

Audit Report

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

November 2022



OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

Joint Audit and Evaluation Committee

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Office of Legislative Audits
The Warehouse at Camden Yards
351 West Camden Street, Suite 400
Baltimore, Maryland 21201
Phone: 410-946-5900
Maryland Relay: 711
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E-mail: OLAWebmaster@ola.state.md.us
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Victoria L. Gruber
Executive Director

DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Gregory A. Hook, CPA
Legislative Auditor

November 1, 2022

Senator Clarence K. Lam, M.D., Senate Chair, Joint Audit and Evaluation Committee
Delegate Mark S. Chang, House Chair, Joint Audit and Evaluation Committee
Members of Joint Audit and Evaluation 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 April 2, 2018 and ending May 15, 2022. 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 the Office had not established adequate control over its collections.

Our audit also included a review to determine the status of the finding contained in our preceding audit report. We determined that the Office satisfactorily addressed this finding.

The Judiciary's response to this audit, on behalf of the Office, is included as an appendix to this report. We reviewed the response to our finding and related recommendations, and have concluded that the corrective actions identified are sufficient to address all audit issues. While the Office agrees with the recommendations in this report, we identified one statement in the response requiring an "auditor's comment" to further explain our position.

We wish to acknowledge the cooperation extended to us during the audit by the Office. We also wish to acknowledge the Judiciary's and the Office's willingness to address the audit issues and implement appropriate corrective actions.

Respectfully submitted,

A handwritten signature in black ink that reads "Gregory A. Hook". The signature is written in a cursive style with a clear, legible font.

Gregory A. Hook, 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 collected to the applicable entities.

Financial Information

According to the State's accounting records, the Office's fiscal year 2021 revenues totaled \$18,369,048. These revenues were distributed in the following manner:

- \$8,386,817 was distributed to Talbot County and its incorporated municipalities,
- \$14,853 was distributed to others, and
- \$9,967,378 (the remaining amount) represented revenues available to the State for purposes specified in various provisions of State law.

The Office's fiscal year 2021 operating expenses, which were paid primarily from a general fund appropriation, totaled \$1,129,333.

The Office also maintained custody of certain trust funds that, according to its records, had balances totaling \$43,127 as of April 30, 2022.

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 July 2, 2018. We determined that the Office satisfactorily addressed this finding.

Findings and Recommendations

Cash Receipts

Finding 1

Collections were not always controlled and independently verified to subsequent deposit.

Analysis

Collections were not always adequately controlled and independently verified to deposit.

- Checks received by mail for land record fees were not restrictively endorsed or immediately recorded upon receipt. Rather, mail was opened by one employee who forwarded the checks and related correspondence to the Land Records Unit for subsequent endorsement and recordation. According to State records, the Office collected mail, walk-in, and online revenue related to land record transactions totaling approximately \$9.2 million in fiscal year 2021, which included payments made using cash, checks, and credit cards.
- During the period from November 2021 through June 2022 deposit verifications were not performed by personnel independent of the collection process. Specifically, the employee responsible for deposit verifications left the Office in November 2021 and a replacement was not hired until June 2022. During the six-month interim, the employee responsible for preparing the deposit also assumed the responsibility for performing the deposit verification. According to State records, the Office deposited collections totaling approximately \$6 million between November 2021 and June 2022.

As a result of these conditions, errors or other discrepancies could occur without timely detection. The Comptroller of Maryland's *Accounting Procedures Manual* requires that collections be restrictively endorsed and recorded immediately upon receipt, and adequately safeguarded. *The Manual* also requires that collections be verified to amounts deposited by an employee independent of the collection process.

Recommendation 1

We recommend that the Office

- a. initially record and restrictively endorse checks received in the mail immediately upon receipt, and**

- b. ensure that deposit verifications are performed by an employee who does not have access to collections.**

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 Talbot County, Maryland for the period beginning April 2, 2018 and ending May 15, 2022. 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), certain payroll activities, 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 human resources and payroll activities, invoice processing, and maintenance of budgetary accounting records) are included within the scope of our audits of the Judiciary.

Our assessment of internal controls was based on agency procedures and controls in place at the time of our fieldwork. Our tests of transactions and other auditing procedures were generally focused on the transactions occurring during our audit period of April 2, 2018 to May 15, 2022, but may include transactions before or after this period as we considered necessary to achieve our audit objectives.

