

LOUISIANA SUPREME COURT
STATE OF LOUISIANA



FINANCIAL AUDIT SERVICES
PROCEDURAL REPORT
ISSUED NOVEMBER 3, 2021

**LOUISIANA LEGISLATIVE AUDITOR
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BATON ROUGE, LOUISIANA 70804-9397**

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MICHAEL J. "MIKE" WAGUESPACK, CPA

FIRST ASSISTANT LEGISLATIVE AUDITOR
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Louisiana Legislative Auditor

Michael J. “Mike” Waguespack, CPA

Louisiana Supreme Court



November 2021

Audit Control # 80210010

Introduction

The primary purpose of our procedures at the Louisiana Supreme Court (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 movable property, payroll and personnel, and self-generated revenue.

Current-report Findings

Lack of Controls over Movable Property

The Court did not enter information in the state’s movable property system within the time frame required by state equipment management regulations. Failure to comply with state equipment management regulations could put movable assets at risk.

A review of the late additions reports obtained from the Louisiana Property Assistance Agency’s (LPAA) asset management platform (AMP) disclosed that the Court entered 84 assets that were purchased from February 21, 2017, to April 12, 2021, with acquisition costs totaling \$581,720, from one to 832 days after the required 60-day period.

A review of assets purchased during the period July 1, 2019, through April 12, 2021, disclosed that 25 assets purchased on August 12, 2020, with acquisition costs totaling \$40,582 that were required to be entered into AMP had not been entered into AMP as of June 30, 2021.

This occurred because the Court did not establish written policies and procedures over property management activities, did not cross-train employees to handle property management activities

when property managers are absent or when there is turnover, and did not provide adequate supervisory oversight to ensure that property management activities complied with state regulations.

The Louisiana Administrative Code requires that all movable property having an original acquisition cost of \$1,000 or more be tagged with a uniform State of Louisiana identification tag and all pertinent inventory information be forwarded to LPAA within 60 calendar days after receipt of the item.

The Court should establish written policies and procedures over property management activities; provide training and guidance to all persons involved with property management activities; cross-train employees to handle property management activities; and provide supervisory oversight to ensure compliance with state regulations. Management concurred with the finding and provided a plan of corrective action (see Appendix A, pages 1-3).

Weaknesses in Controls over Payroll Taxes

The Court did not have adequate controls to ensure that federal payroll taxes were paid and annual forms and information returns were submitted in accordance with due dates established by federal regulations. This increases the risk that the Court could incur costs for penalties and interest.

We reviewed notices from the Internal Revenue Service to the Court assessing penalties and interest for late payment of payroll taxes and failure to file required annual forms and information returns by the date due for tax periods prior to January 1, 2021. These issues occurred because the Court did not have written policies and procedures over the payment of payroll taxes and submission of annual forms, errors were made during the payment process, and there was inadequate supervisory oversight. Good internal controls include adequate procedures to ensure that tax payments are made and forms and reports are submitted when due.

The Court should establish written policies and procedures and increase supervisory oversight to ensure that federal payroll tax payments are accurate and made by the date due, and annual forms and information returns are submitted within the time frame established by federal regulations. Management concurred with the finding and provided a plan of corrective action (see Appendix A, pages 4-5).

Movable Property

We obtained an understanding of the Court's controls over movable property and examined asset management system reports and selected movable property transactions. Based on the results of our procedures, we reported a finding on Lack of Controls over Movable Property (see Current-report Findings section).

Payroll and Personnel

Salaries and related benefits comprised approximately 58% and 59% of the Court's expenditures in fiscal years 2020 and 2021, respectively. We obtained an understanding of the Court's controls over the time and attendance function and reviewed selected employee time statements and leave records. We also reviewed documentation relating to federal payroll tax payments and the submission of required forms and information returns. Based on the results of our procedures, the Court had adequate controls in place to ensure timely review and approval of employee time statements, leave was accounted for properly, and leave paid at termination was accurate; however the Court did not have adequate controls over payroll taxes (see Current-report Findings section).

