

Audit Report

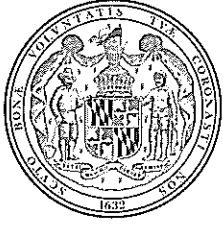
**Office of the Clerk of Circuit Court
Talbot County, Maryland**

July 2011



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

July 6, 2011

Bruce A. Myers, CPA
Legislative Auditor

Delegate Guy J. Guzzone, Co-Chair, Joint Audit Committee
Senator James C. Rosapepe, 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 Talbot County, Maryland for the period beginning February 19, 2008 and ending February 16, 2011. 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 verify that the dispositions of criminal cases were properly entered into the automated court system. We also noted internal control weaknesses regarding Circuit Court Fund disbursements and cash receipts.

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,

A handwritten signature in cursive script that reads 'Bruce A. Myers'.

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, Talbot 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 2010 revenues totaled \$8,862,981. These revenues were distributed in the following manner:

- \$5,953,229 was distributed to Talbot County and its incorporated cities and towns,
- \$11,234 was distributed to others, and
- \$2,898,518 (the remaining amount) represented revenues available to the State for purposes specified in various provisions of State law.

The Office's fiscal year 2010 operating expenses, which were paid primarily from a general fund appropriation, totaled \$802,355.

The Office also maintained custody of certain trust and special purpose funds that, according to its records, had balances totaling \$274,908 as of February 16, 2011.

Findings and Recommendations

Circuit Court Fund

Finding 1

One Office employee had excessive control over Circuit Court Fund disbursements.

Analysis

The employee who maintained custody of the blank Circuit Court Fund checks and prepared the checks for disbursement was also an authorized check signer.

Additionally, this employee recorded the Fund disbursements in the automated system and performed the related monthly bank reconciliations. As a result of these conditions, unauthorized disbursements could occur that may not be readily detected. According to the Office's record, during fiscal year 2010, disbursements from the Circuit Court Fund totaled approximately \$480,000.

Recommendation 1

We recommend that the Office remove the aforementioned employee as an authorized check signer on the Circuit Court Fund account.

Uniform Court System

The Uniform Court System (UCS) is an automated record keeping system in the State for criminal, civil, and juvenile court cases that includes case file management and related cash receipts and accounts receivable functions.

Finding 2

The Office lacked sufficient procedures to ensure that criminal case dispositions were properly recorded in the Uniform Court System.

Analysis

The Office lacked adequate procedures to ensure that the dispositions of criminal cases were properly entered into the Uniform Court System (UCS). Specifically, the information entered into the UCS for criminal cases and subsequently used to generate the related commitment letters, was not independently compared to the original source documents (that is, case disposition forms signed by the judge) to ensure that the information was accurately recorded. This is significant because the commitment letter is used to record certain critical sentencing information in the Offender-Based State Correctional Information System, and serves as the basis for the applicable prisoner's official release date. According to the Office's records, during fiscal year 2010, the Office adjudicated 232 criminal cases.

Recommendation 2

We recommend that the Office perform independent reviews to ensure that criminal case dispositions (including any related commitment letters) are accurately entered into the UCS, and that documentation of the reviews is retained for verification.

Finding 3**Employees with access to cash receipts also had the ability to process non-cash credit adjustments and voids in the UCS.****Analysis**

Nine employees with access to cash receipts also had the ability to record non-cash credit adjustments to the UCS accounts receivable records. Five of these nine employees could also void transactions in the UCS. Additionally, although the UCS was capable of generating output reports of non-cash credit adjustments and voids, such reports were not consistently generated and verified to supporting documentation (such as court orders) by supervisory personnel. Furthermore, our test of 26 non-cash credit and void transactions processed during fiscal years 2010 and 2011 totaling approximately \$10,400 disclosed that, for 13 transactions totaling approximately \$4,500, there was no documentation to substantiate that the transactions had been reviewed and approved by supervisory personnel. While our tests did not disclose any transactions that appeared improper, these deficiencies could allow misappropriations of cash receipts to occur and not be readily detected.

During the period from June 1, 2010 (the implementation date for the UCS) to February 16, 2011, non-cash credit adjustments and voids recorded in the UCS totaled approximately \$19,400 and \$2,040, respectively. Cash receipts processed in UCS during this time period totaled approximately \$401,000.

The General Accounting Division's *Accounting Procedures Manual* states that basic internal control procedures for cash include the segregation of the cash receipts handling duties from the accounts receivable record keeping, billing, and reconciliation functions, and that a supervisory review of all voids and adjustments be performed.

Recommendation 3**We recommend that the Office**

- a. ensure that employees with the ability to process non-cash credit adjustments and voids in the UCS not have access to cash receipts;**
- b. periodically (for example, monthly) generate output reports of non-cash credit and void transactions recorded in the UCS, and ensure that independent supervisory personnel verify recorded non-cash credit adjustments and voids to supporting documentation; and**
- c. retain documentation of these reviews for audit verification.**

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 Talbot County, Maryland for the period beginning February 19, 2008 and ending February 16, 2011. 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.

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), bank accounts, accounts receivable, and recordation of the dispositions of court cases. 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 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 report did not disclose any 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

June 30, 2011

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 Talbot County, Maryland for the period beginning February 19, 2008 and ending February 16, 2011. The following are our responses to the audit findings and recommendations in the report:

Finding 1: Circuit Court Fund

We concur with the finding and recommendation. The Chief Deputy Clerk has been removed as an authorized check signer on the Circuit Court Fund bank account. The Chief Deputy Clerk will prepare checks and submit them to the Clerk of the Circuit Court for her signature.

Finding 2: Uniform Court System

We concur with the finding and recommendation. A new procedure has been implemented to ensure that criminal case dispositions and commitment letters are processed and accurately entered into the Uniform Court System (UCS). The clerk now reviews at least 10 percent of the criminal cases held in the Circuit Court. The reviews include reports generated from the UCS that list the criminal case dispositions, docket entries obtained from the courtroom minutes prepared by the courtroom clerk, sentencing information, and commitment documents prepared by the criminal courtroom clerk. In addition, documentation of the independent reviews is retained for verification purposes.

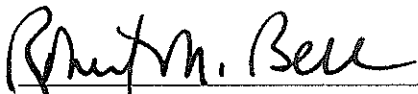
Finding 3: Uniform Court System

We concur with the finding and recommendation.

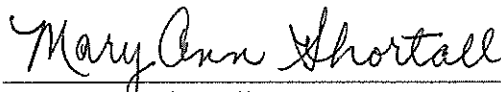
- a. Access to the UCS has been restricted. Changes have been implemented that appropriately segregate employees' incompatible duties. Employees that have the ability to process non-cash credit adjustments and voids in the UCS do not have access to cash receipts.
- b. Reports that display non-cash credit and void transactions are generated monthly from UCS. A clerk independent of the criminal, civil, and juvenile departments now verifies these recorded non-cash credit adjustments and voids to supporting documentation.
- c. Documentation of the independent clerk's review is retained for audit verification.

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

Very truly yours,



Robert M. Bell



Mary Ann Shortall
Clerk of the Circuit Court for
Talbot County

cc: Hon. Broughton M. Earnest, Administrative Judge
Frank Broccolina, State Court Administrator
Faye Matthews, Deputy State Court Administrator
Ssali S. Luwemba, Director of Internal Audit

AUDIT TEAM

Mark A. Ermer, CPA
Audit Manager

Ken H. Johanning, CFE
Senior Auditor

Joseph E. McWilliams
Staff Auditor