



**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

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October 30, 2013

TO: Supervisor Mark Ridley-Thomas, Chairman
Supervisor Gloria Molina
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

FROM: Wendy L. Watanabe
Auditor-Controller

Wendy Watanabe
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SUBJECT: **REGISTRAR-RECORDER/COUNTY CLERK – CASH OPERATIONS
REVIEW**

We completed a review of the Registrar-Recorder/County Clerk's (RR/CC or Department) cash operation activities. The RR/CC uses the Joint Electronic Document Interface (JEDI) to process and manage their cash collections received from a variety of services provided to the public, including recording real estate deeds, processing birth and marriage certificates, issuing business licenses, and providing customers with copies of previously recorded documents. In Fiscal Year 2012-13, the Department collected approximately \$355 million through the JEDI system.

Our review focused on evaluating the RR/CC's internal controls over cash collections. We also reviewed JEDI's system controls for compliance with County and Departmental policies and procedures.

Summary of Findings

We noted that RR/CC accurately charges and collects fees/revenue. However, RR/CC management needs to ensure compliance with County requirements for information systems, cash handling, and collections. The following are examples of areas where the Department can improve:

- RR/CC should establish access controls in JEDI that prevent one individual from controlling all key aspects of a cash transaction. We noted that JEDI allows the

same individual to verify/approve their own cash register collections and override their own transactions in instances where the individual has both cashiering and supervising access.

RR/CC's attached response indicates that they are in the process of modifying the JEDI dual authorization screens to force two distinct JEDI logins to authorize the activity. The Department anticipates implementation in April 2014.

- RR/CC should implement controls to improve JEDI's data security as required by the County Fiscal Manual (CFM). We noted that JEDI does not automatically time-out user sessions after a period of inactivity, and allows users to reuse recently expired passwords.

RR/CC's attached response indicates that they will implement a one hour time-out for JEDI, and will implement a control that will forbid users from reusing the previous three passwords. The Department anticipates implementation in September 2014.

- RR/CC should develop written policies defining JEDI access roles and the appropriate staff levels/duties for each role as required by the CFM. Defined access roles will help the department ensure that staff and managers have appropriate access to JEDI.

RR/CC's attached response indicates that they will modify their current policy to strengthen the definition of JEDI access roles and the staff level/duties for each role. The Department anticipates implementation in April 2014.

- RR/CC should develop a JEDI Disaster Recovery/Contingency Plan as required by the CFM. Disaster recovery plans will help RR/CC management ensure that they can operate and recover data from JEDI in the event of a disaster.

RR/CC's attached response indicates that they are working with the Chief Executive Office, Chief Information Office, and Internal Services Department to establish a comprehensive disaster recovery plan. The Department anticipates implementation in Fall 2016.

- RR/CC should ensure that they document their monitoring and follow-up of cashiering shortages. During our review, we identified two cashiers with at least three shortages of between \$6 and \$20, and noted that the Department could not provide documentation to support that they followed-up on the shortages as required by the CFM.

RR/CC's attached response indicates that they now distribute monitoring reports to Operations on a monthly basis for review and sign-off.

- RR/CC should safeguard collections by ensuring staff open mail payments in dual custody and list all checks received as required by the CFM. We reviewed four sections, and noted that for one section staff did not open mail in dual custody or list the checks received.

RR/CC's attached response indicates that since opening mail in dual custody in the section noted is not practical, they have implemented a compensating control where the number of mail payments received is logged, tracked, and reconciled against the total mail processed. In addition, the Department plans to implement additional mail tracking controls in JEDI in September 2014.

Details of these and other findings and recommendations are included in Attachment I.

Review of Report

We discussed the results of our review with RR/CC management. The Department's attached response (Attachment II) indicates general agreement with our findings and recommendations.

We thank RR/CC management and staff for their cooperation and assistance during our review. Please call me if you have any questions, or your staff may contact Robert Smythe at (213) 253-0101.

