

Audit Report

---

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

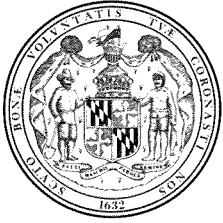
January 2013

---



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

- 
- This report and any related follow-up correspondence are available to the public through the Office of Legislative Audits at 301 West Preston Street, Room 1202, Baltimore, Maryland 21201. The Office may be contacted by telephone at 410-946-5900, 301-970-5900, or 1-877-486-9964.
  - Electronic copies of our audit reports can be viewed or downloaded from our website at <http://www.ola.state.md.us>.
  - Alternate formats may be requested through the Maryland Relay Service at 1-800-735-2258.
  - The Department of Legislative Services – Office of the Executive Director, 90 State Circle, Annapolis, Maryland 21401 can also assist you in obtaining copies of our reports and related correspondence. The Department may be contacted by telephone at 410-946-5400 or 301-970-5400.
-



DEPARTMENT OF LEGISLATIVE SERVICES  
OFFICE OF LEGISLATIVE AUDITS  
MARYLAND GENERAL ASSEMBLY

Karl S. Aro  
Executive Director

Thomas J. Barnickel III, CPA  
Legislative Auditor

January 9, 2013

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

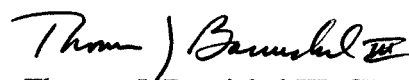
Ladies and Gentlemen:

We have audited the Office of the Clerk of Circuit Court for Montgomery County, Maryland for the period beginning April 17, 2009 and ending May 30, 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 the Office did not perform adequate reconciliations for its numerous trust accounts and the Office did not always ensure that proper fees were collected for licenses issued.

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,

  
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, Montgomery 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 2012 revenues totaled \$54,875,031. These revenues were distributed in the following manner:

- \$1,784,608 was distributed to Montgomery County and its incorporated cities and towns, and
- \$53,090,423 (the remaining amount) represented revenues available to the State for purposes specified in various provisions of State law.

The Office's fiscal year 2012 operating expenses, which were paid primarily from a general fund appropriation, totaled \$10,414,802.

The Office also maintained custody of certain trust and special purposes funds that, according to the bank's records, had balances totaling \$12,701,500 as of June 30, 2012.

### **Status of Finding From Preceding Audit report**

Our audit included a review to determine the status of the two findings contained in our preceding audit report dated October 15, 2009. We determined that the Office satisfactorily addressed one finding. The remaining finding is repeated in this report.

# Findings and Recommendations

## Trust Funds

### **Finding 1**

**The Office did not perform adequate bank reconciliations for certain trust accounts.**

### **Analysis**

The Office did not perform adequate bank reconciliations for certain trust accounts known as registry accounts. The registry accounts are individual savings accounts used for specific court cases in which funds are mandated to be held by the court pending resolution of the cases. Additionally, the accounts are used to hold funds from the State Highway Administration representing disputed compensation for land acquired through eminent domain procedures. The Office also maintains a separate checking account that is used to disburse funds related to the individual registry accounts when the court cases are finalized. The checking account acts as an intermediate pass-through account in which funds deposited are subsequently disbursed and it typically maintains a zero-dollar balance, except for outstanding checks.

Our review disclosed that proper controls and recordkeeping procedures were not established over the Office's individual registry accounts. Specifically, the employee who maintained the individual registry account records, upon receipt of the bank statements, recorded the monthly earned interest for each account and ensured that the Office's account balances agreed with the bank balances. However, this reconciliation was not documented. Furthermore, this employee was also responsible for authorizing fund transfers from the registry accounts to the checking account and, therefore, was not independent. Although these accounts have limited activity, independent, documented bank reconciliations are a necessary control to reduce the risk that unauthorized transfers could occur without timely detection.

According to the Office's records, as of June 30, 2012, the balance of the 176 individual Registry Accounts and the checking account totaled approximately \$9.4 million.

