

**NEW ORLEANS TRAFFIC COURT**

**Financial Statements as of December 31, 2012  
and for the Year Then Ended  
and Independent Auditors' Report  
and Other Independent Auditors' Reports**

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.

Release Date NOV 27 2013

**NEW ORLEANS TRAFFIC COURT  
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# Silva Gurtner & Abney

Certified Public Accountants & Consultants

## INDEPENDENT AUDITORS' REPORT

To the Honorable Judges en banc of  
New Orleans Traffic Court  
New Orleans, Louisiana

### Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities, the major fund and the remaining fund information of the New Orleans Traffic Court (the Traffic Court), as of and for the year ended December 31, 2012, which collectively comprise the Traffic Court's basic financial statements as listed in the table of contents, and the related notes to financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*. 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of New Orleans Traffic Court as of December 31, 2012, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 9 and page 27 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2013 on our consideration of the Traffic Court's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Traffic Court's internal control over financial reporting and compliance.

*Silva Gurtner & Abney, LLC*

New Orleans, Louisiana  
September 25, 2013

**NEW ORLEANS TRAFFIC COURT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2012**

Management's discussion and analysis (MD&A) of the New Orleans Traffic Court (Traffic Court) financial performance is designed to provide an overview of the financial activities as of and for the fiscal year ended December 31, 2012. This information should be read in conjunction with the basic financial statements and the accompanying notes to financial statements.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

The MD&A is required information that provides an overview of the New Orleans Traffic Court's (Traffic Court or Court) basic financial statements and financial activities. A user of this report should read the independent auditors' report carefully to ascertain the level of assurance being provided on these reports.

This annual report consists of a series of financial statements. The Traffic Court's basic financial statements consist of the following components: Government-Wide Financial Statements, Fund Financial Statements, and Agency Financial Statements.

**Government-Wide Financial Statements**

The Statement of Net Position reflects the financial position of the Traffic Court. The unrestricted net position for the Traffic Court as reflected in this statement consists of funds available (deficient) for future spending to meet the needs of the Traffic Court's Office.

The Statement of Activities reflects the changes in net position. Net position, the difference between assets and liabilities, is one way to measure the financial health of an entity. Over time, increases or decreases in net asset are indicators of whether an entity's financial health is improving or deteriorating.

The Statement of Net Position and the Statement of Activities report information on the Traffic Court as a whole and report about its activities in a way that shows the overall financial health of the office. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

**Fund Financial Statements**

Fund financial statements report detailed information on the Traffic Court maintained by the Court's office. This fund is established as mandated by La R.S 13:2507.1.

The Traffic Court uses governmental funds for basic services. Governmental funds focus on how money flows into and out of the operating accounts and reflect the balances left at year-end that are available for spending. These funds are reported under the modified accrual accounting method, which measures cash and all other financial assets that can readily be converted to cash.

**NEW ORLEANS TRAFFIC COURT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2012**

The governmental fund statements provide a detailed, short-term view of the general government operations and the basic services it provides. Governmental fund information helps assist in determining whether there are more or fewer financial resources that can be spent in the near future to finance Traffic Court programs.

**FINANCIAL HIGHLIGHTS**

The financial statements provide details of the current year's operations:

Total assets as of December 31, 2012 were \$394,529 and total liabilities were \$1,417,725. As of December 31, 2012, The New Orleans Traffic Court had an unrestricted net position of (\$1,125,526) representing the portion that is deficient to maintain the continuing obligations to citizens. This accumulated deficit is primarily a result of the following:

- Program expenses exceeding program revenues in the current year by \$697,023 and in prior year by \$1,061,471. There was a decline in current year program revenues from prior year of \$579,652. There was a decline in program expenses of \$944,100 primarily due to the following:
  - additional costs incurred related to an outsourced third party accounting service of approximately \$380,000,
  - a reduction in contract labor of approximately \$180,000,
  - and prior period adjustments of approximately \$110,000 to 2011 restated amounts to correct payroll expense and capital asset amounts.
- Historically, on an annual basis, through fiscal 2010, the Traffic Court received an appropriation from the City of New Orleans for the support of the Traffic Court operations of approximately \$900,000 per year. This appropriation did not occur in 2011 or 2012.
- On December 31, 2011, the Traffic Court transferred funds in unrestricted net position of \$2,405,000 to the City of New Orleans, per their request, to assist with balancing their own general fund operating deficits.

In accordance with statutory requirements, the Traffic Court has no bonded indebtedness or long-term notes. The most significant continuing revenue sources for governmental activities were ticket revenues.

**NEW ORLEANS TRAFFIC COURT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2012**

**FINANCIAL ANALYSIS OF THE TRAFFIC COURT AS A WHOLE (GWFS)**

The Statement of Net Position and the Statement of Activities report only one type of activity – governmental activities. Most of the basic court services are reported as this type. Ticket fees charged to the public finance most of these activities.

Our analysis below focuses on the net assets of the governmental-type activities:

**Condensed Statement of Net Position**

	<u>2012</u>	<u>As Restated 2011</u>	<u>Difference</u>	<u>Percentage Change</u>
Current and other assets	\$ 292,199	\$ 387,087	\$ (94,888)	(24.51)%
Capital assets (net of accumulated depreciation)	<u>102,330</u>	<u>174,733</u>	<u>(72,403)</u>	(41.44)%
<b>Total assets</b>	<b><u>\$ 394,529</u></b>	<b><u>\$ 561,820</u></b>	<b><u>\$(167,291)</u></b>	(29.78)%
Current liabilities	<u>\$ 1,417,725</u>	<u>\$ 889,266</u>	<u>\$ 528,459</u>	59.43%
<b>Total liabilities</b>	1,417,725	889,266	528,459	59.43%
Invested in capital assets	102,330	174,733	(72,403)	(41.44)%
Unrestricted net position	<u>(1,125,526)</u>	<u>(502,179)</u>	<u>(623,347)</u>	(124.13)%
<b>Total net position</b>	<u>(1,023,196)</u>	<u>(327,446)</u>	<u>(695,750)</u>	(212.48)%
<b>Total liabilities and net position</b>	<b><u>\$ 394,529</u></b>	<b><u>\$ 561,820</u></b>	<b><u>\$ (167,291)</u></b>	(29.78)%

The Traffic Court's total assets decreased by \$167,291. The decrease of \$94,888 in current and other assets was due to a decrease in accrued ticket revenue and prepaid expenses. The decrease in capital assets of \$72,403 was due to 2012 depreciation expense of \$82,943 offset by capital asset purchases capitalized of \$10,540. The increase of \$528,459 in current liabilities was mainly due to an increase in accrued payroll liabilities due to the City of New Orleans offset by decreases in accounts payable and compensated absences.

Unrestricted net position, the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements; decreased as a result of current year operations.

**NEW ORLEANS TRAFFIC COURT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2012**

**Condensed Statement of Activities**

	<u>2012</u>	<u>As Restated 2011</u>	<u>Difference</u>	<u>Percentage Change</u>
Total program revenue	\$ 3,903,496	\$ 4,483,148	\$ (579,652)	(12.93)%
Total program expense	<u>4,600,519</u>	<u>5,544,619</u>	<u>(944,100)</u>	(17.03)%
Net program income	(697,023)	(1,061,471)	(364,448)	(34.33)%
Interest earnings	1,273	27,160	(25,887)	(95.31)%
Transfers to City of New Orleans	<u>-</u>	<u>(2,405,404)</u>	<u>(2,405,404)</u>	(100.00)%
Change in net position	(695,750)	(3,439,715)	(2,743,965)	(79.77)%
Net position – beginning of year	<u>(327,446)</u>	<u>3,767,161</u>	<u>(3,439,715)</u>	(110.52)%
Net position – end of year	<u><b>\$(1,023,196)</b></u>	<u><b>\$ (327,446)</b></u>	<u><b>\$(695,750)</b></u>	(212.48)%

**NEW ORLEANS TRAFFIC COURT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2012**

**FINANCIAL ANALYSIS OF THE TRAFFIC COURT (GOVERNMENTAL FUND)**

As noted earlier, the Traffic Court uses funds to control and manage money for particular purposes. Analyzing this fund helps to determine whether the Traffic Court is using resources in a responsible manner and maintaining the financial integrity of the office.