To accomplish our audit objectives, our audit procedures included inquiries of appropriate personnel, inspections of documents and records, tests of transactions, and to the extent practicable, observations of the Office's operations. Generally, transactions were selected for testing based on auditor judgment, which primarily considers risk, the timing or dollar amount of the transaction, or the significance of the transaction to the area of operation reviewed. As a matter of course, we do not normally use sampling in our tests, so unless otherwise specifically indicated, neither statistical nor non-statistical audit sampling was used to select the transactions tested. Therefore, unless sampling is specifically indicated in a finding, the results from any tests conducted or disclosed by us 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. As provided in *Government Auditing Standards*, there are five components of internal control: control environment, risk assessment, control activities, information and communication, and monitoring. Each of the five components, when significant to the audit objectives, and as applicable to the Office, were considered by us during the course of this audit.

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. This finding is also regarded as a significant instance of noncompliance with applicable laws, rules, or regulations.

The response from the Judiciary, on behalf of the Office, to our finding 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



KATHLEEN M. DUVALL, CLERK

TALBOT COUNTY CIRCUIT COURT

11 N Washington Street, Suite 16

Easton, MD 21601

410-822-2611 Telephone

410-820-8168 Fax

October 24, 2022

Mr. Gregory A. Hook, CPA
Legislative Auditor
Office of Legislative Audits
The Warehouse at Camden Yards
351 West Camden Street, Suite 400
Baltimore, Maryland 21201

Dear Mr. Hook:

We have received the draft audit report pertaining to the Talbot County Circuit Court Clerk's Office for the period April 2, 2018 and ending May 15, 2022. The attached document contains our responses to the findings and recommendations in the audit report.

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

Sincerely,

A handwritten signature in blue ink that reads "Pamela Harris".

Pamela Q. Harris
State Court Administrator

A handwritten signature in black ink that reads "Kathleen M. Duvall".

Kathleen M. Duvall
Clerk of the Circuit Court for
Talbot County

Cc: Hon. Matthew J. Fader, Chief Judge
Hon. Stephen H. Kehoe, Administrative Judge, Talbot County Circuit Court
Nancy Faulkner, Deputy State Court Administrator
Stephane J. Latour, Managing Legal Counsel, Internal Affairs
Solomon Ayele, Director, Internal Audit

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

Agency Response Form

Cash Receipts

Finding 1
Collections were not always controlled and independently verified to subsequent deposit.

We recommend that the Office

- a. initially record and restrictively endorse checks received in the mail immediately upon receipt, and
- b. ensure that deposit verifications are performed by an employee who does not have access to collections.

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

Agency Response	
Analysis	
Please provide additional comments as deemed necessary.	I would state that the dollar amount of checks at risk, which would have been opened by the Clerk of Circuit Court (not just “an employee”), is much lower than the \$9.2 million stated. Fees that would come in the mail would be recording fees for Releases and other non-taxable documents. The amount at risk by having been opened by the Clerk and delivered directly to Land Records staff would likely be less than \$125,000 for the year.

Auditor’s Comment: The Clerk’s response to the analysis includes a statement that the amount of cash receipts at risk “would likely be less than \$125,000 for the year”. We acknowledge that the \$9.2 million cited in the finding includes funds collected from all sources, including credit cards, but since the Clerk’s records did not segregate or differentiate between sources of revenue, we were unable to reasonably estimate the dollar amount at risk and agree that would be less than the \$9.2 million.

Recommendation 1a	Agree	Estimated Completion Date:	9/2/2022
Please provide details of corrective action or explain disagreement.	Mail will now only be opened by the person responsible for processing the work. It will be processed right after opening and will be rang up in the cash register system so that the endorsement is placed on the check immediately after processing. This process was confirmed to be adequate with the Audit Manager.		

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

Agency Response Form

Recommendation 1b	Agree	Estimated Completion Date:	9/2/2022
Please provide details of corrective action or explain disagreement.	We hired a Fiscal Clerk in June of 2022, who facilitates recording of the collections and prepares the deposit. The Clerk, or Chief Deputy in her absence is now the independent verifier of the collections to the deposit.		

AUDIT TEAM

Heather A. Warriner, CPA
Audit Manager

Marina I. Bulatova
Senior Auditor

Brian M. Webbert
Staff Auditor