

OFFICE OF AUDITS & ADVISORY SERVICES



ASSESSOR/RECORDER/COUNTY CLERK COMPLIANCE AUDIT

FINAL REPORT

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County of San Diego

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JUAN R. PEREZ
CHIEF OF AUDITS

April 15, 2014

TO: Ernest J. Dronenburg, Jr., Assessor/Recorder/County Clerk
Assessor/Recorder/County Clerk

FROM: Juan R. Perez
Chief of Audits

FINAL REPORT: ASSESSOR/RECORDER/COUNTY CLERK COMPLIANCE AUDIT

Enclosed is our report on the Assessor/Recorder/County Clerk Compliance Audit. We have reviewed your response to our recommendations and have attached them to the audit report.

The actions taken and/or planned, in general, are responsive to the recommendations in the report. As required under Board of Supervisors Policy B-44, we respectfully request that you provide quarterly status reports on the implementation progress of the recommendations. The Office of Audits & Advisory Services will contact you or your designee near the end of each quarter to request your response.

Also attached is an example of the quarterly report that is required until all actions have been implemented. To obtain an electronic copy of this template, please contact Tatiana Foster at (858) 495-5667.

If you have any questions, please contact me at (858) 495-5661.

JUAN R. PEREZ
Chief of Audits

AUD:TF:aps

Enclosure

c: Tracy M. Sandoval, Deputy Chief Administrative Officer/Auditor and Controller
Brian M. Hagerty, Group Finance Director, Finance and General Government Group

INTRODUCTION

Audit Objective

The Office of Audits & Advisory Services (OAAS) completed an audit of the Assessor/Recorder/County Clerk (ARCC). The objective of the audit was to determine whether adequate controls exist to ensure that collection, distribution, and use of fees is in compliance with applicable laws, regulations, and County policies.

Background

The ARCC provides certain services to the public and processes related transactions in accordance to California laws and regulations. The ARCC consists of three offices: Assessor, Recorder, and County Clerk.

The Assessor locates, identifies and establishes values for all vacant land, improved real estate, business property and certain mobile homes, boats and aircraft. In addition, the Assessor maintains records on all taxable properties within the boundaries of the County of San Diego, including maintaining maps of all real property parcels.

The Recorder examines, records, indexes and archives legal instruments submitted for recordation or filing. Also, the Recorder is responsible for making all official records in their custody available to the public and provides certified copies of vital records, including birth, death and marriage certificates.

The County Clerk issues marriage licenses, performs civil marriage ceremonies, processes fictitious business name filings, and provides for the qualification and registration of notaries, process servers and miscellaneous statutory oaths and other filings.

The ARCC charges specific fees authorized by law for services provided to the public. Collected fees are distributed to various ARCC funds, other County departments, and State agencies. ARCC uses the SDR Prod Application (SDR Prod) to account for collection and distribution of fees. The majority of the California laws authorizing these fees are included in the Government Code, Health and Safety Code, Business and Professional Code, and Welfare and Institutions Code.

The average daily collections and the average daily transactions processed by the ARCC during FY 2012-13 are presented in Table 1.

Table 1. ARCC Daily Collections

Description	Assessor	Recorder	County Clerk	Total
Average daily collections	\$460	\$290,000	\$37,000	\$327,460
Average daily transactions	30	2,600	240	2,870

Audit Scope & Limitations

The scope of the audit focused on evaluating whether key controls are in place and operating effectively to maintain compliance with applicable policies and regulations. OAAS evaluated data from FY 2012-13 to present.

This audit was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing prescribed by the Institute of Internal Auditors as required by California Government Code, Section 1236.

Methodology

OAAS performed the audit using the following methods:

- Reviewed laws, regulations, and policies related to the collection, distribution, and use of ARCC fees.
- Interviewed ARCC staff regarding applicable laws, regulations, and policies.
- Evaluated ARCC controls over cash and mail handling procedures.
- On a sample basis, conducted specific audit procedures, such as document inspection, recalculation, and data analysis related to the use and distribution of fees.
- Performed detailed analysis of SDR Prod user accounts and user access rights.

AUDIT RESULTS

Summary

Within the scope of the audit, there is reasonable assurance that ARCC has generally established adequate controls to ensure that collection, distribution, and use of fees is in compliance with applicable laws, regulations, and County policies. To further strengthen current controls and improve their effectiveness, OAAS has the following findings and related recommendations.

Finding I:**Insufficient Internal Controls Over Checks Received by Mail**

Audit work identified control weaknesses related to the accountability and safeguarding of checks received through the mail. As a result, there is an increased risk that checks could be lost, misappropriated, or misplaced without prevention and detection.

