



**Auditor of State  
Betty Montgomery**



**CITY OF SANDUSKY MUNICIPAL COURT  
ERIE COUNTY**

**TABLE OF CONTENTS**

<b>TITLE</b>	<b>PAGE</b>
Schedule of Court Officials, Elected Commissioners, and City Officials .....	1
Independent Accountants' Report .....	3
Supplement to the Special Audit Report:	
Background Information .....	5
Issue No. 1 - Review of Operation Policies and Procedures.....	6
Issue No. 2 - Review of Case Files .....	9
Issue No. 3 - Review of Court Records .....	10
Issue No. 4 - Review and Comparison of Receipts and Deposits.....	12

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**CITY OF SANDUSKY MUNICIPAL COURT  
ERIE COUNTY**

**SCHEDULE OF COURT OFFICIALS, ELECTED COMMISSIONERS, AND CITY OFFICIALS  
As of August 9, 2002**

**Court Officials**

**Term**

Erich O'Brien, Municipal Court Judge	01/01/02 – 12/31/07
Peggy Rice, Clerk of Courts	
Ann Waddington, Deputy Clerk <sup>1</sup>	

**City Commissioners**

**Term**

Frank Valli	01/01/00 – 12/31/03
Leroy Sizemore	01/01/02 – 12/31/05
Suanne Brown	01/01/02 – 12/31/05
Frank Fosco	01/01/00 – 12/31/03
John Ginty	01/01/00 – 12/31/03
Michael Kresser	01/01/02 – 12/31/05
Al Mason	01/01/00 – 12/31/03

**City Officials**

Gerald Lechner, City Manager  
Ed Widman, Finance Director  
Don Icsman, Law Director

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<sup>1</sup> Ms. Waddington resigned on August 12, 2002, and was bonded by the United National Group for \$500,000.

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## Auditor of State Betty Montgomery

### INDEPENDENT ACCOUNTANTS' REPORT

James A. Stacey  
Presiding Judge, Sandusky Municipal Court  
City of Sandusky  
222 Meigs St.  
Sandusky, OH 44870-2837

Based on your request, we have conducted a special audit of the City of Sandusky Municipal Court, Erie County (the Court) by performing the procedures enumerated in the attached Supplement to the Special Audit Report for the period January 1, 2001 through August 9, 2002 (the Period), solely to identify whether control weaknesses exist and offer recommendations for improvement; identify case files with disposition descriptions that did not reconcile to amounts due or received on account; determine whether receipts were deposited intact and in a timely manner; ensure checks and money orders were appropriately credited to the correct case; and verify transactions were accurately included in all Court-maintained documents and records.

This engagement was conducted in accordance with consulting standards established by the American Institute of Certified Public Accountants. The procedures and associated findings are detailed in the attached Supplement to the Special Audit Report. A summary of our procedures and significant results is as follows:

1. Having obtained an understanding of Court procedures, we identified whether control weaknesses existed and offered recommendations for improvement.

Significant Results - We noted that no log of the mail receipts is made at the time the mail is opened, the Deputy Clerks' cash bags are not balanced individually with regard to cash and checks, there is no policy addressing procedures for handling overages in the cash drawer, personal checks are cashed without an established policy or management oversight, the computer system permits manual override of receipt processing, and the Court computer system does not require the type of tender received for payment to be entered during receipt processing.

We issued 6 Management Comments to address these weaknesses.

2. Working with the Court's computer software vendor, we sorted records to identify disposition descriptions which did not reconcile to the amounts due or received on account, and by user identification of Ann Waddington. We traced each one of these case files to the Court docket and to the hard-copy ticket and documented any variances.

Significant Results – We identified 51 cases for which no case file could be located. These 51 cases were investigated further in Issue No. 4.

We issued a Management Comment suggesting that the Court system include a validation check with regards to hearing dates. Instances were noted in which the hearing date entered to the system contained transpositions that set dates for hearing of "2200" and "2022" rather than "2002".

3. We verified that transactions were accurately included in Court-maintained documents and records.

Significant Results – Court transactions selected for review were accurately included in all Court-maintained documents and records.

4. We traced computerized case file receipts identified in Issue No. 2, to bank deposits to determine whether receipts were deposited intact and in a timely manner. We also haphazardly traced checks and money orders included in the daily deposits to the case files to ensure those checks and money orders were appropriately credited to the correct case file.

Significant Results – We considered a finding for recovery totaling \$4,978 against Ann Waddington and in favor of the City of Sandusky Municipal Court for public money converted or misappropriated; however, on April 1, 2003, prior to the release of this report, Ms Waddington remitted \$4,978 to the Municipal Court. As a result, we considered \$4,978 a finding repaid under audit.

