

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

JULY 1, 2004 THROUGH JUNE 30, 2005

**This document is an official public record of the State of Nebraska, issued by
the Auditor of Public Accounts.**

**Modification of this document may change the accuracy of the original
document and may be prohibited by law.**

Issued on February 8, 2006

NEBRASKA WORKERS' COMPENSATION COURT

TABLE OF CONTENTS

	<u>Page</u>
Background Information Section	
Background	1
Mission Statement	2
Organizational Chart	3
Comments Section	
Exit Conference	4
Summary of Comments	5
Comments and Recommendations	6 - 11
Financial Section	
Independent Accountant's Report	12 - 13
Schedule of Revenues, Expenditures, and Changes in Fund Balances	14
Notes to the Schedule	15 - 18
Government Auditing Standards Section	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Examination of the Schedule of Revenues, Expenditures, and Changes in Fund Balances Performed in Accordance with <i>Government Auditing Standards</i>	19 - 20
Statistical Section	21
Second Injury and Vocational Rehabilitation Expenditures	22
Petitions Filed or Reopened and Dispositions	23

NEBRASKA WORKERS' COMPENSATION COURT

BACKGROUND

The Workers' Compensation Court was created in 1935 and has original jurisdiction in the adjudication of cases 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, subject to approval of the Supreme Court. Four judges are located in Lincoln and three judges are located in Omaha. Judges travel to any county in the State where an accident occurred to hear a disputed case. A case is first heard by a single judge and, if appealed, the case is then heard by a review panel of three judges of the Court.

For administrative purposes, the judges and staff of the Court are organized into two operating divisions and eight operating sections. The adjudication division, under the direction of the Presiding Judge, includes the judges, the Office of the Clerk of the Court, and the Judicial Support Section. The administration division, under the direction of the Court Administrator, includes the remaining operating sections identified below:

Office of the Clerk of the Court – receives court filings, docket cases, corresponds with the parties, and issues opinions of the Court.

Judicial Support – schedules hearings and motions, issues opinions of the Court, and provides administrative and secretarial support for the judges of the Court.

Administration – responsible for business, financial, and personnel functions of the Court, administers the Second Injury program, and conducts data collection programs for work related injuries, illnesses, and fatal injuries pursuant to two Federal grants.

Legal – reviews settlement applications, conducts mediation conferences to facilitate informal resolution of disputes, informs injured workers, employers, and others of their rights and obligations under the law, provides legal advice to Court staff, and monitors legislation for potential impact on the workers' compensation system.

Coverage and Claims – monitors compliance with workers' compensation laws, and administers programs for self-insurance, managed care, independent medical examiners, and medical cost containment.

Vocational Rehabilitation – reviews, approves, and monitors vocational rehabilitation plans and trust fund payments, certifies and appoints vocational rehabilitation service providers.

Public Information – receives and processes reports of injury and benefit payments, responds to record requests, maintains a toll-free information line, maintains Court website, and develops publications and educational workshops.

Information Technology – develops and maintains the Court's computer network, programs, databases, and assists other Court sections in meeting their goals through the use of technology.

