

**AUDIT REPORT
OF THE
NEBRASKA WORKERS'
COMPENSATION COURT**

JULY 1, 2000 THROUGH JUNE 30, 2001

NEBRASKA WORKERS' COMPENSATION COURT

TABLE OF CONTENTS

	<u>Page</u>
Background Information Section	
Background	1
Mission Statement	2
Organizational Chart	3
Comments Section	
Summary of Comments	4
Comments and Recommendations	5 - 6
Financial Section	
Independent Auditors' Report	7 - 8
Financial Statements:	
Combined Statement of Assets, Fund Balances and Other Credits Arising from Cash Transactions – All Fund Types and General Fixed Assets Account Group	9
Combined Statement of Receipts, Disbursements, and Changes in Fund Balances	10
Statement of Receipts, Disbursements, and Changes in Fund Balances - Budget and Actual - General, Cash, and Federal Funds	11 - 12
Notes to Financial Statements	13 - 22
Combining Statements and Schedules:	
Combining Statement of Assets and Fund Balances Arising from Cash Transactions – All Special Revenue Funds	23
Combining Statement of Receipts, Disbursements, and Changes in Fund Balances – All Special Revenue Funds	24
Combining Statement of Receipts, Disbursements, and Changes in Fund Balances – All Expendable Trust Funds	25
Schedule of Case Activity	26
Government Auditing Standards Section	
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>	27 - 28

NEBRASKA WORKERS' COMPENSATION COURT

BACKGROUND

The Workers' Compensation Court was created in 1935 and has original jurisdiction in the adjudication of workers' compensation claims arising under the Nebraska Workers' Compensation Act. The Court is comprised of seven judges appointed by the Governor, who remain on the bench for successive six-year terms upon approval of the electorate. Every two years, one of the judges is elected as Presiding Judge by the judges of the Court. The Presiding Judge is responsible for the overall functioning of the Court. Four of the judges are located in Lincoln and three judges are located in Omaha. Judges travel to any county in the State to hear disputed cases. A single judge first hears a case and, if appealed, a review panel of three judges of the Court then hears the case. The review is based on the record created at the original hearing, and no new evidence may be introduced. The next level of appeal is to the Nebraska Court of Appeals, and ultimately a case may go to the Nebraska Supreme Court. Adjudicated cases are heard in the county where the injury occurred.

The Court is divided into seven operating sections:

1. Adjudication – adjudicates litigated cases, receives court filings, docket cases, schedules hearings and motions, and issues opinions of the Court.
2. Administration – performs the business, financial, and personnel functions of the Court, and conducts data collection programs for work-related injuries and fatalities pursuant to two federal grants.
3. Legal – reviews lump sum settlements, performs informal dispute resolution, monitors legislation and appellate cases, and provides legal advice to Court staff.
4. Vocational Rehabilitation – reviews, approves, and monitors vocational rehabilitation plans and trust fund payments, certifies and appoints vocational rehabilitation service providers.
5. Public Information – gathers information on occupational injury and illness occurring in Nebraska, provides information by toll-free telephone line, coordinates workshops, produces Court publications, and maintains the Court's internet web site.
6. Coverage and Claims – monitors compliance with workers' compensation laws, maintains executive officer waiver files, administers self insurance program, certifies and monitors managed care plans, maintains a system of independent medical examiners, and administers medical and hospital fee schedules.
7. Information Technology – develops and maintains the Court's computer network, programs, and databases, coordinates information technology activities with vendors and other State agencies, and provides information technology support for other staff members.

