

**GOVERNMENT OF THE DISTRICT OF COLUMBIA  
OFFICE OF THE CHIEF FINANCIAL OFFICER**

**AUDIT OF INTERNAL CONTROLS OVER THE EXAMINATION UNIT  
OF THE RECORDER OF DEEDS (ROD) AT THE  
OFFICE OF TAX AND REVENUE (OTR)**

**OFFICE OF INTEGRITY AND OVERSIGHT**



**GOVERNMENT OF THE DISTRICT OF COLUMBIA**  
**Office of the Chief Financial Officer**



Office of Integrity and Oversight

**MEMORANDUM**

**TO:** Stephen M. Cordi, Deputy Chief Financial Officer  
Office of Tax and Revenue

**FROM:** Mohamad K. Yusuff, Interim Executive Director  
Office of Integrity and Oversight

**DATE:** February 4, 2014

**SUBJECT:** Final Report: Audit of Internal Controls over the Examination Unit of the Office of the Recorder of Deeds (ROD) at the Office of Tax and Revenue (OTR) (Report Number: OIO-13-01-14 OTR)

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This report summarizes the results of our Audit of Internal Controls over the Examination Unit of the Office of the Recorder of Deeds (ROD) at the Office of Tax and Revenue (OTR). This audit was included in the FY 2013 Office of Integrity and Oversight (OIO) Audit and Integrity Plan.

The audit did not identify any significant deficiencies in the Examination Unit operations; however, we did note two conditions that need improvement. The first condition revealed that, deeds not presented for recordation within 30 calendar days, were not assessed the penalty as required by D.C. code. The second was that there was no segregation of duties or independent verification of the cashier's daily revenue reporting procedures.

We addressed two recommendations to the Deputy Chief Financial Officer (DCFO), Office of Tax and Revenue (OTR). The DCFO, OTR concurred with our findings and recommendations and provided a target completion date. We consider OTR's response to be responsive to our finding and recommendations. The full text of the OTR's response is included as Appendix 1.

We appreciate the assistance and cooperation that you and your staff provided OIO during the audit. Should you have any questions on this report or need additional information, please contact me at (202) 442-8240; or your staff may contact Khaled Abdel Ghany, Senior Auditor, at (202) 442-8277.

**Attachment**

**cc: Jeff DeWitt, Chief Financial Officer, Government of the District of Columbia  
Angell Jacobs, Deputy Chief Financial Officer and Chief of Staff, OCFO  
Kathy Crader, Chief Risk Officer, OCFO  
Glen Groff, Director of Operations, OTR  
Robert Farr, Director of Real Property, OTR  
Ida Williams, Recorder of Deeds, OTR**

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**AUDIT OF INTERNAL CONTROLS OVER THE EXAMINATION UNIT  
OF THE OFFICE OF THE RECORDER OF DEEDS (ROD) AT THE  
OFFICE OF TAX AND REVENUE (OTR)**

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**AUDIT OF INTERNAL CONTROLS OVER THE EXAMINATION UNIT OF THE  
OFFICE OF THE RECORDER OF DEEDS (ROD) AT THE  
OFFICE OF TAX AND REVENUE (OTR)**

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**ACRONYMS**

OFT	Office of Finance and Treasury
OIO	Office of Oversight and Integrity
OTR	Office of Tax and Revenue
ROD	Recorder of Deeds
RPTA	Real Property Tax Administration
SOAR	System of Accounting and Reporting
SSL	Square, Suffix, Lot

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## EXECUTIVE SUMMARY

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### OVERVIEW

The Office of Integrity and Oversight (OIO) conducted an audit of the internal controls over the Examination Unit of the Recorder of Deeds (ROD) at the Office of Tax and Revenue (OTR). This audit was included in our FY 2013 Audit and Integrity Plan. Our audit objectives were to:

- Verify that internal controls for documentation processing assure timely and accurate processing of deeds and other related documents; and
- Determine whether revenues for recordation fees and taxes are properly accounted for.