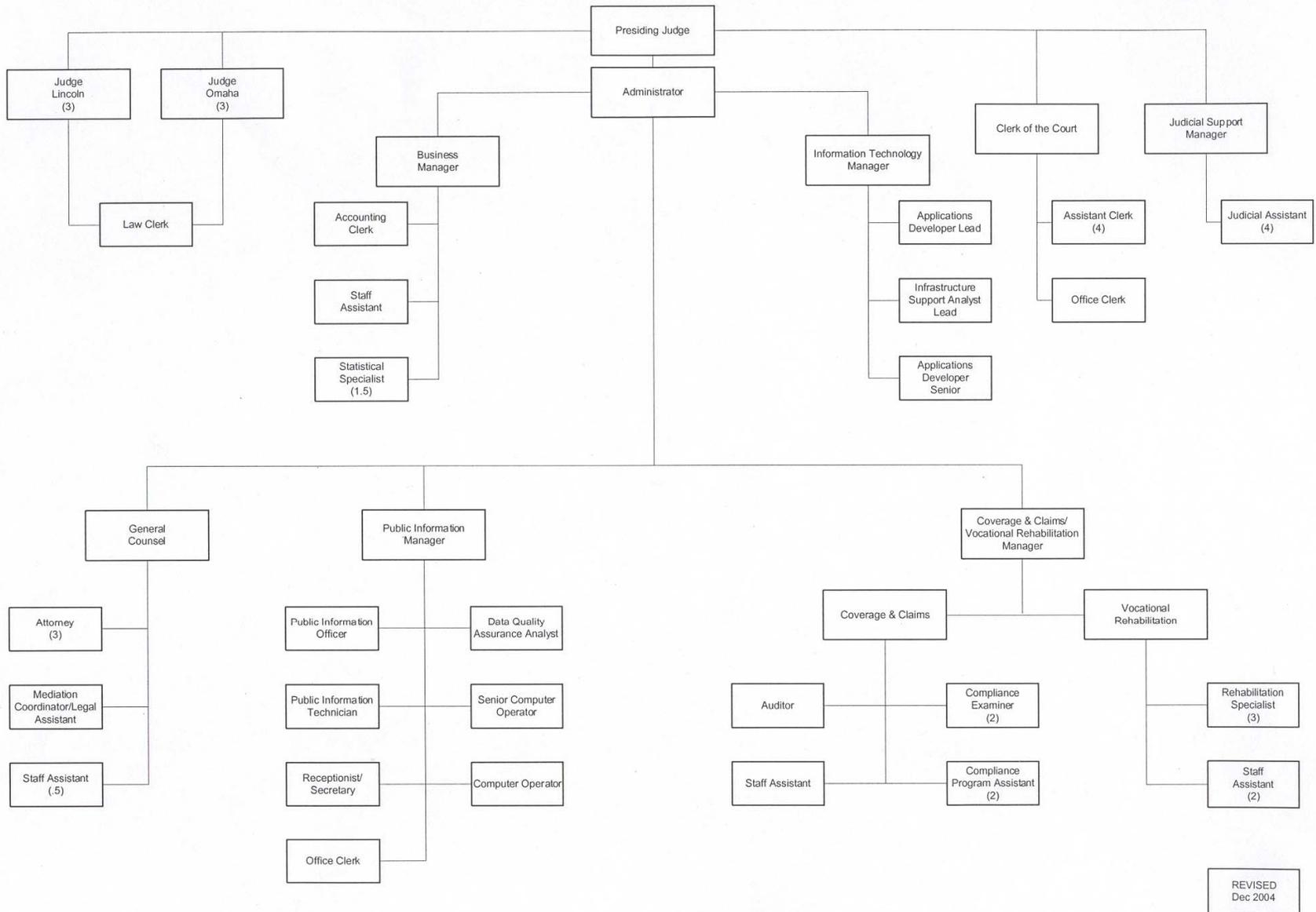
NEBRASKA WORKERS' COMPENSATION COURT

MISSION STATEMENT

The mission of the Nebraska Workers' Compensation Court is to administer and enforce all provisions of the Nebraska Workers' Compensation Act, except those provisions that are committed to the courts of appellate jurisdiction or as otherwise provided by law.

NEBRASKA WORKERS' COMPENSATION COURT

ORGANIZATIONAL CHART



REVISED
Dec 2004

NEBRASKA WORKERS' COMPENSATION COURT

EXIT CONFERENCE

An exit conference was held January 12, 2006, with the Court to discuss the results of our examination. Those in attendance for the Nebraska Workers' Compensation Court were:

NAME	TITLE
Becky Tillman	Business Manager
Marilyn Ferguson	Accounting Clerk II
Glenn Morton	Administrator

NEBRASKA WORKERS' COMPENSATION COURT

SUMMARY OF COMMENTS

During our examination 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.

1. ***Internal Control Over Revenues and Expenditures:*** One individual was able to perform all functions in the revenues and expenditures processes. Four individuals had access in NIS to perform all the functions in the accounts receivable process.
2. ***Timesheets:*** All seven employees tested did not complete timesheets to document forty hours of work each week. The timesheets did not document the actual hours worked for an employee; only the leave used was recorded.
3. ***Travel:*** For the 13 expense reimbursement documents tested, ten did not have adequate documentation to support meal expenses in accordance with the State's accountable plan. Eight included reimbursement of unreasonable amounts for meals. Five contained reimbursement for meals provided by the conference attended.
4. ***Lack of Segregation of Duties – Capital Assets:*** One individual was able to perform all phases of the capital asset process. This individual also reviewed the Unposted Fixed Asset Transaction report. There was no independent review of the Additions and Retirements report.
5. ***Reconciliation of Bank Records to the Nebraska Information System:*** The Department of Administrative Services' reconciliation process is still not done in a timely manner and continues to reflect unknown variances.

More detailed information on the above items is provided hereafter. It should be noted this report is critical in nature as 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. 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 examination.

We appreciate the cooperation and courtesy extended to our staff during the course of the examination.

NEBRASKA WORKERS' COMPENSATION COURT

COMMENTS AND RECOMMENDATIONS

1. Internal Control Over Revenues and Expenditures

Good internal control requires an adequate segregation of duties to ensure one individual is not in the position to both perpetrate and conceal errors or irregularities. Batch Management is the process used in the Nebraska Information System (NIS) to allow agencies to create a segregation of duties within the State accounting system.

During our review of controls over the revenue and expenditure processes we noted the following:

- One individual was capable of performing all functions in the revenue and expenditure processes. The employee had the capability both to prepare and to approve their own batches in batch management.
- Four individuals had access in NIS to perform all phases of the accounts receivable process. This includes preparing an invoice and applying cash to the invoices.

Without an adequate segregation of duties or controls to compensate for the lack of segregation of duties, there is an increased risk for possible loss or misuse of State funds.

We recommend the Court review their batch management and functional access in NIS to ensure an adequate segregation of duties over the revenues and expenditures processes.

Court's Response: We have reviewed our batch management and functional access in NIS and believe that our process of having multiple individuals review all receipts and payments at the end of the month, does ensure that our funds are safe guarded.

During the implementation phase of NIS and the problems involved with this new accounting system, the Court feels it is necessary that the Business Manager have access to all areas of NIS. It is the Business Manager's responsibility to be familiar with all phases of NIS for purposes of training and problem solving when this new system does not work.

