

CITY OF NEW ORLEANS

FINES AND FEES COLLECTIONS OF THE TRAFFIC COURTS

FOR THE PERIOD JANUARY 1, 2006 THROUGH DECEMBER 31, 2006

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

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PAILET, MEUNIER and LeBLANC, L.L.P.

Certified Public Accountants
Management Consultants

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

To The Traffic Court Judges
City of New Orleans Louisiana

We have performed the procedures enumerated below, which were agreed to by the City of New Orleans Traffic Court (hereafter "the Court"), solely to assist the Court with respect to the accounting records of the Fines and Fees Fund of the City of New Orleans Traffic Courts for the period January 1, 2006 through December 31, 2006. This engagement to apply agreed-upon procedures was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States. The sufficiency of the procedures is solely the responsibility of the specified users of the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Furthermore, on August 29, 2005, Hurricane Katrina came ashore causing massive destruction and flooding to the City of New Orleans. This event caused a relocation of court operations, reduction of court staff and inaccessibility or destruction of important financial documentation. Therefore, our procedures may be limited by lack of documentation or lack of knowledgeable staff to assist in our review.

Our procedures and findings are as follows:

Procedure 1.

Meet with management of the City of New Orleans Traffic Court to review and document the current internal control environment. Interview key employees and complete Internal Control Questionnaires from the Practitioners Publishing Corporation for the following area: Electronic Data Processing.

Findings

The court has minimal controls within its A/S 400 operating system which provide assurance as to the accuracy of financial information being entered.

Court personnel have the authorization to change or delete case documentation

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without the approval of upper level management.

Court personnel are allowed to make reversals to payments already received without the approval of upper level management.

The Court does not have a written organization chart detailing each employee's position and an assigned back up to that position. Consequently, when an employee is absent or sick his/her duties cannot be performed.

Court personnel are not following processing procedures in recording payment information into the court's software system. The lack of compliance with court procedures as spelled out in the court's manual has constantly led to an inaccurate presentation of court financial information to the Court's accounting department.

Ticket payments are not processed correctly. For example, court personnel routinely use the wrong financial codes and ignore computer error messages when processing information.

There are no official request documents being given to the system administrator for error corrections. These requests are only made verbally; and, the requests are not periodically reviewed by an appropriate level of authority.

Procedure 2.

Review documentation provided by the Court to support the year-end cash balances for the year ended December 31, 2006.

Findings

The Court does not have sufficient evidential documentation to support the year end cash balances for fines and fees collected by the Court.

After Hurricane Katrina, the Court did not have access to its computer system; therefore, court personnel had to record, process, and document payments manually until the Court's software system could be brought back online. Although, this practice was good in theory, internal control procedures established by the Court to monitor the manual process were not followed. Once the software system was reinstated, the lack of manual controls led to the untimely transformation of data to the computer system. Ultimately, the delay in processing cases and a lack of internal control oversight led to multiple accounting deficiencies and the apparent misappropriation of payments.

Facts and circumstances suggest that through the manipulation of the court's computer system, approximately \$ 105,000 in court funds have been misappropriated, not accounted for and not returned to the Court. It is possible that additional funds may also have been misappropriated and not returned to

the Court. It appears that this was accomplished by particular cashiers taking payments from the defendant(s) on a particular day and changing the date of the receipt given to defendant's and date in which they process the case. By changing the date of processing the case to a different day, the internal controls were circumvented in a manner that would prevent payment information from being revealed on the report turned into the accounting department. In performing our procedures, we mailed out confirmations to defendants whose cases were processed and payment not submitted on cashier tills to the accounting department. Also, we mailed out confirmations where the payment was processed and submitted to the accounting department. Our procedures and confirmation process indicated that the payments actually received by particular cashiers in Division D were not turned into the accounting department and incorrectly processed. Furthermore, we received evidence in the form of signed receipts given to defendants that when dates were changed, the corresponding payments were not properly submitted to the Court's accounting department.

In conclusion, the Court's escrow fund cash balance was understated at year end due to the apparent misappropriation of assets. Our procedures have provided indication that internal controls have only been circumvented by a few employees within Division D. These acts were discovered by the Court's accounting department and the employees who were not complying with the internal controls have since been terminated. However, we have been provided documentation which may indicate that internal controls were circumvented in prior periods outside the scope of this report.

Court personnel are not being held accountable for processing errors which cause the daily collections to be over/understated. Court personnel are routinely over/short in cash versus the computer report on payments processed and submitted for the daily collections. Furthermore, the Court does not have written procedures (uniform or separate by court) which address the accountability of Court personnel when it comes to discrepancies in cash collected to cases processed.

Court procedures do not allow for the accounting department to determine the completeness of daily collections being submitted for review. For example, Court personnel do not submit all tickets for cases processed each day. Personnel only submit tickets for payment information which are present on the computer report. Consequently any transactions which do not have actual cash transactions cannot be reviewed by the accounting department and could potentially provide an avenue for misappropriation of assets and the over/under reporting of financial information as it pertains to the escrow fund.