ARCC estimates that 30-40% of transactions processed by the Recorder and County Clerk are received through mail requests. These documents, including payments received, go through multiple sorting and distribution procedures performed by various employees prior to recording transactions and depositing checks in the bank.

Specific control weaknesses noted during the audit are presented below.

Accountability Over Checks Received – ARCC is unable to account for checks received by mail and ensure that all requested transactions and related checks were processed. According to ARCC management, the current system is not capable of generating a list of checks received and performing reconciliation with transactions processed. Management also indicated that it would not be cost effective to manually track and reconcile checks received by mail.

A strong system of internal controls requires that all checks received through the mail are properly accounted for upon receipt and reconciled to deposits made. This process ensures completeness and integrity of transactions.

ARCC management confirmed that they are in the process of implementing a new system for services provided by the Recorder and the County Clerk. The system will allow scanning of customer requests and checks upon receipt. As a result, the new system will account for all checks received through mail and reconcile to transactions recorded.¹

Safeguarding Controls Over Checks Received – OAAS found that safeguarding controls over mail pending distribution need improvement. More specifically, documents and checks awaiting for the next person in the distribution process, including boxes delivered to the branch offices, are left unattended in open areas.

An adequate internal control system over cash and checks requires proper safeguarding of these assets at all times. This requirement is further supported by the ARCC Cash Handling Policies and Procedures.

Dual Custody When Opening Mail – Audit work noted that during certain days of the week, mail is opened by one individual. According to ARCC management, due to the low level of incoming mail during those days, only one employee is assigned to this task.

Proper separation of duties requires dual custody when handling cash or checks to reduce the opportunity for misappropriation.

Check Endorsement – ARCC does not endorse all checks upon receipt. Checks of \$3,000 and above are endorsed prior to bank deposit which occurs within two to four business days of receipt. ARCC indicated that this practice was a management decision made many years ago.

¹ The new system for the Recorder is planned to be implemented by the end of 2014. The implementation date of the new system for the County Clerk will be determined once the recording system is implemented.

Inadequate check endorsement increases the risk for a lost or stolen check to be cashed by unauthorized individuals.

The County Administrative Code Section 76 requires that all negotiable paper accepted be endorsed promptly with a restrictive endorsement stamp.

Recommendation: To increase accountability and safeguarding of checks received through the mail, ARCC should:

1. Continue with the implementation of the new system to ensure all checks received through mail are accounted for and reconciled.
2. Ensure that customer requests along with checks received are properly supervised at all times. If this is not feasible, ensure that mail pending distribution is locked in a secured area.
3. Ensure that mail is open under dual custody at all times.
4. Endorse all checks upon receipt to prevent them from being negotiated by unauthorized individuals.

Finding II:

Inconsistent Internal Controls Over Cash Collections

OAAS identified certain issues related to the cash collection process which result in a loss of individual accountability over cash collections. Specifically, at the Assessor's office, multiple employees are assigned to a single cash drawer. In addition, audit testing identified four instances at the County Clerk's office where cash collections were not counted at the end of the employee's shift.

According to ARCC management, the number of cash drawers at the Assessor's office is limited. Therefore, assigning employees to a single cash drawer could negatively impact customer service. Management also indicated that occasionally, employees do not perform required closing procedures between shifts to avoid lengthy customer waiting periods.

Adequate internal controls over cash collections require individual accountability over cash drawers. Further, ARCC's Cash Handling Policies and Procedures require each employee to count and balance assigned cash drawers at the end of their shift.

Recommendation: To maintain proper accountability and custody of cash collections, ARCC should:

1. Assign a cash drawer to a single employee. If a cash drawer must be shared, establish additional controls to ensure individual accountability over cash collections.
2. Enhance supervisory oversight to ensure current cash handling policies and procedures are followed.

Finding III: Incorrect Distribution of Collected Fees

OAAS tested a sample of 15 fees charged by the ARCC to determine whether the collected amount and the distribution of funds are in compliance with current legislation and County policies.

Audit work found that the distribution funds for two fees are incorrectly set up in SDR Prod. More specifically, the Penalty Print Fee is set up to be distributed to the ARCC Modernization Trust Fund instead of the ARCC General Fund. Also, a portion of the Preliminary 20-day Filing and Notice Fee is set up to be distributed to the ARCC Modernization and Micrographics Trust Funds instead of the ARCC General Fund.

While the fiscal impact of this error is immaterial, inaccurate distribution of fees results in non-compliance with applicable laws and regulations.²

According to ARCC management, the distribution of fees was set up in SDR Prod many years ago. Current management relied on the accuracy of the previous fee set up; therefore, no review of the distribution funds had been conducted.

