

LOS ANGELES COUNTY AUDITOR-CONTROLLER

John Naimo
AUDITOR-CONTROLLER

Arlene Barrera
CHIEF DEPUTY

Peter Hughes
ASSISTANT AUDITOR-CONTROLLER

Robert Campbell
DIVISION CHIEF

OFFICE OF COUNTY INVESTIGATIONS

February 1, 2019

Registrar-Recorder/County Clerk **IMPROVEMENT OPPORTUNITIES NOTED DURING LIMITED REVIEW #2017-13139**



NUMBER OF RECOMMENDATIONS

PRIORITY 1

2

CORRECTIVE ACTION REQUIRED
WITHIN 90 DAYS

PRIORITY 2

1

CORRECTIVE ACTION REQUIRED
WITHIN 120 DAYS

PRIORITY 3

0

CORRECTIVE ACTION REQUIRED
WITHIN 180 DAYS



BOARD OF SUPERVISORS

Hilda L. Solis
FIRST DISTRICT

Mark Ridley-Thomas
SECOND DISTRICT

Sheila Kuehl
THIRD DISTRICT

Janice Hahn
FOURTH DISTRICT

Kathryn Barger
FIFTH DISTRICT

#2017-13139

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JOHN NAIMO
AUDITOR-CONTROLLER

COUNTY OF LOS ANGELES DEPARTMENT OF AUDITOR-CONTROLLER

KENNETH HAHN HALL OF ADMINISTRATION
500 WEST TEMPLE STREET, ROOM 525
LOS ANGELES, CALIFORNIA 90012-3873
PHONE: (213) 974-8301 FAX: (213) 626-5427

ADDRESS ALL CORRESPONDENCE TO:
OFFICE OF COUNTY INVESTIGATIONS
500 W. TEMPLE ST., ROOM 515
LOS ANGELES, CA 90012-3756

February 1, 2019

TO: Dean C. Logan
Registrar-Recorder/County Clerk

FROM: Robert G. Campbell, Chief
Office of County Investigations

SUBJECT: **REGISTRAR-RECORDER/COUNTY CLERK – IMPROVEMENT
OPPORTUNITIES NOTED DURING A LIMITED REVIEW – CASE #2017-
13139**

During a recent limited review at the Registrar-Recorder/County Clerk (RR/CC or Department), the Auditor-Controller's (A-C) Office of County Investigations (OCI) noted areas where the Department can strengthen its internal controls and business processes related to real property document recordings. Please see Attachment I, Table of Findings and Recommendations for Corrective Action, for details of our review. Attachment II is a sample of a departmental response to the A-C, and Attachment III describes our priority rankings system and prescribed timelines for the implementation of recommended corrective actions.

Follow-up Process

The A-C has a follow-up process designed to provide assurance to the Board of Supervisors that departments are taking appropriate and timely corrective action to address recommendations. Within six months of the date of this report, the department must submit a Corrective Action Implementation Report (CAiR) detailing the corrective action taken to address all recommendations in the report. Departments must also submit documentation with the CAiR that demonstrates the corrective action taken. The A-C's Audit Division will review the department's reported corrective action and supporting documentation, and report back on the results. For any recommendations not fully implemented, departments must report the status of corrective action within six months after our first follow-up report is issued.

Management's Responsibility for Internal Controls

Management of each County department is primarily responsible for designing, implementing, and maintaining a system of internal controls that provides reasonable assurance that important departmental and County objectives are being achieved. Internal controls should sustain and improve departmental performance, adapt to changing priorities and operating environments, reduce risks to acceptable levels, and support sound decision-making.

Management must monitor internal controls on an ongoing basis to ensure that any weaknesses or non-compliance are promptly identified and corrected. The A-C's role is to assist management by performing periodic assessments of the effectiveness of the department's internal control systems. These assessments complement, but do not in any way replace management's responsibilities over internal controls.

Limitations of Internal Controls

Any system of internal controls, however well designed, has limitations. As a result, internal controls provide reasonable, but not absolute assurance that an organization's goals and objectives will be achieved. Some examples of limitations include errors, circumvention of controls by collusion, management override of controls, and poor judgment. In addition, there is a risk that internal controls may become inadequate due to changes in the organization, such as reduction in staffing or lapses in compliance.

We thank RR/CC management and staff for their cooperation and assistance during our investigation. If you have any questions please call me at (213) 893-0058, or your staff may contact Supervising Investigator Steven Lee at (213) 893-0551.