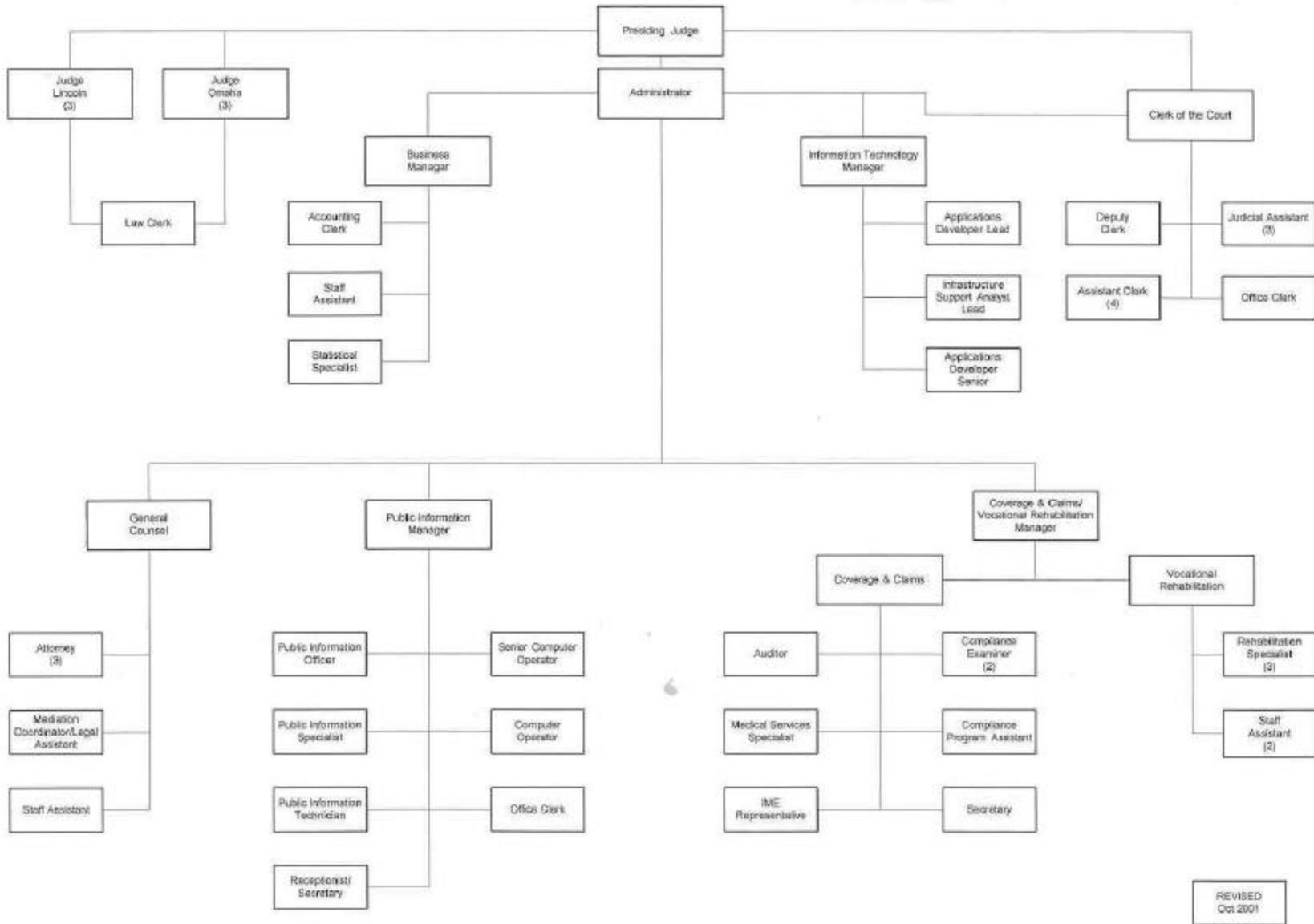
NEBRASKA WORKERS' COMPENSATION COURT

MISSION STATEMENT

The mission of the Nebraska Workers' Compensation Court is to impartially and efficiently administer and enforce all of the provisions of the Nebraska Workers' Compensation Act, except those provisions which are committed to the courts of appellate jurisdiction.

NEBRASKA WORKERS' COMPENSATION COURT

ORGANIZATIONAL CHART



NEBRASKA WORKERS' COMPENSATION COURT

SUMMARY OF COMMENTS

During our audit of the Nebraska Workers' Compensation Court, we noted certain matters involving the internal control over financial reporting and other operational matters which are presented here. Comments and recommendations are intended to improve the internal control over financial reporting, ensure compliance, or result in operational efficiencies.

1. ***Workers' Compensation Trust Fund:*** The Court did not charge administrative expenses to the Workers' Compensation Trust Fund for work related to the fund, as required by Neb. Rev. Stat. Section 48-162.02(2) R.S. Supp., 2000.
2. ***Travel Expenses:*** The Court was not in compliance with State Statutes, NAS policies and procedures and/or the Court's policies. An expense reimbursement was not properly authorized. Proper NAS account codes were not used. Reimbursed amounts were not considered reasonable. Expense reimbursements did not have adequate supporting documentation.

More detailed information on the above items is provided hereafter. It should be noted this report is critical in nature since it contains only our comments and recommendations on the areas noted for improvement.

Draft copies of this report were furnished to the Court to provide them an opportunity to review the report and to respond to the comments and recommendations included in this report. All formal responses received have been incorporated into this report. Where no response has been included, the Court declined to respond. Responses have been objectively evaluated and recognized, as appropriate, in the report. Responses that indicate corrective action has been taken were not verified at this time but will be verified in the next audit.

We appreciate the cooperation and courtesy extended to our auditors during the course of the audit.

NEBRASKA WORKERS' COMPENSATION COURT

COMMENTS AND RECOMMENDATIONS

1. Workers' Compensation Trust Fund

Neb. Rev. Stat. Section 48-162.02(2) R.S.Supp., 2000 states, "The Workers' Compensation Trust Fund shall be used to make payments in accordance with sections 48-128 and 48-162.01 and for paying administrative expenses relating to such fund." Administrative expenses include personnel costs. Neb. Rev. Stat. Section 48-1,116 R.R.S. 1998 states, "The Compensation Court Cash Fund is hereby created. The fund shall be used to aid in providing for the expense of administering the Nebraska Workers' Compensation Act and the payment of the salaries and expenses of the personnel of the Nebraska Workers' Compensation Court."

During the fiscal year ending June 30, 2001, the Court did not charge any expenses to the Workers' Compensation Trust Fund for work related to the fund. Instead, all expenses of the Court, including expenses related to Trust Fund activity, were paid from the Compensation Court Cash Fund. The total personnel and administrative costs relating to the Trust, as determined by the Court, totaled \$272,918 for the fiscal year ending June 30, 2001.

We recommend the Court comply with the requirements of Neb. Rev. Stat. Section 48-162.02(2) R.S.Supp. 2000, and pay administrative expenses from the Workers' Compensation Trust Fund.

Court's Response: Legislative language transferring amounts for administrative expenses from the Workers' Compensation Trust Fund to the Compensation Court Cash Fund was not included in the appropriations bills for FY 2001. The court has brought the Auditor's comment to the attention of Legislature's Office of Fiscal and Program Analysis.

2. Travel Expenses

Neb. Rev. Stat. Section 77-2704.15(1) R.S.Supp., 2000 exempts State agencies from Nebraska sales and use taxes, which includes lodging taxes.

Neb. Rev. Stat. Section 81-1174 R.R.S. 1999 states, "Whenever any [State employee] is entitled to be reimbursed for actual expenses incurred . . . he or she shall be required to present a request for payment or reimbursement each month to the Director of Administrative Services. Each request shall be fully itemized, including when, where, and why the expense was incurred and the actual amount involved. When reimbursement is requested for mileage by automobile . . . the points between which such travel occurred, the times of arrival and departure, and the necessity and purpose of such travel shall be shown on such request." Section 81-1174 further states, "When reimbursement is requested for mileage by automobile, the license number, the owner of the automobile used, and the rate per mile being requested shall also be shown on each request."

Nebraska Accounting System (NAS) Manual, Conc-005, Travel Expense Policies, Section 6, Personal Automobiles, states that an employee will be reimbursed for use of a personal vehicle while on State business at the prevailing standard rate as established by the Internal Revenue Service (IRS).

NEBRASKA WORKERS' COMPENSATION COURT

COMMENTS AND RECOMMENDATIONS

2. Travel Expenses (Concluded)

Good internal controls require requests for reimbursement to be authorized for payment by an individual other than the individual seeking reimbursement.

Agency policy requires following Standard IRS Meal Allowance Rates when reimbursing employees for meals. It is also the agency's policy to submit an "Official Travel Log" with each request for mileage reimbursement in order to properly substantiate the number of miles traveled while using a personal vehicle.

Our testing of 18 travel expense reimbursement documents noted the following:

- Five documents tested were not in compliance with State Statute, NAS policies and procedures, and/or agency policies. Noncompliance issues included: not using direct-billing for in-state lodging and, therefore, reimbursing for sales, use, and lodging taxes totaling \$27; reimbursing for an incorrect mileage reimbursement rate totaling \$22; exceeding the Standard IRS Meal Allowance Rates totaling \$16; failing to submit requests for reimbursement monthly; failing to include an "Official Travel Log" with the expense reimbursement; failing to list start and stop times; and failing to indicate the license number of the automobile used when requesting personal vehicle mileage reimbursement.
- One document tested was not properly authorized. The same individual who submitted the request for reimbursement authorized the document for payment.
- In two documents tested the amounts were coded incorrectly. Amounts in excess of the IRS standard meal allowance were coded to account 4711 (Board and Lodging) when they should have been coded to account 4718 (Excess of IRS Standard Meal Allowance Rate). These amounts are taxable to the employee requesting reimbursement.

