



**ANNE ARUNDEL COUNTY
OFFICE OF THE COUNTY AUDITOR**

March 1, 2018

The Honorable Members of the County Council
The Honorable County Executive Steven R. Schuh
The Honorable Sheriff Ronald Bateman
Ms. Karin McQuade, Controller
Anne Arundel County
44 Calvert Street
Annapolis Maryland 21401

Dear Councilmembers, County Executive Schuh, Sheriff Bateman, and Ms. McQuade:

In accordance with § 311 of the County Charter, I am calling to your attention and taking exception to the improper procedures and irregularities noted in this report.

We conducted a performance audit of the internal controls over the cash receipts process at the Office of the Sheriff. We conducted our audit in accordance with *Government Auditing Standards* prescribed by the Comptroller General of the United States. Those standards require us to plan and perform our 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 we obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The objectives of our audit were to determine whether management has adequate internal controls to ensure that:

1. cash receipts are properly recorded, safeguarded from loss, and deposited timely and intact;
and
2. fees for services rendered are collected in accordance with Maryland State law.

We interviewed the employees in the Office of the Sheriff, and reviewed various documents including, but not limited to records related to cash receipts, accounts receivable, and requests for service.

Our findings and recommendations address controls in place during our fieldwork and transactions that occurred during fiscal years 2015 and 2016.

During our fieldwork, a concern about the processes and controls for Sheriff Sales was brought to our attention. As a result, we reviewed the related procedures and controls and tested certain transactions from February 2014 to December 2016. Our findings and recommendations related to Sheriff Sales are included in this report.

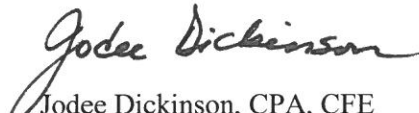
This report includes our findings related to conditions that we consider significant deficiencies in the design and operation of internal controls. These deficiencies could adversely affect the Office of the Sheriff's ability to safeguard County assets, maintain reliable financial records, and comply with applicable laws, regulations, and policies.

We provided a draft report to the management of the Office of the Sheriff and asked for their views on our findings, conclusions, and recommendations. We have attached the Sheriff's response.

This report is intended solely for the use of the Office of the Sheriff, the County Council, and management of Anne Arundel County. However, this report is a public document that may be obtained from the Office of the County Auditor or on the County's website at <http://www.aacounty.org/departments/auditor/>.

We thank the Office of the Sheriff for its courteous cooperation during our audit. Please call me at (410) 222-1138 if you have any questions regarding our findings and recommendations.

Sincerely,


Jodee Dickinson, CPA, CFE
County Auditor

Office of the Sheriff - Audit of Internal Controls over Cash Receipts
Index of Audit Findings
March 1, 2018

Finding No.	Description	Page
--	Executive Summary	4
1	Inadequate Internal Controls for Receiving and Safeguarding Cash Receipts	7
2	Inadequate Verification of Recorded Cash Receipts Forwarded for Deposit	9
3	Cash Receipts Not Transferred to County Timely and Intact	9
4	Billing Efforts Not Timely and Virtually No Collection Efforts for Accounts Receivable	10
5	Accounts Receivable Records Not Adequately Maintained	11
6	Failure to Bill for Peace Orders Since 2014	12
7	Accounts Receivable Records Lost Due to Lack of Back-ups	12
8	No Procedures in Place to Ensure All Service Requests Requiring Payment are Paid or Billed, and Payments Received Electronically are for Services Provided	13
9	Improper Practices for Waiver and Non-collection of Service Fees	14
10	No Retention of Service Records and No Substantiation of the Provision of Services	15
11	Deficiencies in Oversight of Sheriff Sales	16
12	Inadequate Cash Handling of Sheriff Sales Proceeds	17
13	Inadequate Controls Over Disbursement of Sheriff Sales Proceeds	17
14	Inadequate Completion of Critical Sheriff Sales Documents	18
15	Sheriff Sales Fees Not Properly Calculated	18
16	Inadequate Control Over the Publication of Sheriff Sales	19
17	No Subsidiary Detail Supporting Escrow Account Balances	19

EXECUTIVE SUMMARY

We recently completed a performance audit of the internal controls over the cash receipts processes at the Office of the Sheriff (Sheriff's Office), and we have summarized our findings below. The Sheriff's Office collects more than \$1 million of revenue annually, and our audit found several deficiencies that the Sheriff should address to safeguard County assets. Our audit included two objectives as outlined below. We also noted issues with the controls over Sheriff Sales, so we expanded our work to review Sheriff Sales.

Objective 1: To determine whether management has adequate internal controls to ensure that cash receipts are properly recorded, safeguarded from loss, and deposited timely and intact.

The Sheriff's Office has not established adequate internal controls over receiving and safeguarding cash receipts.

- Sheriff's Office staff does not immediately restrictively endorse checks or record the receipts from patrons that walk into the Sheriff's Office to pay.
- The Sheriff's Office does not store cash receipts in secure locations.
- The Sheriff's Office has not adequately separated duties over cash receipts functions. Some employees process cash receipts and update the related service or payment records. These duties are incompatible and could allow an employee to take cash receipts and disguise the theft.

The Sheriff's Office has not established monitoring procedures to ensure that it deposited all payments received with the Office of Finance and that it deposited all receipts timely and intact.

- The Sheriff's Office established two monitoring procedures; however, these procedures are not adequate because the reviewer conducts the review too early in the cash receipts process and does not compare the recorded receipts to the Office of Finance's validated cash receipt form.
- We tested 98 cash receipts and noted that the Sheriff's Office did not always transfer these receipts to the County timely and in the amounts shown on the original documents. It deposited 13 of these cash receipts 3 to 28 days after receipt. Further, on 11 receipts the staff crossed out items on the transmittal logs but did not keep a record of why the deposits did not include these receipts.

Objective 2: To determine whether management has adequate internal controls to ensure that fees for services rendered are collected in accordance with Maryland State law.

The Sheriff's Office staff does not bill for services timely, seek collection of amounts billed, or maintain adequate accounts receivable records.