Self-Generated Revenue

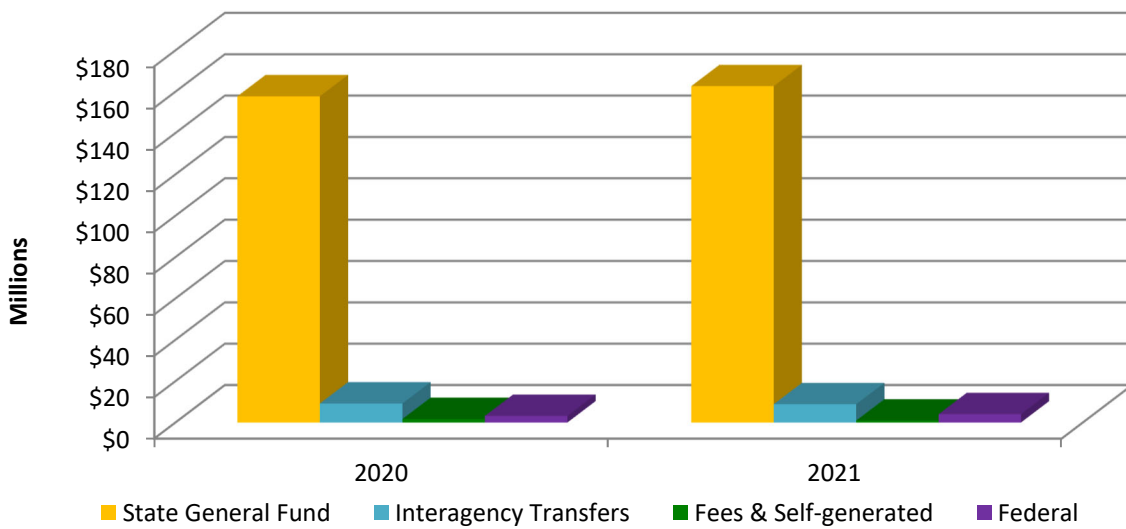
The Court's self-generated revenue consists of licenses, permits, and fees the Court is statutorily authorized to collect. We obtained an understanding of the Court's controls over the processing, collection, and recording of self-generated revenue and examined selected transactions. Based on the results of our procedures, the Court had adequate controls in place to ensure that self-generated revenue was properly processed, collected, and recorded.

Trend Analysis

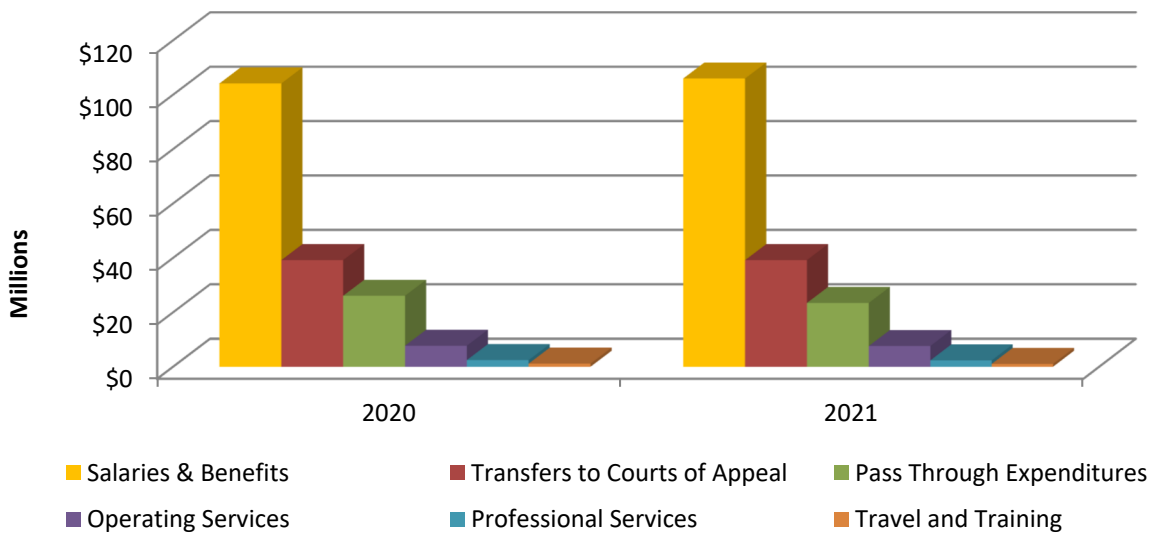
We compared the most current and prior-year financial activity using the Court's Annual Fiscal Reports and/or system-generated reports and obtained explanations from the Court's management for any significant variances. We also prepared an analysis of the Court's revenues and expenditures for fiscal years 2020 and 2021.

