

# Office of Administrative Hearings

## Financial Audit

For the Four Years Ended June 30, 1995

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August 1996

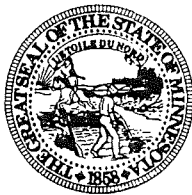
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Financial Audit Division  
Office of the Legislative Auditor  
State of Minnesota

96-30





STATE OF MINNESOTA  
**OFFICE OF THE LEGISLATIVE AUDITOR**  
CENTENNIAL BUILDING, 658 CEDAR STREET • ST. PAUL, MN 55155 • 612/296-4708 • TDD RELAY 612/297-5353  
JAMES R. NOBLES, LEGISLATIVE AUDITOR

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Representative Ann H. Rest, Chair  
Legislative Audit Commission

Members of the Legislative Audit Commission

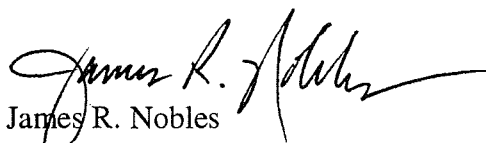
The Honorable Kevin Johnson  
Chief Administrative Law Judge  
Office of Administrative Hearings

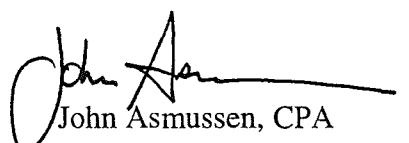
We have audited the Office of Administrative Hearings for the period from July 1, 1991, through June 30, 1995, as further explained in Chapter 1. Our audit scope included: fees, payroll, professional/technical contracts, rent and parking, and other administrative expenditures. The following Summary highlights the audit objectives and conclusions. We discuss these issues more fully in the individual chapters of this report.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we obtain an understanding of management controls relevant to the audit. The standards also require that we design the audit to provide reasonable assurance that the Office of Administrative Hearings complied with provisions of laws, regulations, and contracts that are significant to the audit. The management of the Office of Administrative Hearings is responsible for establishing and maintaining the internal control structure and compliance with applicable laws, regulations, contracts, and grants.

This report is intended for the information of the Legislative Audit Commission and the management of the Office of Administrative Hearings. This restriction is not intended to limit the distribution of this report, which was released as a public document on August 2, 1996.

We 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: May 31, 1996

Report Signed On: July 30, 1996



# SUMMARY

State of Minnesota

Office of the Legislative Auditor

Centennial Office Building • St. Paul, MN 55155  
612/296-4708

## Office of Administrative Hearings

### Financial Audit For the Four Years Ended June 30, 1995

Public Release Date: August 2, 1996

No. 96-30

#### Agency Background

The Office of Administrative Hearings was established in 1975 under the provisions of Minn. Stat. Sections 14.48 through 14.56. The Legislature established the office to provide a fair, prompt, and impartial hearing process for citizens who disagreed with actions taken by government. The office consists of two divisions: the administrative law division and the workers' compensation division. The administrative law division bills for its services. The workers' compensation division receives appropriations from the Special Workers' Compensation Fund. The administrative law division conducts hearings under the Administrative Procedures Act. The administrative law judges also conduct hearings for certain local governments and for child support cases. The judges within the workers' compensation division hear workers' compensation benefit cases, pursuant to Minn. Stat. Chapter 176.

The governor appoints a chief administrative law judge for a six-year term, with the advice and consent of the Senate. Kevin Johnson, the current Chief Administrative Law Judge, began his term on July 30, 1993. William Brown, the former Chief Administrative Law Judge, served for five years between July 1988 and July 1993.

#### Audit Scope and Conclusions

Our audit scope included: fees, payroll, professional/technical contracts, rent and parking, and other administrative expenditures for the period from July 1, 1991, through June 30, 1995.

We found that the Office of Administrative Hearings properly processed and collected fees from governmental units for the cost of conducting hearings for the period reviewed. The Office of Administrative Hearings generated sufficient revenues to recover the cost of hearings.

