

**OFFICE OF ADMINISTRATIVE HEARINGS  
FINANCIAL AND COMPLIANCE AUDIT  
FOR THREE YEARS ENDED JUNE 30, 1985**

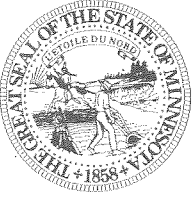
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**MARCH 1986**

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Financial Audit Division  
Office of the Legislative Auditor  
State of Minnesota





STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

VETERANS SERVICE BUILDING, ST. PAUL, MN 55155 • 612/296-4708

JAMES R. NOBLES, LEGISLATIVE AUDITOR

Senator Randolph W. Peterson, Chairman  
Legislative Audit Commission

Members of the Legislative Audit Commission

and

Mr. Duane Harves, Chief Administrative Law Judge  
Office of Administrative Hearings

Audit Scope

We have completed a financial and compliance audit of the Office of Administrative Hearings for the three years ended June 30, 1985. Section I provides a brief description of the Office of Administrative Hearings' activities and finances. Our audit was made in accordance with generally accepted auditing standards, and the standards for financial and compliance audits contained in the U.S. General Accounting Office Standards for Audit of Governmental Organizations, Programs, Activities, and Functions, and accordingly, included such audit procedures as we considered necessary in the circumstances. Field work was completed on January 31, 1986.

The objectives of the audit were to:

- study and evaluate major Office of Administrative Hearings (OAH) internal control systems, including a review of receipts, payroll, fixed assets, and administrative disbursements;
- verify that financial transactions were properly recorded in the Statewide Accounting System;
- verify that financial transactions were made in accordance with applicable laws, regulations, and policies, including Minn. Stat. Sections 14.48 to 14.59, Minn. Stat. Chapter 176, and other finance-related laws and regulations; and
- determine the status of prior audit recommendations.

The management of OAH is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly.

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Because of inherent limitations in any system of internal accounting control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

The management of OAH is also responsible for the agency's compliance with laws and regulations. In connection with our audit, we selected and tested transactions and records from the programs administered by OAH. The purpose of our testing of transactions was to obtain reasonable assurance that OAH had, in all material respects, administered their programs in compliance with applicable laws and regulations.

#### Conclusions

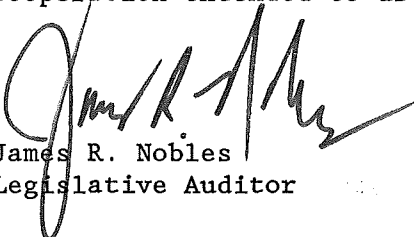
In our opinion, except for the issues raised in Recommendations 2-5, the OAH system of internal accounting control in effect on June 30, 1985, taken as a whole, was sufficient to provide management with reasonable, but not absolute assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly.

In our opinion, except for the issue raised in Recommendation 1, for the three years ended June 30, 1985, financial transactions were properly recorded in the Statewide Accounting System.

In our opinion, for the three years ended June 30, 1985, OAH administered its programs in compliance, in all material respects, with applicable finance-related laws and regulations.

Section II of this Audit Report contains the recommendations we developed during this audit. It is presented to assist you in improving accounting procedures and controls. We will be monitoring and reviewing your progress on implementing these recommendations. Section III of this report includes a summary of the progress on all recommendations developed during our fiscal year 1981 audit.

We would like to thank the Office of Administrative Hearings staff for the cooperation extended to us during this audit.

  
James R. Nobles  
Legislative Auditor

  
John Asmussen, CPA  
Deputy Legislative Auditor

March 3, 1986

# OFFICE OF ADMINISTRATIVE HEARINGS

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## AUDIT PARTICIPATION

The following members of the Office of the Legislative Auditor prepared this report:

John Asmussen, CPA	Deputy Legislative Auditor
Claudia Gudvangen, CPA	Audit Manager
Beth Widstrom-Anderson	Auditor-in-Charge
Kari Bergum	Staff Auditor

The findings and recommendations in this report were discussed with the following staff of the Office of Administrative Hearings on February 24, 1986:

Duane Harves	Chief Administrative Law Judge
Myron Greenberg	Assistant Chief Administrative Law Judge
Susan Wojcik	Administrative Assistant
Dennis Reek	Accounting Supervisor



# OFFICE OF ADMINISTRATIVE HEARINGS

## SECTION I. INTRODUCTION

The Office of Administrative Hearings was created in 1975 as an independent state agency to conduct rulemaking hearings and contested case hearings under the Minnesota Administrative Procedure Act. In 1981 responsibility for conducting workers' compensation hearings was transferred to the agency. In addition to conducting these hearings for certain state agencies, the office is authorized to contract with and conduct hearings for local units of government. The agency also prepares and sells transcripts of all hearings conducted.

