

STATE OF LOUISIANA LEGISLATIVE AUDITOR

Court of Appeal, First Circuit
State of Louisiana
Baton Rouge, Louisiana

February 19, 1997



Financial and Compliance Audit Division

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

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

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**COURT OF APPEAL, FIRST CIRCUIT
STATE OF LOUISIANA
Baton Rouge, Louisiana**

**Special Purpose Financial Statements
and Independent Auditor's Reports
As of and for the Year Ended June 30, 1996**

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.

February 19, 1997

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

**Special Purpose Financial Statements
and Independent Auditor's Reports
As of and for the Year Ended June 30, 1996**

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OFFICE OF
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BATON ROUGE, LOUISIANA 70804-9397

DANIEL G. KYLE, PH.D., CPA, CFE
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October 31, 1996

Independent Auditor's Report
on the Financial Statements

COURT OF APPEAL, FIRST CIRCUIT
STATE OF LOUISIANA
Baton Rouge, Louisiana

We have audited the accompanying special purpose (legal basis) financial statements of the Court of Appeal, First Circuit, a court within Louisiana state government, as of and for the year ended June 30, 1996, as listed in the foregoing table of contents. These financial statements are the responsibility of management of the Court of Appeal, First Circuit. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our 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, First 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 AUDITOR

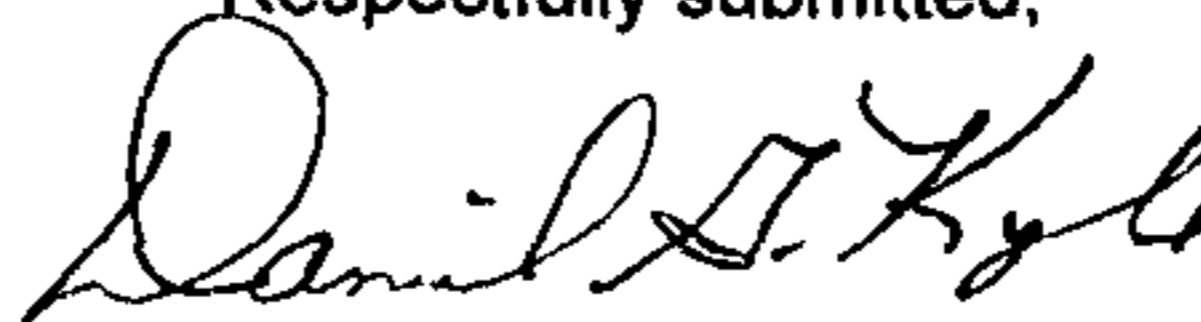
COURT OF APPEAL, FIRST CIRCUIT
STATE OF LOUISIANA
Audit Report, June 30, 1996

In our opinion, the accompanying special purpose financial statements present fairly, in all material respects, the balances within the appropriated and non-appropriated funds of the Court of Appeal, First Circuit at June 30, 1996, and the transactions of such funds for the year then ended, on the basis of accounting described in note 1-D.

We have also issued separate reports dated October 31, 1996, on internal control structure and compliance with laws and regulations as required by *Government Auditing Standards*.

In accordance with Louisiana Revised Statute 24:516, 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

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

Balance Sheet (Legal Basis), June 30, 1996

	APPROPRIATED FUND - GENERAL APPROPRIATION	NON- APPROPRIATED FUND - FEE ACCOUNT	TOTAL (MEMORANDUM ONLY)
ASSETS			
Cash and cash equivalents	\$291,886	\$229,881	\$521,767
Accounts receivable		5,661	5,661
Prepaid items	11,857	5,816	17,673
	<u>\$303,743</u>	<u>\$241,358</u>	<u>\$545,101</u>
TOTAL ASSETS			
LIABILITIES AND FUND EQUITY			
Liabilities:			
Accounts payable	\$97,575	\$1,911	\$99,486
Payroll deductions payable	24,836		24,836
Total Liabilities	<u>122,411</u>	<u>1,911</u>	<u>124,322</u>
Fund Equity - fund balance:			
Reserved for continuing operations	53,278	239,447	292,725
Reserved for encumbrances	128,054		128,054
Total Fund Equity	<u>181,332</u>	<u>239,447</u>	<u>420,779</u>
	<u>\$303,743</u>	<u>\$241,358</u>	<u>\$545,101</u>
TOTAL LIABILITIES AND FUND EQUITY			

The accompanying notes are an integral part of this statement.