5. On March 26, 2003, we held an exit conference with the following individuals:

Erich O'Brien, Municipal Court Judge  
Peggy Rice, Clerk of Courts

The attendees were informed that they had five business days to respond to this Special Audit Report. No response was received.

This report is intended solely for the information and use of the City of Sandusky and is not intended to be and should not be used by anyone other than these specified parties. However, reports by the Auditor of State are a matter of public record and use by other components of state government or local government officials is not limited.



**Betty Montgomery**  
Auditor of State

March 26, 2003

## Supplement to the Special Audit Report

### Background Information

Deputy Clerk Ann Waddington was sent home from work August 7, 2002, by Visiting Judge James Stacey, after it was discovered that she was \$302 short in her daily cash reconciliation for August 2, 2002. Kim Piotrowski, Deputy Clerk, was having difficulty balancing the total deposit for August 2, 2002. On August 5, 2002, Ms. Piotrowski counted all funds from each Deputy Clerk and discovered in Ann Waddington's funds 3 money orders that did not match any receipts issued for any cases on August 2, 2002. After removal of the 3 money orders, Ann Waddington's deposit was off by the \$302. Ms. Waddington offered to go to her bank and get money to reimburse the Court, left for awhile, and came back with the funds which were added to the deposit to balance by Candi Groh, Deputy Clerk. After discussions between the Visiting Judge and the Clerk of Courts, Peggy Rice, it was decided to inform Ann Waddington to leave work on August 7, 2002, and not to report to work starting August 8, 2002. On August 8 and 9, Ms. Waddington was seen in the office before normal business hours by a City of Sandusky employee. It was presumed that Ms. Waddington was possibly cleaning out her desk, which was nearly empty when the contents were examined on August 8, 2002.

On August 8, 2002, representatives from the Auditor of State's Office met with Robert Schultz, Director of Administrative Services, to discuss the discrepancies in the cash reconciliation. After Ms. Waddington was sent home from work on August 7, allegations were made that she may have removed checks and money orders from the mail and used them to replace cash payments she misappropriated. Following Ms. Waddington's separation, the Court noted cases for which checks or money orders had been submitted were not processed in the computerized case files as paid and several tickets were found on Ms. Waddington's desk with post-it notes on them stating "hold until 8/09".

We performed a preliminary review of the discrepancies identified by the City. We verified the deposit for August 2, 2002, did not balance until Ann Waddington paid \$302 in cash to make up for three money orders for which no payment was recorded in the Court's financial records. We also reviewed additional cases presented to us by Deputy Clerk Kim Piotrowski, and Deputy Clerk Candi Groh. These cases had waivers entered to the system; however, no payments or amounts due were noted which indicated a possible manual override of the receipt processing system occurred.

We received a letter from Visiting Judge Stacey dated August 9, 2002, formally requesting that we perform a Special Audit of the Sandusky Municipal Court.

On August 12, 2002, Ann Waddington resigned her position as a Deputy Clerk in the City of Sandusky Municipal Court.

All of the above information was presented to the Auditor of State's Special Audit Committee and on August 14, 2002, the Committee voted to initiate a Special Audit of the City of Sandusky Municipal Court.

## Supplement to the Special Audit Report

### Issue No. 1 – Review of Operational Policies and Procedures

Having obtained an understanding of Court procedures, we identified whether control weaknesses existed and offered recommendations for improvement.

#### Procedure

1. We interviewed Deputy Clerks Kim Piotrowski and Candi Groh and reviewed operational policies and procedures exercised by the Court. We also performed a walk-through to gain an understanding of the process for: a) entering tickets into the Court computer system; b) collecting payments from offenders; c) recording payment information in the computer system; d) creating the case files; e) documenting the actions of the Court in the case files; f) reconciling the daily cash drawer(s) to the computer system; and g) preparing daily deposits.

#### Result

1. The results of our interviews and walk-through of internal controls identified the following weaknesses in the design of internal controls:
  - Receipts received by mail are not logged.
  - Cash envelopes maintained by Deputy Clerks are not reconciled on an individual basis with regard to check and cash totals.
  - The Court policy regarding cash shortages should be modified.
  - The Court has no formal policy regarding overages in employee cash envelopes.
  - The Court allowed employees to cash personal checks using court receipts.
  - The Court computer system permits manual override of the case disposition.
  - The Court computer system does not require the type of tender received (i.e., cash, check, credit card) to be entered when processing a receipt, nor do Court personnel follow-up to ensure the type of tender received is entered to the system.

