

Audit Report

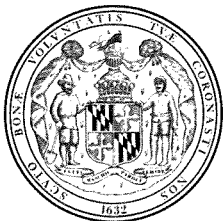
Office of Administrative Hearings

December 2011



OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Karl S. Aro
Executive Director

Bruce A. Myers, CPA
Legislative Auditor

December 2, 2011

Delegate Guy J. Guzzone, Co-Chair, Joint Audit Committee
Senator James C. Rosapepe, Co-Chair, Joint Audit Committee
Members of Joint Audit Committee
Annapolis, Maryland

Ladies and Gentlemen:

We have audited the Office of Administrative Hearings (OAH) for the period beginning August 18, 2008 and ending June 14, 2011. OAH was established to provide an unbiased and objective forum for contested cases involving State agencies that regulate certain actions of businesses and citizens.

Our audit disclosed that certain duties related to internal control over OAH's equipment were not properly segregated.

OAH's response to this audit is included as an appendix to this report. We wish to acknowledge the cooperation extended to us during the course of this audit by OAH.

Respectfully submitted,

A handwritten signature in black ink that reads 'Bruce A. Myers'.

Bruce A. Myers, CPA
Legislative Auditor

Background Information

Agency Responsibilities

The Office of Administrative Hearings (OAH) was established to provide an unbiased and objective forum for contested cases involving State agencies that regulate certain actions of businesses and citizens. According to OAH's records, during fiscal year 2011, OAH disposed of 48,254 cases. The majority of cases heard by OAH relate to the Motor Vehicle Administration, the Department of Health and Mental Hygiene, and the Department of Human Resources. OAH's fiscal year 2011 appropriation provided for 123 employee positions, including 56 administrative law judges. According to the State's records, during fiscal year 2011, OAH's expenditures totaled approximately \$13.2 million.

Status of Findings From Preceding Audit Report

Our audit included a review to determine the status of the three findings contained in our preceding audit report dated February 5, 2009. We determined that OAH satisfactorily addressed all three of these findings.

Findings and Recommendations

Equipment

Finding 1

An adequate segregation of duties was not established over equipment, as required.

Analysis

The Office of Administrative Hearings (OAH) did not establish adequate segregation of duties over equipment, as required by the Department of General Services' (DGS) *Inventory Control Manual*. The employee responsible for maintaining the detail equipment records also conducted the related physical inventories. In addition, this individual maintained control over certain unassigned equipment in storage. As a result, there was an increase risk that equipment items could be misappropriated and not readily detected by OAH management.

The DGS *Inventory Control Manual* requires that the duties of inventory record keeping, custody, and physical inventory taking be segregated. According to OAH's records, as of June 30, 2011, the value of equipment totaled approximately \$1.7 million.

Recommendation 1

We recommend that OAH comply with the aforementioned requirements of the DGS *Inventory Control Manual*. We advised OAH on accomplishing the necessary separation of duties using existing personnel.

Audit Scope, Objectives, and Methodology

We have audited the Office of Administrative Hearings (OAH) for the period beginning August 18, 2008 and ending June 14, 2011. The audit was conducted 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 that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

As prescribed by the State Government Article, Section 2-1221 of the Annotated Code of Maryland, the objectives of this audit were to examine OAH's financial transactions, records and internal controls, and to evaluate its compliance with applicable State laws, rules, and regulations. We also determined the status of the findings included in our preceding audit report.

In planning and conducting our audit, we focused on the major financial-related areas of operations based on assessments of materiality and risk. The areas addressed by our audit included procurements and disbursements, payroll, cash receipts, case management, and equipment. Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of OAH's operations. We also tested transactions and performed other auditing procedures that we considered necessary to achieve our objectives. Data provided in this report for background or informational purposes were deemed reasonable, but were not independently verified.

OAH's management is responsible for establishing and maintaining effective internal control. Internal control is a process designed to provide reasonable assurance that objectives pertaining to the reliability of financial records,

effectiveness and efficiency of operations including the safeguarding of assets, and compliance with applicable laws, rules, and regulations are achieved.

Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

Our reports are designed to assist the Maryland General Assembly in exercising its legislative oversight function and to provide constructive recommendations for improving State operations. As a result, our reports generally do not address activities we reviewed that are functioning properly.

This report includes a finding related to a condition that we consider to be a significant deficiency in the design or operation of internal control that could adversely affect OAH's ability to maintain reliable financial records, operate effectively and efficiently and comply with applicable laws, rules, and regulations. This finding is also regarded as a significant instance of noncompliance with applicable laws, rules, or regulations. Another less significant finding was communicated to OAH that did not warrant inclusion in this report.

OAH's response to our findings and recommendations is included as an appendix to this report. As prescribed in the State Government Article, Section 2-1224 of the Annotated Code of Maryland, we will advise OAH regarding the results of our review of its response.

MARTIN O'MALLEY
GOVERNOR

ANTHONY G. BROWN
LT. GOVERNOR



APPENDIX

THOMAS E. DEWBERRY
CHIEF ADMINISTRATIVE LAW JUDGE

OFFICE OF ADMINISTRATIVE HEARINGS

ADMINISTRATIVE LAW BUILDING
11101 GILROY ROAD
HUNT VALLEY, MARYLAND 21031-1301

TEL: (410) 229-4100
TOLL FREE: 1-800-388-8805
WEB SITE: www.oah.state.md.us

FAX: (410) 229-4111
MD RELAY: 711

November 30, 2011

Bruce A. Myers, CPA
Legislative Auditor
Department of Legislative Services
Office of Legislative Audits
Room 1202
301 West Preston Street
Baltimore, Maryland 21201

Re: Audit of Office of Administrative Hearings (OAH)
Period of Audit: August 18, 2008 to June 14, 2011

Dear Mr. Myers:

Enclosed are responses to the findings enumerated in the recent legislative audit of the Office of Administrative Hearings.

Finding & Recommendation – An adequate segregation of duties was not established over equipment, as required. We recommend that OAH comply with the aforementioned requirements of the DGS *Inventory Control Manual*. We advised OAH on accomplishing the necessary separation of duties using existing personnel.

Agency Response:

Agency agrees with the audit recommendation of complying with the DGS *Inventory Control Manual* by ensuring the necessary separation of duties of inventory record keeping, custody, and physical inventory taking will be segregated using existing personnel.

If additional information is required, please advise.

Sincerely,

Thomas E. Dewberry
Chief Administrative Law Judge

AUDIT TEAM

Adam J. Westover, CPA
Audit Manager

Adam M. Auerback
Senior Auditor

Henry H. Startzman, IV
Staff Auditor