Noncompliance with State Statute, NAS policies and procedures, agency policies, and a lack of internal controls can result in a loss or misuse of State funds.

We recommend the Court implement procedures to ensure travel expenses are reimbursed in accordance with State Statute, DAS policies and procedures, and agency policies. We further recommend that any amounts reimbursed in excess of allowable amounts be returned to the Court.

Court's Response: The Court has taken steps to insure that employees will use the direct bill method for in-state lodging whenever possible. The Court has policies in place requiring monthly submission of reimbursement requests, submission of an "Official Travel Log" and automobile license number, listing of start and stop times, and authorization of reimbursement requests by an individual other than the one submitting the request. The appropriate personnel have been reminded of those policies, and steps are being taken to insure future compliance. For the remaining instances identified by the Auditor, the Court will take steps to insure that amounts reimbursed in excess of allowable amounts are returned to the court.

STATE OF NEBRASKA AUDITOR OF PUBLIC ACCOUNTS



P.O. Box 98917
State Capitol, Suite 2303
Lincoln, NE 68509
402-471-2111, FAX 402-471-3301
www.auditors.state.ne.us

NEBRASKA WORKERS' COMPENSATION COURT

Kate Witek
State Auditor
kwitek@mail.state.ne.us

INDEPENDENT AUDITORS' REPORT

Deann Haeffner, CPA
Deputy State Auditor
haeffner@mail.state.ne.us

We have audited the financial statements of the Nebraska Workers' Compensation Court as of and for the fiscal year ended June 30, 2001, as listed in the Table of Contents. These financial statements are the responsibility of the Court's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Don Dunlap, CPA
Asst. Deputy Auditor
aud1010@vmhost.cdp.state.ne.us

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Pat Reding, CPA
Asst. Deputy Auditor
aud1008@vmhost.cdp.state.ne.us

Mary Avery
SAE/Finance Manager
MaryJAvery@aol.com

As discussed in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles.

Dennis Meyer
Budget Coordinator
dmeyer@mail.state.ne.us

Mark Avery
Subdivision Audit
Review Coordinator
mavery@mail.state.ne.us

Also as discussed in Note 1, the financial statements present only the Nebraska Workers' Compensation Court, and are not intended to present fairly the fund balances and the receipts and disbursements of the State of Nebraska in conformity with the cash receipts and disbursements basis of accounting.

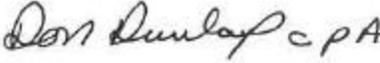
Robert Hotz, JD
Legal Counsel
robhotz@mail.state.ne.us

In our opinion, the financial statements referred to above present fairly, in all material respects, the fund balances of the Nebraska Workers' Compensation Court as of June 30, 2001, and the receipts and disbursements for the fiscal year then ended, on the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated October 5, 2001, on our consideration of the Nebraska Workers' Compensation Court's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The accompanying combining statements and schedule are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, except for that portion marked "unaudited," on which we express no opinion, and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

October 5, 2001


Manager

NEBRASKA WORKERS' COMPENSATION COURT
STATEMENT OF ASSETS, FUND BALANCES AND OTHER CREDITS ARISING FROM CASH TRANSACTIONS
ALL FUND TYPES AND GENERAL FIXED ASSETS ACCOUNT GROUP

June 30, 2001

	<u>Governmental Fund Types</u>		<u>Fiduciary</u>	<u>Account Group</u>	Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Expendable Trust</u>	<u>General Fixed Assets</u>	
<u>Assets</u>					
Cash in State Treasury	\$ -	\$ 8,189,946	\$ 5,305,573	\$ -	\$ 13,495,519
Deposit with Vendors	2,676	2,089	-	-	4,765
Property, Plant, and Equipment	-	-	-	502,205	502,205
 Total Assets	 <u>\$ 2,676</u>	 <u>\$ 8,192,035</u>	 <u>\$ 5,305,573</u>	 <u>\$ 502,205</u>	 <u>\$ 14,002,489</u>
<u>Fund Balances and Other Credits</u>					
Other Credits:					
Investment in Fixed Assets	\$ -	\$ -	\$ -	\$ 502,205	\$ 502,205
Fund Balances:					
Reserved For Postage	2,676	2,089	-	-	4,765
Unreserved, Undesignated	-	8,189,946	5,305,573	-	13,495,519
 Total Fund Balances and Other Credits	 <u>\$ 2,676</u>	 <u>\$ 8,192,035</u>	 <u>\$ 5,305,573</u>	 <u>\$ 502,205</u>	 <u>\$ 14,002,489</u>

The accompanying notes are an integral part of the financial statements.

NEBRASKA WORKERS' COMPENSATION COURT
**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN FUND BALANCES**
For the Fiscal Year Ended June 30, 2001

	<u>Governmental Fund Types</u>		<u>Fiduciary Fund type</u>	Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Expendable Trust</u>	
RECEIPTS:				
Prospective Loss Cost Assessment (Note 6)	\$ 2,051,934	\$ -	\$ -	\$ 2,051,934
Intergovernmental	-	23,857	-	23,857
Sales and Charges	-	3,261,914	28,941	3,290,855
Miscellaneous	-	441,161	351,860	793,021
TOTAL RECEIPTS	<u>2,051,934</u>	<u>3,726,932</u>	<u>380,801</u>	<u>6,159,667</u>
DISBURSEMENTS:				
Personal Services	-	2,534,201	-	2,534,201
Operating	-	507,779	137	507,916
Travel	-	52,177	584	52,761
Capital Outlay	-	123,693	-	123,693
Government Aid	-	-	1,275,438	1,275,438
TOTAL DISBURSEMENTS	<u>-</u>	<u>3,217,850</u>	<u>1,276,159</u>	<u>4,494,009</u>
Excess of Receipts Over (Under)				
Disbursements	<u>2,051,934</u>	<u>509,082</u>	<u>(895,358)</u>	<u>1,665,658</u>
OTHER FINANCING SOURCES (USES):				
Sales of Assets	205	-	-	205
Deposits to State General Fund	(2,052,139)	-	-	(2,052,139)
Distributive Activity:				
Ins	-	7,054	-	7,054
Outs	-	(7,125)	-	(7,125)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(2,051,934)</u>	<u>(71)</u>	<u>-</u>	<u>(2,052,005)</u>
Excess of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses				
	-	509,011	(895,358)	(386,347)
FUND BALANCE, JULY 1, 2000	<u>2,676</u>	<u>7,683,024</u>	<u>6,200,931</u>	<u>13,886,631</u>
FUND BALANCE, JUNE 30, 2001	<u>\$ 2,676</u>	<u>\$ 8,192,035</u>	<u>\$ 5,305,573</u>	<u>\$ 13,500,284</u>

(Note 8)

The accompanying notes are an integral part of the financial statements.