Several agencies have designated at least one individual to have access to all phases of NIS for the above listed reasons. It is our understanding that at the time of our audit, the State Auditor's Office had also designated one individual to have access to all phases of NIS.

As NIS continues to improve, the Court will consider adjusting current access levels for staff.

NEBRASKA WORKERS' COMPENSATION COURT

COMMENTS AND RECOMMENDATIONS

1. Internal Control Over Revenues and Expenditures (Concluded)

APA's Response: The Court has adequate staff to be able to segregate duties. There is a significant weakness in internal control when one individual has the capability to prepare, approve, and post their own batches. In an agency of the Court's size, no individual should be authorized to prepare, approve, and post their own batches as it could lead to misappropriation of funds.

2. Timesheets

Neb. Rev. Stat. Section 84-1001 R.R.S. 1999 states, "All state officers and heads of departments and their deputies, assistants, and employees . . . shall render not less than forty hours of labor each week except any week in which a paid holiday may occur." Good internal control requires adequate documentation to ensure all employees render forty hours of work each week, particularly when employees will receive a payment for unused sick and/or vacation leave upon termination.

All seven employees tested did not complete timesheets to document forty hours of work each week. The Court utilized a standard monthly timesheet for all employees which did not account for actual time worked. Employees only recorded leave used.

Without adequate records to support hours worked, there is an increased risk for fraudulent or inaccurate unused leave payments at termination.

We recommend the Court implement procedures to ensure all employees who expect payment of unused leave at termination maintain adequate documentation to support forty hours of work each week.

Court's Response: We feel that our current timesheets do ensure that employees are working at least 40 hours per week.

Nevertheless, the Court will be adding the following statement to all timesheets effective January 1, 2006:

Exempt Employees:

By signing this document I am certifying that I worked a minimum of 40 hours per week minus any leave recorded above and substantiated by an approved electronic leave slip.

NEBRASKA WORKERS' COMPENSATION COURT

COMMENTS AND RECOMMENDATIONS

(Continued)

2. Timesheets (Concluded)

Court's Response, Concluded:

Non-Exempt Employees:

By signing this document I am certifying the following: I started and ended my work day according to my approved schedule; I did not perform any work during my scheduled lunch break; and I worked 40 hours per week minus any leave recorded above and substantiated by an approved electronic leave slip.

I understand that overtime must be approved by my manager and must be recorded on an overtime report.

3. Travel

Nebraska State Accounting Manual, AM-005, Travel Expense Policies, Section 5, states, "Under our accountable plan, the Internal Revenue Service requires employees to substantiate the cost for travel, lodging, meals, and other expenses." Internal Revenue Service (IRS) Publication 463 requires an accountable plan to have adequate accounting. Adequate accounting generally requires the use of a documentation record such as an account book, expense diary or log, or similar record near the time of incurrence of the expense. Such log should list the date, amount, place or description, and purpose for each expense or meal/food cost.

Good internal control requires procedures to ensure requirements of the State's accountable plan are met and reimbursements are reasonable based on the Federal guideline per place of travel.

We tested 13 expense reimbursement documents and noted the following:

- Ten expense reimbursement documents did not have adequate documentation to support meal expenses in accordance with the State's accountable plan. The employee's meal logs did not contain the name of the restaurant for the meals reimbursed.
- Eight expense reimbursement documents included reimbursement of unreasonable amounts for meals based on the Federal guideline per place of travel. Employees were reimbursed unreasonable amounts for 28 meals, ranging from \$4 to \$12 per meal.
- Five expense reimbursement documents contained reimbursement for meals provided by the conference, per the conference agenda. In total, \$204 was reimbursed for 16 meals, when meals were provided by conferences.

NEBRASKA WORKERS' COMPENSATION COURT

COMMENTS AND RECOMMENDATIONS

(Continued)

3. **Travel** (Concluded)

Without an adequate accounting of meal expenses the State could lose their accountable plan status and then all employee reimbursements would be included as taxable income. When the Federal guidelines are not followed there is an increased risk of reimbursement for unreasonable expenses.

We recommend the Court implement procedures to ensure requirements of the State's accountable plan are met and amounts reimbursed for meals are reasonable.

Court's Response: The Court's policy is to comply with the Department of Administrative Services travel guidelines. DAS policy does not require the name of the restaurant to be included on the meal documentation. DAS policy does not require state employees to follow the recommended individual meal breakdown as provided by the US General Services Administration (GSA).

The Court is taking steps to ensure that all employees comply with the DAS policy covering meals provided at a conference.

APA's Response: IRS Publication 463 and discussions with IRS staff substantiate the requirement to include the name of the restaurant on meal logs. Meal logs should provide adequate information, which would include the restaurant name, to support a reasonable determination that the meal expense is appropriate.

4. **Lack of Segregation of Duties – Capital Assets**

Good internal control requires an adequate segregation of duties to ensure no one individual is in a position to both perpetrate and conceal errors or irregularities.

During our review of capital assets, we noted one individual could perform all phases of a transaction relating to capital assets and reviewed the Unposted Fixed Asset Transaction report. There was no independent review of the Additions and Retirements report.

Without adequate control over capital assets, there is an increased risk of loss or theft of State assets.

We recommend the Court implement procedures to ensure an adequate segregation of duties over the capital asset process. This would include an independent, documented review of the Additions and Retirements report.

