

**ATTESTATION REPORT
OF THE
NEBRASKA DEPARTMENT OF INSURANCE
JULY 1, 2018, THROUGH APRIL 30, 2020**

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Issued on September 18, 2020

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Audit Staff Working On This Examination

Pat Reding, CPA, CFE – Assistant Deputy Auditor

Jeff Schreier, CPA – Auditor-In-Charge

Tyler Rump, CPA – Auditor II

Alex List – Auditor

Keira Wisniewski – Auditor

Christian Swift – Auditor

Our reports can be found electronically at: auditors.nebraska.gov

Additionally, you may request them by contacting us at:

Nebraska Auditor of Public Accounts

State Capitol, Suite 2303

P.O. Box 98917

Lincoln, Nebraska 68509

Phone: 402-471-2111

NEBRASKA DEPARTMENT OF INSURANCE

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NEBRASKA DEPARTMENT OF INSURANCE

BACKGROUND

The Department of Insurance (Department) is the primary financial solvency regulator for all Nebraska domestic insurers and the market regulator for insurance transactions in Nebraska. The Department's mission is to safeguard those affected by the business of insurance through the fulfillment of its statutory obligations and to promote fair and just treatment to all parties to insurance transactions.

The Department includes the following divisions: Administration, Administrative Services, Consumer Affairs, Financial Regulation, Fraud Prevention, Human Resources, Legal, Life and Health, Market Conduct, Producer Licensing, and Property and Casualty.

Regulation by the Department includes statutory responsibilities related to financial oversight, collection of premium tax and surplus lines tax, market conduct surveillance, licensure of all producers, agencies, and companies wishing to do business in Nebraska, periodic examinations of company affairs, review and approval of policy filings and rates for life, health, and property and casualty insurance, investigation of rating and claims practice inquiries, addressing consumers' insurance-related complaints, and investigating suspected insurance fraud.

The Department also coordinates and maintains the Senior Health Insurance Information Program (SHIIP), which is a federally funded Statewide seniors counseling program that provides free, unbiased health insurance information to Medicare-eligible individuals. In addition, the Department added a Health Policy Division that is responsible for the State-related coordination and implementation of the Affordable Care Act (ACA). This division operates with assistance from a Federal grant to perform various functions relating to rate review and other functions mandated by the ACA.

Other areas the Department is responsible for include the oversight and coordination of the Workers' Compensation Pool, the Nebraska Comprehensive Health Insurance Pool, the Nebraska Life and Health Insurance Guaranty Association, and the Nebraska Property and Liability Insurance Guaranty Association. Additionally, the Department administers the Nebraska Hospital-Medical Liability Act, which entails the qualifying of applicable medical professionals and hospitals for the Excess Liability Fund, collecting surcharges, qualifying individuals for the medical liability residual fund, and monitoring and participating in the defense of applicable medical liability suits.

The first complete insurance code in Nebraska, enacted in 1913, provided for an Insurance Board to administer the code. The duties of the Insurance Board were given to the Bureau of Insurance in the Department of Trade and Commerce in 1919. In 1933, the bureau became the Department. In 1947, the Legislature passed laws that updated the 1913 code. The Director of the Department is appointed by the Governor.

Source: 2018-2019 Nebraska Blue Book

NEBRASKA DEPARTMENT OF INSURANCE

KEY OFFICIALS AND AGENCY CONTACT INFORMATION

Nebraska Department of Insurance Executive Management

Name	Title
Bruce Ramage	Director
Martin Swanson	Deputy Director
Robin Edwards	Accounting and Finance Manager

Nebraska Department of Insurance
1135 M Street, Suite 300
P.O. Box 82089
Lincoln, NE 68501
doi.nebraska.gov

NEBRASKA DEPARTMENT OF INSURANCE

SUMMARY OF COMMENTS

During our examination of the Nebraska Department of Insurance (Department), we noted certain deficiencies and other operational matters that are presented here. The following comments are required to be reported in accordance with *Government Auditing Standards*: Comments #1, “Financial Coding Errors,” and #2, “Payroll Segregation of Duties,” which are considered to be significant deficiencies.

These comments and recommendations are intended to improve the internal control over financial reporting or result in operational efficiencies in the following areas:

