

COURT OF APPEAL, THIRD CIRCUIT
STATE OF LOUISIANA



FINANCIAL AUDIT SERVICES
PROCEDURAL REPORT
ISSUED JUNE 26, 2019

**LOUISIANA LEGISLATIVE AUDITOR
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Louisiana Legislative Auditor

Daryl G. Purpera, CPA, CFE

Court of Appeal, Third Circuit



June 2019

Audit Control # 80190048

Introduction

The primary purpose of our procedures at the Court of Appeal, Third Circuit (Court) was to evaluate certain controls the Court uses to ensure accurate financial reporting, compliance with applicable laws and regulations, and to provide accountability over public funds.

Results of Our Procedures

We evaluated the Court's operations and system of internal control through inquiry, observation, and review of its policies and procedures, including a review of the applicable laws and regulations. Based on the documentation of the Court's controls and our understanding of related laws and regulations, and the results of our analytical procedures, we performed procedures on selected controls and transactions relating to self-generated revenue, payroll expenditures, information technology expenditures, and information technology infrastructure.

Current-report Findings

Weakness in Controls over Payroll

The Court does not have adequate documentation to support employees' pay increases given during July 1, 2017, through December 31, 2018. As a result, there is an increased risk that employees may be paid the improper amount.

Procedures on four of 13 (31%) employees who received pay increases revealed that employees' records did not contain written authorization for raises, promotions, or performance evaluations to support merit increases. Management does not have a written policy that requires the retention of documentation in employee records related to increase in an employee's rate of pay, justification and approval for promotion, and performance evaluations to support merit increase. Good internal control requires the retention of adequate documentation that supports employees' pay.

Management should develop and execute control policies to ensure adequate documentation is maintained to support all payroll increases given its employees. Management disagreed with the

finding but outlined a plan of corrective action to include additional documentation such as written approval via letter or email and/or performance evaluations (see Appendix A, page 1).

Additional Comments: In management’s response, it noted that all salaries, effective dates, and changes are documented in the employees’ personnel files. The changes documented in the employees’ personnel file were a list of dates and salaries written on the front of the personnel folder with no authorization documented for the changes.

Inadequate Controls Over Information Technology Expenditures

The Court does not have adequate controls over information technology expenditures. The Louisiana Supreme Court’s Judicial Budgetary Control Board requires that expenditures of the Courts of Appeal be in accordance with “the rules of the respective chief judge or judicial agency head.” The Court’s operating procedures state that small purchases receive verbal approval and the invoice or packing slip is signed indicating receipt of the good or service. However, the Court has not developed written rules describing the procedures and approvals required for expenditure of funds or established an amount that is considered a small purchase.

In a test of information technology expenditures, 11 of 15 (73%) expenditures lacked written authorization to initiate the purchase of goods or services. These transactions were for expenditures of \$1,050; \$2,048; \$8,114; and eight transactions less than \$500 each. In addition, 12 of 13 (92%) expenditures totaling \$77,638 lacked written documentation acknowledging the receipt of goods or services. Inadequate controls over information technology expenditures increase the risk of fraudulent or erroneous disbursements and increase the risk that the Court will be noncompliant with budget restrictions.

Management should develop and execute control policies to ensure information technology expenditures are appropriately approved and purchased goods or services are received. Management disagreed with the finding but outlined a plan of corrective action (see Appendix A, page 2).

Lack of Segregation of Duties Over Revenue and Payroll Functions

The Court does not have adequate segregation of duties over revenue and payroll functions or independent monitoring over these functions. Lack of segregation of duties and independent monitoring increase the risk that funds will be fraudulently or erroneously disbursed or misappropriated. However, no significant errors or fraud were identified during our procedures.

Current accounting practices within the Court allow the same employee access to record revenue transactions in the accounting and case management system and prepare cash for deposit. The same employee also reconciles the accounting and case management system and reconciles the bank statements. In addition, this employee can add employees to the payroll system, input pay rates for employees, input hours worked into the system, generate the automated clearing house file for direct deposit and submit it to the bank for processing. These functions are performed without subsequent review and approval by a supervisor.