- The Sheriff's Office bills for services once or twice a year and does not make an effort to collect the balance after the initial billing.
- The accounts receivable clerk lost five years of accounts receivable records when the computer malfunctioned. The Sheriff's Office did not recreate those lost records and did not attempt to collect the amounts due. The Sheriff's Office does not back up these and other critical records.
- Accounts receivable records are incomplete and inaccurate; therefore, are not reliable. There is no independent reconciliation or supervisory review of posting to the accounts receivable spreadsheet to ensure that amounts billed, payments, and other credits are accurate and supported. We tested 30 payments shown on the existing accounts receivable records and found 11 had inaccurate information. Further, 14 payments had no supporting payment information. We could not find any evidence that the Sheriff's Office deposited these payments.

Office of the Sheriff - Audit of Internal Controls over Cash Receipts
Background, Findings, and Recommendations
March 1, 2018

- The Sheriff's Office does not maintain accounts receivable balances in a general ledger account or prepare a control summary to track the amount of fees still due to the County.

The Sheriff's Office does not have adequate internal controls in place to ensure it collects fees for services rendered in accordance with Maryland law.

- The Sheriff's Office did not collect fees for Peace Orders for several years, resulting in a loss of revenue for the County estimated at \$111,000.
- The Sheriff's Office routinely waives fees or fails to collect fees for services provided and lacks policies and controls for deciding when to waive or forego the collection of these fees. We noted the Sheriff's Office had permanently waived fees when the courts only waived the prepayment. Further, the Sheriff's Office did not track which fees it waived and did not require supervisory approval for these decisions.

The Sheriff's Office does not have procedures in place to ensure that it receives payment for, or later bills, for all services that require payment, and that all payments received electronically are for services provided.

- The Sheriff's Office enters the services it provides into Tiburon; however, the Sheriff's Office does not track the related receipts in Tiburon and cannot determine if the County received payment for those services. For three of the 30 items tested, we could not find any payments.
- The Sheriff's Office receives electronic payments through MDEC, but it does not reconcile those payments with amounts owed for services provided. Our testing revealed several errors in the amounts received through MDEC or provision of the related services.
- The Sheriff's Office does not retain documentation of services provided. Once the deputy provides the service, the deputy sends the papers back to the court without retaining a copy, except for those submitted to the accounts receivable clerk for billing.

Sheriff Sales: The Sheriff's Office did not establish effective oversight of Sheriff Sales, ensure compliance with State law, and has not established sufficient accountability and control over the related cash receipts.

- Our testing revealed that, in one case, the Sheriff's Office disbursed the remaining net proceeds to the buyer, instead of the debtor.
- The Sheriff did not review and approve the Report of Sheriff's Sale of Real Property before sending it to the court and did not adequately review and approve the Sheriff's Deed giving ownership rights to the buyer.
- The Sheriff's Office notarized documents submitted to the courts without the notary witnessing the signature.
- For one of five sales tested, the Sheriff's Office did not properly calculate the fees resulting in lost revenue for the County.
- The Sheriff's Office allows the creditor to publish the advertisement for Sheriff Sales; however, State law specifies the Sheriff should publish the advertisement.
- The Sheriff's Office deposits the proceeds of Sheriff's Sales into one of two escrow accounts but does not track the amounts in the escrow accounts or reconcile the account balances to its records. In addition, the Sheriff's Office has not transferred any of its assessed fees from escrow to revenue during the past few years.

We provided this Executive Summary as an outline of the audit findings. The following includes additional background; details of our audit scope, findings, recommendations; and the Sheriff's response.

BACKGROUND

The Office of the Sheriff (Sheriff's Office) is responsible for the transportation of prisoners, security at the Circuit Court of Anne Arundel County (Circuit Court), and delivering (serving) papers for the Circuit Court, State District Courts in Anne Arundel County (District Courts), attorneys, and citizens. Papers served include summonses, subpoenas, warrants, writs, garnishments, and various other papers, and usually relate to an ongoing court case. Additionally, the Sheriff's Office auctions property through Sheriff Sales as ordered by the Circuit and District Courts.

In most situations, the courts provide court orders and supporting papers that outline the required service and related processing fees due in packages picked up by the Sheriff's deputies or Sheriff's Office staff and the person requiring the service pays the fee by one of these four methods:

- 1) Pays at the Circuit or District Court. The Sheriff's deputies pick up packages of court orders and any related payments daily from the District Courts and bring the packets back to the Sheriff's Office. The Sheriff's Office staff pick up packages of court orders from the Clerk of the Circuit Court daily, and Clerk of the Circuit Court staff deliver any related cash receipts to the Sheriff's Office.
- 2) Sends a check or money order through the mail to the Sheriff's Office.
- 3) Walks into the Sheriff's Office at the Circuit Courthouse and pays with a check or money order.
- 4) Pays for the services using credit cards through the Maryland Judiciary's Maryland Electronic Courts (MDEC) system. MDEC is the Judiciary's electronic case management system that was implemented in Anne Arundel County in October 2014 as a pilot program for plaintiffs and attorneys to file papers electronically. MDEC only allows for payment of service requests in the system by credit card. The State sends the accumulated fees processed through MDEC to the County via electronic transfer each month. The Maryland Judiciary sends a listing supporting the amount of the electronic transfer to the Sheriff's Office monthly.

State law establishes the authority and amount of the Sheriff's service fees. The fee is currently \$40 for most services. The Sheriff's Office usually collects the fees before it performs the service; however, in some cases, the court will waive prepayment of the fee and, in those cases, the Sheriff's Office staff should bill the patron for the fee after the courts close the case. In other cases, the courts will completely waive the fee. The Sheriff's Office is usually required to refund 50 percent of the fee paid if the deputies cannot serve the paper. The Sheriff must refund the full fee if deputies cannot serve landlord-tenant papers.

In fiscal year 2017, the Sheriff's Office collected approximately \$1.1 million in fees, including \$1.03 million from the District Courts and \$73,000 from the Circuit Court. The Sheriff's Office uses the Tiburon system as its database to track the service papers from the courts, except landlord-tenant papers. In our previous 2004 and 2005 audits issued on April 30, 2004, and August 26, 2005, the Sheriff's Office also used Tiburon to record the cash receipts related to each service; however, during this audit period, it did not use Tiburon to track the cash receipts. Sheriff's Office staff could not explain why they discontinued tracking cash receipts in Tiburon.