RGC:AMS:sl

R-2017-13139 Improvement Opportunities Noted

Attachments

c: John Naimo, Auditor-Controller
Rita Figueroa, Assistant Registrar-Recorder/County Clerk
Monique Blakely, Assistant Registrar-Recorder/County Clerk
Audit Committee
Audit Division

REGISTRAR-RECORDER/COUNTY CLERK – IMPROVEMENT OPPORTUNITIES
NOTED DURING CONFIDENTIAL INVESTIGATION – #2017-13139

TABLE OF FINDINGS AND RECOMMENDATIONS FOR CORRECTIVE ACTION

	ISSUE	RISK	RECOMMENDATION	P¹	SUMMARY OF RESPONSE
1	We found that at least one document recording services provider is aware of the Department's verification process and criteria, and provided specific instructions to title insurance personnel on how to circumvent the Department's real property document verification process. As a result, some RR/CC staff may have inadvertently performed same-day recording of title company-prepared documents over the counter, without the specific parties identified on the document being present, in violation of current RR/CC policies.	Document recording services providers may be circumventing departmental processes and controls, and deceiving RR/CC staff to improperly gain a competitive advantage.	Registrar-Recorder/County Clerk management re-examine the real property document recording verification process and criteria, to prevent document recording services providers from circumventing the recording verification process and improperly obtaining “special” or same day recordings.	1	Effective August 24, 2018, the Department released a new system patch that requires the Examiner to swipe and capture the information contained on the magnetic stripe of the customers ID for every property ownership transfer type document. This new functionality will not allow for the Examiner to bypass entering the ID information into the system when any of these types of documents are entered in the Examination module. Examiners can only bypass the ID requirement with a Supervisor authorization, hence preventing customers or Examiners from bypassing this requirement and performing special recordings.

¹ **Priority Ranking:** Recommendations are ranked from Priority 1 to Priority 3 based on the potential seriousness and likelihood of negative impact on departmental operations if corrective action is not taken. See Attachment III for definitions of priority rankings.

TABLE OF FINDINGS AND RECOMMENDATIONS FOR CORRECTIVE ACTION					
	ISSUE	RISK	RECOMMENDATION	P ¹	SUMMARY OF RESPONSE
2	<p>We found that an RR/CC District Office's Document Analysis Recording – Title Company Document Approval Logs were missing the supervisor's name and initials/signature.</p> <p>An RR/CC Memo, titled "Title Company Recordings over the Counter," states that all title company-prepared documents presented at the public window counters for recording must be approved by a supervisor, and that a supervisor must verify the party's (individual who presents the document for recording) identity via their government-issued identification.</p>	<p>Allowing supervisors to approve document recordings without including their names and signatures defeats the purpose of the internal control (Approval Log) and increases the risk of document examiners and/or supervisors inappropriately performing "special" recordings.</p>	<p>Registrar-Recorder/County Clerk management ensure that Document Analysis Recording supervisors are aware of and comply with the requirement to complete and sign Document Analysis Recording – Title Company Document Approval Logs, including specifically identifying the supervisor who provided each approval on the log.</p>	1	<p>This finding is no longer applicable. The implementation mentioned in finding #1 has resolved the issue. There is no longer a need for the Supervisor to manually sign the log as all ID and Examiner information is tracked in the system.</p>
3	<p>RR/CC's current business process and policy prohibiting same-day recording of title company-prepared documents over the counter, without the specific parties identified on the document being present, may be incentivizing some providers to circumvent Departmental controls and attempt to corrupt or compromise RR/CC staff, in order to gain a competitive advantage. There appears to be significant industry demand for same-day recordings, but no legitimate way to obtain them.</p>	<p>Services providers will continue to seek out opportunities to circumvent departmental processes, controls, and staff to meet client needs and gain a competitive advantage.</p>	<p>Registrar-Recorder/County Clerk management determine if changes to procedures for recording real property documents are possible to accommodate industry demand for the same-day recording of title company-prepared documents over the counter. These changes should address whether the specific parties identified on the documents need to be present, while maintaining appropriate controls and timely access and service for the general public.</p>	2	<p>The Department does not currently have the staff needed to accommodate same day title company documents. Title companies throughout Los Angeles County can upload or drop off their documents daily and receive an 8 am confirmation. This is done to control and manage the staff to volume ratio and make sure we can complete the recordings daily as specified by the Government Code. California is a race state and allowing same day recordings outside of the set parameters could present a problem for the chain of title and order of recordings.</p>

¹ **Priority Ranking:** Recommendations are ranked from Priority 1 to Priority 3 based on the potential seriousness and likelihood of negative impact on departmental operations if corrective action is not taken. See Attachment III for definitions of priority rankings.

FOLLOW-UP AND INTERNAL CONTROL DISCLOSURES

***FOLLOW-UP
PROCESS***

The Auditor-Controller (A-C) has a follow-up process designed to provide assurance to the Board of Supervisors (Board) that departments are taking appropriate and timely corrective action to address audit recommendations. Within six months of the date of an audit report, departments must submit a Corrective Action Implementation Report (CAiR) detailing the corrective action taken to address all recommendations in the report. Departments must also submit documentation with the CAiR that demonstrates the corrective action taken. We will review departments' reported corrective action and supporting documentation, and report the results to the Board. For any recommendations not fully implemented, departments must report the status of corrective action within six months after our first follow-up report is issued.