**COURT OF APPEAL, FIRST 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, 1996**

	APPROPRIATED FUND - GENERAL APPROPRIATION	NON- APPROPRIATED FUND - FEE ACCOUNT	TOTAL (MEMORANDUM ONLY)
REVENUES			
Court fees		\$171,181	\$171,181
Judges' Supplemental Compensation Fund		16,834	16,834
Copy fees		11,116	11,116
Use of money and property - interest earnings	\$2,515	4,584	7,099
Total revenues	<u>2,515</u>	<u>203,715</u>	<u>206,230</u>
EXPENDITURES			
Appropriated expenditures:			
Personal services	3,625,945		3,625,945
Travel	221,682		221,682
Operating services	381,173		381,173
Supplies	128,452		128,452
Other charges	19,319		19,319
Capital outlay	404,221		404,221
Non-appropriated expenditures:			
Operating services		9,656	9,656
Supplies		12,536	12,536
Other charges		2,070	2,070
Capital outlay		23,248	23,248
Judges' Supplemental Compensation Fund		16,834	16,834
Total expenditures	<u>4,780,792</u>	<u>64,344</u>	<u>4,845,136</u>
EXCESS (Deficiency) OF REVENUES OVER EXPENDITURES	(4,778,277)	139,371	(4,638,906)
OTHER FINANCING SOURCES			
Transfer from Supreme Court	4,959,609	NONE	4,959,609
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES	181,332	139,371	320,703
FUND BALANCES AT BEGINNING OF YEAR	NONE	100,076	100,076
FUND BALANCES AT END OF YEAR	<u>\$181,332</u>	<u>\$239,447</u>	<u>\$420,779</u>

The accompanying notes are an integral part of this statement.

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

Notes to the Financial Statements
As of and for the Year Ended June 30, 1996

INTRODUCTION

The Court of Appeal, First 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 1974 and Sections 311 through 392 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 (LSA-R.S.) 13:352. In addition to the fees mandated by LSA-R.S. 13:352 relative to appeals, applications for writs, motions filed on unlogged appeals and answers to appeals, the court, in compliance with Act 63 of the 1985 Session of the Louisiana Legislature and in conformity with the Judges' Supplemental Compensation Fund, charges an additional fee of \$14.50. The total amount collected in connection with the Judges' Supplemental Compensation Fund is remitted to the Judicial Administrator's Office of the Supreme Court of Louisiana.

The Court of Appeal, First Circuit has appellate jurisdiction as authorized under Article V, Section 5 of the Louisiana Constitution, which encompasses the parishes of Ascension, Assumption, East Baton Rouge, East Feliciana, Iberville, Lafourche, Livingston, Pointe Coupee, St. Helena, St. Mary, St. Tammany, Tangipahoa, Terrebonne, Washington, West Baton Rouge, and West Feliciana. 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 Court of Appeal, First Circuit is domiciled in Baton Rouge and has 13 judges and 84 additional 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 exercises authority over budget

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

E. CASH AND CASH EQUIVALENTS

Cash and cash equivalents (book balances) are composed of the following:

Cash on hand	\$1,916
Cash in demand accounts	9,936
Interest-bearing demand deposits	291,886
Money market accounts	<u>218,029</u>
Total	<u>\$521,767</u>

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 \$596,157 at June 30, 1996, for which the court has control. These deposits are secured from risk by \$200,000 of federal deposit insurance and \$396,157 of pledged securities held in the name of the pledging fiscal agent bank in a holding bank (GASB Risk Category 3).

F. GENERAL FIXED ASSETS

At June 30, 1996, the court has stewardship responsibility for \$1,489,419 in governmental movable property, valued at historical cost at the time of acquisition. The court also maintains a legal library with an appraised value of \$157,435 at September 18, 1986, plus estimated net additions of \$52,778 from the 1986 appraisal date to June 30, 1996. The general fixed assets are not reflected within the accompanying special purpose financial statements. A summary of changes in general fixed assets is as follows:

	<u>Balance July 1, 1995</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 1996</u>
Movable property	\$1,298,901	\$330,623	\$140,105	\$1,489,419
Legal library	<u>210,213</u>	<u>NONE</u>	<u>NONE</u>	<u>210,213</u>
Total	<u>\$1,509,114</u>	<u>\$330,623</u>	<u>\$140,105</u>	<u>\$1,699,632</u>

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

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 those 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 recognized when earned.

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 are not recognized in the accompanying financial statements.

Other Financing Sources (Uses)

The transfer from the Supreme Court represents the appropriation from the state General Fund. The transfer is recognized in the amount appropriated, to the extent withdrawn from the state treasury.

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

matters; (2) state appropriations provide the largest percentage of total revenues; and (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, First 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 fund. 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 LSA-R.S. 13:352 and 13:10.3. Expenditures incurred in excess of the amount appropriated by the legislature (General Appropriation Fund) are funded from this account.