Recommendation: In order to maintain compliance with current legislation and County policies, ARCC should:

1. Correct the funds established in SDR Prod for the distribution of the Penalty Print Fee and the Preliminary 20-day Filing and Notice Fee.
2. Develop a plan to perform a comprehensive review of all fees and distribution funds to ensure compliance with current legislation. Going forward, develop a process to perform such review on a periodic basis.

Finding IV: Improper SDR Prod User Access

OAAS noted that many individuals have access to SDR Prod that should have been removed. Also, some individuals have access to screens that should be restricted based on their role. As a result, ARCC is more susceptible to unauthorized access and improper transactions.

Of the 312 user accounts tested, the following issues with user access were identified during the audit:

- 41 individuals, including 2 SDR Prod support employees (non-County employees), have access that should have been removed because they were either terminated, retired, or have transferred to a position that does not require SDR Prod access. Some of these accounts were established in 2009.

² According to ARCC management, the total Penalty Print Fee collected is difficult to estimate since collection of this fee is combined with the Additional Names Fee. During FY 2012-13 the total collections of the Penalty Print Fee and the Additional Names Fee amounted to \$9,151. From the total amount collected in FY 2012-13 for Preliminary 20-day Filing and Notice Fee, \$390 was incorrectly distributed to the Modernization Trust Fund and the Micrographics Trust Fund.

- 9 individuals have either duplicate user accounts or additional accounts that were no longer used and should be deleted from SDR Prod.
- 69 generic accounts that are no longer used by ARCC have not been deleted. Originally, these accounts were set up for emergency situations, training, and temporary access to new employees.
- 8 active generic accounts were established for unique business requirements. However, some of these accounts are used for general day-to-day operations.
- 2 individuals have been assigned to incorrect roles which resulted in incompatible access in SDR Prod.
- 2 roles have access to screens that cause segregation of duties issues.
- 44 individuals are able to modify user's access within their specific groups.

The County of San Diego Administrative Manual, Item No. 0400-03, Computer Accounts - Management and Use, states the following:

“Users shall be given access to County information systems based on least privileges required to perform their job functions and all County information systems access must be promptly terminated at the time that a user ceases to provide services to the County.”

“Generic accounts are established on an exception basis for unique business requirements. Generic accounts must have a business justification and prior written approval from the Information Technology System Owner or designee to be created. A generic account shall have an assigned County employee owner who is responsible for managing the use, delegation rights and password.”

In addition, ability to modify user's account should be assigned to a limited number of employees.

ARCC has not established a process to periodically review and update system user access.

Recommendation: To strengthen controls for SDR Prod user access, ARCC should:

1. Delete unnecessary user accounts and correct user access for issues noted in the report.
2. Develop and implement a comprehensive process to periodically review user roles and associated access to ensure user access is

consistent with the user's job responsibilities. Also, ensure that users' access is evaluated for potential segregation of duties issues.

3. Develop and implement a process to terminate user accounts as soon as these accounts are no longer needed. Further, develop a process to ensure that user accounts are reviewed at least quarterly for terminated and transferred employees.
4. Ensure that generic accounts are established on an exception basis for unique business requirements. Further, ensure that passwords are changed after the user no longer needs the generic account.

Office of Audits & Advisory Services

C ompliance R eliability E ffectiveness A ccountability T ransparency E fficiency

VALUE

DEPARTMENT'S RESPONSE



COUNTY OF SAN DIEGO

ERNEST J. DRONENBURG, JR.
ASSESSOR/RECORDER/COUNTY CLERK

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April 9, 2014

RECEIVED

TO: Juan R. Perez
Chief of Audits

APR 14 2014

FROM: Ernest J. Dronenburg, Jr.,
Assessor/Recorder/County Clerk

OFFICE OF AUDITS &
ADVISORY SERVICES

DEPARTMENT RESPONSE TO AUDIT RECOMMENDATIONS:
ASSESSOR/RECORDER/COUNTY CLERK COMPLIANCE AUDIT

Finding I: Insufficient Internal Controls Over Checks Received by Mail

OAAS Recommendation: To increase accountability and safeguarding of checks received through the mail, ARCC should:

1. Continue with the implementation of the new system to ensure all checks received through mail are accounted for and reconciled.
2. Ensure that customer requests along with checks received are properly supervised at all times. If this is not feasible, ensure that mail pending distribution is locked in a secured area.
3. Ensure that mail is open under dual custody at all times.
4. Endorse all checks upon receipt to prevent them from being negotiated by unauthorized individuals.

Action Plan: The Assessor/Recorder/County Clerk (ARCC) agrees with the audit recommendations and is taking the following steps to insure compliance in this area.

