

STATE OF LOUISIANA LEGISLATIVE AUDITOR

Court of Appeal, Third Circuit
State of Louisiana
Lake Charles, Louisiana

December 22, 1987



Financial and Compliance Audit Division

Daniel G. Kyle, Ph.D., CPA, CFE
Legislative Auditor

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**COURT OF APPEAL, THIRD CIRCUIT
STATE OF LOUISIANA
Lake Charles, Louisiana**

**Special Purpose Financial Statements
and Independent Auditor's Reports
As of and for the Year Ended June 30, 1997**

Under the provisions of state law, this report is a public document. A copy of this report has been submitted to the Governor, to the Attorney General, and to other public officials as required by state law. A copy of this report has been made available for public inspection at the Baton Rouge office of the Legislative Auditor and at the office of the parish clerk of court.

December 22, 1997

COURT OF APPEAL, THIRD CIRCUIT
STATE OF LOUISIANA

Special Purpose Financial Statements
and Independent Auditor's Reports
As of and for the Year Ended June 30, 1987

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December 18, 1987

Independent Auditor's Report
on the Financial Statements

**COURT OF APPEAL, THIRD CIRCUIT
STATE OF LOUISIANA
Late Charles, Louisiana**

We have audited the accompanying special purpose (legal basis) financial statements of the Court of Appeal, Third Circuit, a court within Louisiana state government, as of and for the year ended June 30, 1987, as listed in the foregoing table of contents. These financial statements are the responsibility of the Court of Appeal, Third Circuit's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1-B to the financial statements, the accompanying special purpose financial statements present only the funds of the Court of Appeal, Third Circuit. As such, they present the appropriated and non-appropriated activity of the court that are part of the accounts and fund structure of the State of Louisiana. The General Appropriation Fund reflects appropriated activity of the court that is part of the General Fund of the State of Louisiana. The non-appropriated fund is an individual fund of the State of Louisiana not subject to budgetary control. Furthermore, the special purpose financial statements have been prepared on a legal basis of accounting, the purpose of which is to reflect compliance with the annual appropriation act for the appropriated fund and the financial position of the non-appropriated fund. These procedures differ from generally accepted accounting principles as described in the notes to the financial statements. Accordingly, the accompanying special purpose financial statements are not intended to and do not present financial position and results of operations in conformity with generally accepted accounting principles.

LEGISLATIVE ADDRESS

COURT OF APPEAL, THIRD CIRCUIT
STATE OF LOUISIANA
Audit Report, June 30, 1997

In our opinion, the accompanying special purpose financial statements referred to previously present fairly, in all material respects, the balances within the appropriated and non-appropriated funds of the Court of Appeal, Third Circuit at June 30, 1997, and the transactions of such funds for the year then ended, on the basis of accounting described in note 1-D.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 18, 1997, on our consideration of the Court of Appeal, Third Circuit's internal control over financial reporting and our tests of its compliance with certain laws and regulations.

In accordance with Louisiana Revised Statute 24:510, our report is intended for the information and use of the court and its management and should be used solely as intended by the foregoing statute. By provisions of state law, this report is a public document, and it has been distributed to appropriate public officials.

Respectfully submitted,



Daniel G. Kyle, CPA, CFE
Legislative Auditor

JCH:DLH:ads

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COURT OF APPEAL, THIRD CIRCUIT
 STATE OF LOUISIANA
 ALL APPROPRIATED AND NON-APPROPRIATED FUNDS

Balance Sheet (Legal Basis), June 30, 1997

	APPROPRIATED FUND - GENERAL APPROPRIATION	NON- APPROPRIATED FUND - FEE ACCOUNT	TOTAL MEMORANDUM ONLY
ASSETS			
Cash and cash equivalents (note 2)	\$714,087	\$482,216	\$1,196,303
Accounts receivable - original filing fees		3,600	3,600
TOTAL ASSETS	\$714,087	\$485,816	\$1,199,903
LIABILITIES AND FUND EQUITY			
Liabilities - accounts payable	\$4,873	None	\$4,873
Fund Equity - fund balances - reserved for:			
Building renovations, equipment, furnishings, and supplies (note 3)	\$68,114		\$68,114
Continuing operations and contingencies (note 4)		\$417,702	\$417,702
Total fund equity	\$68,114	\$417,702	\$485,816
TOTAL LIABILITIES AND FUND EQUITY	\$74,887	\$411,000	\$485,904

The accompanying notes are an integral part of this statement.