Activities of the Administrative Hearings division are financed from user fees recorded in a revolving account. During the audit period, the Workers' Compensation division was financed from a General Fund appropriation. Beginning in fiscal year 1986, it will be financed from an appropriation from the Workers' Compensation Special Compensation Fund. Expenditures, including encumbrances, for the operation of the office in fiscal year 1985 were as follows:

	<u>GENERAL FUND</u>	<u>REVOLVING ACCOUNT</u>	<u>TOTAL</u>
Personal Services	\$1,387,116	\$626,632	\$2,013,748
Rents and Leases	143,809	59,668	203,477
Professional Services	491	75,425	75,916
Equipment	76,834	2,100	78,934
Travel In-State	16,621	17,739	34,360
Travel Out-of-State	12,022	3,736	15,758
Communications	22,634	8,357	30,991
Supplies/Materials	15,221	5,649	20,870
Repairs	11,961	4,772	16,733
EDP Services	21,371	869	22,240
Indirect Costs	-0-	26,858	26,858
Other	<u>7,608</u>	<u>7,316</u>	<u>14,924</u>
FUND TOTAL	<u>\$1,715,688</u>	<u>\$839,121</u>	<u>\$2,554,809</u>

The Chief Administrative Law Judge is the administrative head of the agency. Duane Harves has served as Chief Administrative Law Judge since the inception of the agency in 1975.

## OFFICE OF ADMINISTRATIVE HEARINGS

### SECTION II. CURRENT FINDINGS AND RECOMMENDATIONS

The Office of Administrative Hearings (OAH) did not allocate the cost of computer equipment purchased in fiscal year 1985 to the appropriate funding sources for which it will be used.

For fiscal years 1981 to 1985, OAH received a General Fund appropriation for the operation of the Workers' Compensation division and maintained a fee-based revolving account for the operation of the Administrative Hearings division. Salaries for management and administrative staff, who serve both divisions, were split between the two funding sources. Equipment and supplies were allocated to the appropriate source based on usage.

During fiscal year 1985, OAH purchased various computer equipment at a total cost of \$38,100. The purchase consisted of seven workstations and supplementary equipment to be used for word processing and data processing. The total cost of the system was paid for from the General Fund appropriation for the Workers' Compensation division, even though the equipment will serve both divisions and the various staff to whom it is assigned are funded from both sources.

The fees charged by the Administrative Hearings division to users of its services are intended to recover all costs of the division. The agency does not have the authority to expend money appropriated for the Workers' Compensation division for costs associated with other activities. When the Administrative Hearings division is inappropriately supported by the General Fund, established fees will be artificially low and users will be undercharged.

#### *RECOMMENDATION:*

- 1. OAH should reimburse the General Fund for the portion of the cost of the computer equipment attributable to the Administrative Hearings division and should charge all costs to the appropriate funding source in the future.*

#### Procedures for processing and deposit of receipts need improvement.

OAH collects fees for Administrative Law Judge time and expenses, Workers' Compensation appeals, and transcript preparation and copying. Total receipts during fiscal year 1985, excluding interagency billings, exceeded \$100,000.

There is inadequate segregation of duties in the receipt process at OAH. Checks are received by four individuals who are also responsible for accounts receivable and/or billing for the fees they receive. OAH believes that distributing the checks in this manner simplifies processing of supporting documentation and maintenance of accounting records. Proper segregation of duties helps ensure that all amounts due the state are billed, received, deposited and properly accounted for. OAH should designate one person to receive checks. This person should be independent of



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the billing, accounts receivable, deposit and review functions. This person should restrictively endorse all checks immediately upon receipt and give them directly to the person responsible for preparing deposits. Rather than actually distributing the checks, a listing of the amounts received or copies of the checks could be given to those employees requiring this information for billing and receivable records.

