

**ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
ADMINISTRATIVE OFFICE OF THE COURTS
FOR THE YEAR ENDED JUNE 30, 2018**

Finding:

According to travel guidelines contained in the Arkansas State Trial Court Employment Guide, an employee's official station should be the location (e.g., courthouse, annex, justice complex, etc.) or address where an employee normally reports for duty and spends the majority of his or her productive time conducting official job duties. An employee may be reimbursed for transportation costs associated with attending court away from the official station, based on the number of miles between the location from which the employee leaves (i.e., the official station or residence) and the work-related destination, whichever is less.

A review of mileage reimbursements for 21 trial court employees revealed overpayments totaling \$14,386 (\$5,617, \$4,670, and \$4,099 in state fiscal years 2018, 2017, and 2016, respectively) due to the following:

- The official station was not properly determined for Individual A, resulting in improper reimbursements of \$12,364 for mileage between the individual's home and official station (\$3,595, \$4,670, and \$4,099, in state fiscal years 2018, 2017, and 2016, respectively).
- Individuals B and C consistently utilized their official stations as the starting point for calculating miles for reimbursement, although, for some destinations, the distance would have been shorter had their residences been used. Additionally, there was no indication that these individuals traveled to their official stations prior to making the trips to the other locations. As a result, Individuals B and C received mileage overpayments of \$1,388 and \$165, respectively, in state fiscal year 2018.
- A duplicate payment of \$469 was noted for Individual D.

The following additional issues were also noted:

- There was no documentation to support a mileage reimbursement of \$260.
- Due to inadequate information available for three other individuals, we could not determine if mileage reimbursements were correctly calculated; as a result, overpayments may have occurred.

Recommendation:

We recommend the Agency develop policies and procedures to ensure compliance with its travel guidelines for trial court employees. Additionally, we recommend the Agency work with the Department of Finance and Administration and the Attorney General's Office to determine and initiate necessary, appropriate action to collect overpayments.

Agency Response:

The Administrative Office of the Courts ("AOC") would like to thank Legislative Audit for its efforts and thoroughness. We strive to be responsible stewards of our funds and appreciate the work that Legislative Audit completes in order to ensure that we are financially prudent and accountable. We are pleased to see that of the millions of dollars of transactions and expenditures reviewed by Legislative Audit, only a few areas raised concern. This response regards travel reimbursement requests for State employees who are not employees of the AOC.

Circuit judges are the employers of court reporters and trial court administrators (together known as "trial court employees"). Individually or through their associative entity ("Judicial Council"), circuit judges set policy regarding salaries, leave, discipline, hiring, termination, and reimbursement. Judicial Council established travel reimbursement policy that requires each trial court employee to submit a travel reimbursement form ("TR-1") to his or her employing circuit judge for review.

Each circuit judge is responsible for reviewing a travel reimbursement claims from his or her employee. Only the circuit judge has knowledge of a trial court employee's actual travel. If the circuit judge approves, the TR-1 is sent to the AOC, which the Finance and Administration Division processes so as to provide the financial reimbursement approved by the judge.

The AOC provides training on the policy and distributes reminders of Judicial Council policy to all circuit judges and trial court employees. The AOC conducts random audits of claims. If the AOC is made aware of a particular concern regarding a violation of the policy, the AOC conducts an internal investigation and takes appropriate action.

Of 239 trial court employees, Legislative Audit identified three employees who may have received reimbursements inconsistent with Judicial Council policy. One employee, Individual A, accounted for 86 percent of the overpayments. An anonymous complaint regarding these requests was sent to the AOC in Fall 2018. Immediate action was taken to investigate, cease payments, and refer the matter to the appropriate authorities.

Legislative Audit identified Individuals B and C as receiving a combined overpayment of approximately \$1,500. The AOC contacted their judges to remind them of their policy, and the judges reported that they would adhere to Judicial Council policy before sending reimbursement requests to the AOC to be processed.

**ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
AUDITOR OF STATE
FOR THE YEAR ENDED JUNE 30, 2018**

Finding:

REPEAT FINDING: The Agency is the administrator of unclaimed property of Arkansas citizens for the State. Ark. Code Ann. § 18-28-210(b) deems that upon payment or delivery to the administrator, the State assumes custody of and responsibility for the safekeeping of property. The Agency held \$19.4 million in unclaimed property in the form of stock at June 30, 2018. During the prior-year audit, numerous unclaimed property stock records were noted as inaccurate, resulting in claimants being either overpaid or underpaid when collecting their property. The extent of the errors made it difficult to determine the number or dollar amount of total errors. During current-year testing, we noted that some of the prior-year errors have not been corrected and discovered the same types of errors continue to occur. Below is a list of the types of errors noted during current testing:

