Audit Report

Office of the Register of Wills
Charles County, Maryland

June 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

Karl S. Aro
Executive Director

Bruce A. Myers, CPA
Legislative Auditor

June 25, 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 Charles County, Maryland for the period beginning July 1, 2009 and ending February 27, 2012. The Office oversees the administration of decedents' estates within Charles County and assists individuals who administer estates.

Our audit disclosed that the Office did not adequately segregate certain duties and, as a result, there was a lack of assurance that all collections and disbursements were properly processed and accounted for.

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

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Legislative Auditor

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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 2011 gross receipts totaled $863,746. These receipts were distributed in the following manner:

- $554,788 in inheritance tax collections was remitted to the General Fund;
- $308,958 in fees and commissions was disbursed for operating expenses and refunds, or remitted to the General Fund.

The Office's fiscal year 2011 operating expenses totaled $619,776.

Status of Finding From Preceding Audit Report

Our audit included a review to determine the status of the finding contained in our preceding audit report dated November 10, 2009. We determined that the Office had not satisfactorily addressed this finding; therefore, the finding is repeated in this report.

Findings and Recommendations

Collections and Disbursements

Finding 1
The Office lacked adequate procedures and controls over collections and disbursements.

Analysis
The Office did not adequately segregate certain duties over collections and disbursements. Specifically, one employee was involved in the collection process, could adjust accounts receivable records, performed the deposit verifications, prepared and signed disbursement checks, and prepared the bank reconciliations. In addition, the bank reconciliations were not independently reviewed. As a result, there was a lack of assurance that all collections and disbursements were properly processed and accounted for. Due to the limited personnel available in the Office, it may not be practical to fully separate all these duties. However, under the current circumstances, this employee had complete control over the collection and disbursement processes.

During fiscal year 2011, the Office processed collections totaling $863,746, all of which were subsequently disbursed for operating expenses or remitted to the State's General Fund. The Comptroller of Maryland's *Accounting Procedures Manual* provides for the proper segregation of duties.

Recommendation 1
We again recommend that

a. **the Office properly segregate the collections and disbursement process (repeat), and**
b. **bank reconciliations be independently reviewed and documentation of the reviews be retained.**

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 Charles County, Maryland for the period beginning July 1, 2009 and ending February 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. We also determined the status of the finding included 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, 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. Our audit did not disclose any significant instances 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.

APPENDIX

LORAINE D. HENNESSY
Register of Wills
Charles County

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June 20, 2012

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

Dear Mr. Myers,

The following is our response to the audit findings for our audit from July 1, 2009 to February 27, 2012. The audit report states "Collections and Disbursements – Finding 1 - The Office lacked adequate procedures and controls over collections and disbursements." More specifically the finding states the office did not adequately segregate certain duties.

In regards to the collection process, the one employee (Chief Deputy Register) is not involved in the collection process. This position does not issue receipts or handle funds in the collection process. The Chief Deputy does not complete the daily deposit and does not take the deposit to the bank. The Chief Deputy verifies that the receipt from the daily deposit matches the computer generated reports. The deposit slip is completed and taken to the bank by another employee. At no point are the collections in the hands of the Chief Deputy. The deposit receipt is initialed off on by the Chief Deputy simply as verification that the deposit slip completed by the other employee was correct, transported to the bank for deposit and the amount deposited matches the computer generated reports. Again, no funds or collections are in the hands of the Chief Deputy. The auditor expressed concern about funds received by mail being opened by the Chief Deputy. The responsibility of handling incoming mail in the absence of the Register was shifted to another employee upon the auditor's initial concern.

The Chief Deputy Register has the duty of preparing and signing disbursement checks in the event the Register of Wills is unavailable. As the only co-signer on the office accounts other than the Register, signing of the checks has been necessary but rarely used. As usual practice the disbursement checks are written by the Chief Deputy but signed by the Register. Due to the limited personnel available in this office, it is not always practical to fully separate all these duties.

The bank statement, with copies of canceled checks, and the bank reconciliation are reviewed monthly for irregularities by the Register. After the auditor addressed a concern regarding documenting the review, it was suggested that this office initialed both the bank statement and reconciliation sheet as proof of review. This was made office policy immediately.

Our actions were voluntarily implemented prior to a formal review of the discussion notes.

Sincerely,

Loraine D. Hennessy

Loraine D. Hennessy
Register of Wills
Charles County, Maryland

/cmk

AUDIT TEAM

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