

COURT OF APPEAL, FIFTH CIRCUIT
STATE OF LOUISIANA



FINANCIAL AUDIT SERVICES
PROCEDURAL REPORT
ISSUED JULY 26, 2021

**LOUISIANA LEGISLATIVE AUDITOR
1600 NORTH THIRD STREET
POST OFFICE BOX 94397
BATON ROUGE, LOUISIANA 70804-9397**

LEGISLATIVE AUDITOR
MICHAEL J. "MIKE" WAGUESPACK, CPA

FIRST ASSISTANT LEGISLATIVE AUDITOR
ERNEST F. SUMMERVILLE, JR., CPA

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Louisiana Legislative Auditor

Michael J. “Mike” Waguespack, CPA



Court of Appeal, Fifth Circuit

July 2021

Audit Control # 80210047

Introduction

The primary purpose of our procedures at the Court of Appeal, Fifth Circuit (Court) was to evaluate certain controls the Court uses to ensure accurate financial reporting, compliance with applicable laws and regulations, and 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 revenues, cash, CARES Act reimbursements, and non-payroll expenditures. In addition, we performed further analytical procedures relating to payroll expenditures.

Current-report Finding

Inaccurate Recording of Non-payroll Expenditure Transactions

The Court inappropriately recorded five non-payroll expenditure transactions in its fiscal year 2020 Annual Fiscal Report, overstating non-payroll expenditures of \$777,022 by \$152,425. The five transactions were approved by the Court judges on July 7, 2020, or later, and delivery of goods or services occurred thereafter, with invoices dated between July 16, 2020, and September 22, 2020. Payment checks related to these transactions were dated June 30, 2020; however, no liability had been incurred by the Court on that date as the goods or services were not received by June 30, 2020. Therefore, the expenditures should have been recognized as fiscal year 2021 transactions.

Under accrual accounting, expenditures are recognized in the accounting period in which the liability for payment is incurred. Additionally, good cash management practices do not support such advance preparation and withholding of payment checks which can be subject to the risk of misplacement, loss, damage, theft, or changes in details. Checks should be prepared when an invoice or contract has been approved for payment, and remitted to the payee as soon as possible.

The Court had a budget surplus at the end of fiscal year 2020. The surplus funds had been intended for several purchases and contracts that had not occurred due to court closures and other restrictions due to the COVID-19 pandemic. The Court proceeded to obtain bids, approve and confirm contracts, and proceed with selected transactions during early fiscal year 2021 to use the excess funds from fiscal year 2020. The checks that were dated June 30, 2020, were released to the vendors once the purchase or project was completed and invoices approved for payment.

Management should ensure that transactions are recorded in the proper fiscal year. In addition, policies and procedures over cash disbursements should be strengthened to ensure that preparation of payment only occurs after goods, services, contracts, or invoices have been received and approved for payment. Management concurred with the finding and indicated that the situation has been addressed (see Appendix A).

Self-generated Revenues

The Court's operations are funded through appropriations and through self-generated revenues from filing and copy fees authorized and determined by Louisiana Revised Statute (R.S.) 13:352. Our procedures included a review of the Court's collection of filing fees. Based on the results of our procedures, the Court had adequate controls in place to ensure that filing fees were collected for the correct amount, deposits were accurate and timely, and that the transactions were properly recorded.

Cash

The Court maintains five bank accounts. The cash balance as of June 30, 2020, per the Court's Annual Fiscal Report, was \$624,629. We obtained an understanding of the Court's controls over the bank accounts, evaluated the segregation of duties between Court employees, and reviewed bank statements and bank reconciliations. Based on the results of our procedures, the Court had adequate controls in place to ensure timely preparation, review, and approval of bank reconciliations.