- The Agency continues to make undocumented adjustments to owners' accounts that are not reviewed or approved by management. For example, the Agency incorrectly made five adjustments to stocks in the unclaimed property system that resulted in excess cash balances on 607 owners' accounts totaling \$13,474. As of June 2019, these errors resulted in overpayments to 17 claimants and a loss to the State totaling \$376. If a review/approval process over adjustment entries into the system is not implemented, overpayments or underpayments may continue to occur.
- The Agency continues to make adjustments to owners' accounts that result in negative stock balances. For example, on May 23, 2018, the Agency backdated an adjustment on an account to April 9, 2013, resulting in a negative balance of 56 shares of Comcast stock and \$63 in negative dividends. This transaction will result in continued negative Comcast dividends being added to this account and excess Comcast stock dividends added to other owners' accounts until the negative shares are removed. At June 30, 2019, the negative shares remained in the Agency's records, and any excess dividends claimed will result in a loss to the State.
- The Agency continues to misapply dividends to owners' accounts. For example, in February 2017, Verizon Communications Inc., issued dividends that the Agency misapplied, overpaying 21 owners' accounts \$1,272 and underpaying 73 other owners' accounts. Inaccurate dividends continued to be applied during the current fiscal year. As of June 2019, 5 of the owners of the overpaid accounts have claimed their property, at a loss to the State of \$432. Until corrected, inaccurate claims will continue to be paid.
- The Agency continues to not apply dividends to owner's accounts in a timely manner. Our testing identified 9 separate occasions in which dividends were applied to 3,528 owners' accounts in excess of a year after the dividend occurred and an additional 5 instances in which dividends were applied to 756 owners' accounts more than 2 years after the dividend occurred. The delay in recording is not in compliance with generally accepted accounting practices and may result in additional costs to the State to subsequently process claims on the same property.
- The Agency still lacks adequate reconciliation procedures. The Agency has contracted with an outside third party to hold unclaimed stocks. The absence of Agency procedures to periodically reconcile the Agency's unclaimed property records to the statements of the holder of the stocks has resulted in unaccounted for differences between the two. For example, the Agency had an extra 2,492 shares of Verizon Communications, Inc., stock on its books that were not on hand with the third party holder. Over a period of time, this difference resulted in an excess \$4,356 in dividends applied to owners' accounts at a risk of loss to the State.

The Agency's internal controls related to unclaimed stocks remain deficient and place the State's assets at risk of loss or misappropriation. Factors contributing to the deficiencies are as follows:

- Management oversight is insufficient (e.g., Agency stock recordings are not reviewed or approved).
- Stock transactions are not always documented or performed timely.
- Agency records are not properly reconciled.

- Lack of segregation of duties allows the same employee to process and post stock transactions as well as record subsequent error corrections.

Recommendation:

We again recommend the Agency implement the following procedures to maintain the integrity and accuracy of the unclaimed property stock records:

- Develop and implement written internal control procedures to ensure (a) all stock transactions and error corrections are recorded timely, are supported by adequate documentation, and have been reviewed by someone not involved in the process and (b) the duties of processing and posting transactions are segregated to separate individuals.
- Perform periodic reconciliations between Agency records and the stockholder's records. The reconciliation should be performed by an individual removed from the transaction process.

Agency Response:

The Office acknowledges inadequate segregation of duties, a lack of written procedures, and training shortcomings, which have led to a repeat finding of the above-mentioned adjustments, misapplied dividends, and untimely application of dividends. Management is striving to prevent future errors from occurring by strengthening the system of internal control within the Office and is also working diligently to detect and correct previous errors.

Management has hired a Securities Agent to specialize in the proper management of securities and provide appropriate segregation of duties within the unclaimed property system. An Internal Auditor has also been hired to provide guidance on strengthening the Office's system of internal control.

Furthermore, after the results of the 2017 Legislative Audit Report, Management began exploring options for an enhanced unclaimed property system. The Office has now undergone a system conversion to a new system, which has significantly improved system controls, reporting capabilities, and the ability to house supporting documentation within the system. In the previous system, all transactions, on the approximate 19,000,000 shares being held by the Office, required manual data entry. The new system allows the upload of data from the Office's custodian bank, significantly reducing the amount of manual data entry. The new system's vendor also provides training services to ensure staff understands how to properly utilize the system. The Deputy Auditor and Internal Auditor have worked with the vendor to establish proper access and the utilization of system controls, which will ensure appropriate segregation of duties.

