

OPERATIONAL AUDIT

ADMINISTRATIVE OFFICE OF THE COURTS

For the period April 1, 2011 through June 30, 2016



*Independently serving the citizens of
Oklahoma by promoting the
accountability and fiscal integrity of
governmental funds.*



Oklahoma State
Auditor & Inspector
Gary A. Jones, CPA, CFE

**Audit Report of the
Administrative Office of the Courts**

**For the Period
April 1, 2011 through June 30, 2016**



Oklahoma State Auditor & Inspector

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November 19, 2017

TO THE ADMINISTRATIVE OFFICE OF THE COURTS

This is the audit report of the Administrative Office of the Courts for the period April 1, 2011 through June 30, 2016. The goal of the State Auditor and Inspector is to promote accountability and fiscal integrity in state and local government. Maintaining our independence as we provide this service to the taxpayers of Oklahoma is of utmost importance.

We wish to take this opportunity to express our appreciation for the assistance and cooperation extended to our office during our engagement.

This report is a public document pursuant to the Oklahoma Open Records Act (51 O.S. § 24A.1 et seq.), and shall be open to any person for inspection and copying.

Sincerely,

A handwritten signature in blue ink that reads "Gary A. Jones". The signature is written in a cursive style with a long horizontal stroke at the end.

GARY A. JONES, CPA, CFE
OKLAHOMA STATE AUDITOR & INSPECTOR

**Administrative Office of the Courts
Operational Audit**

Background

Administrative services for the Supreme Court and the District Courts are provided by the Administrative Office of the Courts (AOC). The Supreme Court is composed of nine justices appointed by the governor and operates under 20 O.S. § 1 through 24. There are 77 District Courts with multiple judges governed by 20 O.S. § 91.1 through 127.

As of August 2017, the Supreme Court Justices are:

- Douglas Combs Chief Justice
- Noma Gurich Vice-Chief Justice
- Yvonne Kauger.....Justice
- Joseph Watt.....Justice
- James WinchesterJustice
- James EdmondsonJustice
- Tom ColbertJustice
- John ReifJustice
- Patrick Wyrick.....Justice

Administrative Office of the Courts Operational Audit

The tables below summarize the Supreme Court and District Court's sources and uses of funds for state fiscal years 2015 and 2016 (July 1, 2014 through June 30, 2016).

Supreme Court: Sources and Uses of Funds for FY 2015 and FY 2016

	2015	2016
Sources:		
Court Fee for Data Processing	\$ 15,513,897	\$ 14,788,482
Licenses, Permits, Fees	38,711	38,955
Income from Money and Property	3,440	2,075
Local Court Funds	50,846,950	50,854,693
Grants, Refunds, Reimbursements	390,819	508,264
Sale of Service	233,618	209,523
Transfers In	18,551,099	6,458,947
Total Sources	\$ 85,578,534	\$ 72,830,939
Uses:		
Appropriated Transfers Out	\$ 59,460,000	\$ 49,895,000
Personnel Services	20,593,468	20,391,733
Professional Services	1,248,742	719,518
Travel	295,339	228,104
Administrative Expenses	4,722,101	4,495,475
Property, Furniture, Equipment	6,411,912	6,445,078
Assistance, Payments to Local Govn'ts	638,030	616,749
Transfers and Other Disbursements	-	370
Total Uses	\$ 93,369,592	\$ 82,792,027

Source: Oklahoma PeopleSoft accounting system (unaudited, for informational purposes only)

District Court: Sources and Uses of Funds for FY 2015 and FY 2016

	2015	2016
Sources:		
Appropriations	\$ 56,796,305	\$ 62,309,564
Licenses, Permits, Fees	988,862	968,729
Total Sources	\$ 57,785,167	\$ 63,278,293
Uses:		
Personnel Services	\$ 62,426,895	\$ 62,464,270
Professional Services	8,450	19,765
Travel	326,573	299,124
Administrative Expenses	102,340	98,974
Total Uses	\$ 62,864,258	\$ 62,882,133

Source: Oklahoma PeopleSoft accounting system (unaudited, for informational purposes only)

**Scope and
Methodology**

Our audit was conducted in response to 74 O.S. § 212, which requires the State Auditor and Inspector’s office to audit the books and accounts of all state agencies whose duty it is to collect, disburse, or manage funds of the state.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In planning and conducting our audit, we focused on the major financial-related areas of operations based on assessment of materiality and risk for the period April 1, 2011 through June 30, 2016. Detailed audit procedures focused on the period of July 1, 2014 through June 30, 2016, addressing the most current financial processes and providing the most relevant and timely recommendations for management.

Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of the entity’s operations. We utilized sampling of transactions to achieve our objectives. To ensure the samples were representative of the population and provided sufficient, appropriate evidence, the random sample methodology was used. We identified specific attributes for testing each of the samples and when appropriate, we projected our results to the population.

Because of the inherent limitations of an audit, combined with the inherent limitations of internal control, errors or fraud may occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

Administrative Office of the Courts Operational Audit

OBJECTIVE

Determine whether AOC's internal controls provide reasonable assurance that revenue, expenditures (both miscellaneous and payroll), and inventory were accurately reported in the accounting records.

Conclusion

AOC's internal controls do not provide reasonable assurance that expenditures (miscellaneous or payroll) or inventory were accurately reported in the accounting records. Controls also do not provide reasonable assurance for revenues from the MIS Legislative Fund and Law Library funds, representing the majority of AOC's non-appropriated revenues.

In addition, financial operations did not comply with the following statutes:

- 28 O.S. § 86.D.7 and various legislative bills (detailed in the report) giving the Administrative Director of the Courts the authority to transfer monies from the Lengthy Trial Fund to the Supreme Court Administrative Revolving Fund or the Interagency Reimbursement Fund as necessary to perform the duties imposed upon the Supreme Court, Court of Civil Appeals and district courts by law.
- 12 O.S. § 1801 et. seq. - requires the Alternative Dispute Resolution System be administered and supervised by the Administrative Director of the Courts through her designee, the ADR System Director, with the ongoing input of the Dispute Resolution Advisory Board, to provide to all citizens of this state convenient access to dispute resolution proceedings which are fair, effective, inexpensive, and expeditious.

Due to weaknesses in internal controls over revenue, we were unable to conclude as to whether the agency complied with 20 O. S. § 1227, which dictates the contents of the Law Library Fund. This is further explained in the finding beginning on page 5.

FINDINGS AND RECOMMENDATIONS

Revenues at Risk Due to Inadequate Segregation of Duties and Lack of Reliable Reconciliations

The United States Government Accountability Office's *Standards for Internal Control in the Federal Government*¹ (GAO Standards) state, "Key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets. No one individual should control all key aspects of a transaction or event." The *Standards* further require that "Management considers segregation of duties in designing control activity responsibilities so that incompatible duties are segregated and, where such segregation is not practical, designs alternative control activities to address the risk."

Our procedures addressed revenues from AOC's most significant sources by dollar value: the State Judicial Fund, Law Library Funds, MIS Legislative Fees, and the Lengthy Trial Fund. In total these represent approximately 93% of AOC's deposits per FY 2016 records.

The payroll specialist is responsible for opening the mail and creating a log of the checks received. The bank deposit is then prepared by another individual and the check log compared to the deposit by a third party. Without an effective mitigating reconciliation of expected receipts to bank deposits, this arrangement of duties could allow the payroll specialist to misappropriate a payment by excluding it from the check log.

Reconciliations that would detect such a misappropriation appear to be in place for revenues from the State Judicial Fund and the Lengthy Trial Fund, totaling just under 13% of revenues examined. However, effective reconciliations do not appear to be in place to ensure all expected revenues are received and deposited for MIS Legislative Fund and Law Library funds, representing approximately 87% of revenues examined.

- Law Library funds are tracked in spreadsheet form by the director of Law Library, who stated that the resulting documentation may not be complete or reliable.
- MIS Legislative Fees are tracked by the CFO using a checklist of the 77 districts to ensure all payments are received. We randomly selected 10 of these monthly checklists from the audit period, and noted that 3 of the spreadsheets were incomplete (some districts were not checked off). No supporting documentation was present to explain the missing payments.

¹ Although this publication addresses controls in the federal government, this criterion can be treated as best practices. The theory of controls applies uniformly to federal or state government.

Without effective reconciliations in place, these revenues are not only potentially at risk of misappropriation by someone in the payroll specialist's position, there is also no assurance that the districts have paid their respective fees in full and on time. Incomplete deposits could also place AOC out of compliance with statutes requiring revenues be deposited into specific funds and used only for authorized purposes. Specifically, 20 O.S. § 1227 requires that law library revenues and other funding be held in the Law Library Revolving Fund; without a review in place to ensure all law library funds were deposited, we cannot conclude that AOC complied with this requirement.

During our procedures, we noted that the reconciliation documents for the Lengthy Trial Fund and the MIS Legislative Fund are fairly informal, making it difficult to identify which fund is being reviewed or who performed the review. This diminishes the effectiveness of recordkeeping and transparency provided by the documentation. (As noted above, we found the Lengthy Trial Fund to be in compliance with state statute; here we are only recommending improved documentation.)