COURT OF APPEAL, THIRD CIRCUIT
STATE OF LOUISIANA
ALL APPROPRIATED AND NON-APPROPRIATED FUNDS

Statement of Revenues, Expenditures,
and Changes in Fund Balances (Legal Basis)
For the Year Ended June 30, 1997

	APPROPRIATED FUNDS - GENERAL APPROPRIATION	NON- APPROPRIATED FUNDS - FIDEIACOUNT	TOTAL BUDGETARY AMOUNT
REVENUES			
Renting and copy fees		\$100,000	\$100,000
Use of money and property - interest earnings		25,700	25,700
Total revenues	\$0,000	\$125,700	\$125,700
EXPENDITURES			
Appropriated expenditures:			
Personnel services	2,775,000		2,775,000
Travel and accommodations	127,500		127,500
Operating supplies and services	880,400		880,400
Capital outlay	340,177		340,177
Non appropriated expenditures:			
Personnel services		5,700	5,700
Association dues		2,700	2,700
Travel and accommodations		11,000	11,000
Operating supplies and services		90,700	90,700
Capital outlay		8,200	8,200
Judges' Supplemental Compensation Fund		50,000	50,000
Total expenditures	\$3,983,077	\$168,300	\$4,151,377
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(\$3,983,077)	69,400	(\$3,913,677)
OTHER FINANCING SOURCES (USES)			
Transfer from Supreme Court	\$,815,400		\$,815,400
Operating transfers in	10,000		10,000
Operating transfers out		(70,000)	(70,000)
Total other financing sources (used)	\$,825,400	(70,000)	\$,755,400
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	(\$297,677)	69,400	(\$228,277)
FUND BALANCE AT BEGINNING OF YEAR	400,000	100,000	500,000
FUND BALANCE AT END OF YEAR	\$102,323	\$169,400	\$271,723

The accompanying notes are an integral part of this statement.

**COURT OF APPEAL, THIRD CIRCUIT
STATE OF LOUISIANA**

Notes to the Financial Statements
As of and for the Year Ended June 30, 1997

INTRODUCTION

The Court of Appeal, Third Circuit is a part of the State of Louisiana reporting entity within the judicial branch of government. The court is provided for in Article V, Sections 8 through 13 of the Louisiana Constitution of 1874 and Sections 311 through 362 of Title 13 of the Louisiana Revised Statutes of 1950. The court's operations are funded through an annual lapsing appropriation made by the Louisiana Legislature and from self-generated revenues authorized by Louisiana Revised Statute (R.S.) 13:352. In addition to the fees mandated by R.S. 13:352 relative to appeals, applications for writs, motions filed on unfunded appeals and answers to appeals, the court, in compliance with R.S. 13:18.3(B) and in conformity with the Judges' Supplemental Compensation Fund, charges an additional fee of \$15. The total amount collected in connection with the Judges' Supplemental Compensation Fund is remitted to the Judicial Administration Office of the Supreme Court of Louisiana.

The Court of Appeal, Third Circuit has appellate jurisdiction as authorized under Article V, Section 8 of the Louisiana Constitution, over the parishes of Acadia, Allen, Avoyelles, Beauregard, Cameron, Calcasieu, Calihoula, Concordia, Evangeline, Grant, Iberville, Jefferson Davis, Lafayette, LaFayette, Natchitoches, Rapides, Sabine, St. Martin, St. Landry, Vermilion, and Vernon. In addition, the court has supervisory jurisdiction, subject to the general supervisory jurisdiction of the Supreme Court of Louisiana, over all lower courts in all cases in which an appeal would extend to the court of appeal. The Third Circuit is domiciled in Lake Charles and has 12 judges and 60 other employees.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF PRESENTATION

The Governmental Accounting Standards Board (GASB) promulgates generally accepted accounting principles and reporting standards for state and local government. These principles are found in the Codification of Governmental Accounting and Financial Reporting Standards, published by the GASB. However, the accompanying financial statements have been prepared on a legal basis, which differs from generally accepted accounting principles as explained in the following notes.

