

Financial-Related Audit

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# **Workers' Compensation Court of Appeals**

**July 1, 1998, through June 30, 2003**



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## Financial Audit Division

The Office of the Legislative Auditor (OLA) is a professional, nonpartisan office in the legislative branch of Minnesota State government. Its principal responsibility is to audit and evaluate the agencies and programs of state government (the State Auditor audits local governments).

OLA's Financial Audit Division annually audits the state's financial statements and, on a rotating schedule, audits agencies in the executive and judicial branches of state government, three metropolitan agencies, and several "semi-state" organizations. The division also investigates allegations that state resources have been used inappropriately.

The division has a staff of approximately fifty auditors, most of whom are CPAs. The division conducts audits in accordance with standards established by the American Institute of Certified Public Accountants and the Comptroller General of the United States.

Consistent with OLA's mission, the Financial Audit Division works to:

- Promote Accountability,
- Strengthen Legislative Oversight, and
- Support Good Financial Management.

Through its Program Evaluation Division, OLA conducts several evaluations each year and one best practices review.

OLA is under the direction of the Legislative Auditor, who is appointed for a six-year term by the Legislative Audit Commission (LAC). The LAC is a bipartisan commission of Representatives and Senators. It annually selects topics for the Program Evaluation Division, but is generally not involved in scheduling financial audits.

All findings, conclusions, and recommendations in reports issued by the Office of the Legislative Auditor are solely the responsibility of the office and may not reflect the views of the LAC, its individual members, or other members of the Minnesota Legislature.

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All OLA reports are available at our Web Site: <http://www.auditor.leg.state.mn.us>

If you have comments about our work, or you want to suggest an audit, investigation, evaluation, or best practices review, please contact us at 651-296-4708 or by e-mail at [auditor@state.mn.us](mailto:auditor@state.mn.us)



Representative Tim Wilkin, Chair  
Legislative Audit Commission

Members of the Legislative Audit Commission

The Honorable Thomas L. Johnson  
Chief Judge

We have audited the Workers' Compensation Court of Appeals for the period July 1, 1998, through June 30, 2003. Our audit scope included payroll and other administrative expenditures. The audit objectives and conclusions are highlighted in the individual chapters of this report.

We conducted our audit in accordance with *Government Auditing Standards*, as issued by the Comptroller General of the United States. Those standards require that we obtain an understanding of management controls relevant to the audit. The standards also require that we design the audit to provide reasonable assurance that the Workers' Compensation Court of Appeals complied with provisions of laws, regulations, contracts, and grants that are significant to the audit. The management of the Workers' Compensation Court of Appeals is responsible for establishing and maintaining the internal control structure and complying with applicable laws, regulations, contracts, and grants.

This report is intended for the information of the Legislative Audit Commission and the management of the Workers' Compensation Court of Appeals. This restriction is not intended to limit the distribution of this report, which was released as a public document on September 12, 2003.

*/s/ James R. Nobles*

James R. Nobles  
Legislative Auditor

*/s/ Claudia J. Gudvangen*

Claudia J. Gudvangen, CPA  
Deputy Legislative Auditor

End of Fieldwork: August 8, 2003

Report Signed On: September 5, 2003

# Workers' Compensation Court of Appeals

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### **Audit Participation**

The following members of the Office of the Legislative Auditor prepared this report:

Claudia Gudvangen, CPA	Deputy Legislative Auditor
Jim Riebe, CPA	Audit Manager
Marisa Isenberg	Auditor-in-Charge

### **Exit Conference**

We discussed the results of the audit with the following staff of the Workers' Compensation Court of Appeals at an exit conference held on September 3, 2003:

Thomas Johnson	Chief Judge
Elaine Heikes	Administrative Technician
Sandy Lynott	Administrative Technician

# Workers' Compensation Court of Appeals

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## Report Summary

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### Overall Conclusion:

The Workers' Compensation Court of Appeals' (court's) controls provided reasonable assurance that payroll and other administrative expenditures were made with management's authorization and accurately recorded in the accounting system. The court also adequately safeguarded assets. For the items tested, the court complied with significant finance-related legal provisions.

### Agency Background:

The Legislature established the court as the exclusive statewide authority to decide all questions of law and fact in workers' compensation disputes within its appellate jurisdiction. The court performs the appellate function of reviewing decisions of the Workers' Compensation Division of the Department of Labor and Industry and the Office of Administrative Hearings. The operations of the court are financed by Special Workers' Compensation Fund appropriations. The court received an appropriation of approximately \$1.6 million to fund its operations in fiscal year 2003.

**Finance-related Audit Reports** address internal control weaknesses and noncompliance issues found during our audits of state departments and agencies. The scope of our work at the court included payroll and other administrative expenditures for the period of July 1, 1998, through June 30, 2003.

# Workers' Compensation Court of Appeals

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## Chapter 1. Introduction

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The Legislature established the Workers' Compensation Court of Appeals (court) as the exclusive statewide authority to decide all questions of law and fact in workers' compensation disputes within the court's appellate jurisdiction as provided in Minnesota Statutes Chapters 175A and 176. Appeals of this court's decisions may be heard by the Minnesota Supreme Court.