The Traffic Court reported a fund balance decrease of \$689,982 as of December 31, 2012.

**Condensed Statement of Revenues, Expenditures and Changes in Fund Balances**

	<u>2012</u>	<u>As Restated 2011</u>	<u>Difference</u>	<u>Percentage Change</u>
Total revenues	\$ 3,904,769	\$ 4,510,307	\$ (605,538)	(13.43)%
Expenditures:				
Current	4,584,211	5,361,306	(777,095)	(14.49)%
Capital outlay	<u>10,540</u>	<u>80,629</u>	<u>(70,089)</u>	(86.93)%
Total expenditures	4,594,751	5,441,935	(847,184)	(15.57)%
Transfer to City of New Orleans	<u>-</u>	<u>2,405,404</u>	<u>(2,405,404)</u>	(100.00)%
Net change in fund	(689,982)	(3,337,032)	(2,647,050)	(79.32)%
Fund balance - beginning of year	<u>(88,049)</u>	<u>3,248,983</u>	<u>(3,337,032)</u>	(102.71)%
Fund balance - end of year	<u>\$ (778,031)</u>	<u>\$ (88,049)</u>	<u>\$ (689,982)</u>	(783.63)%

**JUDICIAL EXPENSE FUND BUDGETARY HIGHLIGHTS**

The New Orleans Traffic Court budget for January 1, 2012 to December 31, 2012 was proposed and made available for public inspection by the New Orleans Traffic Court. There were no budget amendments during the current fiscal year.

The unfavorable variance of \$719,854 in ticket revenues is mostly due to various police departments writing fewer citations and City Attorneys prosecuting approximately 1/3 of the adjudicated cases. The favorable variance of \$142,232 in bond forfeitures is due to more bonds being forfeited by the Court than originally expected.

The unfavorable variance of \$119,751 in total expenses is primarily due to more payroll expenses incurred than originally expected due to the hiring of a new judicial administrator and deputy judicial administrator during the year.

**NEW ORLEANS TRAFFIC COURT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2012**

**CAPITAL ASSETS**

The Traffic Court's investment in capital assets, net of accumulated depreciation, for governmental activities as of December 31, 2012 was \$102,330.

Computer software	\$ 417,092
Vehicles	190,361
Machinery and equipment	<u>20,853</u>
 Total cost	 628,306
Accumulated depreciation	<u>(525,976)</u>
 Net capital assets	 <u>\$ 102,330</u>
 Depreciation expense	 <u>\$ 82,943</u>

**LONG TERM OBLIGATIONS**

Traffic Court is not allowed to incur long-term indebtedness for bonds or notes payable; therefore, the Court had no long-term debt outstanding.

**ECONOMIC FACTORS AFFECTING OPERATIONS, LIQUIDITY AND 2013'S BUDGET**

The Traffic Court's office is primarily financed by court costs assessed on traffic citations and financial support from the City of New Orleans (the City). The setting of court costs assessed on traffic citations is regulated by the Louisiana Revised Statutes and the Code of Criminal Procedures. Of primary importance in setting the 2013 budget was prior years' operations as it relates to anticipated revenue sources and operating expenses. The Traffic Court's management and Judges en banc considered many factors when setting the fiscal year 2013 budget. The 2013 budgeted revenues are \$3,660,000 and budgeted expenses are \$3,835,000, yielding an operating deficit of (\$175,000) which excludes funding advanced or provided by the City of New Orleans. The main expense of the Traffic Court is salaries and benefits expense which represents \$3,701,000 of the total \$4,600,000 in expenses for governmental activities.

The Court is fiscally dependent on the City and payments from traffic violations. The City provides courthouse maintenance and pays for utilities. Although the Court has an accumulated deficit in its net position of (\$1,023,196) at December 31, 2012, pursuant to Louisiana Statute (LS) 13:2507 §250 the City of New Orleans shall fund the salaries of the employees of the Court which represents approximately 80% of the operating budget annually. The Court has not requested reimbursement from the City for employee salaries nor has it received any appropriations from the City since 2011 for employee salaries; rather it has been operating solely based on the revenues generated in the Judicial Expense Fund.

**NEW ORLEANS TRAFFIC COURT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2012**

During 2013, Traffic Court applied for and was awarded a grant totaling \$360,000 which funds will be used to replace the antiquated case management system which has historically resulted in an inefficient case management process as it relies heavily on manual paper driven processes. The Traffic Court expects to start the installation and implementation process before the end of fiscal 2013.

**CONTACTING FINANCIAL MANAGEMENT**

This financial report is designed to provide a general overview of the New Orleans Traffic Court finances and to show the Traffic Court's accountability for the money it receives. If you have questions about this report or need additional information, please contact Debra A. Hall, Judicial Administrator, New Orleans Traffic Court, 727 South Broad Street, New Orleans, LA 70119.

**NEW ORLEANS TRAFFIC COURT  
STATEMENT OF NET POSITION  
AS OF DECEMBER 31, 2012**

**GOVERNMENTAL ACTIVITIES**

**ASSETS**

**CURRENT ASSETS**

Cash and cash equivalents	\$ 71,678
Due from others	215,671
Deposit	4,500
Prepaid expenses	<u>350</u>

Total current assets 292,199

CAPITAL ASSETS, net of accumulated depreciation 102,330

**TOTAL ASSETS** **\$ 394,529**

**LIABILITIES AND NET POSITION**

**LIABILITIES**

Accounts payable	106,376
Accrued payroll liabilities	963,854
Compensated absences	<u>347,495</u>

**TOTAL LIABILITIES** 1,417,725

**COMMITMENTS AND CONTINGENCIES**

**NET POSITION**

Net investment in capital assets	102,330
Unrestricted deficit	<u>(1,125,526)</u>

**TOTAL NET POSITION** **(1,023,196)**

**TOTAL LIABILITIES AND NET POSITION** **\$ 394,529**

See independent auditors' report and accompanying notes to financial statements.

**NEW ORLEANS TRAFFIC COURT  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2012**

**GOVERNMENTAL ACTIVITIES**

**PROGRAM REVENUES**

Ticket charges	\$ 3,580,146
Bond forfeitures	217,232
Reinstatement fees	105,188
Miscellaneous fees	<u>930</u>
 Total program revenues	 3,903,496

**EXPENSES**

General government:	
Personnel services and related benefits	3,700,712
Operating services	<u>899,807</u>
 Total expenses	 4,600,519

**GENERAL REVENUES**

Interest earnings	<u>1,273</u>
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**CHANGE IN NET POSITION** **(695,750)**

**NET POSITION - Beginning of year (restated)** **(327,446)**

**NET POSITION - End of year** **\$ (1,023,196)**

See independent auditors' report and accompanying notes to financial statements.

**NEW ORLEANS TRAFFIC COURT  
BALANCE SHEET - GOVERNMENTAL FUND  
AS OF DECEMBER 31, 2012**

**ASSETS**

**CURRENT ASSETS**

Cash and cash equivalents	\$ 71,678
Due from others	215,671
Deposit	4,500
Prepaid expenses	<u>350</u>

<b>TOTAL ASSETS</b>	<b><u>\$ 292,199</u></b>
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**LIABILITIES AND FUND BALANCE DEFICIT**

**LIABILITIES**

Accrued payroll liabilities	\$ 963,854
Accounts payable	<u>106,376</u>

<b>TOTAL LIABILITIES</b>	<b>1,070,230</b>
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**FUND BALANCE DEFICIT**

Unassigned deficit	<u>(778,031)</u>
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<b>TOTAL LIABILITIES AND FUND BALANCE DEFICIT</b>	<b><u>\$ 292,199</u></b>
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See independent auditors' report and accompanying notes to financial statements.