Recommendation

In order to ensure that payments cannot be misappropriated by the payroll specialist, this position should open the mail and compile the check log with another individual present, and both parties should sign/initial and date the check log.

Whether or not management chooses to make the above process improvement, we recommend reconciliations of each revenue stream be completed and formally documented by individuals independent of receipting and deposit responsibilities. This should ensure not only that payments have not been misappropriated or recorded in error internally, but that all payments due to AOC were received. This would include formalizing the Law Library reconciliation and ensuring that it and the MIS Legislative Fees reconciliation are complete, and any missing payments or reconciling items are properly documented.

Management may also wish to consider using an electronic system to reconcile significant revenue streams, reducing the potential for human error by programming the system to alert the reviewer when, for example, a district has not paid its fee as expected. At a minimum, revenue reconciliations should reflect the fund being reviewed and signature and approval date of the reviewer.

Views of Responsible Officials

See management's detailed response to this finding in Appendix A. In their response, management notes their plans to increase documentation to explain discrepancies and how they were resolved, and to develop a form to document any missing or misapplied payments and related methods of resolution, to be signed by the CFO or any other person involved in reconciliation process.

Auditor's Response

While management states in their response that they have a reconciliation process in place for all funds received, the reconciliation performed for Law Library revenues, as discussed in this finding, may be incomplete or unreliable by admission of the person performing it. We reiterate the need for management to formalize its reconciliation processes for all revenues to ensure all money due to AOC is received and deposited.

Unauthorized Payments May Occur Due to Inadequate Segregation of Duties

The GAO Standards state, "Key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets. No one individual should control all key aspects of a transaction or event."

(Repeat Finding)

Multiple AOC finance officers have the conflicting responsibilities to approve invoices and enter the resulting expenditures into the PeopleSoft accounting system. As management does not perform a regular line-item detailed expenditure review, these finance officers could potentially make unauthorized payments without detection.

Since our last audit, AOC has improved its expenditure process to ensure paper warrants are received by an independent party and compared to supporting documentation before being mailed. However, such a review process does not exist for electronic payments.

Recommendation

We recommend the CFO or another knowledgeable party independent of the expenditure process review the 6-Digit Detail Expenditure Report from the PeopleSoft accounting system to ensure all payments are authorized. This review could be performed monthly or on a random, unannounced basis. Evidence of this review should be retained with the date and signature of the reviewer included.

Views of Responsible Officials

See management's detailed response to this finding in Appendix A. In their response, management agrees to review the detailed expenditure report on a monthly basis.

Inadequate Documentation of Payroll Changes; Lack of Formal Payroll Controls Due to Decentralized Supreme Court and District Court Payroll Processes

An effective internal control system provides for accurate and reliable records. The Oklahoma Archives and Records Commission Consolidated Records Disposal Schedule requires expenditure and payroll documentation be retained in office for certain lengths of time, ranging from after audit completion to permanently for some personnel documents. While it is unclear whether the Schedule applies directly to the Court, it provides guidelines which would serve well as best practices.

In addition, an effective internal control system provides for adequate management review of key financial transactions and reports.

Payroll Change Approvals

According to AOC administrative and HR staff, hires and pay rate changes require the approval of the chief justice, while terminations and retirements may be authorized by the employee's supervisor. However, there is some difficulty in obtaining these approvals in writing. This is in part because the courts operate somewhat autonomously, the practices of different district courts are varied, and staff is spread across the state. In addition, AOC lacks formal policy and procedures requiring the written approvals.

We reviewed the supporting documentation for 40 randomly selected payroll changes with financial impacts (hires, separations, and pay rate changes), and the required approvals were not documented for five of the changes.

Failure to properly document the authorization for payroll actions increases the likelihood that changes will be made without authorization, impedes the ability of independent parties such as the State Auditor and Inspector or interested citizens to review the Court's activity, and may place the Court out of compliance with Archives and Records Commission retention requirements. This risk is increased by the lack of centralized controls over district court timekeeping and the fact that the CFO, who approves the payroll claim, cannot be closely familiar with each payroll change made across the state.

Supreme and District Court Payroll Controls

Additionally, payroll for the Supreme and District Courts personnel is processed with the assumption that everyone should be paid for the entire month unless AOC is notified otherwise. Timesheets and leave requests are not submitted to AOC. As a result of this structure, we were unable to obtain an understanding of significant internal controls related to the courts' timekeeping processes. Without evidence of review and approval within the courts, AOC does not have assurance that the payroll being processed is accurate and properly authorized.