The Office of Administrative Hearings spent its state appropriations within its appropriation limits and statutory authority. We found that the office's expenditures generally were accurate and reasonable. However, we found that the office did not properly record and pay compensatory time for its administrative law judges.

Contact the Financial Audit Division for additional information.  
296-1235



# 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
Jeanine Leifeld, CPA	Audit Manager
Mary Annala, CPA	Auditor-in-Charge
Marina Mirman	Auditor

### Exit Conference

We discussed this report with the following staff of the Office of Administrative Hearings at the exit conference held on July 22, 1996:

Kevin Johnson	Chief Administrative Law Judge
Allan Klein	Administrative Law Judge Supervisor
Dennis Reek	Accounting Supervisor
Susan Schleisman	Administrative Officer
Leslie Doolittle	Workers' Compensation Court Administrator





# Office of Administrative Hearings

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## Chapter 1. Introduction

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The Office of Administrative Hearings was established in 1975 under the provisions of Minn. Stat. Sections 14.48 through 14.56. The Legislature established the office to provide a fair, prompt, and impartial hearing process for citizens who disagreed with actions taken by government. The administrative law division conducts hearings under the Administrative Procedures Act. The administrative law judges also conduct hearings for certain local governments and for child support cases.

The Legislature transferred the state's workers' compensation judges to the Office of Administrative Hearings in 1982. The judges within the workers' compensation division hear workers' compensation benefit cases, pursuant to Minn. Stat. Chapter 176.

Administrative law judges and workers' compensation judges perform their duties in the metropolitan area as well as other locations throughout the state. The office contracts annually with administrative law judges to process administrative law and child support cases located throughout the state. Administrative Hearings maintains a permanent Duluth office for two workers' compensation judges.

The governor appoints a chief administrative law judge for a six year term, with the advice and consent of the Senate. Kevin Johnson, the current Chief Administrative Law Judge, began his term on July 30, 1993. William Brown, the former Chief Administrative Law Judge, served for five years between July 1988 and July 1993.

The Office of Administrative Hearings receives its funding from three sources: fees collected by the administrative law division, a legislative appropriation for the workers' compensation division, and workers' compensation transcript fees from the Special Workers' Compensation Fund. Table 1-1 shows the office's financial activity for the audit period.

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**Table 1-1**  
**Summary of Revenue and Expenditures**  
**Fiscal Years 1992 through 1995**

	Year Ended June 30			
	1992	1993	1994	1995
Revenue:				
Fees and Reimbursements	\$1,742,876	\$1,886,304	\$2,098,509	\$2,325,761
Appropriations	<u>3,458,000</u>	<u>3,617,000</u>	<u>3,797,000</u>	<u>3,802,000</u>
Total Revenue	<u>\$5,200,876</u>	<u>\$5,503,304</u>	<u>\$5,895,509</u>	<u>\$6,127,761</u>
Expenditures				
Payroll	\$4,080,598	\$4,239,739	\$4,433,909	\$4,419,902
Professional/Technical Contracts	285,521	391,511	519,949	716,926
Rent and Parking	319,705	320,505	319,439	331,068
Other Administrative Expenditures	<u>486,516</u>	<u>492,156</u>	<u>489,042</u>	<u>763,880</u>
Total Expenditures	<u>\$5,172,340</u>	<u>\$5,443,911</u>	<u>\$5,762,339</u>	<u>\$6,231,776</u>

Source: Statewide Accounting System Appropriation Balance within Fund Reports and Managers Financial Reports for fiscal years ended June 30, 1992, 1993, 1994, and 1995 as of the accounting close.