Our audit included inquiries about the procedures related to cash receipts and accounts receivable, and detailed observations of the Sheriff's Office personnel conducting these procedures. Further, we tested transmittal documents from the Circuit and District Courts, walk-in and mail-in receipts, electronic receipts, completed services noted in the Tiburon database, and credits that Sheriff's Office staff posted to accounts receivable records. Finally, we inquired about the procedures used for

Office of the Sheriff - Audit of Internal Controls over Cash Receipts
Background, Findings, and Recommendations
March 1, 2018

Sheriff Sales and tested a few more recent sales.

In this report, we refer to summonses, subpoenas, warrants, writs, garnishments, and various other papers as papers, the delivery of these papers as services, and all fees collected as cash receipts. Further, we refer to the party responsible for paying the Sheriff's fee as the patron. This report discusses our findings that we identified during the time of our fieldwork. The Sheriff's Office may have already implemented some changes to address our concerns noted herein.

OBJECTIVES, FINDINGS, AND RECOMMENDATIONS

Objective 1: To determine whether management has adequate internal controls to ensure that cash receipts are properly recorded, safeguarded from loss, and deposited timely and intact.

Based on our audit, the Sheriff's Office does not have adequate internal controls to ensure that cash receipts are properly recorded, safeguarded from loss, and deposited timely and intact. The following identifies the specific findings and recommendations to improve its internal controls over the collection and processing of cash receipts.

Finding 1: Inadequate Internal Controls for Receiving and Safeguarding Cash Receipts

The Sheriff's Office did not establish adequate internal controls over receiving and safeguarding cash receipts. Specifically, our review of the internal controls over cash receipts processing disclosed the following:

- The Sheriff's Office staff does not immediately restrictively endorse checks and record the receipts from patrons that walk into the Sheriff's Office to pay. Specifically, the front desk clerk receives the patrons' checks and money orders and places these documents in a safe pending processing by the cash receipts clerk. Later, the cash receipts clerk restrictively endorses the checks and records the payments on a transmittal log. The Office of Finance's *Incoming Cash Procedures* require that County agencies document and record cash transactions promptly.
- The Sheriff's Office does not store cash receipts in secure locations. Deputy Sheriffs retrieve papers and cash receipts from the District Courts and bring the documents back to the Sheriff's Office for further processing. The deputies retrieve the key to the locked file cabinet that hangs in the Sheriff's Office in an area accessible to all employees and places the papers and cash receipts in the file cabinet pending further processing. Further, the cash receipts clerk maintains the key for the safes in an area accessible to all employees. The *Incoming Cash Procedures* require that access to secure areas (i.e., safes) be limited to authorized individuals only.
- The Sheriff's Office has not established adequate separation of duties over cash receipts functions. The cash receipts clerk retrieves the items that the front desk clerk placed in the safe, the items that the deputies placed in the file cabinet, and the mail from a safe in the Circuit Courthouse mailroom. Further, a clerk from the Clerk of the Circuit Court brings all cash receipts collected at the Clerk of the Circuit Court to the Sheriff's Office cash receipts clerk each day. The cash receipts clerk endorses the checks and prepares the deposit. The cash receipts clerk has access to Tiburon and, although not part of her daily duties, can enter service requests into this database.

Office of the Sheriff - Audit of Internal Controls over Cash Receipts
Background, Findings, and Recommendations
March 1, 2018

Further, the office clerk from the Sheriff's Office goes to the Clerk of the Circuit Court each day to retrieve all papers requesting service, The Sheriff's Office office clerk enters the service information into Tiburon and gives the papers to the cash receipts clerk. The cash receipts clerk gives the papers to the accounts receivable clerk who enters the service request into Tiburon and maintains accounts receivable records. The accounts receivable clerk also serves as back up for the front desk clerk, thus has ongoing access to the cash receipts.

The cash receipts function and record keeping function are incompatible. Because the Sheriff's Office staff are handling the cash receipts and keeping records related to services provided and accounts receivable, they could misappropriate cash receipts and conceal the theft by altering the related records. Strong internal controls stipulate that management assign the duties related to the handling of cash receipts and the duties related to record keeping for services and accounts receivable to different individuals.

Recommendation

We recommend that the Sheriff's Office restrictively endorse and record all checks upon receipt, safeguard cash receipts by restricting access to the safes and locked file cabinet, and separate the cash receipts and record keeping duties. Those handling cash receipts should not be able to add or change information in Tiburon or other service-tracking database. Record-keeping functions within Tiburon and in the accounts receivable records should be limited to staff with no cash receipts handling duties. We also recommend that the Sheriff's Office track all services rendered in Tiburon or other service-tracking database, including the cash receipts information.

Here we provide an example of how the Sheriff's Office could safeguard receipts and separate based on the current staffing:

- The front desk clerk, the cash receipts clerk, or both, could be responsible for handling all walk in receipts, opening the mail each day to retrieve the cash receipts and the papers, and retrieving the packages that the deputies picked up from the District Courts.
- This clerk or clerks should promptly endorse the payments as a deposit into the County's collections bank account, including the account number. The clerks should store cash receipts in a secure area with the key accessible only to these clerks or authorized supervisors.
- This clerk or clerks should prepare a log of cash receipts, make any necessary copies of cash receipts, promptly restrictively endorse all cash receipts, prepare the Office of Finance's cash receipt form, and transport the deposit to the County. This clerk should provide the log of cash receipts, validated cash receipt form, and the papers for the services to another employee assigned to record keeping duties.
- These two clerks can serve as back up for each other, but neither should have data entry access to Tiburon or the accounts receivable spreadsheet or be able to direct the provision of services. These two and the authorized supervisors are the only employees who should have access to the safes and the locked file cabinet storing the cash receipts.
- The accounts receivable clerk or the office clerk, or both, could enter the required service information into Tiburon and the accounts receivable spreadsheet. These record keepers should never have access to cash receipts.

Office of the Sheriff - Audit of Internal Controls over Cash Receipts
Background, Findings, and Recommendations
March 1, 2018

- To strengthen this process, a third person who cannot handle cash receipts or enter data into Tiburon or the accounts receivable spreadsheet should reconcile the services rendered to the cash receipts deposited into the County's account to ensure that the Sheriff's Office staff properly deposited all payments for all services rendered that require payment. The Sheriff's Office should coordinate its response to this recommendation with the recommendations noted in Finding #8.