NEBRASKA WORKERS' COMPENSATION COURT

COMMENTS AND RECOMMENDATIONS

(Continued)

4. Lack of Segregation of Duties – Capital Assets (Concluded)

Court's Response: The Court will be implementing the use of the Additions and Retirements report which will be independently reviewed by the Business Manager. A staff person other than the Business Manager will initiate the process for disposal of fixed assets.

5. Reconciliation of Bank Records to the Nebraska Information System

Good internal control requires a plan of organization, procedures, and records designed to safeguard assets and provide reliable financial information. Without a timely and complete reconciliation of bank records to the Nebraska Information System (NIS), there is a greater risk for fraud and errors to occur and to remain undetected.

During the audit of the Comprehensive Annual Financial Report (CAFR) of the State of Nebraska, the Auditor of Public Accounts (APA) noted the absence of reconciliation between the Nebraska State Treasurer's actual bank statements and Nebraska accounting records (in both NIS and NAS, the Nebraska Accounting System before NIS). This has been an issue for the Department of Administrative Services (DAS) Accounting Division for many years. The APA's previous versions noted monthly reconciliations have not been completed in a timely manner and reconciliations performed have shown significant unknown variances between the bank records and the accounting records, with the bank being short compared to the accounting records. Although DAS Accounting Division continues to work on correcting the reconciliation of bank records to NIS, the APA continues to note areas where improvement is still needed in the reconciliation process to ensure NIS integrity and operational efficiency. Specifically, the APA noted the status of the reconciliation process as of August 11, 2005 to be as follows:

DAS Accounting Division has worked on the reconciliation process, but continued progress is needed. DAS Accounting Division's reconciliation process has developed into a very detailed process of analyzing bank activity, compared to activity recorded on NIS, to identify reconciling items. DAS Accounting Division has completed their reconciliation process for the months of June and July of 2004. The APA has reviewed these reconciliations. These two months show variances of \$2,944,126 and \$2,932,824, respectively. Again, the reconciliations show the bank being short compared to the accounting records. Per inquiry of management, DAS Accounting Division has started the reconciliation process for various months of the fiscal year ended June 30, 2005; however, the reconciliation process has not been a continuous monthly process and no monthly reconciliation has been completed since July of 2004.

NEBRASKA WORKERS' COMPENSATION COURT

COMMENTS AND RECOMMENDATIONS

(Continued)

5. Reconciliation of Bank Records to the Nebraska Information System (Concluded)

Although DAS Accounting Division has worked on the reconciliation process, the process is still not done in a timely manner and the variance is inconsistent. The reconciliation continues to reflect unknown variances and shortages. Complete and timely reconciliation procedures between bank records and accounting records are required to provide control over cash and accurate financial information.

The APA recommends DAS Accounting Division continue their reconciliation process, in a more timely manner, and on at least a monthly basis, to ensure all financial information is correct on NIS. We also recommend, when a consistent cash variance between the bank records and the accounting records is obtained (based on at least six months of reconciliations), DAS submit their plan for adjusting NIS to the Governor and the Legislature so they may take appropriate action to correct NIS and resolve the variances noted.

This issue is the responsibility of DAS Accounting Division; however, as the variances have not been identified by fund or agency, this issue directly affects all Nebraska State agencies' financial information and must be disclosed in this report.

Court's Response: It is our understanding that the Auditor's Office includes this statement in all of their audits.

We have no control over the Department of Administrative Services and feel that this is not an issue that should be included in our audit. The State Auditor's Office needs to address this issue with DAS.

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
Kate.Witek@apa.ne.gov

NEBRASKA WORKERS' COMPENSATION COURT

INDEPENDENT ACCOUNTANT'S REPORT

Deann Haeffner, CPA
Deputy State Auditor
Deann.Haeffner@apa.ne.gov

Nebraska Workers' Compensation Court
Lincoln, Nebraska

Don Dunlap, CPA
Asst. Deputy Auditor
Don.Dunlap@apa.ne.gov

We have examined the accompanying schedule of revenues, expenditures, and changes in fund balances of the Nebraska Workers' Compensation Court (Court) for the fiscal year ended June 30, 2005. The Court's management is responsible for the schedule of revenues, expenditures, and changes in fund balances. Our responsibility is to express an opinion based on our examination.

Pat Reding, CPA
Asst. Deputy Auditor
Pat.Reding@apa.ne.gov

Tim Channer, CPA
Asst. Deputy Auditor
Tim.Channer@apa.ne.gov

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants, and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and accordingly, included examining, on a test basis, evidence supporting the schedule of revenues, expenditures, and changes in fund balances and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

Mary Avery
SAE/Finance Manager
Mary.Avery@apa.ne.gov

Dennis Meyer, CGFM
Subdivision Budget
Coordinator
Dennis.Meyer@apa.ne.gov

In our opinion, the schedule referred to above presents, in all material respects, the revenues, expenditures, and changes in fund balances of the Nebraska Workers' Compensation Court for the fiscal year ended June 30, 2005, based on the accounting system and procedures prescribed by the State of Nebraska Director of Administrative Services as described in Note 1.

