Audit Report

Office of the Clerk of Circuit Court
Carroll County, Maryland

May 2008

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

May 7, 2008

Senator Verna L. Jones, Co-Chair, Joint Audit Committee
Delegate Steven J. DeBoy, Sr., Co-Chair, Joint Audit Committee
Members of Joint Audit Committee
Annapolis, Maryland

Ladies and Gentlemen:

We have audited the Office of the Clerk of Circuit Court for Carroll County, Maryland for the period beginning August 23, 2005 and ending January 21, 2008.

Our audit disclosed that the Office did not have adequate controls over its cash receipts and its Circuit Court Fund checking account.

Respectfully submitted,

Bruce A. Myers, 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, Carroll County and its incorporated cities and towns, 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 2007 revenues totaled $7,861,594. These revenues were distributed in the following manner:

- $323,542 was distributed to Carroll County and its incorporated cities and towns;
- $137,139 was distributed to others; and
- $7,400,913 (the remaining amount) represented revenues available to the State for purposes specified in various provisions of State law.

The Office's fiscal year 2007 operating expenses, which were paid primarily from a general fund appropriation, totaled $1,837,873.

The Office also maintained custody of certain trust and special purpose funds that, according to its records, had balances totaling $508,564 as of December 31, 2007.

Status of Findings From Preceding Audit Report

Our audit included a review to determine the status of the finding contained in our preceding audit report dated December 2, 2005. We determined that the Office satisfactorily addressed this finding.

Findings and Recommendations

Cash Receipts

Finding 1
The Office had not established adequate procedures and controls over cash receipts.

Analysis
The Office lacked adequate controls over certain cash receipts. Specifically, mail receipts (primarily consisting of checks) were not immediately recorded upon receipt by the Office's civil and land records divisions, and checks for the land records division were not restrictively endorsed when received. Furthermore, these collections were not adequately safeguarded as the checks in both divisions were accessible to unauthorized Office employees and customers. In addition, the Office did not properly verify that all recorded collections had been deposited. In this regard, rather than using source documents (that is, cash register close-out reports) to verify its deposits, the Office used an automated summary report of collections to which unauthorized adjustments could be made. Lastly, the employee who maintained certain accounts receivable records also had routine access to cash receipts and could process voids and record adjustments to related debtor invoices.

As a result of these conditions, the Office's cash receipts could potentially be misappropriated without timely detection. According to its records, the Office collected cash receipts (including trust and special purpose fund collections) totaling approximately $10 million during fiscal year 2007.

Recommendation 1
We recommend that the Office immediately record and restrictively endorse all mail receipts collected in the civil and land records divisions. We also recommend that undeposited receipts not be accessible to unauthorized personnel and that the Office use source documents produced by its automated cashiering system to verify that all recorded cash receipts are deposited. Finally we recommend that the employee who maintains the Office's accounts receivable records not have access to cash receipts. We advised the Office on accomplishing the necessary separation of duties using existing personnel.

Circuit Court Fund

Finding 2
Internal controls over the Circuit Court Fund checking account were inadequate.

Analysis
The Office lacked adequate internal controls over the Circuit Court Fund checking account as certain related duties were not properly segregated. Specifically, the employee who signed checks drawn on the account and prepared the monthly account reconciliations could also print checks and modify or delete recorded account transactions. Consequently, this employee could potentially misappropriate funds from the account without timely detection.

During fiscal year 2007, disbursements from the Circuit Court Fund totaled approximately $1.9 million.

Recommendation 2
We recommend that the aforementioned employee not be authorized to sign Fund checks and that the employee's capability to print checks be removed. 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 Clerk of Circuit Court for Carroll County, Maryland for the period beginning August 23, 2005 and ending January 21, 2008. 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 contained 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. 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 certain support services provided to the Office by the Administrative Office of the Courts. These support services (such as payroll, processing of invoices, and maintenance of budgetary accounting records) are included within the scope of our audits of the Judiciary.

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 findings 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 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 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

ROBERT M. BELL
CHIEF JUDGE
COURT OF APPEALS OF MARYLAND
ROBERT C. MURPHY COURTS OF APPEAL BUILDING
361 ROWE BOULEVARD
ANNAPOLIS, MARYLAND 21401-1699

May 1, 2008

Mr. Bruce A. Myers, CPA
Legislative Auditor
Office of Legislative Audits
301 West Preston Street
Baltimore, MD 21201

Dear Mr. Myers:

We have received the Legislative Auditor's Draft Audit Report pertaining to the audit of the Office of the Clerk of the Circuit Court for Carroll County, Maryland for the period beginning August 23, 2005 and ending January 21, 2008. The following are our responses to the audit findings and recommendations in the audit report:

Cash Receipts
Finding 1

We concur with the finding and recommendation. Each respective division head now ensures that checks received by mail are restrictively endorsed and, as soon as possible, processed through the cash register system. Undeposited funds are now secured and restricted from unauthorized individuals. The cash register tapes are now used to verify the total of cash receipts to the validated bank deposit ticket. The employee who has access to the accounts receivable records no longer has access to cash receipts.

Circuit Court Fund
Finding 2

We concur with the finding and recommendation. The authority to sign checks on the Circuit Court Fund has been removed from the current employee performing those duties and assigned to another employee within the office.

We believe we have responded in full to all findings and recommendations in the audit report.

Very truly yours,

Robert M. Bell

Donald B. Sealing II
Clerk of the Circuit Court for
Carroll County

cc: Michael M. Galloway, Administrative Judge
Frank Broccolina, State Court Administrator
Ssali S. Luwemba, Judiciary Director of Internal Audit

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