### CONCLUSION

Overall, our audit found that the ROD has been processing documents presented for recordation in a timely and accurate manner. However, we found:

- Deeds, that were not presented to ROD within 30 calendar days, were not being assessed the \$250 penalty as prescribed by D.C. Code § 47-1431 and § 47-1433.
- Document examiners prepare the deposit for the taxes and fees they processed with no segregation of duties. Risk is minimized because the ROD examiners only process checks; however, we concluded that a separate or independent reconciliation of the cashier's daily revenue summary to the E-Star general ledger would provide competent assurance that all funds were properly accounted for and reported.

### SUMMARY OF RECOMMENDATIONS

We recommended to the Deputy Chief Financial Officer, OTR:

- Reinforce to the document examiners the need to verify that deeds presented for recordation are within 30 calendar days of the document's execution date; and
- Implement procedures for an independent reconciliation of the daily SOAR revenue report with the E-Star general ledger.

### MANAGEMENT RESPONSE AND OIO COMMENTS

OIO received a written response from the Deputy Chief Financial Officer, Office of Tax and Revenue (DCFO, OTR) on January 28, 2014. The DCFO, OTR agreed with our recommendations and stated full implementation would be accomplished by February 3, 2014. We consider OTR's actions to be fully responsive to the recommendations. The full text of the OTR response is included in this report as Appendix 1.

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## INTRODUCTION

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### BACKGROUND

The Office of Tax and Revenue (OTR) is responsible for the assessment and collection of tax revenues on behalf of the District of Columbia Government. The largest single tax revenue source is the real property tax. The Real Property tax program is managed by the Real Property Tax Administration (RPTA). RPTA is made up of three divisions: the Assessment Division, Assessment Services Division, and the Recorder of Deeds (ROD). The ROD is the official repository of all land records and general public instruments for the District of Columbia. ROD is responsible for collecting recordation and transfer taxes as well as filing fees on all documents being recorded. ROD is also responsible for maintaining copies for public inspection of all documents it records. Documents from August 15, 1921, to the present are available for inspection using the Online Public Records data base. The data base is maintained for ROD by a private contractor.

The ROD has four operational units:

1. The Administrative Unit manages the day to day administrative duties for the office.
2. The Customer Service Unit provides customer assistance to clients that visit the office.
3. The Examination Unit is responsible for examining all documents received by the ROD. The unit ensures that all documents received are in recordable form and in compliance with the provisions of D.C. Code Title 42 and 47. Documents that do not meet the requirements of recordability are rejected and sent back to the client along with a rejection sheet documenting the reason the document could not be recorded.
4. The Production Unit is responsible for scanning the documents into the E-Star and the Public Records data base.

Our audit focused on the operations of the Examination Unit. During FY 2012 the ROD collected about \$285 million in deed recordation and transfer taxes.

### *Recording Process*

Documents are received for recordation at ROD by mail, electronically, or hand delivered. The Examination Unit is responsible for ensuring that the documents presented for recordation meet all the legal requirements for recordation, the documents are signed and notarized where required, and the Real Property Recordation and Transfer Tax form (FP 7/C) is completed and the taxes are accurately calculated.

**Required Document Information** - Documents presented for recordation must contain specific information to be eligible for recordation. All documents and attachments must be neat and legible. The documents must have a complete legal description which includes lot number, square number, subdivision and reference information as recorded with the Office of the Surveyor. The names and signatures of the grantors and grantees must be included and all signatures must be notarized. Notarized documents must include the notary seal, signature, name, and expiration date. On residential deeds of trusts a security affidavit is required.

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## INTRODUCTION

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**Document Examination** - The Examination Unit examines all documents presented to the ROD for recordation. The document examiner is responsible to ensure that the grantor and grantee signed the documents, the required notary stamps and signatures are affixed to the document, and that the document contains a legal description.