***MANAGEMENT'S
RESPONSIBILITY
FOR INTERNAL
CONTROLS***

As indicated in County Fiscal Manual Section 1.0, management of each County department is primarily responsible for designing, implementing, and maintaining a system of internal controls that provides reasonable assurance that important departmental and County objectives are being achieved. Internal controls should sustain and improve departmental performance, adapt to changing priorities and operating environments, reduce risks to acceptable levels, and support sound decision-making.

Management must monitor internal controls on an ongoing basis to ensure that any weaknesses or non-compliance are promptly identified and corrected. The A-C's role is to assist management by performing periodic assessments of the effectiveness of the department's internal control systems. These assessments complement, but do not in any way replace, management's responsibilities over internal controls.

***LIMITATIONS OF
INTERNAL
CONTROLS***

Any system of internal controls, however well designed, has limitations. As a result, internal controls provide reasonable but not absolute assurance that an organization's goals and objectives will be achieved. Some examples of limitations include errors, circumvention of controls by collusion, management override of controls, and poor judgment. In addition, there is a risk that internal controls may become inadequate due to changes in the organization, such as reduction in staffing or lapses in compliance.




Los Angeles County Registrar-Recorder/County Clerk

DEAN C. LOGAN
Registrar-Recorder/County Clerk

January 3, 2019

TO: Robert G. Campbell, Chief
Office of County Investigations

FROM: Dean C. Logan, 
Registrar-Recorder/County Clerk

SUBJECT: **RESPONSE TO AUDITOR-CONTROLLER IMPROVEMENT
OPPORTUNITIES NOTED DURING CONFIDENTIAL INVESTIGATION
#2017-13139**

My Department has reviewed the Auditor-Controller's report, findings and recommendations. Attached for your review is a report on the corrective actions planned and/or taken to address the recommendations within the timeframes established by the respective priority rankings.

If you have any questions, please contact me at (562) 462-2716, or your staff may contact Monique Blakely, Assistant Registrar-Recorder/County Clerk, Recorder/County Clerk at (562) 462-2073.

DI:fp

Attachment

PRIORITY RANKING DEFINITIONS

Auditors use professional judgment to assign rankings to recommendations using the criteria and definitions listed below. The purpose of the rankings is to highlight the relative importance of some recommendations over others based on the likelihood of adverse impacts if corrective action is not taken and the seriousness of the adverse impact. Adverse impacts are situations that have or could potentially undermine or hinder the following:

- a) The quality of services departments provide to the community,
- b) The accuracy and completeness of County books, records, or reports,
- c) The safeguarding of County assets,
- d) The County's compliance with pertinent rules, regulations, or laws,
- e) The achievement of critical programmatic objectives or program outcomes, and/or
- f) The cost-effective and efficient use of resources.

Priority 1 Issues

Priority 1 issues are control weaknesses or compliance lapses that are significant enough to warrant immediate corrective action. Priority 1 recommendations may result from weaknesses in the design or absence of an essential procedure or control, or when personnel fail to adhere to the procedure or control. These may be reoccurring or one-time lapses. Issues in this category may be situations that create actual or potential hindrances to the department's ability to provide quality services to the community, and/or present significant financial, reputational, business, compliance, or safety exposures. Priority 1 recommendations require management's immediate attention and corrective action within 90 days of report issuance, or less if so directed by the Auditor-Controller or the Audit Committee.

Priority 2 Issues

Priority 2 issues are control weaknesses or compliance lapses that are of a serious nature and warrant prompt corrective action. Priority 2 recommendations may result from weaknesses in the design or absence of an essential procedure or control, or when personnel fail to adhere to the procedure or control. These may be reoccurring or one-time lapses. Issues in this category, if not corrected, typically present increasing exposure to financial losses and missed business objectives. Priority 2 recommendations require management's prompt attention and corrective action within 120 days of report issuance, or less if so directed by the Auditor-Controller or the Audit Committee.

Priority 3 Issues

Priority 3 issues are the more common and routine control weaknesses or compliance lapses that warrant timely corrective action. Priority 3 recommendations may result from weaknesses in the design or absence of a procedure or control, or when personnel fail to adhere to the procedure or control. The issues, while less serious than a higher-level category, are nevertheless important to the integrity of the department's operations and must be corrected or more serious exposures could result. Departments must implement Priority 3 recommendations within 180 days of report issuance, or less if so directed by the Auditor-Controller or the Audit Committee.