

Audit Report

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**Office of the Clerk of Circuit Court  
Anne Arundel County, Maryland**

September 2007

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**OFFICE OF LEGISLATIVE AUDITS**  
DEPARTMENT OF LEGISLATIVE SERVICES  
MARYLAND GENERAL ASSEMBLY

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Karl S. Aro  
Executive Director

DEPARTMENT OF LEGISLATIVE SERVICES  
OFFICE OF LEGISLATIVE AUDITS  
MARYLAND GENERAL ASSEMBLY

Bruce A. Myers, CPA  
Legislative Auditor

September 18, 2007

Delegate Steven J. DeBoy, Sr., Co-Chair, Joint Audit Committee  
Senator Nathaniel J. McFadden, Co-Chair, Joint Audit Committee  
Members of Joint Audit Committee  
Annapolis, Maryland

Ladies and Gentlemen:

We have audited the Office of the Clerk of Circuit Court for Anne Arundel County, Maryland for the period beginning February 18, 2004 and ending April 24, 2007.

Our audit disclosed that numerous employees had been assigned incompatible duties on the automated Uniform Court System and, as a result, cash receipts misappropriations could occur and not be detected. In addition, the Office maintained several bank accounts at two banking institutions that were not authorized by the Office of the State Treasurer. Finally, delinquent accounts receivable were not referred to the Department of Budget and Management's Central Collection Unit in a timely manner.

Respectfully submitted,

Bruce A. Myers, CPA  
Legislative Auditor



## **Background Information**

### **Agency Responsibilities**

The Office performs a variety of functions for the public such as filing, docketing, and maintaining various legal records; recording documents involving title to real estate; collecting the related fees, commissions, and taxes; and issuing certain licenses. In performing these functions, the Office collects funds on behalf of the State, Anne Arundel County and its incorporated cities and towns, and others, and subsequently distributes the funds collected to the applicable entities.

### **Financial Information**

According to the State's accounting records, the Office's fiscal year 2006 revenues totaled \$176,913,326. These revenues were distributed in the following manner:

- \$131,667,466 was distributed to Anne Arundel County and its incorporated cities and towns;
- \$28,636 was distributed to others; and
- \$45,217,224 (the remaining amount) represented revenues available to the State for purposes specified in various provisions of State law.

The Office's fiscal year 2006 operating expenses, which were paid primarily from a general fund appropriation, totaled \$5,924,781.

The Office also maintained custody of certain trust and special purpose funds that, according to its records, had balances totaling \$1,739,386 as of March 31, 2007.

### **Current Status of Finding From Preceding Audit Report**

Our audit included a review to determine the current status of the finding contained in our preceding audit report, dated September 17, 2004. We determined that the Office satisfactorily addressed this finding.

# Findings and Recommendations

## Uniform Court System

### **Finding 1**

**Numerous employees had been assigned incompatible duties on the Uniform Court System (UCS), which could allow cash receipts misappropriations to occur and remain undetected.**

### **Analysis**

Numerous employees had been assigned incompatible duties on the UCS and, as a result, cash receipts misappropriations could occur without detection. The UCS is an automated Circuit Court record keeping system for criminal, civil, and juvenile court cases which includes case file management and cash receipts functions. For example, we noted that the standard group of electronic capabilities generally assigned to cashiers allowed these individuals, who have access to cash, to also post adjustments to the accounts receivable records. Specifically, 25 of the 28 cashiers tested also had the capability to adjust the accounts receivable records. The General Accounting Division's *Accounting Procedures Manual* states that basic internal control procedures for cash include the segregation of the cash receipts handling duties from the cash receipts and accounts receivable record keeping, billing, and reconciliation functions.

