiple criteria of the transactions.

Recommendation

We recommend that the Court Fiscal team work with Finance Department Cash Management and Investment (CMI) to decide on the appropriate level of details for batch transaction backups. If the backup requirements cannot be changed, work with DoIT and the vendor to develop a filter function in the software to meet the information searching needs.

Communications with DoIT

We noted that there were some clarification of communications between the Courts Department as a user department and DoIT as the centralized control of technology procurement:

- Software customized functions development: Court Intake was working with RealAuction.com on improving the functions of the software. According to DoIT policy, the user department must work with DoIT by submitting a MITS ticket with specifications of expectations
- Per DoIT, Courts Department expressed dissatisfaction with the software but did not respond to the follow up from DoIT
- Understanding of contracts terms and renewal process: The Courts Department had expectations of understanding the contract terms so that they could better work with



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the vendor; while DoIT does not expect much involvement of the specifics from the user department until after the contract is signed and the project gets to the implementation phase. The contract was about "what" but not "how"

- Courts Department expressed concern that they do not know about the contract term and do not have access to the contract, but according to DoIT, the user department can request a copy of contract from the DoIT contract manager

Recommendation

We recommend that DoIT and Courts Department enhance two way communications to better address questions and concerns timely. This will ensure end user expectations are clearly stated, understood, and agreed upon by all involved parties (DoIT, Courts, and vendors) prior to executing contract(s).

COURT'S AUDIT RESPONSE

TO: TIM PARKS, CHIEF INTERNAL AUDIT/INSPECTOR GENERAL
FROM: KEVIN KARNES, CHIEF OFFICER OF COURTS
SUBJECT: LCCC TAX DEED SALES AUDIT
DATE: NOVEMBER 20, 2019
CC: KATIE FOX, COURT INTAKE MANAGER
SANDRA ORTEGA, COURT FISCAL MANAGER

Mr. Parks,

The Courts Department thanks you for allowing us the opportunity to review the recommendations made regarding the tax deed sales audit and for providing potential solutions to ensure our practices and procedures are compliant with the applicable expectations. Below is the detailed response prepared by Court Manager Katie Fox and Court Manager Sandra Ortega of the recommendations made by the Inspector General's office, along with a proposed compliance date.

- We recommend that the Courts Department complete a written SOP on change access management, clarifying the authority and responsibilities to ensure sufficient controls.
 - Courts Response: Courts acknowledges there is a lack of documentation that supports change access management. The Courts Policy Administrator will create a policy detailing change access to RealTDM and RealAuction.
 - Compliance Date: March 2020

- We recommend that the Courts Department:
 - Require more frequent periodic user reports from the vendor; for example on a quarterly basis
 - Have the vendor generate a separate user report for each LCCC user department
 - Have each Courts Department manager sign off the user verification for their own employees

 - Courts Response: Courts will request from the vendor a user report for LCCC employees and to receive this on a quarterly basis. Ops Support will start handling account access and verification for RealTDM and RealAuction, this will be in lieu of each Court manager signing off on a user verification for their own employees
 - Compliance Date: Dependent on the vendor

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- We recommend that the Courts Department:
 - Ensure the two terminated employees that still have access to Real TDM and the four employees that have access to Real Auction sale sites all have their access terminated immediately
 - Ensure that terminated employees have their access disabled from all Real Auction systems (including all three websites) in the change access management SOP
 - Specify the required timeline (for example, two business days) for disabling a terminated user in the change access management SOP
 - Have management sign off on reviewing the user list and sending timely feedback to the vendor regarding any actions to be taken after receiving the user access report
 - Request the vendor to send back an updated user list after a disabling request is completed
 - Courts Response: Ops Support will be handling the account access, verification, and disabling accounts when employees are terminated or move to a different department. The Courts Policy Administrator will create a policy for access management.
 - Compliance Date: March 2020

- We recommend that Courts Department create and implement a change access management policy, to include working with DoIT and Court Operation Support for timely removal of inactive users from accessing internal network folders containing confidential information.
 - Courts Response: Courts will advise DOIT Leadership of the recommendation. DoIT handles access to internal network folders
 - Compliance Date: See prior response.

- We recommend that the Courts Department work with DoIT and the vendor to implement a built-in control in the system to require user password change at least every 90 days.
 - Courts Response: Courts will request an enhancement from the vendor for RealTDM and RealAuction websites.
 - Compliance Date: Dependent on the vendor

- We recommend that the Courts Department and DoIT work with Real Auction to:
 - Ensure that current and future users are set up using only Real Auction Company's secured email addresses.
 - Receive periodic vendor users' verification information for the Courts Department and DoIT to review.
 - Courts Response: Courts will request from the vendor to have their employees change their email address to company secured email addresses for all existing and new employees. Courts will advise DoIT leadership of periodic verification information for the vendor employees.
 - Compliance Date: Dependent on vendor

- We recommend that the Courts Department management:
 - Determine user desired software functions and their priorities and expected completion timelines
 - Work with DoIT on the best process to address the desired changes
 - Courts Response: Courts will have a Tax Deed Reset meeting to discuss priorities and communication going forward.
 - Compliance Date: March 2020
- We recommend that the Court Intake Unit completes a written SOP for tax deed sales and updates the SOP timely on a continuous basis as the system function upgrades or expands.
 - Courts Response: Court Intake is in the process of creating written documentation for the tax deed sale process for RealTDM.
 - Compliance Date: July 2020
- We recommend that the Department create, implement, and maintain a department wide document retention policy and schedule that covers tax deed sales.
 - Courts Response: The Courts Policy Administrator will create a department wide retention policy for Tax Deeds and it will be maintained by the administrator along with all other Court Policies
 - Compliance Date: March 2020
- We recommend that the Courts Department:
 - Purchase a quality cash counting machine for the customer service area
 - Install security cameras at the customer service area
 - Courts Response: The Customer Service area has two counting machines, a third will be added and moved near the Tax Deed clerks. Customer Service area has cameras in the lobby area, they are pointing to the customer service clerks and should meet the recommendations requested.
 - Compliance Date: January 2020
- We recommend that the Court Fiscal team work with Finance Department Cash Management and Investment (CMI) to decide on the appropriate level of details for batch transaction backups. If the backup requirements cannot be changed, work with DoIT and the vendor to develop a filter function in the software to meet the information searching needs.
 - Courts Response: Court Fiscal will meet with the CMI team and review current details provided, determine how to modify the supporting documentation to eliminate unnecessary or duplicative information.
 - Court Fiscal will review the filter function within TDM with DoIT and to determine if vendor can enhance the system functionality.
 - Compliance Date: February 2020

- We recommend that DoIT and Courts Department enhance two way communications to better address questions and concerns timely. This will ensure end user expectations are clearly stated, understood, and agreed upon by all involved parties (DoIT, Courts, and vendors) prior to executing contract(s).
 - Courts Response: Courts and DoIT Management has monthly meetings. This will be added to the monthly agenda for discussion and ensuring everyone is on the same page.
 - Compliance Date: January 2020

Thank you,

Kevin Karnes
Chief Officer of Courts
Lee County Clerk of Courts
239.533.255