

Audit Report

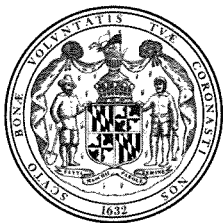
Office of Administrative Hearings

December 2014



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

Thomas J. Barnickel III, CPA
Legislative Auditor

December 3, 2014

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

Ladies and Gentlemen:

We have conducted a fiscal compliance audit of the Office of Administrative Hearings (OAH) for the period beginning June 15, 2011 and ending August 3, 2014. 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 OAH did not comply with State procurement regulations when purchasing temporary staffing services. Specifically, during the period from March 2012 to December 2013, OAH made repeated purchases for these services from one vendor totaling \$93,000 without obtaining competitive sealed bids.

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,

Thomas J. Barnickel III, 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 2014, OAH disposed of 48,599 cases. The majority of cases heard by OAH relate to the Motor Vehicle Administration and the Department of Health and Mental Hygiene. OAH's fiscal year 2014 appropriation provided for 129 employee positions, including 56 administrative law judges. According to the State's records, during fiscal year 2014, OAH's expenditures totaled approximately \$14.5 million.

Status of Finding From Preceding Audit Report

Our audit included a review to determine the status of the finding contained in our preceding audit report dated December 2, 2011. We determined that OAH satisfactorily addressed this finding.

Findings and Recommendations

Procurement

Finding 1

The Office of Administrative Hearings (OAH) did not comply with State procurement regulations when purchasing temporary staffing services.

Analysis

The OAH did not comply with State procurement regulations when purchasing temporary staffing services. Based on our review of disbursement transactions made during the period from March 2012 to December 2013, we noted that OAH made repeated purchases from one vendor totaling \$93,000 for temporary staffing services without obtaining competitive bids and did not enter into written contracts. Consequently, there is no assurance that OAH obtained these services at the lowest cost.

State procurement regulations generally specify that contracts in excess of \$25,000 shall be awarded by competitive sealed bidding, and that procurements exceeding \$5,000 must have also have written contracts.

Recommendation 1

We recommend that OAH comply with State procurement regulations by using a formal written procurement process (such as competitive sealed bidding) for purchases that are reasonably expected to exceed \$25,000 and ensure that procurements exceeding \$5,000 have formal written contracts.

Audit Scope, Objectives, and Methodology

We have conducted a fiscal compliance audit of the Office of Administrative Hearings (OAH) for the period beginning June 15, 2011 and ending August 3, 2014. 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 control, and to evaluate its compliance with applicable State laws, rules, and regulations.

In planning and conducting our audit, we focused on the major financial-related areas of operations based on assessments of significance and risk. The areas addressed by the audit included procurements, disbursements, cash receipts, case management, and payroll. We also determined the status of the finding contained in our preceding audit report.

To accomplish our objectives, our audit procedures included inquiries of appropriate personnel, inspections of documents and records, observations of OAH's operations, and tests of transactions. We also performed various data extracts of pertinent information from the State's Financial Management Information System (such as expenditure data) and the State's Central Payroll Bureau (payroll data), as well as from the contractor administering the State's Corporate Purchasing Card Program (credit card activity). The extracts are performed as part of ongoing internal processes established by the Office of Legislative Audits and were subject to various tests to determine data reliability. We determined that the data extracted from these various sources were sufficiently reliable for the purposes the data were used during this audit. Finally, we performed other auditing procedures that we considered necessary to achieve our objectives. The reliability of data used in this report for background or informational purposes was not assessed.

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 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.

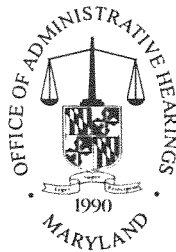
Our audit did not disclose any conditions that we consider to be significant deficiencies in the design or operation of internal control that could adversely affect OAH's ability to maintain reliable financial records, operate effectively and efficiently, and/or comply with applicable laws, rules, and regulations. This audit does include a finding regarding a significant instance of noncompliance with applicable laws, rules, or regulations.

OAH's response to our finding and recommendation 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.

APPENDIX

MARTIN O'MALLEY
GOVERNOR

ANTHONY G. BROWN
LT. GOVERNOR



THOMAS E. DEWBERRY
CHIEF ADMINISTRATIVE LAW JUDGE

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November 24, 2014

Thomas J. Barnickel III, CPA
Legislative Auditor
State of Maryland
Office of Legislative Audits
State Office Building, Room 1202
301 West Preston Street
Baltimore, Maryland 21201

Re: Audit of Office of Administrative Hearings (OAH)
Period of Audit: June 15, 2011 to August 3, 2014

Dear Mr. Barnickel:

Below is the response to the finding enumerated in the recent legislative audit of the Office of Administrative Hearings.

Finding 1

OAH concurs with the audit recommendation. The agency will immediately ensure that competitive bids are solicited and when required, execute written contracts for the applicable service.

If additional information is required, please advise.

Sincerely,

Thomas E. Dewberry
Chief Administrative Law Judge

AUDIT TEAM

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