

OPERATIONAL AUDIT

OKLAHOMA COURT OF CRIMINAL APPEALS

For the period October 1, 2010 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
Oklahoma Court of Criminal Appeals**

**For the Period
October 1, 2010 through June 30, 2016**



Oklahoma State Auditor & Inspector

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October 24, 2016

TO OKLAHOMA COURT OF CRIMINAL APPEALS

This is the audit report of the Oklahoma Court of Criminal Appeals for the period October 1, 2010 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, flowing style.

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

Oklahoma Court of Criminal Appeals Operational Audit

Background

The Oklahoma Court of Criminal Appeals (the Court) is the highest court in the State of Oklahoma with appellate jurisdiction in criminal cases. It is the state court of last resort in criminal matters. The Court derives its origin and jurisdiction from the state constitution, which was formulated by the constitutional convention and submitted to and adopted by the people of Oklahoma at the first election, held on September 17, 1907. Members of this court are appointed by the governor from a list of three names submitted by the Oklahoma Judicial Nominating Commission.

Oversight is provided by five judges appointed by the governor. Judges as of June 30, 2016 are:

Clancy Smith Presiding Judge
 Gary L. Lumpkin..... Vice-Presiding Judge
 Arlene Johnson..... Judge
 David B. Lewis Judge
 Robert L. Hudson..... Judge

The following table summarizes the Court’s sources and uses of funds for fiscal years 2015 and 2016.

Sources and Uses of Funds for FY 2015 and FY 2016

	2015	2016
Sources:		
Appropriations	\$ 3,630,199	\$ 3,376,084
Grants, Refunds, Reimbursements	2	125
Total Sources	\$ 3,630,201	\$ 3,376,209
Uses:		
Personnel Services	\$ 3,239,217	\$ 3,634,682
Administrative Expenses	35,910	43,906
Professional Services	29,273	29,105
Travel	25,017	5,450
Property, Furniture, Equipment	290	18,663
Transfers & Other Disbursements	200	67
Total Uses	\$ 3,329,907	\$ 3,731,873

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

Oklahoma Court of Criminal Appeals Operational Audit

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 duties 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 October 1, 2010 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 Court of Criminal Appeals 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.

OBJECTIVE

Determine whether the Court’s internal controls provide reasonable assurance that payroll expenditures and inventory were accurately reported in the accounting records.

Conclusion

The Court’s internal controls generally provide reasonable assurance that payroll expenditures were accurately reported in the accounting records. They do not provide reasonable assurance that inventory was accurately reported in the accounting records.

FINDINGS AND RECOMMENDATIONS

Inadequate Segregation of Duties over Inventory

The United States Government Accountability Office's *Standards for Internal Control in the Federal Government* states (2014 Revision), "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."

The front-line administrative assistant has the duties of ordering, receiving, recording, and removing items from the inventory records. The Marshal of the Court can receive items and access the shared drive that contains the inventory records. These conflicting duties create the opportunity for either of these individuals to misappropriate an inventory item and conceal it by misstating what was received or falsifying the inventory count. During the audit period all Court employees had access to modify inventory records, which are kept on a shared drive. As a result, any employee with network access has the opportunity to manipulate inventory records in order to conceal misappropriated goods.

In addition, the Court does not appear to have performed physical inventory counts for each year during our audit period. Although the Court was able to provide two inventory reports updated September 2013 and January 2016, there was no evidence that an inventory count had been conducted.

It appears management was not aware of the risks created by their arrangement of duties or by storing the inventory records on a shared drive. Inventory counts and recordkeeping were also difficult for the Court due to confusion over whether some items belong to them or to the Supreme Court, both housed at the Judicial Center.

Recommendation

We recommend management segregate duties to ensure that no one individual can initiate purchases, authorize transactions, process payments, and modify inventory records. We also recommend that management ensure that a comprehensive annual physical inventory count is performed and documented by someone independent of purchasing assets, maintaining inventory items and inventory records, and disposing of surplus assets. This will require determining which

items purchased for the Judicial Center office belong specifically to the Court of Criminal Appeals.

Views of Responsible Officials

The Court will appoint its Marshal to conduct and certify an annual inventory of the Court's property. The Marshal will compare the prior year's inventory report to the current year's physical count and ensure there are records of proper approvals for any purchases added and any items deleted from the records. The inventory will be maintained by the administrative assistant who serves as the OMES liaison person for purposes of payroll and purchases.

**Payroll
Documentation
Not Retained**

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.

Payroll changes, such as hires, terminations, and salary changes, are conducted through e-mail correspondence with the Office of Management Enterprise Services - Human Capital Management Division. However, the Court was only able to provide documentation of the emails authorizing such changes for six of the twelve payroll changes randomly selected for review.

Because payroll changes are later reviewed and signature approved by the presiding judge as part of the overall payroll claim, controls over this process are still generally operating. However, failure to properly document payroll actions increases the likelihood that deficiencies will not be detected in a timely manner, 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.

Recommendation

We recommend documentation of all payroll actions be retained by the Court in accordance with the Oklahoma Archives and Records Commission Consolidated Records Disposal Schedule.

Views of Responsible Officials

The OCCA contracted with OMES several years ago for accounting services, and a representative from OMES conducts new employee processing and documents employee terminations. Apparently, we falsely assumed OMES was retaining those files on the Court's behalf. The Court will institute the policy of ensuring all hires and terminations will be documented by email sent to both OMES and the Court's administrative assistant who serves as liaison to OMES. The email will contain new employee identification, rate of pay, and start or end date. The Court will maintain a separate file documenting all hires, salary terms, and terminations in addition to the files maintained by OMES.



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