As shown in Exhibit 1, the Court is primarily funded with state General Fund monies. As shown in Exhibit 2, salaries and benefits made up the majority of the Court's expenditures in fiscal years 2020 and 2021.

**Exhibit 1
Revenue Sources – Fiscal Years 2020 and 2021**



**Exhibit 2
Expenditures – Fiscal Years 2020 and 2021**



Source: Fiscal Year 2020 and 2021 Annual Fiscal Reports

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

Respectfully submitted,



Michael J. "Mike" Waguespack, CPA
Legislative Auditor

DF:CRV:BQD:EFS:aa

LASC 2021

APPENDIX A: MANAGEMENT'S RESPONSES



Supreme Court
STATE OF LOUISIANA
New Orleans

CHIEF JUSTICE

JOHN L. WEIMER

Sixth District

JUSTICES

WILLIAM J. CRAIN

First District

SCOTT J. CRICHTON

Second District

JAMES T. GENOVESE

Third District

JAY B. MCCALLUM

Fourth District

JEFFERSON D. HUGHES III

Fifth District

PIPER D. GRIFFIN

Seventh District

JOHN TARLTON OLIVIER
CLERK OF COURT

400 Royal St., Suite 4200
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October 20, 2021

Mr. Michael J. "Mike" Waguespack, CPA
Legislative Auditor
1600 North Third Street
Baton Rouge, LA 70804-9397

Dear Mr. Waguespack,

As requested in your office's communication of October 5, 2021, the Louisiana Supreme Court (Court) provides the following official response to the reportable audit finding in your communication.

Finding: Lack of Controls over Movable Property

The Court agrees with the individual finding and recommendation. However, the Court does point out that in our view, some of the items described in the finding were not required to be reported as movable property to the Louisiana Property Assistance Agency (LPAA). For example, some of those items were physically bolted down as infrastructure in a building, where any absence would be conspicuously noticed when the computer systems they served would thereafter become inoperable. We realize that once an item is registered, that item must be accounted for, and more care will be taken regarding which items are registered.

Numerous controls exist relative to the LPAA's asset management

platform, and in 2021, this court was certified compliant by that Agency (the LPAA). Relatedly, a new Court administration began on January 1, 2021, at which time a new Chief Financial Officer began work after the unexpected retirement of the previous CFO. The example cited in the finding, of a failure to register movable property of “832 days after the required 60-day period,” necessarily points to pre-existing practices, which were beyond the control of the current administration. Even so, the property just mentioned was properly registered during the current administration, as part of its diligent safeguarding of state property.

Moreover, this Court has policies directed to compliance with LPAA and to otherwise account for movable property. For example, the Court’s Employee Handbook contains at least five instances requiring employees to account for and preserve property. The last property-related entry in the Employee Handbook imposes the requirement for an employee to turn in all issued movable property at separation for employment. Indeed, and contrary to the finding that there is no cross-training of employees regarding movable property, the policy notes that the collection of movable property involves “managers, I.T., and Security.”