#### Management Comments

##### Logging of Mail Receipts

The Court has established an internal control procedure in which payments received by mail for bond, waivers or other fines due to the Criminal and Traffic Division are opened by an employee from a separate division of the Municipal Court. However, the employee opening the mail does not prepare a log of the total mail receipts received. The failure to log receipts increases the risk that funds may be misappropriated and go undetected.

Employees opening mail should prepare a log detailing the amount received and the payee. At the end of the business day, a Court employee independent of receipt processing for the Criminal and Traffic Division, should review the daily cash reports to verify mail receipts have been entered into the Court's accounting system in the correct amounts and to the credit of the proper payee. Discrepancies should be investigated and resolved by the Clerk of Courts. Log sheets should then be retained for audit to document performance of this procedure.

##### Reconciling of Deputy Clerk's Cash Bags

Each Deputy Clerk in the criminal division has his or her own cash envelope that is used to account for receipts processed by that clerk. These envelopes are not balanced individually with regard to the total of cash and checks contained in the bag compared to cash and checks per the daily cash report. Currently the funds in all envelopes are commingled, and provided that the total funds on hand match the total per the daily cash report, the deposit is made. While the maintenance of separate cash envelopes provides for a useful means of monitoring individual accountability for receipts collected by the Deputy Clerks, the failure to balance envelopes individually effectively eliminates this benefit. Totaling the cash envelopes without regards to

## **Supplement to the Special Audit Report**

verifying that total checks and cash on hand agree to total checks and cash noted as received increases the risk that shortages of cash are concealed.

The large volume of transactions processed by the Criminal and Traffic Division does not permit responsibility for the verification of daily cash envelopes to be handled by one individual. The responsibility for verifying individual cash envelopes should be performed by each Deputy Clerk reviewing the envelope of another Deputy Clerk. The reviewing Deputy Clerk should verify that total checks and cash on hand agree to the checks and cash accepted for processing based on the daily cash report. Discrepancies should be discussed and investigated between the clerks involved and brought to the attention of the Clerk of Courts for resolution.

### Policy for Overage/Shortage of Funds

The Court established a policy that required Deputy Clerks to replace any shortage in their deposit with their own personal funds. Overages are placed in a safe and used to cover future shortages. This policy does not require follow-up in order to determine the cause of the shortage or overage. By allowing individuals to make up shortages with their own funds, without follow-up on the cause of the shortage, management creates an environment in which shortages are deemed acceptable provided they are made up by the individual. This system is inherently flawed since it does nothing to discourage an employee from removing funds from their cash envelope because the only apparent ramifications to a shortage in funds is for the employee to contribute their own funds, provided the shortage is discovered in the first place, and results in no further action. Further, a shortage or overage indicates inaccurate information for a particular case may have been recorded in the Court's system.

A formal policy should be established for the handling of shortages and overages including follow-up procedures to be performed in the event of a shortage or overage. Procedures for follow-up should include identifying the nature and cause of the discrepancy as well as any actions taken to ensure this situation does not occur in the future. These follow-up actions should be documented and maintained by the Court to determine if shortages or overages are the result of isolated incidents or possible indications of other more serious problems.

### Personal Check Cashing Policy

The Court had an unwritten policy that permitted Deputy Clerks to cash personal checks from their cash envelopes. Amounts were not to exceed \$20; however, responsibility for verifying compliance with the policy was not fixed with any employee of the Municipal Court. Further, there was no oversight to ensure funds were disbursed in proper amounts. This lack of oversight permitted instances in which checks were cashed for amounts in excess of the \$20 threshold. Also, non-sufficient funds checks could be deposited and held for several days as a loan. Court employees have stated that no personal checks have been cashed in this manner since August 2002.

We recommend that the Court establish a policy specifically prohibiting this type of activity from taking place.

### Manual Override of Case Disposition

The Court computer system is integrated to limit the number of duplicate entries required to process a transaction. For example, receipt processing is an on-line procedure such that as a receipt is entered to the system, an entry is also recorded in the cash book and docket limiting to need for the user to re-enter this data. The computer system also generates a listing of cases for which no payments have been received in order to send the cases to collections. However, the system permits a manual entry to be made for case dispositions without processing through the receipt screen. While the docket will contain a notation that the disposition was entered, the system will not include this receipt in the daily cash reports since the receipt was not processed through the receipt entry screen, and the system will not pick-up this case for submission to collections. This situation permitted dispositions and/or receipts to be keyed to the computer system manually for which funds were misappropriated. This prevented the system from generating a notice that receipts had not been received and sending the case for collection or possibly holding up the defendant's driver's license renewal.

