

Office of
Administrative Hearings
BISMARCK, NORTH DAKOTA

Audit Report

For the Biennium Ended
June 30, 2015

ROBERT R. PETERSON
STATE AUDITOR

Office of the State Auditor
Division of State Audit

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Transmittal Letter

February 26, 2016

The Honorable Jack Dalrymple, Governor
Members of the North Dakota Legislative Assembly
Mr. Timothy Dawson, Director, Office of Administrative Hearings

We are pleased to submit this audit of the Office of Administrative Hearings for the biennium ended June 30, 2015. This audit resulted from the statutory responsibility of the State Auditor to audit or review each state agency once every two years. The same statute gives the State Auditor the responsibility to determine the contents of these audits.

In determining the contents of the audits of state agencies, the primary consideration was to determine how we could best serve the citizens of the state of North Dakota. Naturally we determined financial accountability should play an important part of these audits. Additionally, operational accountability is addressed whenever possible to increase efficiency and effectiveness of state government.

The in-charge auditor for this audit was Krista Lambrecht, CPA. Cindi Pedersen, CPA was the audit manager. Inquiries or comments relating to this audit may be directed to the audit manager by calling (701) 328-2241. We wish to express our appreciation to Director Dawson and his staff for the courtesy, cooperation, and assistance they provided to us during this audit.

Respectfully submitted,

A handwritten signature in cursive script that reads "Bob Peterson".

Robert R. Peterson
State Auditor

Executive Summary

Introduction

The North Dakota Office of Administrative Hearings is an executive branch agency that provides independent administrative law judges to preside at administrative hearings and related proceedings. The agency is authorized to provide administrative law judges to preside at state agency, local government agency, tribal government, and judicial branch hearings and related proceedings.

The Legislative Audit and Fiscal Review Committee (LAFRC) requests that certain items be addressed by auditors performing audits of state agencies. Those items and the Office of the State Auditor's responses are noted below.

Responses to LAFRC Audit Questions

1. What type of opinion was issued on the financial statements?

Financial statements were not prepared by the Office of Administrative Hearings in accordance with generally accepted accounting principles so an opinion is not applicable. The agency's transactions were tested and included in the state's basic financial statements on which an unmodified opinion was issued.

2. Was there compliance with statutes, laws, rules, and regulations under which the agency was created and is functioning?

Yes.

3. Was internal control adequate and functioning effectively?

Yes.

4. Were there any indications of lack of efficiency in financial operations and management of the agency?

No.

5. Has action been taken on findings and recommendations included in prior audit reports?

There were no recommendations included in the prior audit report.

6. Was a management letter issued? If so, provide a summary below, including any recommendations and the management responses.

No, a management letter was not issued.

LAFRC Audit Communications

7. *Identify any significant changes in accounting policies, any management conflicts of interest, any contingent liabilities, or any significant unusual transactions.*

There were no significant changes in accounting policies, no management conflicts of interest were noted, no contingent liabilities were identified or significant unusual transactions.

8. *Identify any significant accounting estimates, the process used by management to formulate the accounting estimates, and the basis for the auditor's conclusions regarding the reasonableness of those estimates.*

The Office of Administrative Hearings' financial statements do not include any significant accounting estimates.

9. *Identify any significant audit adjustments.*

Significant audit adjustments were not necessary.

10. *Identify any disagreements with management, whether or not resolved to the auditor's satisfaction relating to a financial accounting, reporting, or auditing matter that could be significant to the financial statements.*

None.

11. *Identify any serious difficulties encountered in performing the audit.*

None.

12. *Identify any major issues discussed with management prior to retention.*

This is not applicable for audits conducted by the Office of the State Auditor.

13. *Identify any management consultations with other accountants about auditing and accounting matters.*

None.

14. *Identify any high-risk information technology systems critical to operations based on the auditor's overall assessment of the importance of the system to the agency and its mission, or whether any exceptions identified in the six audit report questions to be addressed by the auditors are directly related to the operations of an information technology system.*

ConnectND Finance, Human Resource Management System (HRMS), and the Billing System (the system used by the Office of Administrative Hearings to track their accounts receivable) are high-risk information technology systems critical to the Office of Administrative Hearings.

