



PAT FRANK
Clerk of the Circuit Court
13th Judicial Circuit

COUNTY AUDIT

HILLSBOROUGH COUNTY, FLORIDA

REAL AUCTION APPLICATION CONTROLS REVIEW

REPORT # 308

SEPTEMBER 9, 2016



September 9, 2016

Dear Pat Frank, Clerk of the Circuit Court:

The Audit Team performed an audit of the Real Auction Application Controls (Audit Report # 308, dated September 9, 2016). Responses to the Audit Team's recommendations were received from the Directors of Circuit Civil, CCC Accounting and Court Technology Support, as applicable, and have been included in the Report after each audit comment and recommendation.

The purpose of this Report is to furnish management independent, objective analysis, recommendations, counsel, and information concerning the activities reviewed. It is not an appraisal or rating of management.

Although the Audit Team exercised due professional care in the performance of this audit, this should not be construed to mean that unreported noncompliance or irregularities do not exist. The deterrence of fraud and/or employee abuse is the responsibility of management. Audit procedures alone, even when carried out with professional care, do not guarantee that fraud or abuse will be detected.

The Audit Team appreciates the cooperation and professional courtesies extended to the auditors by the Director and personnel of Circuit Civil, CCC Accounting and Court Technology Support during this audit.

Sincerely,

Steve Hooper, CIA, CGAP, CCSA, CFE
Director of County Audit

CC: Dan Klein, Chief of Staff
Rick VanArsdall, Chief Deputy, Finance
Doug Bakke, Chief Deputy, Courts
Idania Alfonso, Senior Director, Court Systems Support
Kathleen Rocamora, Senior Director, Civil Courts
Penny Harding, Director, CCC Accounting

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EXECUTIVE SUMMARY

BACKGROUND INFORMATION

The Clerk of the Circuit Court's (Clerk) Circuit Civil Department is responsible for conducting foreclosure sales in accordance with Chapter 45 of the Florida Statutes. Auctions are held on properties offered for sale to the highest bidder. A property's sale date is established by judicial order. Anyone may bid on the properties and must register as a bidder prior to the sale.

On October 1, 2012, the Clerk began using the internet based electronic bid processing system, Real Auction, to maintain bidder accounts and process foreclosure sales. The website provides information for each sale item, including the parcel ID, legal description, and the opening bid amount. Auctions are held Monday through Friday beginning at 10:00am and running sequentially until all of the day's sales are completed.

A prospective bidder is required to have funds on deposit prior to entering a bid in a foreclosure sale. The amount of funds on deposit determines the maximum amount a bidder may enter for a sale. Funds on deposit must be sufficient to cover at least 5% of the total bid entered. Winning bidders are required to make final payment including all applicable charges and fees before the Circuit Civil Department will issue the Certificate of Sale.

Bidders can request a refund of any unused monies in their account at any time through the Real Auction system. Refunds are processed by the CCC Accounting Department.

OBJECTIVES

The objective of the audit was to determine the adequacy of application and general system controls for the receipt and collection of foreclosure revenue and fees via the Real Auction system. Specifically, the Audit Team determined whether or not:

- Relevant and adequate controls and requirements were established in the Real Auction agreement.
- IT general controls were in place and operating effectively for the Real Auction system and associated processes.
- Logical access controls were adequate, effective and working as designed for the Real Auction system.
- Application controls were adequate, effective and implemented in the Real Auction system.
- Adequate controls were in place surrounding the Real Auction deposit refund process.

SCOPE

The audit was conducted in accordance with the *Generally Accepted Government Auditing Standards* and the *International Standards for the Professional Practice of Internal Auditing*. These Standards require that County Audit plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the audit comments and conclusions based on the audit objectives. County Audit believes that the evidence obtained provides this reasonable basis.

The audit period covered foreclosure transactions from January 1, 2016 through April 30, 2016.

OVERALL EVALUATION

The managers and staff of Circuit Civil, Court Technology Support and CCC Accounting were responsive to the Audit Team's inquiries and provided the information requested in a timely and courteous manner. The vendor, Real Auction, also complied with the Audit Team's information requests. The Audit Team encountered knowledgeable and dedicated employees throughout the course of the audit.

AUDIT COMMENT	CONCLUSION OF OBJECTIVE	PAGE
1	Opportunities exist to strengthen the controls identified in the real auction agreement.	4
2	The Real Auction system appeared to have adequate IT general controls in place but opportunities exist to enhance controls within the associated processes.	6
3	An opportunity exists to enhance the monitoring controls related to Real Auction user access.	8
4	The Real Auction system appears to have adequate application controls in place.	10
5	Opportunities exist to enhance controls within the refund process.	11

OPINION

The overall control environment relative to the Real Auction system and the associated foreclosure sale processes is at a formal (defined) maturity level. The application and general controls, as defined and documented for the Real Auction system, provide a reasonable level of assurance for system integrity and availability. Testing results indicate a reasonable level of assurance that transactions are being properly processed, fees appropriately collected and that system interfaces are working as intended.

