

OKLAHOMA WORKERS' COMPENSATION COURT

FOR THE PERIOD
JULY 1, 2006 THROUGH
JUNE 30, 2008

OPERATIONAL AUDIT



Oklahoma State Auditor
& Inspector

**Audit Report of the
Oklahoma Workers'
Compensation Court**

**For the Period
July 1, 2006 to June 30, 2008**

STATE AUDITOR AND INSPECTOR

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June 15, 2009

TO THE OKLAHOMA WORKERS' COMPENSATION COURT

Following is the audit report of the Oklahoma Workers' Compensation Court for the period July 1, 2006 to June 30, 2008. The Office of the State Auditor and Inspector is committed to serving the public interest by providing independent oversight and by issuing reports that serve as a management tool to the State. Our goal is to ensure a government that is accountable to the people of the State of Oklahoma.

We wish to take this opportunity to express our appreciation to the court's staff for the assistance and cooperation extended to our office during the course of our engagement.

Sincerely,

A handwritten signature in blue ink, reading "Steve Burrage", is positioned above the printed name.

STEVE BURRAGE, CPA
STATE AUDITOR & INSPECTOR

Mission Statement

The Oklahoma Workers' Compensation Court applies the law as set out in the Oklahoma Workers' Compensation Act. Its responsibility is to provide fair and timely procedures for the resolution of disputes and identification of issues involving on-the-job injuries. They dedicate themselves to carry out this responsibility and to serve the public promptly, courteously and impartially.

Key Staff

Marcia DavisAdministrator
Constance McCarthy-AngelBusiness Manager

Oklahoma Workers' Compensation Court

Operational Audit

Background

The Workers' Compensation Court (the Court) is a statutory agency created in 1915 as the State Industrial Commission and has undergone several changes since its inception. The most significant changes occurred when the 1977 Workers' Compensation Act (the Act) was established, changing the name and composition of the Court.

The Court administers the Act and is vested with jurisdiction to determine claims for compensation, the liability of employers and insurers, and any rights asserted under the Act. It consists of ten judges who serve six-year terms. When a term expires or vacancy occurs on the court, the governor appoints a successor. In making appointments, the governor relies upon the recommendation of the Judicial Nominating Commission. The recommendation may include the incumbent if the incumbent seeks reappointment. Awards or decisions of the court are final and conclusive unless appealed to the Oklahoma Supreme Court.

The Act also created the position of "administrator" who, until 2005, was appointed by the presiding judge. Any vacancy in this position after 2005 is subject to gubernatorial appointment for a six-year term. The administrator supervises all departments of the Court.

The Court pays for its operations primarily through appropriations.

Table 1 summarizes the Court's sources and uses of funds for fiscal years 2007 and 2008.

Table 1-Sources and Uses of Funds for FY 2007 and FY 2008¹

Sources:	2007	2008
Appropriations	\$4,888,279	\$5,242,033
Litigation Fee - State Industrial Court	1,292,017	1,233,416
Sale of Services	252,101	255,327
Other	<u>64,029</u>	<u>50,025</u>
Total Sources	<u>\$6,496,426</u>	<u>\$6,780,801</u>
Uses:		
Personnel Services	\$5,600,308	\$5,804,555
Travel	98,865	96,319
Miscellaneous Administrative	179,365	187,470
Rent Expense	172,416	196,276
Maintenance & Repair Expense	186,300	172,411
General Operating Expense	82,342	73,585
Office Furniture and Equipment	76,992	75,807
Other	<u>43,437</u>	<u>49,762</u>
Total Uses	<u>\$6,440,025</u>	<u>\$6,656,185</u>

Source: Oklahoma CORE Accounting System (unaudited; for informational purposes only)

Authority, Purpose, and Scope

This 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 state officers whose duty it is to collect, disburse or manage funds of the state.

¹ Although not presented in this table, it should be noted the Court receives funds from the Oklahoma Tax Commission for the Individual Self Insurance Guaranty Fund tax. These funds are deposited into an interest bearing agency special account which is under the custody of the Court. The Court received \$604,314 in tax collections and interest during FY 2007 and \$208,348 during FY 2008. The tax collections and interest collected are used to pay claims for insolvent self insured employers. In FY 07 and 08 the court paid a total of \$455,259 and \$385,009, respectively, for these claims.

