

# **STATE OF NORTH CAROLINA**

**OFFICE OF ADMINISTRATIVE HEARINGS**

**FINANCIAL RELATED AUDIT**

**MAY 2012**

**OFFICE OF THE STATE AUDITOR**

**BETH A. WOOD, CPA**

**STATE AUDITOR**

**OFFICE OF ADMINISTRATIVE HEARINGS**

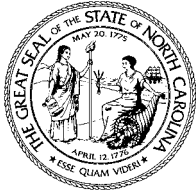
**FINANCIAL RELATED AUDIT**

**MAY 2012**

**ADMINISTRATIVE OFFICERS**

**THE HONORABLE JULIAN MANN, III, DIRECTOR AND CHIEF ADMINISTRATIVE LAW JUDGE**

**CAMILLE WINSTON, DEPUTY DIRECTOR**



Beth A. Wood, CPA  
State Auditor

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**AUDITOR'S TRANSMITTAL**

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May 21, 2012

The Honorable Beverly Eaves Perdue, Governor  
The General Assembly of North Carolina  
The Honorable Julian Mann, III, Director and Chief Administrative Law Judge

This report presents the results of our financial related audit at the Office of Administrative Hearings. Our work was performed by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes* and was conducted in accordance with the performance audit standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

The results of our audit disclosed no internal control deficiencies or instances of noncompliance or other matters that are considered reportable under *Government Auditing Standards*.

*North Carolina General Statutes* require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.

A handwritten signature in cursive script that reads "Beth A. Wood".

Beth A. Wood, CPA  
State Auditor

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# **BACKGROUND, GENERAL OBJECTIVES, AND METHODOLOGY**

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## **BACKGROUND**

As authorized by Article 5A of Chapter 147 of the *North Carolina General Statutes*, we have conducted a financial related audit at the Office of Administrative Hearings. There were no special circumstances that caused us to conduct the audit, but rather it was performed as part of our effort to periodically examine and report on the financial practices of state agencies and institutions.

## **GENERAL OBJECTIVES**

The general objectives of this financial related audit included determining whether:

- the organization has complied with finance-related laws, regulations, and provisions of contracts or grant agreements;
- improvements are needed in internal control over selected fiscal matters.

Management is responsible for establishing and maintaining effective internal control. Internal control is a process designed to provide reasonable assurance that relevant objectives 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 audit does not provide a basis for rendering an opinion on internal control, and consequently, we have not issued such an opinion.

## **METHODOLOGY**

To accomplish our audit objectives, we gained an understanding of internal control over matters described in the Scope and Specific Objectives section of this report, and evaluated the design of the internal control. We then performed further audit procedures consisting of tests of control effectiveness and/or substantive procedures that provide evidence about our audit objectives. Specifically, we performed procedures such as interviewing personnel, observing operations, reviewing policies, analyzing accounting records, and examining documentation supporting recorded transactions and balances. Whenever sampling was used, we applied a nonstatistical approach but chose sample sizes comparable to those that would have been determined statistically. As a result, we were able to project our results to the population but not quantify the sampling risk.

As a basis for evaluating internal control, we applied the internal control guidance contained in professional auditing standards. As discussed in the standards, internal control consists of five interrelated components, which are (1) control environment, (2) risk assessment, (3) control activities, (4) information and communication, and (5) monitoring.

## **BACKGROUND, GENERAL OBJECTIVES, AND METHODOLOGY (CONCLUDED)**

As a basis for evaluating compliance, we determined the specific requirements to be met by reviewing the applicable contracts or finance related laws and regulations.

We conducted this audit in accordance with generally accepted government auditing standards applicable to performance audits. 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.

## SCOPE, SPECIFIC OBJECTIVES, AND RESULTS

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### SCOPE AND SPECIFIC OBJECTIVES

Our audit scope covered the period of July 1, 2011 through December 31, 2011 and included selected internal controls in the following organizational units:

#### Administrative Support Division

This Division is responsible for the budgeting and general accounting functions for the operations of the Office of Administrative Hearings.

#### Hearings Division

This division is responsible for the administration of petitions and appeals filed with the Office of Administrative Hearings. This division provides a forum for an independent hearing before an administrative law judge when a dispute with a state agency involves a person's rights, duties, or privileges. This division accepts petition filing fees.

#### Civil Rights Division

This division is responsible for receiving, investigating and making a determination of "cause" or "no cause" on charges alleging discrimination on the basis of race, color, sex, religion, age, national origin or disability in employment, or charges alleging retaliation for opposition to such discrimination brought by previous and current state employees or applicants for employment for positions covered by the State Personnel Act, including county government employees. The US Equal Employment Opportunity Commission reimburses the Office of Administrative Hearings for these services.

During our audit, we considered internal control related to the following accounts and control objectives.

*Professional Services* – This account classification primarily includes reimbursements from the US Equal Employment Opportunity Commission (EEOC) to the Office of Administrative Hearings (OAH) for the investigation of discriminatory charges. These investigations are performed by the Civil Rights Division. We examined internal controls designed to ensure that OAH properly receipts and accounts for these revenues. We also examined evidence to support compliance with the related Work-Sharing Agreement Contract between the EEOC and OAH regarding the collection of these revenues by OAH. This contract establishes the number of investigations and/or cases allowed to be submitted for reimbursement to the EEOC by OAH per year and the related rate of reimbursement per service provided by OAH. As of December 31, 2011, the Office of Administrative Hearings reported professional services revenue of \$55,750 in the General Fund.

*Other Licenses, Fees/Permits* – This account classification primarily includes filing fees that are due and collected at the time a petition is filed for a contested case hearing with the Hearings Division. We examined internal controls designed to ensure that OAH properly assesses, collects and accounts for these revenues. We also examined evidence to support

## **SCOPE, SPECIFIC OBJECTIVES, AND RESULTS (CONCLUDED)**

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compliance with related laws and regulations over these revenues. These laws and regulations establish the fee amount and any waivers as well as the timing for depositing these receipts. As of December 31, 2011, the Office of Administrative Hearings reported filing fees of \$17,358 in the General Fund.

*Administrative Services* – This classification includes primarily expenditures incurred for services purchased from independent contractors for mediation services (91% of the total). We examined internal controls designed to ensure the OAH properly distributes and accounts for expenditures related to these contracts. We also examined evidence to support compliance with laws and regulations over these distributions. These laws and regulations include guidelines on the timing and administration of the appeal process for which these expenditures are incurred. As of December 31, 2011, the Office of Administrative Hearings had incurred expenditures totaling \$724,988 for these services.

### **RESULTS**

The results of our audit disclosed no internal control deficiencies or instances of noncompliance or other matters that are considered reportable under generally accepted government auditing standards.



## **ORDERING INFORMATION**

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Audit reports issued by the Office of the State Auditor can be obtained from the web site at [www.ncauditor.net](http://www.ncauditor.net). Also, parties may register on the web site to receive automatic email notification whenever reports of interest are issued. Otherwise, copies of audit reports may be obtained by contacting the:

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