OAH has not complied with Minn. Stat. Section 16A.275 which requires receipts in excess of \$250 to be deposited daily. The staff currently receiving checks hold them for indefinite periods of time. We noted one instance where checks were held for several months. During fiscal year 1985, the agency made only 29 deposits averaging \$3,450 each. OAH has not been depositing daily because they must make a trip to the Department of Finance in St. Paul to make deposits. Currently they send deposits only when their regular courier makes a trip to St. Paul. The agency does not believe it is efficient to make a special trip every day to make deposits. One possible solution to this problem is to establish a state depository account in Minneapolis for OAH to use for depositing receipts. The agency should work with the Department of Finance to establish an appropriate system for depositing receipts.

### *RECOMMENDATION:*

2. *OAH should designate an individual independent of billing and accounts receivable functions to receive and endorse checks.*
3. *The agency should deposit receipts promptly as required by Minn. Stat. Section 16A.275.*

### PRIOR RECOMMENDATION PARTIALLY IMPLEMENTED: Internal control over OAH fixed assets needs improvement.

The Department of Administration establishes guidelines for control of fixed assets by state agencies. Generally, Administration requires that a system for periodically spot-checking inventory be developed. Normally each area of the agency should be checked on a semi-annual or annual basis depending on past accuracy. A complete physical inventory should be taken whenever it is determined that record accuracy has deteriorated below an acceptable level.

OAH has not established a formal system to periodically spot-check all inventory items. Instead, only those assets which are covered by maintenance agreements are checked annually. Physical inventories should be done to ensure that all assets can be located and are properly marked, and to verify that fixed asset records are accurate.

We also found the following specific problems with fixed asset internal controls:

- Microphones, which are classified as sensitive items susceptible to loss, have not been inventoried as required by the Department of Administration.

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- Four tape recorders, which are used by various judges when traveling, were not being signed out. Such a control would establish accountability for the assets.
- Three computer terminals received in July 1985 were not marked with asset numbers, and another terminal, which was purchased from a state agency, had not been transferred to OAH's asset listing.

Assets which are unmarked and sensitive or shared items are especially susceptible to theft and/or loss and should be inventoried. Fixed asset records must be properly maintained for accuracy in financial reporting and to ensure that all assets are reviewed during inventories.

*RECOMMENDATION:*

4. *OAH should establish a system to periodically spot-check all inventory items and conduct a complete physical inventory whenever records are determined to be inaccurate.*
5. *OAH should develop controls to ensure that all assets are properly marked and recorded on the inventory records in a timely manner.*

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SECTION III. STATUS OF PRIOR AUDIT RECOMMENDATIONS  
AND

PROGRESS TOWARD IMPLEMENTATION

Billable hearing examiner hours and actual hours billed each month have not been reconciled.

1. OAH should develop and implement written procedures to reconcile billable examiner hours to actual hours billed each month.

*Recommendation Implemented. An OAH staff member prepares a report of billable hours each month and verifies it to the actual hours billed.*

Internal controls over revenues collected from sales to interested parties need to be strengthened.

2. OAH should improve controls over sales to interested parties through the following:
  - the customer should sign the receipt form for cash sales to verify the amount of payment; and
  - someone independent of the revenue collection process should periodically compare the miscellaneous receipts ledger to invoices and deposit slips to determine that all the amounts on the invoices have been collected and deposited.

*Recommendation Implemented. However, see current recommendations #2-3 for discussion of other problems associated with controls over revenue collections.*

Compensatory time earned and taken is not adequately documented.

3. All compensatory time earned and taken should be properly recorded and independently checked.

*Recommendation Implemented. In fiscal year 1982, OAH developed a system to record and verify compensatory time each pay period.*

Practices used for granting lunch and rest periods are not appropriate.

4. OAH management should develop a written policy concerning the use of rest and meal periods that would comply with applicable provisions of the collective bargaining agreement.

*Recommendation Implemented. A policy on lunch and rest periods was developed in fiscal year 1982.*

Control over the personnel function and the payroll function could be strengthened by separating certain duties.

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5. The personnel function should be separated from payroll duties. Someone who is not involved in preparing the payroll rosters should receive and distribute the payroll checks.

*Recommendation Implemented. The payroll and personnel functions were separated in fiscal year 1982.*

Written evidence to support that goods have been received is not being obtained.

6. Receiving reports or other written evidence that goods have been received should be used at OAH. These receiving reports should be compared with purchase orders and vendor invoices before vendor payments are made.