Recommendation

We recommend that AOC implement and document in policy a formal approval process for hires, separations, and pay rate changes, and enforce their requirements for written authorizations before the changes are made. Documentation of all payroll change authorizations should be retained by the Court in accordance with the Oklahoma Archives and Records Commission Consolidated Records Disposal Schedule.

In addition, we recommend that AOC require active payroll approval from the supreme and district court judges (or other court authorities), in whatever form is appropriate and feasible to ensure the payroll being processed is accurate and complete. For example, judges could be provided a listing of employees with hours worked for approval, or judges could submit an affidavit certifying that hours submitted are complete for the pay period. Again, AOC should enforce their requirements for authorization before the payroll is processed.

Views of Responsible Officials

See management's detailed response to this finding in Appendix A. In their response, management states that new policies have been initiated for payroll change approvals by the Chief Justice, and notes that they rely upon the judges and local court administrators to ensure proper and accurate timekeeping for District Court employees.

Auditor's Response

While management has made efforts to improve documentation of approvals for payroll changes, our testwork (as discussed earlier in this finding) indicated that these changes are not yet fully effective. We reiterate our recommendation that AOC seek and retain written authorization for all changes with a fiscal impact (such as pay rate changes, hires, and terminations), enforcing this requirement before the changes are made.

Additionally, while management relies upon Court officials to oversee proper timekeeping for their employees, this does not give AOC positive assurance that the payroll they are responsible for executing is complete and correct. We therefore reiterate our recommendation that AOC seek at least some minimal payroll approval from those Court authorities on a regular basis, and retain documentation of this approval or assertion that their payroll expenditures are accurate and supported.

**Inventory at Risk
Due to
Inadequate
Segregation of
Duties, Lack of
Formal Inventory
Counts, and Lack
of Procedures to
Review Counts**

The GAO Standards state, “Key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets. No one individual should control all key aspects of a transaction or event.” The Standards also state that in order to safeguard vulnerable assets, “Such assets should be periodically counted and compared to control records.”

Segregation of Duties

The entity has not adequately segregated multiple key duties related to inventory. The Asset Management Team is responsible for receipting items, tagging inventory, maintaining inventory records, and performing annual IT inventory counts. The results of inventory counts are not reviewed by an independent party. This creates the opportunity for inventory to be misstated or misappropriated without detection.

Inventory Counts

The Asset Management Team is responsible for conducting annual IT inventory counts for AOC and the District Courts. These counts are tracked by The Asset Management Team using a digital map of all the Oklahoma counties. The Asset Management Team also scans each tagged item. Scanned inventory items are entered into the Cherwell Database, documenting each item’s last confirmation date.

AOC was unable to provide documentation of counts for FY 2015 and FY 2016, and while we attempted to verify recent inventory counts using a Last Confirmation Date Report provided by AOC, the report appeared to be incomplete and unreliable. Out of 9,156 items listed on the report provided to us, 4,747 of those records did not have a last confirmation date or the date was invalid. In addition, 227 items were listed as having an unknown location, and when we compared AOC’s Deployed Asset Report to the Last Confirmation Date Report, 95 items were missing from the Confirmation Date Report for Canadian County. Although the entity reportedly has a process in place for conducting annual inventory counts,

it appears that a full count of statewide inventory has not been successfully completed since the implementation of the new inventory system in 2011.

While the Asset Management Team reportedly began conducting non-IT inventory counts recently, these non-IT inventory counts were not conducted within our audit period. Without a reliable and complete inventory count of IT and non-IT items, the listings may be inaccurate, lost or stolen items are less likely to be identified, and AOC's records may be incomplete for risk management purposes.

Review of Inventory Counts

There is no process in place for the results of inventory counts to be reviewed by management or another independent party. Without a reliable and independent review of inventory records, again, the inventory records may be incomplete or inaccurate, and misappropriations may go undetected.

Recommendation

We recommend a comprehensive inventory count be performed to bring inventory records up to date and ensure they are accurate and complete. Going forward, management should ensure comprehensive physical inventory counts are performed and documented annually, or as frequently as is realistic to cover the statewide district locations in the case of IT items. The counts should be performed by someone independent from maintaining inventory records. In addition, another independent authority should review the results of each count, ensuring removed items have been authorized and significant purchases have been added. Documentation of the count and approval should be retained.

Also, to help ensure regular inventory counts are occurring and being performed by the appropriate individuals, management should update the entity's current policies and procedures to include the approved process.