Management should develop and implement written policies and procedures to establish safeguards that would maintain appropriate segregation of duties or controls that mitigate the risk of error or misappropriation over the revenue and payroll functions. Management disagreed with the finding but outlined a plan of corrective action (see Appendix A, page 3).

Inadequate Security and Monitoring of Information Technology Infrastructure

The Court does not have adequate security and monitoring of information technology infrastructure, including third-party service organizations providing information technology related services. Inadequate security and monitoring of information technology infrastructure increases the risk that data could be inappropriately modified, lost, or fraudulent transactions processed. Such occurrence could result in disruption of services and/or significant expenditures associated with events that could have been mitigated or prevented had proper controls been in place.

Procedures performed revealed the following weaknesses over the following areas:

Accounting System

- Two employees had full access to all functions in the accounting system. Access that would allow one employee to change/process a transaction through the system without system approval from another employee or mitigating controls could compromise the integrity of the data.
- One generic username was active for information technology employees with read and write privileges to all major modules in the Court's accounting software.

Case Management System

- Four usernames were active on the case management system for terminated employees 1.6 to 3.8 years after the employees' ceased working for the Court.
- Two generic usernames (not assigned to an individual) had access to the case management system.
- One Court employee had two active usernames.
- One individual, who was a previous third-party programmer, had three active usernames in the case management system.
- The Court was unable to provide information on what functions are allowed by user accesses to evaluate business need for such accesses.

Servers

- The Court did not have procedures to monitor who was accessing the servers or changes made.

- Two usernames were active on the servers for terminated employees 1.7 to 3.9 years after the employees' ceased working for the Court.
- Four generic usernames had access to the servers.

Contracted Information Technology Services

The Court contracted with a third-party for information technology services that provided helpdesk support, maintained the servers, and provided backup for the servers. This contractor used a subservice organization to provide these backups of the Court's information systems. The Court was not monitoring changes the vendor made to the servers and did not obtain and review an independent third-party review report, which would minimize the risk of inappropriate changes or exposure of the Court's information.

Management should develop and implement policies and procedures regarding the creation, deactivation, and business need of user IDs over the Court's servers and software applications. Management should also monitor and approve changes a third-party contractor makes to the Court's servers, as well as, obtain and review an independent third-party review report for Court's data being maintained or processed on a third-party's system. Management disagreed with the finding but outlined a plan of corrective action (see Appendix A, pages 4-5).

Self-generated Revenue

The Court's operations are funded through appropriations and self-generated (nonappropriated) revenues from filing and copy fees authorized and determined by Louisiana Revised Statute (R.S.) 13:352, R.S. 13:86, and R.S. 13:10.3. Filing fees per the statutes range from fifty cents to \$300 and fifty cents per copy; however, R.S. 13:352 and R.S. 13:10.3 allow certain fee increases.

Self-generated revenues represent approximately 3% of the Court's total revenues for the fiscal year ended June 30, 2018. We performed a test of self-generated revenues for a sample of 17 cases from July 1, 2017, through December 31, 2018, to ensure fees were assessed and collected in accordance with authorized rates, recorded into the case management and accounting systems, and reconciled to amounts deposited or that there was adequate support for exemptions. Except as noted in the Current-report Findings section, the Court had adequate controls in place to ensure that fees were properly assessed, collected, recorded in the accounting system, and reconciled to amounts deposited.

Payroll Expenditures

Based on the significance of payroll expenditures at the Court, we tested a sample of 14 employees from July 1, 2017, through December 31, 2018, to determine whether employees are paid at their authorized rates, time and attendance and leave records are properly authorized, and leave is accurately accrued. Based on the results of our procedures, except as noted in the Current-report Findings section, the Court had adequate controls in place to ensure timely review

and approval of employee time statements and leave requests, employees were paid the amounts authorized, and leave taken was properly accounted for.

