CITY AND COUNTY OF SAN FRANCISCO
OFFICE OF THE CONTROLLER

Ben Rosenfield
Controller

Monique Zmuda
Deputy Controller

MEMORANDUM

TO: Carmen Chu, Assessor-Recorder
Office of the Assessor-Recorder

FROM: Tonia Lediju, Director of City Audits
City Services Auditor Division

DATE: December 31, 2013

SUBJECT: Audit of the Assessor-Recorder's Social Security Number Truncation Program

EXECUTIVE SUMMARY

The Office of the Assessor-Recorder (Recorder) created a Social Security number (SSN) truncation program (truncation program) pursuant to the California Government Code (Code), which requires each county's recorder to establish such a program to create a public record version of each official record. According to the Code, the Recorder has until December 31, 2017, to fully implement the truncation program. The Recorder contracts with its systems vendor (AtPac) to provide SSN truncation services. The Recorder correctly documents truncation program revenue and truncated SSNs on official records recorded on and after January 1, 2009. The audit also showed that:

- The Recorder has not truncated SSNs from official records recorded from 1980 through 2008.
- The Recorder could not demonstrate that truncation program fees are always used only for direct truncation program purposes.
- Indirect costs are not properly allocated to the truncation program.
- The Recorder inadequately protects recorded documents from unauthorized access or damage.

The Recorder needs to:

- Truncate SSNs from official records recorded from 1980 through 2008.
- Conduct a competitive solicitation process and include the truncation of official records recorded from 1980 through 2008 in the agreement with the selected contractor.
- Ensure truncation program fees are only used for direct truncation program purposes.
- Properly allocate indirect costs to the truncation program.
- Enhance its controls to adequately protect recorded documents from unauthorized access or damage.

BACKGROUND, OBJECTIVES & METHODOLOGY

Background

The Office of the Controller's (Controller) City Services Auditor Division (CSA) audited the Recorder's truncation program. State law[1] requires the county recorder of each county to establish a truncation program to create a public record version of each official record recorded since 1980. Section 27361(d)(1) authorizes county recorders to charge a fee of one dollar ($1) for recording the first page of every instrument, paper, or notice required or permitted by law to be recorded, as authorized by each county's board of supervisors. The collected fees are to be used solely for truncation program implementation. Section 27301(c) requires that the county recorders not charge any new fee or increase any existing fees to fund the truncation program, except as provided in Section 27361(d).

On July 22, 2008, the San Francisco Board of Supervisors of the City and County of San Francisco (City) approved Ordinance Number 163-08, pursuant to Section 27301, which requires the Recorder to establish a truncation program. The ordinance authorizes the Recorder to collect an additional $1 for recording the first page of all documents except governmental liens. The ordinance provides that the fee shall discontinue after December 31, 2017, unless reauthorized by the Board of Supervisors.

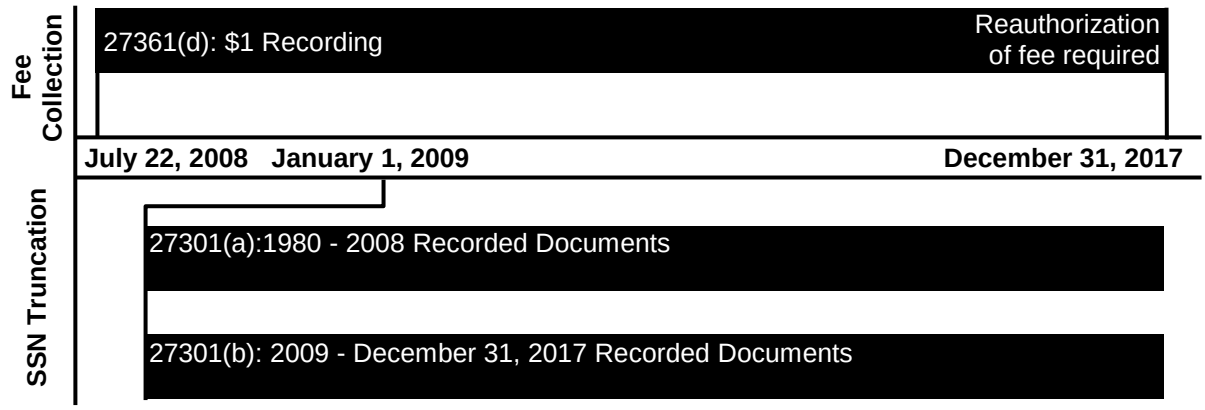
The ordinance further states that the Controller shall conduct two reviews to verify that the funds generated by this truncation program fee are used only for truncation program purposes as required by Section 27361(d)(4). The first review must be completed between June 1, 2012, and December 31, 2013, and the second review must be completed between June 1 and December 31, 2017. The reviews shall state the progress of the Recorder in truncating official records in accordance with Section 27301(a) and estimate any ongoing costs of complying with Section 27301, subdivisions (a) and (b).

