

The case of the careless county recorder

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ABSTRACT

The county recorder's office is responsible for recording real estate transactions, vital records, and licenses and registrations for boats, snowmobiles, and other nonessential vehicles. People whose livelihoods are affected by real estate transactions, particularly bank officials and realtors, had long been aware that something was amiss in the recorder's office. To most county residents—and to the county board of supervisors—the first indication of a problem in the county recorder's office was the conspicuous absence of real estate transactions reported for the week in the newspaper. This article illustrates the importance of the fraud triangle and is intended to serve as a lesson in its application: A commitment to the reduction of fraud can improve organizational effectiveness and efficiency as well as renew public trust.

Keywords: real estate transactions, fraud triangle, fraud reduction, public trust, organizational effectiveness

BACKGROUND

This case involves a real-life incident that occurred in a rural county with a population of approximately 8,000 people. The name of the state has been omitted and the name of the county changed in the interest in privacy.

Half of the residents of Maple County live in the county seat, Maple City; the other half live in rural areas. Maple City is a 1-hour drive from a major metropolitan area and Maple County attracts visitors and prospective new homeowners who enjoy the many outdoor activities available: boating, snowmobiling, hunting, and fishing, among others. City dwellers often purchase second homes in Maple County for vacations, off-season rentals, or their future retirement.

The Maple County Recorder's Office maintains a two-person staff: the recorder, an elected official, and an appointed deputy. The recorder of Maple County, a wealthy, well-known divorcee and long-time county resident, was serving her first term. Her deputy was far more seasoned. Problems arose in the Recorder's Office when the deputy took an extended emergency medical leave, making the recorder solely responsible for performing all the duties of the office.

Duties of the Recorder's Office

In this state, the County Recorder's Office in each county is responsible for recording and maintaining official records involving real estate transactions. Every real estate transaction occurring in the county begins and ends in the Maple County Recorder's Office. Deeds, contracts, mortgages, assignments, releases, federal and state tax liens, affidavits, and many other documents administered and recorded by the staff of the Recorder's Office. Other duties of the office include:

- maintaining and issuing vital records, such as marriage licenses and birth and death records;
- issuing and recording licenses and registrations for boats, snowmobiles, and ATV, reporting titles issued or transferred, liens placed or vacated, and taxes placed and paid on licensed vehicles;
- providing passport application instructions, filing completed passport applications, and collecting passport application fees;
- collecting real estate transfer taxes on conveyances of real property;
- performing federal and state tax lien searches;
- collecting and reporting auditor's fees on transfers of real property; and
- placing weekly announcements of Recorder's Office transactions in the local paper.

Duties of the County Board of Supervisors

The Maple County Board of Supervisors is a group of elected officials who have oversight responsibilities for all county offices. Members of the board had been receiving complaints on a daily basis about the lack of responsiveness in the Recorder's Office. The absence of real estate transactions reported in the local paper for a few weeks piqued the concern of members of the Board. In an executive meeting, the Board made a bold move of agreeing to commission an outside certified public accounting (CPA) firm to conduct a special audit.

Background of the Special Auditor

Many county residents knew the county recorder personally; she was, after all, a long-time resident of the community, active in its civic organizations. She was keen on community service and was a likeable individual. Most folks in Maple County who knew her or knew of her presumed she had significant financial means as a result of her divorce. No one wanted to believe there was fraudulent activity on anyone's part, but something was clearly wrong in the Recorder's Office. The warning signs of fraud were present:

- failure to record sales (pocketing cash is a major form of fraudulent activity);
- transactions not recorded in a complete or timely manner; and
- large amounts of cash on hand or processed (which may increase the susceptibility of assets to misappropriation).

Given the undeniable presence of these indicators, fraud was suspected.

SAS 99 and the Fraud Triangle

Statement on Auditing Standards No. 99 (SAS 99) defines fraud "as an intentional act that results in a material misstatement in financial statements that are the subject of an audit" (American Institute of Certified Public Accountants [AICPA], 2002, p. 165). SAS 99 recognizes that misstatements of financial statements can result from fraudulent financial reporting as well as from the misappropriation of assets, such as through theft.