NEBRASKA WORKERS' COMPENSATION COURT
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL
 General, Cash, and Federal Funds
 For the Fiscal Year Ended June 30, 2001

	<u>GENERAL FUND</u>			<u>CASH FUNDS</u>		
	<u>BUDGET</u>	ACTUAL (BUDGETARY BASIS)	VARIANCE FAVORABLE (UNFAVORABLE)	<u>BUDGET</u>	ACTUAL (BUDGETARY BASIS)	VARIANCE FAVORABLE (UNFAVORABLE)
RECEIPTS:						
Prospective Loss Cost Assessment		2,051,934			-	
Intergovernmental		-			-	
Sales and Charges		-		3,261,914		
Miscellaneous		-		441,161		
TOTAL RECEIPTS		<u>2,051,934</u>		<u>3,703,075</u>		
DISBURSEMENTS:						
Personal Services		-		2,513,364		
Operating		-		504,797		
Travel		-		52,095		
Capital Outlay		-		123,693		
Total Budgeted	-	-	-	3,659,202	3,193,949	465,253
Under Budgeted (Note 7)	-	-	-	9,304	-	9,304
TOTAL DISBURSEMENTS	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,668,506</u>	<u>3,193,949</u>	<u>474,557</u>
Excess of Receipts Over (Under) Disbursements		<u>2,051,934</u>		<u>509,126</u>		
OTHER FINANCING SOURCES (USES):						
Sale of Assets		205			-	
Deposit to State General Fund		(2,052,139)			-	
Distributive Activity:						
Ins		-		7,054		
Outs		-		(7,125)		
TOTAL OTHER FINANCING SOURCES (USES)		<u>(2,051,934)</u>		<u>(71)</u>		
Excess of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses		-		509,055		
FUND BALANCES, JULY 1, 2000		<u>2,676</u>		<u>7,682,885</u>		
FUND BALANCES, JUNE 30, 2001		<u>\$ 2,676</u>		<u>\$ 8,191,940</u>		

The accompanying notes are an integral part of the financial statements.

(Continued)

NEBRASKA WORKERS' COMPENSATION COURT
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL
 General, Cash, and Federal Funds
 For the Fiscal Year Ended June 30, 2001

	FEDERAL FUNDS			TOTALS (MEMORANDUM ONLY)		
	ACTUAL	VARIANCE		ACTUAL	VARIANCE	
	(BUDGETARY	FAVORABLE		(BUDGETARY	FAVORABLE	
	BASIS)	(UNFAVORABLE)		BASIS)	(UNFAVORABLE)	
	BUDGET			BUDGET		
RECEIPTS:						
Prospective Loss Cost Assessment		-		2,051,934		
Intergovernmental	23,857			23,857		
Sales and Charges	-			3,261,914		
Miscellaneous	-			441,161		
TOTAL RECEIPTS	23,857			5,778,866		
DISBURSEMENTS:						
Personal Services	20,837			\$ 2,612,393	2,534,201	\$ 78,192
Operating	2,982			788,902	507,779	281,123
Travel	82			95,709	52,177	43,532
Capital Outlay	-			191,200	123,693	67,507
Total Budgeted	29,002	23,901	5,101	3,688,204	3,217,850	470,354
Under Budgeted (Note 7)	-	-	-	9,304	-	9,304
Total Disbursements	29,002	23,901	5,101	3,697,508	3,217,850	479,658
Excess of Receipts Over (Under) Disbursements		(44)			2,561,016	
OTHER FINANCING SOURCES (USES):						
Sale of Assets		-			205	
Deposit to State General Fund		-			(2,052,139)	
Distributive Activity:						
Ins		-			7,054	
Outs		-			(7,125)	
TOTAL OTHER FINANCING SOURCES (USES)		-			(2,052,005)	
Excess of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses		(44)			509,011	
FUND BALANCES, JULY 1, 2000		139			7,685,700	
FUND BALANCES, JUNE 30, 2001		\$ 95			\$ 8,194,711	

The accompanying notes are an integral part of the financial statements.

(Concluded)

NEBRASKA WORKERS' COMPENSATION COURT

NOTES TO FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2001

1. **Summary of Significant Accounting Policies**

The accounting policies of the Nebraska Workers' Compensation Court are on the basis of accounting as described in the Nebraska Accounting System Manual.

- A. Reporting Entity.** The Nebraska Workers' Compensation Court (Court) is a State agency established under and governed by the laws of the State of Nebraska. As such, the Court is exempt from State and Federal income taxes. The financial statements include all funds of the Court. The Court has also considered all potential component units for which it is financially accountable, and other organizations which are fiscally dependent on the Court, or the significance of their relationship with the Court are such that exclusion would be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Court to impose its will on that organization, or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the Court.

These financial statements present the Nebraska Workers' Compensation Court. No component units were identified. The Nebraska Workers' Compensation Court is part of the primary government for the State of Nebraska's reporting entity.

- B. Basis of Accounting.** The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The accounting records of the Court are maintained and the Court's financial statements were prepared on the basis of cash receipts and disbursements. As such, the measurement focus includes only those assets and fund balances arising from cash transactions on the Combined Statement of Assets and Fund Balances for all funds of the Court. This differs from governmental generally accepted accounting principles (GAAP) which require all governmental funds and expendable trust funds to be accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financial sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

Under the cash receipts and disbursement basis of accounting, revenues are recognized when received and expenditures are recognized when paid. This presentation differs from governmental generally accepted accounting principles (GAAP), which requires

NEBRASKA WORKERS' COMPENSATION COURT

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. **Summary of Significant Accounting Policies (Continued)**

the use of the modified accrual basis for governmental and expendable trust fund types. Under the modified accrual basis of accounting, revenues are recognized when they are considered susceptible to accrual and expenditures are recognized when the liability is incurred.