Mark Avery, CPA
Subdivision Audit
Review Coordinator
Mark.Avery@apa.ne.gov

Perry Pirsch, JD, MPA
Legal Counsel
Perry.Pirsch@apa.ne.gov

In accordance with *Government Auditing Standards*, we have also issued our report dated January 12, 2006, 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 grant agreements and other matters. The purpose of that report is to describe

the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an attestation engagement performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our examination.

This report is intended solely for the information and use of the Court and the appropriate Federal and regulatory agencies. However, this report is a matter of public record and its distribution is not limited.

Pat Reding, CPA

Assistant Deputy Auditor

January 12, 2006

NEBRASKA WORKERS' COMPENSATION COURT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Fiscal Year Ended June 30, 2005

	General Fund 10000	Compensation Court Cash Fund 23730	Workers' Compensation Fund 43710	Workers' Compensation Trust Fund 63730	Total (Memorandum Only)
REVENUES:					
Taxes	\$ 2,475,959	\$ -	\$ -	\$ -	\$ 2,475,959
Intergovernmental	-	-	31,808	-	31,808
Sales & Charges	-	4,535,465	-	234,526	4,769,991
Miscellaneous	-	212,222	-	199,669	411,891
TOTAL REVENUES	<u>2,475,959</u>	<u>4,747,687</u>	<u>31,808</u>	<u>434,195</u>	<u>7,689,649</u>
EXPENDITURES:					
Personal Services	-	2,882,161	30,019	-	2,912,180
Operating	-	816,875	1,378	-	818,253
Travel	-	69,326	411	-	69,737
Capital Outlay	-	19,987	-	-	19,987
Government Aid	-	-	-	1,432,302	1,432,302
TOTAL EXPENDITURES	<u>-</u>	<u>3,788,349</u>	<u>31,808</u>	<u>1,432,302</u>	<u>5,252,459</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>2,475,959</u>	<u>959,338</u>	<u>-</u>	<u>(998,107)</u>	<u>2,437,190</u>
OTHER FINANCING SOURCES (USES):					
Sales of Assets	-	4,548	-	-	4,548
Deposit to General Fund	(2,475,959)	-	-	-	(2,475,959)
Operating Transfers In	-	359,757	-	-	359,757
Operating Transfers Out	-	-	-	(359,757)	(359,757)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(2,475,959)</u>	<u>364,305</u>	<u>-</u>	<u>(359,757)</u>	<u>(2,471,411)</u>
Net Change in Fund Balances	-	1,323,643	-	(1,357,864)	(34,221)
FUND BALANCES, JULY 1, 2004	<u>2,676</u>	<u>6,664,506</u>	<u>95</u>	<u>6,287,232</u>	<u>12,954,509</u>
FUND BALANCES, JUNE 30, 2005	<u>\$ 2,676</u>	<u>\$ 7,988,149</u>	<u>\$ 95</u>	<u>\$ 4,929,368</u>	<u>\$ 12,920,288</u>
FUND BALANCES CONSIST OF:					
General Cash	\$ -	\$ 7,991,592	\$ -	\$ 4,947,630	\$ 12,939,222
Deposits with Vendors	2,676	1,994	95	-	4,765
Accounts Receivable Invoiced	-	5,193	-	-	5,193
Due to Vendors	-	(1,267)	-	(18,262)	(19,529)
Bond Payable	-	(9,363)	-	-	(9,363)
TOTAL FUND BALANCES	<u>\$ 2,676</u>	<u>\$ 7,988,149</u>	<u>\$ 95</u>	<u>\$ 4,929,368</u>	<u>\$ 12,920,288</u>

The accompanying notes are an integral part of the schedule.

NEBRASKA WORKERS' COMPENSATION COURT

NOTES TO THE SCHEDULE

For the Fiscal Year Ended June 30, 2005

1. Criteria

The accounting policies of the Nebraska Workers' Compensation Court are on the basis of accounting as prescribed by the State of Nebraska Department of Administrative Services (DAS).

Per Neb. Rev. Stat. Section 81-1107(2) R.S.Supp., 2004, the State of Nebraska Director of Administrative Services duties include "The keeping of general accounts and the adoption and promulgation of appropriate rules, regulations, and administrative orders designed to assure a uniform and effective system of accounts and accounting, the approval of all vouchers, and the preparation and issuance of warrants for all purposes."

The Nebraska Information System (NIS) is the official accounting system prescribed by DAS for the State of Nebraska. Policies and procedures are detailed in NIS manuals and Nebraska Accounting System Concepts published by DAS and available to the public. The financial information used to prepare the schedule of revenues, expenditures, and changes in fund balances for the Court was obtained directly from the NIS. NIS records accounts receivable and accounts payable as transactions occur. As such certain revenues are recorded when earned and expenditures are recorded when a liability is incurred, regardless of the timing of related cash flows. The accounts payable liability recorded on NIS, and thus recorded as expenditures, as of June 30, 2005, includes only those payables posted to NIS before June 30, 2005, and not yet paid as of that date. The amount recorded as expenditures as of June 30, 2005, **does not** include amounts for goods and services received before June 30, 2005, which had not been posted to NIS as of June 30, 2005.

The NIS system does not include liabilities for accrued payroll and compensated absences.

The fund types established by NIS that are used by the Court are:

10000 – General Fund – accounts for all financial resources not required to be accounted for in another fund.