## **Supplement to the Special Audit Report**

The Municipal Court should work with the computer vendor to prevent Deputy Clerks from manually overriding the receipt processing system.

### Tender Received

The Court computer system permits the Deputy Clerk receiving the payment to enter the type of tender received such as cash, money order, check or credit card; however, the system does not require this entry nor do Municipal Court personnel follow-up to ensure this information is being recorded. By not including the proper tender, the system does not report the true activity of the Court. It also prevents the Court from reconciling the monies received to monies deposited to verify the monies were deposited intact.

We recommend each time tender is received, the Deputy Clerk enter the type of tender received. In addition, the Municipal Court should work with the computer vendor to prevent Deputy Clerks from processing a receipt if a type of tender has not been entered.

## Supplement to the Special Audit Report

### Issue No. 2 – Review of Case Files

Working with the Court's computer software vendor, we sorted records to identify disposition descriptions which did not reconcile to the amounts due or received on account, and by user identification of Ann Waddington. We traced each of these case files to the Court docket and to the hard copy ticket and documented any variances.

#### Procedure

1. We obtained copies of the Court's computerized case-file data base. Using those files, we sorted records to identify disposition descriptions which did not reconcile to the amounts due or received on account, or which had been processed by Ann Waddington, as indicated by her user identification. For the identified records, we traced each case number to an applicable hard-copy case file, Court docket, and a physical copy of the ticket.

#### Result

1. There were 467 cases with disposition descriptions which did not reconcile to amounts due or received, all of which were processed by Ms. Waddington. Of the 467 identified, 51 cases were noted for which no case file could be located, no hard copy of the ticket was available, and the docket entry indicated a disposition of the case. These 51 cases were reviewed further in Issue No. 4. The remaining 416 cases were resolved with legitimate waivers or other resolution.

There were 6 occasions in which the hearing date entered to the system contained transpositions that set dates for hearings of "2200" and "2022" rather than "2002". The lack of a validation check on hearing dates results in the system not tracking failure to appear or notice of hearing.

#### Management Comment

##### Data Validation Checks

Six instances were noted in which the hearing dates for cases were entered as "2200" or "2022" rather than "2002". Hearing dates are entered to the system manually as Deputy Clerks enter ticket information. The lack of validation checks by the computer system allows instances for incorrect data to be entered and remain undetected. This situation resulted in the Court system failing to identify cases for which a defendant did not appear as the hearing date would not have been scheduled.

The Municipal Court should work with the computer vendor to prevent clearly inaccurate data from being inputted and accepted for processing.

## Supplement to the Special Audit Report

### Issue No. 3 – Review of Court Records

We verified that transactions were accurately included in Court-maintained documents and records.

#### Procedures

1. We selected 30 transactions from the docket and traced those transactions to the duplicate receipt, case file, ticket, and cashbook to determine whether the transactions were receipted, a case file was created, information agreed to the ticket issued, and the information on the docket agreed to the posting in the cashbook.
2. We selected 30 transactions from the case file and traced those transactions to the duplicate receipt, docket, ticket, and cashbook to determine whether the transactions were receipted, recorded in the docket, the information agreed to the ticket issued, and the information in the case file agreed to the posting in the cashbook.
3. We selected 30 transactions from the duplicate receipts and traced those receipts to the docket, case file, ticket, and cashbook to determine whether the transactions were recorded in the docket, a case file was created, the receipt amount agreed to the ticket issued, and to the posting in the cashbook.

#### Results

All transactions selected for review were accurately included in Court-maintained documents and records. Our sample selection included items processed by each of the Deputy Clerks, including Ms. Waddington.

## Supplement to the Special Audit Report

### Issue No. 4 – Review and Comparison of Receipts and Deposits

We traced the computerized case file receipts identified in Issue No. 2 to bank deposits to determine whether receipts were deposited intact and in a timely manner. We also haphazardly traced checks and money orders included in the daily deposits to the case files to ensure those checks and money orders were appropriately credited to the correct case file.

#### Procedures

1. We traced payments from each case identified in Issue No. 2, Procedure No. 1, to the applicable daily deposit.
2. Using bank-stamped deposit tickets and supporting documents (i.e., bank copies of checks and money orders), we haphazardly selected 20 days during the Period and traced all checks and money orders included in that day's deposit to the applicable case files.

