

Audit Report

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

November 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

November 18, 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 Harford County, Maryland for the period beginning September 26, 2005 and ending August 17, 2008. The Office performs various functions including maintaining certain legal records, recording certain real estate documents, collecting related fees and taxes, and issuing certain licenses.

Our audit disclosed that the Office did not always verify that recorded cash receipts were deposited and, when performed, the verifications were inadequate. In addition, the Office did not properly control disbursements from the Circuit Court Fund checking account as the employee who signed the related checks did not review the applicable supporting documentation.

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

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, Harford 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 2008 revenues totaled \$25,926,530. These revenues were distributed in the following manner:

- \$15,414,242 was distributed to Harford County and its incorporated cities and towns;
- \$150,635 was distributed to others; and
- \$10,361,653 (the remaining amount) represented revenues available to the State for purposes specified in various provisions of State law.

The Office's fiscal year 2008 operating expenses, which were paid primarily from a general fund appropriation, totaled \$2,742,228.

The Office also maintained custody of certain trust funds that, according to its records, had balances totaling \$1,112,446 as of August 17, 2008.

Status of Findings From Preceding Audit Report

Our audit included a review to determine the status of the finding contained in our preceding audit report dated December 8, 2005. We determined that the Office had not satisfactorily addressed that finding which is, therefore, repeated in this report.

Findings and Recommendations

Cash Receipts

Finding 1

Controls over the Office's cash receipts were inadequate.

Analysis

The Office lacked adequate control over its cash receipts. Specifically, deposit verifications were not always performed or, when performed, were not adequate. In this regard, the employee who performed the verifications did not compare the initial source document (cash register tapes) of recorded collections to the validated bank deposit slips. Furthermore, we noted that, for 6 of 15 days tested, the Office did not perform the related deposit verifications. According to the State's accounting records, the Office's cash receipts totaled approximately \$25.9 million during fiscal year 2008.

A similar condition was commented upon in our preceding audit report.

Recommendation 1

We again recommend that the Office verify that all recorded cash receipts were deposited by comparing the initial source document of recorded collections to the validated bank deposit slip for all bank deposits.

Circuit Court Fund

Finding 2

The Office lacked adequate controls over disbursements made from the Circuit Court Fund checking account.

Analysis

The Office did not adequately control disbursements from the Circuit Court Fund checking account. Specifically, although required by Office policy, the employee who signed the Fund checks did not review the applicable supporting documentation (for example, copies of authorized court orders). Rather, the check signer relied on another employee who prepared the checks to ensure that all Fund disbursements were adequately supported. As a result of this condition, unauthorized disbursements potentially could occur and not be detected timely by the Office. According to the Office's records, during fiscal year 2008, disbursements from the Fund totaled approximately \$1.9 million.

Recommendation 2

We recommend that the employee who signs checks drawn on the Circuit Court Fund checking account review supporting documentation for the applicable disbursements. We also recommend that this review be documented.

Audit Scope, Objectives, and Methodology

We have audited the Office of the Clerk of Circuit Court for Harford County, Maryland for the period beginning September 26, 2005 and ending August 17, 2008. 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. 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 findings relating to 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 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

November 6, 2008

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 Harford County, Maryland for the period beginning September 26, 2005 and ending August 17, 2008. The following are our responses to the audit findings and recommendations in the report:

Finding 1
Cash Receipts

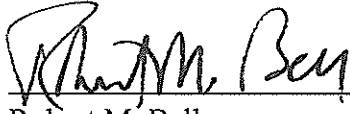
We do not concur with the finding but will implement the recommendation. Our current procedure was acceptable from previous audits. This recommendation is a new layer of internal control that will enhance what we already have in place and, therefore, have implemented the recommendation.

Finding 2
Circuit Court Fund

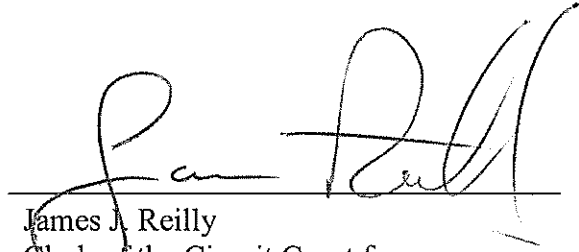
We concur with the finding and recommendation. The Office already has a previously established policy which requires the employee, who signs Circuit Court Fund checks, to review supporting documentation and ensure that disbursements have been properly authorized before signing checks. A monitoring process will be established immediately to ensure that this policy is consistently followed and documented.

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

Very truly yours,



Robert M. Bell



James J. Reilly
Clerk of the Circuit Court for
Harford County

cc: Hon. William O. Carr, II, Administrative Judge
Frank Broccolina, State Court Administrator
Faye Gaskin, Deputy State Court Administrator
Ssali Luwemba, Director of Internal Audit

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