

Audit Report

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

July 2018



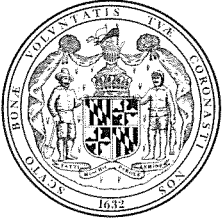
OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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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 2, 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 Talbot County, Maryland for the period beginning March 24, 2014 and ending April 1, 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 the land record clerk responsible for reviewing land transfer transactions also processed certain related transactions. As a result, the land transfers transactions processed by this clerk were not subject to independent verification.

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, Talbot County and its incorporated municipalities and others, and subsequently distributes the funds to the applicable entities.

Financial Information

According to the State's accounting records, the Office's fiscal year 2017 revenues totaled \$8,993,291. These revenues were distributed in the following manner:

- \$4,568,754 was distributed to Talbot County and its incorporated municipalities,
- \$15,663 was distributed to others, and
- \$4,408,874 (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 \$1,068,646.

The Office also maintained custody of certain trust and special purpose funds that, according to its records, had balances totaling \$859,948 as of February 28, 2018.

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 August 21, 2014. We determined that the Office satisfactorily addressed this finding.

Findings and Recommendations

Land Transfers

Finding 1

The land record clerk responsible for reviewing land transfer transactions also processed certain related transactions.

Analysis

The land record clerk responsible for reviewing land transfer transactions also processed certain related transactions. As a result, the land transfers processed by this clerk were not subject to independent verification to ensure that the transactions were properly processed and the proper taxes and fees were paid. According to the Office's records, during fiscal year 2017 the Office processed approximately 6,252 land transfers with related collections totaling approximately \$3.9 million.

Three land record clerks were responsible for processing land transactions, determining the taxes and fees due, and 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), these land record clerks were responsible for reviewing the documentation to ensure that the individuals were qualified for the related tax exemption or reduction.

Although the Office established a process to perform supervisory reviews of the land transfer transactions on a test basis, the reviews were performed by one of the three clerks responsible for processing the related transactions. The Office could not readily determine the number of transactions processed by this clerk but advised us that each of the three clerks processed approximately a third of the land transfers.

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 Talbot County, Maryland for the period beginning March 24, 2014 and ending April 1, 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. We also determined the status of the finding 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 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. 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 and its response.

APPENDIX

MARY ANN SHORTALL
Clerk of the Circuit Court
FOR TALBOT COUNTY
11 NORTH WASHINGTON STREET, SUITE 16
EASTON, MARYLAND 21601
410-822-2611

June 28, 2018

Thomas J Barnickel III, CPA
Legislative Auditor
301 W Preston Street, Room 1202
Baltimore MD 21201

RE: Recent Audit

Dear Mr. Barnickel;

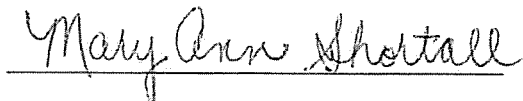
In reference to the recent Audit of the Clerk of the Circuit Court for Talbot County for the period beginning March 24, 2014 and ending April 1, 2018:

On May 10, 2018 a response to the Audit findings was submitted to Alex Twigg, Senior Auditor, Office of Legislative Audits. Therefore, this response is in regards to the recent Draft Report, previously submitted to Members of the Joint Audit Committee.

The finding regarding the responsibility of a Land Record Clerk required to review Land Record transactions, also processed certain related transactions. As a result, the Land Transfer transactions processed by this Clerk were not subject to independent verification.

RESPONSE: Effective immediately, the required audit of 10% of all documents recorded in Land Records by the three Land Record Clerks, will be conducted by an independent review. This review, subject to an audit of 10% of all documents recorded will be performed by Melissa Meiklejohn.

Ms Meiklejohn is a Land Record Employee without cashier access through the Land Record RCS program. Ms Meiklejohn performs indexing and verifying of Land Record documents only. Her duties do not include the processing of land transactions, for determining the taxes and fees due, or to determine if an Instrument is exempt from taxes (such as, transfers between family members or are subject to a reduced tax (such as, first time homeowners). Ms Meiklejohn will document the audit of documents, in accordance with instructions given, in compliance with Audit requirements.



Mary Ann Shortall, Clerk
Circuit Court for Talbot County



Pamela A. Harris
State Court Administrator

CC: Hon. Mary Ellen Barbera, Chief Judge
Hon. Stephen H Kehoe, Administrative Judge for Talbot County Circuit Court
Faye D. Gaskin, Deputy State Court Administrator
Stephane J. Latour, Managing Legal Counsel/Internal Affairs
Solomon Ayele, Internal Audit Director

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