*Recommendation Implemented. OAH uses packing slips as a basis to support receipt of goods.*

Insufficient accountability is being maintained over OAH fixed assets.

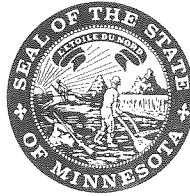
7. OAH should implement the following items concerning fixed asset accountability.
  - The whereabouts of small, sensitive assets should be recorded by using the asset log or some other comparable method.
  - Periodic fixed asset inventories should be taken.
  - Physical inventory counts should be reconciled to the fixed asset listing used for financial statement purposes.
  - A policy should be written and implemented concerning accountability of assets loaned to the workers' compensation division.

*RECOMMENDATION PARTIALLY IMPLEMENTED. The agency developed a policy on control of fixed assets. However, they have not complied with policy provisions relating to physical inventories and control of sensitive assets. See current recommendations #4-5.*

Use of the Statewide Fixed Asset Inventory System (SWAFAIS) does not provide adequate information concerning fixed asset depreciation for financial statement purposes.

8. All input into the SWAFAIS should be verified to ensure clerical accuracy.
9. OAH should evaluate the useful lives assigned to fixed assets by the SWAFAIS and, where necessary, recalculate depreciation using more appropriate useful lives.

*Recommendations Implemented. The agency developed supplemental records to account for fixed asset depreciation for financial reporting purposes.*



**STATE OF MINNESOTA**  
**OFFICE OF ADMINISTRATIVE HEARINGS**

400 SUMMIT BANK BUILDING  
310 FOURTH AVENUE SOUTH  
MINNEAPOLIS, MINNESOTA 55415  
(612) 341-7600

March 3, 1986

Ms. Claudia Gudvangen  
Audit Manager  
Office of the Legislative Auditor  
Veterans Service Building  
Saint Paul, Minnesota 55155

Dear Ms. Gudvangen:

Enclosed please find the Office of Administrative Hearings' Response to the comments and recommendations resulting from the audit of the Office of Administrative Hearings for the three years ended June 30, 1985.

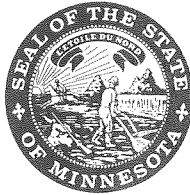
Yours very truly,

A handwritten signature in cursive script, reading "Duane R. Harves".

DUANE R. HARVES  
Chief Administrative Law Judge

Telephone: 612/341-7640

DRH:SCW:s  
Enclosure



STATE OF MINNESOTA  
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Senator Randolph W. Peterson, Chairman  
Legislative Audit Commission

James R. Nobles  
Legislative Auditor

Re: Audit of the Office of Administrative Hearings

Gentlemen:

This letter constitutes the response of the Office of Administrative Hearings to the Audit Report of the Office of the Legislative Auditor for the three-year period ending June 30, 1985.

At the outset I would like to state that we appreciated the efficiency and professionalism exhibited by the staff of the Legislative Auditor's office. A comprehensive audit can be very disruptive to normal operating procedures within an office. In this case, there was such a minimal disruption to our daily operations that we hardly knew an audit was being conducted. The businesslike and professional approach exhibited by the Auditor's staff coupled with the courtesies exhibited when requesting data were greatly appreciated.

This response will follow the outline and presentation of recommendations as contained in the draft of the Auditor's Report we received on February 19, 1986, and as discussed at the closing conference conducted on February 24, 1986.

A. The Office of Administrative Hearings (OAH) did not allocate the cost of computer equipment purchased in fiscal year 1985 to the appropriate funding sources for which it will be used.

RECOMMENDATION:

1. OAH should reimburse the General Fund for the portion of the cost of the computer equipment attributable to the Administrative Hearings division and should charge all costs to the appropriate funding source in the future.

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RESPONSE (1):

OAH will reimburse the General Fund from the Revolving Fund in the amount of \$11,982.24, and will correctly charge appropriate funding sources in the future. The amount to be reimbursed to the General Fund was calculated from an actual accounting of usage by the APA Section (Revolving Fund) and Workers' Compensation Section (General Fund). (See Attachment 1).

Completion Date: Immediate  
Person Responsible: Dennis Reek

B. Procedures for processing and deposit of receipts need improvement.

RECOMMENDATION:

2. OAH should designate an individual independent of billing and accounts receivable functions to receive and endorse checks.
3. The agency should deposit receipts promptly as required by Minn. Stat. Section 16A.275.

