

Audit Report

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

September 2015

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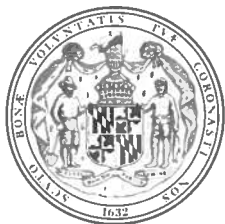
**OFFICE OF LEGISLATIVE AUDITS**  
DEPARTMENT OF LEGISLATIVE SERVICES  
MARYLAND GENERAL ASSEMBLY

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DEPARTMENT OF LEGISLATIVE SERVICES  
OFFICE OF LEGISLATIVE AUDITS  
MARYLAND GENERAL ASSEMBLY

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Thomas J. Barnickel III, CPA  
Legislative Auditor

September 17, 2015

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 Caroline County, Maryland for the period beginning March 28, 2012 and ending April 26, 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 adequate controls were not established over cash receipts, land transfer transactions, and trust fund disbursements.

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, Caroline 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 2014 revenues totaled \$1,453,762. These revenues were distributed in the following manner:

- \$406,759 was distributed to Caroline County and its incorporated municipalities,
- \$8,495 was distributed to others, and
- \$1,038,508 (the remaining amount) represented revenues available to the State for purposes specified in various provisions of State law.

The Office's fiscal year 2014 operating expenses, which were paid primarily from a general fund appropriation, totaled \$790,115.

The Office also maintained custody of certain trust funds that, according to its records, had a balance totaling \$49,780 as of April 26, 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 August 30, 2012. We determined that these findings were not satisfactorily addressed and both are repeated in this report.

## Findings and Recommendations

### Cash Receipts

#### **Finding 1**

**The Office lacked accountability and control over its cash receipts.**

#### **Analysis**

The Office lacked sufficient accountability and control over its cash receipts, which totaled approximately \$1.5 million during fiscal year 2014. As a result, cash receipts could be misappropriated without detection.

- Cashiers who processed land transfer transactions had excessive control over the related collections. Specifically, these employees collected cash and voided transactions recorded on the cash register. Although the cashiers documented the reasons for the voided transactions, there was no independent documented review and approval of the transactions. The daily cash register closeout procedures were also performed by a cashier, rather than by an independent supervisor. According to the Office's record, these cashiers processed collections totaling \$1.3 million in fiscal year 2014 of which \$1.2 million related to land transactions and approximately \$100,000 related to other transactions such as, marriage licenses.
- Daily collections were not properly safeguarded prior to deposit. Collections were placed in a locked bank bag and cabinet each day; however, the related keys were accessible to all employees.
- The employee who verified that recorded collections were deposited was not independent because this employee also prepared the deposit and had access to the cash receipts. Furthermore, these verifications were not documented. Our test of collections for 15 days, totaling approximately \$370,000, disclosed that recorded collections were properly deposited.

According to the Comptroller of Maryland's *Accounting Procedures Manual*, voided transactions shall be reviewed and approved by supervisory personnel and cash receipts should be adequately stored and safeguarded until deposited. In addition, independent verifications of validated deposit slips to recorded collections are to be performed. Similar conditions were commented upon in our preceding audit report.

### **Recommendation 1**

**We recommend that the Office**

- a. remove the land transaction cashiers' ability to void transactions and perform independent documented reviews of all voids (repeat),**
- b. ensure assigned cashiers are denied the capability to close out the cash register (repeat),**
- c. safeguard collections by restricting access to the bank bag and cabinet keys to only those employees who require access (repeat), and**
- d. ensure that an employee independent of the collection and deposit functions verifies that all recorded collections were deposited and that these reviews are documented (repeat).**

**We advised the Office on accomplishing the necessary separation of duties using existing personnel.**

## **Land Transfers**

### **Finding 2**

**Land transfer transactions were not subject to independent review.**

### **Analysis**

The Office lacked adequate procedures to verify that land transfer transactions were properly processed, and to ensure that the proper taxes (that is, transfer taxes, recordation taxes, and nonresident withholding taxes) and fees were collected. Specifically, land record 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 homeowners), the land record clerks are responsible for reviewing the documentation to ensure that the individuals are qualified for the related tax exemption or reduction. A similar condition was commented upon in our preceding audit report.

