



**Audit of
Municipal Court Receivables**

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City of Milwaukee, Wisconsin

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Office of the Comptroller

July 11, 2012

Martin Matson
Comptroller

John M. Egan, C.P.A.
Deputy Comptroller

To the Honorable
The Common Council
City of Milwaukee

Dear Council Members:

The attached report summarizes the results of our Audit of Municipal Court Receivables. The objectives of the audit were to evaluate the Municipal Court's internal controls over its management of receivables and collections policies, procedures, and operations; assess the adequacy and effectiveness of controls surrounding the Case Automated Tracking System (CATS) specific to receivables; and follow up on prior audit recommendations.

The audit determined that Municipal Court staff are generally compliant with the Court's current policies and procedures related to the origination and collection of outstanding receivables, payment processing, refunds, write-offs, and CATS system security administration. However, internal controls could be strengthened to decrease the risks inherent to these processes. The Audit of Municipal Court Receivables resulted in nine recommendations to improve controls. We commend the Municipal Court for taking immediate steps to implement several of these recommendations.

Audit findings 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,

Martin Matson
Comptroller

MM:ssm

I Audit Scope and Objectives

The audit examined procedures and controls for receivables of the Municipal Court, including origination, payment processing, delinquent collections, refunds, and write-offs, as well as the system security of the Case Automated Tracking System (CATS) and the status of the prior audit recommendations. The audit also assessed controls around teller balancing procedures performed at the request of Municipal Court management.

This audit was conducted in accordance with generally accepted government auditing standards. Those standards require that the audit obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives. The Office of the Comptroller believes that the evidence obtained provides a reasonable basis for the audit's findings and conclusions based on the audit objectives.

Audit procedures developed to accomplish the audit objectives, including process walk-throughs, inspection of relevant control documentation, tests of controls, and substantive (detail) testing, were executed February through May 2012. The scope of the audit included transactions for the calendar year 2011. The audit did not include a review of physical cash controls unless directly related to the follow-up of prior audit recommendations. The audit conclusions are based on interviews with Municipal Court personnel, review of policies and procedures, review and analysis of available documentation and electronic data, and testing.

The objectives of the audit were to:

- Evaluate the Municipal Court's internal controls over origination, payment processing, delinquent collections, refunds, and write-offs as related to policies, procedures, and operations for receivables;
- Assess the adequacy and effectiveness of controls within CATS specific to receivables; and
- Follow up on prior audit recommendations.

II Organization and Fiscal Impact

The Milwaukee Municipal Court (Court), established in 1974 under Chapter 3-34 of the Milwaukee City Charter, adjudicates and interprets the city ordinances. The Court may impose forfeitures (fines) or alternative sentences for ordinance violations that occur within the limits of the municipality. Examples of violations handled in the Municipal Court are traffic, assault and battery, disorderly conduct, vandalism, loitering, theft, shoplifting, building code, health code, and drunk driving. A sentence to pay forfeitures to the City is the primary sentence imposed. If a defendant does not pay the forfeiture, the judge may suspend the defendant's driving privileges or order commitment.

The total amount owed to the Court is referred to as a receivable. Receivables are primarily made up of fees (court costs), liabilities (fees or surcharges remitted to the state), and forfeitures (the fines imposed by the judge).

The Milwaukee Municipal Court handles the highest volume of cases of any municipal court in Wisconsin. In each of the three courtrooms, up to 60,000 cases are filed and adjudicated per year. Municipal Court outstanding judgments make up 26% of total outstanding receivables for the City of Milwaukee.¹ There were 125,400 judgments added in 2011 totaling \$19.2 million of which \$4.6 million was collected (24%). Municipal Court receivables are not maintained on the City's general ledger. However, they are tracked on CATS, and city-wide outstanding receivables are reported each year by the Comptroller's Office as required by Ordinance 304-1-5. The most recent report was issued in August 2011 for 2010 numbers.

The Municipal Court receivable balances are affected by the number of citations (tickets) issued and the willingness and ability of defendants to appear in court and pay the judgments. Additionally, a defendant may choose to serve an alternate sentence in lieu of paying the judgment.