**NEW ORLEANS TRAFFIC COURT  
RECONCILIATION OF THE BALANCE SHEET -  
GOVERNMENTAL FUND TO THE STATEMENT OF NET POSITION  
AS OF DECEMBER 31, 2012**

FUND BALANCE DEFICIT - Total governmental fund	\$ (778,031)
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources; and therefore, are not reported in the funds	102,330
Accrued compensated absences are not recorded on fund financials because they are not due and payable at December 31, 2012	<u>(347,495)</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES	<u><u>\$ (1,023,196)</u></u>

See independent auditors' report and accompanying notes to financial statements.

**NEW ORLEANS TRAFFIC COURT  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
GOVERNMENTAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2012**

<b>REVENUES</b>	
Ticket fees	\$ 3,580,146
Bond forfeitures	217,232
Reinstate fees	105,188
Interest earnings	1,273
Other miscellaneous	<u>930</u>
Total revenues	3,904,769
<b>EXPENDITURES</b>	
General government:	
Personnel services and related benefits	3,767,347
Operating services	<u>816,864</u>
Total current expenditures	4,584,211
CAPITAL OUTLAY	<u>10,540</u>
Total expenditures	4,594,751
DEFICIENCY OF REVENUES OVER EXPENDITURES	<b>(689,982)</b>
FUND BALANCE DEFICIT - Beginning of year (restated)	<u>(88,049)</u>
FUND BALANCE DEFICIT - End of year	<u><b>\$ (778,031)</b></u>

See independent auditors' report and accompanying notes to financial statements.

**NEW ORLEANS TRAFFIC COURT  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE - GOVERNMENTAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2012**

NET CHANGES IN FUND BALANCE - Total governmental fund \$ (689,982)

Amounts reported for governmental activities in the statement of revenues, expenses, and changes in net position (governmental-wide financial statements) are different because:

Current year decrease in compensated absences are not recorded on fund financials because they are not due and payable in the current year 66,635

Governmental funds report capital outlays as expenditures in the individual fund. Governmental activities report depreciation expense to allocate the cost of those capital assets over the estimated useful lives of the asset.

Capital asset purchase capitalized	10,540
Depreciation expense	<u>(82,943)</u>

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ (695,750)

See independent auditors' report and accompanying notes to financial statements.

**NEW ORLEANS TRAFFIC COURT  
BALANCE SHEET - AGENCY FUNDS  
AS OF DECEMBER 31, 2012**

	<b>Fines and Fees Fund</b>	<b>Cash Bonds Fund</b>	<b>Total Agency Funds</b>
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	\$ 708,091	\$ 916,551	\$ 1,624,642
<b>TOTAL ASSETS</b>	<b>\$ 708,091</b>	<b>\$ 916,551</b>	<b>\$ 1,624,642</b>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Fines and fees	\$ 503,272	\$ -	\$ 503,272
Bonds held	-	640,314	640,314
Due to others	204,819	276,237	481,056
<b>TOTAL LIABILITIES</b>	<b>\$ 708,091</b>	<b>\$ 916,551</b>	<b>\$ 1,624,642</b>

See independent auditors' report and accompanying notes to financial statements.

**NEW ORLEANS TRAFFIC COURT  
COMBINED BALANCE SHEET - AGENCY FUNDS  
AS OF DECEMBER 31, 2012**

	<u>January 1, 2012</u>	<u>Additions</u>	<u>Deductions</u>	<u>December 31, 2012</u>
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	\$ 1,482,970	\$ 12,610,449	\$ (12,468,777)	\$ 1,624,642
<b>TOTAL ASSETS</b>	<u>\$ 1,482,970</u>	<u>\$ 12,610,449</u>	<u>\$ (12,468,777)</u>	<u>\$ 1,624,642</u>
<b>LIABILITIES</b>				
<b>CURRENT LIABILITIES</b>				
Fines and fees	\$ 801,951	\$ 11,533,194	\$ (11,831,873)	\$ 503,272
Bonds held	629,255	837,290	(826,231)	640,314
Due to others	51,764	475,727	(46,435)	481,056
<b>TOTAL LIABILITIES</b>	<u>\$ 1,482,970</u>	<u>\$ 12,846,211</u>	<u>\$ (12,704,539)</u>	<u>\$ 1,624,642</u>

See independent auditors' report and accompanying notes to financial statements.

**NEW ORLEANS TRAFFIC COURT**  
**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES - AGENCY FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>January 1, 2012</u>	<u>Additions</u>	<u>Deductions</u>	<u>December 31, 2012</u>
<b>FINES AND FEES</b>				
Cash and cash equivalents	\$ 801,951	\$ 11,738,013	\$ (11,831,873)	\$ 708,091
Fines and fees assets	<u>801,951</u>	<u>11,738,013</u>	<u>(11,831,873)</u>	<u>708,091</u>
Fines and fees	801,951	11,533,194	(11,831,873)	503,272
Due to others	-	204,819	-	204,819
Fines and fees liabilities	<u>801,951</u>	<u>11,738,013</u>	<u>(11,831,873)</u>	<u>708,091</u>
<b>BONDS HELD</b>				
Cash and cash equivalents	681,019	872,436	(636,904)	916,551
Bond held assets	<u>681,019</u>	<u>872,436</u>	<u>(636,904)</u>	<u>916,551</u>
Bonds held	629,255	837,290	(826,231)	640,314
Due to others	51,764	270,908	(46,435)	276,237
Bonds held liabilities	<u>681,019</u>	<u>1,108,198</u>	<u>(872,666)</u>	<u>916,551</u>

See independent auditors' report and accompanying notes to financial statements.

**NEW ORLEANS TRAFFIC COURT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2012**

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Overview** – As provided by Louisiana Revised Statute RS 13:2501.1 and Article III, Section 154-101 of the New Orleans Municipal Code, the New Orleans Traffic Court (Traffic Court or Court) will consist of four judges appointed, selected and qualified under article VII, section 94 of the Louisiana Constitution, the enabling ordinances enacted by the city council, and the duly elected successors of such judges, and such other judges who may be created and authorized under the state constitution. The jurisdiction and the rules of the court are provided as follows:

- (a) The jurisdiction of the Traffic Court shall extend to the trial of offenses against the ordinances of the city regulating traffic upon the public streets of the city and such other jurisdiction as may be hereafter conferred upon it by the state constitution.
- (b) The Court shall further have the power to adopt such rules and regulations governing the operation thereof as may be necessary for the proper functioning of the court.

**Basis of presentation** – The accompanying financial statements of the New Orleans Traffic Court have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

**Reporting entity** – Governmental Accounting Standards Board Statement No. 14, *The Financial Reporting Entity*, (GASB 14) as amended by GASB 39 establishes standards for defining and reporting on the financial entity. The focal point for identifying the financial reporting entity is the primary government, which is considered to be any state government or general purpose local government or a special purpose government that has a separately elected governing body, is legally separate, and is fiscally independent of other state and local governments.

The Traffic Court is fiscally dependent on the City of New Orleans (the City) and payments from traffic offenses. The City maintains and operates the courthouse in which the Traffic Court's office is located and provides funds for equipment and furniture to Traffic Court. However, the Traffic Court judges are independently elected officials, and the Traffic Court has separate corporate powers that establish it as being a legally separate unit. These separate powers and authority are established by State and City Ordinances. Additionally, the Traffic Court financial statements are not material to the financial statements of the City. Based on these factors, it was determined that the Traffic Court is not a component unit of the City, the financial reporting entity.

The accompanying financial statements present information of the Traffic Court's Judicial Expense Fund as established by Louisiana Revised Statute RS 13:2507.1 and on behalf payments as described in the accompanying notes. The financial statements do not present information on the City, the general government services provided by that governmental unit, or the other governmental units.

