

Workers' Compensation Court of Appeals

Financial Related Audit

Three Fiscal Years Ended June 30, 1997

May 1998

This document can be made available in alternative formats, such as large print, Braille, or audio tape, by calling 296-1727.

Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

98-31



STATE OF MINNESOTA
OFFICE OF THE LEGISLATIVE AUDITOR
JAMES R. NOBLES, LEGISLATIVE AUDITOR

Senator Deanna Wiener, Chair
Legislative Audit Commission

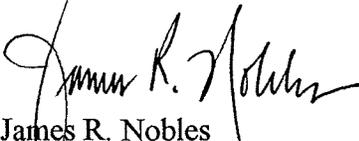
Members of the Legislative Audit Commission

The Honorable Steven D. Wheeler, Chief Judge
Workers' Compensation Court of Appeals

We have audited the Workers' Compensation Court of Appeals for the period July 1, 1994, through June 30, 1997, as further explained in Chapter 1. Our audit scope included payroll and other administrative expenditures. The following Summary highlights the audit objectives and conclusions.

We conducted our audit in accordance with generally accepted auditing standards and *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 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. 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 May 8, 1998.


James R. Nobles
Legislative Auditor


Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: March 18, 1998

Report Signed On: May 5, 1998

SUMMARY

State of Minnesota
Office of the Legislative Auditor
1st Floor Centennial Building
658 Cedar Street • St. Paul, MN 55155
612/296-4708 • FAX 612/296-4712
TDD Relay: 1-800-627-3529
email: auditor@state.mn.us
URL: <http://www.auditor.leg.state.mn.us>

Workers' Compensation Court of Appeals

Financial Related Audit Three Fiscal Years Ended June 30, 1997

Public Release Date: May 8, 1998

No. 98-31

Agency Background

The Legislature established the Workers' Compensation Court of Appeals 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 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 a six-year term. The Governor designates a chief judge from among the judges. Steven D. Wheeler was appointed as the chief judge on January 4, 1993.

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.

Objectives and Conclusions

The objectives of our audit were to gain an understanding of the internal control structure over the accounting and reporting of Workers' Compensation Court of Appeals financial activities and to determine if the court complied with material finance-related legal provisions. The areas covered by our audit were payroll and other administrative expenditures for the period July 1, 1994, through June 30, 1997.

The Workers' Compensation Court of Appeals designed and implemented internal controls to provide reasonable assurance that payroll and administrative expenditures were properly authorized and accurately reported in the accounting records. In addition, for the items tested, the Workers' Compensation Court of Appeals expenditures complied with applicable statutory provisions and applicable bargaining agreements. However, the court did not consistently perform an independent verification of the accuracy of its payroll.

The Workers' Compensation Court of Appeals agreed with the finding and indicated in its response that internal procedures have been revised to satisfy the recommendation.

Workers' Compensation Court of Appeals

Table of Contents

	Page
Chapter 1. Introduction	1
Chapter 2. Payroll	2
Chapter 3. Administrative Expenditures	4
Status of Prior Audit Issues	6
Workers' Compensation Court of Appeals' Response	7

Audit Participation

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

Claudia Gudvangen, CPA	Deputy Legislative Auditor
Tom Donahue, CPA	Audit Manager
Susan O'Connell	Auditor-in-Charge

Exit Conference

We discussed the results of the audit at an exit conference with the following Workers' Compensation Court of Appeals staff on March 18, 1998:

Honorable Steven D. Wheeler	Chief Judge
Mary G. Anderson	Assistant Administrator

Workers' Compensation Court of Appeals

Chapter 1. Introduction

The Legislature established the Workers' Compensation Court of Appeals 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 175A and 176. Appeals of this court's decisions may be heard by the Minnesota Supreme Court.

The Workers' Compensation Court of Appeals consists of five judges appointed by the Governor and confirmed by the state Senate. The judges serve six-year terms in full-time positions. The court performs an appellate function reviewing decisions of the Workers' Compensation Division of the Department of Labor and Industry and of the Office of Administrative Hearings. A chief judge, designated by the Governor, has overall responsibility for administration of the court. Judge Steven D. Wheeler has been chief judge since his appointment on January 4, 1993.

The operations of the Workers' Compensation Court of Appeals are financed by appropriations from the Special Workers' Compensation Fund. Table 1-1 shows expenditures of the court during the audit period.