### **Recommendation 1**

**We recommend that the Office ensure that an employee who is independent of the maintenance of the registry account records and who cannot process fund transfers performs documented reconciliations of each of the registry**

accounts on a monthly basis. We advised the Office on accomplishing the necessary separation of duties using existing personnel.

## **Business Licenses**

### **Finding 2**

**The Office had not established sufficient controls to ensure proper fees were collected for business licenses issued.**

### **Analysis**

The Office had not established sufficient controls to ensure licensing fees were collected for all business licenses issued. Specifically, on certain days in May 2012, daily reconciliations of cash receipts deposited with licenses issued were not adequately performed since differences were not investigated and resolved. Specifically, our test of reconciliations performed for 22 days in May disclosed unresolved differences existed on 7 days. We were advised by Office management that adequate reconciliations were not performed during this time because the Office employees were very busy issuing and renewing licenses since all licenses expire on April 30. Additionally, reconciliations were not prepared or reviewed by independent employees.

The reconciliation process, when properly performed by an employee who is independent of the cash receipts and license processing functions, provides assurance that the license fees were paid. Additionally, the Comptroller of Maryland's *Accounting Procedures Manual* requires agencies to reconcile cash received to licenses issued.

According to the Office's records, in fiscal year 2012, the Office generated \$1.4 million in revenue through the issuance of 10,447 licenses, the majority of which were issued during the months of March, April, and May. A similar condition was commented upon in our preceding audit report.

### **Recommendation 2**

**We recommend that the Office ensure that**

- a. licenses issued are reconciled to collections received and deposited, and any differences are investigated and resolved (repeat); and**
- b. reconciliations are reviewed by an employee independent from the cash receipts and licensing processes. 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 Montgomery County, Maryland for the period beginning April 17, 2009 and ending May 30, 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) 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. 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 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. This report also includes a finding regarding a significant instance of noncompliance with applicable laws, rules, or regulations. Other less significant findings were 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

December 18, 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 Montgomery County, Maryland, for the period beginning April 17, 2009, and ending May 30, 2012. The following is our response to the audit findings and recommendations in the report:

### **Finding 1: Trust Funds**

We concur with the finding and recommendation. The office now generates each month a complete registry account listing report. An employee who is independent of the maintenance of the registry account records and who cannot process fund transfers, reconciles on a monthly basis the bank statements of each of the registry accounts. The reconciliation is signed and dated by the preparer.

### **Finding 2: Business Licenses**

We concur with the finding and recommendation.

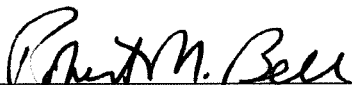
- a. Payments received and deposited for licenses continue to be reconciled to licenses issued. Supervisory personnel research the daily cash receipts, license records, and e-License System reports in order to identify reconciling discrepancies. The office will strive to reconcile all license activity and resolve any discrepancies in a timely manner during the high-volume renewal season.

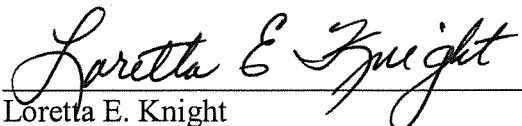
Mr. Thomas J. Barnickel III  
Page Two  
December 18, 2012

- b. The daily reconciliation is now verified by an employee independent from cash receipts and the licensing functions.

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

Very truly yours,

  
\_\_\_\_\_  
Robert M. Bell

  
\_\_\_\_\_  
Loretta E. Knight  
Clerk of the Circuit Court for  
Montgomery County

cc: Hon. John W. Debelius III, Administrative Judge for Montgomery County  
Frank Broccolina, State Court Administrator  
Faye D. Matthews, Deputy State Court Administrator  
Ssali S. Luwemba, Director of Internal Audit

AUDIT TEAM

**Matthew L. Streett, CPA, CFE**  
Audit Manager

**Sandra C. Medeiros**  
Senior Auditor

**Nathan H. Suffin**  
Staff Auditor