Furthermore, the Court has additional policies geared specifically to LPAA compliance. There were instances where specific property registration procedures did not align with these policies. However, these instances were uncovered prior to the audit by this administration’s own diligence, which did identify a backlog of entries due for registration in the LPAA system. This backlog was inherited by the current Court administration in January of 2021, and since that time the focus has been to eliminate the backlog, which efforts have taken longer than anticipated due to the current state-wide COVID-19 restrictions. Additionally, a recent forty-four percent (44%) turnover in staffing in the Court’s Accounting Services Department created the daunting challenges of finding replacement employees with necessary skills to remedy these inherited issues, and tasking existing staff to assume property management roles without the benefit of historical knowledge or training.

The responsible individuals for the implementation of the corrective actions are Bryan Wolff, Chief Financial Officer, Veronica Koclanes, Interim Administrative Counsel, and James Murray, Director of I.T. Services. The immediate corrective actions will consist of updating procedures outlining the steps necessary to account for and track movable property in the LPAA system, cross-training additional Court employees in registering for and tracking movable property specifically in the LPAA system, and closely monitoring those employees performing the property manager functions. The corrective action commenced prior

to the audit and is expected to be fully implemented as soon as practicable. During this timeframe, the Court will continue to explore alternative options to strengthen controls over movable property.

Striving for excellence in stewardship of public funds, the Court adheres to a policy of stringent, not surplus, staffing. A byproduct of this culture is a lack of idle personnel available to instantaneously assume additional responsibilities, especially the arduous obligations of a property manager. With the recent and sudden departure of the property manager responsible for two property agencies, the Court was faced with rapidly approaching asset certifications; and these asset certifications became the immediate focus. Once the asset certifications were completed, the attention shifted to eliminating the backlog of work compounded by the current pandemic restrictions.

We fully realize the importance of timely registering the property of the state to avoid loss or theft. However, any delay in registering did not result in property being lost or stolen.

Thank you very much for your efforts and assistance in this audit process.

Sincerely,

A handwritten signature in black ink that reads "John L. Weimer". The signature is written in a cursive style with a long horizontal line extending to the right.

John L. Weimer
Chief Justice



Supreme Court
STATE OF LOUISIANA
New Orleans

CHIEF JUSTICE

JOHN L. WEIMER

Sixth District

JUSTICES

WILLIAM J. CRAIN

First District

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October 21, 2021

Mr. Michael J. "Mike" Waguespack, CPA
Legislative Auditor
1600 North Third Street
Baton Rouge, LA 70804-9397

Dear Mr. Waguespack,

As requested in your office's communication of October 14, 2021, the Louisiana Supreme Court (Court) provides the following official response to the reportable audit finding in your communication.

Finding: Weaknesses in Controls over Payroll Taxes

The Court agrees that previously-existing controls prior to January 1, 2021 needed to be enhanced to ensure that federal payroll taxes are paid accurately and timely, and to ensure that annual forms and information returns are submitted in accordance with due dates established by federal regulations. The need for enhanced controls was recognized prior to the audit finding. In June of 2021, a supervisor was added to staff in order to monitor and approve the payment of payroll taxes and the submission of annual forms and information returns. Further, a portion of the reporting has been outsourced to a certified public accounting firm.

The responsible individuals for the implementation of the corrective action

are Bryan Wolff, Chief Financial Officer, and Veronica Cheneau, Deputy Judicial Administrator 2 of Human Resources. The immediate corrective action of the addition of the supervisor mentioned above is complete. The next step in the corrective action plan is to create a policy and procedure that will be beneficial for training current and future staff. This step has been ongoing and will be completed as soon as practicable.

Again, thank you very much for your efforts and assistance in this audit process.

Sincerely,

A handwritten signature in cursive script that reads "John L. Weimer". The signature is written in dark ink and is positioned to the right of the word "Sincerely,".

John L. Weimer
Chief Justice

APPENDIX B: SCOPE AND METHODOLOGY

We performed certain procedures at the Louisiana Supreme Court (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 movable property, payroll and personnel, and self-generated revenue.
- 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.