



INTERNAL AUDIT DEPARTMENT



Clerk-Recorder Senate Bill 2 Building Homes and Jobs Act Review

For the Year Ended December 31, 2019

Audit No. 1919

Report Date: August 19, 2020

Number of Recommendations

0

**Critical Control
Weaknesses**

0

**Significant Control
Weaknesses**

2

Control Findings

OC Board of Supervisors

CHAIRWOMAN MICHELLE STEEL
SECOND DISTRICT

VICE CHAIRMAN ANDREW DO
FIRST DISTRICT

SUPERVISOR DONALD P. WAGNER
THIRD DISTRICT

SUPERVISOR DOUG CHAFFEE
FOURTH DISTRICT

SUPERVISOR LISA A. BARTLETT
FIFTH DISTRICT



INTERNAL AUDIT DEPARTMENT

Clerk-Recorder Senate Bill 2 Building Homes and Jobs Act Review

August 19, 2020

AUDIT HIGHLIGHTS

SCOPE OF WORK	<p>At the Clerk-Recorder's (C-R) request, we reviewed fees generated from the implementation of Senate Bill 2 (SB 2) for the year ended December 31, 2019. Specifically, we determined if:</p> <ol style="list-style-type: none">1. Fees were properly collected and recorded.2. Fees were properly remitted to the State Controller.3. Access controls over the Cornerstone Cashiering System were adequate.4. Administrative costs were appropriately deducted from remittance and fully recovered.
RESULTS	<p>With respect to our scope of work and the Clerk-Recorder's implementation of SB 2, we concluded:</p> <ol style="list-style-type: none">1. No exceptions were noted with respect to proper fee collection and recording.2. No exceptions were noted regarding proper fee remittance to the State Controller.3. Access controls in the Cornerstone Cashiering System were adequate.4. Administrative costs were appropriately deducted from the remittance.
RISKS	<p>As a result of our findings, potential risks include:</p> <ul style="list-style-type: none">• Unauthorized access to cashiering system.• Under-recovery of administrative costs.
NUMBER OF RECOMMENDATIONS	<p>Opportunities for enhancing this process include:</p> <ul style="list-style-type: none">• Performing periodic user access review of the Cornerstone Cashiering System.• Developing a method to ensure administrative costs are fully recovered.
0	CRITICAL CONTROL WEAKNESSES
0	SIGNIFICANT CONTROL WEAKNESSES
2	CONTROL FINDINGS

Report suspected fraud, or misuse of County resources by vendors, contractors, or County employees to 714.834.3608



INTERNAL AUDIT DEPARTMENT

Audit No. 1919

August 19, 2020

To: Hugh Nguyen
Clerk-Recorder

From: Aggie Alonso, CPA, CIA, CRMA
Internal Audit Department Director

Subject: Clerk-Recorder Senate Bill 2 Building Homes and Jobs Act Review

At your department's request, we have completed a review of the Clerk-Recorder fees generated from the implementation of Senate Bill 2 for the year ended December 31, 2019. Details of our results immediately follow this letter. Additional information including background and our objectives, scope, and methodology are included in Appendix A.

The Clerk-Recorder concurred with all of our recommendations and the Internal Audit Department considers the Clerk-Recorder's management response appropriate to the recommendations in this report.

We will include the results of this review in a future status report submitted quarterly to the Audit Oversight Committee and the Board of Supervisors. In addition, we will request your department complete a Customer Survey of Audit Services, which you will receive shortly after the distribution of our final report.

We appreciate the courtesy extended to us by Clerk-Recorder personnel during our review. If you have any questions regarding our review, please contact me at 714.834.5442 or Assistant Director Scott Suzuki at 714.834.5509.

