

City Clerk



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**Audit of Municipal Court  
Cashiering**

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City Comptroller  
City of Milwaukee, Wisconsin

December 2005

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Office of the Comptroller  
December 19, 2005

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To the Honorable  
the Common Council  
City of Milwaukee

Dear Council Members:

The attached report summarizes the results of our Audit of Municipal Court Cashiering. The objectives of the audit were to evaluate the current status of controls over cashiering, to determine whether all cash and checks were deposited and recorded, and to evaluate the reliability of the Municipal Court Management Information System.

The audit determined that internal controls over cashiering activities in the Municipal Court are generally adequate, but could be strengthened. The audit disclosed that cash and checks were properly and timely secured, transferred and deposited, and that the computerized cashiering system utilized by the Municipal Court is reliable. Areas identified for improvement include access and control over cash in the accounting area, control over credit card information and cash counts.

Audit findings and recommendations are discussed in the Audit Conclusions and Recommendations section of this report, which is followed by the Municipal Court's response.

Appreciation is expressed for the cooperation extended to the auditors by the staff of the Municipal Court.

Sincerely,

W. MARTIN MORICS  
Comptroller

## **Audit Scope and Objectives**

This audit was performed at the request of the Chief Court Administrator. The scope of the audit included all cashing activities, which includes cash, check and credit card payment handling. The audit did not evaluate the appropriateness of fines, forfeitures and fees assessed. The audit also did not evaluate Court operations other than cashing. These functions may be the focus of future audits.

The objectives of this audit were to:

- Evaluate the current status of controls over cashing.
- Determine whether all cash and checks were deposited and recorded in a timely manner.
- Evaluate the reliability of the Municipal Court Management Information System (MCMIS).

## **Organizational and Fiscal Impact**

The Municipal Court (Court) for the City of Milwaukee, established under Chapter 3-34 of the Milwaukee City Charter, adjudicates and interprets the City Ordinances (Laws). The Court also has jurisdiction over certain State laws, as enumerated in Chapters 755 and 800 of the Wisconsin Statutes. The Court may impose fines, forfeitures and jail sentences related to citations issued for health, building and zoning code violations as well as parking and motor vehicle violations.

In many cases the judges may order installment payments of fines and forfeitures. Individual defendants also can request installment payment plans, subject to approval by the Court staff in accordance with guidelines established by the Court and Court Administration.

The Court collects over \$10 million annually. Approximately \$7.2 million of these collections are related to City violations, with the remaining \$2.8 million related to State surcharges, such as penalty surcharges, crime lab fees, etc. Collections related to City violations result in City revenues as collections related to State surcharges are transferred to the State. It should be noted that a portion of collections related to City violations are receipts from the State's Tax Refund Interception Program, through which, the State

withholds fines and forfeitures from individual income tax returns and transfers those amounts to the City.

Payments to the Court by cash, check, money order or credit card can be made in person, by telephone, mail or fax, or on-line through the City's web page. The Court allows installment payments for those who are unable to pay the full fine or forfeiture. Table 1 below illustrates collections in 2004 by method of receipt.

Table 1 – Annual Payments Received

<b>Category</b>	<b>Transactions</b>	<b>Percent</b>	<b>Amount</b>	<b>Percent</b>
Teller Window	75,600	66.4%	\$ 6,800,000	68.0%
Mail Payments	17,000	14.9	1,500,000	15.0
Collections	14,400	12.6	1,300,000	13.0
Telephone	6,000	5.3	300,000	3.0
On-Line	<u>900</u>	<u>0.8</u>	<u>100,000</u>	<u>1.0</u>
<b>Total</b>	<b>113,900</b>	<b>100.0%</b>	<b>\$10,000,000</b>	<b>100.0%</b>

Source: Municipal Court

The Court processes approximately 9,492 payments per month, accounting for about 93 percent of the revenue collected. The remaining 7 percent is collected by the City's Violations Bureau and the Police Department. Payment transactions can be broken into the following categories by percentage as shown in Table 2.

Table 2 – Payments Processed by Type

<b>Category</b>	<b>Monthly</b>		<b>Annual</b>	
	<b>Transactions</b>	<b>Percent</b>	<b>Amount</b>	<b>Percent</b>
Traffic Violations	4,896	51.5%	\$ 6,300,000	63.0 %
Municipal Violations (non-traffic)	3,168	33.4	2,700,000	27.0
Parking Violations	1,224	12.9	900,000	9.0
Summons & Complaint	177	01.9	90,000	0.9
Contempt of Court	<u>27</u>	<u>0.3</u>	<u>10,000</u>	<u>0.1</u>
	<b>9,492</b>	<b>100.0%</b>	<b>\$10,000,000</b>	<b>100.0 %</b>

Source: Municipal Court

The cashiering function of the Court collects fines and forfeitures and court administration charges that are deposited with the City Treasurer on a daily basis. This cashiering function is staffed by a main cashier, two assistant cashiers and a night cashier.