**Fund accounting** – The Traffic Court uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions relating to certain government functions or activities.

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A fund is a separate accounting entity with a self-balancing set of accounts. On the other hand, an account group is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

**Governmental Fund** - The governmental fund accounts for all the Traffic Court's general activities. This fund focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may be used. Current liabilities are assigned to the fund from which they will be paid. The difference between a governmental fund's assets and liabilities is reported as fund balance. In general, the fund balance represents the accumulated expendable resources which may be used to finance future period programs and/or operations of the Traffic Court. The following are the Traffic Court's governmental funds:

**Judicial Expense Fund** - The Judicial Expense Fund is the primary operating fund of the Traffic Court. It accounts for all financial resources, except those required to be accounted for in other funds. The Judicial Expense Fund is available for any purpose provided it is expended or transferred in accordance with state and federal laws and according to the Traffic Court policy. Traffic Court's Judicial Expense Fund serves as the General Fund for the court.

**Fiduciary Fund** - The fiduciary fund reporting focuses on net assets and changes in net assets. The only funds accounted for in this category are the agency funds. The agency funds account for assets held by Traffic Court as an agent for litigants held in pending court action, The agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of the results of operations. Consequently, the agency funds have no measurement focus, but use the modified accrual basis of accounting. Traffic Court maintains two agency funds: Fines and Fees Agency Fund and Cash Bond Agency Fund. The Fines and Fees fund distributes monies collected on each ticket for state approved agencies. The cash bond fund holds monies deposited by defendants until the defendant appears in court and a final disposition is determined on their case. The court also holds surety bonds provided by bail bondsmen but does not maintain an account for the bond. Also, the court has bond forfeiture proceeds but those amounts are not included in agency funds due to the nature of ownership in forfeiting a bond.

Any forfeiture amounts which can be determined to belong to the court are listed on the statement of activities as bond forfeitures.

**Basis of accounting - Fund Financial Statements (FFS)** - The amounts reflected in the Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Fund (FFS), are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balance reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach is then reconciled, through adjustment, to a government-wide view of operations.

The amounts reflected in these statements (FFS), use the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). Measurable means the amount of the transaction can be

**NEW ORLEANS TRAFFIC COURT  
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DECEMBER 31, 2012**

determined and available means collectible within the current period or soon enough thereafter to pay liabilities of the current period. The governmental funds use the following practices in recording revenues and expenditures:

**Revenues** – Ticket fees and bond forfeitures are recorded in the year in which they are earned. Interest income on investments is recorded when the investments have matured and the income is available. Substantially all other revenues are recorded when received.

**Expenditures** – Expenditures are generally recorded under the modified accrual basis of accounting when the related fund liability is incurred.

**Basis of accounting – Government-Wide Financial Statements (GWFS)** – The Statement of Net Assets and the Statement of Activities (GWFS) display information about the New Orleans Traffic Court as a whole. These statements include all the financial activities of the New Orleans Traffic Court. Information contained in these statements reflects the economic resources measurement focus and the accrual basis of accounting.

Revenues, expenses, gains, losses, assets and liabilities resulting from exchange or exchange-like transactions are recognized when the exchange occurs (regardless of when cash is received or disbursed). Revenues, expenses, gains, losses, assets and liabilities resulting from non-exchange transactions are recognized in accordance with the requirements of GASB Statement No. 33, *Accounting and Financial Reporting for Non-exchange Transactions*.

**Program Revenues** – Program revenues included in the Statement of Activities are derived directly from users as a fee for services; program revenues reduce the cost of the function to be financed from general revenues.

**Budget practices** – The proposed budget, which is prepared on the modified accrual basis of accounting, must be approved by the Traffic Court Judges. The budget is legally adopted by the Traffic Court and all appropriations lapse at year end. For the Judicial Expense Fund, the Traffic Court has established a budget for service fees, court allocation of costs and salaries. Budget amounts included in the accompanying financial statements include the original adopted budget and all subsequent amendments. There were no amendments to the budget in this fiscal year.

**Cash and cash equivalents** – Cash includes amounts in demand deposits, interest bearing demand deposits, and money market accounts. Cash equivalents include amounts in time deposits and those investments with original maturities of 90 days or less. Under state law, the Traffic Court may deposit funds in demand deposits, interest bearing demand deposits, money market accounts, or time deposits with state banks organized under Louisiana law and national banks having their principal offices in Louisiana.

**Capital assets** – Capital assets are capitalized at historical cost or estimated cost if historical cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. The Traffic Court maintains a threshold level of \$5,000 or more for capitalizing capital assets.

**NEW ORLEANS TRAFFIC COURT  
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Capital assets are recorded in the Statement of Net Assets and Statement of Activities. Since surplus assets are turned over to the City of New Orleans when declared as no longer needed for public purposes, no salvage value is taken into consideration for depreciation purposes. All capital assets, other than land which is non-depreciable, are depreciated using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Computers	3 years
Office Equipment	3 years
Furniture & Fixtures	3 years
Automobiles	5 years
Leasehold Improvements	20 years

***Compensated absences*** – Employees of the Traffic Court's office earn 2.5 weeks vacation leave per year based on years of service. The vacation time accrues on an employment anniversary date basis. Employees with a start date of December 31, 1978 or prior may accrue up to 90 days of leave. Accrued leave in excess of the 90 days is converted to sick leave. Employees with a start date of January 1, 1979 and later may accrue up to 45 days of annual leave. Accrued leave in excess of the 45 days is converted to sick leave. The accrued accumulated leave which had been unused by employees at December 31, 2012 has been included in the government - wide financial statements.

***Fund equity*** – Assigned fund equity represents those portions of fund equity that are budgeted by the Court through the Court's formal budgeting process for specific purposes.

***Use of estimates*** – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**NOTE B – CASH AND CASH EQUIVALENTS**

At December 31, 2012, the Traffic Court had cash in checking accounts and certificate of deposit accounts (book balances) totaling \$1,695,470 and bank balances for these accounts were \$1,680,956. The deposits are stated at cost, which approximates market. Under state law, the deposits (or the resulting bank balances) 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 bank. These 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. As of December 31, 2012, \$5,264,199 of securities was pledged by the fiscal agent bank to collateralize the Traffic Court's deposits.

Custodial credit risk is the risk that in the event of a bank failure, deposits may not be returned to the account holder. As of December 31, 2012, \$223,128 of the Traffic Court's bank balance was exposed to custodial credit risk. These deposits were uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the Traffic Court's name. These deposits are

**NEW ORLEANS TRAFFIC COURT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2012**

secured from risk by \$1,431,695 of federal deposit insurance on the checking accounts and \$26,133 of federal deposit insurance on the certificate of deposit at December 31, 2012.

The Governmental Accounting Standards Board (GASB), which promulgates the standards for accounting and financial reporting for state and local governments, considers these securities subject to custodial credit risk. Even though the pledged securities are considered uncollateralized (Category 3) under the provisions of GASB Statement 3, R.S. 39:1229 imposes a statutory requirement on the custodial bank to advertise and sell the pledged securities within 10 days of being notified by the Traffic Court that the fiscal agent has failed to pay deposited funds upon demand.

**NOTE C – DUE FROM OTHERS**

Due from others consisted of the following at December 31, 2012:

Fines and Fees Agency Fund	\$ 204,819
Bonds Agency Fund	4,465
Department of Public Safety and Corrections	6,387
	<b>\$ 215,671</b>

None of these amounts are past due ninety days or more at December 31, 2012.

**NOTE D – DUE TO OTHERS**

The accrued payroll liabilities at December 31, 2012 consisted of funds due to the City of New Orleans for payroll invoice reimbursements as of December 31, 2012.

**NOTE E – PENSION PLANS**

*City of New Orleans Employees' Retirement System*

For 2012, the Traffic Court annual pension cost was \$455,870. During the year ended December 31, 2012, Traffic Court issued payments to LASERS on behalf of two employees totaling \$60,011. The payments represent retirement catch-up contributions due to a clerical error.

