

Audit Report

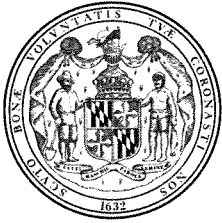
**Office of the Register of Wills
Baltimore City, Maryland**

October 2012



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

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DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

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Executive Director

October 12, 2012

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Legislative Auditor

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 Register of Wills for Baltimore City, Maryland for the period beginning May 14, 2009 and ending December 27, 2011. The Office oversees the administration of decedents' estates within Baltimore City and assists individuals who administer estates.

Our audit disclosed that employee timesheets were not always approved and user access to the Office's automated timekeeping system was not adequately restricted. We also noted that the Office improperly classified two part-time housekeepers as full-time employees, resulting in excess payroll earnings and retirement service credit. In addition, office supplies were not purchased in a cost-effective manner and in accordance with established policies. Finally, bank reconciliations were not always independently prepared and subject to adequate review and approval.

The Office's response is attached 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
Acting Legislative Auditor

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Background Information

Agency Responsibilities and Financial Information

The Office of the Register of Wills is a public office established under the Constitution of Maryland. An office is established in each of the 24 Maryland subdivisions. These offices oversee the administration of decedents' estates within their jurisdictions and provide assistance (such as providing the proper forms) to individuals administering estates. The offices collect inheritance taxes and other fees as provided by law.

Inheritance tax collections (less the commissions earned by an office on those collections) are remitted to the State's General Fund. The fees collected and commissions earned by an office are first used to finance the operating expenses it is responsible for paying directly. Generally, the remaining balance of the fees and commissions is periodically remitted to the Comptroller of Maryland to finance other operating expenses (such as payroll) that the Comptroller pays on behalf of the offices. On a collective basis, the offices' fees and commissions that exceed their operating expenses are credited to the General Fund.

According to the records of the Office of the Register of Wills for Baltimore City, its fiscal year 2012 gross receipts totaled \$6,448,341, which consisted of inheritance tax collections (net of commissions) of \$4,362,290 and fees and commissions of \$2,086,051. The Office's fiscal year 2012 operating expenses totaled \$2,703,255.

Personnel Matter

An individual currently performing supervisory duties did not accurately report certain information on the employment application when hired originally for a clerical position. Specifically, this individual indicated on the State employment application that the employee did not have a felony conviction record, even though the individual was previously convicted of felony theft and was ordered to pay restitution totaling more than \$100,000. Additionally, the social security number on the employment application did not agree to the number on file with the U.S. Social Security Administration, according to the State's Central Payroll Bureau. The social security number also differed from that on file with the State agency responsible for collecting the delinquent court-ordered restitution, impacting the collectability of the restitution through wage garnishment and tax refund offset.

Although a previous felony conviction does not preclude an individual from being hired, according to State law, knowingly making a false representation or statement on an employment application is a misdemeanor offense that is punishable by a fine not exceeding \$5,000 and/or imprisonment not exceeding six months.

This matter was referred to the Register for any appropriate action and to the Office of the Attorney General. A referral to the Office of the Attorney General does not mean that a criminal act has occurred or that criminal charges will be filed.

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 18, 2009. We determined that the Office satisfactorily addressed these findings.

Findings and Recommendations

Payroll

Finding 1

The Office did not ensure that employee timesheets were always approved by supervisory personnel and that users' system capabilities were adequately restricted.

Analysis

The Office had not established adequate accountability and control over employee timesheets and related timekeeping system functions. According to the Office's records, as of December 31, 2011, 41 employees were on its payroll. Payroll expenditures totaled approximately \$1.6 million during calendar year 2011. Our review disclosed the following conditions:

- Employee timesheets were not always approved by supervisory personnel. Specifically, our review of 49 timesheets (for seven employees for seven pay periods) in calendar year 2011 disclosed that 33 timesheets were not approved by supervisors. In three instances, the employee had both signed and approved the employee's own timesheets. Consequently, there is a lack of assurance that work time reported was proper.
- User access to the Office's automated timekeeping system was not adequately restricted to employees requiring such access to perform their assigned duties. Specifically, four users were improperly granted full administrator capabilities to the system and six users were improperly granted manager access. Manager access allowed these employees to modify timesheets, including their own, after supervisory approval. Additionally, the Office had not established controls to ensure the propriety of modifications made after supervisory approvals were obtained.