Information Technology Expenditures

Based on risks identified, we tested a sample of 10 information technology expenditures and all expenditures to vendors with information technology contracts from July 1, 2017, through December 31, 2018, to determine whether transactions were properly authorized, supported, received, and recorded in the accounting system. Based on the results of our procedures, the Court does not have adequate controls over information technology expenditures (see Current-report Findings).

Information Technology Infrastructure

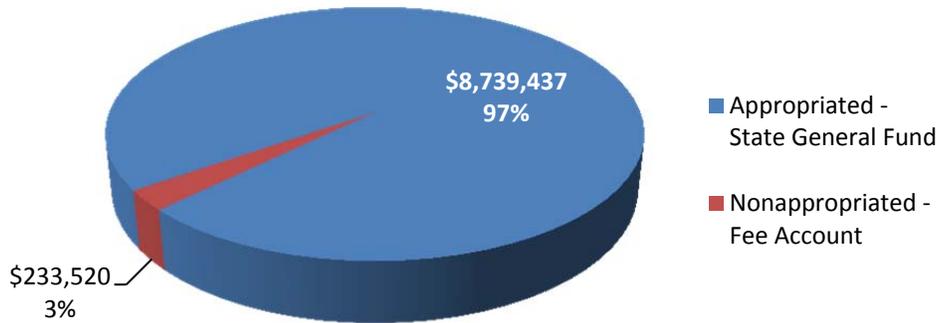
Based on risks identified, we reviewed the Court's procedures to award and monitor information technology contracts and to grant and monitor user access to the Court's accounting system, case management system, and servers. Based on the results of our procedures, the Court does not have adequate security and monitoring of information technology infrastructure (see Current-report Findings).

Trend Analysis

We compared the most current and prior-year financial activity using the Court's Annual Fiscal Reports and/or system-generated reports and obtained explanations from the Court's management for any significant variances. We prepared an analysis of the Court's fiscal year 2018 sources of revenues and fiscal year 2018 expenditures. We also prepared an analysis of expenditures from fiscal year 2015 to 2018.

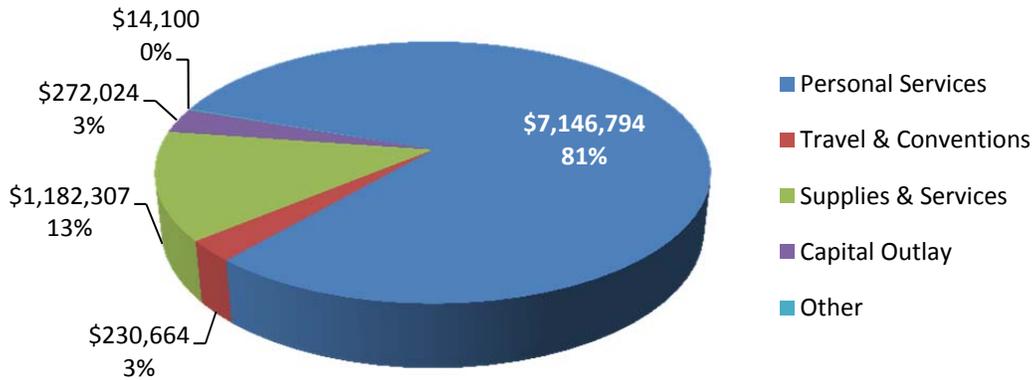
The Court is funded with state general fund appropriations, fees in accordance with R.S. 13:352, fees for the Judicial college in accordance with R.S. 13:86, and fees for the Judges' Supplemental Compensation Fund in accordance with R.S. 13:10.3. State appropriations and fees collected are used to fund salaries and related benefits, travel and conventions, operating supplies and services, and capital outlay. Salaries and related benefits are the most significant expenses of the Court. Supplies and services expenditures increased in fiscal year 2018 as a result of two new contracts for services.

