

Audit Report

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

January 2016

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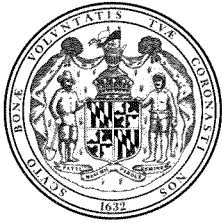
**OFFICE OF LEGISLATIVE AUDITS**  
DEPARTMENT OF LEGISLATIVE SERVICES  
MARYLAND GENERAL ASSEMBLY

**For further information concerning this report contact:**

**Department of Legislative Services**  
**Office of Legislative Audits**  
301 West Preston Street, Room 1202  
Baltimore, Maryland 21201  
Phone: 410-946-5900 · 301-970-5900  
Toll Free in Maryland: 1-877-486-9964  
Maryland Relay: 711  
TTY: 410-946-5401 · 301-970-5401  
E-mail: [OLASWebmaster@ola.state.md.us](mailto:OLASWebmaster@ola.state.md.us)  
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DEPARTMENT OF LEGISLATIVE SERVICES  
OFFICE OF LEGISLATIVE AUDITS  
MARYLAND GENERAL ASSEMBLY

Warren G. Deschenaux  
Executive Director

January 11, 2016

Thomas J. Barnickel III, CPA  
Legislative Auditor

Senator Guy J. Guzzone, Co-Chair, Joint Audit Committee  
Delegate Craig J. Zucker, 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 Montgomery County, Maryland for the period beginning May 31, 2012 and ending June 30, 2015. 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 the Office was not properly reconciling its trust fund accounts, and unexplained differences existed between the Office's book balance and the bank balance.

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 by the Office during the course of this audit.

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, Montgomery County and its incorporated municipalities, and subsequently distributes the funds collected to the applicable entities.

### **Financial Information**

According to the State's accounting records, the Office's fiscal year 2015 revenues totaled \$61,812,216. These revenues were distributed in the following manner:

- \$1,752,616 was distributed to Montgomery County and its incorporated municipalities, and
- \$60,059,600 (the remaining amount) represented revenues available to the State for purposes specified in various provisions of State law.

The Office's fiscal year 2015 operating expenses, which were paid primarily from a general fund appropriation, totaled \$11,532,324.

The Office also maintained custody of certain trust and special purpose funds that, according to its records, had balances totaling \$22,662,749 as of June 30, 2015.

### **Status of Findings From Preceding Audit Report**

Our audit included a review to determine the status of the two findings contained in our preceding audit report dated January 9, 2013. We determined that the Office satisfactorily addressed these findings.

## Findings and Recommendations

### Trust Funds

#### **Finding 1**

**The Office did not properly perform bank reconciliations for its trust fund checking account and unexplained differences were not researched. For other accounts, reconciliations were not prepared for more than one year.**

#### **Analysis**

The Office did not reconcile trust fund checking and individual escrow accounts, known as registry accounts, with the corresponding bank records. The registry accounts are individual savings accounts used for specific court cases in which funds are mandated to be held by the court pending the resolution of the cases. The Office also maintains a checking account which is used to disburse the funds related to the individual registry accounts when the court cases are finalized. According to the bank's records, as of June 30, 2015, the registry checking account balance was \$455,577 and the balance of the 154 registry escrow accounts totaled \$18,086,834.

- The Office did not properly prepare reconciliations of its checking account. Specifically, the Office inappropriately used the adjusted book balances from the prior reconciliations as the beginning balance instead of using the checking account balance from its records. Furthermore, the Office's reconciliations for the period from January through June 2015 contained unexplained differences between the Office's records and the bank balances of the checking account in all six reconciliations. For example, after all reconciling items had been noted for the June 2015 reconciliation, the reconciliation reflected an unexplained difference of \$386,000, in which the bank balance was greater than the book balance. Five of the reconciliations prepared between January and June 2015, including the aforementioned June 2015 reconciliation, had been reviewed and approved by a supervisor despite the discrepancies noted; the remaining reconciliation was not approved.
- As of July 2015, reconciliations of the 154 registry escrow accounts had not been prepared since June 2014. We attempted to perform a reconciliation of the aggregate total of all accounts, which resulted in a difference of approximately \$37,000 in which the Office's records exceeded the bank balance. Office management could not readily explain this difference.

Although these registry accounts have limited activity, complete and timely bank reconciliations are a necessary control to reduce the risk that unauthorized transfers could occur without timely detection.

#### **Recommendation 1**

**We recommend that the Office**

- a. perform complete monthly reconciliations of the registry checking and escrow accounts and ensure the reconciliations are adequately reviewed and approved, and**
- b. investigate and resolve the aforementioned differences noted in the registry checking and escrow reconciliations.**

## **Audit Scope, Objectives, and Methodology**

We have conducted a fiscal compliance audit of the Office of the Clerk of Circuit Court for Montgomery County, Maryland for the period beginning May 31, 2012 and ending June 30, 2015. 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. We also determined the status of the findings contained in our preceding audit report.

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 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 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 did not disclose any significant instances of noncompliance with applicable laws, rules, or regulations. Other less significant findings were 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 and its response.



## APPENDIX

### CIRCUIT COURT FOR MONTGOMERY COUNTY

CLERK'S OFFICE

50 MARYLAND AVENUE

ROCKVILLE, MARYLAND 20850



BARBARA H. MEIKLEJOHN  
CLERK OF THE COURT

(240) 777-9467  
bmeiklejohn@mcccourt.com

January 6, 2016

Mr. Thomas J. Barnickel III, CPA  
Legislative Auditor  
Office of Legislative Audits  
301 West Preston Street  
Baltimore, MD 21201

Dear Mr. Barnickel:

We have received the Legislative Auditor's Draft Audit Report pertaining to the audit of the Office of the Clerk of Circuit Court for Montgomery County, Maryland, for the period beginning May 31, 2012, and ending June 30, 2015. The following is our response to the audit finding and recommendation in the report:

#### **Finding 1: Trust Funds**

We concur with the finding and recommendation.

- a. In June 2014, the finance office was informed that we must move our accounts out of M&T Bank by July 2014. Due to the transitioning of the accounts between M&T Bank and Sandy Spring Bank there was a difference in the way the banks handled our escrow accounts. (M&T provided individual accounts while Sandy Spring used sub-accounts and placed everything into a management account). The registry checking and escrow accounts have been reconciled as of this date. The Finance Supervisor reviews and signs off on all monthly reconciliations.
- b. The reconciling differences have been investigated and resolved. The Escrow Management Accounts and Escrow Disbursement Accounts are now in balance and new operating procedures to ensure compliance have been written and put in place.

Very truly yours,

A handwritten signature in cursive script, reading "Pamela Q. Harris".

Pamela Q. Harris  
State Court Administrator

A handwritten signature in cursive script, reading "Barbara H. Meiklejohn".

Barbara H. Meiklejohn  
Clerk of the Circuit Court for  
Montgomery County

**cc:   Honorable Mary Ellen Barbera, Chief Judge  
Honorable John W. Debelius III, Administrative Judge for Montgomery County  
Faye D. Matthews, Deputy State Court Administrator  
Stephane J. Latour, Managing Legal Counsel and  
Assistant Administrator of Internal Affairs  
Ssali S. Luwemba, Internal Audit Director**

AUDIT TEAM

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Audit Manager

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Senior Auditor

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