¹ Source: The Comptroller's 2011 Report on Outstanding Receivables as of December 31, 2010

III Audit Conclusions and Recommendations

The audit determined that Municipal Court staff are generally compliant with the Court's current policies and procedures related to the origination and collection of outstanding receivables, payment processing, refunds, write-offs, and information security administration. However, internal controls could be strengthened to decrease the risks inherent to these processes.

This audit makes nine recommendations to further improve the control environment. The issues were identified within the origination, payment processing, CATS information security administration, and teller balancing processes.

1. Confirm the number of citations received with the City Attorney's Office.
2. Formalize the missing citations review and policy.
3. Implement a quality review process for citation data entry.
4. Configure penalty ranges within the CATS application.
5. Segregate duties between payment processing and deposit preparation duties from the journal entry process.
6. Segregate code writing and code promoting duties.
7. Develop and implement a periodic system access review.
8. Strengthen surprise dual cash count processes.
9. Design and implement a variance worksheet to support entries to the over/short account.

Additional details regarding these recommendations for improvement are provided in the following sections of this report.

A. Origination

A receivable originates when a citizen is issued a citation (or a summons and complaint) for violating a city ordinance. Paper citations must be manually routed through the data entry process, to the City Attorney's Office, and ultimately scanned into the system and linked to the case by Municipal Court staff. The majority of citations are generated and transmitted electronically.

Missing Citations

If a paper citation is received by the Court, the case record in CATS will have an indication that the citation was reviewed by the City Attorney and approved for prosecution. Generally, cases without a charging document are dismissed or voided by the Court. The audit noted there are no controls in place to identify paper citations forwarded by the Attorney's office to the Municipal Court that intentionally or unintentionally did not get scanned and linked to the related case in CATS. The audit also identified that cases without charging documents are not always dismissed or voided.

Recommendation 1: Confirm the number of paper citations received with the City Attorney's office.

Management should work with the City Attorney's office to design and implement a process to ensure that all physical citations sent down by the City Attorney are received by the Municipal Court, scanned, and indexed to CATS.

Recommendation 2: Formalize the missing citations review and policy.

Management should compose a formal written policy pertaining to the dismissal of cases without a charging document to ensure consistency across the divisions and branches of the Municipal Court.

Data Entry

Citation data is entered into CATS by court administrative services staff or a third party vendor. Audit tests of data entry identified the citation data entered in CATS by court staff was not consistently accurate. While court staff verify the citation information entered by the vendor, the verification review is not documented to demonstrate the control. Management may not be aware of errors or inconsistencies in data entry if a quality control review is not performed consistently.

Recommendation 3: Implement a quality review process for citation data entry.

Management should design and implement a quality review process for citation data entry, including a process to document the review was completed, by whom, and when. Management should also periodically monitor evidence of the control for consistency of performance.

Accuracy of Fines within CATS

City ordinances and state statutes include minimum and maximum monetary penalties for each violation. Each citation issued includes a deposit amount (the suggested penalty) within this range. Penalties can change from the original deposit amount keeping within the range for the particular charge; however, there are no primary controls in place to ensure the penalties entered in CATS by the court clerks at the time of judgment are accurate. The audit identified forfeitures are not consistently within the penalty ranges outlined by the city ordinances and state statutes. Control weaknesses in the recording of judgments increase the risk of inaccurate receivables and negative public perception if a defendant is “over charged.”

Recommendation 4: Configure penalty ranges within the CATS application.

While 100% accuracy cannot be guaranteed due to the manual nature of the process, management should strengthen controls to decrease the risk that penalties entered in CATS at the time of judgment are inaccurate. Specifically, management should program the penalty ranges for each ordinance within the CATS application which could then be used to configure alerts and require authorization when penalties entered do not fall within the legal range. If authorizations would not be feasible due to concerns for efficiency, management should configure CATS to provide exception reports listing the outliers for periodic review.

B. Payment Processing

There are five account clerks in the Municipal Court Accounting Section managed by the Court accountant. The primary functions of the account clerks include court reception and payment processing. The payments collected are deposited at the City Treasurer daily. The account clerks prepare the deposit and create the journal entry on the PeopleSoft Financial Management Information System (FMIS) to record the deposit on the general ledger. The Court accountant then creates entries on FMIS to distribute the deposit to the correct revenue and liability accounts

using figures automatically calculated by CATS based on the day's collection activity. The Court accountant and account clerks have the same level of access within the cashiering and accounting applications, allowing one individual to perform both functions. The exposure produced by inadequate segregation of duties increases the risk of undetected errors and opportunities to misappropriate assets.