B. REPORTING ENTITY

GASB Codification Section 2100 has defined the governmental reporting entity to be the State of Louisiana. The court is considered within the State of Louisiana reporting entity because the state exercises oversight responsibility and has accountability for fiscal matters as follows: (1) the state has control and exercise authority over budget matters; (2) state appropriations provide the largest percentage of total revenues; and

COURT OF APPEAL, THIRD CIRCUIT
STATE OF LOUISIANA
Notes to the Financial Statements (Continued)

(3) the court primarily serves state residents. The accompanying financial statements present information only as to the transactions of the court.

The accompanying financial statements represent activity of the court within the judicial branch of state government and, therefore, are a part of the fund and account group structure of the State of Louisiana and its general purpose financial statements. Annually, the State of Louisiana issues general purpose financial statements. The general purpose financial statements are audited by the Louisiana Legislative Auditor.

C. FUND ACCOUNTING

The Court of Appeal, Third Circuit uses fund accounting, along appropriation lines, to reflect its compliance with provisions of the annual appropriation act and to reflect the financial position and results of operations of its non-appropriated funds. This differs from the fund accounting of generally accepted accounting principles where the intent is to measure the financial position and results of operations of the governmental reporting entity as a whole. Therefore, the funds within the accompanying financial statements have been divided between appropriated and non-appropriated funds and not by the conventional fund types of generally accepted accounting principles.

The funds do not include any noncurrent assets or liabilities. Noncurrent assets, general fixed assets, and long-term liabilities are reflected in the State of Louisiana's general purpose financial statements.

The funds presented in the special purpose financial statements are described as follows:

General Appropriation Fund

The General Appropriation Fund provides for the general administrative expenditures of the court.

Non-Appropriated Fund - Fee Account

The Fee Account is used to account for filing fees and other revenues received by the court, as provided by R.S. 13:382. Expenditures incurred in excess of the amount appropriated by the Louisiana Legislature (General Appropriation Fund) are funded from this account.

D. BASIS OF ACCOUNTING

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The funds in the accompanying financial statements measure the resources provided by the legislature to fund current-year expenditures and the use of

**COURT OF APPEAL, THIRD CIRCUIT
STATE OF LOUISIANA**

Notes to the Financial Statements (Continued)

these resources by the court. This differs from generally accepted accounting principles in which the measurement focus would be to measure the flow of current resources.

Basis of accounting refers to when revenues and expenditures are recognized and reported in the financial statements, regardless of the measurement focus applied. The accompanying financial statements reflect revenues and expenditures in accordance with applicable statutory provisions and regulations of the Judicial Budgetary Control Board. These legal requirements differ from generally accepted accounting principles as follows:

1. Revenues are recognized to the extent that they have been appropriated and not necessarily when measurable and available.
2. Expenditures are recognized to the extent that appropriation authority has been extended to the court and not necessarily when the fund liability has been incurred.

Under the foregoing legal provisions, the court uses the following practices in recognizing revenues and expenditures:

Revenues

Self-generated revenues are recorded when earned. Interest income on time deposits is recorded when the time deposits have matured and the interest is available.

Expenditures

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. Furthermore, any expenditure of a long-term nature for which funds have not been appropriated during the current year is not recognized in the accompanying financial statements.

Other Financing Sources (Uses)

The transfer from the Supreme Court represents the appropriation from the 4446 General Fund. The transfer is recognized in the amount appropriated, to the extent withdrawn from the state treasury. Operating transfers are recognized when they become measurable and available.

COURT OF APPEAL, THIRD CIRCUIT
STATE OF LOUISIANA
Notes to the Financial Statements (Continued)

E. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include interest-bearing demand deposits, money market accounts, and certificates of deposit. Under state law, the court may deposit funds within a fiscal agent bank organized under the laws of the State of Louisiana, the laws of any other state in the Union, or the laws of the United States.

