



Supreme Court of Kentucky

Chambers, State Capitol
Frankfort, Kentucky 40601
502-564-4162

John D. Minton, Jr.
Chief Justice of Kentucky

www.courts.ky.gov

For Immediate Release

Contact: Leigh Anne Hiatt, APR, Public Information Officer, Administrative Office of the Courts, Phone 502-573-2350, Cell 859-619-7916, lhiatt@kycourts.net

Supreme Court of Kentucky issues order calling for biennial audits of Administrative Office of the Courts

FRANKFORT, Ky., Feb. 18, 2019 – The justices of the Supreme Court of Kentucky approved an [order](#) today requiring the Administrative Office of the Courts to conduct an external audit every two years, starting with Fiscal Year 2020, and to make public the results of those audits.

The order also calls for the AOC to create Administrative Procedures to establish an Audit Oversight Committee and stronger internal auditing controls.

“As I testified before the legislature last summer, the Judicial Branch believes in being transparent and accountable to the taxpayers and to the General Assembly for all funding appropriated to the court system,” Chief Justice John D. Minton Jr. said. “That’s why nearly two years ago we invited the Auditor of Public Accounts to conduct an audit and why the Supreme Court has now ordered external audits on a biennial basis for the AOC.”

Chief Justice Minton said it is crucial to safeguard the Judicial Branch as an independent and co-equal branch of government. “The General Assembly must be mindful of the separation of powers when considering any legislation mandating audits for the AOC and apply those requirements equally throughout state government.”

AOC Requests Audit in 2017

In June 2017, the Administrative Office of the Courts invited Kentucky Auditor of Public Accounts Mike Harmon to conduct the first external audit of the Kentucky Judicial Branch. This request was an unprecedented step that reversed more than 40 years of tradition in how the Judicial Branch had handled external review.

However, the AOC requested an exam in recognition that there was a better way to do business, which was to confront areas where there were weaknesses and begin to address them.

-more-

The AOC asked that the scope of the audit cover Fiscal Years 2016 and 2017 and include a review of:

- Policies and internal controls governing financial activity of the then-Department of Administrative Services.
- Policies and procedures governing the Budget and Accounting & Purchasing offices.
- Policies and procedures to receive and resolve concerns related to potential waste, fraud and abuse.

In the six months since the audit results were released in July 2018, the AOC has taken significant steps to carry out the audit's recommendations and shore up its financial operations and internal management controls.

Steps Taken to Tighten Controls Before Audit Results Released

Even before the audit results were released, the AOC had already addressed many of the issues that would be identified in the audit's findings and recommendations:

- Developed inventory control processes.
- Implemented waste, fraud and abuse reporting mechanisms.
- Trained managers and staff on purchasing and procurement practices.
- Revised operational procedures regarding reimbursements to county governments for the operation and maintenance of court facilities.
- Consulted with a tax attorney to provide advice on proposed revisions to travel reimbursement policies being developed by the AOC for recommendation to the Supreme Court.
- Implemented a weekly process to deactivate user accounts for separated/transferred employees.
- Restructured the Department of Administrative Services.

Before the release of the audit report, the Supreme Court had also:

- Adopted an Open Records Policy for the AOC.
- Adopted an order governing the handling of the Judicial Branch's surplus property.
- Adopted Section 2.02, Reporting Waste, Fraud, and Abuse, for the Kentucky Court of Justice Personnel Policies.

Steps Taken to Implement Audit Recommendations

After the AOC submitted its response to the audit's findings in July 2018, the AOC invited the Auditor of Public Accounts to conduct a one-day training for AOC managers and staff on internal controls to prevent waste, fraud and abuse.

The AOC then turned its focus to carrying out the audit's recommendations, quickly adopting Procedures for the Creation & Revision of Standard Operating Procedures, Standards, Departmental Policies, and Departmental Guidelines; new sanitization and electronic data disposal procedures; and implementing KYCourts3 in six counties with a projected roll-out schedule through 2022. The AOC also created a web page to keep the public informed of its response efforts.

In addition, the Supreme Court adopted revised Kentucky Court of Justice Travel Regulations effective Sept. 1, 2018.

AOC Engaged Deloitte as Consultant

Chief Justice Minton said the AOC intends to use the audit as a catalyst for change by strengthening the AOC's financial and administrative operations and providing more transparency to the public. To that end, the AOC engaged Deloitte as a consultant to help with Phase I of the audit implementation. Deloitte, a highly-regarded global company, has consulted on projects for the Kentucky Executive Branch.

Phase I took place from October 2018-January 2019. During that time, a team from Deloitte was on-site at the AOC and worked closely with executive officers and managers to:

- Make recommendations on developing a robust Internal Auditing Department with an independent Audit Oversight Committee.
- Develop charters for the Internal Auditing Department and Audit Oversight Committee and a strategic roadmap for implementation.
- Make recommendations regarding the AOC's organizational structure.
- Provide written process documents for four of the AOC's financial processes: Budget, Travel Reimbursement, County Facility Reimbursement and Property Accountability.
- Make recommendations on implementing technology and other internal controls for these four processes.

Implementation Plan Going Forward

With the benefits of Deloitte's expertise immediately evident, the AOC decided to extend Deloitte's engagement to include written process documents for two additional financial processes: procurement and leasing. This change extended Deloitte's contract through the end of February 2019.

Other implementation plans include:

- The AOC will issue a Request for Proposals for external auditing services to be conducted on a regular and ongoing basis, with audit reports to be made available to the public.
- The AOC and Supreme Court will evaluate the initial recommendations from Deloitte and develop a plan to reinforce the organizational structure of the financial and administrative functions at the AOC.

- The AOC and Supreme Court will procure appropriate technology to incorporate additional internal controls in the financial processes of the Judicial Branch.
- The AOC will continue to evaluate, supplement, revise and draft procedures relating to financial and administrative functions.
- The AOC will take immediate steps to seek short-term assistance from outside experts to establish the Internal Auditing Department and make strategic long-term hires for the future.

“The Judicial Branch took the lead in requesting this extraordinary level of outside scrutiny and we’re proud of the steps we’ve taken to address the concerns raised in the Auditor’s report,” Chief Justice Minton said. “It is my hope that the Executive and Legislative branches of state government will follow our example and commit to conducting regular audits and making the results public.”

Administrative Office of the Courts

The Administrative Office of the Courts in Frankfort is the operations arm for the state court system. The AOC supports the activities of nearly 3,400 court system employees and 406 elected justices, judges and circuit court clerks. As the fiscal agent for the state court system, the AOC executes the Judicial Branch budget.

###