Audit Objectives, Scope, and Methodology

Audit Objectives

The objectives of this audit of the Office of Administrative Hearings for the biennium ended June 30, 2015 were to provide reliable, audited financial statements and to answer the following questions:

1. What are the highest risk areas of the Office of Administrative Hearing's operations and is internal control adequate in these areas?
2. What are the significant and high-risk areas of legislative intent applicable to the Office of Administrative Hearings and are they in compliance with these laws?
3. Are there areas of the Office of Administrative Hearing's operations where we can help to improve efficiency or effectiveness?

Audit Scope

This audit of the Office of Administrative Hearings is for the biennium ended June 30, 2015. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The Office of Administrative Hearing's sole location is its Bismarck office which was included in the audit scope.

Audit Methodology

To meet the objectives outlined above, we:

- Prepared financial statements from the legal balances on the state's accounting system tested as part of this audit and the audit of the state's Comprehensive Annual Financial Report and developed a discussion and analysis of the financial statements.
- Performed detailed analytical procedures including computer-assisted auditing techniques. These procedures were used to identify high-risk transactions and potential problem areas for additional testing.
- Tested internal control and compliance with laws and regulations which included selecting representative samples to determine if controls were operating effectively and to determine if laws were being followed consistently. Non-statistical sampling was used and the results were projected to the population. Where applicable, populations were stratified to ensure that particular groups within a population were adequately represented in the sample, and to improve efficiency by gaining greater control on the composition of the sample.
- Interviewed appropriate agency personnel.

- Queried the ConnectND (PeopleSoft) system. Significant evidence was obtained from ConnectND.
- Observed Office of Administrative Hearing's processes and procedures.

In aggregate there were no significant limitations or uncertainties related to our overall assessment of the sufficiency and appropriateness of audit evidence.

Discussion and Analysis

The accompanying financial statements have been prepared to present the Office of Administrative Hearing's revenues and expenditures on the legal (budget) basis. The accompanying financial statements are not intended to be presented in accordance with generally accepted accounting principles (GAAP).

For the biennium ended June 30, 2015, operations of the Office of Administrative Hearings were entirely supported by appropriations of special funds. These funds are obtained by the Office of Administrative Hearings through billings of all user agencies for services rendered by administrative law judges in the conduct of administrative hearings.

Financial Summary

Revenues consisted entirely of special funds, which are collected by the agency for services rendered by administrative law judges in the conduct of administrative hearings for other agencies. Total revenues were \$1,191,176 for the year ended June 30, 2015 as compared to \$1,227,102 for the year ended June 30, 2014.

Total expenditures for the Office of Administrative Hearings were \$1,079,577 for the year ended June 30, 2015 as compared to \$1,195,039 for the prior year. Expenditures and revenue remained fairly constant, but both were down slightly in fiscal year 2015 compared to fiscal year 2014. This decrease is attributed to the fact that the number of hours billed by the contract administrative law judges during fiscal year 2015 was down by more than 30% compared to fiscal year 2014. Correspondingly, expenditures for professional services were down in 2015, while the remaining expenditures remained fairly constant. Payments for professional services accounted for approximately 43% of total expenditures during the fiscal years reviewed. Such services relate primarily to contracts with temporary administrative law judges to conduct Workforce Safety and Insurance hearings.

