

LOUISIANA SUPREME COURT
STATE OF LOUISIANA



FINANCIAL AUDIT SERVICES
PROCEDURAL REPORT
ISSUED SEPTEMBER 27, 2017

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Louisiana Legislative Auditor

Daryl G. Purpera, CPA, CFE



Louisiana Supreme Court

September 2017

Audit Control # 80170087

Introduction

The Louisiana Supreme Court (Court) is Louisiana's highest court and is composed of seven justices elected from districts throughout Louisiana. The Chief Justice serves as the chief administrative officer of the judicial system.

Results of Our Procedures

We evaluated the Court's operations and system of internal controls through inquiry, observation, and review of its policies and procedures, including a review of the laws and regulations applicable to the Court. Based on the documentation of the Court's controls, our understanding of related laws and regulations, and the results of our analytical procedures, we performed procedures on selected controls and transactions related to cash, payroll expenditures, travel card expenditures, professional services contracts, and movable property.

Current-year Finding

Improper Employee Payroll Activity

The Court launched an investigation when payroll documentation for a judge assignment requested by the Legislative Auditor could not be located. As a result of the investigation, the Court identified more than \$116,000 in fraudulent payroll payments.

Retired judges are given *ad hoc* court assignments pursuant to an Order of the Court when elected judges are temporarily absent or when vacancies occur. A former Court payroll supervisor is accused of processing 28 fraudulent payroll transactions, from April 2016 through February 2017, to retired judges for judicial assignments they never served and diverting the payments to bank accounts that she controlled. The fraud began when the former Court payroll supervisor assumed the job duties of the payroll clerk in addition to her own duties when the position became vacant. The fraud occurred because she had access to process and approve payroll transactions and change personnel information, such as direct deposit information, in the payroll system. She was employed with the Court from December 1, 2015, until she resigned on March 4, 2017. She was arrested on July 6, 2017, on multiple counts of malfeasance in office, identity theft, computer fraud, public salary deduction, and public payroll fraud.

The Court should strengthen its internal controls to ensure that payroll and personnel duties are properly segregated and that payroll transactions for judge assignments are properly authorized, processed, and monitored. Management concurred with the finding and provided a plan of corrective action (see Appendix A).

Cash

The Court maintains six bank accounts. The cash balance at June 30, 2016, and June 30, 2017, per the Court's Annual Fiscal Reports, was \$59,537,770 and \$57,750,978, respectively. We obtained an understanding of the Court's controls over the bank accounts and reviewed bank statements, bank reconciliations, and selected disbursements. Based on the results of our procedures, except as noted in the Current-year Finding section, the Court had adequate controls in place to ensure timely preparation, review, and approval of bank reconciliations; and that disbursements were properly authorized, made for proper business purposes, accurately recorded, and adequately supported.

Payroll Expenditures

Salaries and related benefits made up approximately 57% of the Court's expenditures in fiscal years 2016 and 2017. We obtained an understanding of the Court's controls over the time and attendance function and reviewed selected employee time statements and leave records. Based on the results of our procedures, except as noted in the Current-year Finding section, the Court had adequate controls in place to ensure timely review and approval of employee time statements and leave requests, employees were paid the amounts authorized, and leave taken was properly accounted for.

Travel Card Expenditures

The Court has a credit card available for use when incurring high-cost travel expenditures such as airfare and lodging. We obtained an understanding of controls over the travel card and examined selected transactions. Based on the results of our procedures, the Court had adequate controls in place to ensure that purchases were properly authorized, made for proper business purposes, accurately recorded, adequately supported, and in compliance with applicable laws and regulations.

Professional Services Contracts

We obtained an understanding of controls over professional services contracts and examined 13 contracts for compliance with state law. Based on the results of our procedures, the Court had adequate controls in place to ensure that professional services contracts were properly authorized

and administered in accordance with state law, and contract expenditures were made for proper business purposes and were accurately recorded in the financial records.

