Auditor Mike Harmon Completes Historic Examination of Kentucky Court Operations

Report identifies 20 findings, major issues with management and policies at Administrative Office of the Courts, with referrals to Attorney General, IRS, and Department of Revenue

FRANKFORT, Ky. (July 12, 2018) – Today, Mike Harmon, Kentucky’s 47th Auditor of Public Accounts, announced the results of a special examination by his office of the Administrative Office of the Courts (AOC). Auditor Harmon released the exam during a press conference in Frankfort. The Auditor’s report identified 20 findings during the exam of AOC operations between July 1, 2015, and June 30, 2017.

“In a number of areas, our auditors found disorganized and unchecked leadership in AOC operations,” said Auditor Harmon in releasing the report. “Essentially, AOC failed to follow many of its own policies and often simply didn’t have sufficient policies in place to provide transparency and oversight. This resulted in a weak internal control structure and overall lack of accountability at AOC. Our report makes dozens of recommendations to AOC to improve operations, including rewriting all internal policies and procedures.”

Kentucky Supreme Court Chief Justice John Minton, and AOC Director Laurie Dudgeon requested Auditor Harmon conduct an examination of their agency last year, after concerns were raised about surplus sales and other issues within AOC. This is the first time in AOC’s history that it has received a comprehensive external audit or examination, and one of Auditor Harmon’s recommendations is for the General Assembly to pass legislation that would require an annual independent audit of AOC.

Among the concerns identified by Auditor Harmon’s office are:
• AOC did not follow advice documented in a 2010 memo from its legal counsel regarding how to conduct surplus property sales. Instead, AOC held employee-only sales and engaged in individual sales transactions from 2012 to 2017.

• A former Executive Officer participated in the sales as a buyer and also determined which items would be sold, set the prices for items, and coordinated the sales, all with little to no oversight by AOC management. This former Executive Officer purchased multiple items at employee-only sales that he conducted, including two vehicles that were advertised as having 47,000 and 79,000 more miles than what records show they actually had. This issue is being referred to the Kentucky Attorney General.

• Also, two Supreme Court Justices purchased surplus property (furniture and a vehicle) in private transactions that were not advertised and not part of the employee sales events. AOC revised its surplus property sales policy in April 2017 after media coverage of the sales.

• The vast majority of credit card expenses by the Chief Justice and the AOC Director that auditors examined lacked any supporting documentation. There was no pre-approval or subsequent review of credit card activity by anyone other than the cardholder, and no cardholder agreements were required for key officials issued a credit card.

• One Supreme Court Justice reported personal mileage for a seventeen-month period in a single submission after auditor inquiry during this examination, which he reported down to the tenth of a mile for that period. The same justice’s personal mileage for a period of approximately four months was not reported and was unaccounted for.

• AOC failed to properly report taxable personal benefits from take-home vehicles assigned to Justices and other AOC personnel. The findings related to improper calculation of personal mileage and taxable benefits will be referred to the IRS and Kentucky Department of Revenue.

• The Chief Justice questioned whether it was necessary for Justices to have take-home vehicles and believed that mileage reimbursement may be sufficient instead. Multiple problems with fleet reimbursement are identified in Finding 12 of the examination.

• The AOC Director instructed a staff member to purchase personalized Mint Julep cups for State Justice Institute board members at the request of the Chief Justice’s spouse.

• Elected and appointed officials at AOC have failed to set a proper tone regarding consistent treatment between those officials, and other government employees at the agency. For example, elected or appointed officials at AOC submit reimbursement requests directly to the Division of Accounting and Purchasing with no other authorization required before processing.
• The Chief Justice shares administrative policymaking decisions with the other members of the state Supreme Court even though that authority appears to rest solely with the Chief Justice on administrative matters. These Court meetings are not open to the public because AOC has no open meetings policy.

• AOC maintains three separate databases for inventory. The third database was created because one department did not trust the data entry of another department. Rather than correcting this problem, the third database was created. Due to this and other factors, AOC has at least $2 million in inventory system errors, putting AOC at high risk of misappropriation of assets.

• Two new laptops were missing due to multiple failures in processing and receiving the order, including an employee who confirmed receipt of these items which he later acknowledged he did without counting the laptops.

• Simple documentation is not required or maintained in many instances. Exceptions to competitive bidding are not required to be documented, and a former manager noted that, “Departments are currently making their own determination.”

• The AOC’s conflict of interest policy is vague and open-ended. Unlike the Executive Branch, conflicts of interest are not specifically prohibited or subject to mandatory consequences under AOC’s policy.

• Individuals who left employment maintained access to AOC’s case management system for an unreasonable amount of time, in one case, well over a year after separation from employment.

In its response to the exam findings, AOC agreed with a number of the recommendations made by Auditor Harmons’s office. However, AOC rejected several key recommendations, particularly pertaining to the passage of legislation that would require AOC to undergo an annual audit, creation of an independent body to address ethical matters related to its employees, and open meetings of the Supreme Court when it makes administrative policy decisions. Even more concerning, AOC disputed that it has any role in holding elected officials accountable to administrative policies.

“While I appreciate both that AOC invited us in and embraced some of what my office has recommended, their dismissive attitude towards key recommendations regarding ethics and accountability quite frankly saddens me,” Auditor Harmon said. “No matter what branch of government, we owe it to the taxpayers of Kentucky to strive toward openness and transparency. I urge Chief Justice Minton, as the head of AOC, to address all the issues identified in our report dealing with transparency and accountability within the judicial branch.”

The full report can be found on the auditor’s website.

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