

Audit Report

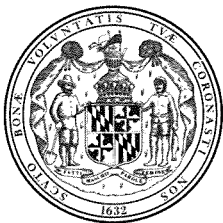
**Office of the Clerk of Circuit Court
Baltimore County, Maryland**

May 2014



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

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DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Karl S. Aro
Executive Director

May 14, 2014

Thomas J. Barnickel III, CPA
Legislative Auditor

Senator James C. Rosapepe, Co-Chair, Joint Audit Committee
Delegate Guy J. Guzzone, 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 County, Maryland for the period beginning February 25, 2011 and ending February 2, 2014. The Office performs various functions for the public, including maintaining various legal records, recording certain real estate documents, collecting related fees and taxes, and issuing certain licenses.

Our audit disclosed that controls over trust fund disbursements were not sufficient.

The Judiciary's response to this audit, on behalf of the Office, is included as an appendix to this report. We wish to acknowledge the cooperation extended to us by the Office during the course of this audit.

Respectfully submitted,

A handwritten signature in cursive script that reads "Thomas J. Barnickel III".

Thomas J. Barnickel III, 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 County 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 2013 revenues totaled \$29,372,445. These revenues were distributed in the following manner:

- \$3,249,521 was distributed to Baltimore County,
- \$37,425 was distributed to others, and
- \$26,085,499 (the remaining amount) represented revenues available to the State for purposes specified in various provisions of State law.

The Office's fiscal year 2013 operating expenses, which were paid primarily from a general fund appropriation, totaled \$7,241,935.

The Office also maintained custody of certain trust funds that, according to its records, had balances totaling \$2,053,317 as of January 31, 2014.

Status of Finding From Preceding Audit Report

Our audit included a review to determine the status of the finding contained in our preceding audit report dated October 13, 2011. We determined that the Office satisfactorily addressed this finding.

Findings and Recommendations

Trust Fund Disbursements

Finding 1

Internal controls over trust fund disbursements were not sufficient.

Analysis

Internal controls over disbursements from the Office's trust fund accounts were not sufficient. Specifically, the employees responsible for processing and recording these disbursements, and preparing the related checks, had unrestricted access to the related blank check stock and the check-signing machine used by the Office. Although other supervisory personnel were required to review and approve disbursements prior to processing the checks through the check-signing machine, because employees had access to both the check stock and the signing machine, errors or improprieties could occur without timely detection. According to Office banking records, disbursements from the trust fund accounts during fiscal year 2013 totaled approximately \$3.3 million.

Recommendation 1

We recommend that employees responsible for processing and recording disbursements for the trust fund accounts not have access to the related check stock and check-signing machine.

Audit Scope, Objectives, and Methodology

We have audited the Office of the Clerk of Circuit Court for Baltimore County, Maryland for the period beginning February 25, 2011 and ending February 2, 2014. 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 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. The areas addressed by the audit included cash receipts (including taxes and fees collected for real estate transactions) and bank accounts. 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. The reliability of data used in this report for background or informational purposes was not assessed.

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, invoice processing and maintenance of budgetary accounting records) are included within the scope of our audits of the Judiciary.

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 a condition that we consider to be a significant deficiency 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 audit did not disclose any significant instances of noncompliance with applicable laws, rules, or regulations.

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

STATE OF MARYLAND JUDICIARY DEPARTMENT OF INTERNAL AUDIT

ROBERT C. MURPHY COURTS OF APPEAL BUILDING
ANNAPOLIS, MARYLAND 21401

CHIEF JUDGE
MARY ELLEN BARBERA

DIRECTOR OF INTERNAL AUDIT
SSALI S. LUWEMBA



PLEASE REPLY TO:

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ANNAPOLIS, MARYLAND 21401
(410) 260-3673
FAX (410) 841-9849

May 6, 2014

Mr. Thomas J. Barnickel III, CPA
Legislative Auditor
Office of Legislative Audits
301 West Preston Street
Baltimore, MD 21201

Dear Mr. Barnickel:

We have received the Legislative Auditor's Draft Audit Report pertaining to the audit of the Office of the Clerk of Circuit Court for Baltimore County, Maryland, for the period beginning February 25, 2011 and ending February 2, 2014. The following is our response to the audit finding and recommendation in the report:


Finding 1: Trust Fund Disbursements

We agree with the finding and recommendation. We were informed of this internal control during the Legislative Audit so we promptly revised our process to ensure there is no unrestricted access to both the related check stock and check-signing machine. The Fiscal employees responsible for processing and recording Trust Fund disbursements, and preparing the related checks, are the only employees who have unrestricted access to the related blank check stock; they do not have access to the check-signing machine. The Chief Deputy and Judicial Managers rotate the responsibility of reviewing and approving disbursements then processing the checks through the check-signing machine; they are the only employees who have access to the check-signing machine. Once a check is written and signed through the machine, the Manager manually adds the sequential check information onto a Log and verifies the information on the


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Log corresponds with the check-signing machine. This daily Check Verification process is designed to detect errors and irregularities, including the issuance of unauthorized checks in a timely fashion.

Very truly yours,



Mary Ellen Barbera



Julie L. Ensor
Clerk of the Circuit Court for
Baltimore County

cc: Hon. Kathleen Gallogly Cox, Administrative Judge for Baltimore County
Pamela Q. Harris, State Court Administrator
Faye D. Matthews, Deputy State Court Administrator
Ssali S. Luwemba, Director of Internal Audit

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