20000 – Cash Funds – account for revenues generated by specific activities from sources outside of State government and the expenditures directly related to the generation of the revenues. Cash funds are established by State statutes and must be used in accordance with those statutes.

40000 – Federal Funds – account for all federal grants and contracts received by the State. Expenditures must be made in accordance with applicable federal requirements.

60000 – Trust Funds – account for assets held by the State in a trustee capacity. Expenditures are made in accordance with the terms of the trust.

NEBRASKA WORKERS' COMPENSATION COURT

NOTES TO THE SCHEDULE

(Continued)

1. Criteria (Continued)

The major revenue object account codes established by NIS used by the Court are:

Taxes – Compulsory charges levied by a government for the purpose of financing services performed for the common benefit. Taxes recorded as revenue for the Court consists of insurance premium taxes.

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

Sales & Charges – Income derived from sales of merchandise and commodities, compensation for services rendered, and charges for various licenses, permits, and fees.

Miscellaneous – Revenue from sources not covered by other major categories, such as investment income.

The major expenditure object account titles established by NIS used by the Court are:

Personal Services – Salaries, wages, and related employee benefits provided for all persons employed by the Court.

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

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

Capital Outlay – Expenditures which result in the acquisition of or an addition to capital assets. Capital assets are resources of a long-term character, owned or held by the government.

Government Aid – Payment of Federal and/or State money to governmental subdivisions, State agencies, local health and welfare offices, individuals, etc., in furtherance of local activities and accomplishment of State programs.

Other significant object account codes established by NIS and used by the Court include:

Assets – Resources owned or held by a government that have monetary value. Assets include cash accounts, deposits with vendors, and receivable accounts. Accounts receivable are recorded as an increase to revenues and an increase to fund balance on the schedule. Cash accounts and deposits with vendors are also included in fund balance and are reported as recorded on NIS.

NEBRASKA WORKERS' COMPENSATION COURT

NOTES TO THE SCHEDULE

(Continued)

1. Criteria (Concluded)

Liabilities – Legal obligations arising out of transactions in the past that must be liquidated, renewed, or refunded at some future date. Accounts payable transactions increase expenditures and decrease fund balance. Other liabilities recorded on NIS for the Court's funds at June 30, 2005, included Bond Payable. The activity of this account is not recorded on the Schedules of Revenues, Expenditures, and Changes in Fund Balances as it is not recorded through revenue and expenditure accounts.

Other Financing Sources – Operating transfers and proceeds of fixed asset dispositions.

2. State Agency

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 schedule includes all funds of the Court.

The Nebraska Workers' Compensation Court is part of the primary government for the State of Nebraska.

3. 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 because interfund balances and transactions have not been eliminated.

4. Capital Assets

Under NIS, capital assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisitions are reflected as expenditures. Capital assets, which would include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) would be reported for the State of Nebraska in the Comprehensive Annual Financial Report (CAFR). The Court values all capital assets at cost where historical records are available and at estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received. Generally, equipment that has a cost of \$1,500 at the date of acquisition and has an expected useful life of two or more years is capitalized. Depreciation expenses would be reported in the CAFR in the funds used to acquire or construct them for the State of Nebraska. The cost of normal maintenance and repairs that does not add to the value of the asset or extend asset life is not capitalized.

NEBRASKA WORKERS' COMPENSATION COURT

NOTES TO THE SCHEDULE

(Continued)

4. Capital Assets (Concluded)

Equipment is depreciated using the straight-line method with estimated useful lives of three to ten years.

Capital asset activity of the Court for the fiscal year ended June 30, 2005, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets				
Equipment	<u>\$ 467,186</u>	<u>\$ 21,481</u>	<u>\$ 144,686</u>	\$ 343,981
Less accumulated depreciation for:				
Equipment				<u>266,466</u>
Total capital assets, net of depreciation				<u>\$ 77,515</u>

5. Transfers

2004 Neb. Laws LB 1089, Section 233, authorized the State Treasurer to transfer \$359,757 from the Workers' Compensation Trust Fund to the Compensation Court Cash fund in four equal quarterly installments.

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
Kate.Witek@apa.ne.gov

**NEBRASKA WORKERS' COMPENSATION COURT
REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN EXAMINATION OF THE SCHEDULE OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Deann Haeffner, CPA
Deputy State Auditor
Deann.Haeffner@apa.ne.gov

Nebraska Workers' Compensation Court
Lincoln, Nebraska

Don Dunlap, CPA
Asst. Deputy Auditor
Don.Dunlap@apa.ne.gov

Pat Reding, CPA
Asst. Deputy Auditor
Pat.Reding@apa.ne.gov

Tim Channer, CPA
Asst. Deputy Auditor
Tim.Channer@apa.ne.gov

We have examined the accompanying schedule of revenues, expenditures, and changes in fund balances of the Nebraska Workers' Compensation Court for the fiscal year ended June 30, 2005, and have issued our report thereon dated January 12, 2006. We conducted our examination in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Mary Avery
SAE/Finance Manager
Mary.Avery@apa.ne.gov

Internal Control Over Financial Reporting

Dennis Meyer, CGFM
Subdivision Budget
Coordinator
Dennis.Meyer@apa.ne.gov

In planning and performing our examination, we considered the Nebraska Workers' Compensation Court's internal control over financial reporting in order to determine our procedures for the purpose of expressing our opinion on the schedule of revenues, expenditures, and changes in fund balances, and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Nebraska Workers' Compensation Court's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial schedule. Reportable conditions are described in

Mark Avery, CPA
Subdivision Audit
Review Coordinator
Mark.Avery@apa.ne.gov

Perry Pirsch, JD, MPA
Legal Counsel
Perry.Pirsch@apa.ne.gov

the Comments Section of the report as Comment Number 1 (Internal Control Over Revenues and Expenditures) and Comment Number 5 (Reconciliation of Bank Records to the Nebraska Information System).