Oklahoma Workers' Compensation Court Operational Audit

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. 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.

The audit period covered was July 1, 2006 through June 30, 2008.

Objective 1 - To determine if the Court's internal controls provide reasonable assurance that revenues and expenditures were accurately reported in the accounting records, and financial operations complied with 62 O.S. § 7.1.C.2.a, 85 O.S. § 93.A.2, 85 O.S. § 1.2.C, 85 O.S. § 1.3.D, and 20 O.S. § 106.9.

Conclusion

The Court's internal controls generally provide reasonable assurance that revenues were accurately reported in the accounting records. However, some areas could be strengthened.

The Court's internal controls do not provide reasonable assurance that expenditures were accurately reported in the accounting records.

Compliance procedures were performed with regards to five laws:

- The Court secured receipts awaiting deposit by locking them in a safe as required by 62 O.S. § 7.1.C.2.a;
- The Court transferred \$10 of the \$75 court fees received per case to the Attorney General's Workers' Compensation Fraud Unit Revolving Fund as required by 85 O.S. § 93.A.2;
- The salaries paid to Court's judges agreed to the amount stated in 85 O.S. § 1.2.C;
- The salaries paid to the Court's administrator agreed to the amount stated in 85 O.S. § 1.3.D;
- The salaries paid to the court reporters agreed to the amount stated in 20 O.S. § 106.9.

Methodology

To accomplish our objective, we performed the following:

- Documented internal controls related to the receipting and expenditure processes which included discussions with Court personnel, observation, and review of documents;
- Tested controls which included:
 - Determining that persons who received monies were independent of the person who prepared the deposit;
 - Reviewing a random sample of 60 deposits to ensure the receipting documentation agreed to the amount deposited;
 - Determining the person who prepares the reconciliation was independent of the receipting process;
 - Reviewing a random sample of 3 months' Office of State Finance (OSF) Form 11 reconciliations to ensure the reconciliations were

Oklahoma Workers' Compensation Court Operational Audit

mathematically accurate, agreed to supporting documentation, and were not performed by individuals involved in the receipting process.

- Discussed with personnel and observed location where funds are retained prior to deposit to ensure they were adequately safeguarded as required by 62 O.S. § 7.1.C.2.a;
- Recalculated the amount transferred to the Attorney General's Workers' Compensation Fraud Unit Revolving Fund during the audit period to ensure \$10 of the \$75 court fees received per case by the Court were transferred as required by 85 O.S. § 93.A.2;
- Reviewed PeopleSoft HR All Actions report to ensure:
 - the administrator's annual salary did not exceed the maximum limit set forth in 85 O.S. § 1.3.D;
 - the judges' annual salaries did not exceed the maximum limit set forth in 85 O.S. § 1.2.C;
 - the court reporters' annual salaries did not exceed the maximum limit set forth in 20 O.S. § 106.9.
- Reviewed documentation (proof of certification and hire date) for six court reporters to ensure the amount above their base salaries did not exceed the limits set forth in 20 O.S. § 106.9.

We selected our samples in such a way that whenever possible, the samples are representative of the populations and provide sufficient evidential matter. Sample methodologies can vary and are selected based on the audit objective and whether the total population of data was available. Random sampling is the preferred method; however, we may also use haphazard sampling (a methodology that produces a representative selection for non-statistical sampling), or judgmental selection when data limitation prevents the use of the other two methods. We identified specific attributes for testing each of the samples. When appropriate, we projected our results to that population.

Observation

Inadequate Segregation of Duties related to Expenditures - Repeat Finding

To protect against possible misappropriations of assets, the internal control system should provide reasonable assurance assets are adequately safeguarded by properly segregating duties of employees.

The business manager and the assistant business manager are responsible for:

- Posting disbursements to PeopleSoft;
- Approving disbursements;
- Receiving warrants from the OSF;
- Mailing warrants to vendor.

Although there are two employees involved in the process, it is possible that one person can perform all the duties identified.

