

Audit Report

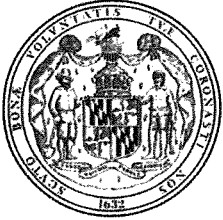
**Office of the Register of Wills
Caroline County, Maryland**

August 2012



**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

August 30, 2012

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 Caroline County, Maryland for the period beginning April 7, 2009 and ending March 27, 2012. The Office oversees the administration of decedents' estates within Caroline County and assists individuals who administer estates.

Our audit disclosed certain internal control deficiencies related to disbursements and user access to the automated financial system.

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,


Thomas J. Barnickel III, CPA
Acting Legislative Auditor

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 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 Caroline County, its fiscal year 2011 gross receipts totaled \$905,781, which consisted of inheritance tax collections (net of commissions) of \$632,340 and fees and commissions of \$273,441. The Office's fiscal year 2011 operating expenses totaled \$338,671.

Findings and Recommendations

Disbursements and Financial System Access

Finding 1

The Office lacked adequate controls over disbursements and user access to its automated financial system.

Analysis

Controls over disbursements and user access to its automated financial system were not adequate. Specifically, our review disclosed the following conditions:

- Monthly bank reconciliations prepared by an Office employee were not subject to independent review and approval. Additionally, this employee was responsible for approving disbursements as an authorized check signer and

had unrestricted access to the blank check stock. Due to the limited number of Office employees, the segregation of all of these duties was not possible. However, an independent review of the monthly bank reconciliations, which would include a review of documentation supporting the disbursements, would provide the appropriate control.

- The Office allowed employees to use other employees' assigned user ids and passwords to process certain transactions (such as, voids) that the employees were restricted from processing with their assigned user ids. Specifically, the Office's record of all user ids and passwords, including for the system administrator account, was available to all employees so that these transactions could be processed when employees with the assigned access were not available. The Office's automated system is used for all daily business functions, including processing receipts, recording disbursements, and recording estate transactions. Without the proper restriction of access, incompatible functions could be performed by individuals, which could result in the processing of unauthorized transactions. In addition, the individual accountability for transactions processed is not maintained.

According to the Office's records, during fiscal year 2011, the Office processed collections totaling approximately \$906,000, all of which was subsequently disbursed for operating expenses or remitted to the State's General Fund.

Recommendation 1

We recommend that the Office

- a. perform a documented independent review and approval of the monthly bank reconciliations, including documentation supporting disbursements; and**
- b. prohibit the sharing of user ids and passwords and maintain their confidentiality.**

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 Caroline County, Maryland for the period beginning April 7, 2009 and ending March 27, 2012. 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.

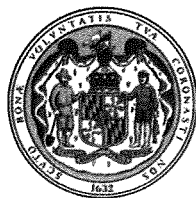
Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

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 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 did not disclose any significant instances of noncompliance with applicable laws, rules, or regulations.

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



JAMES L. PHELPS
REGISTER OF WILLS FOR CAROLINE COUNTY

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August 27, 2012

Mr. Thomas J. Barnickel, III, CPA
Acting Legislative Auditor
Department of Legislative Services
Office of Legislative Audits
301 West Preston St., Room 1202
Baltimore, MD 21201

Dear Mr. Barnickel:

The Register of Wills office for Caroline County agrees with the Finding in your Audit Report for the period from April 7, 2009 to March 27, 2012.

Beginning June 1, 2012, our office started documenting the review and approval of monthly bank reconciliations, including the supporting disbursements. There are three employees in our office: the Register and two Chief Deputies. Each month the Register balances the statement and prepares a monthly reconciliation of receipts and disbursements. One of the Chief Deputies is verifying the review and approval of monthly bank reconciliations, including the supporting disbursements.

In addition, we prohibit the sharing of user ID's and passwords in order to maintain confidentiality.

Sincerely,

James L. Phelps
Register of Wills

JLP/b

AUDIT TEAM

Matthew L. Streett, CPA, CFE
Audit Manager

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Senior Auditor