Audit Report

Office of the Register of Wills
Frederick County, Maryland

October 2007

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

October 19, 2007

Delegate Steven J. DeBoy, Sr., Co-Chair, Joint Audit Committee
Senator Nathaniel J. McFadden, 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 Frederick County, Maryland for the period beginning December 3, 2004 and ending June 27, 2007.

Our audit disclosed that employee duties relating to disbursements were not adequately separated to enhance controls.

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 2007 gross receipts totaled $2,826,549. These receipts were distributed in the following manner:

- $1,916,370 in inheritance tax collections were remitted to the General Fund;
- $910,179 in fees and commissions were disbursed for operating expenses and refunds, or remitted to the General Fund.

The Office's fiscal year 2007 operating expenses totaled $543,444.

Findings and Recommendations

Disbursements

Finding 1
Employee duties relating to disbursements were not adequately separated.

Analysis
Employee duties relating to the processing of disbursements were not adequately separated. Specifically, the employee responsible for maintaining the Office's checkbook also prepared checks and was authorized to, and periodically did, sign the checks. This employee was also responsible for initiating purchases, receiving and approving the invoices, and preparing the related bank reconciliations. 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 disbursement process, and errors or other discrepancies might occur without timely detection. During fiscal year 2007, checks processed by the Office totaled approximately $2.8 million.

Recommendation 1
We recommend that employee duties relating to the processing of disbursements be adequately separated. At a minimum, we recommend that an employee who is not authorized to sign checks maintain the checkbook, prepare checks based on supporting documentation, and provide the checks and documentation to the authorized check signer for review and approval. We advised the Office how to accomplish the necessary separation of duties using existing personnel.

Audit Scope, Objectives, and Methodology

We have audited the Office of the Register of Wills for Frederick County, Maryland for the period beginning December 3, 2004 and ending June 27, 2006. The audit was conducted in accordance with generally accepted government auditing standards.

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. 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 relating to a condition that we consider to be a significant deficiency in the design of 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 finding and recommendation 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

Frederick County

VIRGINIA P. FIFER
Register

Mark A. Gelwicks
Chief Deputy

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October 10, 2007

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

Re: Draft Audit Report on the Office of the Register of Wills—Frederick County Beginning 12/3/04, Ending 06/27/07

Dear Mr. Myers:

In reviewing the above draft audit report, dated September 2007, I stand by my response to the Discussion Notes (copy enclosed), and accept the audit findings and recommendations as filed.

Thank you.

Sincerely,

Virginia P. Fifer

Virginia P. Fifer
Register of Wills

Court House
100 West Patrick Street
Frederick, MD 21701

Frederick County Register of Wills
Discussion Notes
12/3/04 – 6/27/07

Disbursements

Finding
Employee duties relating to disbursements were not adequately separated.

Analysis
"Employee duties relating to the processing of disbursements were not adequately separated. Specifically, the employee responsible for maintaining the Office's checkbook also prepared checks and was authorized to, and very often did sign the checks. This employee was also responsible for initiating purchases, receiving and approving the invoices, and preparing the related bank reconciliation. Consequently, the employee had complete control over the disbursement process, and errors or other discrepancies might occur without timely detection. During fiscal year 2007, checks processed by the Office totaled approximately $2.8 million."

* <u>Register's Response</u>

The employee, Mark Gelwicks, Chief Deputy, DID NOT "very often" sign the checks during fiscal year 2007. He signed checks during the period May 10 to June 30, 2007, due to the Register's hospitalization for heart surgery. The employee did not have complete control over the process (except for the period from May 10 to May 25, 2007), since the Register reviewed the process prior to May 10 and continued after May 25, 2007, as usual. (Note: The employee may have signed a few checks at other times during fiscal 2007, but only <u>after</u> the Register reviewed and approved the expenditures. As a further precaution, the Register reviews for appropriateness and compliance the copies of the checks included with the bank statement which are signed by said employee.)

<u>Register's Commitment to Follow Auditor's Recommendation</u>
We commit to follow the following auditor's recommended procedure in the absence of the Register.

Auditor's Recommendation

"We recommend that employee duties relating to the processing of disbursements be adequately separated. Specifically, we recommend that an employee who is not authorized to sign checks (such as Mr. Tucker) maintain the checkbook, prepare checks based on approved documentation, and provide the checks and documentation to the authorized check signer for review and approval."

AUDIT TEAM

Paul R. Denz, CPA
Audit Manager

Alexandra E. Zouras, CPA
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