COURT OF APPEAL, FIRST CIRCUIT
STATE OF LOUISIANA
Notes to the Financial Statements (Concluded)

Fiscal year:	
1996-97	\$45,256
1997-98	38,226
1998-99	35,226
1999-2000	22,413
2000-2001	15,600
Thereafter	<u>54,600</u>
Total	<u>\$211,321</u>

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

6. FUND BALANCE RESERVES

As shown on Statement A, the Appropriated Fund - General Appropriation Fund and the Non-Appropriated Fund - Fee Account have reserves for continuing operations of \$53,278 and \$239,447, respectively. These funds may be retained and used to defray the expenditures of the court as prescribed by Act 36 of the 1996 Regular Session of the Louisiana Legislature and LSA-R.S. 13:352, respectively.

The Appropriated Fund - General Appropriation Fund has a reserve of \$128,054 for encumbrances. The funds will be used for supplies and capital outlay expenditures.

7. 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.

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

annual covered payroll for the fiscal year ended June 30, 1996; 10.25 percent for the year ended June 30, 1995; and 8.5 percent for the year ended June 30, 1994. The contribution rate to LASERS for the fiscal year ended June 30, 1996, increased to 12.0 percent of annual covered payroll from the 11.9 percent required in fiscal years ended June 30, 1995 and 1994. 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 LCRRF for the years ended June 30, 1996, 1995, and 1994, were \$92,792, \$75,985, and \$45,178, respectively, and to LASERS for the years ended June 30, 1996, 1995, and 1994, were \$258,774, \$239,842, and \$205,349, respectively, equal to the required contributions for each year.

**3. 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 insurance companies 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 the premiums) as an expenditure when paid during the year, which totaled \$90,925 for the year ended June 30, 1996. The court's costs 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, 1996, the cost of retiree benefits totaled \$475.

**4. 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 by General Fund appropriation 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.

5. LEASE AND RENTAL COMMITMENTS

For the fiscal year ending June 30, 1996, the court's rental expenditures amounted to \$65,486 for judicial office space and \$16,937 for equipment. The annual rental payments for cancelable operating leases for the next five fiscal years are as follows:

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

employee may accumulate annual leave beyond the calendar year in which it was earned. An employee may accumulate sick leave up to two times his annual earnings rate. At termination of employment, unused annual and sick leave is forfeited.

Law clerks and secretaries employed by a particular judge are employees of that judge. As such, they are subject to the guidelines set by the judge. There is no set policy for these employees.

With respect to all employees of the court, upon termination of employment with the court, all unused annual and sick leave is forfeited; therefore, no liability exists for unused leave payable at June 30, 1996.

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. Data in these columns do not present financial position or results of operations. Neither is such data comparable to a consolidation.

2. 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 29 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 Bricksome Avenue, Baton Rouge, Louisiana 70816, or by calling (504) 293-1162 and/or the Louisiana State Employees Retirement System, Post Office Box 44213, Baton Rouge, Louisiana 70804, or by calling (504) 922-0600.

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 Louisiana Revised Statute (LSA-R.S.) 11:102. Employees contribute 8.25 percent (LCRRF) and 7.5 percent (LASERS) of covered salaries. The court's contribution to LCRRF was 11.5 percent of

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

In accordance with LSA-R.S. 39:321-332, the court has complied with the movable property statutes of the State of Louisiana.

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 commitments, judgments, compensated absences, or from any other source are not recognized in the accompanying special purpose financial statements.

H. ENCUMBRANCES

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve the applicable fund balance, was employed in the appropriated fund. Encumbrances outstanding at year-end are reported as a reservation of fund balance since they do not constitute available spendable resources. The court has \$128,054 of encumbrances at June 30, 1996.

I. 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, 1996.

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 budget authorized by Act 1225 of 1995 for the appropriated fund was \$4,677,234. In accordance with provisions of the budget act, this amount was supplemented by interest earned of \$2,515 and \$282,375 transferred from the surplus of the Supreme Court for a total budget of \$4,959,609.

J. 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.

K. LEAVE BENEFITS

The clerk of court, the director of central staff, and their respective staff members earn annual and sick leave at various rates depending on their years of service. No

LEGISLATIVE AUDITOR

COURT OF APPEAL, FIRST CIRCUIT
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"The First Circuit Court of Appeal has never refused your office or any representative of your office access to any and all records which are under the supervision and control of this court. Those records to which your 'finding' refers belong to the First Circuit Court of Appeal Judges Association, a separate legal entity from the Louisiana First Circuit Court of Appeal. Records of the First Circuit Court of Appeal Judges Association are simply not maintained by this court.