Court procedures allow for cashiers to printout computer reports and count daily collections without the representation of an independent reviewer. They then turn their collections in to the accounting department at a later date. This

process could potentially allow for misappropriation of funds when cashiers reconcile the computer report to daily collections or vice versa.

Procedure 3.

Obtain copies of bank statements and canceled checks from January 1, 2006 through December 31, 2006.

Findings

The Court accepts payments for tickets in the form of personal checks. However, the Court does not have a way to verify these funds prior to accepting the payment. As a result, the Court is receiving an abundant number of personal checks which are being returned as insufficient funds by the bank.

Procedure 4.

Review the accounting process and documentation used to support the financial information reported to the City of New Orleans for inclusion in its Comprehensive Annual Financial Report. This review will include revenues and disbursements of the Fines and Fees Account. Select a representative sample of ticket receipts and disbursements and vouch each item selected to supporting documentation. Procedures will include reviewing each item for adequate documentation, propriety and compliance with the City of New Orleans Code of Ordinances. The sample, for purposes of establishing a scope for these procedures, will not exceed 75 receipts and 75 disbursements, for a maximum total of 150 selections.

Findings

From a review of the Comprehensive Annual Financial Report of the City of New Orleans for the year 2004, it has been determined the financial information regarding the Traffic Court's Escrow Fund account for the year of 2004 has not been included in the Comprehensive Annual Financial Report for the City of New Orleans. There was not an available Comprehensive Annual Financial Report of the City of New Orleans for the years 2005 and 2006; consequently, we could not perform this procedure.

Also, from the sample of cash receipts selected, we reviewed total funds as it pertains to each division of the court. We then verified totals for each division of court and traced the amounts to the cashier's till and the bank deposit. There were no exceptions noted (the cases which could potentially involve fraud were not part of our sample.)

Procedure 5.

Select fifty (50) cases with final disposition from a list of cases maintained in the courts electronic database. Review each case from inception until fine is paid (or bond refunded). Examine each case to determine if the correct procedures (i.e.

fines, fine amounts, etc.) have been applied to each case as it relates to the Fines and Fees Collections.

Findings

Of the fifty (50) cases tested, we observed fifteen (15) cases with lack of proper authorization or wrong financial code per the computer system. This finding would indicate that 30% of all cases processed by court personnel have the potential for processing errors. As per the Court's computer system, the Court received approximately 84,000 tickets for the year 2006. In essence, the Court could have potentially miscoded 25,200 of those tickets.

Procedure 6.

Perform analytical procedures on the Court's Fines and Fees Collections for the period January 1, 2006 through December 31, 2006.

Findings

Due to the uncertainty of the beginning balances, we could not perform an analytical review comparing the year 2006 fines and fees collections to prior years. However, we did review the number of tickets received by the Court and found that the number of tickets received is still substantially less than the amount received prior to Hurricane Katrina. The finding would indicate that daily collections are still considerably less than Pre-Katrina amounts.

Procedure 7.

Research and Review any revenue source derived from an outside agency (i.e. outside collections, bonding companies, bond forfeitures).

Findings

The Court entered into an agreement with Traffic Court Management (TCM) to collect outstanding tickets, bonds, etc. owed to the Court. After these services began, there was a disagreement as to how the court and TCM should be compensated from the revenue which derived from this agreement. After reviewing TCM records, we have been unable to determine any liability owed by the court for TCM services or if any revenue is due to the court by TCM. Furthermore, we feel that any disagreement between the court and TCM is a legal issue and not an accounting matter and those matters are outside the scope of this report.

Procedure 8.

Prepare a written report of the revenues and disbursements from January 1, 2006 through December 31, 2006.

Findings

The fine and fees account serves as the escrow account for Traffic Court. These funds are to be collected, deposited into the account, and then remitted to the appropriate agencies. Therefore, the account does not record any revenue or disbursements. The transactions for the account only represent liabilities to the court. Accordingly, we did not prepare a statement of revenue and disbursements. Instead, we provided a written report on the above procedures performed and listed any findings related to those procedures.

Procedure 9.

Submit six (6) copies of the final report.

Findings

We noted no exceptions. We will submit copies to the judicial administrator's office of the Court, judges of the Court, and the Louisiana Legislative Auditors office. Additionally, the Court has provided the FBI and other authorities with documentation of its findings. As such, we will be available to discuss and provide all documentation we have regarding these procedures to the authorities.

We were not engaged to, and did not perform an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. 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 information and use of the specified users and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Paillet, Meunier and Le Blanc, L.L.P.