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# Office of Administrative Hearings

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## Chapter 2: Administrative Law Fees

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### *Chapter Conclusions*

*The Office of Administrative Hearings properly processed and collected fees from governmental units for the cost of conducting hearings. The office generated sufficient revenues to recover the cost of hearings.*

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The Office of Administrative Hearings has the authority under Minn. Stat. Section 14.53 to bill for the cost of its services. The law allows the office to retain incoming fees as dedicated receipts. The office charges an hourly rate for the time expended in conducting hearings, for travel expenses, and for the preparation of written decisions. The office also bills for the cost of court reporters and transcriptions. The office bills governmental units monthly for these services.

Table 2-1 shows the amount of fees collected for the Administrative Law Division during the audit period.

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**Table 2-1**  
**Administrative Law Division Fee Collections**  
**July 1, 1991, through June 30, 1995**

	Fiscal Year			
	1992	1993	1994	1995
Revenue:				
Fees	\$1,706,045	\$1,846,939	\$2,057,670	\$2,288,679
Other Reimbursements	<u>36,831</u>	<u>39,327</u>	<u>40,839</u>	<u>37,082</u>
Total Revenue	<u>\$1,742,876</u>	<u>\$1,886,304</u>	<u>\$2,098,509</u>	<u>\$2,325,761</u>

Sources: Statewide Accounting System Allotment Balance Within Appropriation.  
Reports and Managers Financial Reports for fiscal years ended June 30, 1992, 1993, 1994, and 1995 as of the accounting close.

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Our objectives in auditing administrative law fees were the following:

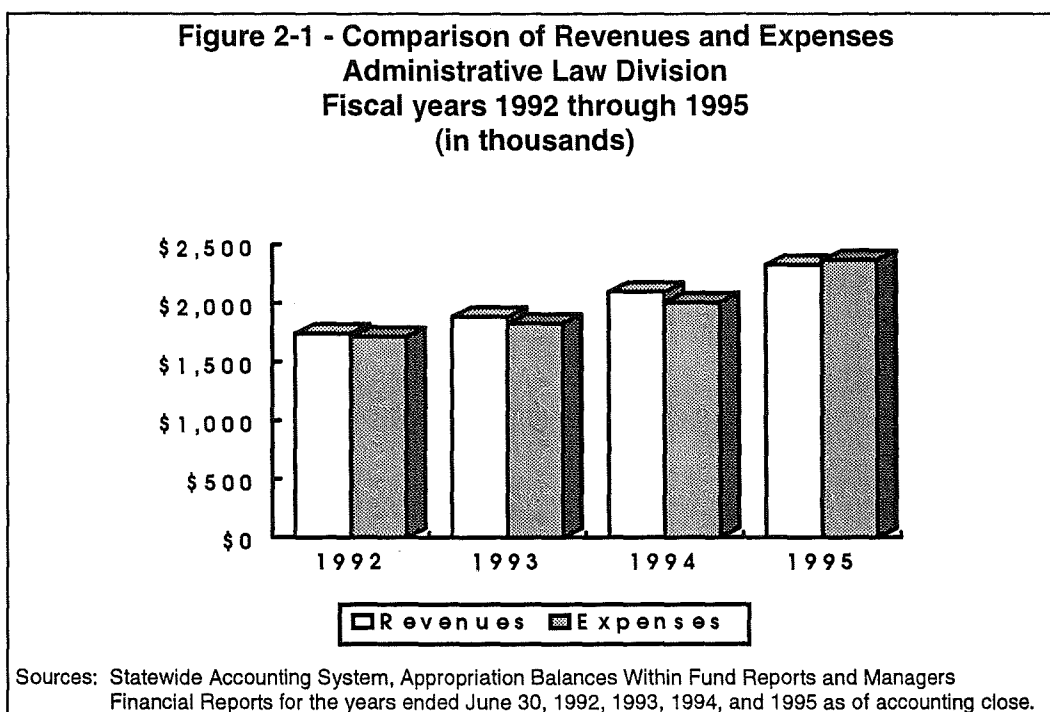
- Did the Office of Administrative Hearings properly process and collect fees for the cost of conducting hearings?
- Did the Office of Administrative Hearings generate sufficient revenues to recover the cost of the hearings?