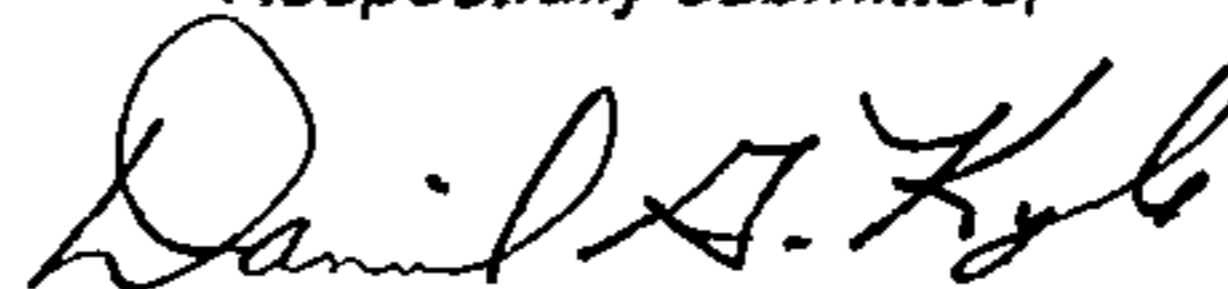
"The First Circuit Court of Appeal Judges Association is a private unincorporated association of individuals, albeit active and retired judges of this court. Dues paid by active judges of this court are reimbursed as an appropriate expense of the individual judge's office, as are dues paid to other professional and judicial organizations. Your office has in its possession a copy of the articles of the association of the First Circuit Court of Appeal Judges Association. As such, we strongly disagree with the statement in your 'finding' that this court 'refused to allow the auditor access to all court records in accordance with Louisiana law.'"

Additional Comments: Based upon the articles of association that we were allowed to review, the dues of all active members (judges and clerk of the court) are paid 100 percent from public funds of the court. We continue to believe that this restrictive association is an extension of the Court of Appeal, First Circuit and subject to audit in accordance with state law.

We considered these instances of noncompliance in forming our opinion on whether the Court of Appeal, First Circuit's special purpose financial statements are presented fairly, in all material respects, in conformity with the basis of accounting described in note 1-D. This report does not affect our report dated October 31, 1996, on those special purpose financial statements.

Our comments on compliance with laws and regulations are 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,



Daniel G. Kyle, CPA, CFE
Legislative Auditor

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EXHIBIT B

COURT OF APPEAL, FIRST CIRCUIT
STATE OF LOUISIANA
Compliance Report
October 31, 1996
Page 2

occurred because the court believed the law applied only to single items costing more than \$5,000 or to a single invoice for \$5,000 or more. Failure to comply with the bid law may result in purchases being made at other than the lowest possible cost.

The court should strictly adhere to the public bid law (LSA-R.S. 38:2212) when purchasing materials and supplies. In a letter dated October 25, 1996, Mr. Stanley P. Lemoine, Clerk of Court, stated that all items referenced were obtained by selecting the lowest bidder from three telephone quotes. Although he concurs that this does not strictly adhere to the bid law, he believes that the lowest possible price was still obtained. Mr. Lemoine also stated that beginning in April 1996, procedures were implemented to document purchases in accordance with the bid law.

Access to Records Denied

The Court of Appeal, First Circuit refused to allow the auditor access to all court records in accordance with Louisiana law. LSA-R.S. 24:513(A) grants the legislative auditor the authority to audit the books and accounts of all public officials and specifically states that the legislative auditor shall have access to all records of auditees. However, the Court of Appeal, First Circuit denied access to the records of the First Circuit Court of Appeal Judges Association.

The association was created on November 19, 1993, and has various purposes, including to promote and improve the effective administration of justice and to provide a forum for the continuing education of its members and of the general public. Active membership in the association is restricted to the elected judges serving on the First Circuit Court of Appeal and the court's clerk. Dues of the association are set at \$200 per year and these dues are paid from the court's general appropriation. Because all income for the association comes from public funds and because of the restrictive nature of the association's membership, the association is an extension of the court and would be subject to all Louisiana laws concerning record keeping, purchasing, procurement, et cetera, to which the court is subject. However, we were unable to review the records of the court to determine if all funds are properly accounted for and that expenditures were made in accordance with Louisiana law.

