

Internal Audit Report

**SHERIFF'S OFFICE
CASH RECEIPTS AUDIT
JANUARY 2014**

Office of the County Auditor





OFFICE OF THE COUNTY AUDITOR

Craig Glendenning, CPA
County Auditor

January 2014

The Honorable Members of the County Council
The Honorable Ken Ulman, County Executive
Howard County, Maryland

Pursuant to Section 212 of the Howard County Charter and Council Resolution 22-1985, we have conducted an audit of the cash receipts received by the Sheriff's Office. The body of our report presents our findings and recommendations.

Our audit disclosed inadequate written policies and procedures, inadequate segregation of duties and a lack of adequate controls over Summons System data. Our findings have been reviewed with the Sheriff and we have included his responses. We wish to express our gratitude to the Sheriff's Office for the cooperation and assistance extended to us during the course of this engagement.

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INTRODUCTION AND SCOPE

The County Auditor's Office performed an audit of the internal controls over cash receipts at the Sheriff's Office. Our audit objectives were to determine whether:

1. Established internal controls over the receipt of payments for services of paper, process, and sales are adequate, in place, and functioning as designed;
2. Payments received were completely and timely deposited with the Department of Finance;
3. Payments received were accurately recorded in the financial records of the County; and
4. Refunds were issued in compliance with the Annotated Code of Maryland.

Our audit included calendar year 2012 cash receipt transactions related to the services of paper, process, and property sales received by the Sheriff's Office, Court Services Division.

BACKGROUND

The Sheriff's Office, Court Services Division, employs two Administrative Technicians to receive documents and payments for court-issued processes, including summonses, warrants, writs of execution, and writs of attachment. The processes arrive directly from the Circuit Court or District Courts through the mail or in person. These processes direct the Sheriff's Office to serve notices, perform evictions, or attach money, personal property, and/or real estate. The Administrative Technicians also collect fees for fingerprinting and photo ID services conducted at the Sheriff's Office.

Section 7-402 of Maryland Courts and Judicial Proceedings sets forth the fees due to the Sheriff for the various processes. This section of the Maryland Code also permits 50% refunds for most un-served processes, 100% refunds for un-served ejectment papers or for an address located outside the County, and reimbursement for Sheriff's expenses related to sales. The Sheriff's Office typically collects an estimated amount of sale expenses in advance, pays the expenses as incurred, and then refunds any overpayment. During calendar year 2012 the Sheriff's Office collected \$430,537 for the various programs.

AUDIT METHODOLOGY

We examined records held by the Sheriff's Office, including information recorded in the Sheriff's Summons System, deposit receipts, refund requests and approvals, case files, and reconciliation records. We also requested copies of transmittals held by the Howard County District Court. These transmittals document the transfer of checks and service requests to the Sheriff's Office.

We judgmentally selected samples of transactions based on our knowledge of the Sheriff's processes and procedures and the inherent risk of each transaction type. For example, in our judgment, the seizure of cash and personal property constituted a higher risk than a typical fee for Sheriff's service, both because of the nature of the transaction and because of the potentially higher dollar values. We selected all of these high-risk cases for testing.

FINDINGS AND RECOMMENDATIONS

Objective 1

Determine whether established internal controls over the receipt of payments for services of paper, process and sales are adequate, in place, and functioning as designed.

We found that established internal controls over the receipt of payments for services of paper, process, and sales are not adequate, in place, and functioning as designed. The findings listed below support our conclusion:

a. Obsolete policies and procedures

Our audit disclosed that the written policies and procedures governing the process for cash receipts included procedures and processes that are no longer in effect. Additionally, they did not include some procedures and processes that are currently in effect. All aspects of the office's operations should be clearly documented in an up-to-date procedures manual. The lack of current written procedures increases the risk of loss and could result in a disruption of the operation. Current written procedures are beneficial

for the training of current and new employees and are a valuable resource when employees leave.

We recommend that the policies and procedures manuals be updated to reflect corrected policies and procedures.

Sheriff's Response

The Sheriff agrees with the recommendation. All policies were updated and final approval given on August 30, 2013 by the Sheriff. Policies and procedures were updated to meet all changes made in the process of deposits and refunds, which were turned over to the Office of Finance.

b. Inadequate segregation of duties

The accounting and auditing profession recognizes that appropriate segregation of key duties and responsibilities is a necessary control activity. As such, no one individual should control all aspects of a transaction or event such as transaction authorization, maintaining custody of assets, related record-keeping, and transaction review.

