



**Audit of
Milwaukee Police Department
Cash Handling Procedures**

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City Comptroller
City of Milwaukee, Wisconsin

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Office of the Comptroller
July 8, 2011

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To the Honorable
The Common Council
City of Milwaukee

Dear Council Member:

The attached report summarizes the results of our Audit of the Milwaukee Police Department (MPD) Cash Handling Procedures. The objectives of the audit were to evaluate: cash handling procedures, controls and safeguards utilized by MPD; the timeliness and accuracy of deposits and accounting records related to cash receipts processed by MPD; and controls over parking permit stock, purchases, and revenue reporting.

The audit determined that cash handling procedures and controls at MPD are for the most part sufficient and effective; and, with the exception of night parking permits, deposits and accounting records related to MPD cash receipts appear to be timely and accurate. The audit makes four recommendations to strengthen controls. Audit findings are discussed in the Audit Conclusions and Recommendations section of this report, followed by MPD's response.

Appreciation is expressed for the cooperation extended to the auditors by members of the Milwaukee Police Department.

Sincerely,

W. MARTIN MORICS
Comptroller

I Audit Scope and Objectives

This is an Audit of the City of Milwaukee Police Department (MPD) Cash Handling Procedures. The audit examined procedures and controls for over-the-counter cash receipt transactions at seven district stations, the Prisoner Processing Center, Open Records (District 9), and for night parking permit applications mailed through U.S. Postal Service and processed by Traffic (District 9a). Cash held by MPD as evidence, MPD payments made through the Internet, and grant funds received by MPD were not included in the scope of the audit.

The 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.

The audit focused on cash transactions processed between October 1 and December 31, 2010. The audit documented MPD cash handling procedures from walkthroughs and observations conducted at three district stations in December 2010 and January 2011. The audit then tested sample cash transactions to verify that identified controls were in place and operating effectively. Finally, to document how cash reports and records prepared by MPD are processed by other departments, the audit observed the Municipal Court and the Treasurer's Office processing records from MPD.

The objectives of the audit were to:

- Evaluate cash handling controls and procedures utilized by MPD.
- Evaluate timeliness and accuracy of deposits and accounting records related to cash receipts processed by MPD.
- Evaluate controls over parking permit stock and purchases.

II Background

The Milwaukee Police Department (MPD) accepts over-the-counter payments of cash, check and credit card transactions at nine locations – seven district stations, the Prisoner Processing Center (PPC), and Open Records (District 9). MPD's Traffic (District 9a) also processes payments mailed through U.S. Postal Service for night parking permits. Payments are processed for witness fees (received by police officers for court appearances), court fees, bail service fees, night and residential day parking permits, record and copy services, and fingerprint and miscellaneous services. In 2010, MPD processed \$764,000 for these services, eight percent of which was MPD revenue. Most of the cash collected by MPD, 92 percent, is collected for other City departments or forwarded to other jurisdictions. The two largest departments are the Parking Enterprise Fund in the Department of Public Works and the Milwaukee Municipal Court, which consist of 44 percent and 33 percent, respectively, of MPD collections. Fifteen percent of MPD collections are for other courts and jurisdictions.

During the past seven years, MPD and the Parking Enterprise Fund in the Department of Public Works (Parking Fund) have worked together to provide overnight parking permits (night permits) to City residents. This cooperative relationship began in 2004, when the Parking Fund began to install self-service kiosks in MPD district stations. Before 2004, MPD sold all parking permits. During the first three months of 2011, MPD collected less than four percent of the revenue from the sale of parking permits, with 96 percent of parking permit revenue collected by the Parking Fund.

III Audit Conclusions and Recommendations

A. MPD Cash Handling Controls and Procedures

Cash handling controls and procedures provide assurance that cash is adequately safeguarded and deposited, and that transactions are properly processed and recorded. Effective controls also protect employees from charges of misappropriating or misreporting cash. The audit identified key MPD cash handling controls, procedures that implement those controls, and reports and records that document MPD cash transactions. The audit evaluated the sufficiency of existing procedures, and tested a sample of transactions to verify key controls were in place and followed.

The audit found the following cash handling controls and procedures:

Written Procedures: MPD has well designed written cash handling procedures and standard forms for reporting cash collections. These procedures and forms provide consistent documentation of cash collections and establish employee accountability. With the exception of night parking permits, which are discussed in Section C below, the audit found MPD procedures have been implemented effectively and are sufficient.