- C. **Fund Accounting.** The accounts and records of the Court are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a self-balancing set of accounts which records receipts, disbursements, and the fund balance. The fixed asset account group is a financial reporting device designed to provide accountability over fixed assets. The fund types and account group presented on the financial statements are those required by GAAP, and include:

General Fund. Reflects transactions related to resources received and used for those general operating services traditionally provided by state government and which are not accounted for in any other fund.

Special Revenue Funds. Reflect transactions related to resources received and used for restricted or specific purposes.

Trust Funds. Reflect transactions related to assets held by the State in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds.

General Fixed Assets Account Group. Used to account for general fixed assets of the Court.

This fund type classification differs from the budgetary fund types used by the Nebraska Accounting System.

The fund types established by the Nebraska Accounting System that are used by the Court are:

1000 - General Fund - accounts for all financial resources not required to be accounted for in another fund.

2000 - Cash Funds - account for receipts generated by specific activities from sources outside of State government and the disbursements directly related to the generation of the receipts.

NEBRASKA WORKERS' COMPENSATION COURT

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. **Summary of Significant Accounting Policies (Continued)**

4000 - Federal Funds - account for all federal grants and contracts received by the State.

6000 - Trust Funds - account for assets held by the State in a trustee capacity. Disbursements are made in accordance with the terms of the trust. No appropriation control is established for this fund type.

D. Budgetary Process. The State's biennial budget cycle ends on June 30 of the odd-numbered years. By September 15, prior to a biennium, the Court and all other State agencies must submit their budget request for the biennium beginning the following July 1. There are no annual budgets prepared for the Trust funds. The requests are submitted on forms that show estimated funding requirements by programs, sub-programs, and activities. The Executive Branch reviews the requests, establishes priorities, and balances the budget within the estimated resources available during the upcoming biennium.

The Governor's budget bill is submitted to the Legislature in January. The Legislature considers revisions to the bill and submits the revised appropriations bill to the Governor for signature. The Governor may: a) approve the appropriations bill in its entirety, b) veto the bill, or c) line item veto certain sections of the bill. Any vetoed bill or line item can be overridden by a three-fifths vote of the Legislature.

The appropriations that are approved will generally set spending limits for a particular program within the agency. Within the agency or program, the Legislature may provide funding from one to five budgetary fund types. Thus, the control is by fund type, within a program, within an agency. The central accounting system maintains this control. A separate publication entitled "Annual Budgetary Report" shows the detail of this level of control. This publication is available from the Department of Administrative Services, Accounting Division.

Appropriations are usually made for each year of the biennium with unexpended balances being reappropriated at the end of the first year of the biennium. For most appropriations, balances lapse at the end of the biennium.

All State budgetary disbursements for the general, cash, and federal fund types are made pursuant to the appropriations that may be amended by the Legislature, upon approval by the Governor. State agencies may reallocate the appropriations between major object of expenditure accounts, except that the Legislature's approval is required

NEBRASKA WORKERS' COMPENSATION COURT

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. **Summary of Significant Accounting Policies (Continued)**

to exceed the personal service limitations contained in the appropriations bill. Increases in total general and cash fund appropriations must also be approved by the Legislature as a deficit appropriations bill. Appropriations for programs funded in whole or in part from federal funds may be increased to the extent that receipts of federal funds exceed the original budget estimate.

The Court utilizes encumbrance accounting to account for purchase orders, contracts, and other disbursement commitments. However, State law does not require that all encumbrances be recorded in the State's centralized accounting system, and, as a result, the encumbrances that were recorded in the accounting system have not been included in the accompanying financial statements, except for the impact as described below.

Under State budgetary procedures, appropriation balances related to outstanding encumbrances at the end of the biennium are lapsed and reappropriated in the first year of the next biennium. The effect of the Court's current procedure is to include in the budget columns, Total Disbursements line, of the Statement of Receipts, Disbursements, and Changes in Fund Balances - Budget and Actual the current year's appropriations plus the amounts reappropriated for encumbrances outstanding at the end of the prior biennium. This procedure indicates the Court's intention to honor the encumbrances at the end of a biennium. The disbursements columns of the Statement include cash payments related to the appropriated and reappropriated amounts. For the year ended June 30, 2001, there were no budgetary funds in which disbursements exceeded appropriations.

Budgets for object of expenditure accounts are included in the Nebraska Department of Administrative Services Budget Status Report. Receipts are not budgeted. Therefore, there are no budgeted amounts shown on the Budget and Actual Statement.

There is no annual budget prepared for the Trust Fund and, as a result, no budgetary comparisons are presented.

NEBRASKA WORKERS' COMPENSATION COURT

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. **Summary of Significant Accounting Policies (Continued)**

A reconciliation of the budgetary fund classifications versus GAAP fund classifications as of June 30, 2001 follows:

	BUDGETARY	FINANCIAL STATEMENT FUND BALANCES		
	FUND BALANCES	PRIMARY GOVERNMENT		
	Total	General	Special Revenue	Expendable Trust
PERSPECTIVE DIFFERENCES:				
Classifications of budgetary fund				
balances	into	Financial		
Statement				
fund structure:	\$	2,676	\$	2,676
General		8,191,940		-
Cash		95		8,191,940
Federal				95
Budgetary fund balances classified				
into Financial Statement fund				
structure	\$	8,194,711		
Entity Difference:				
Record funds not budgeted				5,305,573
Financial Statement Fund				
Balances, June 30, 2001		\$	2,676	\$
				8,192,035
				5,305,573

E. Fixed Assets. General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisitions are reflected as disbursements in governmental funds, and the related assets are reported in the general fixed assets account group. All purchased fixed assets are valued at cost, where historical records are available, and at an estimated historical cost, where no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date received. Assets on hand as of June 30, 2001 have been recorded at cost by the Court. Generally, equipment that has a cost in excess of \$300 at the date of acquisition and has an expected useful life of two or more years is capitalized.

Assets in the general fixed assets account group are not depreciated. Fixed assets do not include infrastructure, such as roads and bridges, as these assets are immovable and of value only to the government. The cost of normal maintenance and repairs that does not add to the value of the asset or extend asset life is not capitalized.

F. Cash in State Treasury. Cash in the State Treasury represents the cash balance of a fund as reflected on the Nebraska Accounting System. Investment of all available cash

NEBRASKA WORKERS' COMPENSATION COURT

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. **Summary of Significant Accounting Policies (Continued)**

is made by the State Investment Officer, on a daily basis, based on total bank balances. Investment income is distributed based on the average daily book cash balance of funds designated for investment. Determination of whether a fund is considered designated for investment is done on an individual fund basis. All of the funds of the Court, except for the 4371 federal fund, were designated for investment during fiscal year 2001.