The examiner also verifies that the legal description has the correct square and lot number (SSL). For deeds that transfer ownership the examiner verifies the grantor is the owner of the property, and that their names are recorded in the real property assessment database. If there are any transfer or recordation taxes involved in the transaction, the examiner verifies that the FP 7/C is completed and includes the consideration amount, the SSL, and the tax is accurately calculated. If the document is complete, the examiner initials the first page and records the document in E-Star. Information entered includes document type, if the document is for a property transfer, the examiner enters the consideration and E-Star automatically calculates the transfer and recordation tax, which must agree with amounts on the FP 7/C. The examiner also enters the check number and check amount.

The E-Star system then generates the document number, labels, and customer receipt. The examiner affixes the labels to the first and last page of the document and forwards the documents to the Production Unit for scanning and indexing. If any document is missing any of the required information, the examiner prepares a rejection sheet noting all deficiencies and signs and dates the rejection sheet and returns the rejection sheet along with the document to the taxpayer.

### *Taxes and Fees*

**Recordation and Recording Tax** - When the title to real property is transferred through a deed or other legal documentation, the transaction is subject to transfer and recordation tax. The tax rate for class 1 residential property is 1.1 percent for transfers with consideration of less than \$400,000, and 1.45 percent for transfers with consideration greater than \$400,000. Chapter 9-5 of the D.C. Municipal Regulation (DCMR) states that if the consideration amount on the FP 7/C is less than 30 percent of the property's fair market value, the consideration is considered nominal and the ROD shall use the fair market value for calculating the recordation and transfer tax. The fair market value is normally considered the assessed value of the property, but the ROD may use other information to determine the fair market value such as a certified appraisal report that is less than six months old.

**Other Recording Fees** - Effective January 1, 2012, the ROD streamlined the recordation fee structure by instituting a flat rate for recording fees. For deeds of trust, modifications or amendments to deeds of trust, mortgages, or amended and restated deeds of trust the recordation fee is \$150.00 regardless of the number of pages the document contains. The recordation fee for all other documents is \$25.00. In addition, all documents are subject to a \$6.50 surcharge. The ROD also charges \$2.25 per page for a copy of a document, and an additional \$2.25 for a certification of a copied document.

For deeds or other documents that transfer property ownership or economic interest in real property, DC Code § 47-1431 and § 47-1433 require that the documentation must be recorded



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## INTRODUCTION

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within 30 calendar days from the execution date of the document, or a penalty of \$250 will be imposed in addition to any recordation or transfer taxes that are due. Payment of all taxes and fees are due at the time of recording.

### OBJECTIVES, SCOPE AND METHODOLOGY

The audit objectives were to: (1) verify that internal controls for documentation processing assure timely and accurate processing of deeds and other related documents, and (2) determine whether revenues from recordation fees and taxes are properly accounted for.

In order to achieve these objectives, we examined a statistical sample of 184 transactions having a dollar amount greater than or equal to \$1,000 from a universe of 207,183 transactions that were recorded by the ROD during the period of October 1, 2011, through March 31, 2013. Our examination of the sample items included verifying that the proper transfer and recordation tax rate was used and the tax was accurately computed; verifying the consideration amount was at least 30 percent of the assessed value of the property; and reviewing the time lapse between the document execution date and the date it was recorded. We also interviewed the Recorder and Deputy Recorder of Deeds, the Supervisory Document Examiner, document examiners, personnel from the Administrative Unit, and personnel from the RPTA Accounting Section. We reviewed procedures for the daily check reconciliation process and preparation of the daily revenue report. We also reviewed procedures for the monthly bank reconciliation for revenue received from electronically filed documents.

We relied on computer-processed data from E-Star, and the Washington D.C. Online Public Records database to identify and retrieve recorded property documents. We performed limited testing of the E-Star data to satisfy ourselves that the data was reliable enough to accomplish our audit objectives. We did not perform any formal reliability testing on the public records database because it is only a data warehouse for maintaining electronic copies of all documents recorded by the ROD and all information contained the public records database could be verified against the data in E-Star.

This performance audit was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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## FINDING AND RECOMMENDATIONS

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<b>FINDING:           DOCUMENT EXAMINATION</b>
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### SYNOPSIS

We found that the ROD is processing and recording documents presented for recordation timely and accurately. However, we did identify an area that needed improvement. Deeds that are not being presented for recordation within 30 calendar days, as required by D.C Code, were not being identified and assessed the \$250 penalty as required by the Code. As a result, the recordation of these deeds is not in compliance with District Code and the District is missing the opportunity to collect additional revenues.