Physical Security: To minimize the risk of loss or misuse of cash collected, MPD has implemented physical security procedures over cash that provide effective safeguards over cash collections and reporting. When a cash register is closed out at the end of the day, collected cash and checks are placed in a locked bank bag with a signed form that identifies the amount collected. These bank bags are stored in a secure location until an officer brings them to the Treasurer's Office each day, which limits the risk of theft.

Cash Registers: Cash registers accurately record transactions and provide controlled access, which minimizes the risk of inaccurately recorded transactions or misappropriated cash. Each over-the-counter sale is rung up on a cash register, and each sales transaction receives a cash receipt printed by the cash register. Cash registers are located in areas accessible to the cashier but not the public, and they are locked when not in use, with register keys stored in secure locations that are not accessible to the public. Each cash register is closed out daily, and register tapes are printed that capture all cash transactions for the day. MPD replaced its cash registers in 2010 with new registers that are more reliable and easier to operate than the old registers. Each of the three stations visited during the audit had written operating procedures for the new cash registers, which is important because the cashier role changes frequently.

Management Review & Reconciliation: MPD Budget and Finance staff provide management review and reconciliation controls, which further ensures transactions are accurately reported. They review daily reports to verify that revenues reported on detailed reports reconcile both to the daily summary reports and to reported cash collections. The Treasurer's Office, discussed in Section B below, also reconciles cash received to reported revenues.

Separation of Duties and Consistent Documentation: Standard summary cash forms are prepared daily by each MPD location, and key supporting documents are attached to the appropriate forms. The standard summary forms provide consistent and timely documentation to accurately record the various types of revenue collected by MPD, and supporting documents provide the details required by each affected jurisdiction for them to record the applicable court and/or bail activity that MPD processed. These daily reports are completed by the Night Desk Sergeant, who supervises the night shift but does not operate the cash register, which provides effective separation of duties.

Employee Accountability: Each district station maintains written officer shift assignment logs for each daily shift. These written logs identify the officer responsible for the cash register during each shift, which establishes accountability for accurately recorded cash transactions. MPD also requires any cash overage or shortage to be explained in a “matter of” memo written by the officer who was responsible for the cash register when the error occurred. This memo is submitted to the supervising Desk Sergeant, the Night Desk Sergeant, and MPD Budget & Finance. These procedures reduce the risk of cash being misappropriated.

In conclusion, with the exception of Parking Permits, discussed in Section C below, the audit found MPD cash handling controls and procedures to be sufficient and effective.

B. Timeliness and Accuracy of MPD Deposits and Records

The audit found MPD cash receipts are deposited timely and revenues are recorded timely in the City’s financial system (FMIS). Each MPD location places cash, checks and records of credit card payments in a locked bank bag, and bank bags are stored in a secure location until a sworn officer delivers them to the Treasurer’s Office on a daily basis.

The Treasurer’s Office unlocks each bag, recounts the cash and checks, and records the revenue received from each district station. The Treasurer’s Office then prints a cash receipt for each report received from MPD and returns the receipts to MPD Budget and Finance. The Treasurer’s Office deposits the cash and checks with their daily bank deposit and uploads summary revenue information into the City’s general ledger (FMIS).

A key control in the cash handling process is the management oversight provided by MPD Budget and Finance. The audit determined that MPD Budget & Finance receives the cash receipt from Treasury, but it does not compare the cash receipts from Treasury to the revenue reported by each MPD location.

Recommendation 1: Verify that Treasurer's Cash Receipts Agree with Revenue Reported by MPD

MPD Budget and Finance should reconcile the Treasurer's cash receipt to the revenues reported by each MPD location. Given that MPD Budget and Finance reviews the detailed support for cash collections, it is important that an additional step be added to match what Treasury actually deposited to MPD Budget and Finance's records, ensuring that they agree. This simple procedure would verify that revenues reported by MPD were accurately recorded and deposited by the Treasurer.

C. Controls over Parking Permit Sales and Stock

The third audit objective relates to an internal control weakness that KPMG, the City's independent auditing firm, reported to Common Council that the City does not reconcile "the number of permits distributed *to police stations*, number of permits sold, and the number of unsold permits as of year-end.¹"

All revenue from the sale of parking permits, including those sold by MPD, is credited to the Parking Enterprise Fund in the Administrative Services Division of the Department of Public Works (DPW). At this time, most night permits are sold by DPW. Between 2004 and 2010, parking permit revenue increased 35 percent from \$2.9 Million to \$3.9 Million.