WLW:AB:RS:MP

Attachments

c: William T Fujioka, Chief Executive Officer
Dean C. Logan, Registrar-Recorder/County Clerk
Public Information Office
Audit Committee

**REGISTRAR-RECORDER/COUNTY CLERK
CASH OPERATIONS REVIEW**

Background

The Registrar-Recorder/County Clerk's (RR/CC or Department) Recorder/County Clerk Bureau receives cash, checks, and debit/credit card payments over the counter, through the mail or drop boxes, and over the Internet from fees charged to customers for a variety of services including recording real estate deeds and trusts, processing birth and marriage certificates, issuing business licenses, and providing customers copies of previously recorded documents. In Fiscal Year (FY) 2012-13, the Department collected \$355 million through their Headquarters and six field offices.

Scope

We reviewed the RR/CC's collection practices for compliance with County policies and procedures. Our review included evaluating the Department's cash management system and collection controls, visiting the Department's Headquarters and two field offices, and interviewing RR/CC management/staff.

COMMENTS AND RECOMMENDATIONS

Cash Management System

The RR/CC implemented the Joint Electronic Document Interface (JEDI) cash management system in 2009 to centralize cash collections. JEDI calculates fees, records transactions, provides receipts, and prepares deposit summaries for the Financial Services Section (Finance). In FY 2012-13, the Department processed over 1.4 million transactions through JEDI.

Cash Controls

County Fiscal Manual (CFM) Section 1.1.3 requires departments to separate cash duties so that one individual does not control all key aspects of a cash transaction. In addition, the Department's policy states that a supervisor should verify each cashier's collections and two supervisors should reconcile cash from the safe to JEDI daily.

We noted that JEDI does not include system controls to ensure that all cash duties are appropriately separated, and as a result could allow cash shortages to occur without being detected timely. Specifically:

- JEDI controls do not prevent the same individual from verifying/approving their own cash register collections and overriding their own transactions in instances where the individual has both cashiering and supervising access.

- JEDI controls do not prevent the same individual from performing both of the required safe reconciliation sign-offs.

While we did not note any instances where a cashier approved their own register collections, we did observe cases where a single supervisor performed both safe reconciliation sign-offs.

Recommendations

Registrar-Recorder/County Clerk management:

1. **Establish system controls that prevent individuals with both cashiering and supervising access from verifying/approving their own cash register collections and overriding their own transactions.**
2. **Establish system controls that prevent the same person from performing and approving the reconciliation of cash from the safe to the Joint Electronic Document Interface system.**

Data Security Controls

CFM Section 8.6.4 requires departments to ensure systems terminate user sessions that have no activity for a set period of time (system time-out) and that users do not leave active computers unattended. Departments should also ensure that systems do not allow users to reuse recently expired passwords.

We noted the following weaknesses in JEDI's data security:

- JEDI does not automatically time-out user sessions after a period of inactivity.
- JEDI users often left active computers unattended.
- JEDI allows users to reuse recently expired passwords.

RR/CC management should implement system time-outs in JEDI, ensure users do not leave active computers unattended, and implement system controls to restrict JEDI users from reusing recently expired passwords.

Recommendations

Registrar-Recorder/County Clerk management:

3. **Implement system time-outs in the Joint Electronic Document Interface system.**
4. **Ensure users do not leave active computers unattended.**

- 5. Implement system controls to restrict Joint Electronic Document Interface system users from reusing recently expired passwords.**

Access Controls

CFM Section 8.6.4 requires departments to limit system access based on each user's responsibilities. We noted that the Department does not have written policies defining JEDI access roles and the appropriate staff levels/duties for each role. The Department maintains a listing of JEDI access roles that includes brief descriptions. However, the listing does not define each role or indicate the staff level/duties for each role.

While we did not note any instances where JEDI users had inappropriate system access, RR/CC management should establish policies defining JEDI access roles and staff level/duties for each role.

Recommendation

- 6. Registrar-Recorder/County Clerk management establish policies defining Joint Electronic Document Interface system access roles and staff level/duties for each role.**

Disaster Recovery/Contingency Planning

CFM Section 8.2.6 requires departments to have a Disaster Recovery/Contingency Plan for all their critical systems. The Disaster Recovery/Contingency Plan should identify the system files and programs, and the responsibilities of key personnel.