Recommendation 5: Segregate duties between payment processing and deposit preparation duties from the journal entry process.

Management should segregate the payment processing and deposit preparation duties from the journal entry process to reduce the risk of undetected errors and opportunities to misappropriate assets. Ideally, the account clerks should not have edit access to FMIS and the Court accountant should not have access to process payments and cash refunds. The back-up for the Court accountant should be independent of cashiering duties. If these duties cannot be completely segregated, compensating controls should be implemented. Specifically, payment reversals processed by account clerks should require supervisory authorization.

C. Delinquent Collections

The audit determined the controls surrounding collections of overdue accounts are adequately designed and operating effectively. CATS is configured to automatically transfer all overdue accounts \$10 and above to the collection agency at 21 days past the judgment date and accounts with balances less than \$10 are automatically written off. The collection agency confirms the number of accounts received and the total dollar amount for each transmission of overdue accounts received. Collections are remitted by the collection agency to the City on a daily basis directly to a dedicated clearing account accompanied by a detailed report. Those payments are then automatically applied to each case in CATS.

D. Refunds

Based on our review and testing results, the controls surrounding refunding payments to defendants are adequately designed and operating effectively. When money is posted on a case or citation, a refund may be issued when ordered by the judge or requested by the defendant where the case is dismissed, the sentence is suspended, the defendant has been found not guilty,

there is an overpayment, the citation is suspended, or the citation is released or received in error. Refunds requested in person at the teller window are made in cash if there is sufficient cash on hand to continue teller operations. Defendants must present proper identification to the teller. Cash refunds without proper identification must be ordered by the judge. A physical refund receipt is generated by CATS which must be signed by the defendant to verify the receipt of the cash refund. Signed receipts are retained by the Court with a copy of the presented photo identification. All account clerks and the Court accountant have the ability to issue refunds within CATS but do not have the system access to enter or edit any judicial information.

E. Write-offs

The audit determined the controls surrounding the process to write-off delinquent accounts are adequately designed and operating effectively. All outstanding judgments are given a due date by the judge, generally 30, 60, or 90 days from the date of judgment. At 21 days past the judgment due date, all outstanding judgments \$10 and above are transferred to the collection agency. CATS is configured to automatically write-off outstanding judgments below \$10. Writs (warrants and commitments) that have no activity of any kind for seven years are considered uncollectible. Every year, Court administration runs a report from CATS that lists all open warrants and commitments issued for which there has been no activity for over seven years, excluding cases with an active collection plan and cases with an enforced property lien. The judge then orders permanent stays for these cases, which terminates all collection efforts, and the balances are reduced to zero. When the report of open warrants and commitments is generated, a table with the case details is created within CATS. This table is used in a program that automatically applies the permanent stays to each case, reducing the balance due to zero and withdrawing the warrant.

F. Case Automated Tracking System (CATS)

CATS, a workstation-based application, was developed in 2006 replacing the Municipal Court Management Information System (MCMIS). It is administered by the Municipal Court Systems Division and is the system of record for Court cases and the documentation supporting the cases used through all functional areas of the City of Milwaukee Municipal Court.

System Administration

The individual responsible for programming CATS also has administrative access creating an inadequate segregation of duties. Inadequate segregation of system programming and administrative duties increases the risk of unauthorized transactions.

Recommendation 6: Segregate code writing and code promoting duties.

Ideally, no one individual should have access to write code and also be able to place the code into production (live environment). If segregating these duties is not practical for the Municipal Court, management should develop and implement a procedure to regularly monitor the programmer's activity within the live system.

System Access Review

While inactive users are regularly reviewed and deleted, a complete user access list is not generated and reviewed for appropriateness on a consistent frequency. As such, the audit identified two users with excess access to CATS: the Court accountant is assigned to security groups permitting code table maintenance, and a receptionist also has administrative services rights that are not needed to perform her day to day duties.