G. Distributive Activity. Distributive Activity transactions are those recorded directly to a fund's liability accounts rather than through a receipt or disbursement account. These transactions represent funds received by the Court that are owed to some individual, organization, or other government agency, or are deposits that will be returned on completion of some specified requirement.

H. Compensated Absences. All permanent employees working for the Court earn sick and annual leave and are allowed to accumulate compensatory leave rather than being paid overtime. Temporary and intermittent employees and Board and Commission members are not eligible for paid leave. Under GAAP, the vested portion of the employee's compensated absences is recorded in the Long Term Debt Account Group for governmental funds. Under the receipts and disbursements basis of accounting, the balances which would otherwise be reported in the Long Term Debt Account Group are not reported since they do not represent balances arising from Cash Transactions.

I. Receipts. The major account titles and descriptions as established by the Nebraska Accounting System that are used by the Court are:

Prospective Loss Cost Assessment. Compulsory charges levied by a government for the purpose of financing services performed for the common benefit.

Intergovernmental. Receipts from other governments in the form of grants, entitlements, shared revenues, payments in lieu of taxes, or reimbursements.

Sales and Charges. Income derived from sales of merchandise and commodities, compensation for services rendered, and charges for various licenses, permits, and fees. The majority of these receipts were assessments made on workers' compensation insurance companies and self-insured employers.

Miscellaneous. Receipts from sources not covered by other major categories. The majority of these receipts were interest earned on investments.

NEBRASKA WORKERS' COMPENSATION COURT

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. **Summary of Significant Accounting Policies (Concluded)**

J. Disbursements. The major account titles and descriptions as established by the Nebraska Accounting System that are used by the Court are:

Personal Services. Salaries, wages, and related employee benefits provided for all persons employed by a government.

Operating. Disbursements directly related to a program's primary service activities.

Travel. All travel disbursements for any state officer, employee, or member of any commission, council, committee, or board of the State.

Capital Outlay. Disbursements which result in the acquisition of or in addition to fixed assets. Fixed assets are resources of a long-term character, owned or held by the government.

Government Aid. Disbursements directly related to the restoration of injured employees to gainful employment. This includes the development and implementation of vocational rehabilitation plans.

K. Fund Balance Reservations. Reservations of fund balances are established to identify the existence of assets that have been legally segregated for specific purposes. Reservations of fund balances are also established for assets which are not current in nature, such as postage.

2. **Totals**

The Totals "Memorandum Only" column represents an aggregation of individual account balances. The column is presented for overview informational purposes and does not present consolidated financial information since interfund balances and transactions have not been eliminated.

3. **Contingencies and Commitments**

Risk Management. The Court is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets, errors or omissions, injuries to employees, and natural disasters. The Court, as part of the primary government for the State, participates in the State's risk management program. The Nebraska Department of Administrative Services (DAS) Division of Risk Management is responsible for maintaining the insurance and self-insurance, programs for the State. The State generally self-insures for general liability and workers compensation. The State has chosen to purchase insurance for:

NEBRASKA WORKERS' COMPENSATION COURT

NOTES TO FINANCIAL STATEMENTS

(Continued)

3. **Contingencies and Commitments** (Concluded)

- A. Motor vehicle liability, which is insured for the first \$5 million of exposure per accident. Insurance is also purchased for medical payments, physical damage, and uninsured and underinsured motorists with various limits and deductibles. State Agencies have the option to purchase coverage for physical damage to vehicles.
- B. The DAS-Personnel Division maintains health care and life insurance for eligible employees.
- C. Crime coverage, with a limit of \$1 million for each loss, and a \$10,000 retention per incident.
- D. Real and personal property on a blanket basis for losses up to \$250,000,000, with a self-insured retention of \$200,000 per loss occurrence. Newly-acquired properties are covered up to \$1,000,000 for 60 days or until the value of the property is reported to the insurance company. The perils of flood and earthquake are covered up to \$10,000,000.
- E. State Agencies have the option to purchase building contents and inland marine coverage.

No settlements exceeded commercial insurance coverage in any of the past three fiscal years. Health care insurance is funded in the Compensation Insurance Trust Fund through a combination of employee and State contributions. Workers' compensation is funded in the Workers' Compensation Internal Service Fund through assessments on each agency based on total agency payroll and past experience. Tort claims, theft of, damage to, or destruction of assets, errors or omissions, and natural disasters would be funded through the State General Fund or by individual agency assessments as directed by the Legislature, unless covered by purchased insurance. No amounts for estimated claims have been reported in the Nebraska Workers' Compensation Court's financial statements.

Litigation. The potential amount of liability involved in litigation pending against the Court, if any, could not be determined at this time. However, it is the Court's opinion that final settlement of those matters should not have an adverse effect on the Court's ability to administer current programs. Any judgment against the Court would have to be processed through the State Claims Board and be approved by the Legislature.

NEBRASKA WORKERS' COMPENSATION COURT

NOTES TO FINANCIAL STATEMENTS

(Continued)

4. **Retirement Systems**

A. **State Employees Retirement Plan (Plan)**

The Plan is a single-employer defined contribution plan administered by the Public Employees Retirement Board in accordance with the provisions of the State Employees Retirement Act and may be amended by legislative action. In the defined contribution plan, retirement benefits depend on total contributions, investment earnings, and the investment options selected. Membership in the Plan is mandatory for all permanent full-time employees on reaching the age of thirty and completion of twenty-four months of continuous service. Full time employee is defined as an employee who is employed to work one-half or more of the regularly scheduled hours during each pay period. Voluntary membership is permitted for all permanent full-time or permanent part-time employees upon reaching age twenty and completion of twelve months of permanent service within a five-year period. Any individual appointed by the Governor may elect to not become a member of the Plan.

Employees contribute 4.33% of their monthly compensation until such time as they have paid during any calendar year a total of eight hundred sixty four dollars, after which time they shall pay a sum equal to 4.8% of their monthly compensation for the remainder of such calendar year. The Court matches the employee's contribution at a rate of 156% of the employee's contribution.

The employee's account is fully vested. The employer's account is vested 100% after five years participation in the plan or at retirement.

For the Fiscal Year Ended June 30, 2001, employees contributed \$58,935 and the Court contributed \$91,938.