F. GENERAL FIXED ASSETS

The court values its general fixed assets (movable property) at historical cost. General fixed assets do not include the value of the legal library. A card file inventory is maintained, but no values have been assigned to the books. The court does not own any land or buildings. The movable property is not reflected within the accompanying special purpose financial statements.

G. LONG-TERM OBLIGATIONS

The court is by statute not allowed to incur bonded indebtedness and, therefore, no recognition within the accompanying financial statements is necessary. Furthermore, any long-term obligations of the court arising from lease arrangements, judgments, compensated absences, or any other source are not recognized in the accompanying special purpose financial statements.

H. BUDGET PRACTICES

The general appropriation made for the operations of the court is an annual lapsing appropriation. Amounts not expended or encumbered should be returned to the state General Fund on or before September 1, 1997.

The court has no encumbrances outstanding at June 30, 1997. The accompanying financial statements do not present a budget comparison because the appropriated fund is budgeted in lump sum and the non-appropriated fund is not subject to budgetary control. The appropriation act also appropriates to the court any interest that it earns. The Judicial Budgetary Control Board approved the original budget of \$3,016,466. There were no amendments during the year.

I. JUDGES' SALARIES

The salaries of the judges are paid directly by the Supreme Court of Louisiana with warrants drawn on the state treasury and are not included in the expenditures of the accompanying financial statements.

COURT OF APPEAL, THIRD CIRCUIT
STATE OF LOUISIANA
Notes to the Financial Statements (Continued)

J. LEAVE BENEFITS

The clerk of court, the director of central staff, and their respective staff earn annual and sick leave at various rates, depending on their years of service. Annual leave does not accumulate. Employees participating in the Louisiana State Employees Retirement System can accumulate unused sick leave without limitation. Upon termination, these employees are compensated for unused annual leave, but they are not compensated for unused sick leave. However, the unused sick leave may be credited as service for purposes of computing retirement benefits.

Other law clerks and secretaries employed by particular judges are employees of those judges. As such, they are subject to the guidelines set by the judge. There is no set policy for these employees. With respect to these employees of the judges, upon termination of employment with the court, all unused annual and sick leave is forfeited. Judges may elect to have their personal employees covered by the full provisions of the Human Resource Manual, which would then provide those employees with the same annual and sick leave as all other employees.

There is no liability for unused leave payable at June 30, 1997.

K. FUND EQUITY RESERVES

Reserves represent those portions of fund equity not appropriate for expenditure if that are legally segregated for a specific future use.

L. TOTAL COLUMNS ON STATEMENTS

The total columns on the statements are captioned Memorandum Only (overview) to indicate that they are presented only to facilitate financial analysis. DMO in these columns do not present financial position or results of operations. Neither is such data comparable to a consolidation.

3. CASH AND CASH EQUIVALENTS

At June 30, 1997, the court has cash and cash equivalents (bank balances) composed of the following:

Interest-bearing demand deposits	\$52,805
Money market accounts	143,171
Time deposits	<u>280,350</u>
Total	<u>\$476,326</u>

**COURT OF APPEAL, THIRD CIRCUIT
STATE OF LOUISIANA**
Notes to the Financial Statements (Continued)

Cash and cash equivalents are stated at cost, which approximates market. Under state law, these deposits must be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent bank. The market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent. These pledged securities are held in the name of the pledging fiscal agent bank in a holding or custodial bank that is mutually acceptable to both parties. The court has deposit balances (collected bank balances) of \$660,385 at June 30, 1997, for which the court has control. These deposits are secured from risk by \$300,000 of federal deposit insurance (GAISS Risk Category 1) and \$360,385 of pledged securities held in the name of the pledging fiscal agent bank in a holding bank (GAISS Risk Category 3).