Views of Responsible Officials

See management's detailed response to this finding in Appendix A. In their response, management acknowledges that, in part due to personnel and system turnover, inventory counts are lacking and procedures need to be enhanced. AOC plans to restructure the inventory process and increase oversight, and a full inventory count is underway.

Administrative Office of the Courts Operational Audit

**Funds Not
Transferred as
Required;
General
Operations from
Lengthy Trial
Fund Exceeded
Allowable
Threshold**

The Lengthy Trial Fund was established by 28 O.S. § 86 for the purpose of providing full or partial wage replacement or wage supplementation to jurors who serve as petit jurors for more than ten days.

28 O.S. § 86.D.7 and various legislative bills² give the Administrative Director of the Courts the authority to transfer monies from the Lengthy Trial Fund to the Supreme Court Administrative Revolving Fund or the Interagency Reimbursement Fund as necessary to perform the duties imposed upon the Supreme Court, Court of Civil Appeals and district courts by law. Different thresholds are established annually, as illustrated in the table below.

Very few expenditures were made from the Lengthy Trial Fund during the audit period for the established purpose of the fund. A total of 12 claims totaling \$16,953.12 in expenditures were classified by management as jury and witness fees, and our testwork indicated that each one complied with 28 O.S. § 86. Because general expenditures were also made from the fund as explained below, we had to rely upon management's classification of these claims.

Financial operations did not comply with the requirement that funds to be used for general purposes first be transferred to the Supreme Court Revolving Fund or the Interagency Reimbursement Fund. General expenditures were made directly from the Lengthy Trial Fund and therefore not only appear at first glance to be an unauthorized use of that fund, but potentially misstate the Entity's financial records and make it difficult to audit the fund for compliance. This practice also increases the risk that unauthorized expenditures could be made from the fund and not detected. Management is aware that funds for general operations are not being transferred as required and expressed the belief that the transfer is unnecessary.

In developing audit procedures in light of the general expenditures from the Lengthy Trial Fund, we summed the annual expenditures *not* classified as jury and witness fees, in order to ensure their totals fell below the thresholds authorized for transfer out of the fund. The following table details annual expenditures from the Lengthy Trial Fund *not* for the expressed purpose of that fund, and the amount authorized to be transferred out of the fund for general use.

² FY-11 – SB1537, Section 1; FY-12 – BH2170, Section 145; FY-13 – SB1975, Section 139; FY-14 – HB2301, Section 123; FY-15 – SB2127, Section 126; FY-16 – HB3202, Section 5.7.

Administrative Office of the Courts Operational Audit

FY	Miscellaneous Expenditures (such as travel reimbursements)	Payroll Expenditures	Total Expenditures	Authorized Threshold
2011	\$44,380.65	\$1,634,588.91	\$1,678,969.56	\$2,600,000.00
2012	\$0.00	\$1,420,422.96	\$1,420,422.96	\$2,000,000.00
2013	\$0.00	\$115,283.03	\$115,283.03	\$2,000,000.00
2014	\$0.00	\$2,042,615.58	\$2,042,615.58	\$1,000,000.00
2015	\$7,447.33	\$754,189.47	\$761,636.80	\$1,000,000.00
2016	\$254,982.31	\$1,005,622.92	\$1,260,605.23	No limit

This approach led us to question spending in 2014, when the general expenditures from the Lengthy Trial Fund exceeded the amount authorized by the legislature for transfer/general use by \$1,042,616. Management explained that the overage was budgeted as carryover from the previous year's authorization (see table above illustrating low spending in 2013), and provided budget documentation illustrating that point. Overall, this issue, and the appearance of unauthorized spending from the Lengthy Trial Fund, could have been avoided had the transfers been performed as required.

Recommendation

We recommend AOC comply with 28 O.S. § 86 and the related legislative bills by transferring funds for general operations out of the Lengthy Trial Fund as prescribed before expenditures are made.

Views of Responsible Officials

See management's detailed response to this finding in Appendix A. The response states, "For many years the Legislature authorized Lengthy Trial Fund revenues for general operations of the District Courts and payments were made directly from the Lengthy Trial Fund. In FY 15 and FY 16, the Legislature again authorized use of the Lengthy Trial Fund for general operations and required the funds to be transferred to the Supreme Court Administrative Revolving Fund or the Interagency Reimbursement Fund." We would like to clarify that authorizing language for *all* years of the audit period (fiscal years 2011 through 2016; see references in footnote 2 on the previous page) required the transfer of such funds previous to expenditure.

AOC has now begun transferring funds for general operations from the Lengthy Trial Fund to the Interagency Reimbursement Fund before they are utilized for general operations.

