

Audit Report

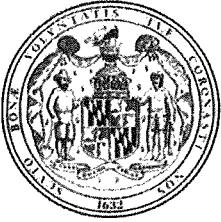
**Office of the Clerk of Circuit Court
Caroline County, Maryland**

August 2012



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 30, 2012

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 Caroline County, Maryland for the period beginning April 7, 2009 and ending March 27, 2012. 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 adequate controls were not established over cash receipts and land transfer transactions.

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 black ink that reads "Thomas J. Barnickel III".

Thomas J. Barnickel III, CPA
Acting 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, Caroline 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 2011 revenues totaled \$1,218,568. These revenues were distributed in the following manner:

- \$402,963 was distributed to Caroline County and its incorporated cities and towns,
- \$4,101 was distributed to others, and
- \$811,504 (the remaining amount) represented revenues available to the State for purposes specified in various provisions of State law.

The Office's fiscal year 2011 operating expenses, which were paid primarily from a general fund appropriation, totaled \$736,296.

The Office also maintained custody of certain trust funds that, according to its records, had balances totaling \$137,460, as of March 27, 2012.

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 August 3, 2009. We determined that the Office satisfactorily addressed one of these findings. The remaining finding is repeated in this report.

Findings and Recommendations

Cash Receipts

Finding 1

The Office lacked adequate controls over its cash receipts.

Analysis

The Office lacked adequate controls over its cash receipts, which totaled approximately \$1.2 million during fiscal year 2011. Specifically, we noted the following conditions:

- The cashier who processed land transfer transactions had excessive control over the related collections. Specifically, the cashier collected cash and voided transactions recorded on the cash register. The cashier did not document the reasons for the voided transactions and there was no independent documented review and approval of the transactions. The cashier also did not document that the receipts were counted at the end of the day and that the receipts agreed to the totals recorded on the cash register tapes. Additionally, the daily cash register closeout procedures were also performed by the cashier, rather than by an independent supervisor.
- Daily collections were not properly safeguarded prior to deposit. Collections were placed in a locked bank bag and cabinet each day. However, the related keys were accessible to all employees.
- The employee verifying the daily bank deposits was not independent because this employee also prepared the bank deposits. In addition, the continuity of cash register transaction numbers was not verified. Our test of collections for 15 days disclosed that collections were properly deposited and there was continuity in the cash register transaction numbers for the three sets of five consecutive days we tested.

As a result of these conditions, cash receipts could be misappropriated without detection. According to the Comptroller of Maryland's *Accounting Procedures Manual*, voided transactions shall be reviewed and approved by supervisory personnel. In addition, independent verifications of validated deposit slips to recorded collections and of the continuity of cash register transaction numbers are to be performed. Furthermore, cash receipts should be adequately stored and safeguarded until deposited. Similar conditions were commented upon in a number of our preceding audit reports.

Recommendation 1

We recommend that the Office

- a. remove the land transaction cashier's ability to void transactions and perform independent documented reviews of all voids;**
- b. ensure assigned cashiers are denied the capability to close out the cash register (repeat);**
- c. ensure cashiers document that collections on hand at the end of the day are counted and agree to the totals recorded on the related cash register tapes (repeat);**
- d. safeguard collections by restricting access to the bank bag and cabinet keys to only those employees who require access; and**
- e. ensure that an employee independent of the collection and deposit functions verifies that all recorded collections were deposited and the continuity of daily transaction numbers listed on the cash register closeout tapes, and that these reviews are documented (repeat).**

We advised the Office on accomplishing the necessary separation of duties using existing personnel.

Land Transfers

Finding 2

Land transfer transactions were not subject to independent review.

Analysis

The Office lacked adequate procedures to verify that land transfer transactions were properly processed, and to ensure the proper taxes (that is, transfer taxes, recordation taxes, and nonresident withholding taxes) and fees were collected. Specifically, we noted that land record clerks had sole responsibility for processing land transactions, for determining amounts due, and for processing the related collections on the automated court system. Supervisory reviews are critical because the land record clerks are solely responsible for determining the taxes and fees due and for entering the amounts into the system—the system does not automatically compute the tax liabilities. In addition, for those cases that are exempt from taxes (such as, transfers between family members) or are subject to a reduced tax (such as first time homeowners), the land record clerks are responsible for reviewing the documentation to ensure that the individuals are qualified for the related tax exemption or reduction.

The Office's land transfer revenues totaled approximately \$992,000 for fiscal year 2011.

Recommendation 2

We recommend that the Office perform an independent documented review, at least on a test basis, of land transfer transactions to ensure the transactions were processed correctly and that the proper amounts of taxes and fees were collected.

Audit Scope, Objectives, and Methodology

We have audited the Office of the Clerk of Circuit Court for Caroline County, Maryland for the period beginning April 7, 2009 and ending March 27, 2012. 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. The areas addressed by the audit included cash receipts (including taxes and fees collected for real estate transactions), bank accounts, and payroll. 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 and 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 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 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



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

August 28, 2012

Mr. Thomas J. Barnickel III, CPA
Acting 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 the Circuit Court for Caroline County, Maryland, for the period beginning April 7, 2009, and ending March 27, 2012. The following is our response to the audit findings and recommendations in the report:

Finding 1: Cash Receipts

We concur with the finding and recommendation.

- a. The land transfer transaction cashier's ability to void transactions has been removed. Cashiers document the reasons for their voided transactions. Furthermore, an employee independent of the cash receipts function reviews and approves the voided transactions. The reviews are signed and dated.
- b. Assigned cashiers no longer close out the cash registers. Cash register close out procedures are now performed by another employee other than the cashiers.
- c. Cashiers now count and document their collections on hand at the end of the day. The collections are verified to ensure that the totals reconcile to the related cash register tapes.
- d. Collections are now safeguarded. Access to the bank bag and cabinet keys are restricted to the Clerk and Chief Deputy Clerk.
- e. The employee who verifies the daily collection, bank deposits, and continuity of cash register transaction receipt numbers is independent of the collection and deposit functions. The verification is signed and dated.

Finding 2: Land Transfers


We concur with the finding and recommendation. An employee independent of the land records function conducts reviews of land transfer documents to ensure the transactions were processed correctly and

Mr. Thomas J. Barnickel III, CPA
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that the proper amounts of taxes and fees were collected. The land records are selected randomly on a test basis.

We believe we have responded in full to these findings and recommendations.

Very truly yours,



Robert M. Bell



F. Dale Minner
Clerk of the Circuit Court for Caroline County

cc: Hon. Karen A. Murphy Jensen, Administrative Judge for Caroline County
Frank Broccolina, State Court Administrator
Faye D. Matthews, Deputy State Court Administrator
Ssali S. Luwemba, Director of Internal Audit

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