The assistant cashiers alternate as installment payment clerks. The aforementioned cashiering positions are supervised by the Accounting and Reception Supervisor, who in turn reports to the Chief Court Administrator.

### **Audit Conclusions and Recommendations**

The audit determined that controls over cashiering are generally adequate, but could be strengthened. The audit determined that all cash and checks are deposited and recorded on a timely basis. The audit also determined that the Municipal Court Management Information System (MCMIS) is reliable as defined by the American Institute of Certified Public Accountants (AICPA) and the Canadian Institute of Chartered Accountants (CICA). These conclusions are supported by the following:

#### **I. Physical Controls over Cash and Cashiering**

The audit determined that physical controls over cash and cashiering are generally adequate to protect against potential theft by outside persons, but controls could be strengthened to reduce the risk of potential theft by staff. The following describes the physical controls over cash and cashiering, and identifies where controls can be strengthened:

- **Safe and cash drawer access:** A number of practices currently in place in the Municipal Court provide controls over cashiering. Cash is kept in two safes and in locked drawers within the accounting section of the Court offices. Keys to the cashiers' cash boxes are in the possession of each cashier, with duplicate keys being held by the Chief Court Administrator. Also, cashiering stations are separated from the rest of the accounting area by walls, and the general public does not have access to the area where the safes are located.

Despite these controls, improvements could be made in a number of areas. The safes are unlocked during business hours to allow cashiers access to cash and to provide the police "runner" access to the day's deposits for transport to the City Treasurer's Office. In addition, non-cashiering personnel have access to the safes. While the cashiers may notice access by non-cashiering personnel due to the location of the safes, when the cashiers are very busy access by non-cashiering staff may go unnoticed. Controls could be strengthened in these areas.

- **Physical controls over access to the accounting area:** Physical controls over access to the accounting area, while adequate, could be improved. For instance, the police metal screening/security gate at the entrance to the waiting room and the bullet proof glass that surrounds the counter area of the accounting section does provide a certain level of control over the physical area. In addition, the doors to the accounting area are locked with combination locks. However, these combination locks have not been changed in quite a while and there is no access log kept for the accounting area. Former staff and others who are aware enough to identify the combination sequence could access this area. Further, there are no security cameras in any part of the Court, including the accounting area. Current camera technology could be used to record events and identify persons involved in any potential event.

The audit makes the following recommendations for physical controls over cash and cashiering:

**Recommendation 1: Access Control**

The audit recommends that control over access to the accounting area be strengthened with the use of electronic key cards similar to those used at City Hall. The use of this type of system would allow management to make access changes for both new staff and also those individuals leaving employment. Also, individuals using the cards to enter the accounting area would leave an electronic log of access. The audit recommends that, in lieu of a system that would maintain an electronic record of those entering the accounting area, a manual log be kept for all unauthorized persons that access the accounting area.

**Recommendation 2: Security Cameras**

The audit recommends that, similar to the Treasurer's Office, security cameras be installed to view the cashiering area and safes. One camera should view each cashier and the window area allowing for a view of transactions and individuals making those transactions. Cameras should be of high quality and provide round the clock monitoring. Also, active viewing of the camera views should be established in the administration area. This could be accomplished by installing monitors in either the office of the Chief Court Administrator or the Assistant Court Administrator.

## II. Accounting and Electronic Controls over Cashiering

The audit determined that accounting and electronic controls over cashiering are generally adequate. However, some minor weaknesses have been noted that are in need of strengthening. The following describes controls that are in place and identifies controls that need strengthening:

- **Internal control document:** The Court has office manuals which describe how to handle every type of transaction. These manuals are well written and provide detailed procedures for the cashiering staff. However, the audit did note that the Court does not have an internal control document identifying the controls and control procedures in place. Such a document provides management an outline of controls needed to protect cash and sensitive data. This document would assist the organization in making changes needed when procedures, staff, court functions or systems are changed.
- **Cash counts:** Cash counts of cash drawers and operating cash are made at the beginning and at the end of each day. Also, surprise dual counts are made randomly at least every three months. Separate dual cash counts are made when the cashiers are unexpectedly absent or absent for more than one day. Cash counts at the end of the day are made prior to running the cashiers' log. This log indicates totals of transactions by transaction type (i.e. currency, personal check, Master Card, VISA, State/County check, etc.). After the count is made, checks, credit card and cash balances are compared to the log. Any discrepancies are noted and the cash drawer is recounted.
- **Cash drawer limits and operating cash:** There are established cash drawer starting balances. When the cash count is made, at the end of the day, the drawer is made whole and any over/short is recorded in the day's transaction record. Over/shorts are cleared by the Accounting and Reception Supervisor. All cash is counted daily including operating cash held in safes.
- **Cash deposits and system reconciliations:** Cash collections from the prior day are deposited with the City Treasurer in compliance with Chapter 3-34, 5.c. of the City Charter. The only cash kept on hand is the cash drawer starting cash and a small amount of operating cash. Daily reconciliations are made between the Court's MCMIS and the City's Financial Management Information System