Attachments

Other recipients of this report:

- Members, Board of Supervisors
- Members, Audit Oversight Committee
- Clerk-Recorder Distribution
- Foreperson, Grand Jury
- Robin Stieler, Clerk of the Board of Supervisors
- Eide Bailly LLP, County External Auditor

INTERNAL AUDIT DEPARTMENT

RESULTS

BUSINESS PROCESS & INTERNAL CONTROL STRENGTHS

Business process and internal control strengths noted during our audit include:

- ✓ C-R closely collaborated with County Counsel to ensure proper implementation of Senate Bill 2 (SB 2).
- ✓ Transactions are processed in the Cornerstone Cashiering system, which has built-in controls to ensure accurate collection and recording of fees, including a fee code function to easily track costs for recording in CAPS+ and a unique system-generated stamp affixed to every recorded document.
- ✓ Internal policy and procedures were developed, delineating responsibilities/duties among the operations and accounting units and ensuring adequate segregation of duties.
- ✓ Adjustments, such as refunds, are properly approved, documented, and tracked.
- ✓ Accounting performs monthly reconciliations of Cornerstone reports to CAPS+ to ensure accuracy of fees recorded.
- ✓ MOUs are established with certain Title Companies for electronic recording, which provides the County cost savings associated with the more efficient process.

PROCEDURE NO. 1

We selected a sample of 10 transactions and reviewed supporting documentation to ensure fees were properly collected and recorded. This included tracing the recorded document to the cashiering system and final fee totals recorded in the CAPS+ Cash Receipt.

RESULT

No exceptions were noted with respect to the Clerk-Recorder's proper collection and recording of SB 2 fees.

PROCEDURE NO. 2

We reviewed the documentation supporting the quarterly remittance to the State Controller's Office for the last two quarters of the audit period to ensure fees were properly and timely remitted.

RESULT

No exceptions were noted with respect to the Clerk-Recorder's proper fee remittance to the State Controller on a quarterly basis.



INTERNAL AUDIT DEPARTMENT

PROCEDURE NO. 3	We assessed general user access controls over the Cornerstone Cashiering System which is used to collect the fees.
RESULT/ FINDING NO. 1	The system has appropriate access controls. However, we noted seven users who no longer required access retained access. In addition, the user for one active username could not be identified.
CATEGORY	Control Finding
RISK	Unauthorized access to the cashiering system could result in irregular transactions.
RECOMMENDATION	C-R management perform periodic user access review of the cashiering system.
MANAGEMENT RESPONSE	Concur. Part of our Department Separation Checklist includes removal of employee's computer access and all applicable systems including our cashier system. To complete this step of the Department Separation Checklist, Supervisors must open a Help Ticket with Clerk-Recorder IT Department and submit an IT change form. The IT change form specifically identifies which IT access needs to be removed when an employee separates from Clerk-Recorder Department. In addition to this, Clerk-Recorder management will perform a periodic review of users access on a quarterly basis to ensure the Department Separation Checklist process is being followed and also ensure we only have active users authorized to access our cashiering system.

PROCEDURE NO. 4	<p>We reviewed the documentation supporting the quarterly remittance to the State Controller's Office for the last two quarters of the audit period to ensure administrative costs were appropriately deducted from remittance.</p> <p>Furthermore, we analyzed the employee detail reports for charges coded to the designated SB 2 Housing Fee Admin VTI job number to assess if the administrative costs retained from State remittance were fully recovered.</p>
RESULT/ FINDING NO. 2	<p>Administrative costs were appropriately deducted from the fees remitted based on actual hours charged to the VTI job number. However, we noted the Clerk-Recorder may be able to enhance its recovery of administrative costs.</p> <p>The data suggests that administrative costs are being under-recovered. SB 2 related documents account for 64% of total documents processed by the department; however, document examiners only code approximately 10% of total unit hours to the designated SB 2 Housing Fee Admin VTI job number used to track administrative costs.</p>
CATEGORY	Control Finding



