

Audit Report

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

October 2009

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**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

October 15, 2009

Delegate Steven J. DeBoy Sr., Co-Chair, Joint Audit Committee  
Senator Verna L. Jones, 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 11, 2006 and ending April 16, 2009. 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 cash receipts were not sufficiently secured, 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,

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, Montgomery County and its incorporated cities and towns, and subsequently distributes the funds collected to the applicable entities.

### **Financial Information**

According to the Office's accounting records, the Office's fiscal year 2009 revenues totaled \$42,996,282. These revenues were distributed in the following manner:

- \$1,754,786 was distributed to Montgomery County and its incorporated cities and towns; and
- \$41,241,496 (the remaining amount) represented revenues available to the State for purposes specified in various provisions of State law.

The Office's fiscal year 2009 operating expenses, which were paid primarily from a general fund appropriation, totaled \$10,305,153.

The Office also maintained custody of certain trust and special purpose funds that, according to its records, had balances totaling \$22,450,906 as of March 31, 2009.

### **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 September 25, 2006. We determined that the Office satisfactorily addressed these findings.

# Findings and Recommendations

## Business Licenses

### **Finding 1**

**Sufficient control was not established over the issuance of business licenses.**

### **Analysis**

The Office had not established sufficient control over the issuance of business licenses. Specifically, the Office did not consistently perform reconciliations of licenses issued with cash received. Each year, the daily reconciliations were discontinued during the period from March through May. We were advised by Office management that no reconciliations were performed during this period because the Office employees were very busy issuing and renewing licenses during this time since all licenses expire on April 30.

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

According to the Office’s records, in fiscal year 2009, the Office generated \$2.4 million in revenue through the issuance of 10,151 licenses, the majority of which were issued during the months of March, April, and May.

### **Recommendation 1**

**We recommend that the Office establish sufficient controls over licenses issued. Specifically, we recommend that the Office ensure that licenses issued are reconciled to collections received and deposited.**

## Cash Receipts

### **Finding 2**

**The Office’s cash receipts were not adequately secured before deposit.**

### **Analysis**

Cash receipts in several departments were not adequately secured. Prior to deposit, collections of the recording, criminal, and reproduction departments were

stored in safes that were accessible to all 38 employees in these departments. In this regard, the key to each department's safe was normally maintained in that supervisor's office. However, we were informed that all employees in each department knew the key's location and how to open the safe. Consequently, cash receipts could be misappropriated and the individual responsible would not be evident.

Cash receipts collected in individual departments are stored in the safes overnight and deposited the following business day. Cash and checks collected by these departments totaled approximately \$39.3 million in fiscal year 2009, the vast majority of which was collected by the recording department.

### **Recommendation 2**

**We recommend the Office improve security over cash receipts by limiting employee access to collections prior to deposit.**

## **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 11, 2006 and ending April 16, 2009. 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. The areas addressed by the audit included cash receipts, including taxes and fees collected for real estate transactions and licensing transactions; bank accounts; accounts receivable; and reporting on the disposition of motor vehicle cases. 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. 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.

Our audit disclosed 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. 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 13, 2009

Mr. Bruce 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 Montgomery County, Maryland for the period beginning April 11, 2006 and ending April 16, 2009. The following are our responses to the audit findings and recommendations in the report:

Finding 1

### **Business Licenses**

We concur with the finding and recommendation. Internal controls have been strengthened. An employee, independent of the cash receipts and licensing functions, reconciles daily the License Department cash register business license receipts to the E-license report that lists licenses issued, to ensure that all business license collections received are deposited.

Finding 2

### **Cash Receipts**

We concur with the finding and recommendation. Security over cash receipts in departments' safes has been increased. The number of employees with safe access has been restricted. Only the manager and one supervisor in each department know the location of the safe key and have access to the safe.

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

Mr. Bruce Myers, CPA  
October 13, 2009  
Page 2

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 Gaskin, Deputy State Court Administrator  
Ssali S. Luwemba, Director of Internal Audit

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