Exhibit 1
2018 Sources of Revenue
Total: \$8,972,957



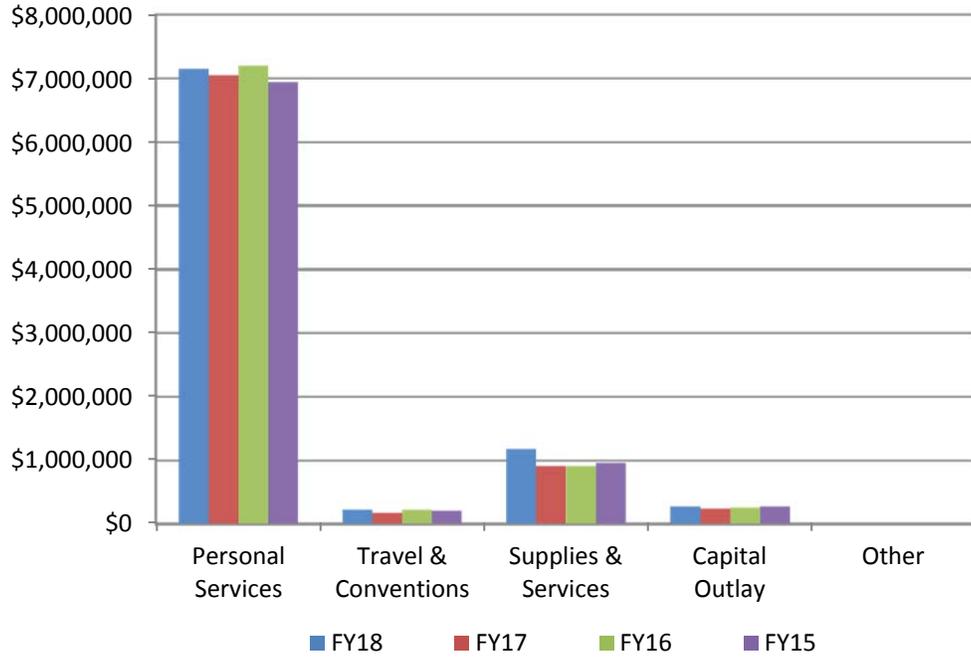
Source: 2018 Annual Fiscal Report

Exhibit 2
2018 Expenditures
Total: \$8,845,889



Source: 2018 Annual Fiscal Report

Exhibit 3 Four-Year Expenditure Trend



Source: 2015 to 2018 Annual Fiscal Reports

Under Louisiana Revised Statute 24:513, this letter is a public document, and it has been distributed to appropriate public officials.

Respectfully submitted,

Daryl G. Purpera, CPA, CFE
Legislative Auditor

EJB:RJM:BH:EFS:aa

THIRD CCA 2019

APPENDIX A: MANAGEMENT'S RESPONSES



ULYSSES GENE THIBODEAUX
CHIEF JUDGE

Court of Appeal, Third Circuit
STATE OF LOUISIANA

P. O. Box 16577
Lake Charles, LA 70616
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May 30, 2019

Mr. Daryl G. Purpera, CPA, DFE
Legislative Auditor
P. O. Box 94397
Baton Rouge, LA 70804-9397

Dear Mr. Purpera:

With regards to the finding entitled "Weakness in Controls over Payroll," the Court disagrees and provides the following response:

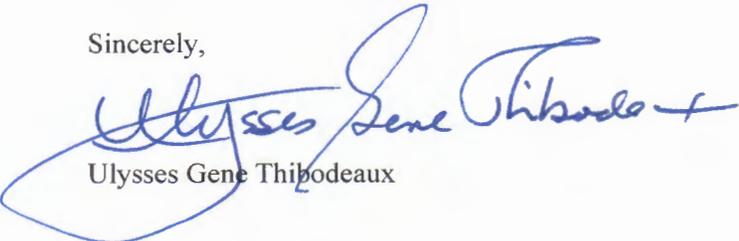
All salaries, effective dates and changes are documented in the employees' personnel files and are consistent with the mandates, policies and procedures outlined in the Human Resources Manual for the Louisiana Supreme Court and Courts of Appeal. Communication is directly with the Chief Judge who communicates any changes to the Business Services Manager to implement. All of the Chief Judge's recommendations are made after consultation with his colleagues on the Court.

