


INDEPENDENT ACCOUNTANTS' REPORT
ON APPLYING
AGREED UPON PROCEDURES

(CONTINUED)

We were not engaged to, and did not, perform an examination, the objective of which would be the expression of an opinion on management's assertion. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of the Civil District Court of the Parish of Orleans and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes. This restriction is not intended to limit the distribution of this report, which is a matter of public record.



BRUNO & TERVALON
CERTIFIED PUBLIC ACCOUNTANTS

April 26, 1987

INDEPENDENT ACCOUNTANTS' REPORT
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Automation Plan of Action

Currently, CDC does not have a plan of action geared toward the complete evaluation of the accounting department. Development of such a plan should incorporate the implementation of a system for the following phases of the accounting processes:

- Procurement
- Accounts Payable
- Payroll
- Requisition
- Fixed Assets
- General Ledger

The overall objective of the above will be to minimize the level of manual activity undertaken and the volume of documents maintained by CDC. Such a system should provide for increased management review and oversight on a timely basis due to the timeliness of information generated.

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Fixed Assets Accountability and Control

We noted that CDC currently does not have a fixed assets accountability and control procedure in place to minimize, if not eliminate, the potential for misappropriation of assets.

Based on the December 31, 1998 general ledger, CDC has \$3,898,111 recorded in fixed assets.

As such, accountability and control are essential in ensuring that the assets of CDC are properly accounted for and safeguarded against loss from unauthorized use or disposition.

Recommendation

We recommend that CDC consider instituting the following procedures:

- Establish a dollar threshold of not less than \$100 as a basis for the tracking all asset acquisition.
- All "sensitive" assets should be tracked irrespective of dollar value.
- A complete physical count should be undertaken of all assets located both on-site and off-site.

The listing should include at a minimum a tag number, description of asset, cost or estimated cost for older items, location and responsible department and person.

- The establishment of a physical count procedure to require the annual inventory of and reconciliation of all items purchased and/or retired to the completed asset listing previously discussed.

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Recommendation

CDC should consider:

- The development of a formal procurement policy that requires the use of competitive bidding;
- The establishment of a centralized and consolidated purchasing and contracting system;
- The implementation of the necessary internal control elements in the procurement process in order to minimize, if not eliminate, the potential for misappropriation of assets;
- A plan of action to upgrade the current computer system and capacity; and
- The implementation of a procedure that will ensure the updating of staff parking assignments on a monthly basis.

• **Other Matters**

Operating Deficit

Our review of the financial statements of CDC reveals an ongoing operating deficit.

Recommendation

Management of CDC should develop a plan of action that will address the operating deficit. Such a plan should include the establishment and maintenance of an operating budget with a periodic assessment of planned versus actual results.

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Observation

JEP does not have a formal system for competitive bidding.

The JEP has a quasi-centralized purchasing system. It is our understanding that departments can and do place orders with vendors directly and authorizations to pay are made after the fact, i.e. upon receipt of the invoice.

There is a lack of independence between the purchasing, receiving, and invoice matching functions. These are generally performed by one person.

There is no system for documenting, tracing and cross-referencing partial receipts of items purchased.

Requisitions are not cross-referenced nor utilized as part of the vendor invoice support documents for cash disbursement processing.

The current accounts payable module utilized by CDC has a capacity limitation. Such a limitation makes it impossible to provide data such as a complete vendor listing, cumulative expenditures, etc.

Our review of disbursements to a vendor revealed overpayments for employee parking. For the months of December 1986, January, and February, 1987 selected for review, we noted overpayments of approximately \$2,000 per month.

The overpayments are the result of the use of an outdated personnel listing as a basis for space use. Subsequent to our review, an updated report has been prepared and a credit received for payments made for March, 1987.

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Recommendation, Continued

- On a monthly basis, CDC should reconcile the payroll register to the general ledger to assure that all transactions have been properly captured. This review should include a cursory review of payroll at a supervisory level prior to disbursement.

