Audit Report

Office of the Register of Wills
Howard County, Maryland

January 2013

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

Thomas J. Barnickel III, CPA
Legislative Auditor

January 30, 2013

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 Howard County, Maryland for the period beginning September 10, 2009 and ending October 10, 2012. The Office oversees the administration of decedents' estates within Howard County and assists individuals who administer estates.

Our audit disclosed certain internal control deficiencies related to cash receipts.

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
Legislative Auditor

301 West Preston Street · Room 1202 · Baltimore, Maryland 21201
410-946-5900/301-970-5900 · Fax 410-946-5999/301-970-5999
Toll Free in Maryland 877-486-9964 · Fraud Hotline 877-FRAUD-11

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 Howard County, its fiscal year 2012 gross receipts totaled $2,326,093, which consisted of inheritance tax collections (net of commissions) of $1,568,794 and fees and commissions of $757,299. The Office's fiscal year 2012 operating expenses totaled $649,824.

Findings and Recommendations

Cash Receipts

Finding 1
The Office did not establish adequate procedures and controls over cash receipts.

Analysis
Controls over the Office's cash receipts were not adequate. The office maintains a bank account for depositing all daily cash receipts. According to the Office's records, during fiscal year 2012, the Office processed collections totaling approximately $2,300,000, all of which was subsequently disbursed for operating expenses or remitted to the State's General Fund. Our review disclosed the following conditions:

- Cashiers did not document that the receipts were counted at the end of the day and the amounts agreed to the system totals prior to forwarding the receipts for deposit. As a result, the Office could not establish individual accountability in the event recorded receipts were misappropriated.

- Daily collections were not adequately secured prior to being deposited. Specifically, collections were stored in a locked cabinet overnight and deposited the next business day. However, all employees of the Office had access to this locked cabinet.

- Monthly bank reconciliations for the office's bank account were prepared by an employee who handled cash receipts. Although we were advised these reconciliations were independently reviewed and approved, the Office did not document this review. Our review of the 12 monthly bank reconciliations covering October 2011 through September 2012 disclosed no documentation that the reconciliations were reviewed and approved.

The Comptroller of Maryland's *Accounting Procedures Manual* requires that agencies provide for individual employee accountability for collections and that receipts be adequately stored and safeguarded until deposited. The *Manual* also requires the segregation of cash receipts handling duties from the reconciliation functions.

Recommendation 1
We recommend that the Office ensure that
a. cashiers document that collections on hand at the end of the day are counted and that such amounts agree to the totals recorded on the related system reports,
b. access to daily deposits is restricted to necessary personnel, and
c. monthly bank reconciliations are independently reviewed and approved by supervisory personnel and that these reviews are documented.

Audit Scope, Objectives, and Methodology

We have audited the Office of the Register of Wills for Howard County, Maryland for the period beginning September 10, 2009 and ending October 10, 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 processing, 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. These conditions also represent significant instances of noncompliance with applicable law, rules, or regulations. Other less significant findings were 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

BYRON E. MACFARLANE
REGISTER OF WILLS FOR HOWARD COUNTY
8360 COURT AVENUE
ELLICOTT CITY, MARYLAND 21043

410-313-2133
Toll Free Number: 1-888-848-0136

FAX 410-313-3409
www.registers.maryland.gov

January 28, 2013

Thomas J. Barnickel III, CPA
Acting Legislative Auditor
State of Maryland
Office of Legislative Audits
State Office Building, Room 1202
301 West Preston Street
Baltimore, Maryland 21201

Re: Office of Register of Wills for Howard County – Legislative Audit – Agency Response

Dear Mr. Barnickel,

I am in receipt of the draft Audit Report of the Office of Legislative Audits regarding the Register of Wills for Howard County for the period beginning September 10, 2009 and ending October 10, 2012.

Upon review of the sole finding of the draft report, I indicate that the procedures and controls referred to by the Office of Legislative Audits were longstanding office policies. Pursuant to conversations with Office of Legislative Audits staff, all recommendations were implemented by mid-November 2012.

Thank you for your time and attention.

Sincerely,

Byron E. Macfarlane

AUDIT TEAM

William R. Smith, CPA
Audit Manager

Sandra C. Medeiros
Senior Auditor

Daniel R. Brann, CPA
Staff Auditor