However, the Court shall implement a written policy to require additional documentation such as written approval via letter or email and/or performance evaluations for changes in pay rate.

Ms. Viki Robles, Business Services Manager, shall be the contact person responsible for the corrective action.

This shall be effective July 1, 2019.

Sincerely,



Ulysses Gene Thibodeaux



ULYSSES GENE THIBODEAUX
CHIEF JUDGE

Court of Appeal, Third Circuit
STATE OF LOUISIANA

P. O. Box 16577
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May 30, 2019

Mr. Daryl G. Purpera, CPA, DFE
Legislative Auditor
P. O. Box 94397
Baton Rouge, LA 70804-9397

Dear Mr. Purpera:

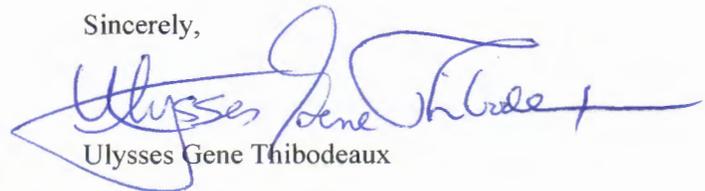
With regards to the finding entitled "Inadequate Controls Over Information Technology Expenditures," the Court disagrees and provides the following response:

The Court acknowledges these purchases were granted verbal approval by the Chief Judge, Judges on the IT Committee or the Clerk of Court and were all legitimate purchases. Since the Court's operating procedures do not define "small purchase" we feel this finding is not warranted.

The Court has approved and implemented a Procurement Policy as of April 24, 2019 to clarify procedures and amounts required for written approval.

Ms. Viki Robles, Business Services Manager, and Dennis Hinrichs, IT Director, shall be the contact persons responsible for the corrective action.

Sincerely,



Ulysses Gene Thibodeaux



ULYSSES GENE THIBODEAUX
CHIEF JUDGE

Court of Appeal, Third Circuit
STATE OF LOUISIANA

May 30, 2019

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Mr. Daryl G. Purpera, CPA, DFE
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Baton Rouge, LA 70804-9397

Dear Mr. Purpera:

With regards to the finding entitled "Lack of Segregation of Duties over Revenue and Payroll Functions," the Court disagrees and provides the following response:

The Payroll & Revenue duties performed are specifically stated in the job description of this position as established by the Judicial Administrator's Office of the Supreme Court of Louisiana. The following are excerpts of specified duties pertaining to comments above:

- Examines, reconciles, balances and adjusts accounting records
- Performs all payroll functions
- Serves as personnel representative, maintains all relevant records and performs all personnel management functions related to payroll and benefits
- Performs all duties relative to payables, cash disbursements, receivables and bank deposits of withheld payroll taxes and various receipts of cash/checks

In addition, these duties in question have always been performed by an employee who holds the position and have not been questioned in the past. Moreover, the Third Circuit Court of Appeal is subject to the supervisory authority of the Louisiana Supreme Court. It is bound by Supreme Court directives as articulated in the Business Services Manager's job description. The finding compels us to deviate from those directives.

While the Court disagrees with this finding, the Court is willing to take corrective action by having the Clerk of Court review and sign off on the ACH/Direct Deposit transmissions of payroll to our banking institution and designate another employee to record revenue transactions in the case management system.

Ms. Viki Robles, Business Services Manager, and Ms. Reneé Simien, Clerk of Court, shall be the contact persons responsible for the corrective action.

This shall be effective July 1, 2019.