Recommendation 7: Develop and implement a periodic system access review.

To strengthen controls surrounding access to CATS, management should:

1. Remove the excess access identified above, and
2. Develop and implement a periodic access review including the following:
 - a. Access should be reviewed at least semi-annually.
 - b. Documentation evidencing the reviews were completed and any changes made as a result of the reviews should be retained for at least 12 months.
 - c. Reviews can be coordinated by the system administrators but access levels should be determined and approved by the section managers.

G. Prior Audit Recommendation Follow-up

In 2005, the Audit Division performed an audit of the Municipal Court's cashiering activities at the request of Municipal Court management that resulted in five recommendations:

1. Control over access to the accounting area should be strengthened with the use of electronic key cards.
2. Security cameras should be installed to view the cashiering area and safes.
3. The Municipal Court should revise both manual and electronic procedures that record credit card numbers in full.
4. The Municipal Court should prepare a separate internal control document to be kept by the Chief Court Administrator detailing internal controls within the Court.
5. The incidence of surprise dual cash counts should be increased to at least once a month.

Recommendations one through four have been fully implemented. Through discussion with management, the audit determined that surprise dual cash counts are not performed on a monthly basis for each teller (recommendation number five). Additionally, the counts are not logged, supporting documentation is not retained to evidence the occurrence of the cash count, and there are no procedures in place to resolve variances identified during the counts. Weaknesses in physical cash controls increase the Municipal Court's exposure to theft, waste, and embezzlement.

Recommendation 8: Strengthen surprise dual cash count processes.

The Municipal Court should perform a monthly surprise dual cash count for each teller to strengthen cash controls. Additionally, substantiating documentation should be retained for all cash counts, such as printouts of the teller journal. Each surprise dual cash count should be tracked on a log and the log should be periodically reviewed by someone independent of the process. Lastly, management should establish a procedure to resolve variances identified during the counts.

H. Teller Balancing

Municipal Court transactions are processed on CATS. The tellers balance their activity to CATS at the end of every day. Two account clerks count the cash which is then prepared for deposit at the City Treasurer. If there are any variances between the teller's tallies and the CATS report, a detailed transaction log is printed and reviewed. If any variances cannot be resolved timely, the

teller closes the variance to the over/short account and continues looking for the difference the following day.

The Accounting Division of the Municipal Court does not utilize a variance worksheet to record and support the variances posted to the over/short account throughout the year when a cash drawer does not balance at the end of the day. Weaknesses in cash and balancing controls increase the risk of losses caused by outsiders or caused by internal embezzlement, inefficiencies, or negligence and carelessness.

Recommendation 9: Design and implement a variance worksheet to support entries to the over/short account.

Management should design and implement a variance worksheet to be completed by the teller and reviewed by a supervisor each time there is a variance. At a minimum, the worksheet should include the teller's name and the teller's signature, the date of the variance, the amount of the variance, who reviewed the variance and the reviewer's signature, and any relevant comments. A checklist to guide the teller through standard steps to locate the variance may also be helpful. The worksheets should be periodically reviewed by Court administration, and management should decide whether to pursue any disciplinary actions because of the variances on a case-by-case basis with the input of the supervisor. The variance worksheet can be used as a tool for performance reviews and can be helpful in developing a performance improvement plan if necessary. The new procedures should be documented in the Municipal Court Accounting Internal Control Policy and communicated to staff.



CITY OF MILWAUKEE MUNICIPAL COURT

Derek C. Mosley, Presiding Judge
Branch 2

Valarie A. Hill, Judge
Branch 1

Phillip M. Chavez, Judge
Branch 3

Kristine M. Hinrichs
Chief Court Administrator

Sheldyn M. Himle
Assistant Court Administrator

July 11, 2012

Martin Matson
Comptroller
200 East Wells Street
Room 404
Milwaukee, WI 53202

Dear Mr. Matson:

The Milwaukee Municipal Court appreciates the work of your office and staff in conducting the recent audit of Municipal Court receivables. As it had been several years since the last such audit, we are happy to measure our current procedures and practices against current standards. Please note our response to your recommendations below. As you can see, we have already implemented many of the recommendations and are on track to complete the others before the end of this year.