The Court has attempted to mitigate this risk by having a budget to actual comparison and other summarized financial information provided to the administrator. This information is prepared by a financial analyst who is independent of the accounting

Oklahoma Workers' Compensation Court Operational Audit

department. However, we determined this did not mitigate this risk because the reports present summary level information. As long as amounts fit within the budget parameters, it is possible misappropriations could be occurring and would not be detected.

Recommendation We recommend someone other than personnel in the business office receives the warrants from OSF and mail the warrants to vendors. This employee should not have the ability to post (create) expenditures in the PeopleSoft accounting system. If another employee is not available, the administrator should review the warrant register for reasonableness. The review does not have to occur every day, but should occur on a random basis at a minimum.

Views of Responsible Officials

The Assistant Court Administrator will randomly review the warrant register for reasonableness. The Business Manager and/or Assistant Business Manager will provide a copy of the C.O.R.E. Object of Expenditure Detail Report to Administrator on a monthly basis to augment the Financial Advisor's monthly report. The Financial Advisor's report footnotes unusual and one time expenditures each month.

Observation

Court Should Develop Policy Related to Ethical Behavior

An effective internal control system has in place policies and procedures that reduce the risk of errors, fraud, and professional misconduct within an organization. A key factor in this system is the environment established by management. Management's ethics, integrity, attitude, and operating style become the foundation of all other internal control components.

The Court has not developed and implemented an official written policy addressing ethical behavior in the workplace. Without a written policy and procedure in place, employees may not be aware of management's expectations regarding ethical behavior thus affecting the Court's control environment risks.

Recommendation

We recommend the Court develop a written policy regarding ethical behavior in an effort to reduce the possibility of unethical behavior occurring. Once developed, the policy should be distributed to all current employees and procedures should be implemented to provide the policy to all new employees.

Views of Responsible Officials

The Court will consider adopting a written ethics policy for Court employees consistent with the Oklahoma Ethics Commission Constitutional Ethics Rules, Title 74, Oklahoma Statutes, Ch. 62, App., 257:1-1-1, et seq., and other published rules of ethical conduct for state employees.

Observation

No Record of Cash Received for Court Fees

To protect against possible risk of errors, fraud, and professional misconduct within an organization, the internal control system should provide reasonable assurance assets are adequately safeguarded by assuring that all monies collected are deposited.

The business manager, who posts deposits to PeopleSoft, is responsible for independently verifying all monies received by the various divisions were deposited. However, the documentation provided to the business manager does not include cash receipts of court fees received after the morning deposit has been made. As a result, the business manager has no way to determine all cash received was actually deposited.

Oklahoma Workers' Compensation Court Operational Audit

When cash is received, division personnel have been instructed to email the denominations and serial numbers to certain administrative staff; however, the business manager is not included in this process.

Recommendation

If the court wishes to use the email as record of cash received, we recommend the business manager be included in the emails so she can ensure cash received was deposited. Alternatively, the Court could develop another type of recording methodology for cash received for court fees; this methodology should include providing the receipt records to the business manager.

Views of Responsible Officials

The Business Manager and Assistant Business Manager will be included in the email records of cash received.

Observation

No Record of Copy Request Fees Received

To protect against possible risk of errors, fraud, and professional misconduct within an organization, the internal control system should provide reasonable assurance assets are adequately safeguarded by assuring that all monies collected are deposited.

The process used by the records division for copy requests fees does not provide reasonable assurance all funds collected were deposited. One court clerk is responsible for generating invoices and processing payments received.

Recommendation

We recommend the Court implement a system that ensures there is record of the funds received for copy requests and the person who receives the funds is not the same person authorized to make copies of the requested case files.

Views of Responsible Officials

When Copy Requests are received in the Records Department, the copies of records are made by Records personnel. The invoices for copy requests and copy charges will be issued by a Records Clerk and the Supervisor or Assistant Supervisor of the Records Department will process the copy payments.

Additional Procedures Performed

Methodology

As a result of the control deficiencies identified under objective 1 of this report, the following procedures were performed:

- Reviewed a selection of 50 expenditure claims from funds 701, 702 and 703 to ensure the expenditure was properly supported and reasonable given the funds' purposes;
- Reviewed a selection of 28 expenditure claims to ensure the expenditure was properly supported and reasonable given the Court's mission.

No exceptions were noted as a result of these procedures.



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