

Audit Report

**Office of the Clerk of Circuit Court
Prince George's County, Maryland**

April 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

April 8, 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 Prince George's County, Maryland for the period beginning January 18, 2005 and ending October 8, 2007.

Our audit disclosed that the Office did not refer the disposition of all court cases involving motor vehicle violations to the State's Motor Vehicle Administration as required by State law. Our audit also disclosed that the Office had not established adequate controls over its cash receipts. Finally, we noted that certain of the Office's bank accounts were not established as interest earning accounts.

Respectfully submitted,

Bruce A. Myers, CPA
Legislative Auditor

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* Denotes item repeated in full or part from preceding audit report

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, Prince George's 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 2007 revenues totaled \$55,779,016. These revenues were distributed in the following manner:

- \$1,798,024 was distributed to Prince George's County and its incorporated cities and towns;
- \$29,322 was distributed to others; and
- \$53,951,670 (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 \$9,448,216.

The Office also maintained custody of certain trust and special purpose funds that, according to its records, had balances totaling \$8,932,450 as of September 30, 2007.

Current Status of Findings From Preceding Audit Report

Our audit included a review to determine the current status of the finding contained in our preceding audit report dated May 10, 2005. We determined that the Office did not satisfactorily address this finding and, therefore, it is repeated in this report.

Findings and Recommendations

Motor Vehicle Cases

Finding 1

The Office did not always refer the disposition of motor vehicle cases to the Motor Vehicle Administration as required.

Analysis

The Office did not always transmit the disposition of motor vehicle cases to the Motor Vehicle Administration (MVA) within the 15-day timeframe required by law. Our test of 20 motor vehicle cases, that were filed with the Office during fiscal year 2007, and resulted in guilty verdicts, revealed that as of November 2, 2007, 16 of the cases had not been transmitted to the MVA (the age of these cases from the time of sentencing for the guilty verdict ranged from 203 to 465 days) and 2 additional cases were not reported timely (delays of 45 and 53 days after the required time frame). As a result, the MVA could not process the disposition of the cases in a timely manner. In 8 of the 18 cases that were not transmitted as required, the law mandated license suspensions or revocations.

We were advised by Office management that this situation was primarily due to an error in the Office's computer program that generated reports of cases that needed to be reported to the MVA. In this regard, during the 19-month period from July 2005 to January 2007, this computer program did not include all applicable cases in the related reports used by the Office. Specifically, if a case record had a blank field (such as social security number or driver's license number), it would not be included in the related report. For the aforementioned 16 cases which were not reported as of November 2, 2007, all lacked record data in at least one field. While we were advised that the computer error had been corrected, as of November 2, 2007, the Office had not reviewed its records for this period of time to determine how many cases were not reported to the MVA. Based on the Office's records, 365 of the 3,619 motor vehicle cases heard during this 19-month period had guilty verdicts.

The Circuit Court adjudicates motor vehicle cases involving appeals from the District Court and cases in which the defendant requested a jury trial. The law requires the clerks of the court to send a record of case disposition for each case involving a motor vehicle violation, 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. A similar condition was commented upon in our preceding audit report.

Recommendation 1

We recommend that the Office review its records of MVA cases and ensure that all past cases which have not been transmitted due to the aforementioned error are transmitted to the MVA. We also again recommend that the Office refer the disposition of motor vehicle cases to the MVA in accordance with the timeframe established by law.

Cash Receipts

Finding 2

Adequate controls were not established over collections.

Analysis

The Office had not established adequate internal controls over cash receipts. According to the Office's records, during fiscal year 2007, the Office's collections (including trust and special purpose funds) totaled approximately \$63.6 million. Specifically, we noted the following conditions:

- Collections received by the Office's land records department, which totaled approximately \$50 million during fiscal year 2007, were not adequately accounted for and controlled. Specifically, checks received in the mail were not always restrictively endorsed or recorded immediately upon receipt. Rather, these procedures were performed when the receipts were prepared for deposit. Furthermore, certain collections were not deposited timely. For example, 1,044 checks, totaling \$36,343, which were received by the land records department during the period from November 6, 2007 to November 9, 2007, had not been recorded, endorsed, or deposited as of November 14, 2007. Finally, rather than these checks being secured in a safe or similar location, the checks were retained in an unlocked room until processed. The Office estimated that approximately 50 percent of the land records department collections were received through the mail.
- Although all collections were initially recorded on cash registers, such original receipt records were not used in the verification of deposits. Rather, an employee independent of the cash receipts function performed the verifications using summary reports that were prepared from original receipt documents by an employee who also had access to collections.
- The Office did not adequately restrict access to its accounts receivable records for criminal, civil, and juvenile costs. Specifically, two employees who had access to all collections also had the capability to access and adjust those accounts receivable records. As a result of these conditions, unauthorized

adjustments could be processed without detection and the related collections misappropriated. The Office's accounts receivable balance was approximately \$142,000 as of June 30, 2007.