The Court of Appeal, First Circuit should comply with Louisiana law and submit all records, including the records of the First Circuit Court of Appeal Judges Association, for examination by the legislative auditor. In a letter dated January 16, 1997, Mr. Morris A. Lottinger, Jr., Chief Judge of the Court of Appeal, First Circuit stated:



DANIEL G. KYLE, PH.D., CPA, CFE
LEGISLATIVE AUDITOR

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October 31, 1996

Independent Auditor's Report on Compliance With Laws and
Regulations Material to the Special Purpose Financial Statements

COURT OF APPEAL, FIRST CIRCUIT
STATE OF LOUISIANA
Baton Rouge, Louisiana

We have audited the special purpose financial statements of the Court of Appeal, First Circuit, a court within Louisiana state government, as of and for the year ended June 30, 1996, and have issued our report thereon dated October 31, 1996.

We conducted our audit in accordance with generally accepted auditing standards and *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.

Compliance with laws and regulations applicable to the Court of Appeal, First Circuit is the responsibility of the court's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the court's compliance with certain provisions of laws and regulations. However, the objective of our audit of the special purpose financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed the following instances of noncompliance that, although not material to the financial statements, are required to be reported herein under *Government Auditing Standards*.

Noncompliance With Bid Law

The Court of Appeal, First Circuit failed to comply with the state's bid law when purchasing \$167,810 of materials and supplies. Louisiana Revised Statute (LSA-R.S.) 38:2212 (the bid law) requires at least three telephone or facsimile quotations to be obtained for materials and supplies expenditures of \$5,000 or more. For expenditures exceeding \$10,000, a public entity must advertise and let by contract to the lowest responsible bidder. Furthermore, this statute has been interpreted by Attorney General Opinion 93-150 to prohibit avoiding the requirements of the bid law by breaking down or dividing known needed purchases into separate purchases below the amount specified in the statute. During our audit, we noted 10 occasions where purchases of \$5,000 or more were made without obtaining the required quotations or bids. These conditions

EXHIBIT B

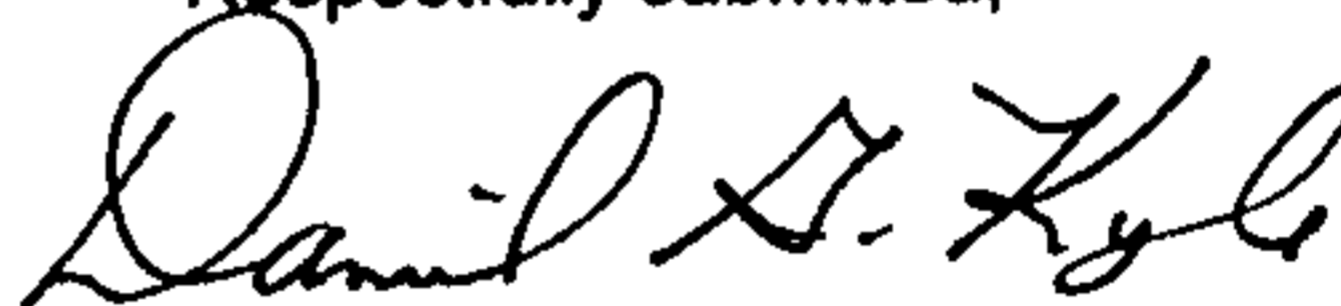
LEGISLATIVE AUDITOR

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Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Accountants. A material weakness is a condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors and irregularities in amounts that would be material in relation to the special purpose 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. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined previously.

Our comments on the internal control structure are 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,



Daniel G. Kyle, CPA, CFE
Legislative Auditor

SRT:MWB:dl

{ICRT}

EXHIBIT A



DANIEL G. KYLE, PH.D., CPA, CFE
LEGISLATIVE AUDITOR

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October 31, 1996

Independent Auditor's Report on Internal Control Structure
Based Solely on an Audit of the Special Purpose Financial Statements

**COURT OF APPEAL, FIRST CIRCUIT
STATE OF LOUISIANA
Baton Rouge, Louisiana**

We have audited the special purpose financial statements of the Court of Appeal, First Circuit, a court within Louisiana state government, as of and for the year ended June 30, 1996, and have issued our report thereon dated October 31, 1996.

We conducted our audit in accordance with generally accepted auditing standards and *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.

Management of the Court of Appeal, First Circuit is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of special purpose financial statements in accordance with legally prescribed procedures. Because of inherent limitations in any internal control structure, errors and/or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the special purpose financial statements of the Court of Appeal, First Circuit for the year ended June 30, 1996, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk to determine our auditing procedures for the purpose of expressing our opinion on the special purpose financial statements and not to provide assurance on the internal control structure. Accordingly, we do not express such an opinion.

EXHIBIT A

**OTHER REPORTS REQUIRED BY
GOVERNMENT AUDITING STANDARDS**

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