Administrative Office of the Courts Operational Audit

**Alternative
Dispute
Resolution
System Lacks
Formal
Monitoring**

Repeat Finding

12 O.S. § 1801 established the state's Dispute Resolution program with the intent of providing all citizens of this state convenient access to dispute resolution proceedings which are fair, effective, inexpensive, and expeditious. This is accomplished through the Alternative Dispute Resolution System (ADRS), which is made up of twelve community-based mediation centers and eleven programs developed by state agencies. The system is administered and supervised by the Administrative Director of the Courts through her designee, the ADRS Director, with the ongoing input of the Dispute Resolution Advisory Board.

In addition, an effective internal control system provides for independent review of activity, as well as for adequate retention of documentation of transactions and key reviews. *GAO Standards* outline that management should establish monitoring activities, evaluate the results, and remediate deficiencies on a timely basis.

While new ADRS management has begun making improvements since the close of the audit period, the following weaknesses were identified during our previous audits and were still present during our audit period.

- Centers were not formally required to submit supporting documentation with their written reimbursement invoices during the audit period. The new ADRS director noted that in his experience support has been provided, and we were able to verify that some centers and programs do provide supporting documents. However, ADRS policies and procedures do not specifically state the need for supporting documentation to be submitted with the reimbursement request. Formalizing this requirement would decrease the risk that reimbursements are paid for non-ADRS expenses.
- Centers are visited periodically by management and an informal review is performed. However, a formal monitoring document is not completed. Without a formal record, there is no evidence the review occurred and ADRS risks a lack of standardization in review procedures. Lack of recordkeeping could also result in weaknesses being overlooked or make it difficult to follow up on any issues identified.
- There is no formal monitoring schedule for the centers. The lack of a formal monitoring plan increases the risk that timely monitoring is not performed at all applicable locations, and results in a lack of evidence that such monitoring occurred.

Recommendation

To ensure that consistent and timely review procedures are being performed, formal documentation of the review and monitoring schedule should be developed for use in this process and retained by program personnel. Management should update the entity's ADRS policies and procedures to include the requirements for formal monitoring plans and review documentation, including documentation of review results whether or not problems are identified. These policies should also formalize the requirement for support to be submitted along with program expenditure reimbursement invoices.

Views of Responsible Officials

See management's detailed response to this finding in Appendix A. In their response, management explains that policies are being updated as necessary and a formalized monitoring process will be included in these updates.

Other Items Noted

Although not considered significant to the audit objective, we determined the following issue should be communicated to management.

Report on the Administration of the Lengthy Trial Fund Not Submitted; Significant Discrepancy Between Revenues Collected for Lengthy Trial Fund and Expenditures for the Fund's Stated Purpose

Statute 28 O.S. § 86 requires that the court shall provide for "a report by the Supreme Court on the administration of the Lengthy Trial Fund included in the annual report on the judicial branch, setting forth the money collected for and disbursed from the fund." According to management, this report is not being produced. It appears the entity was unaware of the requirement, and thus is out of compliance with statute.

We noted during our procedures that there is a large discrepancy between the revenues collected for the Lengthy Trial Fund (fees paid by attorneys filing civil cases) and the corresponding funds spent for the stated purpose of the fund (wage replacement or supplementation for jurors on lengthy trials). The table below details revenues from the Lengthy Trial Fund and expenditures classified by management as lengthy trial payments during our audit period.

**Administrative Office of the Courts
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FY	Lengthy Trial Revenue	Lengthy Trial Expenditures	Difference
April1-June 30 2011	\$ 380,336.52	\$ -	\$ 380,336.52
2012	1,185,160.62	11,900.00	1,173,260.62
2013	1,135,184.68	826.00	1,134,358.68
2014	972,366.55	1,992.72	970,373.83
2015	971,327.53	1,972.00	969,355.53
2016	1,025,492.82	262.40	1,025,230.42
Total	\$ 5,669,868.72	\$ 16,953.12	\$ 5,652,915.60

Because jurors seldom submit claims for wage supplementation related to lengthy trials, the average percentage of revenues paid out for this purpose during the audit period was just 0.3%. As noted in the Lengthy Trial Fund finding (see page 11 and 12) most of the revenues in this fund were redirected by appropriations bills to be used for payroll and miscellaneous expenditures; in other words, basic and vital needs of AOC.

We believe that, were the statutorily required report on fund activity being produced, users of the report may have found this information interesting, and possibly cause to question the legislature's direction of AOC to use this fee revenue in place of appropriated funds for its essential needs.

Views of Responsible Officials

While no recommendation was made, management has provided a response further explaining this situation in Appendix A.