1. **Financial Coding Errors:** The Department had several financial schedule coding errors, of which \$986,406 was adjusted on the financial schedule. Due to this error, \$750,000 was not distributed in accordance with Neb. Rev. Stat. § 44-4225(5) (Cum. Supp. 2018) and Neb. Rev. Stat. § 77-912 (Reissue 2018).
2. **Payroll Segregation of Duties:** The Department did not have an adequate segregation of duties over payroll; sick and vacation leave hours earned on an employee’s final paycheck were not proper; one employee’s adjusted service date was incorrect; and four employees’ vacation leave balances in excess of the maximum were not lapsed appropriately as of December 31, 2019.
3. **Contracts:** We noted that one contract was not posted properly to the State Contracts Database, as required by Neb. Rev. Stat. § 84-602.04(4)(a) (Supp. 2019). Payments made during the examination period on this contract totaled \$1,625,000. We also noted a \$11,799 payment for which the Department had no written contract or agreement.
4. **Capital Asset Issues:** We noted that the Department lacked procedures to ensure capital asset additions were recorded using the correct asset value and acquisition date, and proceeds from the sale of capital assets were deposited to the correct fund in accordance with Neb. Rev. Stat. § 81-161.04(2) (Cum. Supp. 2018). We also noted that the Department was not reviewing adequately the Passed Transaction Report.
5. **Travel Issues:** The Department reimbursed an outside vendor for travel costs related to the 2019 “Insurtech on the Silicon Prairie” conference; however, there was no written agreement to support what travel costs would be reimbursed to the vendor. We noted the vendor was reimbursed for meals, totaling \$68, for which no documentation was received, and one reimbursed meal, totaling \$9, was purchased before travel for the Nebraska conference began. We noted also that three meals, totaling \$90, were reimbursed to Department employees with only a credit card receipt.
6. **Federal Award Compliance:** We noted that the Department lacked adequate documentation to support not only the employee hours charged to Federal awards but also that the \$24,000 per year fixed amount subaward with the West Central Nebraska Area Agency on Aging was a reasonable estimate of actual costs. We also noted that the Department’s subaward documents for the Senior Health Insurance Information Program did not contain all items required by Federal regulations.

More detailed information on the above items is provided hereinafter. It should be noted that this report is critical in nature, containing only our comments and recommendations on the areas noted for improvement and does not include our observations on any accounting strengths of the Department.

Draft copies of this report were furnished to the Department to provide its management with an opportunity to review and to respond to the comments and recommendations contained herein. All formal responses received have been incorporated into this report. Responses that indicate corrective action has been taken were not verified at this time, but they will be verified in the next examination.

NEBRASKA DEPARTMENT OF INSURANCE

COMMENTS AND RECOMMENDATIONS

1. Financial Coding Issues

During testing, we noted several transactions that were not recorded properly in the State’s accounting system, EnterpriseOne. Some errors noted required adjustment to the financial schedule, as detailed below, to ensure the Nebraska Department of Insurance’s (Department) financial activity was presented accurately.

Return of Deposit with Vendor

During the examination period, the Department received \$750,000 back from the administrator of the Comprehensive Health Insurance Pool (CHIP) that was held previously on deposit to pay claims. Due to errors in recording this transaction, the \$750,000 was recorded in the Department of Insurance Cash Fund. This transaction should have been recorded instead to the Comprehensive Health Insurance Pool Fund. As a result of this coding error, \$750,000 was not distributed properly in accordance with Neb. Rev. Stat. § 44-4225(5) (Cum. Supp. 2018) and Neb. Rev. Stat. § 77-912 (Reissue 2018). Had this transaction been recorded properly, the General Fund, Insurance Tax Fund, and Mutual Aid Assistance Fund would have received the amounts detailed in the table below:

Fund	Amount
General Fund	\$ 300,000
Insurance Tax Fund	375,000
Mutual Aid Assistance Fund	75,000
Total	\$ 750,000

Section 44-4225(5) states, in relevant part, the following:

No later than May 1, 2002, and each May 1 thereafter, after funding of the net loss from operation of the pool for the prior premium and related retaliatory tax year, taking into account the policyholder premiums, account investment income, claims, costs of operation, and other appropriate gains and losses, the director shall transmit any money remaining in the fund as directed by section 77-912, disregarding the provisions of subdivisions (1) through (3) of such section

Section 77-912 provides, as is relevant, the following:

The Director of Insurance shall transmit fifty percent of the taxes paid in conformity with Chapter 44, article 1, and Chapter 77, article 9, to the State Treasurer, forty percent of such taxes paid to the General Fund, and ten percent of such taxes paid to the Mutual Finance Assistance Fund promptly upon completion of his or her audit and examination and in no event later than May 1 of each year

The financial schedule was adjusted to show this balance as Due to Fund in the Comprehensive Health Insurance Pool Fund, rather than Due to Vendors in the Insurance Cash Fund.

Software Capitalization

The Department began implementation of a new computer system to help Nebraska taxpayers navigate the process of filing a health care insurance company appeal and track the progress of filed claims. As of April 30, 2020, the Department had incurred costs of \$236,406 related to this project, all of which were recorded as operating expenses. However, these costs met capitalization requirements and, therefore, should have been recorded as capital outlay.

The financial schedule was adjusted for this error.

The Nebraska State Accounting Manual, AM-005, General Policies, Section 28 – Capital Outlay (“Computer Software Capitalization”), requires costs related to internally developed software to “be capitalized as a separate asset if the cost is \$100,000 or more and has a life greater than one year.”

NEBRASKA DEPARTMENT OF INSURANCE

COMMENTS AND RECOMMENDATIONS

(Continued)

1. **Financial Coding Issues** (Continued)

Insurtech Conference Activity

The Department sponsored the 2019 “Insurtech on the Silicon Prairie Conference,” which was a joint endeavor by the Nebraska Insurance Federation and the Department to promote Nebraska’s economic development and to heighten the awareness of advances in technology that can aid the effectiveness of both insurance operations and insurance regulation. The Department was responsible for collecting registration fees for this conference and issuing payments, totaling \$64,497, for conference-related expenditures, using the fees received.