Section 27301(a) requires the Recorder to create an electronic version of each official record recorded from 1980 through 2008 and truncate all SSNs contained in those records. The Recorder contracts with its systems vendor (AtPac) to provide SSN truncation services. Section 27301(b) requires the Recorder to create a copy of each official record recorded on or after January 1, 2009, in electronic format and truncate any SSN contained in that record. The truncation program is to include both Section 27301 (a) and (b) components, which the

[1] All code sections cited in this memorandum refer to the California Government Code.

Recorder shall implement concurrently.[2] Exhibit 1 presents a timeline for implementing the truncation program in accordance with the California Government Code.

EXHIBIT 1 Timeline for Truncation Program Implementation



Source: Auditor analysis of data from Assessor-Recorder.

Objectives

The objectives of this audit were to:

- Verify that the funds generated by the truncation program fees are used only for truncation program purposes and for the Controller to conduct two reviews, as required by Section 27361(d)(4).
- Determine the Recorder's progress in truncating SSNs on official records, in accordance with Section 27301(a).
- Estimate any ongoing costs of complying with Section 27301, subdivisions (a) and (b).

The audit's subobjectives were to:

- Verify that the Recorder accurately reports truncation program fees.
- Confirm the Recorder's plan to implement new software for truncating SSNs on official records recorded from 1980 through 2008.
- Determine whether truncation program fees sufficiently cover truncation program costs.
- Estimate truncation program revenue and expenditures through December 31, 2017.

[2] Section 27301(d): "Notwithstanding subdivisions (a) and (b), a county recorder shall not be required to create a public record version of an official record if the fee authorized in Section 27304 is determined by the recorder to be insufficient to meet the cost of creating the public record version. In that case, the county recorder shall determine whether the fee is sufficient to meet the cost of creating a public record version of only a fraction of the official records described in subdivisions (a) and (b). If the fee is sufficient to meet the cost of creating a public record version of a fraction of the official records, the recorder shall be required to create a public record version of that fraction only."

Methodology

This audit focused on the period of January 1, 2008, through June 30, 2013. The audit team researched the relevant laws, interviewed key truncation program personnel, observed the truncation and fee collection/recording processes, and reviewed truncation program records including fee collections, expenditures, and documents sent for redaction. CSA then documented the results of the fieldwork.

This performance audit was conducted in accordance with generally accepted government auditing standards. These standards require planning and performing the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives. CSA believes that the evidence obtained provides a reasonable basis for the findings and conclusions based on the audit objectives.

RESULTS

Finding 1 –The Recorder has not truncated Social Security numbers from all official records recorded from 1980 through 2008.

According to the Recorder, it began truncating SSNs from official records in 2009, but has not done so on all official records recorded from 1980 through 2008. The Recorder stated that documents recorded from 1980 through 2008 have been digitized, but have not been truncated. The Recorder contracted with AtPac on November 7, 2008, to provide SSN truncation services for documents recorded from January 1, 2009. The Recorder is in the process of issuing a request for proposal for contractors to implement a new software system for the Recorder to truncate recorded documents going forward that also includes the truncation of SSNs from official records recorded from 1980 through 2008. The Recorder plans to have a new contract in place with the selected vendor by June 30, 2014.

Recommendations

The Assessor-Recorder should:

1. Further develop its Social Security number truncation program to cover official records recorded from 1980 through 2008.

2. Conduct a competitive solicitation process and include the truncation of official records recorded from 1980 through 2008 in the agreement with the selected contractor.