One often-used framework used by SAS 99 to investigate fraud is the fraud triangle. The *fraud triangle* details three conditions that are generally present when fraud occurs: incentives/pressure, opportunity, and rationalization. Although there were no obvious financial pressures for the Maple County Recorder to commit fraud, the fraud indicators were present. The presence of only one person in the Recorder's Office was a textbook example of inadequate internal controls, which increased the opportunity to commit fraud. Rationalization might be the cause if the Recorder had been emotionally disturbed. With mixed feelings, the Maple County Board of Supervisors gave permission for the CPA firm to conduct a SAS 99 audit to determine which, if any, of the components of the fraud triangle was at work in the Maple County Recorder's Office.

Findings of the Special Audit

After completing the special audit, the CPA firm presented a report to the Maple County Board of Supervisors. The major findings identified several flaws:

- The overall performance of the County Recorder's Office was substandard.
- There was an asset shortage of \$187 for the year.
- Bank deposits were not made on a timely basis.
- Some deposits included personal checks from the Recorder for which no corresponding fee book entry could be located.

All in all, the CPA firm found no definitive evidence of intentional wrongdoing. The auditor noted a suspicion that the Recorder was cashing personal checks for lunch money, a clear indicator that opportunities for fraud existed. There was a strong possibility that future fraud

would occur if the issues identified by the audit were not eliminated or at least reduced to the extent possible.

The CPA firm made the following recommendations to improve performance of the Maple County Recorder's Office:

- Require timely (ideally, same-day) deposits of cash.
- Use prenumbered receipts to facilitate identification of the time period in which the transaction occurred.
- Place a limit of \$30,000 on the checking account at the bank.
- Institute a policy banning the cashing of personal checks or of making change for any reason.
- Prohibit other county employees from filling in at the Recorder's Office unless those employees are bonded, and develop an alternative staffing plan to accommodate medical emergencies or vacation schedules so that the Recorder's Office is always staffed by two employees.
- Develop a frequently asked questions flier to provide answers to patrons, thereby freeing up the Recorder and deputy from answering routine questions and presumably affording them ample time to tend to other matters of the office.
- Develop a mission statement with clearly stated goals and require the Recorder and deputy to adhere to it.

MISSION STATEMENT

A mission statement is a document that formally identifies the purpose, intent, and commitment of an organization or, in this case, an office to carry out its duties. The mission statement should be prepared and issued by the group charged with oversight, which provides the office with the authority to carry out the intended function.

The importance of a mission statement cannot be overstated. It provides a frame of reference to staff and demonstrates confidence of the county in services provided by the office. The message communicated by the mission statement is predicated on those working within the Maple County Recorder's Office to have intentions aligned with those of the overseeing body—the Maple County Board of Supervisors. Without that buy-in, the mission statement is only words.

Following is an example of a mission statement the Maple County Board of Supervisors might want to present to the County Recorder for her acceptance, should they choose to allow her to continue working in the Recorder's Office:

The Maple County Recorder's Office will provide public records storage and retrieval services to county citizens in accordance with state law. We will strive to be responsible to the needs of the public by providing reliable service at a reasonable cost during convenient hours. The goals of the Recorder's Office are to:

- promptly record all instruments in accordance with statutory requirements;
- provide efficient retrieval and reproduction of recorded documents;
- offer assorted licensing in accordance with state law;
- track the flow of revenue through the office in a clear and thorough manner;
- endeavor to improve processes to meet the ever-increasing demand for services; and
- protect and preserve all public records.

SUMMARY AND LESSONS LEARNED

While many in Maple County feared fraud, CPAs determined no fraudulent activity had occurred. Instead, the situation presented an opportunity to implement sound management practices such as enhanced internal control and a mission statement with clearly stated goals to improve the effectiveness and efficiency of the Recorder's Office. These changes should go a long way in restoring the public trust in the Maple County Recorder's Office.

REFERENCES

American Institute of Certified Public Accountants (AICPA). (2002). *Consideration of fraud in a financial statement audit: Statement on Auditing Standards No. 99 (SAS 99)*. New York, NY: Author. Retrieved from <http://www.aicpa.org/Research/Standards/AuditAttest/DownloadableDocuments/AU-00316.pdf>