Recommendation 1: Confirm the number of paper citations received with the City Attorney's office.

The audit recommends management should work with the City Attorney's office to design and implement a process to ensure that all physical citations sent by the City Attorney are received by the Municipal Court, scanned and indexed to the Court Automated Tracking System (CATS).

Response: The Court has created a log for City Attorney staff to enter the number of citations being delivered and the date that they were filed with the Court. On this same log, two Court personnel will each count citations and initial the log. If there is a discrepancy, a manager will be contacted for appropriate follow-up.

Recommendation 2: Formalize the missing citations review and policy.

The audit recommends that management compose a formal written policy pertaining to the dismissal of cases without a charging document to ensure consistency across the divisions and branches of the Municipal Court.

Response: Court Administration developed a policy and procedure for review and approval by the judges. We anticipate that this procedure will be implemented in July 2012.

As the audit recommends, Court staff conducted a review of the five cases discovered during the audit that were found to be missing a charging document. Two cases from 2008 did have

a charging document in the respective physical case folder. The charging documents were timely filed with the Court and should have been scanned into the case, as there was further action taken post judgment. In the remaining three cases, the judgment was vacated at the order of the judge.

Recommendation 3: Implement a quality review process for citation data entry.

The audit recommends that management design and implement a quality review process for citation data entry, including a process to document the review was completed, by whom, and when. Management should also periodically monitor evidence of the control for consistency of performance.

Response: At the beginning of 2011, the Court went to full electronic storage of case records. At that time the Court implemented a review process to ensure the data coming through was accurate. After four months, we re-evaluated our processes and found there was a 1% error rate in the data. We realized the cost of staff time spent reviewing approximately 130,000 cases annually, for a 1% error rate, was not a cost effective use of our limited staff resources. Consequently, the review process was discontinued.

Court management was surprised by the 10% error rate in the audit sample. Therefore, during the third quarter of this year, the Court will enhance CATS to create a report that will generate a random sampling of cases added via automated processes. The size of the sample will be 5% of the number of cases added in any given batch. The results will be reviewed by staff for citation data accuracy and the Court will take follow-up action should the error rate exceed acceptable levels (5%).

Recommendation 4: Configure penalty ranges within the CATS application.

The audit recommends that management strengthen controls to decrease the risk that penalties entered in CATS at the time of judgment are inaccurate. Specifically, management should program the penalty ranges for each ordinance within the CATS application which could then be used to configure alerts and require authorization when penalties entered do not fall within the legal range. If such programming is not feasible management should configure CATS to provide exception reports listing the outliers for periodic review.

Response: While the Court agrees with the finding, this is an issue directly related to data coming into the Court system from the Milwaukee Police Department (MPD). Court personnel lack the authority to amend or alter charging documents and must accept them as they are written. The Court sent a letter to MPD identifying the need for greater accuracy in the data that is transmitted to Municipal Court.

During the third quarter of this year, the Court will implement an enhancement to CATS that will store the penalty range as part of the record for each municipal ordinance, and alert courtroom personnel if a deposit amount falls outside of the penalty range associated with the ordinance.

Recommendation 5: Segregate duties between payment processing and deposit preparation duties from the journal entry process.

The audit recommends that management segregate the payment processing and deposit preparation duties from the journal entry process to reduce the risk of undetected errors and opportunities to misappropriate assets. Ideally, the account clerks should not have edit access to FMIS and the Court Accountant should not have access to process payments and

cash refunds. The back-up for the Court Accountant should be independent of cashiering duties. If these duties cannot be completely segregated, compensating controls should be implemented. Specifically, payment reversals processed by account clerks should require supervisory authorization.

Response: Given the Court's limited staff, it is not possible to segregate duties as recommended. However, the Court has developed a formal policy and procedure for cash reversals that requires a second person to review the transactions. A form will be developed for use in this procedure and will require the initials of both the cashier and the second person that reviewed the transaction. We anticipated this procedure will be implemented in July 2012.

Recommendation 6: Segregate code writing and code promoting duties.

The audit recommends no one should have access to write code and also be able to place the code into production (live environment). If segregating these duties is not practical for the Municipal Court, management should develop and implement a procedure to regularly monitor the programmer's activity within the live system.