Financial Statements

Statement of Revenues and Expenditures

	<u>June 30, 2015</u>	<u>June 30, 2014</u>
<u>Revenues:</u>		
Charges for Services	\$1,191,176	\$1,227,102
Total Revenues and Other Sources	<u>\$1,191,176</u>	<u>\$1,227,102</u>
<u>Expenditures:</u>		
Professional Services	\$442,160	\$545,762
Salaries and Benefits	547,510	540,915
Rent of Building Space	38,756	33,503
Information Technology	24,471	47,000
Travel	9,468	10,860
Other Operating Expenditures	17,212	16,999
Total Expenditures	<u>\$1,079,577</u>	<u>\$1,195,039</u>

Statement of Appropriations

For The Biennium Ended June 30, 2015

Expenditures by Line Item:	<u>Original Appropriation</u>	<u>Adjustments</u>	<u>Final Appropriation</u>	<u>Expenditures</u>	<u>Unexpended Appropriation</u>
Salaries and Benefits	\$ 1,059,175	\$ (2,518)	\$ 1,056,657	\$ 1,056,657	
Accrued Leave Payments	10,698	15,518	26,216	26,216	
Operating Expenses	1,749,023		1,749,023	1,185,150	\$ 563,873
Totals	<u>\$2,818,896</u>	<u>\$ 13,000</u>	<u>\$ 2,831,896</u>	<u>\$ 2,268,023</u>	<u>\$ 563,873</u>
Expenditures by Source:					
Other Funds	\$ 2,818,896	\$ 13,000	\$ 2,831,896	\$ 2,268,023	\$ 563,873
Totals	<u>\$ 2,818,896</u>	<u>\$ 13,000</u>	<u>\$ 2,831,896</u>	<u>\$ 2,268,023</u>	<u>\$ 563,873</u>

Appropriation Adjustments:

North Dakota Century Code section 54-57-07(3) states that money in the Administrative Hearings Fund is continually appropriated as necessary for the expenses of the Office of Administrative Hearings, including payments to temporary administrative law judges. A \$13,000 adjustment was made to increase spending authority of the Salaries and Benefits line for this purpose.

The transfer of \$15,518 from the Salaries and Benefits line to the Accrued Leave Payments line was in accordance with the House Bill 1015, Section 14 of the 2013 Legislative Session for the payment of vacation and sick leave balances for employees that resigned or retired during the biennium.

Internal Control

In our audit for the biennium ended June 30, 2015, we identified the following areas of the Office of Administrative Hearings' internal control as being the highest risk:

Internal Controls Subjected to Testing:

- Controls surrounding the processing of revenues.
- Controls surrounding the processing of expenditures.
- Controls relating to compliance with legislative intent.
- Controls surrounding the ConnectND (PeopleSoft) system.

The criteria used to evaluate internal control is published in the publication *Internal Control – Integrated Framework* from the Committee of Sponsoring Organizations (COSO) of the Treadway Commission.

We gained an understanding of internal control surrounding these areas and concluded as to the adequacy of their design. We also tested the operating effectiveness of those controls we considered necessary based on our assessment of audit risk. We concluded internal control was adequate.

Auditors are required to report deficiencies in internal control that are significant within the context of the objectives of the audit. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect: (1) misstatements in financial or performance information; (2) violations of laws and regulations; or (3) impairments of effectiveness or efficiency of operations, on a timely basis. Considering both qualitative and quantitative factors, we did not identify any significant deficiencies in internal control.

Compliance With Legislative Intent

In our audit for the biennium ended June 30, 2015, we identified and tested the Office of Administrative Hearings' compliance with legislative intent for the following areas we determined to be significant and of higher risk of noncompliance:

- Adequate blanket bond coverage of employees (NDCC section 26.1-21-08).
- Compliance with payroll-related laws including statutory salaries for applicable elected and appointed positions, and certification of payroll.
- Proper authorization of funds used by the department.

The criteria used to evaluate legislative intent are the laws as published in the *North Dakota Century Code* and the *North Dakota Session Laws*.

Government Auditing Standards require auditors to report all instances of fraud and illegal acts unless they are inconsequential within the context of the audit objectives. Further, auditors are required to report significant violations of provisions of contracts or grant agreements, and significant abuse that has occurred or is likely to have occurred.

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. Thus, we concluded there was compliance with the legislative intent identified above.

Operations

This audit did not identify areas of Office of Administrative Hearings' operations where we determined it was practical at this time to help to improve efficiency or effectiveness.

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www.nd.gov/auditor/

or by contacting the
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