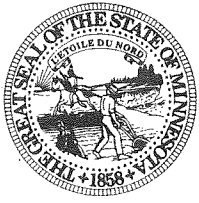


**OFFICE OF ADMINISTRATIVE HEARINGS
FINANCIAL AND COMPLIANCE AUDIT
FOR THE THREE YEARS ENDED JUNE 30, 1988**

MAY 1989



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

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

JAMES R. NOBLES, LEGISLATIVE AUDITOR

Senator John E. Brandl, Chairman
Legislative Audit Commission

Members of the Legislative Audit Commission

and

Mr. William Brown, 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, 1988. Section I provides a brief description of the office's activities and finances. Our audit was made in accordance with generally accepted audit standards and the standards for financial and compliance audits contained in the U.S. General Accounting Office Government Auditing Standards, and accordingly, included such audit procedures as we considered necessary in the circumstances.

Internal Accounting Control Systems

One objective of this audit was to study and evaluate major internal accounting control systems, including receipts, payroll, administrative disbursements, and fixed assets at the office, in effect as of March 1, 1989.

The management of the Office of Administrative Hearings is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and 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.

Because of the 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.

Finance-Related Legal Provisions

Another objective of this audit was to verify that financial transactions were made in accordance with significant finance-related laws. The Office of Administrative Hearings is governed generally by Minn. Stat. Sections 14.48-14.56. These sections create the office and establish the general

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purpose for its financial transactions. Minn. Stat. Section 14.53 authorizes the chief administrative law judge to assess agencies for the cost of services rendered in conducting hearings under the Administrative Procedure Act. In addition, Minn. Laws 1985, First Special Session, Chapter 13, Section 16 and Minn. Laws 1987, Chapter 404, Section 15, appropriates monies from the Workers' Compensation Special Compensation Fund for operation of the workers' compensation section.

The office is also subject to certain general legal provisions which affect the financial management of most state agencies. Minn. Stat. Section 16A.275 requires prompt depositing of receipts accumulating to more than \$250. Minn. Stat. Section 16A.17 requires that funds be encumbered before an obligation is incurred. Minn. Stat. Section 16A.41 requires that goods and services are received prior to payment and Section 16A.124 requires that payments to vendors be made promptly. Minn. Stat. Sections 16B.07-.08 require that competitive bids be let for all public contracts over \$15,000. Minn. Stat. Sections 43A.07-.08 provide the authority for classification of employees and salary changes as negotiated with the various bargaining units. Bargaining unit contracts and plans applicable to the office include MMA, AFSCME, the Managerial Plan, and the Commissioner's Plan. State payroll is prepared in accordance with Minn. Stat. Section 16A.17.

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

Status of Prior Audit Findings

We have reviewed the status of audit findings included in our audit report for the three years ended June 30, 1985, issued on March 3, 1986. Follow-up letters dated October 13, 1987 and December 12, 1988, indicated that satisfactory action toward implementation has been taken for four of the five audit recommendations. However, one recommendation relating to prompt deposit of receipts, has been repeated in this audit report.

Conclusions


In our opinion, the Office of Administrative Hearings' system of internal accounting control in effect on March 1, 1989, 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.


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Section II, finding 1, represents a weakness in the office's receipts processing and depositing controls. We believe the weakness subjects the office to an unnecessary financial risk and should be corrected. Progress on resolving this finding will be reviewed next year.

The results of our testing of transactions and records indicate that the Office of Administrative Hearings complied with the aforementioned finance-related legal provisions, except for the instance of noncompliance discussed in finding 1. Nothing came to our attention in connection with our audit that caused us to believe that the Office of Administrative Hearings was not in compliance with other applicable legal requirements.

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


James R. Nobles
Legislative Auditor


John Asmussen, CPA
Deputy Legislative Auditor

END OF FIELDWORK: April 21, 1989

REPORT SIGNED ON: May 24, 1989

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
Mary G. Lentsch	Auditor-in-Charge
Mary Annala	Staff Auditor

EXIT CONFERENCE

The finding and recommendation in this report was discussed with the following staff of the Office of Administrative Hearings on April 26, 1989:

William Brown, Chief Administrative Law Judge
Sue Wojcik, Administrative Assistant
Dennis Reek, Accounting Supervisor

OFFICE OF ADMINISTRATIVE HEARINGS

I. INTRODUCTION

The Office of Administrative Hearings conducts rulemaking and contested case hearings under the Minnesota Administrative Procedure Act. The office also has responsibility for conducting workers' compensation hearings. In addition to conducting hearings for state agencies, the office is authorized to contract with and conduct hearings for local units of government. The agency also sells transcripts of its hearings.

The administrative hearings section charges user fees which are deposited in a revolving account. The workers' compensation section is financed from appropriations from the Workers' Compensation Special Compensation Fund. Expenditures for the operation of the office in fiscal year 1988 were as follows:

Office of Administrative Hearings
Expenditures, Including Obligations
Year Ended June 30, 1988

	Special Compensation <u>Fund</u>	Revolving <u>Fund</u>	<u>TOTAL</u>
Personal services	\$2,266,761	\$ 789,509	\$3,056,270
Rents and leases	232,369	94,957	327,326
Equipment	203,678	68,165	271,843
Professional services	29,332	179,080	208,412
Supplies/materials	100,989	33,968	134,957
Travel	58,113	19,360	77,473
Communications	37,800	12,959	50,759
Statewide indirect costs	-0-	24,289	24,289
Other	<u>36,259</u>	<u>24,037</u>	<u>60,296</u>
TOTAL	<u>\$2,965,301</u>	<u>\$1,246,324</u>	<u>\$4,211,625</u>

Source: Statewide Accounting System Managers Financial Report as of September 3, 1988.