Finding 2: Inadequate Verification of Recorded Cash Receipts Forwarded for Deposit

Although the Sheriff's Office has established verification and monitoring procedures over cash receipts, the established procedures are inadequate. The established procedures do not ensure that all collections received and recorded were deposited at the Office of Finance. Specifically, our review disclosed the following:

- The Sheriff's Office does not compare the recorded receipts to the validated cash receipts form. Specifically, the cash receipts clerk submits deposit documentation along with the cash receipts to the supervisor for review before making the deposit. However, the supervisor returns the documents and the cash receipts to the cash receipts clerk who takes the deposit to the Office of Finance cashier who validates each cash receipt form with a stamp. The cash receipts clerk does not return the validated receipt to the supervisor. Therefore, this process does not ensure that the cash receipts clerk actually deposited the receipts with the County.
- The Sheriff's Office established two monitoring procedures, which are inadequate. First, the cash receipts clerk prepares a monthly summary of collections, and gives the summary and supporting documentation to the budget administrator. The budget administrator compares the summary to the County's financial system (Enterprise One). However, the cash receipts clerk could alter the summary before providing it to the budget administrator, and the budget administrator would not detect the change.

Second, a supervisor randomly selects days from the daily deposit documents and reviews to ensure that the amounts on the deposit documents were included in the daily deposit. However, the supervisor did not check for the validation stamp on the cash receipt forms. Therefore, the amount on the validated cash receipt form could differ from the cash receipt form used for the supervisor's review. Consequently, cash receipts staff could misappropriate cash receipts, provide the supervisor with altered documentation, and the supervisor would not detect the theft.

Recommendation

We recommend that an employee independent of the cash receipts process ensure that the cash receipts clerk or back-up clerk deposited all cash receipts logged by the cash receipts clerk(s) in the County's bank account. This reviewer should review the initial deposit documents to the validated cash receipt form stamped by the County's cashier. The reviewer should document this review, follow-up to ensure that all discrepancies are resolved, and retain an audit trail of this review and all resolutions.

Finding 3: Cash Receipts Not Transferred to County Timely and Intact

Our test of 98 cash receipts totaling approximately \$383,000 disclosed that the Sheriff's Office did not always forward the cash receipts to the County timely and intact. Specifically, we noted the following:

Office of the Sheriff - Audit of Internal Controls over Cash Receipts
Background, Findings, and Recommendations
March 1, 2018

- The Sheriff's Office delivered 13 cash receipts totaling \$85,300 to the Office of Finance cashier from three to 27 days after receipt. The Office of Finance's *Incoming Cash Procedures* requires that agencies deposit collections daily whenever possible but no less than weekly if the amounts on hand exceed \$100. Additionally, our test found 17 cash receipts totaling \$27,600 that the Sheriff's Office recorded on transmittal logs without a date. Therefore, we were unable to determine the timeliness of those deposits.
- The Sheriff's Office staff did not always deliver cash receipts shown on the initial transmittal logs to the Office of Finance intact. Specifically, the staff did not deliver 11 cash receipt transactions totaling \$118,500 intact, with differences totaling \$540. The Sheriff's Office staff altered the initial transmittal log to exclude certain transactions. Some of the altered documents included notations regarding the reason for the change, but none had supporting documentation attached or supervisory approval.

The cash receipts clerk advised us that she returns checks and papers to the patron if there is an error in the documents or the amount of the check is incorrect. However, the cash receipts clerk does not always record the reason for the return on the log or retain supporting documentation to provide an audit trail. Additionally, a supervisor does not review and approve the return of the check. This practice increases the potential for misappropriation because there is no accountability for the changes.

Recommendation

We recommend that the Sheriff's Office always include a receipt date on the transmittal log or other initial record of receipt. We also recommend that the Sheriff's Office deliver all cash receipts to the Office of Finance timely and intact. If there are valid reasons for not delivering checks, the Sheriff's Office should retain an audit trail of the disposition, including supervisory approval of the disposition. Finally, the Sheriff's Office should consult with the Office of Finance to determine in what circumstances it is appropriate to return checks.

Objective 2: To determine whether management has adequate internal controls to ensure that fees for services rendered are collected in accordance with Maryland State law.

Our audit disclosed that the Sheriff's Office does not have adequate internal controls in place to ensure that fees for services rendered are collected in accordance with Maryland law. We have provided our specific findings and recommendations below.

Finding 4: Billing Efforts Not Timely and Virtually No Collection Efforts for Accounts Receivable

The Sheriff's Office does not bill for services promptly. At the time of the audit, the Sheriff's Office was generating billings for unpaid services once or twice each year. We determined that as of October 24, 2016, the accounts receivable clerk had not yet generated 37 invoices for the period July 2016 to October 2016. Further, as of October 11, 2017, the Sheriff's Office had not issued any additional bills, and the Sheriff's Office had discontinued accumulating records that would be necessary for subsequent billing.

During our audit period, the Sheriff's Office billed private attorneys and citizens for services but did not make an effort to collect beyond the initial billing. The Office of Finance's policy for *Write-Off of Uncollectible Accounts Receivable* dictates that agencies make an effort to collect a debt, and that the Controller approve any write-off of uncollected amounts.

Office of the Sheriff - Audit of Internal Controls over Cash Receipts
Background, Findings, and Recommendations
March 1, 2018

Recommendation

We recommend that the Sheriff's Office bill for uncollected fees at least monthly. We also recommend that the Sheriff's Office work with the Controller to establish a process to collect unpaid accounts. For instance, the Sheriff's Office could send dunning notices to the patrons at 30, 60, and 90-day intervals. Finally, we recommend that the Sheriff's Office periodically send the Controller a list of uncollected accounts and obtain approval of any write-offs.

Finding 5: Accounts Receivable Records Not Adequately Maintained

Our audit found that the Sheriff's Office does not maintain adequate accounts receivable records. As of September 2017, the Sheriff's Office accounts receivable balance totaled \$6,500. However, as noted below, five years of records were lost. Therefore, this balance does not include all amounts owed. We noted the following:

- The accounts receivable records maintained by the Sheriff's Office are incomplete and inaccurate and therefore, are unreliable. Specifically, the accounts receivable spreadsheet includes billings and payments. However, accounts which show payments do not include the date the patron made the payment or critical information needed to pursue delinquent accounts, such as the person responsible for payment.