In addition, JEF staff should input all payroll changes on a timely basis to minimize any time lag and facilitate the timely recording of all transactions to the appropriate period.

Procedures

Based on discussions with management of CDC, we performed a detailed review of all payments in 1996 to a major vendor. For the thirty (30) checks issued to this vendor in 1996, we reviewed the corresponding documents, i.e. authorizations for purchase, invoices, and receiving documentation. We also reviewed the nature of the purchases for reasonableness competitive prices, and clerical accuracy of the invoices.

We obtained each cancelled check and corresponding bank statements for the year. These records were reviewed for unusual items and overall propriety.

Other vendors were selected at random and reviewed for the overall reasonableness of expenditures.

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Observation. CONTINUED

For selected personnel sampled for review from the Personnel Change Report for periods throughout 1990, we were unable to verify changes due to the lack of appropriate documentation on file.

A review of selected "W-2's" filed for 1994, revealed immaterial differences between the amount as reported to the Internal Revenue Service and the payroll register prepared by the payroll service used by CDC.

Recommendation

CDC should consider the following procedures:

- The current payroll processing system should be evaluated with an aim toward providing the necessary control elements to minimize, if not eliminate, the potential that currently exists for misappropriation of assets;
- CDC should consider a control system that ensures that all personnel changes (to include hire/termination, payrate, pension withholding, etc.) are properly documented in writing by the employee as well as the payroll, staff and filed accordingly in the respective employee file to support all cash transactions. A periodic review for compliance should be undertaken at least on a quarterly basis by someone independent of the payroll function;
- Management should review the current system of payroll processing as it relates to hours worked and leave earned and/or used to ensure the complete and accurate reporting of cash; and

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(CONTINUED)**

Procedure

We obtained each cancelled payroll check, corresponding bank statements, and payroll registers for the period from January 1, 1994 through December 31, 1994. These records were reviewed for endorsements, reasonableness of amounts, payment dates, manual or machine checks, and unusual items. We also verified that the payroll account is maintained on an imprest basis.

We obtained the personnel change reports prepared by the payroll service utilized by CDC for verification to supporting documents for changes made by personnel of CDC. Changes reviewed included pay changes, new hires and terminations.

We also reviewed "W-2's" submitted to the Internal Revenue Service for the 1994 calendar year.

Observation

We noted that there is lack of independence between the personnel file maintenance and payroll functions. One individual administers the new hire orientation and payroll system setup, pay status changes, routine payroll processing, tax and pension payable computation.

Time cards are not used by all departments as a basis for payroll processing as the various departments have varying policies. Also, the total department payroll is approved in aggregate by the department heads, i.e. judges and parochial officials.

Our review of the cancelled payroll checks revealed instances of second endorsements of employee checks by other employees suggesting the negotiation of the checks on behalf of other employees on a consistent basis.

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Observation, CONTINUED

Also, staff of CDC were unable to locate the Posted Transaction Registers for the months of May, June and December 1998.

Recommendation

CDC should consider instituting the following procedures:

- All cash collections should be verified at point of transfer to the JEP staff;
- The collection unit should prepare a cash collection log to identify all cash activity. The report should be submitted at the point the funds are transferred to the JEP staff. The completeness and accuracy of the report should be verified and the signature of the JEP staff placed on the document to evidence work. A copy of the report should be forwarded to the respective cashiers;
- The Comptroller office should evaluate its record retention policy as it relates to funds collection. The evaluation should consider the need for an audit trail for all transactions undertaken by that office;
- The monthly Statement of Revenue & Expenses and Posted Transaction Register should be reconciled on a monthly basis and differences, if any, resolved.

Furthermore, the registers should be maintained to provide for an audit trail; and

- CDC should evaluate the possibility of preparing the cash receipts reports to include the daily "cash receipts ledger maintained by the Chief Accountant using available software such as Lotus or Excel.

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Observation. CONTINUED

In one instance we noted a change in the cash portion of the deposit slip made as a correction by the JEP clerk. The deposit slip's carbon copy on file at the collection unit reflected the change which also indicates that they were informed of the correction or change made by the JEP clerk.

