

Audit Report

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

November 2007



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

November 6, 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 Frederick County, Maryland for the period beginning December 3, 2004 and ending June 27, 2007.

Our audit disclosed that internal controls over cash receipts need to be strengthened. In addition, the Office did not always submit the final dispositions of motor vehicle cases to the State's Motor Vehicle Administration within the 15-day time frame required by State law.

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, Frederick County and its incorporated cities and towns, 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 \$15,378,097. These revenues were distributed in the following manner:

- \$967,738 was distributed to Frederick County and its incorporated cities and towns;
- \$50,244 was distributed to others; and
- \$14,360,115 (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 \$2,049,961.

The Office also maintained custody of certain trust and special purpose funds that, according to its records, had balances totaling \$1,191,743 as of May 31, 2007.

Current Status of Findings From Preceding Audit Report

Our audit included a review to determine the current status of the two findings contained in our preceding audit report dated April 4, 2005. We determined that the Office had not satisfactorily addressed the findings; therefore, they are repeated in this report.

Findings and Recommendations

Cash Receipts

Finding 1

Controls over collections were not sufficient.

Analysis

Controls over the Office's cash receipts were not sufficient. Specifically, our review disclosed the following conditions:

- Five employees had the ability to receive and record collections, as well as void the collections on the automated cash register system. Under these conditions, errors or other discrepancies could occur without timely detection.
- Collections received in the mail by the land records unit were not immediately recorded and secured in the cash register. We were advised by Office personnel that delays between receipt and recording may be as much as two days. This condition was also commented upon in our preceding audit report.
- Although the Office had procedures to verify recorded collections to validated bank documentation, these procedures did not serve as an effective control over cash receipts because the employees who performed the verifications also had access to the collections. In addition, the verifications were not always performed in a timely manner. For example, the employee responsible for verifying collections received for the Circuit Court and Law Library Funds to the corresponding deposits was also responsible for making the deposits. Collections for these two Funds totaled approximately \$1.2 million in fiscal year 2007. Furthermore, verifications for certain receipts were performed only once per month.
- Recorded collections were not being reconciled on a periodic basis to the State's accounting records.

Recommendation 1

We recommend that employees responsible for voiding receipt transactions on the automated register system not have access to cash receipts or the capability to record collections. In addition, we again recommend that all collections be recorded and secured immediately upon receipt. Furthermore, we recommend that employees who verify recorded collections to deposit not

have access to collections, and that these verifications be performed timely, such as daily. Finally, we recommend that recorded collections be reconciled to the State's accounting records on a periodic basis, such as monthly.

Motor Vehicle Cases

Finding 2

The Office did not always refer the disposition of motor vehicle cases to the Motor Vehicle Administration in a timely manner.

Analysis

The Office did not always transmit the disposition of motor vehicle cases to the Motor Vehicle Administration (MVA) within the 15-day time frame required by law. Our test of 24 motor vehicle cases that were processed by the Office during fiscal year 2007 disclosed 3 cases in which the Office had not, as of June 30, 2007, informed the MVA of the cases' guilty disposition even though the cases had concluded between September 2006 and April 2007. As a result, the MVA could not process the disposition of these cases. After our inquiries, the Office transmitted the disposition of these cases to the MVA. We also noted that a fourth case was not forwarded to the MVA until ten days after the required time frame. In these four cases, the law mandated license suspension or revocation. A similar condition was commented upon in our preceding audit report.

The Circuit Court adjudicates motor vehicle cases involving appeals from the District Court and cases in which the defendant requested a jury trial. The Office's records indicated that, during fiscal year 2007, the Circuit Court for Frederick County heard 874 such cases. The law requires the clerks of the court to send a record of case disposition, for cases involving motor vehicle violations, to the MVA within 15 days of conviction, forfeiture of bail, dismissal of appeal, or acquittal. The timely submission of this information by the Office is critical because the MVA is responsible for processing the disposition of motor vehicle cases (for example, license revocation for driving while intoxicated), but cannot do so until the Office transmits the case records.

Recommendation 2

We again recommend that the Office refer the disposition of motor vehicle cases to the MVA in accordance with the time frame established by the law. We also recommend that the Office review previously closed motor vehicle cases, at least on a test basis, to help ensure that there are no additional cases that have not been submitted to the MVA.

Audit Scope, Objectives, and Methodology

We have audited the Office of the Clerk of Circuit Court for Frederick County, Maryland for the period beginning December 3, 2004 and ending June 27, 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 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 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 a finding 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 report also includes a finding regarding a significant instance of noncompliance 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

October 29, 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 Frederick County, Maryland for the audit period beginning December 3, 2004 and ending June 27, 2007.

Cash Receipts

Finding 1

We agree that users of the cash register system should not have authority to both process cash receipts and void transactions. However, this control feature was temporarily relaxed in order to process the high volume of land record documents with available personnel. Until land documents can be processed the same day, as a compensating control the processing of voids will be monitored by a documented independent review. Additionally, the land records supervisor and Clerk have now been removed from having cash registering capabilities.

We agree that land record check receipts should be processed the same day. As previously explained, the volume of land documents exceeded the processing capabilities of existing personnel. As a result a recording delay occurred. However, mailed checks are secured by restrictively endorsing deposit in the name of the Clerk of the Court. As an additional control, land documents and related checks will be secured until processed.

We agree that someone independent of the collection process will perform verification of daily deposits on a timely basis. Also, a monthly reconciliation of State recorded collections to the Court's records will be performed.

Motor Vehicle Cases

Finding 2

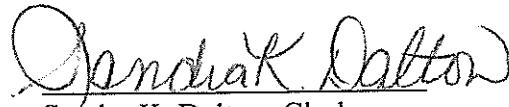
We have established procedures to ensure the timely entry of motor vehicle case dispositions into both the District Court Traffic system and Circuit Court case management system within the time frame established by law. A test review of previously closed motor vehicle cases will be performed.

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

Very truly yours,



Robert M. Bell



Sandra K. Dalton, Clerk
Circuit Court for Frederick County,
Maryland

cc: Hon. G. Edwards Dwyer, Administrative Judge
Frank Broccolina, State Court Administrator
James Pasko, Acting Director of Internal Audit

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