Audit Report

Office of the Register of Wills
Baltimore County, Maryland

August 2011

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

Karl S. Aro
Executive Director

Bruce A. Myers, CPA
Legislative Auditor

August 16, 2011

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 Register of Wills for Baltimore County, Maryland for the period beginning January 16, 2008 and ending February 24, 2011. The Office oversees the administration of decedents' estates within Baltimore County and assists individuals who administer estates.

Our audit disclosed the Office did not report all gross estates, valued at $1 million or more, to the Comptroller of Maryland for estate tax purposes.

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 2010 gross receipts totaled $16,782,582. These receipts were distributed in the following manner:

- $11,540,470 in inheritance tax collections was remitted to the General Fund;
- $5,242,112 in fees and commissions was disbursed for operating expenses and refunds, or remitted to the General Fund.

The Office's fiscal year 2010 operating expenses totaled $2,421,308.

Findings and Recommendations

Administration of Estates

Finding 1
The Office did not report all gross estates valued at $1million or more to the Comptroller of Maryland for estate tax purposes.

Analysis
The Office is required to report to the Comptroller of Maryland all gross estates (that is, including both probate and non-probate assets) valued at $1 million or

more in order to assist the Comptroller in identifying which estates should file a Maryland estate tax return. The Comptroller uses the reported information, which is based on filings sent to and processed by the Office, to notify the representative for each of these estates of the need to file a Maryland estate tax return. However, when reporting estates to the Comptroller of Maryland, the Office only considered the value of probate assets and not the value of non-probate assets. Probate assets are typically property owned individually by the decedent, and non-probate assets are typically property owned jointly by the decedent and others, such as bank accounts and real estate. If a decedent's probate assets alone were not $1 million or more, the Office did not report the estate to the Comptroller of Maryland.

After we brought this issue to the Office's attention, the Office advised that it reviewed all estates processed between January 15, 2008 and May 31, 2011 and identified and reported five estates with gross values over $1 million that were not initially reported to the Comptroller. For example, one estate had probate assets totaling $844,007 and non-probate assets totaling $758,101. Therefore, the gross estate value that should have been reported to the Comptroller was $1,602,108.

According to the Office's records, during the period from January 16, 2008 to February 24, 2011, 15,740 estates were opened and required a review by the Office. During the period from July 2009 to February 2011, the Office reported 174 estates to the Comptroller of Maryland.

Recommendation 1
We recommend that the Office consider both the probate and non-probate asset values when determining which estates to report to the Comptroller of Maryland for estate tax purposes.

Audit Scope, Objectives, and Methodology

We have audited the Office of the Register of Wills for Baltimore County, Maryland for the period beginning January 16, 2008 and ending February 24, 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, cash disbursements, bank accounts, 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, 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 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. This condition is also 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 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.

GRACE G. CONNOLLY

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August 5, 2011

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

Dear Mr. Myers:

In your Audit Report Finding 1 is set forth as follows: "The Office did not report all gross estates valued at $1million or more to the Comptroller of Maryland for estate tax purposes". In response to this finding we have reviewed all estates between January 15, 2008 and May 31, 2011. We found five (5) estates with combined assets over $1,000,000.00 that were not reported. Those estates were subsequently reported to the Comptroller's Office. The reporting process has been corrected and now includes both probate and non-probate assets. In addition, we have suggested a modification to the ROW Office Automation program reporting system whereby the values of assets reported on the Information Report, Application to Fix Inheritance Tax & Inventory, and any supplements or amendments thereto, are entered and stored in a database. A new Statistical Report will be added to the ROW program to evaluate and report on the value of assets. When run, the report would compare the value of assets for each estate. If the value of assets exceeds the threshold of $1,000,000.00 the estate would appear on the report. Any estate appearing on the report would be reported to the Comptroller's Office.

Sincerely,

Grace G. Connolly

Grace G. Connolly
Register of Wills
Baltimore County

Audit Team

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