We chose 30 payments totaling \$1,200 from the accounts receivable spreadsheet. Eleven of the 30 accounts included inaccurate information in the detail records, such as an incorrect case number. Also, for 14 of the payments totaling \$560, the Sheriff's Office had no related cash receipts documentation as evidence that it had received and deposited these payments. Further, the Sheriff's Office lacked invoice documentation for these same accounts. To determine whether these funds were received and deposited, we extensively searched several months of transmittals maintained by the Sheriff's Office and the electronic case search data but did not locate any support.

These findings are significant because the Sheriff's Office lacks controls such as proper separation of duties, no supervisory review, etc. Thus, we cannot determine whether these findings are a result of a misappropriation.

- There was no independent reconciliation or supervisory review of postings to the accounts receivable spreadsheet to ensure that amounts billed and credits to the accounts were accurate and adequately supported.
- The Sheriff's Office does not maintain an accounts receivable account balance in the County's general ledger or a control summary that provides a continuous summary of billings, payments, and other adjustments to serve as a control over the total amount of the aggregate detail records.

Recommendation

We recommend that the Sheriff's Office establish comprehensive accounts receivable records, including a control summary and a general ledger account to track the aggregate balance of the accounts receivable. The detailed records should include a schedule of all billed services, name and address of the patron, amounts collected, date and amount of all billings, date and amount of all payments, and all information regarding the services, collection attempts, and explanation of any adjustments. We also recommend that a supervisor periodically reconcile the postings in the accounts receivable records with

Office of the Sheriff - Audit of Internal Controls over Cash Receipts
Background, Findings, and Recommendations
March 1, 2018

supporting documentation to ensure that the records are complete and accurate. We discuss the need for a review and reconciliation of the receipts and records in Finding #8. Finally, we recommend that the Sheriff's Office maintain supporting documentation to substantiate all postings to the records, such as invoices and payment receipts.

Finding 6: Failure to Bill for Peace Orders Since 2014

During our audit, we noted that the Sheriff's Office stopped billing for most peace orders in 2014 resulting in a loss of County revenue. Sheriff's Office staff advised us that they stopped this billing when the State implemented the MDEC system in October 2014 because the District Courts stopped providing documentation to the Sheriff's Office to show that a fee was necessary. The District Courts began providing this documentation a year later; however, the Sheriff's Office did not restart the billings for peace orders.

Further, before the MDEC's implementation, the Sheriff's Office did not assess a fee if a peace order case related to dating violence, sexual assault, or stalking. However, the Sheriff's Office could not substantiate the legal authority for this practice. The District Courts' commissioners provide a fee notice to the petitioner advising the petitioner that, unless waived by the court, a service fee of \$40 is due to the Sheriff's Office. The District Courts waive the fee for protective orders; however, peace orders are subject to the Sheriff's \$40 service fee.

We reviewed summaries from Tiburon and noted that the Sheriff's Office served 2,754 peace orders from October 2014 through June 2017. Thus, the related service fees would have provided \$110,160 in revenue. By not consistently billing for the service of peace orders during the past few years, we estimated that the County lost revenue of approximately \$111,000, including lost interest.

Recommendation

We recommend that the Sheriff's Office immediately begin assessing and collecting fees for all peace orders. Further, the Sheriff's Office should consider recouping the unbilled fees from the past years.

Finding 7: Accounts Receivable Records Lost Due to Lack of Back-ups

The accounts receivable clerk advised us that the Sheriff's Office lost the spreadsheets used to track accounts receivable for 2007 to 2008 and 2010 to 2013 during a computer system failure. The accounts receivable clerk maintained the data on her local drive and did not back-up the files. Further, the Sheriff's Office did not attempt to recreate the lost records. Therefore, the Sheriff's Office does not know the balances outstanding for those periods. We also noted that the cash receipts clerk maintains cash receipts records on a local drive that Sheriff's Office staff does not back-up.

The County's Office of Information Technology's (OIT) *Data Backup and Restore Policy* states that County data should be on the County's shared or private drives that are subject to OIT back-up. The policy also states that if employees store data on a local drive, it is the employee's responsibility to back-up the data. After our review, the Sheriff's Office moved the files to the Google Drive that OIT oversees.

Recommendation

We recommend that the Sheriff's Office establish a procedure to ensure that it stores all accounts receivable data and data critical to the office operations on a County shared drive, subject to periodic

Office of the Sheriff - Audit of Internal Controls over Cash Receipts
Background, Findings, and Recommendations
March 1, 2018

backups. We also recommend that the Sheriff's Office ensure that the data is sufficiently secured to prevent unauthorized changes.

Finding 8: No Procedures in Place to Ensure All Service Requests Requiring Payment are Paid or Billed, and Payments Received Electronically are for Services Provided

The Sheriff's Office does not have procedures in place to ensure that it receives payment for, or later bills for, all services that require payment, and that all payments received electronically are for services provided. Our review disclosed the following:

- The Circuit Court may submit service requests without the related payment to the Sheriff's Office due to the urgency of the service; however, the Sheriff's Office does not ensure that payment is subsequently received or that it bills the responsible party for all papers served. We obtained the schedule of Circuit Court related records for April 2016 through June 2016 that listed 257 service requests. We selected 30 of these requests for testing. For three of these requests, the Sheriff's Office could not determine whether it had received payments for services totaling \$120. To determine whether these funds were received and deposited, we extensively searched several months of transmittals maintained by the Sheriff's Office and the electronic case search data but did not locate any support.
- The Sheriff's Office records all requests for service, except evictions, in Tiburon, however, does not record related cash receipts therein. During our previous audit, we noted the Sheriff's Office did record cash receipts in Tiburon but has since discontinued this practice. Consequently, the Sheriff's Office cannot readily determine whether it received payment for or billed for services provided. Sheriff's Office staff advised us that they are working with OIT to obtain an updated service tracking system that will include a financial module.
- The Sheriff's Office receives electronic payments through MDEC, but it does not reconcile these payments with amounts owed for Sheriff services. As noted earlier, Sheriff's Office deputies and staff pick up the related papers from the Circuit and District Courts. The courts commingle the papers for services paid on MDEC with papers that have payments attached or need billing. Payments received through MDEC are paid to the Sheriff's Office monthly by electronic transfer to the County. However, the Sheriff's Office does not track amounts owed or paid.