1. The ARCC is continuing with the implementation of the new system to ensure all checks received through the mail are accounted for and reconciled.
2. The Recorder/County Clerk has implemented this recommendation.
3. The Recorder/County Clerk has implemented dual custody for mail opening.
4. The Recorder/County Clerk has begun the process of ordering deposit stamps and will implement the recommendation once they have been received.

Planned Completion Date: Date to be determined for Action 1 and May 15, 2014 for Action 4.

Contact Information for Implementation: Val Wood, Chief Deputy Recorder/County Clerk

Finding II: Inconsistent Internal Controls Over Cash Collections

OAAS Recommendation: To maintain proper accountability and custody of cash collections, ARCC should:

1. Assign a cash drawer to a single employee. If a cash drawer must be shared, establish additional controls to ensure individual accountability over cash collections.
2. Enhance supervisory oversight to ensure current cash handling policies and procedures are followed.

Action Plan: The Assessor/Recorder/County Clerk agrees with the audit recommendations and is taking the following steps to insure compliance in this area.

1. The ARCC will continue to implement the new system and will review the cash collection for the customer service areas during the implementation process.
2. The Recorder/County Clerk completed a review of the login security requirements with staff and a cash handling training is in development.

Planned Completion Date:

1. Date to be determined for Action 1.
2. The cash handling training of staff and supervisors will be rolled out in phases. Basic training will be completed by April 30, 2014 and full training for all staff and supervisors by September 30, 2014.

Contact Information for Implementation:

1. Staci Stefano, Assistant Division Chief, Assessor/Recorder/County Clerk
2. Val Wood, Chief Deputy Recorder/County Clerk

Finding III: Incorrect Distribution of Collected Fees

OAAS Recommendation: In order to maintain compliance with current legislation and County policies, ARCC should:

1. Correct the funds established in SDR Prod for the distribution of the Penalty Print Fee and the Preliminary 20-day Filing and Notice Fee.
2. Develop a plan to perform a comprehensive review of all fees and distribution funds to ensure compliance with current legislation. Going forward, develop a process to perform such review on a periodic basis.

Action Plan: The Assessor/Recorder/County Clerk agrees with the audit recommendations and is taking the following steps to insure compliance in this area.

1. The ARCC implemented this recommendation in January 2014.
2. The ARCC is developing a process to perform a review of all fees on a regular basis.

Planned Completion Date: Annually, by March 31st of each year.

Contact Information for Implementation: Val Wood, Chief Deputy Recorder/County Clerk

Finding IV: Improper SDR Prod User Access

OAAS Recommendation: To strengthen controls for SDR Prod user access, ARCC should:

1. Delete unnecessary user accounts and correct user access for issues noted in the report.
2. Develop and implement a comprehensive process to periodically review user roles and associated access to ensure user access is consistent with the user's job responsibilities. Also, ensure that users' access is evaluated for potential segregation of duties issues.
3. Develop and implement a process to terminate user accounts as soon as these accounts are no longer needed. Further, develop a process to ensure that user accounts are reviewed at least quarterly for terminated and transferred employees.
4. Ensure that generic accounts are established on an exception basis for unique business requirements. Further, ensure that passwords are changed after the user no longer needs the generic account.

Action Plan: The Assessor/Recorder/County Clerk agrees with the audit recommendations and is taking the following steps to insure compliance in this area.

1. All SDR Prod accounts have been reviewed and corrected. Inactive and unused accounts in SDR Prod have been deleted.
2. A new user ARCC access review committee has been established consisting of representatives from Recorder, Assessor, and ARCC IT. Currently, the committee meets weekly to review progress on user accounts/access corrections and the development of a role based user access template and applications checklist. Meetings will be scheduled quarterly to review, evaluate, and maintain correct user access to SDR Prod as well as other ARCC platforms/applications.

3. The ARCC user access committee is in the process of adding an ARCC Applications checklist to our current departmental termination/transfer policy to ensure deletions and updates to user access are done in a timely manner and verified by ARCC IT staff.
4. The ARCC user access committee is in the process of reviewing, researching, and deleting all unnecessary generic accounts from Active Directory and also at the application level. Future requests for generic accounts will require a detailed business case and will be subject to approval by ARCC Chief Deputy of Systems/CIO. In addition, both operational and systems processes will be implemented to ensure passwords are valid only for the requested and approved time period.

Planned Completion Date: May 30, 2014

Contact Information for Implementation: Rolf Bishop, Chief Deputy of Systems/CIO

If you have any questions, please contact me at (619) 531-5507.



Ernest J. Dronenburg, Jr.
Assessor/Recorder/County Clerk

EJD:rr