Movable Property

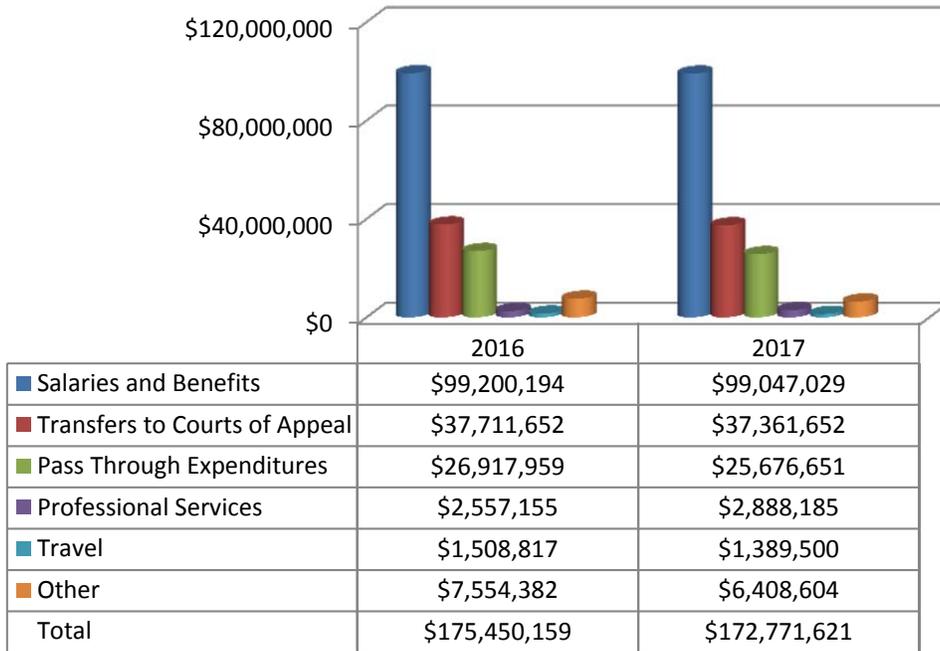
The Court has 1,271 assets with an acquisition cost of \$3,907,113 as disclosed in its latest available annual certifications of property inventory that were submitted to the Louisiana Property Assistance Agency. We obtained an understanding of the Court's controls over movable property and examined asset management system reports and selected movable property transactions. Based on the results of our procedures, the Court had adequate controls in place to ensure that assets were properly safeguarded and accurately recorded in the asset management system.

Comparison of Activity Between Years

We compared the most current and prior-year financial activity using the Court's Annual Fiscal Reports and/or system-generated reports to identify trends and obtained explanations from management for any significant variances that could potentially indicate areas of risk. Management provided reasonable explanations for all significant variances.

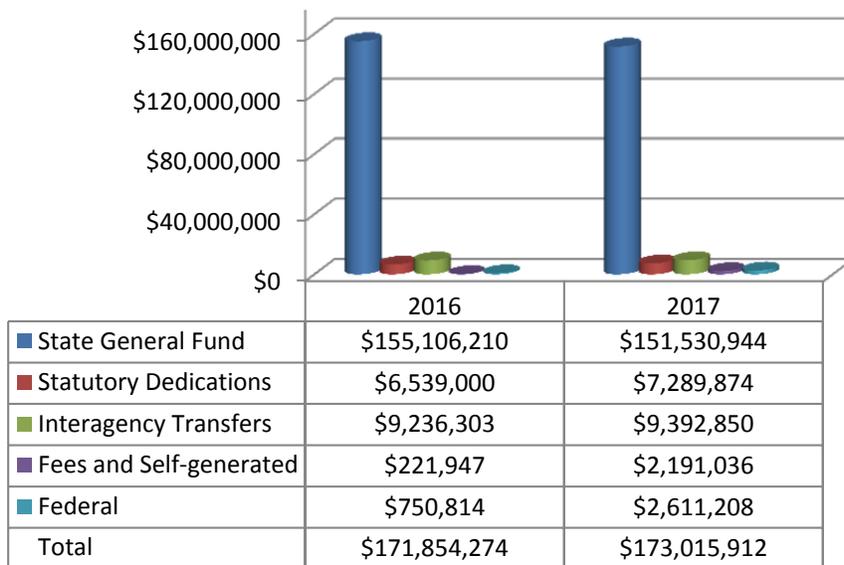
As shown in Exhibit 1, the majority of the Court's expenditures for fiscal years 2016 and 2017 was for salaries and benefits. The Court was primarily funded with state General Fund monies in fiscal years 2016 and 2017 (see Exhibit 2).

