


OPERATIONAL AUDIT

OKLAHOMA WORKERS' COMPENSATION COURT

For the period July 1, 2011 through January 31, 2014



*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 Workers' Compensation Court**

**For the Period
July 1, 2011 through January 31, 2014**



Oklahoma State Auditor & Inspector

2300 N. Lincoln Blvd. • State Capitol, Room 100 • Oklahoma City, OK 73105 • Phone: 405.521.3495 • Fax: 405.521.3426

December 8, 2014

TO THE OKLAHOMA WORKERS' COMPENSATION COMMISSION

This is the audit report of the Oklahoma Workers' Compensation Court for the period July 1, 2011 through January 31, 2014. 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".

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

Oklahoma Workers' Compensation Court Operational Audit

Background

The Oklahoma Workers' Compensation Court (the Court) was 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.

From 1977 to January 31, 2014, the Court administered the Act and was vested with jurisdiction to determine claims for compensation, the liability of employers and insurers, and any rights asserted under the Act. It consisted of ten judges who served six-year terms. When a term expired or vacancy had occurred in the court, the governor appointed a successor. In making appointments, the governor relied upon the recommendation of the Judicial Nominating Commission. The recommendation could include the incumbent if the incumbent sought reappointment. Awards or decisions of the court were 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 was subject to gubernatorial appointment for a six-year term. The administrator supervised all departments of the Court.

Effective February, 2014, **85A. O.S. §19** created the Oklahoma Workers' Compensation Commission, an executive agency of the State of Oklahoma, which assumed the duties and responsibilities of the Workers' Compensation Court. This includes carrying out the provisions of the Administrative Workers' Compensation Act. Oversight is provided by three members appointed by the governor.

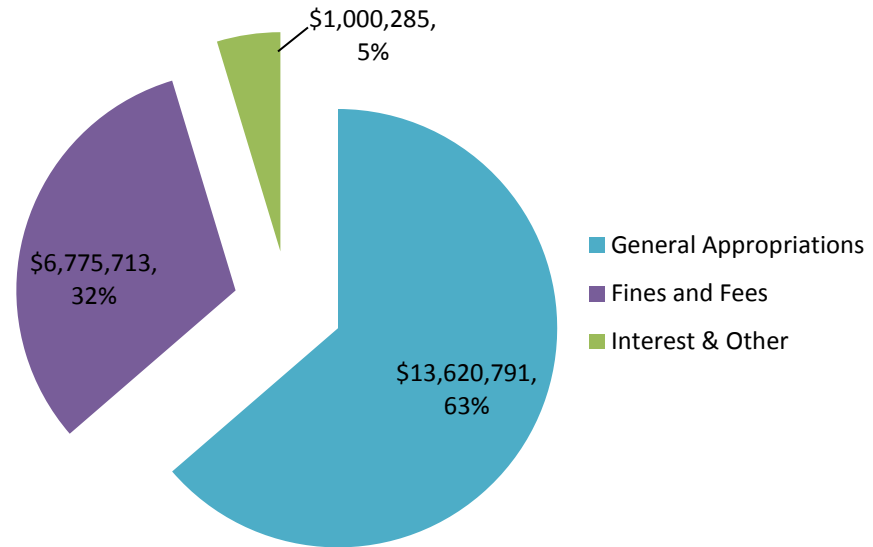
Members as of October 1, 2014 are:

Troy L. Wilson, Sr.	Chairman
Denise Engle.....	Member
Robert Gilliland.....	Member