For the activities we audited, at least two Sheriff's Office employees have custody of cash ("cash" includes checks, money orders, and cash), record related transactions in the Summons System, and reconcile deposits and Summons System transactions monthly.

Inadequate segregation of duties causes several problems. For example, an employee could receive the cash, assign the process to a Deputy, but not deposit the cash or record the transaction in the Summons System. During reconciliation, the deposits would equal Summons System records even though cash had been stolen. Additionally, management has no assurance that all transactions are recorded in the Summons System or that the monthly reconciliation reconciles all transactions to cash received.

Although we found no evidence of theft, the inadequate segregation of duties does not allow us to provide reasonable assurance that a theft did not occur.

We recommend that the Sheriff's Office adequately segregate duties so that no one person has the ability to receive cash, record the related transactions, and reconcile records to cash received. The person receiving the cash and sending it to the Department of Finance for deposit should have no record-keeping or reconciliation

duties. The person responsible for maintaining records should not receive cash or reconcile cash deposited to recorded transactions. Finally, the person responsible for reconciliations should have no cash receipt or record-keeping duties.

Sheriff's Response

The Sheriff agrees with the recommendation. Due to the unfunded Administrative Aide position for four years, extra duties and responsibilities were put on the clerks entering into the summons system. The Administrative Aide position was restored for FY14 and was filled on January 6, 2014. The Sheriff and staff will work diligently on a solution to correct segregation of duties.

c. Inadequate controls over Summons System data

At least two Sheriff's Office employees enter transaction data into the Summons System. These employees can also delete entire records without an audit trail to identify the user or reason for the deletion. The Summons System assigns a transaction ID number to each record that cannot be altered by the user. We found 4,504 transaction ID numbers missing from the sequence. Since users cannot alter transaction ID numbers, the gaps in the transaction IDs represent deleted transactions.

We understand that expungements, or the removal of records from public inspection, may cause gaps in transaction ID numbers. However, we understand from the Sheriff's Office that expungements normally occur approximately two years after the initial transaction. Therefore, few, if any of the missing ID numbers would be due to expungements.

We recommend that the Sheriff's Office remove a user's ability to delete Summons System records. We also recommend that the Summons System require supervisory approval for any expungement that occurs within twelve months of the original transaction date.

Sheriff's Response

The recommendation of user's ability to delete summons system records was corrected by County IT personnel in August 2013. Please note that during the audit, the summons system was being totally updated from an Access program over 20 years old with numerous problems. The County IT and Eytan Gess totally rebuilt the program using a web-based system which greatly improved all capabilities and is user friendly.

Supervisory approval for any expungement record deletion was updated in the policy August 2013.

Objective 2

Determine whether payments received were completely and timely deposited with the Department of Finance.

We could not determine whether all payments received were deposited with the Department of Finance because we had no assurance that the records maintained by the Sheriff's Office were complete. We attempted to verify the completeness of the records by requesting documents from independent sources such as the Howard County Circuit and District Courts. Each court lists processes and the amounts collected on "Transmittals," then sends the Transmittals, the process paperwork, and the cash receipts to the Sheriff's Office. The Sheriff's Office employees verify the amount and documents received, sign the Transmittals, and return them to the appropriate Court.

Unfortunately, the Circuit Court does not retain the Transmittals nor could they provide any other information that could help us establish completeness of Summons System records. We did obtain some Transmittals from the District Court, however, the Court staff indicated that they do not always receive the Transmittals back from the Sheriff's Office, nor do they pursue collection of the transmittals.

However, we did note that for the transactions tested, all payments were timely deposited with the Department of Finance.

Objective 3

Determine whether payments received were accurately recorded in the financial records of the County.

As noted above, we could not obtain reasonable assurance that the Sheriff's Office's records were complete. However, for the sample we tested, all payments were accurately recorded in the financial records of the County.

Objective 4

Determine whether refunds were issued in compliance with the Annotated Code of Maryland.

The service fee refunds we tested were issued in compliance with the Annotated Code of Maryland. However we found two cases in which \$750 deposits were paid for property sale expenses, but the balance was not refunded after paying expenses. The Sheriff's Office policy is to hold the deposit until the plaintiff or their lawyer requests a refund.

We recommend that the Sheriff's Office revise their policy to release the remaining balance of the deposit after paying property sale expenses.

Sheriff's Response

The Sheriff agrees with the recommendation and the policy will be revised in January 2014.

AUDIT TEAM

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