Finding 2 – The Recorder effectively implemented a process for reviewing and truncating Social Security numbers from official records recorded as of January 1, 2009.

Of all official records recorded, 39,531 were scanned by Recorder personnel using AtPac's optical character recognition software and then flagged and sent for manual verification that SSNs were properly truncated. CSA sampled 86 of these official records to test whether they contain truncated SSNs. (Of the 86 records, 43 were chosen from a list of redacted documents and the other 43 were sampled from a list of documents that did not require redaction.)

To determine the effectiveness of the truncation process and to verify that official records available to the public do not contain SSNs, CSA also sampled 4 documents from a list of official records provided by the Recorder. All official records recorded by the Recorder are available to the public at the counter in the Recorder's office, provided that the records do not contain SSNs. This list contained recorded documents processed by the AtPac software and found by AtPac to not have any SSNs. CSA collected these samples from the counter at the Recorder's office and tested to confirm that the official records do not contain unredacted SSNs.

The audit found that SSNs from the tested official records were properly truncated or did not require redaction, as shown in Exhibit 2.

EXHIBIT 2 **Test Results of Sampled Official Records Recorded as of January 1, 2009, Sent for Manual Verification and Truncation of Social Security Numbers**

Document Type	Sample Population	Sample Number	Confidence Level	Errors
Redacted	14,520	43	95%	None
Sent for Verification	25,011	43	95%	None
Unredacted	992,256	4	95%	None
Total	1,031,787	90		

Source: Auditor analysis of data from Assessor-Recorder.

Finding 3 – The Recorder correctly records truncation program fees.

All funds generated by truncation program fees are correctly recorded in the City's accounting system under the proper internal accounting (index) code. This index code corresponds to the special fund established to record revenue only from truncation program fees. From September 1, 2008, through June 30, 2013, the Recorder collected $948,541 in truncation program fees.

Finding 4 – The Recorder needs to appropriately allocate expenses to the truncation program.

Although money from the truncation program's special fund is used to pay truncation program expenses, the Recorder also uses the funds to pay expenses for the division that are not directly related to the truncation program. Of the $142,676 of expenses the Recorder paid from the truncation program's special fund during January 1, 2009, through June 30, 2013, $58,653 (41 percent) could not be shown to be directly related to the truncation program.

Section 27361(d)(4) states that the funds generated by the truncation program fee are to be used only for truncation program purposes. According to the Recorder, its operating expenses come from the general fund first and, when that budget allocation is depleted, the practice is to use the revenue generated through truncation program fees to fund other expenditures. This may include indirect truncation program costs. The Recorder could not provide documentation to show the approved methodology by which the Recorder division's indirect costs are allocated to the truncation program. Also, the Recorder does not pay the truncation program's personnel expenses with the revenue generated by truncation program fees. Because truncation program expenses are not only paid from truncation program revenue, it is difficult to accurately estimate them.

Recommendations

The Assessor-Recorder should:

3. Determine the total amount of truncation program funds used to pay Recorder division expenses that were not directly related to the truncation program and reallocate that amount to the truncation program fund.

4. Develop and implement a method for allocating and documenting indirect costs of the truncation program, including personnel expenses.

5. Use funds generated by truncation program fees only for truncation program expenses.

Finding 5 – The truncation program's fees exceed its identified expenditures, and the surplus exceeds the estimated cost of truncating documents.

Exhibit 3 shows that from September 1, 2008, through June 30, 2013, the Recorder collected $948,541 in truncation program fees and made $142,676 in truncation program expenditures, yielding surplus truncation program fees of $804,865.

EXHIBIT 3 **Social Security Number Truncation Program Revenues, Expenditures, and Surplus September 1, 2008, Through June 30, 2013**

Fiscal Year	Revenues	Expenditures[a]	Surplus
2008-09[b]	$122,965	$42,585	$81,380
2009-10	175,452	9,937	165,515
2010-11	194,086	53,876	140,210
2011-12	209,586	30,706	178,880
2012-13	246,452	6,572	239,880
Total	$948,451	$142,676	$805,865

Note:
[a] Expenditures shown include only those made from the program index code. Truncation program personnel expenses are excluded because the Recorder does not pay those expenses with revenue generated by truncation program fees.
[b] Collection of truncation program fees began September 1, 2008.

