

Audit Report

**Office of the Clerk of Circuit Court
Baltimore City, Maryland**

August 2008



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

August 12, 2008

Senator Verna L. Jones, Co-Chair, Joint Audit Committee
Delegate Steven J. DeBoy, Sr., 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 Baltimore City, Maryland for the period beginning June 1, 2005 and ending December 31, 2007.

Our audit disclosed that internal controls over the Jury Fund, which is used to pay daily stipends to jurors, and the Office's cash receipts need to be strengthened. In addition, recordkeeping for the Office's accounts receivable was not sufficient.

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, Baltimore City, 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 2007 revenues totaled \$83,547,925. These revenues were distributed in the following manner:

- \$54,986,459 was distributed to Baltimore City;
- \$579,027 was distributed to others; and
- \$27,982,439 (the remaining amount) represented revenues available to the State for purposes specified in various provisions of State law.

The Office's fiscal year 2007 operating expenses, which were paid primarily from a general fund appropriation, totaled \$16,042,559.

The Office also maintained custody of certain trust and special purpose funds that, according to its records, had balances totaling \$6,988,384 as of December 31, 2007.

Status of Findings From Preceding Audit Report

Our audit included a review to determine the status of the two findings contained in our preceding audit report dated September 30, 2005. We determined that the Office satisfactorily addressed one of these findings. The remaining finding is repeated in this report.

Findings and Recommendations

Jury Fund

Finding 1

Internal controls over the Office's Jury Fund were not sufficient.

Analysis

Internal controls over the Office's Jury Fund, which was used to pay daily stipends to individuals appearing for jury duty, were not sufficient. Specifically, certain critical data included on daily compositions of the Fund were not verified to independent source documentation. Consequently, there was a lack of assurance that these data were accurate and that all related juror payments were proper.

Daily cash compositions of the Fund were prepared by the Office's jury unit and were subsequently submitted to the accounting department for verification. The compositions included data regarding the number of jurors who attended court for the day, the related juror payments, and the amount of Fund cash remaining on hand. Although an employee from the accounting department reviewed the compositions for propriety, attendance data relating to certain jurors (jurors required to return after their initial day of service) were not reconciled to independent source documentation to help verify payment data recorded on the compositions.

Juror payments totaled approximately \$1 million during calendar year 2007, of which approximately \$286,000 related to payments to returning jurors. A similar condition relating to all jurors was commented upon in our two preceding audit reports dating back to April 2002.

Recommendation 1

We again recommend that the Office's accounting department use independent juror attendance records, specifically records prepared and maintained by individuals who do not have access to Fund cash, to verify the daily Fund compositions.

Cash Receipts

Finding 2

Security reports of employee access to perform critical functions on the Office's automated cash register systems were not reviewed, and several employees had incompatible or unnecessary access to perform such functions.

Analysis

The Office did not periodically review employee access capabilities to perform critical functions on its automated cash register systems. Furthermore, our review of employee access capabilities disclosed 5 employees who could both process receipts and void transactions, and 12 individuals with system access capabilities who were no longer employed at the Office. Under these conditions, errors or other discrepancies could occur without timely detection. The Office's receipts totaled approximately \$83 million during fiscal year 2007.

Recommendation 2

We recommend that the Office periodically review employee access capabilities for the automated cash register systems. We also recommend that the Office grant user access only to those employees who require such access to perform their assigned job duties, and in a manner that ensures all such duties are properly separated. Finally, we recommend that the Office take immediate action to address the specific access deficiencies noted above.

Accounts Receivable

Finding 3

Criminal accounts receivable control and detail records were not periodically reconciled, and delinquent accounts were not submitted to the Central Collection Unit.

Analysis

The detail records for criminal accounts receivable were not periodically reconciled to the corresponding control records. Consequently, there was a lack of assurance that all transactions had been properly recorded. In addition, delinquent criminal accounts were not submitted to the Department of Budget and Management's Central Collection Unit (CCU).

As of October 31, 2007, the detail records for criminal accounts receivable, which are maintained by the Baltimore City Sheriff's Office (Sheriff), totaled

approximately \$7.6 million, the vast majority of which was designated as over 120 days old. However, the corresponding control record, which is maintained by the Office, totaled \$1.5 million as of the same date. The Office believes that much of this difference is due to accounts which remain open on the Sheriff's records which should have been closed some time ago. However, we were advised by the Office that, because of uncertainty as to the status of many accounts on the Sheriff's detail records, reconciliations have not been attempted and accounts have not been submitted to CCU.