**NEW ORLEANS TRAFFIC COURT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2012**

Required supplemental information-Schedule of Funding Program of PERS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) – Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/(c)
12/31/2010	\$384,105,611	\$511,504,142	\$127,398,531	69.36%	\$85,926,577	148.26%
12/31/2011	379,526,159	530,262,467	150,736,308	71.57%	93,636,301	160.98%
12/31/2012	372,049,545	545,394,780	173,345,235	68.22%	92,881,497	186.63%

The Traffic Court is unable to provide certain other additional disclosures for the Traffic Court and the City of New Orleans Employees' Retirement System. The City of New Orleans processes the payroll for employees of the Traffic Court and remits billings to the Traffic Court for reimbursement. The Traffic Court was unable to obtain information from the City of New Orleans for the additional disclosures specific to the Traffic Court.

Actuarial information about the System for its most recent year available, the year ended December 31, 2012, is presented below:

City of New Orleans Employees' Retirement System

Estimated payroll for current year	\$ 92,881,497
Actuarially required contributions:	
Actuarially required contribution for employers:	
Dollar amount	20,228,129
Percent of estimated payroll	21.778%
Actuarially required contribution for employees:	
Dollar amount	5,572,890
Percent of estimated payroll	5.000%
Total actuarially required contribution:	
Dollar amount	25,801,019
Percent of estimated payroll	27.778%
Actuarial value of assets	372,049,011
Pension benefit obligation	<u>545,394,780</u>
 Unfunded benefit obligation	 <u>\$ 73,345,235</u>

The pension benefit obligation is a standardized measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rated benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the System's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among PERS and employers. The System does not make separate measurements of assets and pension benefit obligations for individual employers.

**NEW ORLEANS TRAFFIC COURT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2012**

The New Orleans Traffic Court does not guarantee the benefits granted by the retirement systems. Historical trend information showing the System's progress in accumulating sufficient assets to pay benefits when due is presented in the System's comprehensive annual financial report. The reports may be obtained via contact with City of New Orleans Employees' Retirement System, 1300 Perdido Street, Room IE12, New Orleans, LA 70112. Telephone: (504) 658-1850; Fax: (504) 658-1602.

**NOTE F – OTHER POST-EMPLOYMENT BENEFITS**

Other post-employment benefits are paid and reported by the City of New Orleans; therefore the Court does not accrue a liability related to those benefits.

**NOTE G – CAPITAL ASSETS**

A schedule of changes in capital assets follows:

	Balance 1/1/12	Additions	Disposals	Balance 12/31/12
Computers and software	\$ 406,552	\$ 10,540	\$ -	\$ 417,092
Vehicles	190,361	-	-	190,361
Machinery and equipment	20,853	-	-	20,853
Accumulated depreciation	(443,033)	(82,943)	-	(525,976)
Capital assets, net	<u>\$ 174,733</u>	<u>\$ (72,403)</u>	<u>\$ -</u>	<u>\$ 102,330</u>

**NOTE H – FACILITIES, FURNITURE, FIXTURES AND EQUIPMENT OWNED BY OTHER ENTITIES**

The City of New Orleans is required by Louisiana Revised Statute RS 13:2509 to provide suitable facilities, rooms, furniture, equipment and supplies required for the proper functioning of the court. Assets purchased or provided by the City are listed on the City's physical asset listing instead of the Traffic Court.

**NOTE I – LEASE COMMITMENTS**

Traffic Court leases office equipment on a month to month basis.

**NOTE J – APPROPRIATIONS FROM CITY OF NEW ORLEANS**

All salaries and benefits of the employees of Traffic Court are paid by the City of New Orleans, as required by RS 13:2507. However, the Traffic Court reimburses the City by invoice each month for these costs, as available operating cash permits. For the year ended December 31, 2012, there was no appropriation by the City of New Orleans for the support of the Traffic Court's operations.

**NEW ORLEANS TRAFFIC COURT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2012**

**NOTE K – OTHER REGULATORY INFORMATION**

The City of New Orleans' Office of Inspector General (OIG) performed a performance review of the New Orleans Traffic Court practices in 2010 for which they issued a report dated November 17, 2011 that identified several material deficiencies in the Traffic Court's accounting and internal control systems that have a direct impact on financial reporting. These findings and the Traffic Court's responses to those findings were included in the 2011 audit report in the current year schedule of findings and responses in the *Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards*. The 2012 audit report also includes these findings and management responses in the Summary Schedule of Prior Year Findings. During fiscal 2013, the Office Inspector General performed a follow-up review of the findings issued in the 2011 OIG report. The results of that report acknowledged that the Traffic Court made substantial progress in implementing the recommendations within its own control in the 2011 assessment.

The Legislative Auditor and other regulatory agencies are currently conducting investigations regarding past internal controls over financial reporting and accounting practices of the New Orleans Traffic Court and have not yet issued a final report on their investigations.

**NOTE L – PRIOR PERIOD ADJUSTMENTS**

Subsequent to the issuance of the December 31, 2011 audit report, the Traffic Court identified the following errors in the prior year presentation which were corrected in the current year presentation for beginning net position as follows:

**Governmental Fund**

Net position at December 31, 2011 (as originally reported)	\$ 2,643,871
Prior period adjustments:	
Funds transferred to City of New Orleans on December 31, 2011	(2,000,000)
Prior year's court costs on bond forfeitures	(87,035)
Correction of accounts payable and prepaid expenses, net	20,716
Correction of due from others recorded in error as of December 31, 2011	<u>(665,060)</u>
Net position at December 31, 2011 (as restated)	<u>\$ (88,048)</u>

**NEW ORLEANS TRAFFIC COURT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2012**

**NOTE M – UNRESTRICTED DEFICIT IN NET POSITION AND FUND BALANCE**

The Court has an accumulated deficit in its net position of (\$1,023,196) and an accumulated deficit in fund balance of (\$778,031) in the accompanying statement of net assets and balance sheet – governmental fund, respectively, at December 31, 2012. As required pursuant to Louisiana Revised Statute (LS) 24:513, the Traffic Court has a plan to remediate this deficit described in the paragraphs below.

The Court expects to generate additional revenues from various sources beginning in 2014. The Court has begun the process of enhancing collection plans and plans to gain operational and accounting efficiencies with the implementation of the new case management system. This is expected to increase revenues and decrease certain operating expenses. The City of New Orleans is also expecting an increase in the number of police training academies. This should increase the number of traffic police officers and the number of traffic tickets issued which will in turn increase revenues.

Additionally, pursuant to LS 13:2507 section 250, all salaries for employees of the Court shall be paid by the City of New Orleans. To date, the Court has not yet requested reimbursement for salaries from the City of New Orleans in spite of the cessation in 2011 of the annual general fund appropriations for employee salaries that were received in the past. Traffic Court salaries represent approximately 80% of the annual operating budget. Of the total annual revenues that flow through the Fines/Fees and Agency Fund (approximately \$12 million in 2012), the Court distributed approximately 47% (\$5.6 million) in 2012 of those funds to the City of New Orleans as required per specific state statutes and city codes. The revenues generated in the Fines/Fees and Agency fund are specifically earmarked and remitted to the City and various agencies as required by law.

Management is of the opinion that the implementation of the changes described in the preceding paragraphs will eliminate the unrestricted deficit in net position and fund balance within a period of five to ten years, between the fiscal years 2017 through 2022.

**NOTE N – SUBSEQUENT EVENTS**

The Traffic Court has evaluated subsequent events through September 25, 2013, the date which the financial statements were available to be issued. The following events occurred subsequent to December 31, 2012 and before the financial statements were available to be issued.

During 2013, Traffic Court applied for and was awarded a federal grant totaling approximately \$364,000 (inclusive of a 20% state agency match), which will be used to replace the antiquated case management system which has historically resulted in an inefficient case management process as it relies heavily on manual paper driven processes. The Traffic Court expects to start the installation and implementation process before the end of fiscal 2013.