Appendix A
Agency Responses



Administrative Office of the Courts

The Supreme Court of Oklahoma

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November 30, 2017

Melissa Capps, Audit Supervisor
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2300 N. Lincoln Blvd., Room 100
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Dear Ms. Capps:

Below are the responses of the Administrative Office of the Courts with respect to the proposed findings detailed in your draft audit report for the period April 1, 2011 through June 30, 2016.

#1 Segregation of Revenue & Deposits Duties

The AOC *does have a reconciliation process in place for all funds received*, which compares expected receipts to deposits on a monthly basis. AOC revenues are generated from the court clerks in all 77 counties; however, the AOC does not have access to county records to determine if the amounts sent by the county are correct.

The AOC expects a payment every month from every county payable to the Lengthy Trial Fund, the Oklahoma Court Information System Revolving Fund (MIS) and the District Court Revolving Fund. A checklist is used to track these payments. The CFO runs a report at the end of the month that shows the amount deposited to each fund from each county. If the report and the checklist both show a payment missing for a particular month, the CFO relates that information to the Court Fund Administrator who calls the court clerk in that county and inquires about the payment. Occasionally a payment is inadvertently sent by the court clerk to another entity instead of the AOC. When these errors are discovered, the AOC notifies the entity that received the inappropriate payment and requests a refund. If the report and the checklist do not match, the CFO checks with the person responsible for making the deposit and logging it into the system. Sometimes the payment was received, but not recorded on the checklist or the payment was erroneously applied to the wrong fund or county.

Although the reconciliation process is performed every month and any discrepancies corrected, the AOC will increase documentation to explain the discrepancies and how they were resolved. The AOC will develop a form to document any missing or misapplied payments for a particular fund for the month

and the methods used to resolve any issues. This form will be attached to the checklist and signed by the CFO and any other person involved in the reconciliation process.

#2 Invoices & Expenditures

The current processes of the AOC are designed to prevent unauthorized payments. The following procedures must be followed for all non-travel payments:

1. The requesting party fills out and signs a requisition form for item(s) they wish to be purchased. The finance officer notes the appropriate class code and account code on the requisition.
2. All requisitions must be approved and signed by the Administrative Director. For MIS purchases, the requisition must also be signed by the MIS Director [or Deputy Director], CFO and the Chief Justice or designee.
3. After all required signatures and funding data are on the requisition, the requisition is given to the Purchasing Officer to prepare a purchase order. Purchasing officers are the only persons authorized to create or make changes to purchase orders. The purchasing officer then places the order and forwards the purchase order to the appropriate Finance Officer.
4. When the invoice is received, the Finance Officer responsible for making the payment compares the invoice with the purchase order to make sure the amount billed is correct and with the packing slip to make sure the item(s) were received.
5. The Finance Officer responsible then creates a claim voucher to initiate payment. After approval and signature by the CFO, the claim is sent to OMES for payment. Before OMES approves the claim voucher and processes it for payment, another check is made to verify that the amounts on the purchase order and the claim voucher match.

Since all claim vouchers are reviewed and signed by the CFO – and the Finance Officers do not have the authority or ability to create vendors or purchase orders or to make changes to purchase orders, it would be almost impossible to make unauthorized payments without detection. As an additional precaution, the CFO will accept the auditor recommendation to review the 6-digit detail expenditure report on a monthly basis.

#3 Payroll Change Approvals and Controls

In July, 2014, when first employed at the AOC, the CFO determined that no formal approval process for new hires and pay rate changes existed for the Appellate and District Courts. The CFO initiated a new policy that requires written approval by the Chief Justice for all new hires and pay rate changes. This policy has been adhered to since that time. Retirements are initiated by the employee submitting a Retirement Notice & Application and do not require approval. Resignations and terminations are submitted by letter from the immediate supervisor. The Courts are not subject to the Oklahoma Archives and Records Commission Consolidated Records Disposal Schedule; however, personnel documents are kept permanently in the employee personnel files.

All AOC and MIS employee timesheets are submitted monthly and any changes that would result in leave without pay are reflected on the following month's payroll. Since payroll is run prior to the end of the month, any exceptions on the current month payroll cannot be reflected unless advance notice is given. The AOC is not responsible for District Court employee timesheets and relies upon the Judges and local Court Administrators to retain proper and accurate records for their employees.

District Court Timekeeping – The AOC must depend upon local elected officials in all 77 counties to supervise the district court personnel who are under their direct supervision and control. These elected officials are frequently reminded by the AOC of their duty to maintain adequate timesheets and/or leave records for their employees.