The five judges of the Workers' Compensation Court of Appeals are appointed by the Governor and confirmed by the state senate. They serve in full-time positions for six-year terms. The Governor designates a chief judge from among the judges. Thomas L. Johnson has served as the chief judge since February 20, 2002. Prior to that time, Steven Wheeler was the chief judge.

The court performs the appellate function of reviewing decisions of the Workers' Compensation Division of the Department of Labor and Industry and of the Office of Administrative Hearings. The operations of the Workers' Compensation Court of Appeals are financed by appropriations from the Special Workers' Compensation Fund. Table 1-1 summarizes the court's sources and uses of funds for fiscal year 2003.

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**Table 1-1**  
**Sources and Uses of Funds**  
**Fiscal Year 2003**

	Workers' Compensation Fund
<b>Sources:</b>	
Balance In	\$ 174,514
State Appropriation	1,618,000
Less Amount to be Cancelled	(321,195)
Total Sources	<u>\$1,471,319</u>
<b>Uses:</b>	
Payroll and Benefits	\$1,208,424
Rent	178,469
Supplies and Equipment	42,372
Other Expenditures	42,054
Total Uses	<u>\$1,471,319</u>

Source: Minnesota Accounting and Procurement System.

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# Workers' Compensation Court of Appeals

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## Chapter 2. Financial Operations

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### *Chapter Conclusions*

*The court designed and implemented internal controls to provide reasonable assurance that payroll and other administrative expenditures were made with management's authorization and transactions were properly recorded in the accounting system. The court also adequately safeguarded assets. For the administrative expenditures tested, the court complied with material finance-related legal provisions.*

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In fiscal year 2003, the court's administrative expenditures totaled \$1,471,319. Payroll was the court's largest expenditure. The court employs 15 individuals. The appropriate supervisor approves the employees' timesheets and leave slips each pay period. Employees of the court are covered by three different compensation plans or bargaining unit agreements.

The court's largest nonpayroll expenditure was for rent. Other administrative expenditures include categories such as supplies, equipment, communications, and professional/technical services.

Table 2-1 summarizes the court's expenditures by type for fiscal year 2003.

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**Table 2-1**  
**Administrative Expenditures by Type**  
**Fiscal Year 2003**

<b>Expenditures:</b>	<b>Amount</b>	<b>Percent</b>
Payroll	\$1,208,424	81%
Rent	178,469	12%
Supplies	20,057	1%
Equipment	22,315	2%
Communications	9,021	1%
Professional/Technical Services	22,688	2%
Other	<u>10,345</u>	<u>1%</u>
Total Expenditures	<u>\$1,471,319</u>	<u>100%</u>

Source: Minnesota Accounting and Procurement System.

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# **Workers' Compensation Court of Appeals**

## **Audit Objective and Methodology**

The primary objective of our audit of administrative expenditures was to answer the following questions:

- Did the court properly authorize administrative expenditures and accurately record administrative expenditures in the accounting records, in all material respects?
- Did the court receive services or goods before paying for those services or goods?
- Did the court comply with significant finance-related legal provisions concerning administrative expenditures?

To answer these questions, we analyzed personnel and payroll transactions and other administrative expenditures. We interviewed court employees to gain an understanding of the personnel and payroll processes and the court's procedures for purchasing goods and services, including the process to ensure receipt of goods and services before payment. We tested a sample of the court's payroll transactions to determine if they were properly authorized, adequately supported, accurately recorded, and in compliance with bargaining unit provisions. We also tested a sample of other administrative expenditure transactions to determine if they were properly authorized, adequately supported, accurately recorded, and in compliance with purchasing guidelines. In addition, we determined if the court adequately safeguarded assets.

## **Conclusions**

The court designed and implemented internal controls to provide reasonable assurance that payroll and other administrative expenditures were made with management's authorization and transactions were properly recorded in the accounting system. The court also adequately safeguarded assets. For the administrative expenditures tested, the court complied with material finance-related legal provisions.



# Workers' Compensation Court of Appeals

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## Status of Prior Audit Issues As of August 8, 2003

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### Most Recent Audit

**Legislative Audit Report 98-31**, issued in May 1998, covered payroll and other administrative expenditures for the period of July 1, 1994, through June 30, 1997. The report contained one finding related to payroll. The court resolved the finding.

#### State of Minnesota Audit Follow-Up Process

The Department of Finance, on behalf of the Governor, maintains a quarterly process for following up on issues cited in financial audit reports issued by the Legislative Auditor. The process consists of an exchange of written correspondence that documents the status of audit findings. The follow-up process continues until Finance is satisfied that the issues have been resolved. It covers entities headed by gubernatorial appointees, including most state agencies, boards, commissions, and Minnesota state colleges and universities. It is not applied to audits of the University of Minnesota, any quasi-state organizations, such as metropolitan agencies or the State Agricultural Society, the state constitutional officers, or the judicial branch.