### DISCUSSION

We selected a statistical sample<sup>1</sup> of 184 transactions equal to or greater than \$1,000 from a universe of 207,183 transactions recorded by ROD during the period of October 1, 2011 through March 31, 2013. For our sample purposes, we reviewed all documents processed under a single receipt as part of the transaction. For example, if a client submitted for recordation a deed, a deed of trust, and a power of attorney, each of these documents would receive a separate document number and each would have the appropriate fees and taxes charged. However, the documents would be processed under a single receipt number. Because one of our audit objectives was to verify the accuracy of document processing, we had to review all documents associated with the receipt total. This resulted in our review of a total of 451 individual documents.

Of the 451 documents we reviewed in our sample, we identified 8 deeds that were not filed within 30 calendar days as required by D.C. Code. We also identified 9 documents that had administrative type errors such as incorrect square and lot number (SSL).

#### *Deeds Not Filed Within 30 Days*

Of the 451 documents included in our sample, 180 were deeds that transferred ownership of real property. D.C. Code § 47-1431(a) requires the deed to be recorded with the ROD within 30 calendar days of its execution. D.C. Code § 47-1433(c) directs that if the deed or other documents transferring ownership is not recorded within the 30 days, a penalty of \$250 shall be assessed in addition to any recordation and transfer tax due. We compared the execution date to the date the deed was recorded and found that 8 of the 180 deeds (about 4.4 percent) were not recorded within the required 30 calendar days. These 8 deeds should have been assessed the

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<sup>1</sup> The statistical sample criteria were: confidence level 95%, materiality level 5%, and auditor 's expectation of error 2%

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**FINDING AND RECOMMENDATIONS**

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\$250 penalty for late filing. The time between execution and recordation ranged from 32 days to as long as 89 calendar days as shown below in Table 1.

**Table 1: Deeds that Exceeded 30 Calendar Days between Execution Date and Recordation Date**

Document Number	Deed Execution Date	Deed Recordation Date	Elapsed Days
2012000943	12/03/2011	01/04/2012	32 <sup>2</sup>
2012035557	03/01/2012	04/03/2012	33 <sup>3</sup>
2013000041	11/30/2012	01/02/2013	33 <sup>4</sup>
2012036186	02/29/2012	04/04/2012	35
2012070404	05/23/2012	07/02/2012	40
2012001091	11/22/2011	01/04/2012	43
2011100411	07/08/2011	10/03/2011	87
2012036190	04/04/2012	04/04/2012	89

None of the 8 deeds had evidence that they were reviewed by the examiner for compliance with the 30-day recordation requirement. The ROD document examiners review over 140,000 documents per year, and have a number of recordation requirements to review, as well as ensuring the recordation and transfer taxes and recordation fees are properly calculated. It appears to us that the elapsed days between deed execution and recordation were being overlooked.

We do not consider this oversight to be a significant deficiency and believe that these late filings are the exception to normal business routine at ROD. Of the 180 deeds that we reviewed, 172 (95 percent) had an average of 13 elapsed days between the execution and recordation dates. However, this is a legal compliance issue, which will provide the District additional revenue; therefore, we believe it needs to be addressed by ROD.

ROD should re-emphasize its standard procedures to its examiners to verify that the elapsed days between deed execution and recordation dates are within the 30-day limit. Moreover, ROD should reject any deed that is not compliant with the filing requirement and assess the required penalty. If the penalty is waived, the reason should be documented in the file with supervisory approval.

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<sup>2</sup> Day 30 was January 2, 2012 a legal holiday. Deed should have been recorded January 3, 2012.