RESPONSE (2):

OAH will remove all invoice and receipt duties from the OAH receptionist (JoAnn Barbato). Ms. Barbato will continue to receive, stamp and/or distribute all APA incoming mail. She will continue to sort only the Administrative Section and Workers' Compensation Section incoming mail. Workers' compensation Section and Administrative Section personnel (Trina LeBarron and Joan Bailey, respectively) will continue to open, stamp and distribute their section incoming mail accordingly. Ms. Barbato, LeBarron and Bailey will all be given endorsement stamps and will be responsible to stamp each check they receive with the State of Minnesota endorsement immediately upon opening and prior to delivery to the persons responsible for recording and depositing receipts.

Completion Date: April 1, 1986  
Persons Responsible: Susan Wojcik  
Dennis Reek  
JoAnn Barbato  
Trina LeBarron  
Joan Bailey

RESPONSE (3):

The OAH has requested the Department of Finance to assist in securing a Minneapolis bank depository location so that the OAH would be able to comply with Minn. Stat. § 16A.275, which requires daily deposit of receipts in excess of \$250.

As was discussed in the closing conference on February 24, 1986, the OAH is awaiting a response from the Department of Finance to our request. If a Minneapolis bank depository location is available to the OAH, implementation of the recommendation would be immediate. If no Minneapolis bank depository location is available to the OAH, the OAH would request further assistance and consideration from the Department of Finance. Until that time, the OAH will continue to make deposits as necessary but no less than six times per month.

C. PRIOR RECOMMENDATION PARTIALLY IMPLEMENTED: Internal control over OAH fixed assets needs improvement.

RECOMMENDATION:

4. OAH should establish a system to periodically spot-check all inventory items and conduct a complete physical inventory whenever records are determined to be inaccurate.
5. OAH should develop controls to ensure that all assets are properly marked and recorded on the inventory records in a timely manner.

RESPONSE (4):

OAH will spot check all sensitive fixed asset inventory items each year of the biennium, to be completed no later than June 30. If any inaccuracies in any category occur, a complete physical inventory of the appropriate category will be undertaken immediately.

OAH will spot check all non-sensitive fixed asset inventory items the second year of each biennium, to be completed no later than June 30. If any inaccuracies in any category occur, a complete physical inventory of the appropriate category will be undertaken immediately.

Completion Date: Ongoing; June 30 of each year  
Persons Responsible: Dennis Reek  
Thomas Schubert

RESPONSE (5):

All sensitive items, including microphones, will be identified with an asset number. The three Sperry computer terminals have been marked with asset numbers, and the remaining terminal has been transferred to the OAH inventory listing.



Senator Randolph W. Peterson  
and James R. Nobles  
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The four 4-track recording machines will be inventoried on a sign-in/sign-out sheet method by the Docket Administrator in Workers' Compensation Section.

Completion Date: March 1, 1986  
Person Responsible: Dennis Reek  
Thomas Schubert  
Leslie Doolittle (WC 4-track recorders only)

Yours very truly,



DUANE R. HARVES  
Chief Administrative Law Judge

Telephone: 612/341-7640

DRH:SCW:s  
Attachment

WANG PURCHASEWork Stations

APA Section	3/7ths	\$ 9,180.00
WC Section	4/7ths	<u>12,240.00</u>
		21,420.00

Drive and Other Equipment

Split for this equipment is based upon usage of the equipment. It assumes that general correspondence is negligible but is not counted because we have no data. Data is based upon orders issued during FY 85.

APA Section

331 Reports at 8 pages average	=	2,648 pages
100 Misc. orders at 1 page	=	<u>100</u>
		2,748

WC Section

871 Findings @ 6 pgs.	=	5,226 pages
2,313 Awards on Stipulation @ 2 pgs.	=	4,626
3,728 Misc. orders @ 1 pg.	=	<u>3,728</u>
		13,580

Total Pages	16,328
APA Section %	16.8%
WC Section %	83.2%

Cost of equipment	16,680.00
APA Section cost	<u>2,802.24</u>
WC Section cost	13,877.76

Total reimbursement required  
to General Fund from Revolving Fund

Workstations	9,180.00
Drive and Misc. Equipment	<u>2,802.24</u>

To be transferred and capitalized to the Revolving Fund (5 yr. depreciation)	11,982.24
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To remain Workers' Compensation expense	<u>26,117.76</u>
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TOTAL PURCHASE ORDER:

\$38,100.00