

Audit Report

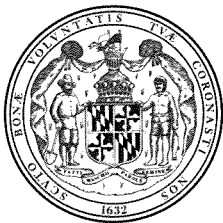
**Office of the Register of Wills
Washington County, Maryland**

July 2014



OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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Karl S. Aro
Executive Director

DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

July 2, 2014

Thomas J. Barnickel III, CPA
Legislative Auditor

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 Washington County, Maryland for the period beginning March 28, 2011 and ending March 23, 2014. The Office oversees the administration of decedents' estates within Washington County and assists individuals who administer estates.

Our audit disclosed the Office had not established adequate controls over its collections and disbursements.

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

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 Washington County, its fiscal year 2013 gross receipts totaled \$1,847,569, which consisted of inheritance tax collections (net of commissions) of \$1,212,691 and fees and commissions of \$634,878. The Office's fiscal year 2013 operating expenses totaled \$505,767.

Findings and Recommendations

Collections and Disbursements

Finding 1

The Office had not established adequate controls over its collections and disbursements.

Analysis

Adequate controls had not been established over collections and disbursements. The Office maintained a bank account for depositing all daily cash receipts and for making all related disbursements. Because of control deficiencies, assurance was lacking that all collections and disbursements were properly processed and accounted for.

Specifically, two employees who processed or had access to collections could record adjustments, including voiding transactions, in the Office's automated accounting system. In addition, although the bank reconciliations were prepared and approved by separate employees, both employees were authorized check signers and had access to the blank check stock. Finally, all six Office employees had access to the safe that contained collections prior to deposit.

According to the Office's records, during fiscal year 2013, the Office processed collections totaling approximately \$1.8 million, all of which were subsequently disbursed for operating expenses or remitted to the State's General Fund. The Comptroller of Maryland's *Accounting Procedures Manual* provides for the proper separation of duties.

Recommendation 1

We recommend that

- a. employees with access to collections be denied the capability to record adjustments in the Office's automated accounting system,**
- b. the employees who sign checks and prepare or approve the bank reconciliations be denied access to the blank check stock, and**
- c. access to the safe be restricted to those who need access based on job responsibilities.**

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 Register of Wills for Washington County, Maryland for the period beginning March 28, 2011 and ending March 23, 2014. 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, 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. The reliability of data used in this report for background or informational purposes was not assessed.

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, 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.

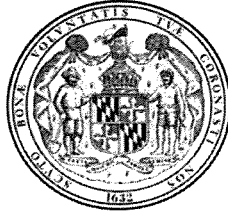
Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

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 laws, rules, or regulations. A 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



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Register of Wills
Washington County

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July 1, 2014

VIA DELIVERY BY REGULAR MAIL AND ELECTRONIC DELIVERY

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

Dear Mr. Barnickel,

The following is the Washington County Register of Wills Office response to the draft Legislative Auditor's Report for the period beginning March 28, 2011 through March 23, 2014. The Office agrees with the finding and recommendations. The Office has already instituted changes to its procedures to address certain concerns identified in the audit.

On Finding 1: The Office had not established adequate controls over its collections and disbursements.

For recommendation 1 a.) The two employees with the capability to record adjustments in the Offices automated accounting system no longer have access to the Office's collections. The remaining employees who have access to the Office's collections do not have access to the Offices automated accounting system.

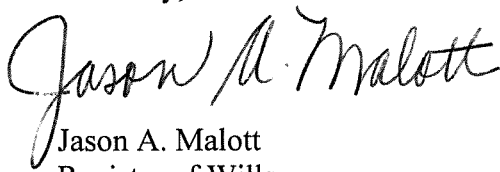
For recommendation 1 b.) The two employees who have the ability to sign the Office's checks no longer have access to the blank check stock and the duty of approving the bank reconciliations has been assigned to a separate employee who cannot sign checks and does not have access to the blank check stock.

Mr. Thomas J. Barnickel, III, Legislative Auditor
July 1, 2014
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For recommendation 1 c.) The Office has four employees who have access to the Office's safe, based on job responsibilities. The remaining two employees of the Office no longer have access to the safe.

I wish to thank you and your staff for the manner in which the audit was conducted and for the constructive recommendations that were made as a result of the audit. All recommendations as aforementioned were implemented immediately.

Sincerely,

A handwritten signature in black ink that reads "Jason A. Malott". The signature is written in a cursive style with a large initial "J" and "M".

Jason A. Malott
Register of Wills
Washington County, MD

AUDIT TEAM

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