The collection units do not maintain daily logs of monies submitted to JEP for the deposit function (internal reports are prepared by some units, but not for a system of check and balance). The collection units do not receive reports of monies received by JEP. Also, the cashiers do not consistently verify the total amount or cash portion of the deposits per the bank receipt.

We were unable to verify the receipts to the collection unit deposit slip carbon copy of the Comptroller's Office because these are maintained on file for only six months and then discarded.

For the sample days selected and reviewed, the receipts of the collection units appeared to be deposited on a timely basis based on our review of the validated deposit slips. However, the "Daily Receipts Recap" for May 20, June 28 and December 28, 1996 collections indicated that twenty-seven (27) checks received outside of the routine collection unit's activities were not deposited on a timely basis.

In addition, we noted that receipts of the 2nd City Court are deposited on a bi-weekly basis and consequently transferred to JEP at month-end.

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Recommendation

We recommend that CDC consider the development of written procedures detailing the necessary functions, processes and control elements necessary for the effective operation of the Judicial Expense Fund.

Also, we recommend that CDC review the current job descriptions of its staff in conjunction with the above recommendation.

- a. Reviewed internal and accounting control systems established for the Judicial Expense Fund.

Procedure

We reviewed CDC's internal control categories that we considered significant such as cash receipts, cash disbursements, procurement, and payroll.

For cash receipts, we selected the cash collections of May 18, June 25, and December 26, 1994, and reviewed the appropriate supporting documents for propriety in accounting for collections as well as the timely deposit of funds collected. Furthermore, we reviewed CDC's system for ensuring reconciliation to the respective subsidiary and general ledgers for the selected months of May, June and December, 1994, respectively.

Observation

The collection units have responsibility for the preparation of deposit slips for funds collected. However, there is no court between the cashiers and the JEF clerk upon the transfer of monies for the deposit function.

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Recommendation. CONTINUED

To enhance the previously discussed reporting, we recommend that the report include information such as the vendor, description of item purchased or services procured and dollar amount to allow for a detail review by the respective Judge.

Furthermore, CJC should evaluate the cost versus benefit of a centralized purchasing and contracting system for goods and services. The system should incorporate the use of preapproved requisitions for all purchases.

- o Interviewed selected personnel to determine extent of accounting duties performed.

Footnote

We obtained an understanding of CJC's accounting functions as performed by the respective personnel in the administration of JJP via observation and interviews.

Areas reviewed included: cash collection by the various units within the CJC; cash depositing; payroll processing and disbursement; cash disbursement to include jury payments; procurement; and financial reporting.

CONCLUSION

Personnel interviewed appear to have a clear understanding of the expectations of their job responsibilities. However, we noted the absence of written procedural manuals detailing the necessary procedures, process, and control elements for the operation of the fund's activities.

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Documentation

Subsequent to December 31, 1996 all juror payments are via check disbursement payable to the individual juror. Staff should perform a periodic review or comparison of juror payments to jury "Attendance Sheets".

Expenditures

Using a sample of disbursements selected for review, we traced specific purchases charged to the judiciary appropriations account for proper authorization and allocation of expenses incurred.

Observation

We noted the absence of purchase requisitions in four (4) of eight (8) items selected and charged to the judiciary appropriation fund. It is our understanding through discussion with management, that these purchases are originated by the staff of the judges with CMC charged with paying the bill. However, most of the charges were below \$100.00.

For one of eight (8) items selected, we noted that the purchase was incorrectly charged to the general fund instead of the judicial appropriation fund. Amount was immaterial (\$21.84).

Recommendation

Presently, CMC maintains on a periodic basis an accounting of funds activity for each of the judiciary appropriation accounts.

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Procedure

selected juror's pay and transportation payments for the months of July and November 1994 and 1995, and January and February of 1996 and traced the total payments for each month selected to the "cash book" report and general ledger or audit report as applicable. In addition, we traced selected juror payments as per the jury "signature sheet" to the jury "attendance sheet" for agreement.