As allowed by State law and pursuant to a longstanding Court Order, the Baltimore City Sheriff's Office collects and is responsible for the distribution of Court-ordered criminal fines and costs on behalf of the Clerk. The Office notifies the Sheriff of Court-ordered criminal finds and costs, and the Sheriff records the billings, performs the collection efforts, and notifies the Office of collections received.

The *Judicial Accounts Receivable Policy and Procedures* stipulate that control records should be periodically reconciled and, except under certain circumstances, delinquent accounts receivable may be submitted to CCU. We were advised by the Office that certain system changes are being considered which would provide the Office with greater access to the detail records maintained by the Sheriff, which should facilitate the reconciliations of the detail and control records and the submission of delinquent accounts to CCU.

Recommendation 3

We recommend the Office periodically reconcile criminal accounts receivable detail and control records and investigate and resolve any differences. We also recommend that delinquent criminal accounts be transferred to CCU as permitted by the *Judicial Accounts Receivable Policy and Procedures*.

Audit Scope, Objectives, and Methodology

We have audited the Office of the Clerk of Circuit Court for Baltimore City, Maryland for the period beginning June 1, 2005 and ending December 31, 2007. The 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.

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 status of the findings 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 included certain support services (such as cash receipts, payment of operating expenses) provided by the Office to the Office of the Trust Clerk for Baltimore City. However, our audit did not include certain support services provided to the Office by the Administrative Office of Courts. These support services (such as payroll, processing of invoices, 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. Our report also includes a finding regarding a significant instance of noncompliance with applicable laws, rules, and 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

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August 6, 2008

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

Dear Mr. Myers:

We have received the Legislative Auditor's Draft Audit Report pertaining to the audit of the Office of the Clerk of the Circuit Court for Baltimore City, Maryland for the period beginning June 1, 2005 and ending December 31, 2007. The following are our responses to the audit findings and recommendations in the audit report:

Jury Fund
Finding 1

We concur with the finding and recommendation. Procedures have been established to ensure that payments made to carry-over jurors (jurors required to return after initial selection) are independently verified to attendance information provided from the court room clerks, who do not have access to Jury Fund cash.

Cash Receipts
Finding 2

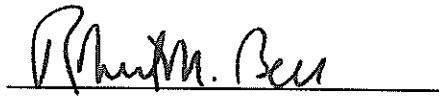
We concur with the finding and recommendation. New procedures have been established that require a review of employee cash register access authority be performed quarterly and documented. Cash register authority will only be granted to employees who require access based on their job responsibilities. We will ensure that all such duties are properly separated. Corrective actions have been taken to address the violations documented in this finding.

Accounts Receivable
Finding 3

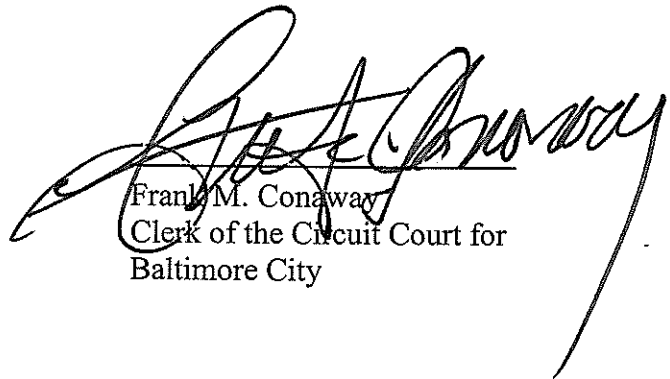
We concur with the finding and recommendation. A process has begun to establish a criminal receivable control account supported by detail information. As part of this process, a review of outstanding delinquent criminal receivables is being performed that will result in the transfer of valid delinquent criminal receivables from the Baltimore City Sheriff's data base to the Court's accounts receivable system. These delinquent criminal receivables will then be forwarded to the State's Central Collection Unit (CCU). This effort is a joint process involving the Judiciary, CCU and the Baltimore City Sheriff's Office.

We believe we have responded in full to all the findings and recommendations in the audit report.

Very truly yours,



Robert M. Bell



Frank M. Conaway
Clerk of the Circuit Court for
Baltimore City

cc: Hon Marcella Holland, Administrative Judge
Frank Broccolina, State Court Administrator
Ssali Luwemba, Director of Internal Audit

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