3. CHANGES IN GENERAL FIXED ASSETS

At June 30, 1997, the court has stewardship responsibility for \$1,240,461 in governmental movable property. A summary of changes in movable property follows:

	Balance July 1, 1996	Additions	Deletions	Balance June 30, 1997
Movable property	<u>\$226,513</u>	<u>\$290,328</u>	<u>\$276,380</u>	<u>\$1,240,461</u>

4. PENSION PLANS

Substantially all employees of the court are members of two statewide, public employee retirement systems. Court employees are generally members of the Louisiana Clerks Retirement and Relief Fund (LCRRF), and classified/unclassified state employees are members of the Louisiana State Employees Retirement System (LASERS). Both plans are cost-sharing, multiple-employer defined benefit pension plans administered by separate boards of trustees. LCRRF and LASERS provide retirement, disability, and survivors' benefits to plan members and beneficiaries. Benefits granted by LASERS are guaranteed by the State of Louisiana by provisions of the Louisiana Constitution of 1974. Generally, all full-time employees are eligible to participate in the systems, with employee benefits vesting after 10 years of service. Article 10, Section 28 of the Louisiana Constitution of 1974 assigns the authority to establish and amend benefit provisions to the state legislature. The systems issue annual publicly available financial reports that include financial statements and required supplementary information for the systems. The reports may be obtained by writing to the Louisiana Clerks Retirement and Relief Fund, 11745 Brickstone Avenue, Suite D1, Baton Rouge, Louisiana 70816, or by calling (804) 293-1162 and/or the Louisiana State Employees Retirement System, Post Office Box 44213, Baton Rouge, Louisiana 70804, or by calling (804) 922-0609.

**COURT OF APPEAL, THIRD CIRCUIT
STATE OF LOUISIANA**

Notes to the Financial Statements (Continued)

The contribution requirements of plan members and the court are established and may be amended by the state legislature. The legislature annually sets the required employer contribution rate equal to the actuarially required employer contribution as set forth in R.S. 11:102. Employees contribute 8.25 percent (LCRRP) and 7.5 percent (LASENS) of covered salaries. The court's contribution rate to LCRRP was 11 percent of covered salaries for the fiscal year ended June 30, 1997; 11.5 percent for the year ended June 30, 1998; and 10.25 percent for the year ended June 30, 1999. The court's contribution rate to LASENS for the fiscal year ended June 30, 1997, increased to 12.4 percent of annual covered payroll from the 12.0 percent required in fiscal years ended June 30, 1998, and 11.9 percent required in the fiscal year ended June 30, 1999. The court's employer contribution is funded by the State of Louisiana through the annual appropriation to the court. The court's employer contributions to LCRRP for the years ended June 30, 1997, 1998, and 1999 were \$20,160, \$21,921, and \$19,241, respectively, and to LASENS for the years ended June 30, 1997, 1998, and 1999 were \$252,490, \$248,652, and \$227,050, respectively, equal to the required contributions for each year.

**5. POSTEMPLOYMENT HEALTH CARE
AND LIFE INSURANCE BENEFITS**

The court provides certain continuing health care and life insurance benefits for its retired employees. Substantially all of the court's employees become eligible for these benefits if they reach normal retirement age while working for the court. These benefits for retirees and similar benefits for active employees are provided through the State of Louisiana's Group Benefits Program whose monthly premiums are paid jointly by the employee and the court. The court recognizes the cost of providing these benefits (court's portion of premiums) as an expenditure when paid during the year, which totaled \$117,826 for the year ended June 30, 1997. The court's cost of providing retiree health care and life insurance benefits are recognized as expenditures when the monthly premiums are paid. For the year ended June 30, 1997, the cost of retiree benefits totaled \$23,446.

**6. JUDGMENTS, CLAIMS, AND
SIMILAR CONTINGENCIES**

Obligations and losses arising from judgments, claims, and similar contingencies are paid through the state's self-insurance fund or the state General Fund and are not reflected in the accompanying special purpose financial statements. The self-insurance fund is operated by the Office of Risk Management, the state agency responsible for the state's self-insurance program.