CARES Act Reimbursements

The Court incurred expenditures due to the COVID-19 pandemic that qualified for reimbursement from the Coronavirus Relief Fund, a program under the CARES Act. We obtained an understanding of the Court's controls over the expenditures and the reimbursement process, and reviewed the records of approved payments received, as well as any disallowances. We evaluated reimbursed expenditures against the criteria listed in the Coronavirus Relief Fund Guidance set forth by the U.S. Department of the Treasury, as well as state and local procurement laws and regulations.

Based on the results of our procedures, the Court had adequate controls in place to ensure timely preparation, review, approval, and submission of qualified expenses to obtain reimbursements, and to ensure that the transactions were recorded accurately in the financial system.

Non-Payroll Expenditures

Based on risks identified at the Court, we performed procedures to determine that non-payroll related expenditures complied with established policies and state regulations. We also ensured that these expenditures were supported by receipts or other appropriate documents. Except as noted in the Current-report Finding section, the Court had adequate controls in place to ensure that non-payroll expenditures were supported and were processed in accordance with applicable policies and regulations.

Payroll Expenditures

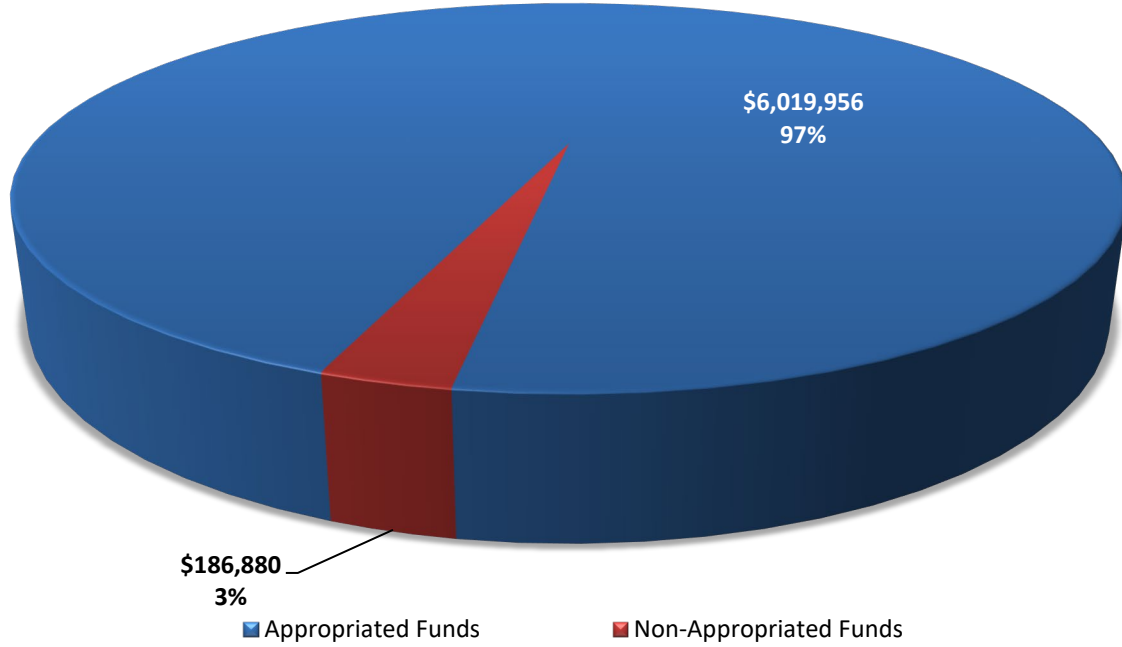
Based on the significance of payroll expenditures at the Court, we obtained an understanding of Court's controls over the time and attendance function, and leave records. We performed analytical procedures on payroll expenditures during fiscal year 2019 and fiscal year 2020 and obtained explanations from the Court's management for any significant variances. Based on the results of our procedures, we determined that noted variances in payroll expenditures were reasonable.

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 also prepared an analysis of the Court's fiscal year 2020 sources of revenues and expenditures.