(FMIS). The audit found no variances between MCMIS and FMIS. The reconciliations assure that the correct balances and appropriate accounts are transferred to FMIS.

- **Installment payments:** The installment clerk, not the cashier, creates installment plans. The Court has written policies and procedures that allow defendants to make installment payments over a period of up to two years if they can prove financial hardship, or the judge orders that payments are to be made as installments. These are good controls over installment payment plans. The procedures are consistently followed and include the following:
  1. Only the judge can order installment payments for building and zoning code violations.
  2. A statement of financial burden must be made with the installment clerk.
  3. Defendants are not granted installment plans when they have been referred to the City's collection agency for other case payments or are listed as having suspended license privileges. In these cases, the defendant may be granted an installment plan only if the collection issue or suspension has been cleared by the judge.
  4. If payments are not received on a timely basis, the system will automatically put the defendant into collection, list them as in default, and notify the Court, so that the alternative sentence goes into effect.
  5. The head cashier did have the ability to set up installments, but it was not utilized, according to Court staff. This ability added an amount of risk that was unacceptable for proper internal controls. However, after completion of field work, this access was removed from the head cashier's system access profile, eliminating the risk, according to the Chief Court Administrator.
  6. A report of newly created installments is produced that management reviews monthly.
  
- **Credit card processing:** Credit card transaction processing controls have a security weakness that needs to be addressed immediately. In order to track payments to court cases, a Court designed paper form is completed by the cashier that identifies the credit card number, card verification code (CVC code) and expiration date. This form also has a court case number, date and time on it for tracking into the credit card transaction report. Such documentation presents the

risk of identity theft by the cashiers and anyone else who might gain access to the paper transactions files.

Credit card information is entered into a point of sale terminal at the cashier's station. Once the transaction has been authorized by the credit card company a receipt is produced in duplicate. One copy is attached to the form described above and filed, and the other is used to record the transaction on MCMIS and then placed into the cash drawer to be submitted to the Treasurer for deposit.

When completing the transaction on the MCMIS system the cashier enters the payment from the payment receipt as a credit card payment, and re-enters the credit card number into the dialog box of the system if the name on the card is not that of the defendant. The recording of the credit card number into the system poses a risk of identity theft by those with access to the system dialog box.

The audit makes the following recommendations:

**Recommendation 3: Credit Card Transaction Revision**

The audit recommends that the Municipal Court revise both manual and electronic procedures that record credit card numbers in full. Limiting access to such numbers reduces the risk of identity theft. The audit recommends that the form should be altered or destroyed to eliminate a paper document providing confidential credit card information. Further, the audit recommends that information entered into the MCMIS dialog box be limited to recording the payer name, payment type and the last four digits of the credit card number.

**Recommendation 4: Internal Control Document**

The audit recommends that the Municipal Court prepare a separate internal control document, to be kept by the Chief Court Administrator detailing internal controls within the Court. This document can be used to verify controls by management on a continuous basis, thus assuring controls are effective and in place.

**Recommendation 5: Increase Surprise Cash Counts**

The audit recommends that the incidence of surprise dual cash counts should be increased to at least once a month. Implementing this recommendation would significantly strengthen the controls over cash.

### III. System Reliability

The American Institute of Certified Public Accountants (AICPA) and the Canadian Institute of Chartered Accountants (CICA) have defined principles for evaluating the reliability of a computer system. Based on these principles the audit determined that the MCMIS system is generally reliable. The audit did note that some informal policies and procedures regarding system testing and evaluation are not documented. The audit found that system policies are defined and documented that address:

1. Security: The system is protected against unauthorized physical and logical access.
2. Availability: The system is available for use as committed.
3. Processing integrity: System processing is complete accurate, timely, and authorized.
4. On-line privacy: Personal information obtained as a result of e-commerce is collected, used, disclosed, and retained in accordance with policy.
5. Confidentiality: Information designated as confidential is protected in accordance with policy.
6. Policies are communicated to authorized users.