Addressing the opportunities identified in this Report could enhance the control environment relative to the associated processes of contract monitoring, user access provisioning, change management, and refund processing.

The exit conference was held on August 15, 2016.

Other minor concerns not included in this Report were communicated to management and/or corrected during fieldwork.

AUDITED BY

Steve Hooper, CIA, CGAP, CCSA, CFE, Director of County Audit
Heidi Pinner, CIA, CFE, CISA, CRMA, General & IT Audit Manager
Raul Cardona, CIA, CISA, CAMS, Senior Internal Auditor
Richelle Anderson, Internal Auditor II

AUDIT COMMENTS & RECOMMENDATIONS

AUDIT COMMENT 1

Opportunities exist to strengthen the controls identified in the real auction agreement.

The objective was to determine whether or not relevant and adequate controls and requirements were established in the Real Auction agreement.

The Clerk entered into an agreement with Real Auction on March 8, 2012. Under this agreement, Real Auction provides the Clerk with online foreclosure and tax deed property auction sales. The Circuit Civil Department uses the Real Auction system in conjunction with the Clerk's court case management system (Odyssey), to accept, process and record foreclosure and tax deed sale information.

The Audit Team reviewed the Real Auction agreement as well as all subsequent amendments and determined that the agreement:

- Was current and had an official copy properly maintained.
- Contained reasonable detail of the service to be provided and the expected levels of service.
- Established the fees and payment schedule for services granted by the provider on a monthly basis.
- Included information related to the data retention requirements for foreclosure transactions data.
- Did not contain a "right to audit" clause.
- Included a requirement for 90% system availability, which is not currently monitored by the Clerk's office.

Although the Real Auction staff was ultimately responsive to the information requests made by the Audit Team, more detailed and timely information would have been desirable and could have been requested had a "right to audit" clause been enforceable.

RECOMMENDATION

1. Management should consider adding a "right to audit" clause into the Real Auction agreement. This would ensure that management has the ability to request information and perform reviews of the vendor's system of controls. Right to audit clauses can also encourage the provider to improve their own security programs.

2. Management should consider monitoring the Real Auction website availability/downtime to ensure that the 90% availability requirement is being met as stated in the contract.

CLIENT RESPONSE: *Concur*

CORRECTIVE ACTION PLAN

1. *Court Operations will request that the Legal Department include a right to audit clause to the contract at the next contract renewal review. Contract renewal is set for March 2017*
2. *IT/Court Operations will work with Real Auction to develop a proactive method in determining compliance with the 90% availability requirement.*

TARGET COMPLETION DATE: *January 1, 2017*

AUDIT COMMENT 2

The Real Auction system appeared to have adequate IT general controls in place but opportunities exist to enhance controls within the associated processes.

The objective was to determine whether or not IT General Controls were in place and operating effectively for the Real Auction system and associated processes.

The Audit Team identified the IT General Controls applicable to the Real Auction system and reviewed them for appropriateness by performing the following steps:

- Reviewed the Real Auction policies related to data backup, data recovery, application failure, and change management procedures.
- Reviewed the Clerk's current policies and procedures related to bidders (users) transactions and account management, change management and cash receipt processes.

Based on the observation, document review and interviews with the Clerk's management and staff, it appears that:

- Real Auction has a formal procedure for data recovery in the event of an emergency or natural disaster.
- Data redundancy techniques are established to support system availability.
- Real Auction change management protocols are comparable with industry standards.
- A five year data retention policy has been adopted by Real Auction for all transaction and user data.
- Procedures have not been developed to address how the foreclosure sale process will continue in the event of an extended Real Auction application failure.
- The Clerk may not be notified of or review all Real Auction system or site updates/changes prior to implementation.

RECOMMENDATION

Management should consider:

1. Defining a policy and procedure to address how the foreclosure sale process will continue in the event of an extended Real Auction application failure.
2. Requesting that all Real Auction system changes be provided to the Clerk and reviewed by the applicable business process owners prior to implementation.

CLIENT RESPONSE: *Concur*

CORRECTIVE ACTION PLAN

- 1. A collaborative contingency plan for system failures and disaster recovery mechanisms will be developed and implemented.*
- 2. In unison with other Florida Real Auction users, ensure Real Auction is communicating all changes to business process owners prior to implementation.*

TARGET COMPLETION DATE: *January 1, 2017*

AUDIT COMMENT 3**An opportunity exists to enhance the monitoring controls related to Real Auction user access.**

The objective was to determine if logical access controls are adequate and effective for the Real Auction system and to verify if these controls are working as designed.

Employee users obtain access to the Real Auction system by creating a basic user/bidder account via the Real Auction website. The Circuit Civil manager provides a written request with the employee information to Real Auction. Real Auction Administrators provide the requested access to the employee users.

