



WORKERS' COMPENSATION COURT OF EXISTING CLAIMS

Operational Audit

For the period February 1, 2014 through June 30, 2019

Cindy Byrd, CPA
State Auditor & Inspector

**Audit Report of the
Workers' Compensation Court of Existing Claims**

**For the Period
February 1, 2014 through June 30, 2019**

January 15, 2020

To the Workers' Compensation Court of Existing Claims

We present the audit report of the Court for the period February 1, 2014 through June 30, 2019. 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,



CINDY BYRD, CPA
OKLAHOMA STATE AUDITOR & INSPECTOR



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Background

The Oklahoma Legislature enacted the state's first law governing workers' compensation more than a century ago in 1915. The law provides a substitute remedy to an employee for accidental injuries received during covered employment without the burden of proving negligence. The law is intended to provide injured workers with compensation for disability and health and rehabilitation benefits as a result of a work-related injury, regardless of who was at fault. In exchange for liability without fault, employers are provided with exclusive remedy protection. Exclusive remedy protects employers from liability to injured workers under laws other than the Workers' Compensation Code, Title 85, Oklahoma Statutes. The law applies to almost all types of employment and to both accidental injury and occupational illness.

Until 1959, the responsibility for administering the workers' compensation law resided with the State Industrial Commission. In 1959, the Oklahoma Legislature created and transferred jurisdiction over workers' compensation to the State Industrial Court. In 1978, the five-judge State Industrial Court was replaced by a seven-judge Workers' Compensation Court.

The Workers' Compensation Court of Existing Claims (CEC or Court) was established under Title 85A, Oklahoma Statutes, in 2014 for the purpose of hearing disputes relating to claims filed in the previous Workers' Compensation Court that arose before February 1, 2014. The Workers' Compensation Commission (Commission) was also created at that time.

The mission of the Workers' Compensation Court of Existing Claims is to provide fair and timely procedures for the informal and formal resolution of disputes and identification of issues involving work-related injuries. To this end the Court dedicates itself to carry out this responsibility and to serve the public promptly, courteously, and impartially.

Oversight is provided by the Presiding Judge and Administrator, Chief Administrative Officer of the Court.

The oversight officials as of November 2019 are:

L. Brad Taylor, J.D. Presiding Judge
Michael J. Harkey, J.D. Administrator

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The following table summarizes the Court's sources and uses of funds for fiscal years 2018 and 2019 (July 1, 2017 through June 30, 2019).

Sources and Uses of Funds for FY 2018 and FY 2019

| | 2018 | 2019 |
|----------------------------------|---------------------|---------------------|
| Sources: | | |
| Workers Comp Insur Premium Tax | \$ 3,500,000 | \$ 3,000,000 |
| Litigatn Fee - State Industl. Ct | \$ 342,868 | \$ 158,358 |
| Sale of Service | \$ 122,905 | \$ 104,651 |
| Registration Fees | \$ - | \$ 32,172 |
| Total Sources | \$ 3,965,773 | \$ 3,295,181 |
| Uses: | | |
| Personnel Services | \$ 2,246,890 | \$ 2,249,811 |
| Professional Services | \$ 249,169 | \$ 248,791 |
| Travel | \$ 27,503 | \$ 26,905 |
| Administrative Expenses | \$ 184,297 | \$ 154,059 |
| Property, Furniture, Equipment | \$ 6,704 | \$ 7,262 |
| Total Uses | \$ 2,714,563 | \$ 2,686,828 |

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

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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 operational 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 February 1, 2014 through June 30, 2019. Detailed audit procedures focused on the period of July 1, 2017 through June 20, 2019, 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's operations. Further details regarding our methodology are included under each conclusion.

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.

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

Conclusion The Court's internal controls *do not* provide reasonable assurance that revenues and miscellaneous expenditures were accurately reported in the accounting records. The revenue affected by the weakness noted in internal controls make up less than 1% of the Court's resources. The miscellaneous expenditures affected by the weakness noted in internal controls make up 17% of the Court's expenses.

Internal controls *generally provide* assurance that payroll expenditures were accurately reported in the accounting records. However, these controls should be strengthened.