Exhibit 1
Expenditures - Fiscal Years 2016 and 2017



Source: Fiscal Year 2016 and 2017 Annual Fiscal Reports

Exhibit 2
Revenue Sources - Fiscal Years 2016 and 2017



Source: Fiscal Year 2016 and 2017 Annual Fiscal Reports

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

Respectfully submitted,

A handwritten signature in blue ink that reads "Daryl G. Purpera". The signature is written in a cursive style with a large, prominent initial "D".

Daryl G. Purpera, CPA, CFE
Legislative Auditor

CRV:WDG:EFS:aa

LASC 2017

APPENDIX A: MANAGEMENT'S RESPONSE



Supreme Court
STATE OF LOUISIANA

CHIEF JUSTICE

Bernette Joshua Johnson

August 25, 2017

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Mr. Daryl G. Purpera, CPA, CFE
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Dear Mr. Purpera,

As requested in your communication of August 15, 2017, the Louisiana Supreme Court (Court) provides the following official response to the reportable audit finding in your communication.

Finding: Improper Employee Payroll Activity

The Court concurs with the finding and the recommendation. The Court is committed to instituting all cost effective measures to ensure the integrity of our financial system and systems of internal controls.

Corrective Action Plan

1. The Court has reduced the number of individuals with security rights to change bank account information down to one Human Resources staff person. **Completed.**
2. The Court has developed an electronic notification system. The system sends an alert to senior management on every additions/change made to banking account information in addition to notification on additions/changes to vendor information. The notification provides the name of the employee making the change, the date and time of the change and the new and old values changed. **Completed.**
3. The Court is looking into developing a multi-level approval process for banking, taxes and other personal changes. **Estimated completion, December 2017.**

**Responsible Party: Michael Evanson, IT Director
Veronica Cheneau, Human Resources Director**

4. The Court is looking into developing a multi-level process to approve pay requests entered by Payroll on all judicial assignments. **Estimated completion, March 2018.**

**Responsible Party: Michael Evanson, IT Director
Sandra Vujnovich, Judicial Administrator**

5. The Court is developing a long term project to revamp the current role based security with a more individualized job specific security system. **Estimated completion, December 2018.**

Responsible Party: Michael Evanson, IT Director

6. The Court will review employee system access periodically and no less than annually.

Responsible Party: Michael Evanson, IT Director

7. The Court will remove all payroll processing rights from Human Resources personnel. **Estimated completion September 2017.**

Responsible Party: Michael Evanson, IT Director

8. The Court requested an internal audit of Information Technology and is awaiting the draft report from CRI. **Report due September 2017.**

Responsible Party: Michael Evanson, IT Director

The Court is committed to protecting public assets and taking the necessary steps to ensure that misappropriation does not recur.

Sincerely,



Chief Justice Bernette J. Johnson

APPENDIX B: SCOPE AND METHODOLOGY

We conducted certain procedures at the Louisiana Supreme Court (Court) for the period from July 1, 2015, through June 30, 2017. Our objective was to evaluate certain internal controls the Court uses to ensure accurate financial reporting, compliance with applicable laws and regulations, and to provide accountability over public funds. The scope of our procedures, which are summarized below, was significantly less than an audit conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. We did not audit or review the Court's Annual Fiscal Reports, and accordingly, we do not express an opinion on those reports. The Court's accounts are an integral part of the State of Louisiana's financial statements, upon which the Louisiana Legislative Auditor expresses opinions.

- We evaluated the Court's operations and system of internal control through inquiry, observation, and review of its policies and procedures, including a review of the laws and regulations applicable to the Court.
- Based on the documentation of the Court's controls and our understanding of related laws and regulations, we performed procedures on selected controls relating to cash, payroll expenditures, travel card expenditures, professional services contracts, and movable property.
- We compared the most current and prior-year financial activity using the Court's Annual Fiscal Reports and/or system-generated reports and obtained explanations from the Court's management for any significant variances.

The purpose of this report is solely to describe the scope of our work at the Court and not to provide an opinion on the effectiveness of the Court's internal control over financial reporting or on compliance. Accordingly, this report is not intended to be, and should not be, used for any other purpose.