Municipal Court Information Technology (IT) staff is cognizant of the need to provide control policies and procedures. These procedures are updated constantly. The system is monitored and action is taken to maintain compliance with the defined policies. The following describes the audit's findings and conclusions regarding the MCMIS system:

- **Policies and procedures:** The review of MCMIS system policies found that while not all relevant IT policies and procedures were formally documented, the policies, practices and procedures that are in place are adequate given the size of the IT staff and the relatively stable and closed environment in which they operate. In addition, Court staff indicated that policy revision and additional documentation would be part of the major computer system upgrade project that is in progress.
- **Segregation of duties:** Segregation of duties, an important element of good internal control in the electronic environment, was reviewed and found to be adequate under the AICPA/CICA criteria.

- **MCMIS system documentation:** Since the Court is currently updating and implementing a new cashiering system and given the current systems environment and IT staff size, it would not be cost-effective to recommend that the current informal MCMIS policies and procedures be documented, as most if not all of such policies and procedures will change with the completion of the system upgrade project.

The audit makes no recommendations regarding the MCMIS system documentation and procedures at this time. At the time this audit was completed, the Court was in the process of implementing a new cashiering system. Recommendations will be made for future audits after the new court information system has been implemented.



Department of the  
Municipal Court

Kristine M. Hinrichs  
Chief Court Administrator

December 5, 2005

W. Martin Morics  
Comptroller  
200 East Wells St.  
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Milwaukee, WI 53202

Dear Mr. Morics

The Milwaukee Municipal Court appreciates the work of your office and staff in conducting the recent audit of our cashiering function. As it had been several years since the last such audit, we are happy to measure our current procedures and practices against current standards for cash handling. Please note our response to your recommendations below. As you can see, we have already implemented many of the recommendations. We are also currently reviewing proposals for those that would require additional budgetary resources.

**1. Access Control**

- A. The audit recommends that control over access to the accounting area be strengthened with the use of electronic key cards similar to those used at City Hall.

Response: The Court agrees that the use of electronic key cards would provide increased security for the accounting and cashiering area. We requested a quote from the City's security system vendor and are currently reviewing their recommendations.

- B. The audit recommends that, in lieu of a system that would maintain an electronic record of those entering the accounting area, a manual log be kept for all unauthorized persons that access the accounting area.

Response: The Court changed the combination locks for access to this area and will implement a procedure to change them more frequently – until it is possible to install electronic access pads. In lieu of a manual log (which would be difficult to maintain given present staffing), the door to the cashier area will remain closed and locked during cashier hours. The office safe with the tellers' starting cash will also remain closed and locked. We will also try to limit access to this general area by non-Court staff.

## 2. Security Cameras

The audit recommends that, similar to the Treasurer's Office, security cameras be installed to view the cashiering area and safes; and monitors be installed in either the office of the Chief Court Administrator or the Assistant Court Administrator.

Response: The Court is in agreement with the added benefit security cameras would provide in monitoring cash transactions and the safes which store the day's receipts and tellers' starting cash. We are currently reviewing a proposal to install these cameras.

## 3. Credit Card Transaction Revision

The audit recommends that the Municipal Court revise both manual and electronic procedures that record credit card numbers in full, and that the information entered into the MCMIS dialog box be limited to recording the payer name, payment type, and the last four digits of the credit card number.

Response: The Court concurs with the recommendation for increased security when processing credit transactions to reduce the risk of identity theft and have modified credit payment procedures as follows:

- Only the last four digits of the card number are placed in the "Comments" section to be used to research charge disputes.
- The receipt from the charge terminal which records the last four digits of the card number, and the receipt from the Court's system which record the citation and case number as well as the payer name and payment type, are attached and retained in accounting.
- The "Credit Card Information Form" used for recording credit information when taking credit payments by phone is shredded after the payment is entered in the system.

## 4. Internal Control Document

The audit recommends that the Municipal Court prepare a separate internal control document, to be kept by the Chief Court Administrator detailing internal controls within the Court.

Response: The Court agrees that a manual documenting the controls for financial accountability would be beneficial to Administration. With the assistance of staff from your office, the Court will compile an internal control manual of uniform accounting procedures as they relate to the Court's cash handling activity.

5. **Increase Surprise Cash Counts**

The audit recommends that the incidence of surprise dual cash counts should be increased to at least once a month.

Response: The Court agrees with the need for increased surprise dual cash counts. Surprise dual cash counts are now performed on a monthly basis.

We appreciate the professionalism and consideration exhibited by your staff and are confident that we can call on them to provide advice and assistance in further refining our processes and procedures.



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cc: Municipal Court Judges  
Clarice Hall Moore  
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