The automated timekeeping system is used to record daily work time and leave for each employee and is the basis for the employee's timesheet and the Office's payroll. The Comptroller of Maryland processes the payroll for the Office.

Recommendation 1

We recommend that the Office

- a. ensure timesheets are independently approved by supervisors before payroll is processed and that modifications to time and leave recorded in the automated timekeeping system and timesheets after approval are reviewed for propriety, and**

- b. review user access capabilities to the automated timekeeping system and limit administrative and manager access to only those individuals requiring such access.**

Finding 2

The Office improperly classified two part-time housekeepers as full-time employees, resulting in excess payroll earnings and retirement service credit.

Analysis

For a number of years, the Office has employed two housekeepers to provide daily cleaning services (such as, vacuuming, dusting, and trash removal). Although these were part-time hourly employees, scheduled to work a maximum of three hours each day, the Office improperly classified them as full-time employees, and authorized them to be paid eight hours for each day worked. In addition to receiving excess pay, these employees received excess creditable service hours for their state pension benefits. Our test of the employees' daily time records during the period from November 2, 2011 through January 10, 2012 disclosed that these employees usually worked less than 3 hours a day—averaging 2.5 hours a day.

During calendar year 2011, according to State payroll records, the Office paid these housekeepers a combined \$30,450 and each earned eleven months of creditable service towards their state pensions. Had these employees been properly classified during calendar year 2011, the Office would have paid them a combined maximum of \$11,571. Upon bringing this issue to the Office's attention, the Office worked with both the Comptroller of Maryland and the Maryland State Retirement Agency to adjust their salaries and creditable service consistent with actual hours worked. As of July 2012, the housekeepers had been reclassified as 30 percent employees on the State's payroll records. According to the Maryland State Retirement Agency, 30 percent employees can only earn a maximum of four months of creditable service per year for their state pension benefits.

Recommendation 2

We recommend that the Office

- a. ensure all employees hired in the future are properly classified on the payroll and are only paid for the hours worked, and**
- b. continue working with the Maryland State Retirement Agency to make appropriate adjustments to the housekeepers' previously credited pension benefits when improperly classified as full-time employees.**

Disbursements

Finding 3

The Office did not ensure office supplies were always purchased in a cost-effective manner and in accordance with established policies.

Analysis

The Office did not ensure office supplies were always purchased in a cost-effective manner and in accordance with established policies. Specifically, during the period from June 2009 through December 2011, the Office purchased various printed paper products (such as estate folders and envelopes), at a total cost of approximately \$26,500, from two local vendors without considering statewide preferred vendors. Had these printed paper products been purchased from statewide preferred vendors, we calculated that the Office could have saved approximately \$10,700. For example, on six separate occasions from July 2009 to September 2011, the Office purchased envelopes from two local vendors at an aggregate cost of approximately \$10,520 (including shipping costs of \$600); the same envelopes could have been purchased from Maryland Correctional Enterprises for approximately \$4,440 with free shipping—a difference of \$6,080.

State procurement regulations, as well as the Comptroller of Maryland's *Procurement Policy for Registers of Wills*, require that preferred providers (such as Maryland Correctional Enterprises) be utilized if the goods or services can be obtained from them at generally competitive prices.

Recommendation 3

We recommend that the Office comply with State procurement regulations and the Comptroller of Maryland's *Procurement Policy for Registers of Wills* when purchasing goods and services.