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**NEW ORLEANS TRAFFIC COURT  
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<b>Budgeted Original Amounts</b>	<b>Actual Amounts</b>	<b>\$ Variance Favorable (Unfavorable)</b>	<b>% Variance Favorable (Unfavorable)</b>
<b>REVENUES</b>				
Bond forfeitures	\$ 75,000	\$ 217,232	\$ 142,232	189.64%
Reinstate fees	100,000	105,188	5,188	5.19%
Tickets	3,720,000	2,959,300	(760,700)	-20.45%
Tickets - Inet	180,000	203,419	23,419	13.01%
Tickets - Ivrr	400,000	417,427	17,427	4.36%
Miscellaneous	-	930	930	100.00%
Use of money and property - interest earnings	-	1,273	1,273	100.00%
<b>Total revenue</b>	<b>4,475,000</b>	<b>3,904,769</b>	<b>(570,231)</b>	<b>-12.74%</b>
<b>EXPENDITURES</b>				
<b>Current:</b>				
<b>General governmental - judicial</b>				
Bank service charges	250	322	(72)	-28.80%
Building and maintenance	75,000	67,116	7,884	10.51%
Car/truck expense	5,000	9,683	(4,683)	-93.66%
Cleaning janitorial	2,000	-	2,000	100.00%
Computer	-	54,178	(54,178)	-100.00%
Computer equipment	50,000	13,227	36,773	73.55%
Computer software	50,000	11,301	38,699	77.40%
Contract labor	-	39,452	(39,452)	-100.00%
Dues and subscriptions	15,000	16,045	(1,045)	-6.97%
Employee parking	7,500	25,295	(17,795)	-237.27%
Employee testing	200	282	(82)	-41.00%
Meeting and conferences	-	479	(479)	-100.00%
Miscellaneous	-	(809)	809	100.00%
Office equipment	25,000	24,741	259	1.04%
Office supplies	90,000	47,407	42,593	47.33%
Payroll expense	3,581,450	3,739,860	(158,410)	-4.42%
Postage and delivery	2,000	763	1,237	61.85%
Printing and reproduction	25,000	21,016	3,984	15.94%
Professional fees	511,000	487,003	23,997	4.70%
Telephone and fax	5,600	8,418	(2,818)	-50.32%
Travel and continuing education	25,000	27,062	(2,062)	-8.25%
Uniform	5,000	1,910	3,090	61.80%
<b>Total expenses</b>	<b>4,475,000</b>	<b>4,594,751</b>	<b>(119,751)</b>	<b>-2.68%</b>
<b>EXCESS OF REVENUE OVER EXPENSES</b>	<b>\$ -</b>	<b>(689,982)</b>	<b>\$ 689,982</b>	<b>-100.00%</b>
<b>NET CHANGES IN FUND BALANCE DEFICIT</b>		<b>(689,982)</b>		
<b>FUND BALANCE DEFICIT - Beginning of year (restated)</b>		<b>(88,049)</b>		
<b>FUND BALANCE DEFICIT - End of year</b>		<b>\$ (778,031)</b>		

See independent auditors' report and accompanying notes to financial statements.

**NEW ORLEANS TRAFFIC COURT  
REPORT REQUIRED BY GAO  
YEAR ENDED DECEMBER 31, 2012**

# Silva Gurtner & Abney

Certified Public Accountants & Consultants

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Honorable Judges en banc of  
New Orleans Traffic Court  
New Orleans, Louisiana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of New Orleans Traffic Court (Traffic Court), which comprise the governmental activities, the major fund and the remaining fund information as of and for the year ended December 31, 2012, and the related notes to financial statements, and have issued our report thereon dated September 25, 2013.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Traffic Court's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Traffic Court's internal control. Accordingly, we do not express an opinion on the effectiveness of the Traffic Court's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did identify a deficiency in internal control over financial reporting that we consider to be a material weakness (Finding 2012-1), as defined above included in the attached appendix.

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## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Traffic Court's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 instances of noncompliance or other matters (Findings 2012-2, 2012-3, 2012-4) included in the attached appendix that are required to be reported under *Government Auditing Standards*.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Traffic Court's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Traffic Court's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Silva Gurtner & Abney, LLC*

New Orleans, Louisiana  
September 25, 2013

**SECTION I – MATERIAL WEAKNESS IDENTIFIED DURING THE AUDIT**

**2012-1 – Internal Controls Over Financial Reporting – Accurate and Timely Reconciliation of General Ledger Accounts**

**Observation:** There was a lack of timely, accurate reconciliation of certain general ledger accounts during 2012.

**Criteria:** Control procedures over timely and accurate general ledger account reconciliations (e.g. due to/from other funds, bond forfeiture fund accounts, and fund balance accounts) are required in order to reduce the likelihood that a material misstatement will not be prevented or detected and corrected in a timely basis.

**Condition:** During our audit, we noted the Traffic Court has no procedures for the timely reconciliation of general ledger accounts. As such, the general ledger did not completely reflect the accounting transactions of the Traffic Court for the year during 2012.

**Effect:** Management, in the normal course of performing their assigned functions, cannot prevent or detect and correct misstatements on a timely basis thus resulting in numerous year-end adjusting journal entries.

**Recommendation:** We recommend the Court implement policies and procedures for the timely reconciliation of general ledger accounts and capture all transactions in a timely manner.

**Management's Response and Corrective Action:** Since the 2011 audit report issuance in October 2012, the Traffic Court has been in the process of reorganizing its financial/operational structure to strengthen internal controls over financial reporting. However, this progress was somewhat delayed due to the resignation of our comptroller in October of 2012. We experienced delays filling the position due to the City of New Orleans' hiring processes; however, a replacement was hired, effective June 10, 2013. During the interim, the Judicial Administrator was responsible for accounting functions which included corrective action efforts, revisions to and implementation of policies and procedures related to cash handling, cash and surety bonds, purchasing/procurement, fixed assets and segregation of duties. Additionally, in May 2013, we engaged a third party CPA firm to assist with the accounting and reconciliation of all general ledger accounts, review of all internal controls, and to assist with ensuring we addressed all of the internal control findings, including those cited by the auditor and by the City of New Orleans Office of Inspector General (OIG) that were included in the 2011 financial statements audit report.

## SECTION II – COMPLIANCE AND OTHER MATTERS

### 2012-2 – Public Bid Law Compliance

**Observation:** There was no control in place to ensure compliance with City Ordinance or Public Bid Laws. During 2012, we noted that the Traffic Court did not follow public bid law related to materials and supplies related to an equipment rental contract. Specifically, we noted the Traffic Court entered into 24 month lease contract with ModSpace Inc. to lease equipment for temporary court rooms and office space for anticipated renovations that were to be performed on the existing building. The total cost of the contract per the agreement for 24 months exceeded \$160,000 (installation and setup of approximately \$52,000, change orders of \$12,000 and monthly charges of approximately \$4,400). Although the Clerk of Court was able to provide some informal bid documentation in the form of internet quotes, some handwritten notes, and a faxed bid, the Court did not comply with Public Bid Law – La. R.S. 38:2211 *et seq.*

The State of Louisiana Public Bid Law – La. R.S. 38:2211 *et seq.* sets regulations for following proper bidding procedures for procurements of materials and supplies. Specifically, LRS 38:2212.1 states advertisement and letting to lowest responsible bidder, for materials and supplies states that all purchases of any materials and supplies exceeding \$30,000 to be paid out of public funds shall be advertised and let by contract to the lowest responsible bidder.

Section 3 of City Ordinance No. 1482 states that “Procurement of equipment and supplies and materials shall be obtained by the Traffic Court through requests submitted to the Department of Finance, Bureau of Purchasing, for procurements through public bid.”