Sincerely,


Ulysses Gene Thibodeaux



ULYSSES GENE THIBODEAUX
CHIEF JUDGE

Court of Appeal, Third Circuit
STATE OF LOUISIANA

May 30, 2019

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Dear Mr. Purpera:

With regards to the finding entitled "Inadequate Security and Monitoring of Information Technology Infrastructure," the Court disagrees and provides the following response:

The Court is currently in the process of implementing a new case management system that will include multiple layers of security. In addition to being tied to active directory user accounts, there will be a second level of database security. Only controls, functions of business need will be granted access. The date of completion is unknown at this time.

With respect to terminated employees and access to the Court's case management system, the Court has now removed those employees from access to the Court's systems. However, there was not a time that security of the court's technology infrastructure was compromised as a result of these accounts being maintained. Upon employee termination, proper security measures were immediately taken. Passwords were reset using industry standard strong password implementation, email forwarding was disabled on user email accounts, and access to our Citrix remote software was disabled.

At the time of the audit, the Court was in the process of evaluating the services of the third-party providers including taking steps to limit access to the Court's IT systems and reviewing the third-party vendor's policies and controls. However, as of June 1, 2019, the Court has terminated the third-party contract and employed an IT Director to further manage all aspects of the Court's technology and case management operations.

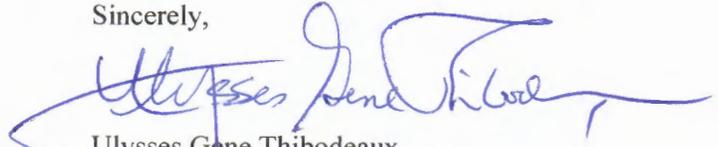
Our Court's accounting department consists of two (2) employees, each of whom has to be able to perform the other's job functions in the event of extended leaves, absences, sickness or emergencies. This practice is standard among all appellate courts. Although the Accounts Payable employee does not actively use the payroll input modules, the payroll reporting module is used to generate reports based on employees' deductions for items such as retirement, group insurance, etc.

Effective immediately, the court has established a procedure to deactivate user accounts immediately upon termination and take ownership of any court owned cloud accounts, email accounts, service accounts or any other accounts created by the user as part of court employment but not readily

managed within the court's technology department. Dennis Hinrichs, our Court's IT Director, shall be the contact person responsible for the corrective action.

Also, the Clerk of Court, Ms. René Simien, shall now exercise oversight over the accounting system and its employees and any change in a process or transaction. The Clerk of Court, Ms. René Simien, Ms. Viki Robles, Business Services Manager, and Dennis Hinrichs, IT Director, shall be the contact persons responsible for the corrective action vis-à-vis the accounting system.

Sincerely,



Ulysses Gene Thibodeaux

APPENDIX B: SCOPE AND METHODOLOGY

We performed certain procedures at the Court of Appeal, Third Circuit (Court) for the period from July 1, 2017, through June 17, 2019. Our objective was to evaluate certain controls the Court uses to ensure accurate financial reporting, compliance with applicable laws and regulations, and to provide accountability over public funds. The scope of our procedures, which is summarized below, was significantly less than an audit conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. We did not audit or review the Court's Annual Fiscal Reports, and accordingly, we do not express an opinion on those reports. The Court's accounts are an integral part of the state of Louisiana's financial statements, upon which the Louisiana Legislative Auditor expresses opinions.

- We evaluated the Court's operations and system of internal controls through inquiry, observation, and review of its policies and procedures, including a review of the laws and regulations applicable to the Court.
- Based on the documentation of the Court's controls and our understanding of related laws and regulations, and the results of our analytical procedures, we performed procedures on selected controls and transactions relating to self-generated revenue, payroll expenditures, information technology expenditures, and information technology infrastructure.
- We compared the most current and prior-year financial activity using the Court's Annual Fiscal Reports and/or system-generated reports to identify trends and obtained explanations from the Court's management for any significant variances that could potentially indicate areas of risk.

The purpose of this report is solely to describe the scope of our work at the Court and not to provide an opinion on the effectiveness of the Court's internal control over financial reporting or on compliance. Accordingly, this report is not intended to be, and should not be, used for any other purpose.