7. LEASE COMMITMENTS

Capital leases, which under generally accepted accounting principles would be an asset and liability of the court, are not reflected in the accompanying special purpose financial statements. The court has capital leases for one copier and two phone systems. The

**COURT OF APPEAL, THIRD CIRCUIT
STATE OF LOUISIANA**
Notes to the Financial Statements (Continued)

Following is a schedule of future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of June 30, 1997:

Fiscal year:	
1997-98	\$5,997
1998-99	5,503
1999-2000	5,302
Total minimum lease payments	<u>7,802</u>
Less - amount representing interest	<u>1,350</u>
Present value of net minimum lease payments	<u>\$6,452</u>

All capital lease agreements have non-appropriation-occupatory clauses that allow for lease cancellation if the Louisiana Legislature does not make an appropriation for their continuation during any future fiscal period.

In addition to capital leases, the Court of Appeal, Third Circuit has six operating leases for office space. Of these six, two are cancellable and four can be terminated if the judge for whom the space was leased ceases to be judge for whatever reason. The annual operating lease payments for the next five years are presented as follows:

Fiscal year:	
1997-98	\$82,005
1998-99	80,797
1999-2000	43,069
2000-01	14,840
2001-02	<u>8,880</u>
Total	<u>\$249,491</u>

8. FUND BALANCES RESERVED

As shown on Statement A, the Non-Appropriated Fund - Fee Account has a reserve for continuing operations and contingencies totaling \$415,038. These funds may be retained and used to defray the expenditures of the court as prescribed by R.S. 13:382. The Appropriated Fund - General Appropriation Fund has a reserve of \$169,114 for equipment, building furnishings and supplies, and building renovations. The funds will be used for building renovations and to purchase equipment, furnishings, and supplies for the Third Circuit Court of Appeal building and its satellite offices. These funds represent Supreme Court appropriation surplus funds and have been reserved based upon Act 1063 of the 1997 Regular Session of the Louisiana Legislature, which appropriates any funds previously appropriated to the judiciary.

**COURT OF APPEAL, THIRD CIRCUIT
STATE OF LOUISIANA**
Notes to the Financial Statements (Continued)

9. DEFERRED COMPENSATION PLAN

Certain employees of the court participate in the Louisiana Deferred Compensation Plan adopted under the provisions of Internal Revenue Code Section 457. Complete disclosures relating to this statewide plan are available in the financial statements of the State of Louisiana.

**OTHER REPORT REQUIRED BY
GOVERNMENT AUDITING STANDARDS**

The following pages contain a report on compliance with laws and regulations, and on internal controls as required by Government Auditing Standards, issued by the Comptroller General of the United States. This report is based solely on the audit of the financial statements and includes, where applicable, any reportable conditions and/or material weaknesses in internal controls or compliance matters that would be material to the presented financial statements.



OFFICE OF
LEGISLATIVE AUDITOR
STATE OF LOUISIANA
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STATE OF LOUISIANA, PUBLIC ACCOUNTS OFFICE
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December 16, 1987

**Report on Compliance and on Internal Control Over Financial
Reporting Based on an Audit of the Financial Statements Performed
in Accordance With Government Auditing Standards**

**COURT OF APPEAL, THIRD CIRCUIT
STATE OF LOUISIANA
Lake Charles, Louisiana**

We have audited the special purpose financial statements of the Court of Appeal, Third Circuit as of and for the year ended June 30, 1987, and have issued our report thereon dated December 16, 1987. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Court of Appeal, Third Circuit's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Court of Appeal, Third Circuit's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Court of Appeal, Third Circuit's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the following paragraphs.

COURT OF APPEAL, THIRD CIRCUIT
STATE OF LOUISIANA
Compliance and Internal Control Report
December 10, 1997
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Inadequate Time and Attendance Records

The Court of Appeal, Third Circuit has not maintained complete time and attendance records to support the payment of salaries and the use of all types of leave. Supervisors of employees who earn sick leave submit certifications that each of their employees has completed their assigned work during the month. However, the certifications do not indicate how many hours were worked nor do they indicate if the employee took leave for all time away from the job. Adequate internal controls require that time and attendance records accurately reflect the hours worked and leave taken.