Management has also drafted policies and procedures, which provide guidelines for the handling and proper documentation of security sales, transfers, reregisters, adjustments/error corrections, dividends, worthless securities, and reconciliations. The Office has begun performing monthly reconciliations of the Office's unclaimed property system records to the custodian bank records. The Securities Agent is utilizing data from these reconciliations, as well as system generated reports, to research and correct previous errors.

Finding:

REPEAT FINDING: The Agency's correction of errors noted in the prior-year audit did not accurately restore owners' account balances. During the prior-year audit, we identified 14 stocks erroneously recorded as "sold" in the unclaimed property system. Before the Agency was able to correct the error, the property was claimed by the rightful owner/heir. In addition, the change in stock value on the date the property was claimed was not taken into account, thus depriving the owner of any increased value that may have occurred.

Recommendation:

Stock values fluctuate daily and should be taken into account whenever stock is sold. Owners' accounts should be updated to reflect the current market value of the stock owned on the date the stock was sold.

Agency Response:

The Office recognizes that stock values fluctuate on a daily basis; however, as stated previously, the Office acts only as a custodian. After this error was identified, the Office met with Legislative Audit to discuss the plan to correct the error, including a discussion of the date to be utilized. Management has hired a Securities Agent to research and resolve errors in the unclaimed property system, to ensure property owner's receive accurate payouts on their claims.

Finding:

While information is not removed from the unclaimed property system, the Agency is overwriting the detailed history of stock transactions on owners' property accounts. Overwriting accounts has the effect of removing the transaction history from the account, including the transaction's date, amount, and unique identification number. The original and all subsequent transactions must be retained at the property owner level to maintain complete accounting records for the needs of the Agency and to leave a proper audit trail. For example, the Agency overwrote 133 owners' accounts that contained Verizon Communications stock on September 5, 2018, and again on May 7, 2019. These actions altered the balance of the owners' accounts without explanation or supporting documentation.

Recommendation:

We recommend the Agency develop and implement written internal control procedures to prevent the future overwriting of owners' account transaction history and to ensure the detail of original and subsequent stock transactions are retained on owners' property accounts.

Agency Response:

This was a software issue in the previous unclaimed property system, which allowed transactions to be removed from view at the property owner level; however, such transactions were available to be viewed when utilizing the audit trail feature of the previous software.

As of December 2019, the Office has implemented a new unclaimed property system, which ensures all transactions are visible at the property owner level.

Finding:

Due to a lack of management oversight, the Agency's calculation of excess unclaimed property transferred to the Department of Finance and Administration (DFA) was understated by \$3,043,582.

Recommendation:

We recommend the Agency implement a review process to ensure the accuracy of the amount calculated and transferred. Furthermore, due to recent changes in Arkansas legislation, we also recommend the Agency consult with DFA on how future transfer amounts should be determined.

Agency Response:

The Office has met with DFA and the consensus is that we will most likely need a Legislative change.

**ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
OFFICE OF THE PROSECUTOR COORDINATOR
FOR THE YEAR ENDED JUNE 30, 2018**

Finding:

Ark. Code Ann. § 19-4-1207 requires the agency head to ensure that no obligations are incurred that cannot be lawfully discharged from funds appropriated. A review of expenditures revealed two transactions totaling \$10,080 were not properly recorded as employee benefits for the year ended June 30, 2018. Had the expenditures been properly recorded against the appropriate budget item, the Agency's expenditures would have exceeded the remaining budget for that commitment item. Ark. Code Ann. 19-2-104(a)(1) prohibits expenditures or obligations in excess of the amount appropriated.

Recommendation:

We recommend the Agency comply with state laws and regulations pertaining to proper recognition and payment of accounts payable, as well as budgetary laws.

Agency Response:

The transactions referred to in the finding were the result of an inadvertent GL code entry error. Had the general ledger keying error not been made, and the Agency's expenditures exceeded its remaining budget, the Agency would have requested additional match appropriation at that time. Per the letter dated April 26, 2018, to Department of Finance and Administration (DFA) Director Larry Walther, the Agency requested additional salary appropriation for fiscal year 2018 and would have additionally asked for salary match appropriation.

Since the exit interview, the Office of the Prosecutor Coordinator consulted with Cassie Cantlon and David Paes, CAFR Section of DFA, who suggested the implementation of AASIS transaction ZFPR2 (Park Document with Reference). This transaction will alleviate the need to re-enter consecutive vendor payment information each time a payment is made, lessening the risk for keying errors. The Office of the Prosecutor Coordinator will implement this AASIS transaction going forward and monitor year-end budget and appropriation balances more thoroughly in the future.