

Audit Report

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

August 2011



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

August 11, 2011

Bruce A. Myers, CPA
Legislative Auditor

Delegate Guy J. Guzzone, Co-Chair, Joint Audit Committee
Senator James C. Rosapepe, 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 Washington County, Maryland for the period beginning August 6, 2008 and ending March 27, 2011. 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 controls over the issuance of business licenses were not adequate.

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,

A handwritten signature in black ink that reads "Bruce A. Myers".

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, Washington 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 2010 revenues totaled \$9,671,776. These revenues were distributed in the following manner:

- \$6,186,296 was distributed to Washington County and its incorporated cities and towns;
- \$1,091 was distributed to others; and
- \$3,484,389 (the remaining amount) represented revenues available to the State for purposes specified in various provisions of State law.

The Office's fiscal year 2010 operating expenses, which were paid primarily from a general fund appropriation, totaled \$1,923,639.

The Office also maintained custody of certain trust and special purpose funds that, according to its records, had balances totaling \$1,316,569 as of February 28, 2011.

Findings and Recommendations

Business Licenses

Finding 1

Adequate controls were not established over the issuance of business licenses.

Analysis

Improved controls were needed over the issuance of business licenses, including renewals. Specifically, our review disclosed that license applications were not subject to independent verification. This is significant because the applications

were generally processed unilaterally by individual clerks. These verifications should be performed to ensure the propriety of the license issuances and that proper licensing fees were charged. Furthermore, these clerks had the ability to modify critical information on the Judiciary's licensing database as well as to override system warnings without any independent review and approval. For example, a clerk could improperly issue a license to an applicant with outstanding State taxes by overriding the system warning.

During fiscal year 2010, the Office issued 2,683 business licenses, and collected approximately \$370,000 in business licensing fees, the vast majority of which was distributed to Washington County and its incorporated cities and towns.

Recommendation 1

We recommend that the Office independently review and approve business license transactions, at least on a test basis.

Audit Scope, Objectives, and Methodology

We have audited the Office of the Clerk of Circuit Court for Washington County, Maryland for the period beginning August 6, 2008 and ending March 27, 2011. 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 materiality and risk. The areas addressed by the audit included cash receipts (including taxes and fees collected for real estate transactions), bank accounts, and recordation of the dispositions of court cases. 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 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 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

August 5, 2011

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 Washington County, Maryland, for the period beginning August 6, 2008, and ending March 27, 2011. The following is our response to the audit finding and recommendation in the report:

Finding 1 - Business Licenses

We concur with the finding and recommendation. Office procedures have been strengthened to include review, verification, and approval of issued business licenses on a test basis. These transaction reviews are performed by an employee independent of the business license function. The results of the reviews are documented and maintained for future reference.

We believe we have responded in full to the finding and recommendation.

Very truly yours,

A handwritten signature in black ink, appearing to read "Robert M. Bell", written over a horizontal line.

Robert M. Bell

A handwritten signature in black ink, appearing to read "Dennis Weaver", written over a horizontal line.

Dennis Weaver
Clerk of the Circuit Court for
Washington County

cc: Hon. M. Kenneth Long, Jr., Administrative Judge
Frank Broccolina, State Court Administrator
Faye Matthews, Deputy State Court Administrator
Ssali S. Luwemba, Director of Internal Audit

AUDIT TEAM

Joshua S. Adler, CPA, CFE
Audit Manager

Robert W. Lembach, CPA
Senior Auditor