B. **Judges' Retirement System**

Plan Description. Judges of the Nebraska Workers' Compensation Court participate in the Judges' Retirement System (Plan) which is a single-employer defined benefit pension plan created in 1955 by the Legislature. Membership includes Supreme Court, District Court, Workers' Compensation Court, County Court, and Juvenile Court Judges. The Plan was established by Neb. Rev. Stat. Sections 24-701 to 24-714, R.S.Supp. 2000, and is administered by the Public Employees' Retirement Board (PERB) of the State of Nebraska. The Plan provides retirement benefits based on a percentage of the final average salary multiplied by years of service, and the formula factor of 3.5%. Retirement is age 65; calculation will vary with early retirement. Benefits vest when the judge takes office. The PERB issues a publicly available financial report that includes financial statements and required supplementary

NEBRASKA WORKERS' COMPENSATION COURT

NOTES TO FINANCIAL STATEMENTS

(Continued)

4. **Retirement Systems (Concluded)**

B. **Judges' Retirement System** (Concluded)

information (Actuarial Data, three year trend information for Annual Pension Cost and Net Pension Obligation, and Schedule of Funding Process) for the Plan. The most recent report may be obtained by writing to the Public Employees Retirement Systems, P.O. Box 94816, Lincoln, NE 68509-4816, or by calling 402-471-2053.

Funding Policy. The contribution requirements of the plan members and the State are established, and may be amended by the State Legislature. A one-dollar fee for each case is collected from District and County Courts plus a ten percent charge on certain fees collected in the County Courts. The State's contribution is based on an annual actuarial valuation. Judges who first served as a judge prior to December 25, 1969, had the option of contributing 4 or 6 percent of their salary. Those judges who first served as a judge after December 25, 1969, contribute 6 percent of their salary.

5. **Fixed Assets**

The following is a summary of changes in the general fixed assets account group during the fiscal year:

	Balance			Balance
	<u>July 1, 2000</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2001</u>
Equipment	\$ 560,417	\$ 82,490	\$ (140,702)	\$ 502,205

6. **Prospective Loss Cost Assessment**

Neb. Rev. Stat. Section 48-145 R.S.Supp., 2000 requires that 2 ½% of Prospective Loss Costs, as defined in Neb. Rev. Stat. Section 48-151 R.S. Supp., 2000, are to be paid by self-insured employers. This amount is deposited to the General Fund.

7. **Under/Over Budgeted**

Budgeted expenditures on the statement of Receipts, Disbursements, and Changes in Fund Balances Budget and Actual are amounts reflected on the Court's Budget Status Report for fiscal year 2001. The amount under budgeted was due to an increase in appropriations.

8. **Fund Balance, June 30, 2001**

A one-time equity transfer was made from the Second Injury Fund and the Vocational Rehabilitation Fund to the newly created Workers' Compensation Trust Fund as required by State statute.

NEBRASKA WORKERS' COMPENSATION COURT
COMBINING STATEMENT OF ASSETS AND FUND BALANCES
ARISING FROM CASH TRANSACTIONS
ALL SPECIAL REVENUE FUNDS

June 30, 2001

	Compensation Court Cash Fund 2373	Workers' Compensation Fund 4371	Total Special Revenue Funds
<hr/> Assets <hr/>			
Cash in State Treasury	\$ 8,189,946	\$ -	\$ 8,189,946
Deposit with Vendors	1,994	95	2,089
 Total Assets	 \$ 8,191,940	 \$ 95	 \$ 8,192,035
 <hr/> Fund Balances <hr/>			
Fund Balances:			
Reserved For Postage	\$ 1,994	\$ 95	\$ 2,089
Unreserved, Undesignated	8,189,946	-	8,189,946
 Total Fund Balances	 \$ 8,191,940	 \$ 95	 \$ 8,192,035

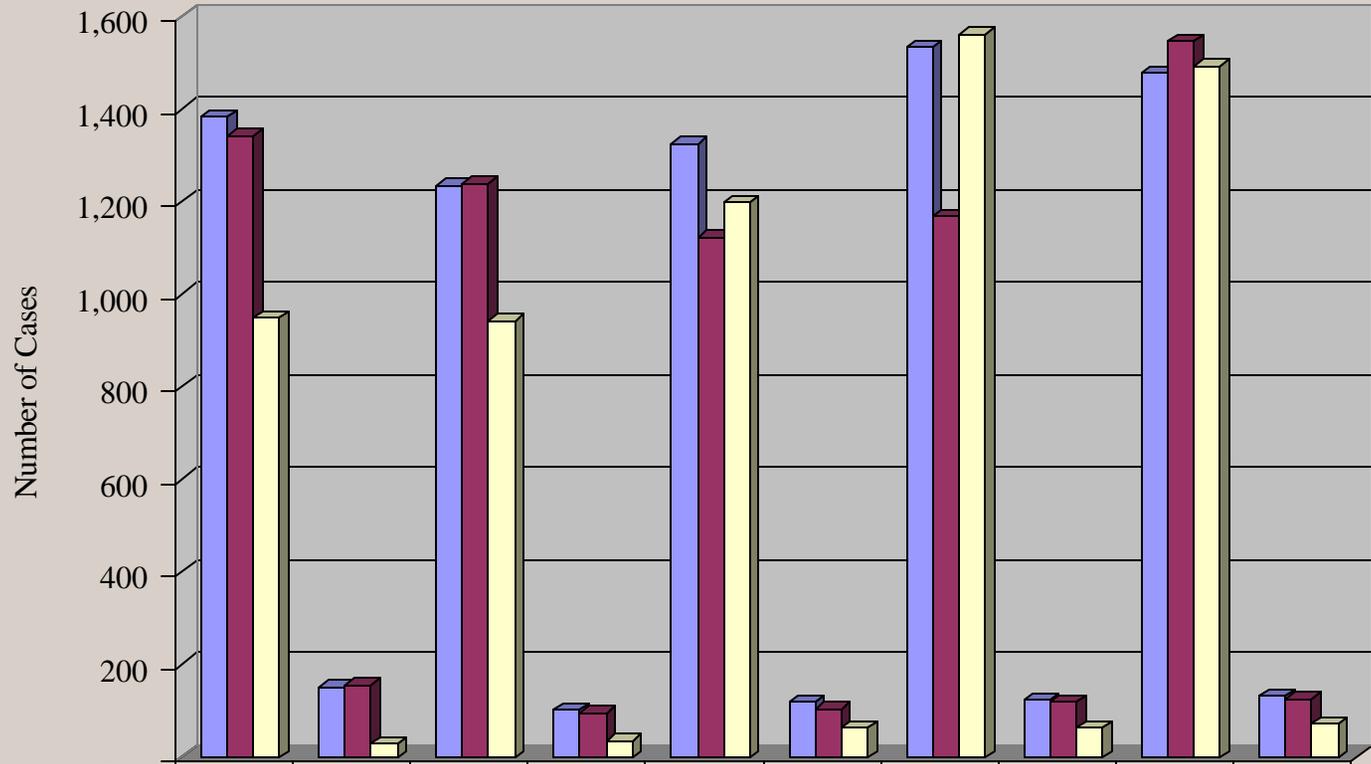
NEBRASKA WORKERS' COMPENSATION COURT
**COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN FUND BALANCES**
ALL SPECIAL REVENUE FUNDS
For the Fiscal Year Ended June 30, 2001