INTERNAL AUDIT DEPARTMENT

RISK	Under-recovery of administrative costs.	
RECOMMENDATION	C-R management develop a method to ensure administrative costs are fully recovered.	
MANAGEMENT RESPONSE	<p>Concur. A new methodology for calculating the actual and necessary administrative costs incurred by the county recorder in carrying out SB2 is currently being developed and is anticipated to be completed by September 30, 2020. A time study of our document recording process began on Friday, July 31, 2020 and will run through Thursday, August 27, 2020. Clerk-Recorder Document Examiners were given a training on how to perform the time study on Thursday, July 30, 2020 by the Clerk-Recorder Accounting & Budget Manager. Once the time study is completed by Clerk-Recorder Document Examiners, the data will be turned in to Clerk-Recorder Accounting unit to calculate the cost of recording a document in accordance with the Orange County Auditor-Controller Accounting Manual B-2 Billing Rates, Fees, and Indirect Cost Procedures. The standard # of hours from the document recording user fee calculation will be multiplied by the overall percentage of actual SB2 documents to overall documents to determine the amount of time spent on recording SB2 documents. This amount of SB2 time spent on reviewing documents will then be multiplied by each Document Examiner's hourly billing rate to reach a SB2 cost per document recording. The SB2 cost per Document Examiner will then be applied to all actual documents recorded by each Document Examiner for a specific quarter to come up the actual and necessary administrative costs incurred in carrying out SB2.</p>	
AUDIT TEAM	Scott Suzuki, CPA, CIA, CISA, CFE Michael Dean, CPA, CIA, CISA Zan Zaman, CPA, CIA, CISA Gianne Morgan, CIA	Assistant Director Senior Audit Manager Audit Manager Audit Manager



APPENDIX A: ADDITIONAL INFORMATION

OBJECTIVES	<p>Our objective was to review fees generated from the Clerk-Recorder's (C-R) implementation of Senate Bill 2 (SB 2) to determine if:</p> <ol style="list-style-type: none"> 1. Fees were properly collected and recorded. 2. Fees were properly remitted to the State Controller. 3. Access controls in the Cornerstone Cashiering System were adequate. 4. Administrative costs were appropriately deducted from remittance and fully recovered.
SCOPE & METHODOLOGY	<p>Our scope was limited to review of fees generated from the implementation of SB 2, including an overview of user access controls of C-R's cashiering system as it relates to SB 2 for the year ended December 31, 2019. Our methodology included inquiry, observation, examination of relevant documentation, and testing of transactions.</p>
EXCLUSIONS	<p>Our scope did not include review of controls over CAPS+ or IT systems, except as stated above. Additionally, we did not review the process beyond the County's remittance of fees to the State Controller's Office.</p>
PRIOR AUDIT COVERAGE	<p>We have not issued any audit reports for C-R with a similar scope within the last ten years.</p>
BACKGROUND	<p>SB 2 was approved on September 29, 2017 and established the Building Homes and Jobs Act. Commencing January 1, 2018, SB 2 mandates a \$75 fee at the time of recording of every real estate instrument, paper, or notice required/permitted by law to be recorded, per each single transaction per parcel of real property, not to exceed \$225. The county recorder is required to remit the fees, after deduction of any actual and necessary administrative costs, to the State Controller on a quarterly basis. The bill provides assistance for emergency housing, multifamily housing, farmworker housing, home ownership for very low and low-income households, and down payment assistance for first-time home buyers.</p> <p>The C-R's Document Examining Unit under the Chief Deputy Recorder is responsible for the collection of SB 2 fees. The Accounting/Financial Services Unit, under the Director of Administration, is responsible for recording the fees (CAPS+ Cash Receipt), reconciliation, and the quarterly remittance to the State.</p> <p>Total SB 2 fees collected for the audit period were approximately \$26.7M, which accounted for 355,657 of 552,688 (64%) of document recordings.</p>
PURPOSE & AUTHORITY	<p>We performed this review at the request of the Clerk-Recorder and in accordance with the Annual Risk Assessment & Audit Plan for FY 2019-20 approved by the Audit Oversight Committee and Board of Supervisors.</p>



INTERNAL AUDIT DEPARTMENT

PROFESSIONAL STANDARDS	Our review was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing issued by the International Internal Audit Standards Board.
FOLLOW-UP PROCESS	<p>In accordance with professional standards, the Internal Audit Department has a process to follow-up on its recommendations. A first follow-up audit will generally begin six months after release of the initial report.</p> <p>The AOC and Board expect that audit recommendations will typically be implemented within six months or sooner for significant and higher risk issues. A second follow-up audit will generally begin six months after release of the first follow-up audit report, by which time all audit recommendations are expected to be implemented. Any audit recommendations not implemented after the second follow-up audit will be brought to the attention of the AOC at its next scheduled meeting.</p> <p>A Follow-Up Audit Report Form is attached and is required to be returned to the Internal Audit Department approximately six months from the date of this report in order to facilitate the follow-up audit process.</p>