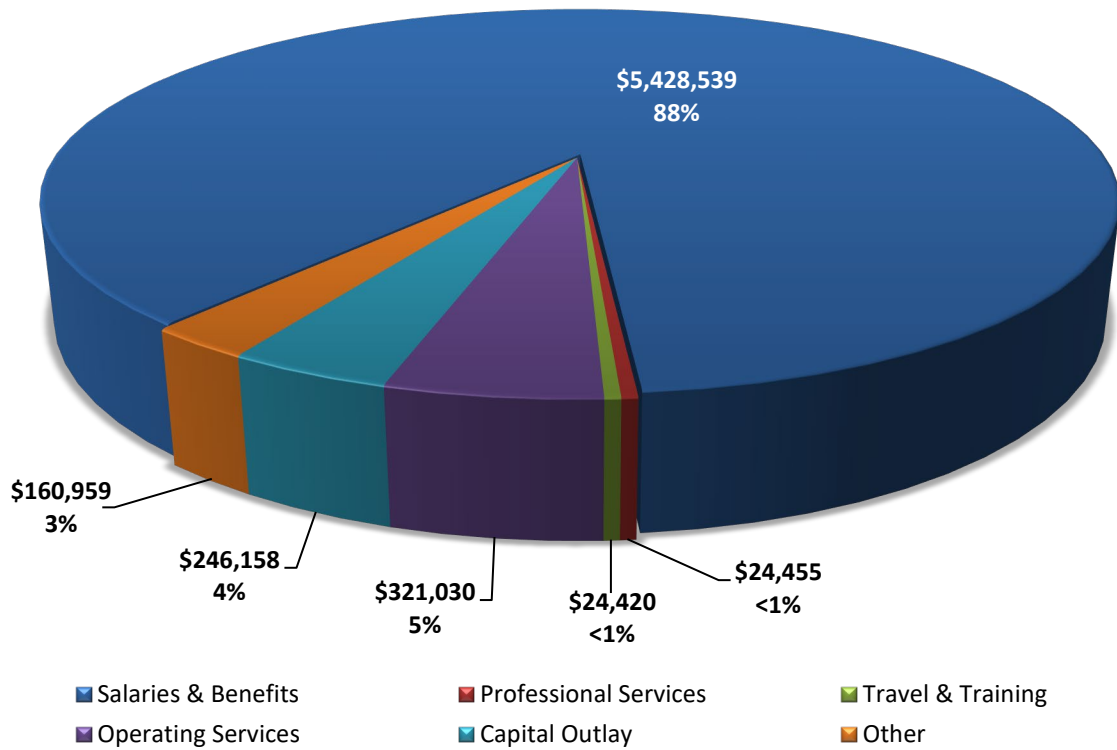
The Court is funded with state general fund appropriations, fees in accordance with R.S. 13:352, and fees for the Judges' Supplemental Compensation Fund in accordance with R.S. 13:10.3(E). State appropriations and fees collected are used to fund salaries and related benefits, travel and conventions, operating supplies and services, professional services, and capital outlay. Salaries and related benefits are the most significant expenditures of the Court.

2020 Source of Revenue
Total \$6,206,836



Source: 2020 Annual Fiscal Report

2020 Expenditures
Total \$6,205,561



Source: 2020 Annual Fiscal Report

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

Respectfully submitted,

A handwritten signature in blue ink, appearing to read "Mike Waguespack", with a stylized flourish extending to the right.

Michael J. "Mike" Waguespack, CPA
Legislative Auditor

JRH:JPT:BH:EFS:aa

5th CCA 2021

APPENDIX A: MANAGEMENT'S RESPONSE



SUSAN M. CHEHARDY
CHIEF JUDGE

FREDERICKA H. WICKER
JUDE G. GRAVOIS
MARC E. JOHNSON
ROBERT A. CHAISSON
STEPHEN J. WINDHORST
HANS J. LILJEBERG
JOHN J. MOLAISON, JR.

