

Audit Report

**Office of the Clerk of Circuit Court
Calvert County, Maryland**

July 2018



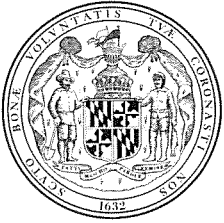
OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Victoria L. Gruber
Executive Director

Thomas J. Barnickel III, CPA
Legislative Auditor

July 24, 2018

Senator Craig J. Zucker, Co-Chair, Joint Audit Committee
Delegate C. William Frick, Co-Chair, Joint Audit Committee
Members of Joint Audit Committee
Annapolis, Maryland

Ladies and Gentlemen:

We have conducted a fiscal compliance audit of the Office of the Clerk of Circuit Court for Calvert County, Maryland for the period beginning January 5, 2015 and ending May 3, 2018. The Office performs various functions for the public, including maintaining various legal records, recording certain real estate documents, collecting related fees and taxes, and issuing certain licenses.

Our audit disclosed that land transfer transactions, which totaled approximately \$5.1 million during fiscal year 2017, were not always subject to independent verification in accordance with the Office's procedure.

The Judiciary's response to this audit, on behalf of the Office, is included as an appendix to this report. We wish to acknowledge the cooperation extended to us during the course of this audit by the Office.

Respectfully submitted,

Thomas J. Barnickel III, CPA
Legislative Auditor

Background Information

Agency Responsibilities

The Office performs a variety of functions for the public such as filing, docketing, and maintaining various legal records; recording documents involving title to real estate; collecting the related fees, commissions, and taxes; and issuing certain licenses. In performing these functions, the Office collects funds on behalf of the State, Calvert County and its incorporated municipalities and others, and subsequently distributes the funds collected to the applicable entities.

Financial Information

According to the State's accounting records, the Office's fiscal year 2017 revenues totaled \$15,499,633. These revenues were distributed in the following manner:

- \$9,239,715 was distributed to Calvert County and its incorporated municipalities,
- \$30,924 was distributed to others, and
- \$6,228,994 (the remaining amount) represented revenues available to the State for purposes specified in various provisions of State law.

The Office's fiscal year 2017 operating expenses, which were paid primarily from a general fund appropriation, totaled \$1,953,863.

The Office also maintained custody of certain trust funds that, according to its records, had balances totaling \$2,161,644 as of March 31, 2018.

Findings and Recommendations

Land Transfers

Finding 1

Land transfer transactions were not always subject to independent verifications in accordance with Office procedure.

Analysis

Land transfer transactions were not always subject to independent verifications in accordance with Office procedure. Although the Office's procedure required a random review of approximately 10 percent of the land record transactions, such

reviews were not performed for extended periods. When performed, the individuals responsible for reviewing the transactions were also involved with processing those transactions. According to the Office's records, during fiscal year 2017 the Office processed approximately 16,158 land transfers with related collections totaling approximately \$5.1 million.

Our review of the logs maintained to document the reviews disclosed that no reviews were conducted from February through April 2018. In addition, we noted that during the months of May 2017, and July through October 2017 the reviews were performed by the individuals who also processed land transfers. Our test of 22 of these reviews performed during July through October 2017 disclosed that 8 were reviewed by the employee who had processed the related transaction. Our testing determined these 8 transactions were properly calculated.

Independent supervisory reviews are critical because the land clerks had sole responsibility for processing land transactions, for determining the taxes and fees due, and for processing the related collections on the automated court system. In addition, for those cases that are exempt from taxes (such as transfers between family members) or are subject to a reduced tax (such as first time homebuyers), the land clerks are responsible for reviewing the documentation to ensure that the individuals qualified for the related tax exemption or reduction.

Recommendation 1

We recommend that the Office ensure that land transfer transactions are subject to an independent review, at least on a test basis. We advised the Office how to conduct the reviews using available personnel.

Audit Scope, Objectives, and Methodology

We have conducted a fiscal compliance audit of the Office of the Clerk of Circuit Court for Calvert County, Maryland for the period beginning January 5, 2015 and ending May 3, 2018. 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 significance and risk. The areas addressed by the audit included cash receipts (including taxes and fees collected for real estate transactions) and bank accounts.

Our audit did not include a review of certain support services provided to the Office by the Administrative Office of the Courts. These support services (such as payroll and invoice processing, and maintenance of budgetary accounting records) are included within the scope of our audits of the Judiciary.

To accomplish our audit objectives, our audit procedures included inquiries of appropriate personnel, inspections of documents and records, observations of the Office's operations, and tests of transactions. Generally, transactions were selected for testing based on auditor judgment, which primarily considers risk. Unless otherwise specifically indicated, neither statistical nor non-statistical audit sampling was used to select the transactions tested. Therefore, the results of the tests cannot be used to project those results to the entire population from which the test items were selected. We also performed other auditing procedures that we considered necessary to achieve our audit objectives. The reliability of data used in this report for background or informational purposes was not assessed.

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.

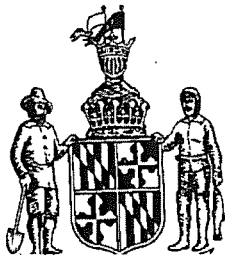
Our reports are designed to assist the Maryland General Assembly in exercising its legislative oversight function and to provide constructive recommendations for improving State operations. As a result, our reports generally do not address activities we reviewed that are functioning properly.

This report includes a finding relating to a condition that we consider to be a significant deficiency in the design 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 Judiciary's response, on behalf of the Office, 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 Judiciary regarding the results of our review of its response.

APPENDIX



OFFICE OF
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Clerk of the Circuit Court
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July 9, 2017

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

Dear Mr. Barnickel:

We have received the Office of Legislative Auditor's Draft Audit Report on the Office of the Clerk of Circuit Court for Calvert County, Maryland for the period beginning January 5, 2015 and ending May 3, 2018. The following is our response to the audit finding and recommendation in the report:

Finding 1: Land transfer transactions were not always subject to independent verifications in accordance with Office procedure.

We agree with the recommendation. Our policy has always been that the Supervisor of Land Records, with assistance by Lead Workers when necessary, would randomly test land record transactions for accuracy in collection of fees and taxes, and keep a log of those reviews. Except during staff shortages, the Supervisor is never a cashier. When the Supervisor needs to be a cashier, she has her security rights changed. We agree with the recommendation that the review should be done more often and that extra care should be taken to ensure that the test review of a document is never performed by the same person who was the initial cashier.

Very Truly Yours,

Pamela Q. Harris
State Court Administrator Clerk of Circuit Court for Calvert County

Kathy P. Smith

Cc: Hon. Mary Ellen Barbera, Chief Judge
Hon. Marjorie L. Clagett, Administrative Judge for Calvert County
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