APPENDIX B: FINDING TYPE CLASSIFICATION

Critical Control Weakness	Significant Control Weakness	Control Finding
These are audit findings or a combination of audit findings that represent critical exceptions to the audit objective(s) and/or business goals. Such conditions may involve either actual or potential large dollar errors or be of such a nature as to compromise the department's or County's reputation for integrity. Management is expected to address Critical Control Weaknesses brought to its attention immediately.	These are audit findings or a combination of audit findings that represent a significant deficiency in the design or operation of internal controls. Significant Control Weaknesses require prompt corrective actions.	These are audit findings concerning the effectiveness of internal control, compliance issues, or efficiency issues that require management's corrective action to implement or enhance processes and internal control. Control Findings are expected to be addressed within our follow-up process of six months, but no later than twelve months.

APPENDIX C: CLERK-RECORDER MANAGEMENT RESPONSE



HUGH NGUYEN
CLERK-RECORDER

BIRTH AND DEATH RECORDS
FICTITIOUS BUSINESS NAMES
MARRIAGE LICENSES/RECORDS
NOTARY REGISTRATION
ORANGE COUNTY ARCHIVES
PASSPORTS
PROPERTY RECORDS

August 10, 2020

TO: Aggie Alonso, CPA, CIA, CRMA
Internal Audit Department Director

ATTENTION: Michael Dean, CPA, Senior Audit Manager

FROM: Hugh Nguyen, Clerk-Recorder *Hugh Nguyen*

SUBJECT: Response to Audit No. 1919 Clerk-Recorder's compliance with Senate Bill 2
(Building Homes and Jobs Act).

Procedure No. 3 Recommendation: C-R management perform periodic user access review of the cashiering system.

Clerk-Recorder Response: Concur

Part of our Department Separation Checklist includes removal of employee's computer access and all applicable systems including our cashier system. To complete this step of the Department Separation Checklist, Supervisors must open a Help Ticket with Clerk-Recorder IT Department and submit an IT change form. The IT change form specifically identifies which IT access needs to be removed when an employee separates from Clerk-Recorder Department. In addition to this, Clerk-Recorder management will perform a periodic review of users access on a quarterly basis to ensure the Department Separation Checklist process is being followed and also ensure we only have active users authorized to access our cashiering system.

Procedure No. 4 Recommendation: C-R management develop a method to ensure administrative costs are fully recovered.

Clerk-Recorder Response: Concur

A new methodology for calculating the actual and necessary administrative costs incurred by the county recorder in carrying out SB2 is currently being developed and is anticipated to be completed by September 30, 2020. A time study of our document recording process began on Friday July 31, 2020 and will run through Thursday August 27, 2020. Clerk-Recorder Document Examiners were given a training on how to perform the time study on Thursday July 30, 2020 by the Clerk-Recorder Accounting & Budget Manager. Once the time study is completed by Clerk-Recorder Document Examiners, the data will be turned in to Clerk-Recorder Accounting unit to calculate the cost of

NORTH COUNTY BRANCH OFFICE
ANAHEIM CITY CENTRE
222 S. HARBOR BLVD., STE 110
ANAHEIM, CALIFORNIA 92805

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COUNTY ADMINISTRATION SOUTH
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SANTA ANA, CA 92701

OLD ORANGE COUNTY
COURTHOUSE
211 W. SANTA ANA BLVD. ROOM 201
SANTA ANA, CALIFORNIA 92701

SOUTH COUNTY BRANCH OFFICE
LAGUNA HILLS CIVIC CENTER
24031 EL TORO ROAD
LAGUNA HILLS, CALIFORNIA 92653

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recording a document in accordance with the Orange County Auditor Controller Accounting Manual B-2 Billing Rates, Fees, and Indirect Cost Procedures. The standard # of hours from the document recording user fee calculation will be multiplied by the overall percentage of actual SB2 documents to overall documents to determine the amount of time spent on recoding SB2 documents. This amount of SB2 time spent on reviewing documents will then be multiplied by each Document Examiners hourly billing rate to reach a SB2 cost per document recording. The SB2 cost per Document Examiner will then be applied to all actual documents recorded by each Document Examiner for a specific quarter to come up the actual and necessary administrative costs incurred in carrying out SB2.