Table 1-1
Summary of Financial Activity by Fiscal Year

Expenditures:	<u>1995</u>	<u>1996</u>	<u>1997</u>
Payroll	\$1,084,219	\$1,124,145	\$1,143,345
Leases	107,791	153,633	184,537
Capital Equipment	59,368	4,636	8,650
Supplies and Materials	29,421	16,074	19,311
Fees and Fixed Charges	11,775	12,546	14,950
Other Expenditures	12,484	3,724	4,491
Communications	6,886	6,333	6,173
Travel	<u>2,318</u>	<u>1,541</u>	<u>2,202</u>
Total Expenditures	<u>\$1,314,262</u>	<u>\$1,322,632</u>	<u>\$1,383,659</u>

Source: Fiscal year 1995 activity is from the Statewide Accounting System Manager's Financial Report through the September close. Fiscal year 1996 and 1997 financial activity is from MAPS.

The Department of Administration directed the court's move to the Judicial Center in October 1994. As a result, lease payments increased. Total cost for leases and moving during fiscal year 1995 was \$140,846. The court paid \$107,791 and the remaining \$33,055 was paid out of a special appropriation for the move. Also, the court invested in computer equipment and upgrades in fiscal year 1995.

Workers' Compensation Court of Appeals

Chapter 2. Payroll

Chapter Conclusions

The Workers' Compensation Court of Appeals designed and implemented internal controls to provide reasonable assurance that payroll expenditures were properly authorized and accurately reported in the accounting records. In addition, for the items tested, the Workers' Compensation Court of Appeals payroll expenditures complied with applicable statutory provisions and related bargaining agreements. However, the court did not consistently perform an independent verification of the accuracy of its payroll.

During the audit period, the Workers' Compensation Court of Appeals maintained its staffing level at 22 to 23 employees. Employee salaries are governed by the following compensation plans: American Federation of State, County, and Municipal Employees (AFSCME), the Managerial Plan, and the Commissioner's Plan. Payroll is the largest expenditure of the Workers' Compensation Court of Appeals. For fiscal year 1997, payroll costs were \$1,143,345 or 83 percent of the court's total expenditures.

Audit Objectives and Methodology

Our audit of the court's payroll expenditures focused on the following questions:

- Did the Workers' Compensation Court of Appeals design and implement internal controls to provide reasonable assurance that payroll expenditures were properly authorized and accurately reported in the accounting records?
- Did the Workers' Compensation Court of Appeals payroll expenditures comply with applicable statutory provisions and related bargaining agreements?

To answer these questions, we interviewed court staff to gain an understanding of the internal control structure over the payroll and personnel process. We analyzed payroll data to determine unusual trends, reviewed source documents to determine proper authorization, verified that timesheets were authorized and agreed with the payroll registers, and recalculated salary increases and other payroll amounts to ensure proper payment.

Conclusions

The Workers' Compensation Court of Appeals designed and implemented internal controls to provide reasonable assurance that payroll expenditures were properly authorized and accurately reported in the accounting records. In addition, for the items tested, the Workers' Compensation

Workers' Compensation Court of Appeals

Court of Appeals payroll expenditures complied with applicable statutory provisions and related bargaining agreements. However, the court did not consistently perform an independent verification of the accuracy of its payroll, as discussed below.

1. The Workers' Compensation Court of Appeals did not independently verify the accuracy of payroll and personnel data recorded in SEMA4.

The Workers' Compensation Court of Appeals did not always perform an adequate independent review or verification of its employee time records, or personnel data for newly hired unclassified employees, to the payroll register. Currently, the individual that enters court employee hours into SEMA4 is also primarily responsible for verifying the entered information to the payroll register. This represents an inadequate separation of duties within the payroll function.

Information regarding the start dates and beginning salary for unclassified court personnel was communicated verbally to staff for entry into SEMA4. The information was recorded in the personnel file, but did not have supporting authorization from court management. Also, the information entered was not independently verified to determine that the starting date and payrate were correctly established in SEMA4. To ensure that employees are paid correctly, personnel data for newly hired employees should be authorized and independently verified for accuracy and management's authorization.

The review of the payroll register should be performed by someone independent of the payroll entry function in order to ensure that employees were paid for the correct hours, at the appropriate pay rates, and that necessary adjustments were correctly made.