### **Recommendation 1**

**We recommend that the Office restrict UCS access to critical functions to only those employees whose job duties require such access. We also recommend that the aforementioned incompatible duties be eliminated.**

## Bank Accounts

### **Finding 2**

**The Office maintained certain bank accounts in financial institutions which were not authorized by the Office of the State Treasurer. In addition, for another account that was established at an authorized bank, that bank did not pay interest to the Office for certain periods of time.**

### **Analysis**

The Office maintained certain savings and checking accounts at two financial institutions which were not authorized by the Office of the State Treasurer. One savings account, which was used to hold funds in escrow until related court cases

were settled, had a balance of \$137,571 as of March 31, 2007. The other savings and checking accounts related to the Bar Library Fund—a fund maintained on behalf of Anne Arundel County. As of March 31, 2007, the balance in the Bar Library checking and savings accounts totaled \$59,556 and \$157,738, respectively.

On March 1, 2006, the Office of the State Treasurer advised all State agencies that it procured new contracts for banking services and that accounts held at non-approved institutions were required to be closed and reestablished at an approved institution. Judiciary agencies were given until September 30, 2006 to transfer their funds to an approved institution. However, as of June 1, 2007, the Office had not transferred the aforementioned funds, as required.

In addition, the Office's special checking account, which was transferred to an authorized financial institution on November 1, 2006 with a balance of approximately \$1.8 million, was not properly established as an interest-earnings account until May 2007, even though we were informed that the Office had contacted the institution's representatives on numerous occasions to correct this situation. Furthermore, while the financial institution subsequently credited the bank account for the interest earnings for the period from March 2007 through May 2007 (\$8,590, which is net of fees), it still had not credited the account with any interest earnings for the period from November 2006 through February 2007. The average account balance for the month of November was \$2 million. The interest revenue earned on this account is to be transferred to the State's General Fund.

#### **Recommendation 2**

**We recommend that the Office close the aforementioned accounts held at unauthorized banks and transfer the funds to approved banking institutions as required by the Office of the State Treasurer. We also recommend that the Office, in conjunction with the State Treasurer's Office, ensure that all applicable interest is credited to the special checking account by the financial institution, and that these funds are reverted to the State's General Fund, as required.**

## Accounts Receivable

### **Finding 3**

**The Office did not refer delinquent accounts receivable to the Department of Budget and Management's Central Collection Unit (CCU) in a timely manner.**

### **Analysis**

The Office did not refer delinquent accounts receivable to CCU in a timely manner. Although the Office had been referring delinquent accounts to CCU since September 2005, formal accounts receivable procedures had not been established to provide guidance and direction as to the timing of such referrals. We were advised by Office personnel that they generally referred a delinquent account to CCU when the account was two years past due. Our review of the Office's accounts receivable database, which we tested and found to be reliable, disclosed numerous old accounts. In this regard, the accounts receivable aging report, as of April 30, 2007, totaled \$318,474, of which accounts totaling \$211,195 had been outstanding from one to more than five years. Although Office personnel advised us that they believed that many of the debtors associated with the outstanding accounts receivable were incarcerated, an analysis had not been performed to document this.

The Judiciary's Accounts Receivable Policy and Procedures, effective July 1, 2003, specifies the importance of timely collection of accounts receivable and indicates that CCU may be used as a tool for collection. Executive Branch agencies are generally required to forward delinquent accounts to CCU within 75 days of the related billings. Delinquent accounts should be forwarded to CCU in a timely manner since the ability to collect on these accounts may decline with age.

### **Recommendation 3**

**We recommend that the Office establish written accounts receivable procedures that include a reasonable timeframe for referring delinquent accounts to CCU. We also recommend that delinquent accounts be referred in accordance with these procedures.**

## **Audit Scope, Objectives, and Methodology**

We have audited the Office of the Clerk of Circuit Court for Anne Arundel County, Maryland for the period beginning February 18, 2004 and ending April 24, 2007. The audit was conducted in accordance with generally accepted government auditing standards.

As prescribed by the State Government Article, Section 2-1221 of the Annotated Code of Maryland, the objectives of this audit were to examine the Office's financial transactions, records and internal control, and to evaluate its compliance with applicable State laws, rules and regulations. We also determined the current status of the finding contained in our preceding audit report.

In planning and conducting our audit, we focused on the major financial-related areas of operations based on assessments of materiality and risk. Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of the Office's operations. We also tested transactions and performed other auditing procedures that we considered necessary to achieve our objectives. Data provided in this report for background or informational purposes were deemed reasonable, but were not independently verified.

