



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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Don Stenberg, State Treasurer
Nebraska State Treasurer
State Capitol, Room 2005
Lincoln, Nebraska 68509-4788

Dear Mr. Stenberg:

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Nebraska (State) as of and for the year ended June 30, 2015, in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, we have issued our report thereon dated December 17, 2015. In planning and performing our audit, we considered the State's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements of the State, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control. Accordingly, we do not express an opinion on the effectiveness of the State's internal control.

In connection with our audit described above, we noted a certain internal control or compliance matter related to the activities of the Nebraska State Treasurer (Treasurer) or other operational matters that are presented below for your consideration. The comment and recommendation, which has been discussed with the appropriate members of the Treasurer's management, is intended to improve internal control or result in other operating efficiencies.

Our consideration of internal control included a review of prior year comments and recommendations. To the extent the situations that prompted the recommendations in the prior year still exist, they have been incorporated in the comments presented for the current year. All other prior year comments and recommendations (if applicable) have been satisfactorily resolved.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses or significant deficiencies. However, material weaknesses or significant deficiencies may exist that were not identified.

In addition, we noted other matters involving internal control and its operation that we have reported to management of the Treasurer in separate early communication letters pursuant to AICPA Auditing Standards AU-C Section 265.A17, dated July 21, 2015, and November 2, 2015.

Draft copies of this letter were furnished to the Treasurer to provide management with an opportunity to review and to respond to the comment and recommendation contained herein. All formal responses received have been incorporated into this letter. Responses have been objectively evaluated and recognized, as appropriate, in the letter. Responses that indicate corrective action has been taken were not verified at this time, but they will be verified in the next audit.

The following is our comment and recommendation for the year ended June 30, 2015.

Disbursements from the Insurance Tax Fund

Neb. Rev. Stat. § 77-913 (Reissue 2009) states in part:

Prior to June 1 of each year, the State Treasurer shall disburse or allocate all of the funds in the Insurance Tax Fund on May 1 of each year as follows: (1) Ten percent of the total shall be allocated to the counties proportionately in the proportion that the population of each county bears to the entire state, as shown by the last federal decennial census

A good internal control plan requires procedures to ensure disbursements are accurate and are in compliance with State statute.

The Department of Insurance is required to distribute the premium and retaliatory taxes collected from insurance companies to various funds, including the Insurance Tax Fund (Fund), by May 1 of each year. Once this disbursement is completed, the Treasurer is required to distribute the May 1 balance of the Fund in accordance with Neb. Rev. Stat. § 77-913 prior to June 1 of each year. During testing, we noted the following errors were made by the Treasurer when funds were disbursed to the counties:

- The amount due as of May 1, 2015, was \$4,692,053; however, the Treasurer disbursed \$4,920,053 to the counties on May 29, 2015, resulting in overpayments totaling \$228,000. According to the Treasurer, the miscalculation was caused by a keying error when compiling the distribution. The counties later reimbursed the Treasurer for the error.
- Furthermore, after the initial disbursement to the counties was made, the balance in the Fund was corrected by the Department of Insurance due to previous transfer errors. When the Treasurer recalculated the distribution, interest in the Fund for the time period May 1, 2014, through April 30, 2015, of \$179,941, was not included in the balance. This resulted in an underpayment to the counties of \$17,994. The underpayment was distributed to the counties on October 14, 2015.

When adequate procedures are not in place to ensure disbursements are accurate and in compliance with State statute, there is a risk that State funds will be inaccurately distributed.

We recommend the Treasurer implement procedures to ensure distributions are properly calculated and made in accordance with State statute.

Agency Response: The procedures for the Annual Insurance Payment have been updated as of 8/21/2015. The updates to the procedures include a verification of the amounts listed in the letter. All future calculations will be verified by creating an adding machine tape showing that the amount for counties, Municipal Equalization Fund and the schools matches back to the fund balance. This calculation will also be verified by at least one additional Treasury Management staff member. This process was done in each year prior to the information shared in May 2015, but overlooked in May of 2015. Steps have been taken to ensure that the figures calculated are accurate.

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Our audit procedures are designed primarily on a test basis and, therefore, may not bring to light all weaknesses in policies or procedures that may exist. Our objective is, however, to use our knowledge of the Treasurer and its interaction with other State agencies and administrative departments gained during our work to make comments and suggestions that we hope will be useful to the Treasurer.

This communication is intended solely for the information and use of the Treasurer, the Governor and State Legislature, others within the Treasurer, Federal awarding agencies, pass-through entities, and management of the State of Nebraska and is not intended to be, and should not be, used by anyone other than the specified parties. However, this communication is a matter of public record, and its distribution is not limited.



Don Dunlap, CPA
Assistant Deputy Auditor