Additionally, financial operations *do not* comply with 62 O.S. § 34.57(C) to ensure the safeguarding and timeliness of deposits.

**Objective
Methodology**

To accomplish our objective, we performed the following:

- Evaluated processes and identified significant internal controls related to receipting; see results in related finding.
- Evaluated processes and identified significant internal controls related to miscellaneous expenditures; see results in related finding.
- Evaluated processes and identified significant internal controls related to payroll expenditures and tested those controls when designed and implemented, which included:
 - Reviewing twelve randomly selected payroll change transactions that had a financial impact from the FY18 and FY19 periods (31.58% of 38; or \$3,564.91 of the population of \$9,734 tested) to determine if they were properly documented and approved.

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FINDINGS AND RECOMMENDATIONS

Written Policies and Procedures Should be Designed

The United States Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government* (2014 version)¹ states, "Management is responsible for designing the policies and procedures to fit an entity's circumstances and building them in as an integral part of the entity's operations," and stresses the necessity that "management periodically reviews policies, procedures, and related control activities for continued relevance and effectiveness in achieving the entity's objectives or addressing related risks. If there is a significant change in an entity's process, management reviews this process in a timely manner after the change to determine that the control activities are designed and implemented appropriately."

Finally, GAO's Government Auditing Standards states, "Controls over the safeguarding of assets and resources include policies and procedures that the audited entity has implemented to reasonably prevent or promptly detect unauthorized acquisition, use, or disposition of assets and resources."

The CEC has no written policies and procedures manual. This appears to be due in part to a statutory change in the Workers' Compensation Courts and restricting of responsibilities, along with long-term staff's good understanding of the Courts and its operations.

However, written policies and procedures are necessary to inform employees about the Court's expectations and practices, to provide direction in the correct way of processing transactions, and to serve as reference material for new and existing employees. The following issues result from the lack of a written policies and procedure manual:

- employees have no current reference materials
- employees may not fully understand the procedures and expectations of their position and/or positions they may assume
- employees may have misunderstandings or make incorrect assumptions
- employees do not have a written standard to which to be accountable or protected by
- regular and consistent employee performance reviews are not conducted, which is a tool for feedback and performance improvement;
- assets and resources may not be properly accounted for and safeguarded

¹ Although this publication (GAO Standards) 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.

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Recommendation

We recommend management make a concerted and prompt effort to create a written policies and procedures manual. As employees take on more work and responsibilities of other positions, it is likely that important duties may be neglected, and employees may be uninformed about such duties without a manual.

Views of Responsible Officials

The Court of Existing Claims is developing written procedure policies to clarify the Court's procedures to Court employees.

Revenue is at Risk Due to Inadequate Segregation of Duties and Need for Reliable Reconciliation

The *GAO standards* also 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." *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."

Various employees are responsible for receiving both mail-in and walk-in payments. Payments are kept in a basket under the front counter, with no log or record kept of them during the business day. The Court Clerk is responsible for entering the receipts into the CEC Workers Compensation Information System (WCIS) the following day. In addition to the receipting process, the Court Clerk is responsible for or has the ability to balance the cash register and prepare the bank deposit, and also prepares the monthly reconciliation. This creates the opportunity to potentially misappropriate funds received and conceal the misappropriation by improperly recording receipts.

Statute 62 O.S. § 34.57.C requires that receipts greater than \$100 be deposited on the same banking day as received. Payments are stored overnight in a safe and deposited the following morning. Therefore, the Court is not in compliance with state statute 62 O.S. § 34.57.C. Retaining funds in the office exposes the Court to additional risk and affects the timely reporting of revenues in the state-wide accounting system.

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Recommendation

We recommend management take steps to ensure all funds received are logged and timely deposited. An example scenario follows: One party who does not perform deposit and reconciliation duties opens the mail and receipts payments, logging all forms of payment in a revenue log that no other individual has open access to. The payments are then disseminated to the Court Clerk to post into WCIS. A separate party independent from receipting, processing, and deposit preparation (such as the Assistant Administrator) then compares the revenue log and the WCIS system reports to the deposit receipt to ensure the deposit was complete. The keys to segregation in this scenario are that the party compiling the revenue and the party comparing revenue logs to the completed deposit are independent of the deposit function.