The Comptroller of the Treasury's *Accounting Procedures Manual* specifies the procedures to account for and safeguard cash receipts, including the requirement to deposit funds no later than the first working day after receipt.

Recommendation 2

We recommend that the Office restrictively endorse all checks and record all collections immediately upon receipt. We also recommend that the Office ensure that all cash receipts are promptly deposited. In addition, we recommend that an employee independent of the cash receipts function verify that all recorded collections were deposited by comparing the amounts recorded on the cash registers with the related deposit tickets. Finally, we recommend that the Office restrict access to the accounts receivable records to ensure that employees who can modify the accounts receivable records do not have access to the related cash receipts. We advised the Office on accomplishing the necessary separation of duties using existing personnel.

Bank Accounts

Finding 3

Two of the Office's bank accounts were not established to earn interest as provided for by the Comptroller of the Treasury's *Accounting Procedures Manual*.

Analysis

Two of the Office's special bank accounts (with balances averaging approximately \$976,000 during fiscal year 2007) were not established as interest bearing accounts as provided for by the Comptroller of the Treasury's *Accounting Procedures Manual*. Specifically, our review disclosed that two of the Office's six bank accounts maintained for its Appeals and Collateral and Circuit Court Funds were not established to generate interest. These accounts consisted primarily of funds forwarded to the Office for retention until the Court instructed the Office to disburse the funds. We estimated that, if these funds had been invested in interest-bearing accounts during calendar year 2007, interest totaling approximately \$31,800 would have been earned and available to finance the Office's costs of administering the funds.

The Comptroller of the Treasury's *Accounting Procedures Manual* allows the Comptroller, in conjunction with the State Treasurer, to grant State agencies approval to establish special bank accounts, which may be used to deposit and disburse funds for various purposes. The *Manual* further states that accounts with balances which exceed \$24,000 should be established to earn interest. Furthermore, an Opinion of the Attorney General dated January 27, 1993 stated that the retention of interest earnings constituted a reasonable fee for administering the funds in special bank accounts maintained by clerks of circuit courts.

Recommendation 3

We recommend that funds held in the Office's bank accounts be invested in interest bearing accounts as provided for by the Comptroller of the Treasury's *Accounting Procedures Manual*.

Audit Scope, Objectives, and Methodology

We have audited the Office of the Clerk of Circuit Court for Prince George's County, Maryland for the period beginning January 18, 2005 and ending October 8, 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 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.

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 relating to a condition 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 findings regarding significant instances 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

March 31, 2008

Mr. Bruce A. Myers, CPA
Legislative Auditors
Office of Legislative Audits
301 West Preston Street
Baltimore, Maryland 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 Prince George's County, Maryland for the period beginning January 18, 2005 and ending October 8, 2007. The following are our responses to the audit findings and recommendations in the audit report:

Motor Vehicle Cases
Finding 1

We concur with the finding and recommendation. We have reviewed all relevant records of MVA cases to ensure that all past cases, which have not been transmitted, are transmitted to the MVA. We have revised and adjusted the relevant policies and procedures to ensure that, in the future, disposition of motor vehicle cases will be referred to the MVA in accordance within the time frame established by law.

Cash Receipts
Finding 2

We concur with the finding and recommendation. We shall restrictively endorse all checks upon opening the mail, record all collections upon receipt and deposit immediately all cash receipts.

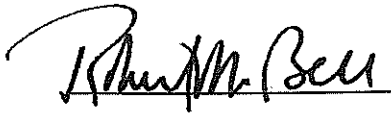
We have implemented a process for verification of the deposit amount recorded for bank deposits. An independent employee now verifies receipted bank deposit tickets to cash register totals. We have established a separation of duties to restrict an employee from having access to the detailed accounts receivable records and the handling of cash receipts.

Bank Accounts
Finding 3

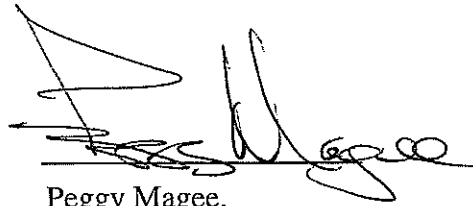
We concur with the finding and recommendation. As recommended, interest earning bank accounts will be established immediately to deposit appropriate funds, as provided for by the Comptroller of the Treasury's Accounting Procedures Manual.

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

Very truly yours,



Robert M. Bell



Peggy Magee,
Clerk of the Circuit Court for
Prince George's County

Cc: Hon. William D. Missouri, Administrative Judge
Frank Broccolina, State Court Administrator
Ssali S. Luwemba, Judiciary Director of Internal Audit

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