Source: Assessor-Recorder

Recommendations

The Assessor-Recorder should:

6. Develop, document, and implement a method for accurately recording truncation program revenue and expenditures.

7. Estimate the cost to truncate official records recorded from 1980 through 2008, determine whether truncation program revenue sufficiently covers program costs, and adjust the truncation program's budget as needed.

Finding 6 – The truncation program will generate an estimated surplus of $737,784 by the end of 2017.

The Recorder is projected to have revenues that will exceed expenditures, resulting in an estimated cumulative surplus of $737,784 by December 31, 2017. As noted in Exhibit 3, the truncation program collected a surplus of $805,865 through June 30, 2013. And, as displayed in Exhibit 4, the program is expected to continue to generate surpluses each year other than in fiscal year 2013-14, when the implementation of the backward truncation of official records[3] will cause expenses to exceed revenues by $732,928. The surplus revenue may be used to pay for the truncation of these records.

[3] As stated in Finding 1, the Recorder needs to truncate official records recorded from 1980 through 2008.

EXHIBIT 4 **Social Security Number Truncation Program Actual and Projected Revenues, Expenditures, and Surplus or Deficit September 1, 2008, Through December 31, 2017**

Fiscal Year	Revenues[d]	Expenditures[e]	Surplus
2008-09[a]	$122,965	$41,585	$81,380
2009-10	175,452	9,937	165,515
2010-11	194,086	53,876	140,210
2011-12	209,586	30,706	178,880
2012-13	246,452	6,572	239,880
2013-14[b]	219,958	952,887[f]	(732,928)
2014-15[b]	230,956	54,307	176,649
2015-16[b]	242,504	55,817	186,687
2016-17[b]	254,629	57,343	197,286
July – Dec 2017[b,c]	133,680	29,455	104,225
Total	$2,030,270	$1,292,486	$737,784

Notes:
[a] Collection of truncation program fees began September 1, 2008.
[b] Estimates made for these periods.
[c] Ordinance 163-08 states that the fee shall discontinue after December 31, 2017, unless reauthorized by the Board of Supervisors.
[d] Revenues are based on an estimated 5 percent annual increase in document volume and the fact that fees were collected, on average, for 85 percent of document volume from fiscal years 2008-09 through 2012-13.
[e] Expenditures are based on estimated personnel expenses, estimated ongoing program costs, and estimated cost to truncate official records from 1980-2008.
[f] Includes estimated cost to truncate official records from 1980-2008.

Source: CSA analysis

CSA performed the following test and analysis to determine estimated revenues and expenses of the program:

- Estimated Revenue Increases
  CSA estimates future truncation program revenue based on the percentage change in the average number of documents recorded each year from fiscal year 2008-09 to 2012-13. Other than liens, for which there is no filing fee, the amount of revenue the Recorder collects is directly related to document volume, which, according to the Recorder, is directly related to economic conditions. Based on this analysis, CSA estimated a 5 percent growth in document volume each year. CSA then extrapolated the estimated revenue increase based on the ratio of documents recorded to fees collected from fiscal year 2008-09 to 2012-13. By applying this average from fiscal year 2013-14 to the end of the truncation program on December 31, 2017, CSA projects that the truncation program will collect $737,784 from September 2008 through December 2017, as shown in Exhibit 4.

- Estimated Personnel Expenses
  As discussed in Finding 4, personnel expenses are not paid from the truncation program's index code. To estimate the total personnel expenses of the program,

CSA obtained from the Recorder a percentage estimate of the time spent by employees on the truncation program. CSA then multiplied the percentage of time spent by each employee to the total estimated cost of each employee.[4]

- Estimated Ongoing Program Costs for Truncation Services
  The Recorder's contract with AtPac for truncation services provides that, regardless of the number of pages redacted, the truncation program incurs costs of $28,275 in fiscal year 2013-14 and a 2.5 percent increase in fees annually after that year, for the use of the contractor's redaction processing system. The contract also limits annual cost increases to a maximum of 2.5 percent beginning in fiscal year 2013-14. CSA estimates program costs based on these current contract terms with AtPac.