We noted that the Department does not have a Disaster Recovery/Contingency Plan for JEDI. Since JEDI is critical to the Department's operations, the RR/CC management should establish a JEDI Disaster Recovery/Contingency Plan to help ensure that they can operate and recover data from JEDI in the event of a disaster.

Recommendation

- 7. Registrar-Recorder/County Clerk management establish a Joint Electronic Document Interface system Disaster Recovery/Contingency Plan.**

Collections

Monitoring Shortages/Overages

CFM Section 1.4.2 requires fiscal managers to closely monitor cash shortages to identify trends, unusual occurrences, or cashiers with frequent shortages, and to follow-up on frequent shortages. The Department uses the JEDI Variance Report (JVR) to monitor shortages and overages.

We reviewed the Department's controls over shortages/overages and noted the following:

- The JVR is identifying exceptions that have already been corrected. During our review, we noted five instances where the JVR indicated the cashiers were short by between \$240 and \$5,700 even though deposit records indicate the cashiers were not actually short. The errors occurred when cashiers entered incorrect cash counts at the end of their shifts. Although supervisors had identified the incorrect cash counts, and entered the correct amount into JEDI, the JVR continued to identify them as exceptions because the exception is based on the original incorrect amount entered by the cashiers. This resulted in unnecessary follow-up.
- RR/CC management does not document their monitoring and follow-up on frequent shortages. During our review, we identified two cashiers with at least three shortages of between \$6 and \$20, and noted that the Department could not provide documentation to support their review/follow-up.
- The Department produces a Cash Difference Detail report that includes the same data/information as the JVR and is no longer needed.

Recommendations

Registrar-Recorder/County Clerk management:

- 8. Ensure that cashiers accurately conduct cash counts at the end of their shifts, and that Joint Electronic Document Interface Variance Reports are based on final supervisor approved cash count amounts.**
- 9. Document the review and follow-up of shortages.**
- 10. Discontinue producing the Cash Difference Detail Report.**

Safeguarding Collections

The Department can improve procedures to better safeguard collections. We reviewed four sections at the Department's Headquarters: Birth Death Marriage (BDM), Document Analysis and Recording (DAR), Real Estate Records (RER), Business Filings Registration (BFR), and at the field offices, and noted the following:

- **Opening mail/drop box payments** – For one section, we noted that staff did not open mail in dual custody or list the checks received. CFM Section 1.3.6 requires departments to list the checks received in the mail and to assign two staff to open large volumes of mail. RR/CC management indicated that opening mail in dual custody may not always be possible/practical due to the large

volume of mail received and staffing constraints. However, in these instances, the Department should develop compensating controls.

- **Adjusting the list of checks received** – For one of the three sections that listed the checks received, we noted that a supervisor did not approve adjustments made to the list. CFM Section 1.3.6 requires written supervisory approval for all adjustments made to the list of checks received in the mail.

Recommendations

Registrar-Recorder/County Clerk management:

- 11. Ensure staff list the checks received in the mail and drop boxes, and assign two staff to open large volumes of mail, or develop compensating controls when necessary.**
- 12. Ensure a supervisor approves all adjustments made to the list of checks received.**

Returned Checks

CFM Section 1.5.2 states that departments should not provide additional services or accept checks from customers who have written Not Sufficient Funds (NSF) checks until the NSF check is made good. In addition, when the bank returns NSF checks, the department should immediately contact the payer with a written demand, accept only cash, cashier's checks, or money orders as payment, and refer unpaid checks to the Treasurer and Tax Collector (TTC) within 30 days of the written demand.

