New Jersey State Legislature
Office of Legislative Services
Office of the State Auditor

Department of the Treasury
Office of Administrative Law

July 1, 2008 to July 31, 2010

Stephen M. Eells
State Auditor
The Honorable Chris Christie  
Governor of New Jersey

The Honorable Stephen M. Sweeney  
President of the Senate

The Honorable Sheila Y. Oliver  
Speaker of the General Assembly

Mr. Albert Porroni  
Executive Director  
Office of Legislative Services

Enclosed is our report on the audit of the Department of the Treasury, Office of Administrative Law for the period of July 1, 2008 to July 31, 2010. If you would like a personal briefing, please call me at (609) 292-3700.

__________________________
Stephen M. Eells  
State Auditor  
September 17, 2010
Table of Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scope</td>
<td>1</td>
</tr>
<tr>
<td>Objectives</td>
<td>1</td>
</tr>
<tr>
<td>Methodology</td>
<td>1</td>
</tr>
<tr>
<td>Conclusions</td>
<td>2</td>
</tr>
<tr>
<td>Findings and Recommendations</td>
<td></td>
</tr>
<tr>
<td>Outside Employment Forms</td>
<td>3</td>
</tr>
<tr>
<td>Auditee Response</td>
<td>4</td>
</tr>
</tbody>
</table>
Department of the Treasury
Office of Administrative Law

Scope

We have completed an audit of the Department of the Treasury, Office of Administrative Law (OAL) for the period July 1, 2008 to July 31, 2010. The OAL is considered in but not of the Department of the Treasury. Our audit included financial activities accounted for in the state’s General Fund.

Total annual expenditures of the agency are $10 million. The primary responsibility of the OAL is to act as an independent arbiter of certain disputes arising from agency actions, as well as an independent arbiter of agency compliance with rulemaking procedures. The OAL also implements the Administrative Procedure Act, N.J.S.A. 52:14B-1 et seq., advising executive branch agencies on how to make rules and requiring the agencies to follow statutorily prescribed steps in rulemaking. Annual revenues of the agency were $5 million during our audit period. The major component of revenue was income from judicial hearings.

Objectives

The objectives of our audit were to determine whether financial transactions were related to the agency's programs, were reasonable, and were recorded properly in the accounting systems. We also tested for resolution of the significant conditions noted in our prior report dated September 18, 2003.

This audit was conducted pursuant to the State Auditor's responsibilities as set forth in Article VII, Section 1, Paragraph 6 of the State Constitution and Title 52 of the New Jersey Statutes.

Methodology

Our audit was conducted in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

In preparation for our testing, we studied
legislation, administrative code, circular letters promulgated by the Department of the Treasury, and policies of the agency. Provisions that we considered significant were documented and compliance with those requirements was verified by interview, observation, and through our samples of financial transactions. We also read the budget messages, reviewed financial trends, and interviewed agency personnel to obtain an understanding of the programs and the internal controls.

A nonstatistical sampling approach was used. Our samples of financial transactions were designed to provide conclusions about the validity of transactions as well as internal control and compliance attributes. Sample populations were sorted and transactions were judgmentally selected for testing.

To ascertain the status of findings included in our prior report, we identified corrective action, if any, taken by the agency and walked through the system to determine if the corrective action was effective.

We found that the financial transactions included in our testing were related to the agency's programs, were reasonable, and were recorded properly in the accounting systems. In making this determination we noted an internal control weakness meriting management's attention. We also found that the agency has resolved the significant issues noted in our prior report.
Outside Employment Forms

Administrative law judges are appointed by the Governor to preside over contested cases concerning disputes arising from agency actions. In accordance with N.J.S.A. 52:14F-5, the judges may not have any law-related employment outside of the Office of Administrative Law (OAL). This statement is also included in the OAL’s ethics code, which applies to all employees.

Our review noted that an outside employment form is sent to employees annually and that the completion of this form is only required if an individual has outside employment. Although we did not find any OAL employees actively participating in an outside law practice, we were not initially able to eliminate all potential conflicts since not all outside employment forms were completed. We were able to resolve the appearance of any conflicts by using additional audit procedures.

We recommend that every OAL employee complete an outside employment form and return it to the administrative section on an annual basis.
September 14, 2010

John J. Termyna, Assistant State Auditor
Office of Legislative Services
Office of the State Auditor
125 South Warren Street
P.O. Box 067
Trenton, New Jersey 08625-0067

Dear Mr. Termyna:

The Office of Administrative Law has received the audit report for July 1, 2008, to July 31, 2010, and will comply with the recommendation that every OAL employee complete an outside employment form on an annual basis.

Very truly yours,

Laura Sanders
Acting Director and Chief
Administrative Law Judge

c: Randye E. Bloom, Chief of Administration