According to the Office's records, land transfer collections totaled approximately \$1.2 million for fiscal year 2014.

### **Recommendation 2**

**We recommend that the Office perform an independent documented review, at least on a test basis, of land transfer transactions to ensure the transactions were processed correctly and that the proper amounts of taxes and fees were collected (repeat).**

## **Trust Fund Disbursements**

### **Finding 3**

**Internal controls over trust fund disbursements were not sufficient.**

#### **Analysis**

Internal controls over disbursements from the Office's trust fund account were not sufficient. Specifically, the two authorized check signers on the account had the capability to record disbursements in the automated system and had unrestricted access to the check stock. In addition, the monthly bank reconciliations, which were prepared by another individual, were not reviewed and approved by independent supervisory personnel.

As a result, errors or improprieties could occur without timely detection. According to Office banking records, disbursements from the trust fund account during fiscal year 2014 totaled approximately \$256,000.

#### **Recommendation 3**

**We recommend that**

- a. authorized check signers not have access to the related check stock and not have the capability to record disbursements in the automated system, and**
- b. the monthly bank reconciliations are reviewed and approved by independent supervisory personnel.**

**We advised the Office on accomplishing the necessary separation of duties using existing personnel.**

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

We have conducted a fiscal compliance audit of the Office of the Clerk of Circuit Court for Caroline County, Maryland for the period beginning March 28, 2012 and ending April 26, 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 findings 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. These findings are also regarded as 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 and its response.

## APPENDIX



### ADMINISTRATIVE OFFICE OF THE COURTS

MARYLAND JUDICIAL CENTER  
580 TAYLOR AVENUE  
ANNAPOLIS, MARYLAND 21401

**Pamela Harris**  
State Court Administrator  
410-260-1295

September 15, 2015

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 the Circuit Court for Caroline County, Maryland for the period beginning March 28, 2012, and ending April 26, 2015. The following is our response to the audit findings and recommendations in the report:

#### **Finding 1**

##### **Cash Receipts**

We concur with the finding and recommendation:

- a. The land transfer transaction cashier's ability to void transactions will be removed. Supervisors will document the reasons for voided transactions. Furthermore, a supervisor will review and process voided transactions. The voided transactions will be initialed and dated.
- b. Assigned cashiers will not close out cash registers. Cash register close-out procedures will be performed by an independent supervisor.
- c. Collections will be appropriately safeguarded. Access to the bank bag and cabinet keys will be restricted to the Clerk of the Court and Chief Deputy Clerk.
- d. The employee who verifies the daily collections and bank deposits will be independent of the collection and deposit functions. The verifications will be initialed and dated.

#### **Finding 2**

##### **Land Transfers**

We concur with the finding and recommendation:

An employee independent of the land records function will conduct reviews of land transfer documents to ensure the transactions were processed correctly and the proper amounts of taxes and fees were collected. The land records documents will be selected randomly on a test basis. The reviewer will initial and date the documents.

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Mr. Thomas J. Barnickel III  
September 15, 2015  
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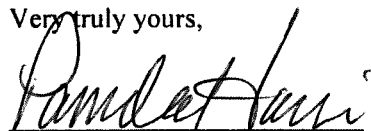
**Finding 3**  
**Circuit Court Fund**

We concur with the finding and recommendation.

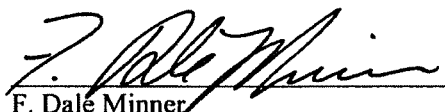
- a. Check signers will no longer have the capability to record disbursements in the automated system.
- b. Access to check stock will be restricted to designated employees.
- c. The Clerk of the Court will review and approve bank reconciliations. The approvals will be initialed and dated.

We believe we have responded in full to these findings and recommendations.

Very truly yours,



Pamela Q. Harris  
State Court Administrator



F. Dale Minner  
Clerk of the Circuit Court for Caroline County

cc: Hon. Mary Ellen Barbera, Chief Judge  
Hon. Karen A. Murphy Jensen, Administrative Judge for Caroline County  
Faye D. Matthews, Deputy State Court Administrator  
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