**Management Response and Corrective Action:** The Traffic Court was not aware that they were not in compliance with the requirements of state and local public bid law. During 2013, Traffic Court implemented a process to monitor its fixed asset acquisition to ensure that they are properly recorded. Traffic Court has developed and implemented a purchasing policy to procure purchases through a competitive process.

As it relates to the Modspace, Inc. equipment contract, the Traffic Court did obtain several quotes via the internet, fax and phone but did not advertise in accordance with the law. The Traffic Court entered into this agreement based on urgency expressed by the City of New Orleans to move into temporary space as renovations to the Traffic Court building were expected to commence. The contract was cancelled by the Traffic Court when they determined that they were some unsupported costs billed under the contract after review of the invoices in 2012. The total amounts billed between June 2012 (inception) and March 2013 were approximately \$159,000, of which approximately \$61,000 was actually paid to the vendor and another \$4,000 is accrued as a liability. The vendor still shows \$98,000 as unpaid as of the date of this report. The Court contacted the vendor for additional supporting documentation of the \$98,000 outstanding (both via telephone and in writing in a letter dated June 28, 2013) and the vendor agreed to provide further support for the charges, has failed to do so as agreed and, subsequently, has not returned any phone, mail or electronic correspondence to the Traffic Court.

**2012-3 – Late Submission of Audit Report to the Louisiana Legislative Auditor**

**Observation:** The Traffic Court did not file the December 31, 2012 audited financial statements within six months of the close of the fiscal year. Therefore, the Traffic Court is not in compliance with LSA-R.S.24.513.

**Management Response and Corrective Action:** On June 5, 2013, the Court requested a 90 day extension from the Louisiana Legislative Auditor from the original filing deadline of June 30, 2013 relating to the December 31, 2012 audit. The Traffic Court obtained approval from the Louisiana Legislative Auditor's office on July 8, 2013 to submit the audit report no later than September 30, 2013. Traffic Court anticipates that the improved policies and procedures that are currently being implemented will resolve the deficiencies that caused additional time to complete the audit in the future. The 2013 audited financial statements and related required submission information will be prepared timely so that the audit will be completed and the information will be transmitted to the Louisiana Legislative Auditor within six months of the close of the Traffic Court's next fiscal year under audit.

**2012-4 – Budget Process**

**Observation:** The Traffic Court made the budget for the year ended December 31, 2012 available to the public as required by RS 39:1307 B. No amendment to the budget was prepared and adopted when total revenues failed to meet total budgeted revenue by 5% or more.

**Management Response and Corrective Action:** No amendments to the budget were prepared or adopted for 2012. Traffic Court will work to ensure that there is compliance with applicable state and local law with regard to budget practices for the year ended December 31, 2013 and beyond. Traffic Court now reviews the budget each month for any necessary budget amendments.

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**NEW ORLEANS TRAFFIC COURT  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

**2011-1 – Cash**

**Condition:** Cash reconciliations were not properly performed and large reconciling items were not researched and verified as far back as 2008 resulting in a prior year adjustment to cash of \$167,000. There was no segregation of duties with regard to access to and recording cash transactions. Transactions were recorded to cash accounts of the Judicial Expense Fund as well as the Agency Funds via journal entries for which no supporting documentation could be located

**Management Response and Corrective Action:** Resolved. Traffic Court now properly reconciles all cash accounts on a monthly basis. Discrepancies are researched and rectified. Incompatible duties are now segregated to deter the misappropriation of cash. Supporting documentation now accompanies all journal entries. All bank reconciliations and journal entries are reviewed by the Financial Operations Manager and/or the Judicial Administrator.

**2011-2 – Capital Expenditures**

**Condition:** Capital asset additions were recorded in the accounting records as capital assets; however, the existence could not be verified, resulting in a net write off of prior year capital assets of approximately \$194,000.

Section 3 of City Ordinance No. 1482 states that “Procurement of equipment and supplies and materials shall be obtained by the Traffic Court through requests submitted to the Department of Finance, Bureau of Purchasing, for procurements through public bid.”

**Management Response and Corrective Action:** Resolved. A detail schedule of capital assets is being maintained and capital asset acquisitions are being monitored by the Financial Operations Manager to ensure that they are properly recorded. Traffic Court developed and implemented a purchasing policy in May 2012 to procure purchases through a competitive process.

**2011-3 – Due From Others**

**Condition:** Supporting documentation for prior year’s balances in due from other accounts could not be located. Additionally, properly approved supporting documentation for journal entries to due from others accounts could not be located. Numerous journal entries were noted moving expenses from accounting fees and other expense accounts to the due from others account. Additionally numerous journal entries both debit and credit amounts for which no supporting documentation could be located were noted.

**Management Response and Corrective Action:** Resolved. Supporting documentation now accompanies all journal entries. All journal entries are reviewed by the Financial Operations Manager and/or the Judicial Administrator.

**NEW ORLEANS TRAFFIC COURT  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

**2011-4 – Payroll Related**

**Condition:** There was no reconciliation performed between the invoices billed by the City and the payroll expense recorded by the Judicial Expense Fund. This resulted in approximately \$122,000 of payroll expense not being recorded in 2011. Additionally, there was no documentation made available to determine the amounts billed by the City to the Traffic Court were accurate. We noted a payment for accounting fees recorded as payroll expense.

**Management Response and Corrective Action:** Resolved. Financial transactions are monitored on a regular basis for accuracy. A reconciliation process has been implemented in order to reconcile between the invoices billed by the City of New Orleans and the payroll expense recorded in the Judicial Expense Fund.

**2011-5 – Bond Agency Fund**

**Condition:** Supporting documentation for amounts recorded in the bond liability account could not be located. The system used to track bond deposits, forfeitures, and refunds was tested and it was determined that it could not be relied upon due to lack of supporting documentation and discrepancies in various reports generated from the system.

**Management Response and Corrective Action:** Resolved. Traffic Court has collaborated with the City of New Orleans to identify a new case and financial management system. The new system is expected to be implemented by September, 2014. Supporting documentation is now properly maintained for all bond agency fund transactions.

**2011-6 – Fines & Fees Agency Fund**

**Condition:** Amounts recorded in the Fines and Fees Agency Fund as collections did not agree to the cash register reports generated for those time periods. The Court was unable to provide adequate supporting documentation to determine that the allocations of monies collected were in accordance with City and State Ordinances. The Court was unable to provide adequate supporting documentation for allocations and disbursements from the Fines and Fees Agency Funds.

**Management Response and Corrective Action:** Resolved. Changes in procedures have been implemented and daily reconciliations are now performed to ensure the cash register reports coincide with amounts recorded. Traffic Court has collaborated with the City of New Orleans to identify a new case and financial management system. The new system is expected to be implemented by September, 2014. Supporting documentation is now properly maintained for all fines and fees agency fund transactions.

**NEW ORLEANS TRAFFIC COURT  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

**2011-7 – Expenditures**

**Condition:** The Court was not able to produce policies and procedures for expenditures prior to June 15, 2011. Therefore, for the period of January 1, 2011 thru June 15, 2011, we were unable to determine whether or not the expenditures were properly authorized and we determined that there was no internal control in place that would prevent or detect a misappropriation of public funds made through expenditures from the Judicial Expense Fund.

Policies and procedures for expenditures adopted in the En Banc meeting of the Traffic Court Judges on June 15, 2011 relative to the Judicial Expense Fund were not followed. Therefore, for the period of June 15, 2011 thru December 31, 2011, there was no control in place to ensure that expenditures were properly authorized, and there was no control in place that would prevent or detect a misappropriation of funds made through expenditures from the Judicial Expense Fund.

Section 4 of City Ordinance No. 1482 states that “the Judges of the Traffic Court shall establish rules and regulations for the control and management of this fund.” The Court could provide written rules, policies or procedures relating to the Judicial Expense Fund prior to the “Rules for Administration of the Traffic Court Judicial Expense Fund” adopted and signed by the Judges on June 15, 2011.