We noted the following:

- **Providing Services/Accepting Checks** - Cashiers frequently accept checks without ensuring that customers are in good standing. We noted that Finance provides cashiers a hardcopy log of unpaid NSF checks each month. However, we observed that cashiers do not always check the log. While during the course of our review we did not note any instances where the Department provided services to customers with outstanding balances, RR/CC should ensure staff review the NSF check log for all check transactions.
- **Collection Referral** - All ten NSF checks we reviewed were referred to the TTC for collection past the 30-day timeframe. On average, the Department submitted these unpaid checks to TTC 27 days late.

Recommendations

Registrar-Recorder/County Clerk management:

- 13. Ensure cashiers review the log of returned checks before providing services and accepting checks.**
- 14. Ensure Finance immediately refers returned checks to the Treasurer and Tax Collector if they do not receive payment within 30 days of the written demand.**



Los Angeles County **REGISTRAR-RECORDER/COUNTY CLERK**

DEAN C. LOGAN
Registrar-Recorder/County Clerk

October 1, 2013

TO: Wendy L. Watanabe
Auditor-Controller

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

REGISTRAR-RECORDER/COUNTY CLERK - CASH OPERATIONS REVIEW

Attached is the Registrar-Recorder/County Clerk's response to the 14 recommendations contained in the A-C Cash Operations draft report. We concur with your recommendations and will continue to implement strategies designed to address the findings and recommendations of the audit.

We appreciate the opportunity to include our response in your report, and thank your staff for their professionalism conducting their review of our operations.

Please let me know if you have any questions or your staff may contact Chris Nwadiwe, Fiscal Compliance Officer, at (562) 462-2944.

DCL:RF:th

Attachment

c: Chris Nwadiwe

REGISTRAR-RECORDER/COUNTY CLERK
CASH OPERATIONS REVIEW

Cash Controls

Recommendations

RR/CC management:

- 1. Establish system controls that prevent individuals with both cashiering and supervising access from verifying/approving their own cash register collections and overriding their own transactions.**
RR/CC Response – We agree. The Department is in the process of modifying the JEDI dual authorization screens for all Change Fund (close/open) and Cash Drawer (assign, balance, close out) Sessions to force two distinct JEDI logins to authorize the activity. One user must have supervisor roles; the second user may just have JEDI access. Target date for implementation of this modification is in the next JEDI release, scheduled for April 2014.
- 2. Establish system controls that prevent the same person from performing and approving the reconciliation of cash from the safe to JEDI.**
RR/CC Response – We agree. The Department is in the process of modifying the JEDI dual authorization screens for all Change Fund (close/open) and Cash Drawer (assign, balance, close out) Sessions to force two distinct JEDI logins to authorize the activity. One user must have supervisor roles; the second user may just have JEDI access. Target date for implementation of this modification is in the next JEDI release, scheduled for April 2014.

Data Security Controls

Recommendations:

RR/CC management:

- 3. Implement system time-outs in JEDI.**
RR/CC Response – We agree. All departmental PCs are programmed to time-out after 15 minutes of inactivity, strengthening the JEDI Application security. The Department will implement a 1 hour time-out specifically for the JEDI Application to minimize disruptions of services to customers. Target date for implementation is September 2014.
- 4. Ensure users do not leave active computers unattended.**
RR/CC Response – We agree and are now in compliance. All users sign a computer security policy/agreement that includes the instruction not to leave active computers unattended. The security forms are renewed annually during performance evaluations to ensure compliance. Also, Department managers and supervisors constantly monitor and remind staff on a regular basis to enforce this policy regularly.
- 5. Implement system controls to restrict JEDI users from reusing recently expired passwords.**
RR/CC Response – We agree. Users are required to change their JEDI password every 90 days; however, the JEDI system does not have a mechanism to forbid users from reusing previous passwords. Department will implement a control that will forbid users from reusing the previous three passwords. Target date for implementation is September 2014.

Registrar-Recorder/County Clerk - Cash Operations Review

Access Controls

Recommendation:

- 6. RR/CC management should establish policies defining JEDI access roles and staff level/duties for each role.**
RR/CC Response – We agree. The Department will modify the current policy to strengthen definition of JEDI access roles and the staff level/duties for each role. Target date for implementation of this modification is in the next JEDI release, scheduled for April 2014.