<sup>3</sup> Day 30 was Saturday, March 31, 2012. Deed should have been recorded Monday April 2, 2012

<sup>4</sup> Day 30 was Sunday, December 30, 2012. Deed should have been recorded Monday, December 31, 2012

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## FINDING AND RECOMMENDATIONS

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### OTHER MATTERS

#### *Preparation of Daily Revenue Report*

Each examiner at the end of his/her tour of duty printed out the E-Star general ledger, check register, and daily revenue summary. The general ledger showed the total amount of taxes and fees by object codes that were processed by the examiner for the day. The check register listed all checks processed by the examiner; and the daily revenue summary showed the total amount processed by check, cash, and credit card. The ROD does not process cash or credit cards. These transactions are processed by the Office of Finance and Treasury (OFT). When a client wants to pay by cash or credit card, the client is given a transaction receipt that showed the amount due and the applicable System of Accounting and Reporting (SOAR) object code to be charged. The client takes the documentation to the OFT cashier, who enters it into SOAR, and gives the client a verified receipt. When the client returns with the OFT verified receipt, the transaction is processed in E-Star by the ROD examiner.

During the cash out procedure, the examiner totaled all checks processed, and verified that the amount and number of checks agreed with the E-Star Check log. The examiner then prepared the SOAR Revenue Report which involved transferring the amounts by object code from the E-Star General Ledger to the SOAR revenue report. The examiner must deduct any charges that were made by cash or credit card from the appropriate object code because those amounts were already entered into SOAR by OFT. The examiner then prepared the OFT Receipt for Internal Agency Bulk Deposit Drop-Off which showed the amount of deposit and examiners name and contact information. The checks and SOAR revenue report are then delivered to the OFT cashier for processing. The cashier signs the receipt and it is returned to ROD. We were told by ROD that they used to include a copy of the E-Star General Ledger, but OFT stated they did not need it and not to include it.

We believe that, as an additional internal control, the ROD should coordinate with OFT to include a copy of the E-Star ledger with the deposit and the OFT cashier should verify that the amounts on the ledger agree with the SOAR revenue report. An alternative would be to require the ROD supervisory examiner to verify that each examiner's SOAR revenue summary agrees with the E-Star General Ledger to assure that all funds are accurately reported and accounted for.

#### *Administrative Errors*

Nine of the 451 documents reviewed (1 percent) had administrative type errors that we believe were due to examiner oversight given the volume of documents the ROD processes on a daily basis. The errors include the following:

- On 1 document the consideration on the FP 7/C was about \$55,000 less than the amount of consideration on the deed, which would equate to a difference of about \$1,210 in recordation tax and transfer tax ( $\$55,000 \times .011\% = \$605 \times 2$ ). The recordation and transfer tax was based on the consideration amount on the FP 7/C with no explanation of the variance between the amount on the deed and the amount on the FP 7/C. ROD management agreed that this document should have been rejected.

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## FINDING AND RECOMMENDATIONS

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- 2 documents had the wrong SSL. One of these, document 2011100577 was subsequently corrected with a Re-recording certification filed under document number 2012125406. These were again due to examiner oversight.
- 1 document had the wrong FP 7/C scanned with the deed of trust. The correct FP 7/C was scanned with the deed for this transaction. This error was not attributed to the Examination Unit since the unit does not scan documents into the database. ROD stated it would file the FP 7/C with the correct document.
- 4 documents had the surcharge either increased or decreased from the standard charge of \$6.50. The ROD stated that the office has the discretion to waive minor variances to avoid having to reject the document, return it to the client, then have the client prepare a new check, resubmit the documentation and have the ROD examiner reprocess the document. The net variance of the adjustments amounted to \$0.91; therefore, we believe the business practices used by ROD in these instances were in the District's best interests.
- 1 document did not have a completed FP 7/C showing the tax due. However, the proper amount of tax was collected. Again, this is an administrative oversight with no material effect.

## RECOMMENDATIONS

We recommend the Deputy Chief Financial Officer (DCFO), OTR, should:

1. Reinforce to ROD document examiners the need to verify that the execution date of deed is within the 30-calendar day threshold when reviewing deeds for recordation.
2. Improve internal controls by implementing a separate or independent verification of the cashier daily revenue report either internally within ROD or in conjunction with OFT.