We selected 12 of the monthly transfers from MDEC totaling \$26,000 of collections. Within these 12, we chose 30 cases with payments totaling \$1,717 from the MDEC transmittals. We noted the following deficiencies:

- The transmittal showed adjustments made to the amounts remitted. Our test items disclosed seven monthly adjustments totaling \$478 that were unsubstantiated.
- Two of the monthly reports had incorrectly calculated a five percent collection fee withheld for the Clerk of the Circuit Court. Sheriff's Office staff only verify that the total of the report agreed to the total amount received. They do not verify the amounts paid for each service or the validity of the adjustments.
- In four cases with fees totaling \$280, the Sheriff's Office could not determine whether it had provided the services.
- In four cases with fees totaling \$144, the Sheriff's Office was unable to provide the service but did not refund the fees to the patron. Maryland law requires that the Sheriff's Office refund 50 percent of the fee if it cannot provide the service.

Office of the Sheriff - Audit of Internal Controls over Cash Receipts
Background, Findings, and Recommendations
March 1, 2018

- We noted six cases with fees totaling \$488 that pertained to criminal cases for which the Sheriff's Office had no record of amounts owed.
- We noted two cases with payments totaling \$69 that we concluded do not represent Sheriff fees.

Recommendation

We recommend that the Sheriff's Office ensure that it receives payment at the time of service, or bills the responsible party for all service requests that require payment after the service. We also recommend that the Sheriff's Office record the payment status for all services in Tiburon or other service tracking system. We recommend that the Sheriff's Office track services requested through MDEC, verify that payments are subsequently received, and ensure that any adjustments to the amount remitted through MDEC are proper. Finally, the Sheriff's Office should comply with Maryland law and refund 50 percent of the fee collected if the Sheriff's Office cannot provide the service.

Finding 9: Improper Practices for Waiver and Non-collection of Service Fees

Our review noted that the Sheriff's Office routinely waived or failed to collect fees for services provided. Further, the Sheriff's Office lacked policies and controls for deciding when to waive or forego collection of fees. Specifically, our review disclosed the following:

- We noted the Sheriff's Office waives fees completely when the courts waive only the prepayment. Specifically, the Sheriff's Office receives documentation issued by the courts granting the waiver of prepayment of filing fees and other court costs. However, the waiver documents typically state that the fees are due upon completion of the case. The courts may waive the prepayment of Sheriff fees in certain cases; however, it is the Sheriff's Office practice to waive the fees permanently whenever a court waives prepayment. Our test of 30 cases chosen from court transmittals for service requests with fees totaling \$1,080 disclosed that the Sheriff's Office waived the fees for five cases totaling \$200 because the court waived prepayment.

In a separate test, we chose 30 cases from Tiburon and found that the Sheriff's Office waived fees for 11 of the cases, forgoing fees of \$440. Nine of these 11 waivers were services conducted for the State of Maryland or other government agencies, and for the remaining two waivers, the court only waived prepayment of filing fees, but not the Sheriff fees. The Sheriff's Office could not provide legal authority for the practice of waiving fees when the patron is the State of Maryland or its agencies or other governments.

Further, the Office of Law indicated they could not find anything in the law that addresses the waiver of Sheriff fees for other governments. The Annotated Code of Maryland, Courts and Judicial Proceedings § 7-402 establishes the amount of fees for the service of papers. The only exceptions noted in law state that the Sheriff may not collect fees for papers issued from a housing authority or for a summons of a law enforcement officer to appear as a witness in a criminal case.

- The Sheriff's Office did not track the instances in which it decided to forgo or waive service fees, and it did not require supervisory review and approval for these decisions. The Sheriff's Office clerks in the Operations Bureau have the discretion to forgo collection or waive a fee.

Recommendation

We recommend that the Sheriff's Office discontinue the practice of waiving fees when a court waives prepayment. The Sheriff's Office should track these cases and bill for the service fees upon completion of the case. Further, we recommend that the Sheriff's Office obtain legal advice as to their practice of waiving fees for the State and other governments. If there is no legal authorization for this practice, the Sheriff's Office should discontinue this practice. Finally, we recommend that the Sheriff's Office track the instances where its staff did not collect fees and that supervisors periodically review those cases for propriety.

Finding 10: No Retention of Service Records and No Substantiation of the Provision of Services

Our audit disclosed that the Sheriff's Office does not retain documentation of services provided. Once the deputy provides the service, the deputy sends the papers back to the courts without retaining a copy, except for those services submitted to the accounts receivable clerk for billing.

Our test of 30 completed service requests recorded in Tiburon disclosed that it did not have supporting evidence of service for all 30 items. We attempted to validate the service through alternative records, such as Circuit Court records and electronic case search data; however, we were unable to verify the service for 12 of the service requests. The Courts and Judicial Proceedings Article, § 2-307 of the Maryland Annotated Code requires that the Sheriff's Office keep official records of the fees that it collects and those that are not yet collected. The law requires that the records remain in the Sheriff's Office for audit purposes.

Court-provided papers substantiating service are the basis for most of the fees collected or billed. Throughout our audit, the lack of supporting documentation for services limited the Sheriff's Office ability to support its transactions. Sheriff's Office staff advised us that it did not retain the records due to volume. However, in our opinion, it would be prudent to retain these records electronically.

Recommendation

We recommend that the Sheriff's Office establish a policy and a methodology for retaining records of service and non-service to support fees collected, billed, or refunded. The Sheriff's Office could work with the OIT to develop an electronic records management system.

Other Issues – Sheriff Sales

During our audit, it was brought to our attention that there were deficiencies in the Sheriff Sales process. These deficiencies do not directly relate to our audit objectives; however, the deficiencies were significant, so we expanded our audit procedures and added the related findings to our report.

Background

The Sheriff's Office may seize and sell the equitable interest of a defendant named in a writ, as directed by the courts. The Circuit or District Courts order a Sheriff Sale by submitting a writ of execution and related documents to the Sheriff's Office. Sheriff's Office clerks distribute the writs based on the deputies' assigned jurisdictions. The Sheriff's Office handles all facets of the sale including executing the writ, notifying the public of the sale, conducting the sale, transferring the property, and distributing the proceeds.