To determine the logical access controls in place and the appropriateness of current employee user access, the Audit Team:

- Reviewed a list of 24 Clerk employees with active employee user accounts and their respective assigned roles and permissions in Real Auction.
- Compared the users' Real Auction roles to their Clerk job function/duties.
- Provided the list of users to the Circuit Civil manager for confirmation.
- Reviewed the Real Auction password and access control policy.
- Verified that password settings/requirements were enforced for the Real Auction system.

The Audit Team determined that 20 of the 24 (83%) active users had the appropriate access. Per management, the remaining four user accounts should have been disabled.

There is currently no periodic user access review performed for Real Auction employee users and no procedure has been established.

RECOMMENDATION

Management should consider establishing a formal periodic employee user access review to ensure that Real Auction users 'roles and responsibilities' have been properly assigned based on the minimum necessary access for employee users to perform their job duties. Doing so will help to ensure adequate segregation of duties and appropriate de-provisioning of user access is occurring.

CLIENT RESPONSE: *Concur*

CORRECTIVE ACTION PLAN

Director/manager of Foreclosures will perform periodic reviews of user access and remove users who no longer require access.

TARGET COMPLETION DATE: *Immediately*

AUDIT COMMENT 4**The Real Auction system appears to have adequate application controls in place.**

The objective was to determine whether or not application controls are adequate and effective in the Real Auction system.

Application controls are controls over the input, processing and output functions of a system.

To ensure the interface of foreclosure transactions is being properly and accurately performed between Odyssey, Real Auction and Oracle systems, the Audit Team performed testing on a sample of foreclosure transactions. There were a total of 1,229 transactions during the scope period. Fifty (50) transactions were selected for review. The Audit Team determined that:

- All of the foreclosure transactions tested reflected accurate information from Odyssey, Real Auction and Oracle.
- Each transaction originated from a recognized source and had a unique identifier, abiding through system interfaces and could be traced back to original documents.
- Transactions were timely authorized and successfully completed.
- Transactions had essential data elements such as transaction date, time, cross-referenced numbers, bidder/user ID, bid history, and deposit and bid amounts.
- Electronic copies were used when possible and were securely stored.
- Steps had been taken to ensure that sensitive data (user personal information, bank accounts, routing numbers, and bidder history) is properly maintained and encrypted.
- Foreclosure fees recorded were properly calculated, matched the amounts recorded in Odyssey and Oracle systems and could be traced to original documents.
- Controls were in place to detect any interface failures.
- Checks were in place to prevent possible duplicate input records.
- System totals were reconciled on a daily basis.
- Transactions were paid in full and verified prior to issuing notice of sale to a winning bidder.

RECOMMENDATION

The Audit Team did not identify any material concerns that require management's corrective actions.

AUDIT COMMENT 5**An opportunity exists to enhance the controls within the refund process.**

The objective was to determine whether or not adequate controls were in place surrounding the Real Auction deposit refund process.

All bidders must have on deposit at least 5% of the bid amount in order to enter a bid on an auction. The Clerk collects and maintains all the monies on deposit. The Real Auction site hosts the transaction details for the bidder accounts. A bidder can request a refund from their account at any time through Real Auction. The CCC Accounting Department then processes these refund payments.

The Audit Team conducted interviews, obtained information and documented the refund process performed by the Clerk Accounting Department between the Odyssey, Real Auction and Oracle systems.

The Audit Team also identified all refund transactions completed. There were 278 refunded transactions during the audit scope period from January 1, 2016 through April 30, 2016. The Audit Team selected a sample of 25 transactions to ensure that the transaction:

- Was properly reviewed and authorized prior to issuance.
- Was processed accurately and timely based on deposit date and type.
- Had appropriate supporting documentation maintained.
- Had an audit trail from the initial refund request in Real Auction to the end of the process where transactions were recorded in Oracle.

All of the refunds tested were properly authorized, processed accurately and timely, had supporting documentation and could be traced through each system and step in the refund process.

When a refund is requested by a Real Auction user, the user has the ability to designate the name and address to which the refund is issued. According to management, this system feature is necessary to accommodate corporate users or legal departments who may represent several parties. This feature increases the risk that the system could be utilized to process illicit payments and should be monitored accordingly.

RECOMMENDATION 1

Management should consider establishing guidelines and training for cashiers related to high dollar transactions or suspicious transaction activity. (The Bank Secrecy Act and associated Anti-Money Laundering regulations could be potential resources for this information and training.)

CLIENT RESPONSE: *Concur*

CORRECTIVE ACTION PLAN

In collaboration with Accounting department, provide training to cashiers on how to handle high dollar transactions or suspicious transaction activity

TARGET COMPLETION DATE: *Immediately*

RECOMMENDATION 2

Management should consider establishing an initial refund screening and monitoring process to provide a higher level of assurance that the original transaction and the refund request has come from a legitimate source.

CLIENT RESPONSE: *Concur*

CORRECTIVE ACTION PLAN

Accounting has requested for Real Auction to only allow refunds to be sent to the account name and address. Until such system changes are made, Accounting will perform internal checks when requests are made to redirect refunds to addresses and names not processed within the security of the Real Auction system.

TARGET COMPLETION DATE: *Immediately*