A material weakness is a reportable 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 caused by error or fraud in amounts that would be material in relation to the financial schedule being examined may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Nebraska Workers' Compensation Court's schedule of revenues, expenditures, and changes in fund balances, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial schedule amounts. However, providing an opinion on compliance with those provisions was not an objective of our examination, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We also noted certain additional items that we reported to management of the Nebraska Workers' Compensation Court in the Comments Section of this report as Comment Number 2 (Timesheets), Comment Number 3 (Travel), and Comment Number 4 (Lack of Segregation of Duties – Capital Assets).

This report is intended solely for the information and use of the Court and the appropriate Federal and regulatory agencies. However, this report is a matter of public record and its distribution is not limited.

Pat Reding, CPA

Assistant Deputy Auditor

January 12, 2006

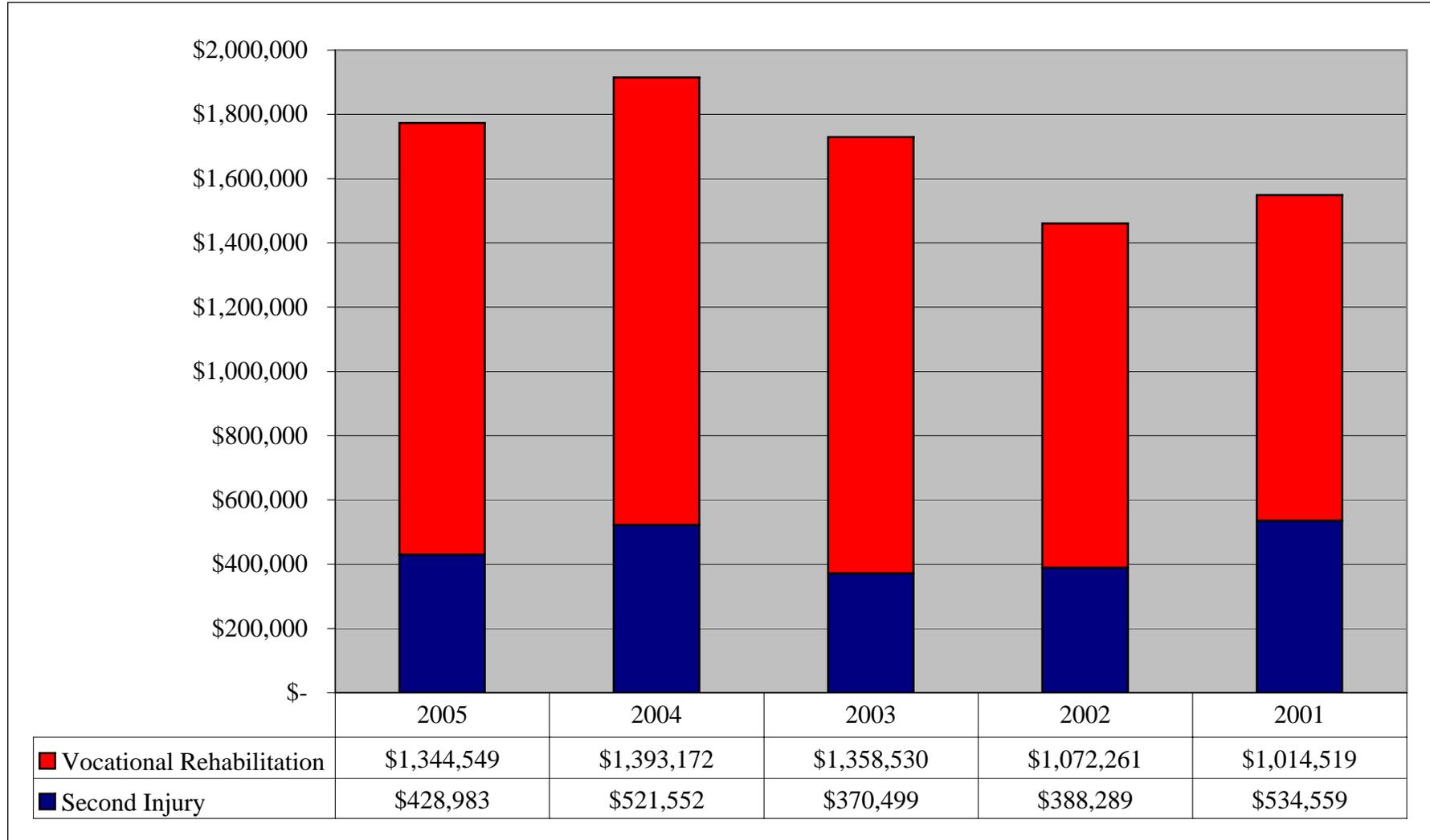
NEBRASKA WORKERS' COMPENSATION COURT

STATISTICAL SECTION

Our examination was conducted for the purpose of forming an opinion on the schedule of revenues, expenditures, and changes in fund balances. Statistical Section information is presented for purposes of additional analysis. Such information has not been subjected to the procedures applied in the examination of the schedule of revenues, expenditures, and changes in fund balances, and, accordingly, we express no opinion on it.