In order to satisfy these objectives, we interviewed office staff to obtain an understanding of the billing and receipt process. We conducted tests to evaluate and verify the accuracy of the billing

## Office of Administrative Hearings

and the receivable systems. We considered the accuracy and timeliness of governmental unit billings, billing system records, accounting records, and deposit of receipts. Finally, we reviewed accounting records to determine that the office had sufficiently billed governmental units for the costs associated with conducting hearings.

Figure 2-1 shows a comparison of administrative law fees collected and the expenses of the administrative law activities for the audit period. The office has increased its fees for fiscal year 1996 in response to the slight loss the Administrative Law Division experienced in fiscal year 1995.



Our review of governmental billings concluded that the Office of Administrative Hearings had accurately completed bills in a timely manner, that the billing system and accounting records were accurate, and that receipts were properly deposited. During the audit period, the office sufficiently billed governmental units for the costs of conducting hearings to recover its costs.

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## Chapter 3. Administrative Expenditures

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### *Chapter Conclusions*

*The Office of Administrative Hearings spent its state appropriations within its appropriation limits and statutory authority. We found that the office's expenditures generally were accurate and reasonable. However, we found that the office did not properly record and pay compensatory time for its administrative law judges.*

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The Office of Administrative Hearings spent about \$ 22.7 million during the four years ended June 30, 1995. Table 1-1 shows a detailed list of the office's expenditures. Payroll costs comprised about 75 percent of total expenditures. In our review of administrative expenditures, our scope included payroll, professional/technical contracts, rent, and supplies and equipment.

Our objectives in reviewing administrative expenditures were to determine whether the Office of Administrative Hearings' expenditures were:

- properly approved, calculated, and charged to the correct accounts,
- reasonable and in compliance with applicable laws and regulations, and
- accurately paid and recorded in the statewide accounting system.

The methodology we used to audit administrative expenditures included interviewing staff to gain an understanding of the disbursement process. We performed analytical procedures for administrative expenditures to evaluate any trends in specific account classes throughout the audit period. We also reviewed and analyzed certain administrative expenditures for reasonableness. Furthermore, we selected a sample of expenditure transactions and performed tests to verify accuracy and compliance with applicable legal provisions.

### **Payroll**

The Office of Administrative Hearings spent \$17,174,148 on payroll costs in fiscal years 1992 through 1995. Table 3-1 shows the breakdown of these expenditures by classification.

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**Table 3-1**  
**Payroll Expenditures**  
**Fiscal years 1992 through 1995**

<u>Classification</u>	<u>Fiscal Year</u>			
	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>
Administrative Law Judges	\$ 802,589	\$ 830,887	\$ 854,517	\$ 816,777
Workers Compensation Judges	2,106,029	2,210,213	2,195,003	2,102,970
Student Interns (Workers Comp)	0	0	52,025	\$90,000
General Support (Admin Law)	412,642	429,142	444,586	543,935
General Support (Workers Comp)	759,338	769,497	744,528	743,892
Clerical Support (Workers Comp)	0	0	143,251	122,328
Totals	<u>\$4,080,598</u>	<u>\$4,239,739</u>	<u>\$4,433,910</u>	<u>\$4,419,902</u>

Source: Statewide Accounting System Managers Financial Report for the fiscal years ended June 30, 1992, 1993, 1994, and 1995 as of the accounting close.

We reviewed payroll procedures and addressed the following questions:

- Were payroll expenditures properly authorized, adequately supported, and accurately processed and reported?
- Were the payroll expenditures reasonable and in compliance with applicable laws and regulations?