Response: While we understand the value and importance of this recommendation, the Court has just one Programmer - Analyst, who is responsible for the majority of the code writing and all of the code promoting in CATS. The Court also has a Network Analyst - Associate who is responsible for minor code writing but is not responsible for either code promoting or for reviewing the code writing of other staff (and, by nature of the position, would not have the knowledge or skills necessary to review the more complex code writing of the Programmer - Analyst). As a result, it is not possible to segregate these duties among the current staff at the Court. We also lack the funding to support an additional position to provide this oversight.

As a compensating control recommended by the Comptroller's auditing team, the directory where CATS project files are stored has been configured within the server's Windows operating system to generate automated email alerts to the Network Manager whenever any files that are added to or modified in that directory. The Network Manager will then review and compare this to the planned release schedule to ensure no unplanned or unexpected CATS project files have been put in place.

Recommendation 7: Develop and implement a periodic system access review.

The audit recommends that management strengthen controls surrounding access to CATS:

1. Remove the excess access identified, and
2. Develop and implement a periodic access review including the following:
 - a) Access should be reviewed at least semi-annually.
 - b) Documentation evidencing the reviews were completed and any changes made as a result of the reviews should be retained for at least 12 months.
 - c) Reviews can be coordinated by the system administrators but access levels should be determined and approved by the section managers.

Response: a) The access provided to the Court receptionist cited in the report was required due to a staff coverage issue. The Court removed this access immediately upon identification of the issue. The project has been completed.

b) The Court Accountant belongs to security groups that permit the modification of financial code tables and this access will not be removed since this position is the subject matter expert for this information. As a compensating control, a series of reports is being developed that summarizes all of the codes that can be edited by the Court Accountant. These reports will be reviewed and compared to previous reports by the Network Manager or other member of the management team to uncover any unexpected modifications that may have been made.

c) Previously, the Network Manager performed periodic reviews of CATS access but these reviews were not done on a specific schedule or documented. Moving forward, the Network Manager will conduct a review at the end of each calendar quarter.

Recommendation 8: Strengthen surprise dual cash count processes.

The audit recommends the Court perform a monthly surprise dual cash count for each teller to strengthen cash controls. Additionally, substantiating documentation should be retained for all cash counts, such as printouts of the teller journal. Each surprise dual cash count should be tracked on a log and the log should be periodically reviewed by someone independent of the process. Lastly, management should establish a procedure to resolve variances identified during the counts.

Response: This recommendation was noted in the 2005 audit and steps were taken then to improve the process. During the 2012 audit it was discovered that there was a misunderstanding by the former Court Accountant of the number of surprise dual cash counts the auditor had intended the Court perform (one per month/per teller vs. one per month overall). Therefore, the cash count process has been strengthened by:

- (a) Increasing the frequency of cash counts to once per month per teller
- (b) Retaining documentation of the cash counts which involve transactions that day (cash counts involving starting cash – which is \$250.00 for all tellers – is not associated with any supporting paperwork)
- (c) Tracking individual cash counts in a spreadsheet that details the date and time of the count, actual cash on hand, calculated cash, any difference between actual vs. calculated and notes regarding the difference

Recommendation 9: Design and implement a variance worksheet to support entries to the over/short account.

The audit recommends that management design and implement a variance worksheet to be completed by the teller and reviewed by a supervisor each time there is a variance. At a minimum, the worksheet should include the teller's name and the teller's signature, the date of the variance, the amount of the variance, who reviewed the variance and the reviewer's signature, and any relevant comments. A checklist to guide the teller through standard steps to locate the variance may also be helpful. The worksheets should be periodically reviewed by Court administration. Management should decide whether to pursue any disciplinary actions because of the variances on a case-by-case basis with the input of the supervisor. The variance worksheet can be used as a tool for performance reviews and can be helpful in developing a performance improvement plan if necessary. The new procedures should be documented in the Municipal Court Accounting Internal Control Policy and communicated to staff.

Response: A Cash Variance Form has been developed and implemented that requires all tellers to document any instances of an overage or shortage in their daily cash counts. Completed forms will be filed by year in the Court Accountant's office.

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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