Court policy allows employees who earn sick leave to accrue and carry over their leave without limitation to the amount. No other type of leave is carried over between years. At retirement, unused sick leave may be credited as service for the purpose of calculating benefits as prescribed by each employee's retirement system. With inadequate leave records, the risk exists that leave will be taken that was not earned, and that inaccurate sick leave balances will be used for retirement benefit calculations.

The court should require employees earning sick leave to submit a signed time and attendance report that indicates how many hours were worked and how much leave of each type (i.e., vacation, sick leave, and other) was taken. The employee's supervisor should then certify the time and attendance report for documentation of hours worked and leave taken.

In a letter dated December 10, 1997, Mr. Kenneth J. Bellanc, Clerk of Court, stated, "The Court disputes this finding. In 1991 the Second and Third Circuits reached a compromise with the Legislative Oversight Committee (now the Legislative Audit and Advisory Committee) on attendance forms. No audit since then until now has ever questioned the use of these forms.

"Although we do not feel that we have failed to do anything that was required of us under past agreements, in a spirit of cooperation, and to avoid any future controversy, we will begin on January 1, 1998, to comply with your request for pay time and attendance information. This information will be kept on (a) Clerk's office personnel, all central staff personnel, and on all Judge's personal staff who have opted to be governed by the Human Resource Manual. Going further, all of the above personnel will be required to specifically request in writing if they wish to leave the building during normal working hours for any reason other than a court errand and/or during their authorized lunch period. . . ."

LEGISLATIVE AUDITOR

COURT OF APPEAL, THIRD CIRCUIT
STATE OF LOUISIANA
Comptroller and Internal Control Report
December 16, 1997
Page 3

Inadequate Controls Over Movable Property

The Court of Appeal, Third Circuit did not maintain adequate internal controls over the tagging and reporting of movable property. In our review of the Louisiana Property Assistance Agency (LPA/A) Management System Transaction Reports for the period audited, we noted 166 items totaling \$97,207 that were not tagged or added timely to the property master file within 45 days of receipt. Although state property regulations requiring 45-day tagging and reporting do not apply to the court, the regulations give an indication of a reasonable period for timely reporting. The additions tested were tagged and added to the LPA/A system from 49 to 437 days after payment of the invoice. In addition, two items totaling \$3,304 that were tagged timely were not added to the LPA/A system until 701 days after payment of the invoice. The court does not make note of the receipt date of the property, but instead uses the date of invoice payment to record the acquisition date; consequently, the time lags indicated above would be longer from the actual receipt date of the property.

The deficiencies occurred because of staff shortages and because property control procedures were not adequate. Failure to maintain an accurate movable property system increases the risk of inaccurate accounting and reporting as well as the risk of loss from unauthorized use of the property.

The Court of Appeal, Third Circuit should update its existing policies and design control procedures to timely tag property and to update the property master file with the appropriate receipt date of the property.

In a letter dated December 16, 1997, Mr. Kenneth J. DeBanc, Clerk of Court, stated, "The Court feels that it maintains adequate controls over movable property. Although the audit report states that the Court is not subject to the 45 day rule, it goes on to find we do not have adequate controls because we did not follow the rule in some instances. In its 37 year history, the Court has never had an audit report listing any lost property.

"The Court does admit that due to an oversight . . . it failed to send [a] tag number to two computers, an error we caught ourselves and corrected before the audit.

"Although we do not agree with the finding on the subject, we will, to avoid any and all future disputes, voluntarily adopt the 45 day rule. Starting to date, all property purchased will be logged in the date received and reported and tagged within 45 days of receipt. . . .

LEGISLATIVE AUDITOR

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"To further expedite matters, we have this date talked to State Property Control about utilizing on-line services to electronically submit property information. We are awaiting to be contacted by Mr. Keith Kent of Property Control about this service."

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe that the reportable conditions described previously are material weaknesses.

This report is intended for the information and use of the court and its management. By provisions of state law, this report is a public document, and it has been distributed to appropriate public officials.

Respectfully submitted,



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Legislative Auditor

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