#4 Inventory Controls

The AOC acknowledges that inventory counts are lacking and procedures need to be enhanced with the following explanation: in early 2014, with the AOC MIS Comptroller retired, asset management responsibilities became a shared responsibility among several different people. In addition, paper records were converted to the automated Cherwell database. These two events resulted in a degradation in inventory control procedures and practices that were not translated well from a manual to an automated tracking process.

Segregation of Duties: The AOC accepts the audit recommendations and will use them as an opportunity to restructure the AOC inventory process and create additional oversight that ensures accuracy and accountability.

Formal Inventory Counts: In January, 2016, formal inventory reporting had been reestablished with a goal of establishing a statewide inventory baseline in each county and in the Judicial Center. Upon completion of the baseline, an annual physical inventory will be scheduled in each county and the Judicial Center to reconcile and maintain formal inventory counts with additional management oversight.

Procedures to Review Counts: A review of all inventory procedures in relationship to the automated Cherwell database will be conducted. Where lacking, procedures will be brought into compliance with the inventory guidelines in the GAO Standards.

#5 Lengthy Trial Fund transfers for general operations

For many years the Legislature authorized Lengthy Trial Fund revenues for general operations of the District Courts and payments were made directly from the Lengthy Trial Fund. In FY 15 and FY 16, the Legislature again authorized use of the Lengthy Trial Fund for general operations and required the funds to be transferred to the Supreme Court Administrative Revolving Fund or the Interagency Reimbursement Fund. Monies continued to be used directly from the fund, but that oversight has been corrected. Lengthy Trial Funds are now being transferred to the Interagency Reimbursement Fund before being utilized for general operations.

The question of FY 14 expenditures from the Lengthy Trial Fund appears to be a lack of understanding the use of carryover funds from FY 13. In 2012, SB1975, Section 139, authorized \$2 million from the Lengthy Trial Fund for appellate and district court expenditures. Only \$115,282 was expended in FY13, leaving over \$1.8 million in carryover. Because of the carryover, the Legislature in FY 14 reduced the authorized limit to \$1 million. The OMES budget office recognized these funds as carryover when they posted a \$2.6 million allotment in FY 14 for the Lengthy Trial Fund.

The AOC currently transfers funds for general operations from the Lengthy Trial Fund to the Interagency Reimbursement Fund so that only those expenses authorized by 28 O.S. Sec.86 will be

expended from the Lengthy Trial Fund and any funding not spent in a previous year will be available for operations in subsequent years.

#6 Alternative Dispute Resolution (ADR) System Lacks Formal Monitoring

A new director assumed responsibility for this program on November 1, 2016. Since that time, he has been reviewing current policies, updating them when necessary, and developing a formalized process for annual monitoring. The recommendations from the auditor for documentation of monitoring will be included in the updated policies.

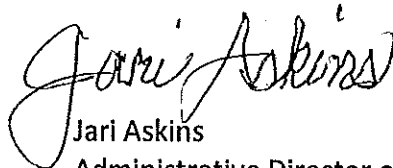
Centers currently ARE required to submit supporting documentation with program expenditure reimbursement invoices. The ADR director maintains those records, but was not asked to present them for the audit. Language requiring documentation for purchases of goods and services *is included* in the Sponsor Agreement executed annually between the Sponsor and the AOC; but the ADR director will formalize the requirement by adding it to policy.

#7 Lengthy Trial Fund: Revenues and Expenditures

In 2004, the Oklahoma Legislature amended the statutes governing payment of juror fees and created the Lengthy Trial Fund. This was in response to the extra costs associated with the jury trial of Terry Nichols on charges filed by the State of Oklahoma. Expenditures from this fund are subject to the frequency of claims made by individual jurors to supplement any loss or reduction in wages during jury service. Because most Oklahoma employers continue to fully compensate employees who are called into jury service – and because employers do not wish to face federal scrutiny if wages are reduced during jury service – claims made for payment from this fund are unpredictable. The 2011 operational audit reflected no concerns in the administration of this fund and management processes remain the same as found sufficient in prior audits.

As budget woes began to impact the legislative appropriations process, the balance in this fund became a source of revenue that the Oklahoma Legislature utilized for operations of the appellate and trial courts. Recently, in 2015 (HB2233) and 2016 (HB3202), the legislature authorized use of monies from this fund “as necessary to perform the duties imposed” upon the courts for the balance of that current fiscal year (6/30/15 and 6/30/16). In 2017 (SB835), the legislature authorized use of the fund for court operations through the end of FY18 (6/30/18). Differences in amounts received and expended reflect use of the fund to fulfill payroll requirements as authorized by the legislature.

Sincerely,



Jari Askins

Administrative Director of the Courts



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