## MANAGEMENT RESPONSE AND OIO COMMENT

### Management Response (Recommendation 1)

OTR concurred with the recommendation and stated they have re-emphasized to examiners the standard procedures for deed review regarding the 30 calendar day requirement for recording deeds. OTR also stated they established procedures to have ROD supervisor note the reason for waiving any late fees on the FP-7 property tax return.

### OIO Comment

OTR's corrective actions are responsive to the recommendation.

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## FINDING AND RECOMMENDATIONS

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### **Management Response (Recommendation 2)**

OTR concurred with the recommendation and stated a ROD supervisor will sign off on each examiner's SOAR revenue summary and compare it with the E-Star general ledger. OTR also stated that it would provide OFT a copy of the ledger for each corresponding SOAR revenue summary. Implementation is planned for February 3, 2014.

### **OIO Comment**

OTR's corrective actions are responsive to the recommendation.

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**EXHIBIT A: SUMMARY OF POTENTIAL BENEFITS FROM AUDIT**

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Recommendation	Potential Benefit	Type of Benefit	Agency Reported Completion Date	Status <sup>5</sup>
1	Reinforce to document examiners the need to verify that the execution date of deeds are less than 30 days old, and assess the penalty on those deeds that have execution dates older than 30 calendar days.	Monetary	Completed	Closed
2	Implement a separate or independent verification procedure of examiners' daily revenue report either internally within ROD or in conjunction with OFT.	Internal Control	February 3, 2014	Closed

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<sup>5</sup> This column provides the status of the recommendation as of the report date. For final reports “Open” means management and OIO are in agreement on the action to be taken, but the action is not complete. “Closed” means that management advised OIO that they took the action needed to correct the condition and that action is complete. If a completion date was not provided the date of management’s response was used. “Unresolved” means that management has neither agreed to the recommended action nor proposed a satisfactory alternative action to correct the condition.

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## APPENDIX 1: OTR MANAGEMENT'S RESPONSE

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GOVERNMENT OF THE DISTRICT OF COLUMBIA  
OFFICE OF THE CHIEF FINANCIAL OFFICER  
OFFICE OF TAX AND REVENUE



Stephen M. Cordi  
Deputy Chief Financial Officer

### MEMORANDUM

**TO:** Mohamad K. Yusuff, Interim Executive Director  
Office of Integrity and Oversight

**FROM:** Stephen M. Cordi  
Deputy Chief Financial Officer

**DATE:** January 28, 2014

**SUBJECT:** Draft Report: Audit of Internal Controls over the Examination Unit of the Office of the Recorder of Deeds (ROD) (Report Number – OIO: 13-01-14 OTR)

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The Office of Tax and Revenue (OTR) responds to the findings and recommendations of the Office of Integrity and Oversight (OIO) in the above-referenced draft report as follows:

**Recommendation #1:**

**Reinforce to ROD document examiners the need to verify that the execution date of deed is within the 30 calendar day threshold when reviewing deeds for recordation.**

Finding – As OIO's report points out, the Recorder of Deeds (ROD) reviews and records a high volume of documents on a daily basis. OTR agrees that the \$250 late fee for some of the documents in the report was not collected as required. OTR has undertaken to re-emphasize the standard procedures of deed review as to the 30 day calendar deadline with its examiners. OTR has also undertaken to make notation of the reason of waiving the late fee. The notation will be stated on the deed tax return form FP-7 by a ROD supervisor.

**Recommendation #2:**

**Improve internal controls by implementing an independent verification of the cashier daily revenue report either internally within ROD or in conjunction with OFT.**

Finding – OTR agrees with the recommendation to have a supervisor compare and verify each examiner's SOAR revenue summary with the E-Star general ledger. The supervisor will sign off on each examiner's SOAR revenue summary prior to being taken to OFT for further processing. OTR also agrees to submit to OFT a copy of the general ledger for each corresponding SOAR revenue summary. Implementation is planned for February 3, 2014.

If you have any further questions or concerns, please contact Mr. Robert Farr, Director, Real Property Tax Administration at (202) 442-6685.