- Estimated Cost to Truncate Official Records from 1980 through 2008
  Due to the unpredictability of the not-yet-incurred cost to redact documents from 1980 through 2008, CSA used an estimate provided by the Recorder for this cost.

Recommendation

8. The Assessor-Recorder should use surplus revenue generated from the truncation program to pay for the ongoing costs to truncate official records and the unanticipated costs of the backward truncation of official records recorded from 1980 through 2008, as per the California Government Code, Section 27301(a) and (b).

Finding 7 – The Recorder does not adequately protect recorded documents from unauthorized access or damage.

Documents submitted to the Recorder for recording, which may contain SSNs, are initially stored in open mail boxes near the examiners' work stations. The Recorder stated that the examiners' workstations are in a locked area and only Recorder staff is allowed to access the documents. However, the confidentiality of the documents may be compromised when the documents are transferred from the work stations to the scan room because the transference area is not a secured area.

Recorded documents are also inadequately protected while in the scan room because the door to the scan room is sometimes left open although the room is unattended. The room holds documents that need to be scanned, or documents that have been scanned and indexed, and are awaiting being returned to their owners or city departments. The Recorder stated that it does not have written policies and procedures for the security of the room or its documents, but only authorized personnel are allowed in the scan room and the room is locked when not in use.

According to the Internal Revenue Service, its employees must be responsible for the protection and proper disposition of all information, documents, and property in their possession or control. They must make every effort to protect information, documents, and other properties entrusted to their care and prevent unauthorized entry into areas where the information, documents, and

[4] CSA did not calculate the total increase in labor time for the truncation of documents from 1980-2008.

property are located. This guideline is equally applicable to city operations, including the Recorder's, because the Recorder also handles and maintains information and documents.

Recommendation

9. The Assessor-Recorder should develop and implement written policies and procedures to enhance the security and safekeeping of documents in its possession.

The Assessor-Recorder's response is attached. CSA will work with the Recorder to follow up on the status of the recommendations in this memorandum. CSA extends its appreciation to you and your staff who assisted with this audit. If you have any questions or concerns, please contact me at (415) 554-5393 or tonia.lediju@sfgov.org.

cc: Assessor-Recorder
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Board of Supervisors
Budget Analyst
Citizens Audit Review Board
City Attorney
Civil Grand Jury
Mayor
Public Library

APPENDIX A: DEPARTMENT RESPONSE

CARMEN CHU
ASSESSOR-RECORDER

SAN FRANCISCO
OFFICE OF THE ASSESSOR-RECORDER

December 27, 20013

Tonia Lediju
Director of Audits
City Hall, Room 476
1 Dr. Carlton B. Goodlett Place
San Francisco, CA. 94102

Re: Office of the Assessor-Recorder's Responses to the Controller's audit report of the Social Security Number Truncation Program

Dear Ms. Lediju:

The Office of the Assessor-Recorder is in receipt of the Controller's draft audit report entitled "Audit Results of the Assessor-Recorder's Social Security Number Truncation Program." Thank you for providing our office the opportunity to review and to respond to the report.

Attached, for your review, are the Office of the Assessor-Recorder's responses to the recommendations detailed in the audit report.

The Office of the Assessor-Recorder appreciates the time and effort that was spent on this audit and will implement the recommendations prescribed in the attached response form.

If you have any questions or need additional information, please do not hesitate to contact me at (415) 554-4999, or Ms. Zoon Nguyen, Deputy Assessor-Recorder at (415) 554-4734.

Sincerely,

Carmen Chu

Carmen Chu
Assessor-Recorder

cc: Ben Rosenfield
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For each recommendation, the responsible agency should indicate whether it concurs, does not concur, or partially concurs. If it concurs with the recommendation, it should indicate the expected implementation date and implementation plan. If the responsible agency does not concur or partially concurs, it should provide an explanation and an alternate plan of action to address the identified issue.