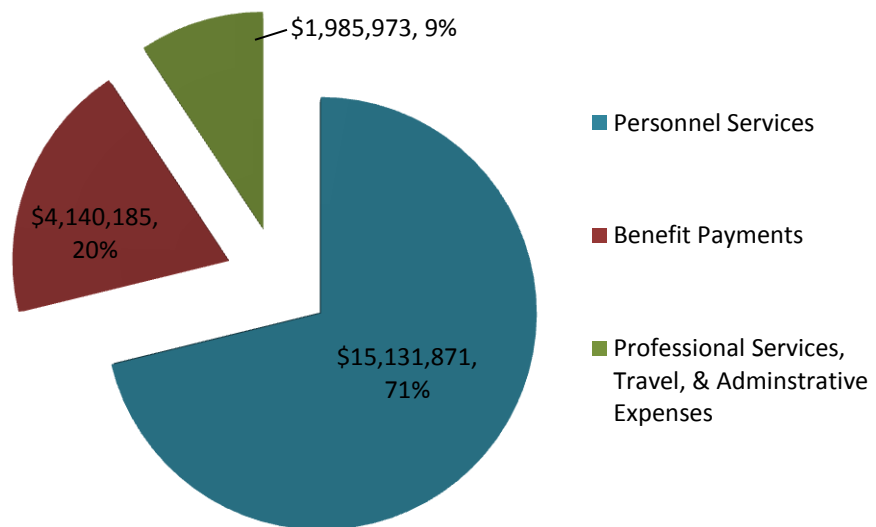
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The following charts illustrate the Agency's primary funding sources, and where those funds are expended.¹

Revenues by Category (July 1, 2011 through January 31, 2014)



Expenditures by Category (July 1, 2011 through January 31, 2014)



¹ This information was obtained from Oklahoma PeopleSoft accounting system. It is for informational purposes only and has not been audited.

Oklahoma Workers' Compensation Court Operational Audit

Scope and Methodology

Our audit of the Oklahoma Workers' Compensation Court (the Court) was conducted in response to a request made by the Oklahoma Workers' Compensation Commission (the Commission) in accordance with 74 O.S. § 213.2.B .

We engaged with the Commission on February 25, 2014 to perform an operational audit of the Oklahoma Workers' Compensation Court for the period July 1, 2011 through January 31, 2014. The objective of the audit was to: Determine whether the agency's internal controls provide reasonable assurance that revenues and expenditures (both miscellaneous and payroll) were accurately reported in the accounting records, and financial operations complied with significant finance related laws and regulations.

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 July 1, 2011 through January 31, 2014, the date on which the Commission acquired the Court's functions and assets.

Our audit procedures were to include inquiries of appropriate personnel, inspections of documents and records, and observations of the Court's operations. However, due to the limited cooperation of key personnel and operational changes executed during the course of the audit, we were unable to perform procedures as planned.

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. Because of the conditions outlined below, we were not able to gain sufficient and appropriate evidence to support a conclusion on the effectiveness of internal controls over revenue, expenditures or payroll to determine whether or not revenues and expenditures were accurately reported in the Court's accounting records.

Oklahoma Workers' Compensation Court Operational Audit

Procedures Performed

During the period of February 25, 2014 through July 1, 2014, our multiple attempts to meet and discuss internal control processes with key personnel were met with resistance and a lack of cooperation.

As a result, we were only able to complete and document our understanding of those internal controls related to payroll and determine that the one control in place was designed and implemented. However, we were unable to determine if the control was operating effectively due to our inability to obtain requested documentation.

Effective July 1, 2014, **85A. O.S. § 401** created a revolving fund for the Workers' Compensation Court of Existing Claims, separating the Court from the Commission. Therefore, the Commission was no longer responsible for the Workers' Compensation Court of the Existing Claims. The Presiding Judge took on the responsibility of administering the Court.

Multiple administrative changes occurred after the change including the termination of 16 employees on July 9, 2014. Those terminated included employees responsible for duties in human resources, payroll, revenue, and expenditure processes of the original Workers' Compensation Court. Without these individuals, we were unable to document the control process in revenue or expenditures.

Our office was informed by the Executive Director of the Commission on August 14, 2014, that the Court had ownership of the documents we requested and were necessary in order to complete the audit. The Presiding Judge of the Court, on August 19, 2014, stated that the Court could not locate the requested records as the terminated employees had left the agency's documents in disarray.

After terminating employees in financial positions, both agencies entered into contractual agreements with the Office of Management and Enterprise Services' (OMES) Agency Business Services (ABS) division to perform financial services.