The assigned deputy typically conducts the Sheriff Sale and a Sheriff's Office supervisor who oversees these sales advised us that a second deputy usually attends the sale. The sale is public, and the deputy conducts the sale on the steps of the Circuit Courthouse at the published date and time. During

Office of the Sheriff - Audit of Internal Controls over Cash Receipts
Background, Findings, and Recommendations
March 1, 2018

fiscal year 2017, the Sheriff's Office collected and disbursed approximately \$267,000 related to Sheriff Sales. We reviewed the processes and controls for the Sheriff Sales and compliance with the applicable provisions of State laws and rules.

The Sheriff's Office does not keep a record of the Sheriff Sales completed or in process. Therefore, it could not provide a complete population of Sheriff Sales. The Sheriff's Office provided us with the five Sheriff Sales files that they were able to locate. These five sales occurred between February 2014 and December 2016. We focused our testing on these five sales.

Maryland law governs the Sheriff Sale process. Specifically, the Courts and Judicial Proceedings Article, and Maryland Rules 2-644, 3-644, and 14-305 specify that the Sheriff is responsible for the sale, require public notice and a public sale, dictate the process to transfer the property, provide requirements for distribution of the proceeds, and require a report of the sale to the courts.

Finding 11: Deficiencies in Oversight of Sheriff Sales

The Sheriff's Office did not establish effective oversight of Sheriff Sales and did not ensure compliance with State law. In addition, the Sheriff's Office lacked adequate internal controls over the issuance of documents related to the sales, had not defined key aspects of the sales that would require supervisory review, and had not established sufficient accountability and control over cash received related to the sales.

The Sheriff's Office established a checklist for its deputies to use in conducting Sheriff Sales. However, the checklist provided minimal guidance on the actual sale process and documentation requirements. The Sheriff's Office does not maintain a central file or log of all Sheriff Sales. Therefore, we were only able to review the five files provided to us. Our test of these five sheriff sales disclosed the following:

- For three of the five sales totaling \$95,000, there was no documentation to support that the deputy properly conducted the sale. Specifically, there was no bid sheet to show who submitted a bid, the date and time of the bid, the bid amounts, whether there were any rejected bids, etc.
- For the other two sales totaling \$260,000, the Sheriff's Office had a notepad documenting the sale; however, the notes offered minimal information. There was no signature by the deputy who conducted the sale, and the notes did not identify attendees.
- There was no evidence showing that the Sheriff's Office posted the notice of sale accurately and timely on the bulletin board by the Circuit Courthouse door, as required by State law.

Recommendation

We recommend that the Sheriff's Office establish comprehensive written policies and procedures addressing all aspects of the sale including preparing for and conducting the actual auction, bidding parameters, and how to document the sale. We also recommend that the Sheriff's Office maintain sales records in a central location and consider including these services in Tiburon, or other service tracking system so that supervisory staff have a central database from which to reconcile services provided to the fees collected.

Finding 12: Inadequate Cash Handling of Sheriff Sales Proceeds

The Sheriff's Office has not established accountability and control of Sheriff Sales' proceeds. The deputy will award the sale to the highest bidder. The buyer is required to make an initial payment of \$5,000 for real property and the full amount for personal property. The buyer must pay with a certified check, and the deputy completes a bill of sale. After a sale, the assigned deputy takes the bill of sale (which is not pre-numbered) and check to the cash receipts clerk for processing.

The balance of the sale of real property is due ten days after the court ratifies the sale. The deputy collects the balance from the buyer usually in person and brings the cash receipt to the cash receipts clerk. The cash receipts clerk does not provide the deputy a receipt or sign the bill of sale establishing accountability over the funds. Additionally, the cash receipts clerk does not include these receipts in the daily processing of cash receipts and deposits. Further, in one instance we noted that the cash receipts clerk went to the Office of Finance and handed a \$255,000 check to an employee rather than depositing the check with a County cashier. As noted, there is a lack of accountability and control over these funds.

Recommendation

We recommend that the Sheriff's Office establish accountability over the cash receipt forms used for Sheriff Sales (Bill of Sale) by using pre-numbered forms and periodically accounting for the forms as to the forms issued, voided, and on hand. We also recommend that the Sheriff's Office document the transfer of Sheriff Sales receipts to the cash receipts clerk. Finally, we recommend that the cash receipts clerk include Sheriff Sales proceeds in the daily processing of collections subject to the recommended controls noted in Findings 1, 2, and 8.

Finding 13: Inadequate Controls Over Disbursement of Sheriff Sales Proceeds

Our test of five Sheriff Sales disclosed that for one sale the Sheriff's Office disbursed the amount due to a creditor and disbursed the remaining net proceeds to the buyer. Maryland Rules 2-644 and 3-644 require that the Sheriff distribute the proceeds of the sale as follows: First, the Sheriff may withdraw any unpaid sheriff expenses and fees. Then, the Sheriff must pay the judgment creditor to satisfy the amount owed under the judgment plus costs. Finally, the net proceeds go to the judgment debtor.

In this instance, the sale totaled \$260,000, the Sheriff fee was \$250, the creditor was due \$26,810, and the balance of \$232,940 was due to the debtor. However, Sheriff's Office staff returned the \$232,940 to the buyer. When questioned, Sheriff's Office management acknowledged the error and told us that they spoke with the buyer and debtor and that they resolved the situation. However, they could not provide documentation to substantiate that assertion.

The Sheriff's Office had not established adequate internal controls over disbursement of proceeds. The supervisory employee who oversees the Sheriff Sales process did not review supporting documentation before approving the disbursement, and the supervisor was not independent since he sometimes participated in Sheriff Sales. Further, the supervisor returned the approved disbursement request to the preparer for transfer to the Office of Finance for processing. Consequently, the deputy or other staff handling the payment could alter the disbursement request after approval without detection.

Recommendation

We recommend that the Sheriff's Office ensure that it distributes Sheriff Sale proceeds in accordance with Maryland Rule 2-644 and 3-644. We also recommend that the Sheriff's Office obtain documentation of the proper distribution of proceeds for the exception discussed above. Finally, we recommend that the Sheriff's Office ensure that a supervisor who is independent of the sale process approve disbursements based on supporting documentation and Maryland Rule 2-644 and 3-644, and send the disbursement request to the Office of Finance for processing.