Metairie, Louisiana
April 27, 2007



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**TRAFFIC COURT OF NEW ORLEANS
CORRECTIVE ACTION PLAN
FOR THE FINES AND FEES FUND**

In response to the recent findings listed in Paillet Meunier & LeBlanc's independent accountant's report, the Traffic Court of New Orleans (hereafter "the court") has taken actions to correct court operations as it relates to the Cash Bond fund. Listed below are the findings detailed by Paillet Meunier & LeBlanc and the corresponding action implemented by the court.

Finding

The court has minimal controls within its A/S 400 operating system which provide assurance as to the accuracy of financial information being entered.

Corrective Action

The court's IT personnel has been working with the court's accountants to develop new security features which would tighten security features within the operating system. The development of software security is on going and will not be complete until the year 2008.

Finding

Court personnel have authorization to change or delete case documentation without the approval of upper level management.

Corrective Action

The court's A/S 400 operating system has been changed so that court personnel has to input a password to change or delete any case documentation. This password has only been provided to upper level management.

Finding

The court does not have a written organization chart detailing each employees's position and an assigned back up to that position. Consequently, when an employee is absent or sick his/her duties cannot be performed.

Corrective Action

The court has developed a written organization chart. Also, the court has assigned backups to every personnel employed by the court. Furthermore, personnel are periodically rotated so each employee can perform multiple tasks within the court.

Finding

Court personnel are not following processing procedures in recording payment information into the court's software system. The lack of compliance with court procedures as spelled out in the court's manual has constantly led to an inaccurate presentation of court financial information remitted to the court's accounting department.

Corrective Action

The court now requires each employee to attend periodic training and undertake training sessions from upper level management. Also, the court's operating system is being redesigned/updated to ensure better efficiency of case processing. The changing of the operating system also will provide for the remittance of more accurate documentation to the accounting department.

Finding

Ticket payments are not processed correctly. For example, court personnel routinely use the wrong financial codes and ignore computer error messages when processing information.

Corrective Action

The court now requires each employee to attend periodic training and undertake training sessions from upper level management. Also, the court's operating system is being redesigned/updated to ensure better efficiency of case processing. The changing of the operating system also will provide for the remittance of more accurate documentation to the accounting department.

Finding

There are no official request documents being given to the system administrator for error corrections. These request are only made verbally and the requests are not periodically reviewed by an appropriate level of authority.

Corrective Action

The court has now implemented a requirement that the system administrator maintained an error log to track requests and the courts judicial administrator reviews this error report monthly.

Finding

The court does not have sufficient evidential documentation to support the year end cash balances for the year ended December 31, 2006.

Corrective Action

Due to Hurricane Katrina, the court incurred a period in which it did not have adequate personnel to perform court operations. As personnel returned to the City of New Orleans, operations have become closer to normal. Since the Independent accountant's report, the court has been able to employ enough personnel to keep up with court operations. Currently, all records have been updated and sufficient evidential documentation is being maintained daily.

Finding

Court personnel misappropriation of assets through manipulation of court operating system.

Corrective Action

The court's IT personnel has been working with the court's accountants to develop new security features which would tighten security features within the operating system. The development of software security is on going and will not be complete until the year 2008. However, the misappropriation took place because court personnel could change case information without the approval of upper management. A change was made to the court's operating system that requires court personnel to input a password to change case information. Upper level management maintains this password and upper level management must input this password into the operating system to change case information.

Finding

Court personnel are not being accountable for processing errors, which cause the daily collections to be over/understated.

Corrective Action

The court has implemented a requirement that requires court cashiers to be responsible for overages/shortages. This includes a repayment of shortages and extra time at work without pay to correct errors that result in overages.

Finding

Court procedures do not allow for the accounting department to determine completeness of daily collections being submitted for review.

Corrective Action

The court has implemented a procedure that requires IT personnel to print out an electronic report which detail information about each case daily. This report is remitted to the accounting department and reconciled to physical documentation remitted by each court.

Finding

Court procedures allow for cashiers to printout computer reports and count daily collections without the representation of an independent reviewer.

Corrective Action

The court has changed the A/S 400 operating system so cashiers can no longer print their own till. The till is printed by an independent reviewer from the clerk of court's office and reconciled to daily collections.

Finding

The court accepts payments for tickets in the form of personal checks. However, the court does not have a way to verify these funds prior to accepting the payment. As a result, the court is receiving an abundant number of personal checks that are being returned as insufficient funds by the bank.

Corrective Action

The court has implemented a procedure to maintain a list of NSF checks and seek reimbursement of those checks from defendants. Also, the court has accepted bids from Merchant services and Telecheck to verify checks before the court accepts them. The implementation of a Telecheck system will not be in place until the year 2008.

Finding

From the case samples, the court could have potentially miscoded 25, 200 tickets.

Corrective Action

Per Pailet Meunier & LeBlanc, the miscoded cases all pertained to authorization for the Judicial Expense portion of the fines and fees collected. The court has implemented a procedure where only the judge or the minute clerk in the judges' absence has the authority to code tickets for input into the Judicial Expense fund.