NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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December 19, 2019

Bruce Ramge, Director
Nebraska Department of Insurance
PO Box 82089
Lincoln, Nebraska 68501

Dear Mr. Ramge:

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, 2019, 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, we have issued our report thereon dated December 19, 2019. 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 certain internal control or compliance matters related to the activities of the Nebraska Department of Insurance (Department) or other operational matters that are presented below for your consideration. This comment and recommendation, which has been discussed with the appropriate members of the Department 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.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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. However, material weaknesses may exist that have not been identified.

Draft copies of this letter were furnished to the Department to provide management with an opportunity to review and to respond to the comment and recommendation contained herein. Any formal response received has been incorporated into this letter. Such response has been objectively evaluated and recognized, as appropriate, in the letter. A response that indicates corrective action has been taken was not verified at this time, but it will be verified in the next audit.

The following is our comment and recommendation for the year ended June 30, 2019.

Internal Actuary Review

A good internal control plan requires procedures to verify that in-house actuarial calculations are accurate and properly supported.

The Department of Administrative Services, State Accounting Division (State Accounting), requests information from the Department for the calculation of the incurred but not reported (IBNR) Nebraska Hospital-Medical Liability for the Comprehensive Annual Financial Report (CAFR). The IBNR liability calculation is complex and requires an actuary to determine the amount to be reported. The Department has an in-house actuary to perform the calculation. However, the Department has not sought an external actuarial review to ensure the accuracy of its calculation since fiscal year 2014. The IBNR liability was approximately $31 million for the fiscal year ended June 30, 2019.

When complex calculations for the financial statements are not subject periodically to an external secondary review, there is an increased risk that amounts reported will be incorrect, resulting in a material misstatement in the financial statements.

> We recommend the Department obtain an external actuarial review of the INBR liability calculation at least once every five years to ensure the accuracy of the in-house calculation.

Department Response: The Agency will obtain an external actuarial review to ensure the accuracy of the in-house IBNR liability calculation as of June 30, 2020. For the future, the Agency actuary's twice-yearly workflow documentation now includes a reminder to plan in January for similar reviews as of June on each five-year anniversary.

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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 Department 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 Department.

This communication is intended solely for the information and use of management, the Governor and State Legislature, others within the Department, 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.

Pat Reding

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