#### Results

1. For the 51 cases processed by Ann Waddington where a case file could not be located, the Court computer system did not indicate a payment had been received for the case; however, money orders for the cases had been included in the Court deposits. The money orders had been included to make up cash shortages in Ms. Waddington's daily reconciliation. The remaining 416 cases identified in Issue No. 2, Procedure No. 1, were traced to a case file, confirmed as having an accurate disposition, and recorded in the daily cash reports which were reconciled to the daily deposits.

Oran's Dictionary of the Law defines lapping as "stealing or borrowing from an employer by taking money paid by a customer, not recording the payment, then covering the theft by putting the next customer's payment into the first's account, and so on." Loosely translated and applied to the Sandusky Municipal Court, this means cash was received and not recorded (i.e., not deposited and/or credited to the proper payee) on the date of the transaction, then the theft was covered by using subsequent cash and money orders to make up the prior day's book of business.

Using the definition of lapping in Montgomery Auditing Guide as a basis, the following is an explanation of the process used by Ms. Waddington to perpetrate a lapping scheme:

Cash shortages were concealed by manipulating money orders received in the mail. Ms. Waddington was able to lap funds because each Deputy Clerk has exclusive access to his or her own cash bag and was responsible for performing the reconciliation of his or her own bag without supervision, verification, or oversight. This lack of segregation of duties is a strong indicator that a fraud could be perpetrated in this area. Additionally, the close working quarters of the Deputy Clerks and lack of documenting and securing mail receipts permitted the lapping to occur.

Specifically, Ms. Waddington perpetrated lapping in the following manner: She removed cash from her daily deposits, and while preparing the reconciliation of her cash bag, she misappropriated the cash receipts. When other Deputy Clerks were away from their desks, Ms. Waddington removed money orders from their daily activity, prior to that activity being recorded in the Court computer system, and used those money orders to replace the amount of cash misappropriated from her original collection. The Court's computer system allowed for manual overrides of case disposition information, which Ms. Waddington used to accept money orders and enter a manual disposition for the case.

Usually, lapping must continue indefinitely, or until the total cash shortage is replenished; however, since Ms. Waddington was able to override the computer system and falsely document a receipt of funds which she misappropriated, her repeated thefts may never have been detected. It is imperative that the Court take appropriate measures to ensure manual overrides of receipt and case dispositions be stopped.

## **Supplement to the Special Audit Report**

On October, 11, 2002, staff from the Auditor of State's Office met with Ms. Waddington and her attorney. She provided a listing of cases where she admitted that she replaced money orders for cash. The cases we identified in Issue No. 2 agreed to the listing of cases that was provided to us by Ms. Waddington. She also provided us with the original tickets and the envelopes in which payments had been received by the Court. The total cash misappropriated was \$4,978, for which we will issue a Finding for Recovery against Ann Waddington, and in favor of the City of Sandusky Municipal Court.

2. Of the 20 days' deposit activity which we reviewed, no unusual items were found that had not already been identified in Issue No. 2, Result No. 1.

### **Finding for Recovery Repaid Under Audit**

Ohio Traffic Rule 13(A) states "each court in Ohio is to establish a traffic violations bureau. ... The court shall appoint its clerk as violations clerk. Fines and costs shall be paid to, receipted by and accounted for by the violations clerk." We are issuing a finding for recovery against Ann B. Waddington, for public monies converted or misappropriated, for the following reason:

Ann Waddington was responsible for accepting, recording, and reconciling her own daily receipts in the Municipal Court. During the Period, Ms. Waddington misappropriated cash funds received on 51 cases which she processed. For each of these cases, the Court computer system indicated a disposition had been entered; however, no funds had been received for the case. For all 51 cases, unrelated money orders were located in the deposits of the City of Sandusky Municipal Court, indicating a misappropriation of cash by Ann Waddington. During an interview, Ms. Waddington admitted that she substituted money orders for cash payments.

We proposed a finding for recovery against Ann Waddington in the amount of \$4,978, for public monies converted or misappropriated. On April 1, 2003, Ms. Waddington remitted \$4,978 to the Court. Accordingly, we consider this a finding repaid under audit.



**Auditor of State  
Betty Montgomery**

88 East Broad Street  
P.O. Box 1140  
Columbus, Ohio 43216-1140

Telephone 614-466-4514  
800-282-0370

Facsimile 614-466-4490

**CITY OF SANDUSKY MUNICIPAL COURT**

**ERIE COUNTY**

**CLERK'S CERTIFICATION**

**This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.**

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MAY 7, 2003**