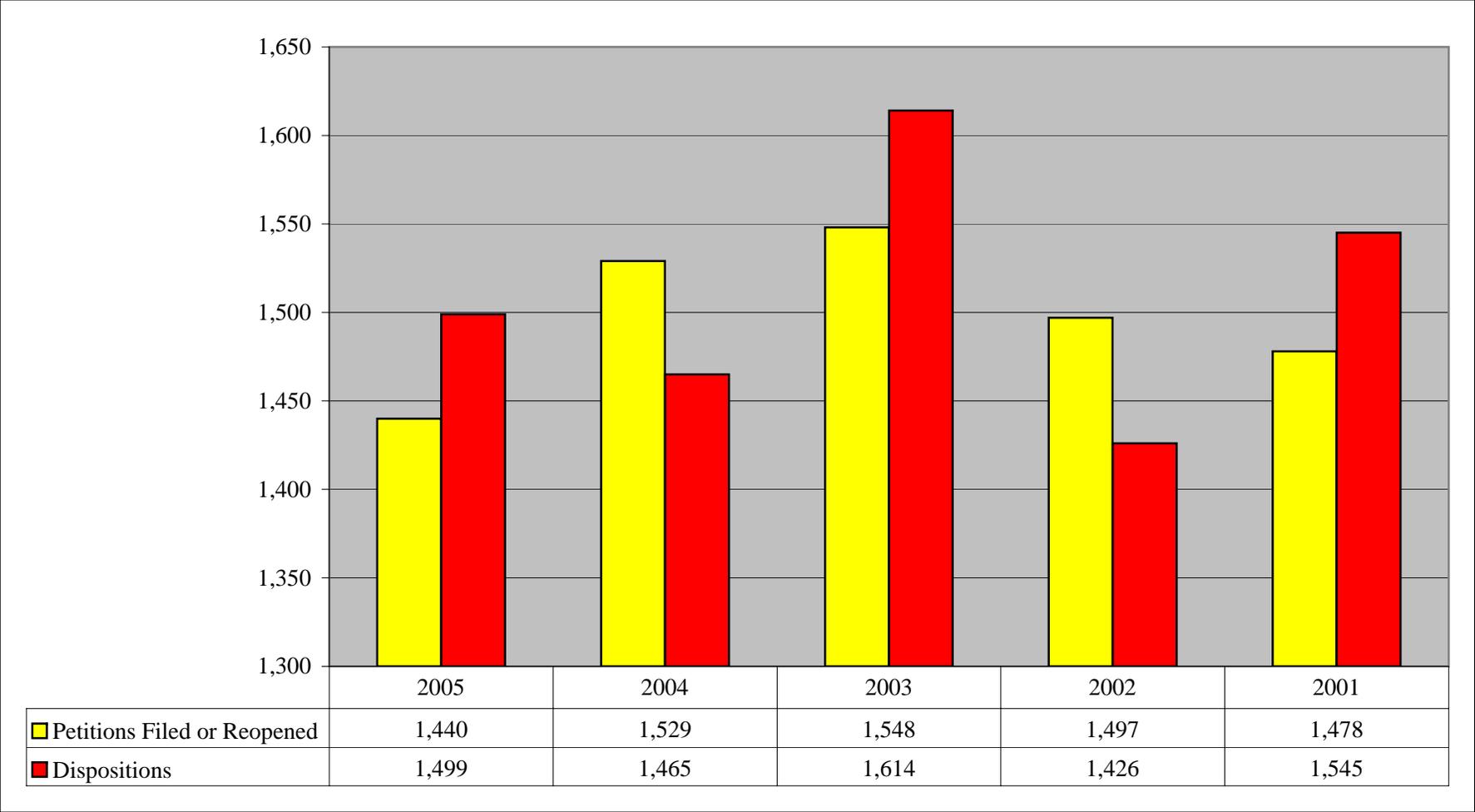
NEBRASKA WORKERS' COMPENSATION COURT
SECOND INJURY AND VOCATIONAL REHABILITATION EXPENDITURES

For the Fiscal Years Ended June 30, 2001, 2002, 2003, 2004, and 2005



NOTE: Expenditures total includes benefit payments from the Workers' Compensation Trust Fund and administrative costs paid from the Compensation Court Cash Fund.

NEBRASKA WORKERS' COMPENSATION COURT
PETITIONS FILED OR REOPENED AND DISPOSITIONS
For the Fiscal Years Ended June 30, 2001, 2002, 2003, 2004, and 2005



Source: Workers' Compensation Court Annual Reports

NOTE 1: Chart above includes only those cases at the original hearing level; those cases that were heard by a single judge.

NOTE 2: Dispositions include decisions issued, settlements, and dismissals without hearings.