

Audit Report

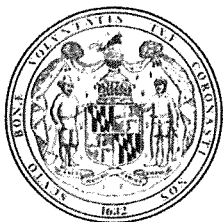
**Office of the Clerk of Circuit Court
Dorchester County, Maryland**

May 2012



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

Bruce A. Myers, CPA
Legislative Auditor

May 17, 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 Dorchester County, Maryland for the period beginning December 29, 2008 and ending November 20, 2011. 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 the Office had not established sufficient procedures and controls over cash receipts and the court trust fund account.

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,

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, Dorchester 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 \$3,781,748. These revenues were distributed in the following manner:

- \$2,544,897 was distributed to Dorchester County and its incorporated cities and towns,
- \$7,641 was distributed to others, and
- \$1,229,210 (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 \$1,111,550.

The Office also maintained custody of a court trust fund that, according to its records, had a balance of \$22,006 as of October 31, 2011.

Findings and Recommendations

Cash Receipts and Court Trust Fund Account

Finding 1

Procedures and controls over cash receipts and the court trust fund account were not sufficient.

Analysis

Cash receipts and the court trust fund account were not sufficiently controlled. As a result, funds could be misappropriated without detection. Specifically, we noted the following conditions:

- The employee who verified that recorded collections were deposited also had access to cash receipts, including processing voids in the cash receipts system. According to State records, during fiscal year 2011, the Clerk's cash receipts totaled approximately \$3.8 million. The Comptroller of Maryland's *Accounting Procedures Manual* requires that the deposit reconciliations be performed by an employee independent of the cash receipts functions.
- Two employees who alternated preparing the monthly bank account reconciliation for the court trust fund account had access to the check stock, were designated as authorized check signers, and had the capability to record disbursements in the related accounting records. Furthermore, the aforementioned reconciliations were not reviewed and approved by supervisory personnel. Cash receipts and disbursements related to this account were \$92,503 and \$112,064, respectfully, during the period from October 2010 to September 2011. According to the Office's records, the balance in the account as of October 31, 2011 was \$22,006.

Recommendation 1

We recommend that

- a. an employee who is independent of the cash receipts processing functions verify that all collections were deposited;**
- b. the aforementioned employees discontinue preparing bank account reconciliations and be denied the capability to record disbursements in the accounting system; and**
- c. bank reconciliations be reviewed and approved, including a review of supporting documentation, by supervisory personnel.**

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

Audit Scope, Objectives, and Methodology

We have audited the Office of the Clerk of Circuit Court for Dorchester County, Maryland for the period beginning December 29, 2008 and ending November 20, 2011. 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.

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 recordation of the dispositions of court cases. 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.

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 conditions 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 audit did not disclose any 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

May 10, 2012

Mr. Bruce A. Myers, CPA
Legislative Auditor
Office of Legislative Audits
301 West Preston Street
Baltimore, MD 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 Dorchester County, Maryland, for the period beginning December 29, 2008, and ending November 20, 2011. The following is our response to the audit finding and recommendation in the report:

Finding 1: Cash Receipts and Court Trust Fund Account

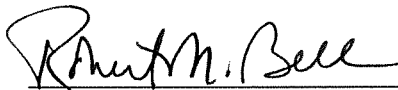
We concur with the finding and recommendation.

- a. Adequate segregation of duties has been established. The Clerk of the Circuit Court's accounting and cashing privileges have been removed from the systems. The Clerk of the Circuit Court is now independent of cash receipts processing functions, and verifies that all collections are deposited.
- b. The duties and responsibilities of the aforementioned employees have been restricted. The Clerk of the Circuit Court no longer prepares bank account reconciliations or records disbursements in the accounting system. The Chief Deputy Clerk no longer prepares, reviews, or approves bank account reconciliations. The Fiscal Technician prepares bank reconciliations.
- c. Our procedures have been strengthened so that bank reconciliations are now reviewed and approved, including a review of supporting documentation, by the Clerk of the Circuit Court.

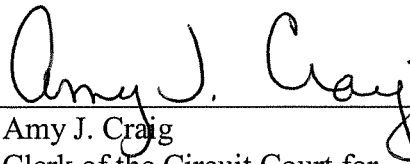
Mr. Bruce A. Myers, CPA
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We believe we have responded in full to the finding and recommendation.

Very truly yours,



Robert M. Bell



Amy J. Craig
Clerk of the Circuit Court for
Dorchester County

cc: Hon. Brett W. Wilson, Administrative Judge
Frank Broccolina, State Court Administrator
Faye D. Matthews, Deputy State Court Administrator
Ssali S. Luwemba, Director of Internal Audit

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