We also recommend in order to comply with 62 O.S. § 34.57.C, every effort should be made to ensure that receipts of \$100 or more are taken to the bank on the same day as received.

Views of Responsible Officials

Management made changes to the reconciliation process at the time of the audit to fix the issues in segregation of duties, initiating multiple checks and balances by different staff members to meet the requirements set forth in this recommendation.

Further, management is working to make changes to fully comply with 62 O.S. § 34.57.C and the recommendations made.

Unauthorized Expenditures May Occur Due to Inadequate Segregation of Duties

As previously noted, *GAO Standards* state that management should segregate key duties and responsibilities, and when such segregation is not possible, design alternative control activities to address the risk.

The Judicial Assistant is responsible for initiating purchases and receiving the related items, as well as forwarding approved purchase orders and invoices to ABS for payment. While the Administrator or Assistant Administrator signature approves purchase orders before they are submitted, someone in the Judicial Assistant's position could have an unauthorized payment processed by signing the Administrator's name.

This risk could be mitigated by a regular, documented review of a line-item detailed expenditure report after payments have been made. Such a review would further ensure ABS had not made any errors. While the Administrator suggested he is performing such a review electronically, there is no evidence to demonstrate this review is occurring.

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Recommendation

We recommend the Administrator review a line-item detailed expenditure report (such as the 6-Digit Detail of Expenditure Report from the State-Wide 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 (hard copy or electronically) with the date and signature of the reviewer included.

Views of Responsible Officials

The Administrator of the Court of Existing Claims will now be reviewing the 6-Digit Detail of Expenditure Report monthly to fully comply with the recommendation.

The Leave Request Process Allowed Inconsistencies to Occur. In Addition, Unauthorized Pay Rate Changes or Payroll Errors Could Occur Without Adequate Review.

The *GAO Standards* also state, "Management obtains relevant data from reliable internal and external sources in a timely manner based on the identified information requirements. Reliable internal and external sources provide data that are reasonably free from error and bias and faithfully represent what they purport to represent. Management evaluates both internal and external sources of data for reliability."

Also, as noted previously, *GAO Standards* state that management should segregate key duties and responsibilities, and when such segregation is not possible, design alternative control activities to address the risk.

Furthermore, 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 of Existing Claims (CEC), it provides guidelines which would serve well as best practices.

We noted inconsistencies between various employee leave request documents and the leave actually posted and approved in the HCM System. Further, there is no tracking system in place for employees' verbal leave request or handwritten leave notices delivered to their applicable supervisor.

Additionally, payroll changes with a financial impact are reviewed and signature approved by the Administrator or Assistant Administrator. However, these changes are not reviewed in the monthly payroll claim to ensure changes are properly reflected.

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Without such a review, management has no assurance that payroll is accurate and complete. Further, the risk exists that leave balances reported for employees may be inaccurate and employees could be inappropriately compensated for leave.

Because the Court solely relies on OMES-ABS to accurately process payroll, along with the lack of adequate internal controls over the leave request process, the opportunity exists for payroll to be misstated and unauthorized payroll and personnel changes to be made without detection.

Recommendation

The Administrator should expand the review of monthly payroll claims to include ensuring that any financial changes to payroll are properly reflected, and that the total payroll cost on the payroll claim detail agrees to supporting reports. Also, we recommend the CEC retain documentation of all payroll actions in accordance with the Oklahoma Archives and Records Commission Consolidated Records Disposal Schedule.

We also recommend that management create a leave documentation policy to ensure consistency is created throughout the CEC. In addition, timekeeping records should be reviewed for accuracy to ensure that leave has been reported in the HCM System correctly.

Views of Responsible Officials

A procedure is now in place for payroll to be reviewed monthly by the Court Administrator and the Assistant Administrator separately to fully comply with the recommendation set forth. A copy of the payroll records will also be kept maintaining compliance with the Oklahoma Archives and Records Commission Consolidated Records Disposal Schedule.

The Court of Existing Claims will establish a calendar system to monitor employee leave as well as written notice for any leave taken for more than one day. The written notice will have to be approved by the appropriate supervisor and verified by the Court Administrator.

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