RECOMMENDATIONS AND RESPONSES

Recommendation	Response
The Assessor-Recorder should:	
1. Further develop its Social Security number truncation program to cover official records recorded from 1980 through 2008.	The Office of the Assessor-Recorder concurs with this finding. As referenced in the report, the Office of the Assessor-Recorder is in the process of issuing a request for proposal (RFP) to implement a comprehensive Commercial Off The Shelf ("COTS") Recorder system to replace its current system with one fully integrated, turnkey software solution. "Backdate" truncation (1980 to 2008) of official records is part of the RFP requirement. The department is working to determine the necessary resources needed to adequately administer this program, and expects to begin implementing the corresponding changes by the end of FY 14-15.
2. Conduct a competitive solicitation process and include the truncation of official records recorded from 1980 through 2008 in the agreement with the selected contractor.	The Office of the Assessor-Recorder concurs with this finding. The Office of the Assessor-Recorder is in the process of conducting a competitive solicitation process by issuing a request for proposal (RFP) to implement a comprehensive Commercial Off The Shelf ("COTS") system to replace its current system with one fully integrated, turnkey software solution. "Backdate" truncation (1980 to 2008) of official records is part of the RFP requirement. The department is working to determine the necessary resources needed to adequately administer this program, and expects to begin implementing the corresponding changes by the end of FY 14-15.

Recommendation	Response
3. Determine the total amount of truncation program funds used to pay Recorder division expenses that were not directly related to the truncation program and reallocate that amount to the truncation program fund.	The Office of the Assessor-Recorder concurs with this finding. The department is working to determine the necessary resources needed to adequately administer this program, and expects to begin implementing the corresponding changes by the end of FY 13-14.
4. Develop and implement a method for allocating and documenting indirect costs of the truncation program, including personnel expenses.	The Office of the Assessor-Recorder concurs with this finding. The department is working to determine the necessary resources needed to adequately administer this program, and expects to begin implementing the corresponding changes by the end of FY 13-14.
5. Use funds generated by truncation program fees only for truncation program expenses.	The Office of the Assessor-Recorder concurs with this finding. The department is working to determine the necessary resources needed to adequately administer this program, and expects to begin implementing the corresponding changes by the end of FY 13-14.
6. Develop, document, and implement a method for accurately recording truncation program revenue and expenditures.	The Office of the Assessor-Recorder concurs with this finding. The department is working to determine the necessary resources needed to adequately administer this program, and expects to begin implementing the corresponding changes by the end of FY 13-14.

Recommendation	Response
7. Estimate the cost to truncate official records recorded from 1980 through 2008, determine whether truncation program revenue sufficiently covers program costs, and adjust the truncation program's budget as needed.	The Office of the Assessor-Recorder concurs with this finding. The Office of the Assessor-Recorder is in the process of issuing a request for proposal (RFP) to implement a comprehensive Commercial Off The Shelf ("COTS") Recorder system to replace its current system with one fully integrated, turnkey software solution. "Back date" truncation (1980 to 2008) of official records is part of the RFP requirement. "Backdate" truncation program costs will be more costly than day forward as the digitized images are managed/owned by multiple vendors, using their own proprietary software. The department is working to determine the necessary resources needed to adequately administer this program, and expects to begin implementing the corresponding changes by the end of FY 14-15.
8. Use surplus revenue generated from the truncation program to pay for the ongoing costs to truncate official records and the unanticipated costs of the backward truncation of official records recorded from 1980 through 2008, as per the California Government Code, Section 27301(a) and (b).	The Office of the Assessor-Recorder concurs with this finding. The Office of the Assessor-Recorder is in the process of issuing a request for proposal (RFP) to implement a comprehensive Commercial Off The Shelf ("COTS") Recorder system to replace its current system with one fully integrated, turnkey software solution. "Back date" truncation (1980 to 2008) of official records is part of the RFP requirement. "Backdate" truncation program costs will be more costly than day forward truncation program costs. Digitized images are managed by multiple vendors, using different software programs. The Office of the Assessor-Recorder is committed to selecting a vendor who offers "open format and flexible" software solutions versus solutions that are considered "closed" and proprietary. The department is working to determine the necessary resources needed to adequately administer this program, and expects to begin implementing the corresponding changes by the end of FY 14-15

Recommendation	Response
9. Develop and implement written policies and procedures to enhance the security and safekeeping of documents in its possession.	The Office of the Assessor-Recorder concurs with this finding. The department is working to determine the necessary resources needed to adequately administer this program, and expects to begin implementing the corresponding changes by the end of FY 13-14.