Disaster Recovery/Contingency Planning

Recommendation:

- 7. RR/CC management establish a JEDI Disaster Recovery/Contingency Plan.**
RR/CC Response – We agree. The Department is working the CEO, CIO and ISD, collective, to establish a comprehensive disaster recovery plan in accordance with County policy. Target date for completion is Fall 2016.

Collections

Monitoring Shortages/Overages

Recommendations:

RR/CC management:

- 8. Ensure that cashiers accurately conduct cash counts at the end of their shifts, and that JVR exception reports are based on final supervisor approved cash count amounts.**
RR/CC Response – We agree and are now in compliance. Modifications were made to JEDI system the Fall of 2012 to suppress cashiers JVR and only print out the final supervisor approved cashier balance sheet to accompany collections remittances to Finance. On September 30, 2013, the system will be further enhanced to allow for the Supervisor to modify the balance sheet at any time after close-out if a variance is found later.
- 9. Document the review and follow-up of shortages.**
RR/CC Response – We agree and are now in compliance. As of April 2013, Finance and Management Division began distributing the "Cash Difference Reports" to Operations for monthly review and sign off.
- 10. Discontinue producing the Cash Difference Detail Report.**
RR/CC Response– We partially agree. Finance and Management Division and Recorder Division discussed discontinuing the manual cash difference report. However, it was decided that until the JEDI report captures only actual shortage amounts by cashier, the manual report will continue to be produced. Target date for implementation is April 2014.

Registrar-Recorder/County Clerk - Cash Operations Review

Safeguarding Collections

Recommendations:

RR/CC management:

- 11. Ensure staff list the checks received in the mail and drop boxes, and assign two staff to open large volumes of mail, or develop compensating controls when necessary.**

RR/CC Response – We agree and are now in compliance. Because it is not practical to have two staff sit side-by-side to open the large volume of mail, the Department centralized the mail processing for Document Recording Analysis (DAR), now known as “Title Processing” (TPS); area with this finding. The Department also implemented an alternate control that ensures number of mail received per day is logged and tracked and reconciled against the total of mail processed for the receipt day. The data is included in the Correspondence Unit’s “Title Processing Daily Report” that goes to the Recorder Bureau Operations Managers. Additionally, Effective September 2014, we will incorporate a mail tracking system that will scan the checks upon opening of the mail, which will replace the current manual listing of mail check in batches.

- 12. Ensure a supervisor approves all adjustments made to the list of checks received.**

RR/CC Response – We agree. The Department has a mail log requiring supervisors’ approval for any adjustments. Furthermore, this issue will be resolved electronically with the implementation of our Mail Tracking and Upfront Scanning System that will be implemented in September 2014.

Returned Checks

Recommendations:

RR/CC management:

- 13. Ensure cashiers review the log of returned checks before providing services and accepting checks.**

RR/CC Response - We agree in part. This policy is adhered to for over-the-counter transactions. This is not a feasible method for our mail transactions due to the high volume of checks received. This will be resolved with the new NSF Tracking System implementation in JEDI in Spring 2014 requiring all checks be compared to a database of NSF checks.

- 14. Ensure Finance immediately refer returned checks to the TTC if they do not receive payment within 30 days of the written demand.**

RR/CC Response – We agree in part. The Auditor-Controller’s Cash Review references the TTC referrals sampled in 2010, which they calculated as 27 days late. However, they performed another review of TTC referral documents in 2013 and calculated a 14-day late referral timeframe. We believe the updated results should be included in this review document since enhancements have been implemented since the initial review. Also, based on the CFM’s Sample NSF Check Demand Letter (CFM 1.5.3), the sample letter specifically allows the customer 30 days from the date of the letter to redeem the returned check. Therefore, we will implement a five to seven working day referral to TTC in compliance with CFM 1.5.2 and 1.5.3. In addition, the Department is developing a JEDI module to automate the NSF process, which we anticipate will further reduce the TTC referral time. Target date for implementation is September 2014.