	Compensation Court Cash <u>Fund 2373</u>	Workers' Compensation <u>Fund 4371</u>	Total Special Revenue Funds
RECEIPTS:			
Intergovernmental	\$ -	\$ 23,857	\$ 23,857
Sales and Charges	3,261,914	-	3,261,914
Miscellaneous	<u>441,161</u>	<u>-</u>	<u>441,161</u>
 TOTAL RECEIPTS	 <u>3,703,075</u>	 <u>23,857</u>	 <u>3,726,932</u>
DISBURSEMENTS:			
Personal Services	2,513,364	20,837	2,534,201
Operating	504,797	2,982	507,779
Travel	52,095	82	52,177
Capital Outlay	<u>123,693</u>	<u>-</u>	<u>123,693</u>
 TOTAL DISBURSEMENTS	 <u>3,193,949</u>	 <u>23,901</u>	 <u>3,217,850</u>
 Excess of Receipts Over (Under) Disbursements	 <u>509,126</u>	 <u>(44)</u>	 <u>509,082</u>
OTHER FINANCING SOURCES (USES):			
Distributive Activity:			
Ins	7,054	-	7,054
Outs	<u>(7,125)</u>	<u>-</u>	<u>(7,125)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(71)</u>	<u>-</u>	<u>(71)</u>
 Excess of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses	 509,055	 (44)	 509,011
 FUND BALANCE, JULY 1, 2000	 <u>7,682,885</u>	 <u>139</u>	 <u>7,683,024</u>
 FUND BALANCE, JUNE 30, 2001	 <u>\$ 8,191,940</u>	 <u>\$ 95</u>	 <u>\$ 8,192,035</u>

NEBRASKA WORKERS' COMPENSATION COURT
**COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN FUND BALANCES
ALL EXPENDABLE TRUST FUNDS**
For the Fiscal Year Ended June 30, 2001

	Second Injury Fund 6371	Vocational Rehab Fund 6372	Workers' Compensation Trust Fund 6373	Total Expendable Trust Funds
RECEIPTS:				
Sales and Charges	\$ -	\$ -	\$ 28,941	\$ 28,941
Miscellaneous	31,353	24,971	295,536	351,860
TOTAL RECEIPTS	31,353	24,971	324,477	380,801
 DISBURSEMENTS:				
Operating	-	-	137	137
Travel	-	-	584	584
Government Aid	-	-	1,275,438	1,275,438
TOTAL DISBURSEMENTS	-	-	1,276,159	1,276,159
Excess of Receipts Over (Under) Disbursements	31,353	24,971	(951,682)	(895,358)
FUND BALANCE, JULY 1, 2000	3,911,109	2,289,822	-	6,200,931
EQUITY TRANSFERS IN (OUT)	(3,942,462)	(2,314,793)	6,257,255	-
FUND BALANCE, JUNE 30, 2001	\$ (31,353)	\$ (24,971)	\$ 6,257,255	\$ 6,200,931
	\$ -	\$ -	\$ 5,305,573	\$ 5,305,573

NEBRASKA WORKERS' COMPENSATION COURT
SCHEDULE OF CASE ACTIVITY
For the Fiscal Years Ended June 30, 1997 to 2001
UNAUDITED



	1997 Original	1997 Review	1998 Original	1998 Review	1999 Original	1999 Review	2000 Original	2000 Review	2001 Original	2001 Review
■ Cases Filed or Reopened	1,383	151	1,233	102	1,324	120	1,533	124	1,477	133
■ Dispositions	1,341	156	1,239	95	1,122	104	1,168	120	1,545	126
■ Cases Pending	948	28	942	35	1,198	64	1,560	64	1,492	71

STATE OF NEBRASKA AUDITOR OF PUBLIC ACCOUNTS



P.O. Box 98917
State Capitol, Suite 2303
Lincoln, NE 68509
402-471-2111, FAX 402-471-3301
www.auditors.state.ne.us

Kate Witek
State Auditor
kwitek@mail.state.ne.us

NEBRASKA WORKERS' COMPENSATION COURT REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Deann Haeffner, CPA
Deputy State Auditor
haeffner@mail.state.ne.us

Don Dunlap, CPA
Asst. Deputy Auditor
aud1010@vmhost.cdp.state.ne.us

Pat Reding, CPA
Asst. Deputy Auditor
aud1008@vmhost.cdp.state.ne.us

Mary Avery
SAE/Finance Manager
MaryJAvery@aol.com

Dennis Meyer
Budget Coordinator
dmeyer@mail.state.ne.us

Mark Avery
Subdivision Audit
Review Coordinator
mavery@mail.state.ne.us

Robert Hotz, JD
Legal Counsel
robhotz@mail.state.ne.us

We have audited the financial statements of the Nebraska Workers' Compensation Court as of and for the year ended June 30, 2001, and have issued our report thereon dated October 5, 2001. The report notes the financial statements were prepared on the basis of cash receipts and disbursements and was modified to emphasize that the financial statements present only the funds of the Nebraska Workers' Compensation Court. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Nebraska Workers' Compensation Court's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. We noted certain immaterial instances of noncompliance that we have reported to management of the Nebraska Workers' Compensation Court in the Comments Section of this report as Comment Number 1 (Workers' Compensation Trust Fund) and Comment Number 2 (Travel Expenses).

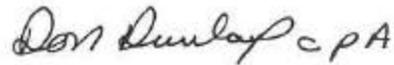
Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Nebraska Workers' Compensation Court's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion

on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of Nebraska Workers' Compensation Court in the Comments Section of this report as Comment Number 2 (Travel Expenses).

This report is intended solely for the information and use of the Court, the appropriate Federal and regulatory agencies, and citizens of the State of Nebraska, and is not intended to be and should not be used by anyone other than these specified parties.

October 5, 2001

A handwritten signature in cursive script that reads "Don Dunlap CPA".

Manager