Observation

We noted differences between amounts as recorded in the "cash book" report maintained by staff of the jury pool and the general ledger for 1994, 1995 and 1996. Differences between the cash book report and the general ledger ranged between \$3,000 and \$3,000 as follows:

	1994	1995	1996
Per jury subledger per audit report or general ledger as applicable	\$46,540	\$54,120	\$49,500
Differences	\$3,285	\$1,832	\$12,020

Based on our discussion with staff, we noted that no periodic reconciliation is performed between the "cash book" report maintained by the jury pool staff to the general ledger. It appears that the differences may be the result of the accounting treatment afforded to the payments disbursed through the operating account (i.e. amounts for jury payments are charged to expense when a check is disbursed to the jury pool staff without consideration for when payments are actually made by the jury pool staff).

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Observation

Our review of the respective payroll and operating accounts reconciliations reflects significant material checks outstanding with some dated as far back as 1990.

Based on a schedule as of December 31, 1998 provided to us by CSC, the amounts listed as outstanding checks for the operating and payroll accounts are approximately \$287,000 and \$33,000, respectively.

However, based on discussion with staff of CSC, it is our understanding, that a significant number of those checks represent a combination of potentially voidable items and valid outstanding checks based on limited research conducted by staff. Currently, CSC is unable to locate all source documents such as check registers, invoices, etc. to facilitate an adequate review of the propriety of the outstanding items.

Furthermore, management has decided to close all existing operating and payroll accounts to minimize any potential exposure the current status of outstanding checks may pose.

Recommendation

It is our recommendation that management pursue resolution of the outstanding checks via location of the supporting documents. This is necessary in light of the potential for misappropriation of assets. Furthermore, as it becomes necessary to release checks for valid outstanding items, the proper supporting documents should be maintained as the basis for such payment.

CSC should also consider the establishment of an outstanding check policy. The policy should incorporate the timely review and resolution of all outstanding items within a specified timeframe.

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Our procedures and observations are as follows:

- o Examined relevant financial records and supporting documentation of transactions included therein.

Procedure

Obtained and reviewed for overall reasonableness CDC's financial statements as of and for the years ended December 31, 1994 and 1995 in comparison to its preliminary Statement of Revenue and Expenditures for the year ended December 31, 1994.

Observation

We noted comparability of accounts, in all material respects, of various major expense categories such as salaries and related benefits, equipment maintenance and rental, and occupancy costs.

Recommendation

None

Procedure

Requested and obtained from CDC the December 31, 1994 bank reconciliations for the operating and payroll bank accounts, to determine the status of reconciling items.

**INDEPENDENT ACCOUNTANTS' REPORT
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AGREED-UPON PROCEDURES**

The Honorable Yada T. Nguyen
Chief Judge
Civil District Court
for the Parish of Orleans
421 Loyola Avenue
New Orleans, LA 70112

Dear Judge Nguyen:

We have performed the procedures enumerated below, which were agreed to by the Civil District Court for the Parish of Orleans (CDC) solely to provide professional consulting services to you in connection with the special investigation of the Judicial Expense Fund (JEF). The investigation is to assist management of CDC in evaluating and determining the extent, if any, of evidence that fraud may have occurred; identifying the potential perpetrator(s), if any; and quantifying the potential loss from any detected fraud.

The agreed-upon procedures engagement was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of management of CDC. Consequently, we make no representations regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

DT 101

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CIVIL DISTRICT COURT OF THE
PARISH OF ORLEANS

INDEPENDENT ACCOUNTANTS' REPORT
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Under provisions of state law, this report is a public document. A copy of the report shall be made available to the public, as requested, either in person or by electronic means. The report shall be made available for public inspection at the Parish Registrar's office or the Parish Auditor's office, where appropriate, at the office of the parish clerk of court.

Bruno
& Tervalon

CERTIFIED PUBLIC ACCOUNTANTS

By Bruno Tervalon 8-6-97