**Management Response and Corrective Action:** Resolved. Several key policies and procedures have been approved and implemented in May 2012. Also, additional procedures have been implemented to further strengthen segregation of duties over the approval of all expenditures.

**2011-8 – Budget Process**

**Condition:** The Traffic Court could not provide documentation that the budget for the year ending December 31, 2011 was made available to the public as required by RS 39:1307 B. No amendment to the budget was prepared and adopted when total revenues failed to meet total budgeted revenue by 5% or more and when total actual expenditures exceed total budgeted expenditures by 5% or more.

**Management Response and Corrective Action:** Partially resolved. Traffic Court made the budget for the year ended December 31, 2012 available to the public as required. However, no amendments to the budget were prepared or adopted for 2012. Traffic Court will work to ensure that there is compliance with applicable state and local law with regard to budget practices for the year ended December 31, 2013 and beyond. Traffic Court now reviews the budget each month for any necessary budget amendments.

**NEW ORLEANS TRAFFIC COURT  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

**2011-9 – Financial Reporting**

**Condition:** The Traffic Court properly contracted an auditor to perform an audit of its 2011 financial statements; however, the audit firm's partner that was responsible for the audit was involved in a traffic accident that resulted in serious injury to him. Additionally, the poor state of the Traffic Court's financial records caused the auditors to incur more time to complete the audit than was originally anticipated. Although the Traffic Court obtained from the Legislative Auditor an extension until September 30, 2012 to file its audited financial statements, the extension does not alleviate the Traffic Court's requirement to comply with the filing deadline required by state law.

**Management Response and Corrective Action:** Partially resolved. Due to the vacancy of the controller position, this finding was not completely resolved for the 2012 audit. Traffic Court hired an outside accounting firm to assist with the accounting for 2012 and facilitation of the audit in order to complete the 2012 audit by September 30, 2013. Traffic Court has developed detailed procedures to ensure that the 2013 audit will be completed by the June 30, 2014 statutory deadline.

**OTHER AUDITS AND REVIEW FINDINGS AND RESPONSES**

The City of New Orleans Office of Inspector General (OIG) performed a performance review of the New Orleans Traffic Court practices in 2010 for which they issued a report dated November 17, 2011. The report included the following findings that have a direct impact on financial reporting controls of the Traffic Court. The finding numbers correspond to the finding numbers contained in the OIG report.

**Finding # 10**

**Condition:** Traffic Court Judges directed an estimated \$1.3 million from Traffic Fines and Statutory Fees to the Traffic Court JEF.

**Current Status:** Resolved. All funds directed to the Judicial Expense Fund are substantiated by law or best practices, as applicable.

**Finding # 11**

**Condition:** Traffic Court created a surplus for its JEF by retaining approx. \$500k in "excess" revenue.

**Management Response:** Resolved. The accumulated surplus balance was transferred to the City's General Fund on December 31, 2010 to reduce the City's 2010 budgetary deficit. In return, the City's Administration has agreed to include the renovation of the Traffic Court in a future capital project outlay.

**Finding #12**

**Condition:** The 2010 Audit of the Traffic Court JEF presented an inaccurate picture of the Traffic Court's activity.

**NEW ORLEANS TRAFFIC COURT  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

**Management Response:** Resolved. The misstatement of revenue contained in the initial audit report was corrected in a subsequently issued report. Traffic Court hired an outside accounting firm to assist in the preparation of the financial statements and supporting reconciliations as of and for the year ended December 31, 2012. In July 2013, Traffic Court also hired a new Financial Operations Manager. All accounts have been reconciled as of December 31, 2012 and procedures have been implemented to ensure proper accounting is performed on an ongoing basis.

**Finding # 13**

**Condition:** Traffic Court used City fine revenue to pay a court contractor for services the City did not authorize.

**Management Response:** Resolved. Proper internal controls have been implemented to prevent City fine revenue from being used for services in the future.

**Finding # 14**

**Condition:** Traffic charges were dismissed by judges or by judges' staff members without the required authority of a City Attorney.

**Management Response:** Resolved. Effective October 26, 2011, no Traffic Court Judge or staff member shall have the authority to dismiss charges.

**Finding #15**

**Condition:** Traffic Court's financial management capacity in 2010 was not adequate to properly safeguard and administer \$12.8 million in revenues.

**Management Response:** Resolved. Traffic Court has subsequently hired more experienced accounting personnel capable of managing the Court's accounting and financial reporting functions in-house.

**Finding #16**

**Condition:** Traffic Court lacked adequate control against misappropriation of cash.

**Management Response:** Resolved. As of October 26, 2011, employees of the Clerk's Office have been denied screen access to enter disposition codes. Courtroom personnel with access to enter disposition codes cannot cashier; conversely, cashiers have been denied access to process non-cash transactions. The access of other employees has been substantially restricted - they cannot process cash transactions or enter disposition codes.

**Finding #17**

**Condition:** Traffic Court had no written policies or procedures to govern court operations.

**NEW ORLEANS TRAFFIC COURT  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

**Management Response:** Resolved. Traffic Court has implemented various written policies and procedures throughout 2012 and 2013 in an effort to improve internal controls over its operations.

**Finding #18**

**Condition:** Traffic Court judges' employees received full-time salaries and benefits from the City while working part-time.

**Management Response:** Resolved. It has been a historical practice that the former City Attorney's office had been aware of. Currently, Assistant City Attorneys assigned to the Municipal and Traffic Courts work abbreviated shifts averaging less than 3 hours per day. According to Deputy Mayor Andrew D. Kopplin, these employees have been "exempted" from the 35 hour weekly requirement to receive full time salary & benefits.

**Finding #19**

**Condition:** Traffic Court hired Violations Bureau employees without regard for civil service requirements.

**Management Response:** Resolved. All employees are now hired according to all civil service requirements as "classified" employees. Traffic Court will continue to seek legislative clarification/change regarding the use of "unclassified" employees during the 2013 Legislative session.

**Finding #20**

**Condition:** Traffic Court inappropriately classified employees as Contractors.

**Management Response:** Resolved. All employees are now paid through the City of New Orleans payroll system.

**Finding #21**

**Condition:** Traffic Court spent over \$500,000 on materials, supplies, and non-professional services without obtaining competitive bids.

**Management Response:** Resolved. Effective November 1, 2011, the Court began using existing City contracts, as appropriate. A purchasing policy was approved and implemented in May 2012, which requires competitive bids on expenditures.

**Finding #22**

**Condition:** Traffic Court paid professional service contractors \$887,404 in 2010 without utilizing any competitive procurement process.

**NEW ORLEANS TRAFFIC COURT  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

**Management Response:** Resolved. Effective August 2012, Traffic Court terminated the contract with Major Services, Inc.

**Finding #23**

**Condition:** Traffic Court did not exercise adequate oversight over its accounting services contractor or require documentation to support hourly billings.

**Management Response:** Resolved. Traffic Court has subsequently hired more experienced accounting personnel capable of managing the Court's accounting and financial reporting functions in-house. Additional procedures have been implemented to further strengthen controls over expenditures.

**Finding # 24**

**Condition:** Traffic Court accounting services contractor also acted as campaign fund treasurer for the acting Chief Judge in 2010.

**Management Response:** Resolved. Effective November 2011, Traffic Court terminated the contract with the accounting services contractor.

**Finding # 25**

**Condition:** Traffic Court did not make effective use of its Information Technology Systems.

**Management Response:** Partially resolved. See "Exhibit B" in OIG Report for response from Jack Horil, IT Director for Traffic Court. A complete system that would allow for case management and financial management in one system is not financially feasible at this time. However, Traffic Court plans to implement Great Plains as the accounting system effective January 1, 2014.

**Finding # 26**

**Condition:** Traffic Court judges improperly used funds from the JEF to purchase disability insurance for themselves and to pay Ad Hoc Judges.

**Management Response:** Resolved. Effective November 1, 2011, the disability insurance policies for Judges were cancelled.

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