The chief administrative law judge is the administrative head of the agency. Duane Harves served as chief administrative law judge during fiscal years 1986 through 1988. William Brown was appointed to the position in July 1988.

OFFICE OF ADMINISTRATIVE HEARINGS

II. CURRENT FINDING AND RECOMMENDATION

1. PRIOR FINDING NOT RESOLVED: Procedures for processing and depositing receipts need improvement.

The Office of Administrative Hearings collects fees for administrative law judge time and expenses, workers' compensation appeals, and transcript preparation and copying. The majority of receipts result from the billable administrative law judge time. Fees are collected from both state agencies, who process interagency payments, and from political subdivisions and other parties, who make payments directly to the office. Fiscal year 1988 revenues, including interagency receipts of approximately \$850,000, totaled \$1,121,000. Three areas relating to agency receipts require attention.

Our last audit found that the Office of Administrative Hearings was not in compliance with Minn. Stat. Section 16A.275, which requires daily depositing of receipts in excess of \$250. The office's reason for noncompliance at that time was that they did not have easy access to a state depository and believed it was inefficient to make a special trip to St. Paul every day to make deposits. In December 1988, the Department of Finance established a depository account for the agency. The account is in a bank in the same building as the office. This should have alleviated the problem. However, we found the office still is not in compliance with statutory requirements. During March 1989, the agency held receipts of approximately \$1,600 and \$2,500 for 8 and 15 days, respectively. In addition to noncompliance with statutory requirements, the state is losing interest on undeposited funds and there is an increased chance of lost or misplaced checks.

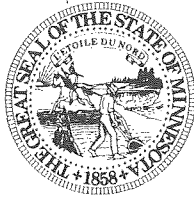
The office receives fees from parties who wish to appeal a decision made by a workers' compensation judge. The filing fees are \$25 per appeal and are deposited into a revolving fund account. During fiscal year 1988, appeal fees collected totalled \$15,325. The office does not perform a reconciliation of appeals filed to appeal fees deposited. A reconciliation would provide assurance that fees are paid and appropriately deposited for all appeals filed.

Our last concern is that receipt duties are not adequately separated. There is no independent verification of amounts recorded in the billing system for administrative law judge services. The same employee is responsible for inputting the billable and nonbillable data in the system and subsequently verifying its accuracy. When one individual is responsible for both recording and verifying data, the chance of errors and irregularities occurring and going undetected increases. We found one instance where the employee did not detect an input error, resulting in underbilling a state agency. Although the amount involved was small, the error reinforces the need for an independent verification of system input.

OFFICE OF ADMINISTRATIVE HEARINGS

RECOMMENDATION

- The Office of Administrative Hearings should strengthen receipt procedures by:
 - depositing receipts in accordance with Minn. Stat. Section 16A.275;
 - reconciling the amount of workers' compensation appeals filed to the actual amount of fees deposited; and
 - having a person independent of the billing process verify the input accuracy.



STATE OF MINNESOTA
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May 9, 1989

James R. Nobles
Legislative Auditor
Office of the Legislative Auditor
Veterans Service Building
St. Paul, Minnesota 55155

John Asmussen, CPA
Deputy Legislative Auditor
Office of the Legislative Auditor
Veterans Service Building
St. Paul, Minnesota 55155

Dear Messrs. Nobles and Asmussen:

Enclosed please find our response to the comments and recommendations resulting from the audit of the Office of Administrative Hearings for the three years ending June 30, 1988.

Yours very truly,

A handwritten signature in dark ink, appearing to read "William G. Brown".

WILLIAM G. BROWN
Chief Administrative Law Judge

Telephone: 612/341-7640

JLL:lc
enclosure

cc: Dennis Reek
Susan Wojcik

II. Current Findings & Recommendation

1. Minn. Stat. § 16A.275 Daily Deposit. OAH is now in compliance by making deposits whenever the total of checks and cash received exceeds \$250.00. Many days we do not receive a "large" check and the office receipts in the form of checks and cash do not exceed \$250.00 since most income flows to the revolving fund by Inter-Dept. payment. During the 19 work-day period April 11 through May 5, the office made nine (9) deposits and we are committed to remain in compliance with this section of the Minnesota Statutes. Person responsible: Dennis Reek, Accounting Supervisor, Sr.

2. A system of registering the number of appealing and cross-appealing parties by case to maintain a record of the number of parties required to pay the \$25.00 appeal fee will be implemented July 1, 1989. A reconciliation with total appeal fees deposited will be possible in FY 90. Person responsible: Leslie Doolittle, Workers' Compensation Docket Administrator.

3. The State Department's appropriation bill contains a new position, Data Entry Operator for the OAH Accounting Unit, which will make it possible to separate these duties and be in full compliance with this recommendation as soon after July 1989 as is possible.

WGB:lc