Bank Account

Finding 4

Bank reconciliations were not always independently prepared and subject to adequate review and approval.

Analysis

The Office lacked adequate procedures and controls over its general bank account, as bank reconciliations were not always independently prepared and approved. Our review of the 12 monthly bank reconciliations in fiscal year 2011 disclosed that, for 10 months, the employee responsible for preparing and approving the bank reconciliations was also responsible for recording

disbursements and processing cash receipts for deposit. While an independent employee began reviewing and approving the bank reconciliations in May 2011, certain monthly bank reconciliation differences dating back to June 2009, which ranged from \$70 to \$1,364, were not investigated and resolved. The average bank balance for fiscal year 2011 was approximately \$377,000.

Recommendation 4

We recommend that

- a. an employee independent of the cash receipts and disbursement process review and approve the monthly bank reconciliations, and**
- b. differences disclosed during the bank account reconciliation process be investigated and resolved in a timely manner.**

Audit Scope, Objectives, and Methodology

We have audited the Office of the Register of Wills for Baltimore City, Maryland for the period beginning May 14, 2009 and ending December 27, 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. 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, cash disbursements, bank accounts, payroll, and administration of estates. 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 a review of certain support services provided to the Office by the Comptroller of Maryland – Office of the Comptroller. These support services (such as payroll processing, maintenance of accounting records, and related fiscal functions) are included within the scope of our audits of the Office of the Comptroller.

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.

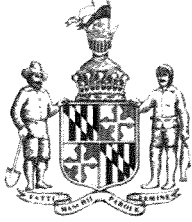
Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

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 also disclosed 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 Office's response 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 Office regarding the results of our review of its response.

APPENDIX



Register of Wills for Baltimore City

MARY W. CONAWAY
REGISTER

October 3, 2012

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Mr. Thomas J. Barnickel III, CPA
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RE: Findings and Recommendations

Dear Mr. Barnickel:

We have received and reviewed your final Draft Audit Report. I responded on June 2, 2012 and July 16, 2012 to what I assumed to be your final report in which all of these findings and recommendations were brought up to complete compliance according to the state of Maryland. However, I am pleased to respond again as follows:

Findings #1 Payroll (concurring)

All timesheets in question have been corrected and are now independently approved by supervisors before payroll through the Excel Timesheets. All employees send their timesheets to their supervisors, via e-mail. The supervisor then verifies the timesheet against the Spectrum Calendar and approves the timesheet by insertion of their name on it, then e-mails it to the timekeeper.

A review has been made of access rights to the payroll (Spectrum Time Clock) system and all appropriate employees have manager and administrative access.

Finding #2 Personnel (concurring)

a. In compliance with your recommendation we have made contact with Ken Smith, Director of Finance in the Comptroller of Maryland's office and reclassified the two housekeepers from full time status to part time, of which their salaries and hours will reflect those changes.

b. Additionally, the Maryland State Retirement System and the Comptroller of Maryland are researching and making the necessary corrections to the housekeepers pension status.

Finding #3 Office Supplies (Concurred)

a. We concur and now the office of the Register of Wills for Baltimore City is in compliance with the State Procurement Regulations and the Comptroller of Maryland's Procurement Policy.

Finding #4 Bank Account (Concurred)


a. In the analysis made on May 2011, it was noted that the office had an independent employee reviewing and approving bank transactions, however, recommendations were made to have an employee independent of the cash receipts and disbursement process. We concur with your findings and have instituted the process of an employee independent of the Fiscal Department to review and approve all bank reconciliations and appropriate supporting documents..

b. And finally, any differences during our bank reconciliation process is being investigated by M. & T. Bank and will be resolved as soon as possible. There is a possibility that this discrepancy came about during their merger from Provident to M. & T.

As an aside, if any further information is necessary, feel free to contact me personally.

In closing, we have already started the implementation of all recommendations in your report.

Sincerely,


Mary W. Conaway
Register of Wills for Baltimore City

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