Based on the nature of the request, the objective and scope of our audit, discussions with the Court's Presiding Judge, and extensive operational changes, we were prevented from completing the audit as planned due to this scope limitation.

Given our inability to determine the effectiveness of internal controls, we performed the following analytical procedures on expenditure data (both miscellaneous and payroll) from PeopleSoft (the state's accounting system) in an attempt to determine if indications of fraudulent activity were present during the audit period:

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- Analysis of payroll changes (hires, terminations and changes to pay rates) during the audit period. Based on this analysis, we did not identify any indication that payroll fraud had occurred. However, this analysis would not have identified extra or over payments made in payroll runs.
- Analysis of the Court's expenditures from the audit period. Through these procedures we identified several anomalies occurring during January 2014. Because these occurred just prior to the Commission's acquisition of the Court, we judgmentally selected eighteen claims for review. Seven of the claims selected were settlement payments paid from an agency special account. The OMES does not require that these claims be filed with the Department of Libraries, therefore, we were not able to review documentation related to these claims. We were able to review supporting invoices for the other eleven claims selected. While we found no indication that fraud had occurred, a review of these documents indicated that there was a lack of an appropriate segregation of duties related to expenditures. It appeared that the Business Office Manager had the ability to initiate a claim, approve payment and receive warrants to pay invoices. Due to our inability to document controls related to expenditures, we were unable to determine if a mitigating control was in place. In addition, we found one vendor had received a duplicate payment. We contacted the vendor and requested a copy of all invoices and payments made to them during the audit period. It appeared that the duplicated payment was an isolated incident. Because purchases were frequently made from the vendor, we noted a credit has been received for the next purchase.
- A review the Court's combining trial balance did show inconsistencies in revenue from year to year throughout the audit period, however, we were unable to follow-up on these variances due to the nature of revenues and our inability to review source documents.

Conclusion

Due to limitations perpetuated by personnel and operational changes, we were not able to review documentation needed to gain sufficient and appropriate evidence required to conclude on the audit objective of this engagement.

See management response on following page.

Troy L. Wilson
Chairman

Robert H. Gilliland
Commissioner



Denise Engle
Commissioner

Dr. Rick Farmer
Executive Director

STATE OF OKLAHOMA

WORKERS' COMPENSATION COMMISSION

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December 5, 2014

Gary Jones, CPA, CFE
Oklahoma State Auditor and Inspector
2300 N. Lincoln Blvd. Suite 100
Oklahoma City, OK 73105

Dear Mr. Jones,

Below is my response on behalf of the Workers' Compensation Commission (WCC) to the 2014 audit of the Workers' Compensation Court. The WCC inherited all of the accounts and assets of the Court on February 1, 2014 through SB 1062 (2013). A desire for a clean handoff of the accounts prompted the audit request on February 25.

First let me say thank you to your audit team for your attempt to provide a meaningful set of data as we begin our new agency. You and your associates, Melissa Capps and Megan Hannabass, are to be commended on this effort.


On January 30, 2014, out of respect for the Court and to avoid Constitutional separation of powers issues the WCC Chairman Troy Wilson entered into an agreement with Presiding Judge Brad Taylor to give the Court exclusive control over its funds and personnel. As a result the Commission took a hands-off approach to the Court and did not manage the Court's affairs or its personnel. Subsequently, the Carlock decision of the Oklahoma Supreme Court confirmed that the Commission had no jurisdiction over the Court's affairs. The Commission staff made every attempt to cooperate with your effort.

With this inconclusive audit, the Commission wants to make sure that we properly put effective controls in place. Melissa graciously agreed to provide us with some process guidelines and sound fiscal practices. Our intent is to develop these recommendations and ask Preston Doerflinger and your office to review the finished product.

After the Commission has completed its full first year, we would like to invite you back to audit the WCC. We want to demonstrate that proper controls are in place at the Commission.

Again, thank you for your effort.

Sincerely,


Rick Farmer, PhD
Executive Director



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