

Audit Report

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

September 2009



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

September 18, 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 Register of Wills for Baltimore City, Maryland for the period beginning December 18, 2006 and ending May 13, 2009. The Office oversees the administration of decedents' estates within Baltimore City and assists individuals in administering estates.

Our audit disclosed procedural deficiencies with respect to cash management and cash receipts. For example, the Office did not maximize interest income on its excess cash.

The Office's response to this audit 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 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. These fees, as well as the commissions earned by an office on inheritance tax collections, are generally used to finance that office's operating expenses. Inheritance tax collections (less the applicable commissions) and any fees and commissions in excess of operating expenses are remitted to the State's General Fund. On a collective basis, the offices' fees and commissions that exceed their operating expenses are retained by the General Fund. In the event that an individual office's fees and commissions are not sufficient to finance its operating expenses, the difference is paid from the General Fund.

Financial Information

According to the Office's records, the Office's fiscal year 2008 gross receipts totaled \$6,089,984. These receipts were distributed in the following manner:

- \$4,000,443 in inheritance tax collections were remitted to the General Fund;
- \$2,089,541 in fees and commissions were disbursed for operating expenses and refunds, or remitted to the General Fund.

The Office's fiscal year 2008 operating expenses totaled \$1,950,720.

Status of Findings From Preceding Audit Report

Our audit included a review to determine the status of the three findings contained in our preceding audit report dated May 23, 2007. We determined that the Office satisfactorily addressed one of these findings. The remaining two findings are repeated in this report.

Findings and Recommendations

Cash Management

Finding 1

The Office did not maximize investment earnings on excess funds, resulting in a loss of interest income.

Analysis

The Office did not maximize investment earnings on excess funds. Specifically, the Office's collections were initially deposited into a non-interest bearing checking account in a local bank. To earn interest, the bank invested the Office's funds in overnight repurchase agreements. However, interest earned by the Office's funds was less than the interest available from the Local Government Investment Pool (LGIP) established by the State Treasurer. During fiscal year 2008, the Office could have earned additional interest of approximately \$7,900 if its funds had been invested in the LGIP. A similar condition was commented upon in our two preceding audit reports.

The Comptroller of the Treasury issued a directive, dated January 4, 1983, to all Registers of Wills regarding the investment of funds. To maximize interest earnings, the Comptroller's directive provided the Registers with three investment options. Specifically, the directive allowed funds to be invested in the LGIP established by the State Treasurer, or in a local bank, provided that the interest earnings are comparable to the LGIP, or by the State Treasurer on behalf of the applicable Register of Wills.

Recommendation 1

We again recommend that the Office invest its excess funds in accordance with the aforementioned directive from the Comptroller of the Treasury.

Cash Receipts

Finding 2

An employee who received collections also had the capability to void receipts without independent approval.

Analysis

Cash receipt duties were not properly segregated. Specifically, an employee who received collections and prepared collections for deposit also had the capability to void receipts on the Office's automated cash receipts system without independent

approval. In addition, this employee was responsible for verifying that all voided transactions were properly supported. As a result of these conditions, collections could be misappropriated without detection. A similar condition was commented upon in our preceding audit report. According to the Office's records, cash receipts totaled approximately \$6.1 million during fiscal year 2008.

Recommendation 2

We again recommend that employees with access to cash receipts not have the capability to void receipts on the automated system. 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 Register of Wills for Baltimore City, Maryland for the period beginning December 18, 2006 and ending May 13, 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 inheritance taxes collected on estates; cash disbursements; and administration of decedents' estates. 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.

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.

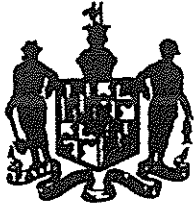
Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

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 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 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 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

TELEPHONE
(410) 752-5131

September 10, 2009

Mr. Bruce A. Meyers, CPA
Legislative Auditor
State of Maryland
Office of Legislative Audits
State Office Building, Room 1202
301 West Preston Street
Baltimore, Maryland 21201

RE: Findings and Recommendations

Dear Mr. Myers:

We have received and reviewed your DRAFT Audit Report. The responses to the findings and recommendations are as follows:

Finding #1 – Cash Management

We will be investing \$100,000.00 with M&T Bank in a secured Brokers CD at a rate of .65 basis points beginning on September 16, 2009 and ending on June 16, 2010. The balance will be invested in a Municipal Now Account at a rate of .10 basis points. This will eliminate the expensive wiring fee we will incur with MLGIP. This should maximize our investment earnings.

Finding #2 – Cash Receipts

Concur and Corrected

One of the employees in the administrative office is now authorized to perform this duty.

We will implement the appropriate procedures to abide by the recommendations in the report.

Sincerely,

A handwritten signature in cursive script that reads "Mary W. Conaway".

Mary W. Conaway
Register

MWC/ps

AUDIT TEAM

William R. Smith, CPA
Audit Manager

Ronnette L. Bailey, CFE
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