Finding 14: Inadequate Completion of Critical Sheriff Sales Documents

The Sheriff's Office did not adequately review or approve critical documents required by the courts at the completion of a Sheriff Sale. Specifically, our review noted the following:

- The Sheriff did not review and approve the Report of Sheriff's Sale of Real Property before sending it to the court. The Report of Sheriff's Sale of Real Property includes a complete report of the sale and an affidavit of the fairness of the sale and the truth of the report as required by Maryland Rules 14-305. Instead, the deputy conducting the sale signed the report and used the Sheriff's signature stamp for the affidavit. Consequently, the Sheriff's Office could be sending false or inaccurate information to the court for final ratification.
- The Sheriff's Office does not adequately review and approve the Sheriff's Deed that gives ownership rights to the property to a buyer. The Sheriff approves the document without reviewing supporting documentation of the sale. The Sheriff advised us that he trusts his staff to complete the document properly. Since the document requires the Sheriff's approval, and the court uses the document for final ratification, he should be reviewing the supporting documentation.
- Both the affidavit and the Sheriff's Deed require notarization; however, neither the deputy nor the Sheriff signs the report in front of the notary. This is not proper since notaries are required to witness the individual sign the document that they notarize.

Recommendation

We recommend that the Sheriff's Office ensure that critical documents in the Sheriff Sales process are properly reviewed and compared to supporting documentation. We also recommend that the Sheriff's Office discontinue the use of the signature stamp on Sheriff Sales documents and that the notary follow the *Handbook for Maryland Notaries*, including witnessing the signing of documents.

Finding 15: Sheriff Sales Fees Not Properly Calculated

Our test of five Sheriff Sales disclosed that the Sheriff's Office did not collect the appropriate fee for two sales. Specifically, the total sale amount for the two sales was \$70,000 and \$20,000, and the correct Sheriff fees totaled \$425 based on State law, but the Sheriff's Office only collected \$75. State law specifies that for a sale following the execution or attachment of real property, the Sheriff fees are 1.5% of the first \$5,000, 1.0% of the second \$5,000, 0.5% of any amount in excess of \$10,000, and the maximum is \$250. Therefore, these two sales should have resulted in fees of \$250 and \$175, respectively. The Sheriff's Office did not collect the difference and did not bill the creditor.

Office of the Sheriff - Audit of Internal Controls over Cash Receipts
Background, Findings, and Recommendations
March 1, 2018

Recommendation

We recommend the Sheriff's Office ensure that it properly calculates and collects the fees for Sheriff Sales.

Finding 16: Inadequate Control Over the Publication of Sheriff Sales

The Sheriff's Office allows the creditor to publish the advertisement for Sheriff Sales. The creditor prepares the notice, and the assigned deputy approves it and returns it to the creditor who submits it to the local newspaper. As a result, the creditor could alter the approved notice and potentially mislead the public.

Maryland Rule 2-644 and 3-644 specify that the Sheriff give notice of the time, place, and terms of the sale before it can sell the property. The Sheriff can recover the cost of the advertisement from the debtor, and if the debtor cannot pay, the Sheriff can recover the costs from the creditor.

Recommendation

We recommend that the Sheriff publish notice of Sheriff Sales as required and recoup the cost of advertising as allowed by law.

Finding 17: No Subsidiary Detail Supporting Escrow Account Balances

The Sheriff's Office uses two separate escrow accounts within the County's general ledger to record proceeds from Sheriff Sales and the distribution of proceeds. Part of the proceeds from the sales includes the Sheriff's fee. However, we reviewed account activity dating back to August 2013, and the Sheriff's Office did not recognize any of its fees as revenue during that period. Further, neither the Sheriff's Office nor the Office of Finance maintains a subsidiary ledger of the account balance to document which proceeds have yet to be distributed. As of June 30, 2017, the escrow balances totaled \$27,894, and Sheriff's Office staff could not readily determine the composition of the balances. The balances could include undistributed proceeds and the Sheriff's Office fees or sale proceeds that the Sheriff's Office never properly disbursed.

Recommendation

We recommend that the Sheriff's Office work with the Office of Finance to analyze the escrow accounts and determine the composition of the balance, determine the proper disposition of the funds, including recognizing Sheriff fees earned in the County's General Fund. Further, we recommend that the Sheriff's Office maintain subsidiary detail of these account balances.



OFFICE OF THE SHERIFF
ANNE ARUNDEL COUNTY

SHERIFF RONALD S. BATEMAN

Colonel Paul R. Tabor
Chief Deputy

P.O. BOX 507
ANNAPOLIS, MARYLAND 21404
Administration 410-222-1571 FAX 410-222-1583

February 13th, 2018

The Honorable County Executive Steve Schuh
The Honorable Members of the County Council
Ms. Karin McQuade, Controller
Jodee Dickinson, CPA, CFE, County Auditor

Dear Members of the County Council, Executive Schuh, Ms. McQuade, Ms. Dickinson,

Please accept this letter in response to the audit results sent to me on February 7th, 2018. I would like to thank the county for accepting my request for a full audit of the Sheriff's Operations Bureau. The very thorough performance audit of internal controls in regards to cash receipts will allow us to implement the necessary changes and improve upon our current practices. The findings in regard to our internal controls for receiving and safeguarding cash receipts, highlights our desire to enhance and improve our current system.

We were hopeful to have such a program in place, however realize now, we cannot wait for the implementation of the new data management system. After reviewing the recommendations made for each finding, we are working to implement the necessary changes.

While Anne Arundel County was selected as the Pilot for the implementation of MDEC in the State of Maryland, we will research and work towards a better understanding of how the process works. As we become better versed in the MDEC payment system, we will work towards a reconciliation of funds received and reporting of these funds. The recommendations for the Sheriff's Sales have been thoroughly reviewed. Updated policies and procedures will be implemented.

The results of the audit will allow the Sheriff's Office to work towards a more desirable method in accounts receivable and billing practices. Prior to these final findings, we met with Ms. McQuade and her staff for assistance with financial record keeping. We look forward to meeting with the finance staff again for further guidance. Our objective moving forward is clear: to implement new programs, update software, adopt new policies and modernize the way we conduct business. I will be requesting a follow-up on our new procedures in the very near future to ensure we are in full compliance.

Respectfully

Sheriff Ron Bateman