JUDGES

Court of Appeal

FIFTH CIRCUIT

STATE OF LOUISIANA

101 DERBIGNY STREET (70053)
POST OFFICE BOX 489
GRETNA, LOUISIANA 70054
WWW.FIFTHCIRCUIT.ORG

CURTIS B. PURSELL
CLERK OF COURT

NANCY F. VEGA
CHIEF DEPUTY CLERK

SUSAN S. BUCHHOLZ
FIRST DEPUTY CLERK

MELISSA C. LEDET
DIRECTOR OF CENTRAL STAFF

(504) 376-1400
(504) 376-1498 FAX

July 12, 2021

Michael J. "Mike" Waguespack, CPA
Louisiana Legislative Auditor
1600 North Third Street
P.O. Box 94397
Baton Rouge, LA 70804-9397

Re: Court of Appeal, Fifth Circuit
Inaccurate Recording of Non-payroll Expenditure Transactions

Dear Mr. Waguespack

On behalf of the Court of Appeal, Fifth Circuit, this reply is submitted at the request of John Thiebaud, Audit Manager, to the preliminary finding that was made by Senior Auditor Jacqueline Rao-Harrington, regarding five transactions that were recorded in fiscal 2020 for goods or services that were delayed in delivery into early fiscal 2021, due to the COVID 19 state of emergency under which the Fifth Circuit was operating in June of 2020. While we feel as though the state of emergency, and the rapidly changing circumstances that were affecting us on a daily basis provide an explanation, we are cognizant that it is the auditor's responsibility to insure that proper procedures are employed by the audited entity no matter how extreme or unusual the actual situation was in real time. We have addressed the concerns of the auditor, and have obtained advice and training from our consultant CPA, Kushner, LaGraize for our new business services manager, Donna Holmes, and feel certain that this will not occur in the future.

As this is the first time that this court has received a finding from any audit year, we are confident that our Business Services Manager has her new job duties well in hand, and can only hope that the circumstances that resulted in these five transactions will not present themselves in the future. If you require any further information, or I can provide any other assistance, please do not hesitate to contact me. As always, thank you for your attention to these matters, take care.

Very truly yours,



Chief Judge Susan M. Chehardy

cc: John Thiebaud
Audit Manager
Jacqueline Rao-Harrington
Senior Auditor
Donna Holmes
Business Services Manager
Catherine P. Nerin
Audit Senior Manager

Enclosure

Court of Appeal, Fifth Circuit

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Management should ensure that transactions are recorded in the proper fiscal year. In addition, policies and procedures over cash disbursements should be strengthened to ensure that preparation of payment only occurs after goods, services, contracts, or invoices have been received and approved for payment.

Official Response to 2019-2020 Audit Finding:

As requested by the Louisiana State Supreme Court, to comply with certain CARES ACT funding requirements, the Court did obtain bids, etc. and attempted to purchase the required items prior to June 30, 2020. However, due to emergency restrictions imposed as a result of the pandemic, the timing of these procedures were delayed in some instances causing items to be received and paid subsequent to year end.

As such, we do concur with the auditor, that as a result of the timing of the delivery of the items and their payments occurring in fiscal year 2021, the expenditures were inaccurately recorded at June 30, 2020. This error occurred due to the inexperience of our acting Business Manager, and a lack of training due to Covid limitations that restricted in person training. The situation has been addressed. The Court has provided, and will continue to provide, the necessary training to prevent this from occurring in the future.

APPENDIX B: SCOPE AND METHODOLOGY

We performed certain procedures at the Court of Appeal, Fifth Circuit (Court) for the period from July 1, 2019, through June 30, 2021. Our objective was to evaluate certain controls the Court uses to ensure accurate financial reporting, compliance with applicable laws and regulations, and 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 results of our analytical procedures, we performed procedures on selected controls and transactions relating to self-generated revenues, cash, CARES Act reimbursements, and non-payroll expenditures. In addition, we performed further analytical procedures relating to payroll expenditures.
- 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.