Since DPW installed the first kiosks in 2004, MPD has sold fewer night permits from year to year. Over the counter sales at MPD district stations now occur only if the kiosk in the station is out of order. Night permit applications received through the mail, which are processed by District Station 9a, also has dropped significantly; before kiosks were installed, District 9a processed more than 12,000 permits each year, in 2010 they

¹ KPMG Management Letter, dated July 30, 2009, pg 8, *italics added*

processed fewer than 800 permits. For the quarter ended March 31, 2011, MPD sold less than four percent of total parking permit revenue.

The audit verified that MPD does not accurately reconcile sold or unsold pre-numbered permits. The audit also found several district stations do not return expired night permit stock to DPW. Rolls of expired night permit stock from 2009 and 2010 were found in two of the three district stations visited. When asked about the rolls of expired permits, officers explained they did not know how or where to return them.

While the audit focused on parking permits distributed to and sold by MPD district stations, only a small percent of night permits are purchased from MPD. Because night permits are designed, ordered, and distributed by DPW, we asked DPW about reconciling parking permits. The audit determined that no night parking permit stock is reconciled, not only those permits distributed to police stations. A letter of findings dated June 15, 2011, to the Commissioner of Public Works, discusses the need for a City-wide reconciliation of night parking permits; a copy of this letter was sent to the Chief of Police.

While MPD sells only a small percentage of night parking permits, in 2010, MPD collected more than \$325,000 from the sale of night permits. It is important to agree night permit revenues to parking permit numbers distributed to the public, to return unused permit stock to DPW, and to reconcile the number of permits sold, replaced, and returned to permits originally distributed by DPW. These controls will provide assurances both that permits were not given away and that revenues from the sale of permits were not misappropriated.

The recommendations below provide guidance on how MPD might reconcile night permit stock to reported permit revenues. After DPW develops written procedures and forms for night permits, we suggest MPD develop a memorandum of understanding with DPW to implement the procedures and forms they will develop for agreeing night permit stock to revenues and for returning unsold permits.

Recommendation 2: Reconcile Parking Permits Sold

To verify daily revenues for the sale of parking permits is accurate and complete, MPD

should require district stations to reconcile the number of permits reported sold with their reported revenue. The audit recommends that permit revenues reported on MPD Form PD-5 be reconciled to the permit numbers districts report distributed to the public.

Recommendation 3: Return Unsold Permit Stock to DPW with Reconciliation

When a night permit period ends and annual permit prices change at the end of every four months, each district station should return expired unsold permits to DPW, with a report that agrees permit stock originally delivered by DPW with permits sold, replaced and returned. A district station also may elect to reconcile permit numbers sold to reported permit revenue for the four months.

Recommendation 4: MPD Budget & Finance Division Review for Accuracy

MPD procedures should include a management review by MPD Budget and Finance to verify reported daily revenue is consistent with the permit numbers reported distributed by each district station, and verify returned permit stock is reconciled to permits distributed by DPW, sold, and replaced. This management review will ensure internal reconciliations are performed timely and accurately.



Police Department

Edward A. Flynn
Chief of Police

June 27, 2011

W. Martin Morics
City Comptroller
200 East Wells, 4th Floor
Milwaukee, WI 53202

RE: Audit of MPD Cash Handling
Response to Audit

Dear Mr. Morics:

This letter is in response to your Department's audit of the Milwaukee Police Department's (MPD) Cash Handling Procedures. This audit included the review of cash handling procedures and controls used at our District Stations and within the Budget and Finance Section.

In general, it appears that the MPD's cash handling procedures and controls are sufficient and effective. The audit does make several recommendations to improve our processes:

Recommendation No. 1: The MPD should verify that the Treasurer's Cash Receipts agree with our reported revenue.

The MPD agrees to have the Budget & Finance Section verify the City Treasurer's cash receipt entries for accuracy against the MPD's records.

Recommendation No. 2: The MPD should reconcile Parking permits sold.

Recommendation No. 3: The MPD should return unsold permit stock to DPW with reconciliation.

Recommendation No. 4: Budget & Finance should review permit data for accuracy.

The MPD will work with the DPW-Parking Division to address the issues raised in these recommendations. With less than 4% of the overall night parking permits being sold by the MPD, we will strive to make changes that are effective and reasonable to the overall process.

I would like to thank you and your audit staff for your very helpful analysis of this important function of our Department.

Sincerely,

EDWARD A. FLYNN
CHIEF OF POLICE

EAF:DFR