Audit Report

Office of the Register of Wills
Charles County, Maryland

November 2009

OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

- This report and any related follow-up correspondence are available to the public through the Office of Legislative Audits at 301 West Preston Street, Room 1202, Baltimore, Maryland 21201. The Office may be contacted by telephone at 410-946-5900, 301-970-5900, or 1-877-486-9964.

- Electronic copies of our audit reports can be viewed or downloaded from our website at http://www.ola.state.md.us.

- Alternate formats may be requested through the Maryland Relay Service at 1-800-735-2258.

- The Department of Legislative Services – Office of the Executive Director, 90 State Circle, Annapolis, Maryland 21401 can also assist you in obtaining copies of our reports and related correspondence. The Department may be contacted by telephone at 410-946-5400 or 301-970-5400.

DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Karl S. Aro
Executive Director

Bruce A. Myers, CPA
Legislative Auditor

November 10, 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 Charles County, Maryland for the period beginning July 1, 2006 and ending June 30, 2009. The Office oversees the administration of decedents' estates within Charles County and assists individuals who administer estates.

Our audit disclosed that the Office lacked adequate controls over collections and disbursements. For example, 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, 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 2009 gross receipts totaled $683,544. These receipts were distributed in the following manner:

- $408,503 in inheritance tax collections was remitted to the General Fund;
- $275,041 in fees and commissions was disbursed for operating expenses and refunds, or remitted to the General Fund.

The Office's fiscal year 2009 operating expenses totaled $598,063.

Findings and Recommendations

Collections and Disbursements

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

Analysis
The Office lacked adequate procedures and controls over collections and disbursements. Specifically, our review disclosed the following conditions:

- One employee handled many incompatible duties without independent supervisory review. Specifically, this 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. As a result, there was a lack of assurance that all collections and disbursements were properly processed and accounted for.

- Collections related to estates were not restrictively endorsed and recorded immediately upon receipt. Rather, these collections were kept with the estate documents pending processing and review. We were advised by Office personnel that delays between receipt and recording may be as long as two days.

During fiscal year 2009, the Office processed collections totaling $683,544, 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, and requires that, immediately upon receipt, all collections be recorded and all checks be restrictively endorsed.

Recommendation 1
We recommend that the Office
a. properly segregate the collections and disbursement process, and
b. record collections and restrictively endorse checks immediately upon receipt.

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, 2006 and ending June 30, 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, cash disbursements, bank accounts, and administration of estates.

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.

Our audit disclosed 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 a significant instance 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.

SUSIE C. BOWLES
Register of Wills
Charles County

Courthouse
P.O. Box 3080
La Plata, Maryland 20646

(301) 932-3345
(301) 870-3879
MD Residents Only (888) 256-0054

November 6, 2009

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,

After receipt and review of the Findings and Recommendations, the following is our response to the report.

In response to the Collections and Disbursements Finding 1 - The Office lacked adequate procedures and controls over collections and disbursements. -

- *"One employee handled many incompatible duties without independent supervisory review. Specifically, this 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. As a result, there was a lack of assurance that all collections and disbursements were properly processed and account for."*

In regards to the collection process, the one employee (Chief Deputy Register) does not issue receipts or handle funds in the collection process other than to open incoming mail and distribute items with possible checks included. At such times, those items are given to members of the staff that have receipt writing privileges. To rectify a future conflict, the opening and disbursement of incoming mail will be handled by the Register of Wills or the Assistant Chief Deputy.

It is unclear as to what the concern is in regards to the ability to adjust accounts receivable records. The Register of Wills computer software does not maintain an accounts receivable/billing record. There is a phase in the individual estate window that indicates a 'charge sheet'. This phase simply maintains a record of Letters of Administration issued, certified mail sent and things of that nature. The system calculates and/or maintains a record of issued items.

The Chief Deputy verifies that the deposit receipt 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.

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-signor on the office accounts other than the Register, this has been necessary but rarely used.

The bank reconciliation is done in a computer spreadsheet developed and maintained by the Chief Deputy. It is reviewed monthly by the Register of Wills with all reports and disbursement checks. Effective immediately the Register of Wills or Assistant Chief Deputy will initial or sign the bank reconciliation when reviewed.

- *"Collections related to estates were not restrictively endorsed and recorded immediately upon receipt. Rather, these collections were kept with the estate documents pending processing and review. We were advised by Office personnel that delays between receipt and recording may be as long as two days."*

In respond to the above finding and to clarify, any collections that were being kept pending processing and review where kept in a locked, fireproof safe until such time as the items and amounts could be verified as due and owing. This was only done for payments that pertained to estate administration accounts, such as probate fee, court costs and inheritance taxes. All other collections are processed immediately upon receipt. Once collections are processed, any necessary refunds would have to have authorization and go through a somewhat lengthy process. However, the recommendation has been taken into consideration and effective immediately all collections will be recorded and restrictively endorsed immediately upon receipt.

We will implement the necessary procedures to adhere to the recommendations in the report.

Sincerely,

Susie C. Bowles

Susie C. Bowles
Register of Wills
Charles County, Maryland

/ce

Audit Team

Brian S. Tanen, CPA, CFE
Audit Manager

Lauren R. Crue
Senior Auditor