The need for the Office of Administrative Hearings to hire full-time judges has declined since the office contracts with judges to provide the same services. The number of administrative law judges has declined from eleven in fiscal year 1992 to eight in fiscal year 1995. Also, the number of full-time workers' compensation judges declined from 29 in fiscal year 1992 to 25 in fiscal year 1995.

Our review of the payroll expenditures concluded that the Office of Administrative Hearings properly authorized, adequately supported, and accurately processed and recorded its payroll. However, during our audit, we became aware of the following issue relating to compensatory time for administrative law judges:

- 1. The Office of Administrative Hearings does not properly record and pay compensatory time earned by administrative law judges.**

The Office of Administrative Hearings has not complied with employee compensation guidelines and has not properly recorded compensatory leave for administrative law judges. Administrative law judges may earn compensatory time while conducting certain hearings. The

## Office of Administrative Hearings

office has developed an internal policy specifically requiring these judges to use the compensatory time within a limited time period. According to the policy, judges forfeit any unused compensatory time after that limited time period.

Minnesota Statute Chapter Section 43A.18, subdivision 4, requires the Office of Administrative Hearings to follow the, "Salary Plan for Classified Administrative Law Judges," which is approved by the Department of Employee Relations and the Legislative Commission on Employee Relations. The salary plan addresses other compensation as follows, "...any items not specifically discussed shall be identical to the plan adopted by the Commissioner of Employee Relations for non-bargaining unit professional employees, including, ...the provisions of ...the Non-managerial Unrepresented Employees Plan."

Since the Salary Plan for Classified Administrative Law Judges does not specifically address compensatory time, administrative law judges must follow the Non-managerial Unrepresented Employees Plan for their compensatory time guidance. However, the Non-managerial Unrepresented Employees Plan does not agree with the Office of Administrative Hearings internal compensatory policy. The office policy has a time limit for using compensatory time, while the unrepresented employees plan does not. As a result, the judges may not be receiving the proper compensation according to the unrepresented employees plan.

In addition, the office has not properly recorded compensatory time earned and taken by administrative law judges on the payroll records. Judges receive prior approval from their supervisor to earn compensatory time. Judges record the compensatory time earned and taken on their time sheets. This compensatory time is never recorded on the state's payroll system.

### *Recommendations*

- *The Office of Administrative Hearings should amend its internal policy for compensatory time to comply with the Salary Plan for Classified Administrative Law Judges.*
- *The Office of Administrative Hearings should record administrative law judges compensatory time on the state's payroll system.*

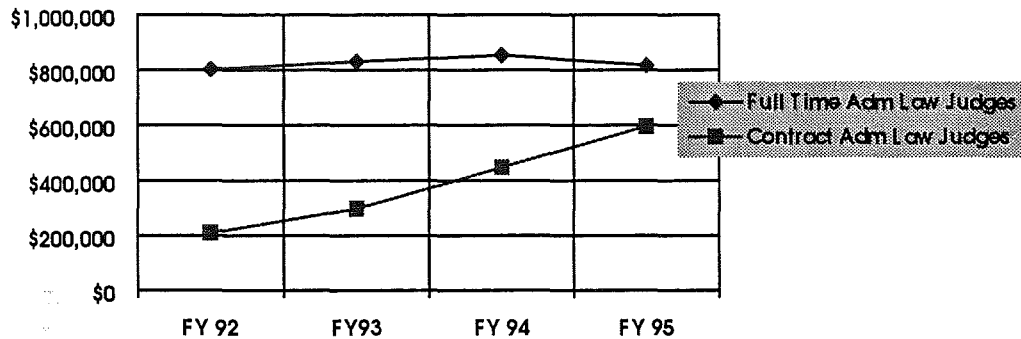
## Professional/Technical Contracts

The Office of Administrative Hearings contracts for many professional services, including administrative law judges, court reporters, and interpreters. The administrative law division has a large number of contract judges. Figure 3-1 shows the office trend for using contract judges.