Our audit did not include certain support services provided to the Office by the Administrative Office of the Courts. These support services (such as payroll, processing of invoices, and maintenance of budgetary accounting records) are included within the scope of our audits of the Judiciary.

Our audit scope was limited with respect to the Office's cash transactions because the Office of the State Treasurer was unable to reconcile the State's main bank accounts during a portion of the audit period. Due to this condition, we were unable to determine, with reasonable assurance, that all Office cash transactions prior to July 1, 2005 were accounted for and properly recorded on the related State accounting records as well as the banks' records.

The Office's management is responsible for establishing and maintaining effective internal control. Internal control is a process designed to provide reasonable assurance that objectives pertaining to the reliability of financial records, effectiveness and efficiency of operations including safeguarding of assets, and compliance with applicable laws, rules and regulations are achieved.

Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

Our reports are designed to assist the Maryland General Assembly in exercising its legislative oversight function and to provide constructive recommendations for improving State operations. As a result, our reports generally do not address activities we reviewed that are functioning properly.

This report includes findings that we consider to be significant deficiencies in the design or operation of internal control that could adversely affect the Office's ability to maintain reliable financial records, operate effectively and efficiently, and/or comply with applicable laws, rules, and regulations. This report also includes findings regarding significant instances of non-compliance with applicable laws, rules, or regulations. Another less significant finding was communicated to the Office that did not warrant inclusion in this report.

The Judiciary's response, on behalf of the Office, to our findings and recommendations is included as an appendix to this report. As prescribed in the State Government Article, Section 2-1224 of the Annotated Code of Maryland, we will advise the Judiciary regarding the results of our review of its response.

## APPENDIX



ROBERT M. BELL  
CHIEF JUDGE

COURT OF APPEALS OF MARYLAND  
ROBERT C. MURPHY COURTS OF APPEAL BUILDING  
361 ROWE BOULEVARD  
ANNAPOLIS, MARYLAND 21401-1699

September 10, 2007

Mr. Bruce A. Myers, CPA  
Legislative Auditors  
Office of Legislative Audits  
301 West Preston Street  
Baltimore, Maryland 21201

Dear Mr. Myers:

We are in receipt of the Legislative Audit Report pertaining to the audit of the Office of the Clerk of the Circuit Court for Anne Arundel County, Maryland for the audit period beginning February 18, 2004 and ending April 24, 2007.

Uniform Court System  
Finding 1

We agree. UCS access to critical functions has been restricted only to those employees whose job duties require such access. In addition, we have eliminated incompatible duties.

The UCS accounting system was a pilot system designed to segregate responsibilities and access levels. There have been no problems or cash receipts misappropriated as a result of the weaknesses identified. We continue to enhance system controls. In addition, other compensating controls established by the office protect its cash receipts. We welcome objective audit recommendations that help us continue our good record.

Bank Accounts  
Finding 2

An Attorney General letter, dated September 10, 2007, concluded that litigant escrow funds and Law Library funds are not State funds; accordingly, these accounts are not subject to transfer based upon State Treasurer's Office instructions, dated March 1, 2006.

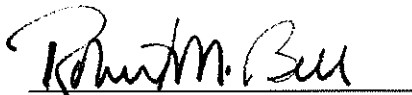
We have requested the State Treasurer's Office to assist in collecting interest earned, net of bank service charges, for the period from November 2006 to February 2007. Upon receipt, the funds will be deposited into the State's General Fund.


Accounts Receivable  
Finding 3

We agree to timely submit to CCU all delinquent accounts receivable, including incarcerated individuals when notified of their release, in accordance with the Judiciary's Accounts Receivable Policy and Procedures.

We believe this responds in full to the exceptions in the audit report.

Very truly yours,

  
Robert M. Bell

  
Robert P. Duckworth  
Clerk of the Circuit Court for  
Anne Arundel County, Maryland

cc: Hon. Nancy L. Davis-Loomis, Administrative Judge  
Frank Broccolina, State Court Administrator  
James Pasko, Acting Director of Internal Audit

AUDIT TEAM

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