Recommendation

- *The court should have someone independent of the biweekly payroll input function review the payroll register to ensure that employees were paid for the correct hours worked, at the appropriate pay rates, and that any necessary adjustments were made.*

Workers' Compensation Court of Appeals

Chapter 3. Administrative Expenditures

Chapter Conclusion

The Workers' Compensation Court of Appeals designed and implemented internal controls to provide reasonable assurance that administrative expenditures were accurately reported in the accounting records. In addition, for the items tested, the court complied with applicable finance-related legal provisions.

Administrative expenditures of the Workers' Compensation Court of Appeals represented approximately 17 percent of total expenditures. For fiscal year 1997, office rent was \$184,537 or 13 percent of total expenditures. The court moved from leased space in the Landmark Center to the Judicial Center in the fall of 1994. The move to the Judicial Center was at the direction of the Department of Administration.

The remaining four percent of financial activity consisted of payments for general office support such as communications, training, printing and binding, supplies and materials, equipment, and travel.

Audit Objectives and Methodology

Our review of the court's administrative expenditures focused on the following questions:

- Did the Workers' Compensation Court of Appeals design and implement internal controls to provide reasonable assurance that expenditures were properly authorized and accurately recorded in the accounting records?
- Did the Workers' Compensation Court of Appeals comply with applicable finance-related legal provisions?

To answer these questions, we interviewed court staff to gain an understanding of the internal control structure over the purchasing and payment process. We analyzed expenditures by classification type to identify material areas and determine any unusual trends. We reviewed source documents, including lease agreements, performed substantive testing on lease payments and a sample of random expenditures, and verified that transactions were recorded correctly in the accounting records.

Workers' Compensation Court of Appeals

Conclusion

The Workers' Compensation Court of Appeals designed and implemented internal controls to provide reasonable assurance that administrative expenditures were accurately reported in the accounting records. In addition, for the items tested, the court complied with applicable finance-related legal provisions.

Workers' Compensation Court of Appeals

Status of Prior Audit Issues

As of June 30, 1997

Most Recent Audit

Legislative Audit Report 93-39, issued in July 1993, covered the three fiscal years ended June 30, 1992. The audit scope included payroll and lease disbursements. This report contained one audit finding relating to parking fees included with the lease payments. The finding has been resolved.

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 and quasi-state organizations, such as the metropolitan agencies or the State Agricultural Society, the state constitutional officers, or the judicial branch.



STATE OF MINNESOTA
Workers' Compensation Court of Appeals

Minnesota Judicial Center
25 Constitution Avenue
St. Paul, Minnesota 55155-1500
(612) 296-6526
Fax: (612) 297-2520

For TTY/TDD users only:
dial (612) 297-5353 (Twin Cities);
800 627-3529 (Greater Minnesota),
ask for (612) 296-6526

May 4, 1998

Mr. James R. Nobles, Legislative Auditor
Office of the Legislative Auditor
First Floor South, Centennial Building
658 Cedar Street
St. Paul MN 55155

Dear Mr. Nobles:

Thank you for this opportunity to respond to the report of the Legislative Auditor's Office to the Legislative Audit Commission on the financial-related audit of the Workers' Compensation Court of Appeals for the three fiscal years ended June 30, 1997.

First, we want you to know that we appreciate the courteous and professional manner in which the audit was conducted. Ms. Susan O'Connell, Auditor-in-Charge, Mr. Tom Donahue, Audit Manager, and Ms. Claudia Gudvangen, Deputy Legislative Auditor, conducted the audit in a manner that demonstrated a spirit of cooperation and trust that we recognize our common goal of safeguarding the public funds appropriated to the Court.

The auditor's recommendation:

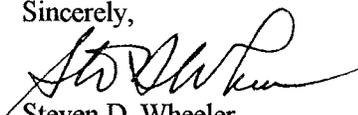
"The court should have someone independent of the biweekly payroll input function review the payroll register to ensure that employees were paid for the correct hours worked, at the appropriate pay rates, and that any necessary adjustments were made."

The Workers' Compensation Court of Appeals response:

Prior to the audit, we believed that our extensive internal review of the payroll by several different people, was adequate to ensure accuracy and safety. We do, however, understand and agree with the Auditor's recommendation. Internal procedures have been revised and the recommendation has been implemented.

We take seriously our fiduciary responsibility to the taxpayers of the State of Minnesota. We welcome any suggestions and recommendations from the Office of the Legislative Auditor, or from the Departments of Finance or Administration, that help us to fulfill our responsibility to the public in a professional manner.

Sincerely,


Steven D. Wheeler
Chief Judge