Before awarding contracts, the Office of Administrative Hearings initiates the contract process by preparing contract proposals, advertising the positions, and obtaining bidding documents. The professional and technical contracts are reviewed and authorized. Each contract is limited to a one year term requiring an annual renewal by the appropriate authorities.

## Office of Administrative Hearings

**Figure 3-1**  
**Full Time and Administrative Law Judges**  
**Fiscal year 1992 through 1995 Trend**



Source: Statewide Accounting System, Appropriation Balances Within Fund Reports and Managers Financial Reports for fiscal years ended June 30, 1992, 1993, 1994, and 1995 as of the accounting close.

In our review of professional and technical contracts, we addressed the following questions:

- Were contracts properly approved?
- Were expenditures properly authorized, adequately supported, and accurately calculated?
- Were annual expenditures in compliance with the contract requirements?

Our review of expenditures found that professional and technical service contracts were properly approved. The office properly authorized, adequately supported, and accurately calculated professional and technical service expenditures. We concluded that annual expenditures were in compliance with the contract requirements.

### Rent and Parking

The Office of Administrative Hearings leases space for the downtown Minneapolis office, the Duluth office, and also for hearing and meeting rooms. During our audit period, total rental expenditures for the administrative law division and workers' compensation division were \$273,505 and \$1,017,212, respectively.

We focused our review of rental disbursements on the following objectives:

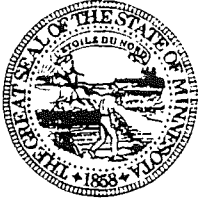
- Were payments made to vendors properly authorized, processed, recorded, and accurately paid?
- Were expenditures reasonable and in compliance with the applicable criteria?

## **Office of Administrative Hearings**

We found that the office properly processed, paid, and recorded rental payments. The rental payments were in compliance with the lease agreement rate schedules. However, we also found that the office subsidizes parking for certain of its employees.

The Office of Administrative Hearings lease agreement provides the office with parking spaces in the building's ramp. Employees contract directly with the building's management to reserve parking space. However, the office has developed a policy allowing a few employees to receive partial reimbursement for parking in the building's ramp. Office officials believe that allowing certain employees to park in the building provides time savings for the employees and cost savings for the office. However, they were unable to provide any specific documentation to support the cost savings. The total amount of contract parking reimbursed to employees from fiscal year 1992 to April 1996 totaled \$16,496.





STATE OF MINNESOTA  
OFFICE OF ADMINISTRATIVE HEARINGS  
100 Washington Square, Suite 1700  
100 Washington Avenue South  
Minneapolis, Minnesota 55401-2138

July 26, 1996

John Asmussen, Deputy Legislative Auditor  
Financial Audit Division  
Office of the Legislative Auditor  
1st Floor South, Centennial Office Building  
658 Cedar Street  
Saint Paul, Minnesota 55155

Dear Mr. Asmussen:

The Office of Administrative Hearings has received and reviewed your office's financial audit of OAH for the four year ending June 30, 1995. The management committee of the Office of Administrative Hearings has also met with your audit staff for an exit interview. As customary, your audit manager, Jeanine Leifeld, has requested a "formal written response to our comments and recommendations. For each finding, we would also like you to identify the person(s) responsible for resolution and the date projected for completion."

The formal, written response to the one finding made in the audit is as follows:

The Office of Administrative Hearings accounting unit, supervised by Dennis Reek, has posted all compensatory leave balances for administrative law judges to the payroll records effective July 22, 1996. Earnings and usage will continue to be posted to state employee management records with formal balances reported on employee payroll advices and all audit reports. Internal policy will be reviewed and brought into agreement with the Commissioner's Plan and administrative law judge pay plan.

If I can be of further assistance or if you need additional information, please call me.

Sincerely,

A handwritten signature in black ink that reads "Kevin E. Johnson".

Kevin E. Johnson  
Chief Administrative Law Judge  
Direct Line: (612) 341-7640