After the conclusion of the conference, the Department posted a journal entry in the accounting system that reversed out the \$64,497 in revenues and expenditures related to the 2019 conference, effectively acting as if this activity never occurred.

The Nebraska State Accounting Manual, AM-005, General Policies, Section 1 – State Agency Sponsored Conferences, provides the following, in relevant part:

No adjustment will be made to an agency’s appropriation (without the approval of DAS Budget), nor will netting of receipts against disbursements be allowed when sponsoring a conference. Any disbursement must be included in the agency’s budget. (§81-1182)

Other Coding Issues

During testing, we also noted the following issues regarding the account coding used by the Department:

- Three payments included costs, totaling \$8,996, related to travel expenses incurred by independent contractors used by the Department. The Department recorded these travel expenditures to the Accounting & Auditing Services or the Legal Services Expense account codes; however, the Contractual Services – Travel account code appears to be more appropriate for such expenditures.
- One payment for \$15,000 was paid to an independent contractor providing services for the Senior Health Insurance Information Program. The Department recorded this expenditure to Subrecipient Payment – SEFA; however, 1099-Aid-Services appears more appropriate because this individual is not a subrecipient. This error resulted in the payment being identified incorrectly as a subrecipient payment on the State of Nebraska’s Schedule of Expenditures of Federal Awards (SEFA).

Good internal controls require procedures to ensure that financial transactions are recorded accurately.

Without such procedures, there is an increased risk for a material misstatement of the financials to occur and remain undetected, further increasing the possibility of loss or misuse of funds.

We recommend the Department implement procedures to ensure that all of its financial activity is recorded accurately in the accounting system.

Department Response:

A. *Financial Coding Issues – Return of Deposit with Vendor*

The original coding was in error. This has been corrected and proper disbursement of the taxes was done prior to the close of the fiscal year. This specific type of transaction, namely money coming back from the NECHIP Administrator, is rare. On 7/07/20, detailed instructions were created that include specific account codes to be used.

NEBRASKA DEPARTMENT OF INSURANCE

COMMENTS AND RECOMMENDATIONS

(Continued)

1. **Financial Coding Issues** (Concluded)

B. Financial Coding Issues – Software Capitalization

Costs were identified and recoded into a fixed asset code for IT projects in progress. Any such item shall be coded to a fixed asset code in the future.

C. Financial Coding Issues – Insurtech Conference Activity

Netting of receipts for this conference will not be allowed going forward.

D. Financial Coding Issues – Contractor Travel

The agency has begun using the contractor travel code, effective 7/1/2020.

E. Financial Coding Issues – SHIP Contractor

This coding issue was corrected in April 2020, prior to the initiation of this audit.

2. **Payroll Segregation of Duties**

The State’s accounting system does not have an established segregation of duties for payroll processing. Therefore, employees with access to process payroll are able to perform all procedures without a secondary individual being required to approve transactions. One employee was able to perform all payroll processes within the system and certify the accuracy of payroll to the Department of Administrative Services (DAS).

Accordingly, the Department should have compensating procedures in place, such as a documented review of the final payroll register by an individual without payroll access, to ensure no one individual is able to conceal errors or irregularities.

The Department had \$14,752,727 in personal service expenditures during the period July 1, 2018, through April 30, 2020.

Additionally, we noted the following specific errors during our testing of payroll.

- For one of three employee terminations tested, the sick and vacation leave hours earned on the employee’s final paycheck were improper. The following variances were noted:

Leave Type	Actual Earnings	Proper Earnings	Variance
Sick Leave	8.31	7.38	0.93
Vacation Leave	6.65	6.15	0.5

- For 1 of 10 employees tested, the employee’s adjusted service date was incorrect. This employee was hired originally in a temporary capacity, being moved later to a permanent, full-time position. The Department did not adjust properly the employee’s service date to the date permanent employment began; instead, the service date was left as the date temporary employment began. The difference in dates is shown below:

Actual Service Date	Proper Service Date	Difference in Days
4/23/2018	6/4/2018	42

NEBRASKA DEPARTMENT OF INSURANCE

COMMENTS AND RECOMMENDATIONS

(Continued)

2. **Payroll Segregation of Duties** (Concluded)

- The Department lacked adequate procedures to ensure vacation leave in excess of the 280-hour maximum (35 days) were lapsed properly as of December 31, 2019. The following table details the excess vacation leave hours noted that were carried over improperly to 2020:

	Excess Carry-Over
Employee #1	3.4 hours
Employee #2	1.9 hours
Employee #3	0.9 hours
Employee #4	0.9 hours

Title 273 NAC 10-004.02 requires the following:

All employees' accumulated vacation time in excess of thirty-five days shall be forfeited as of December 31 of each calendar year. In special and meritorious cases, when it would cause hardship for an employee to take earned vacation leave before December 31, excess carryover leave may be approved by the Agency Head. In these cases, the agency head shall assure hours carried over shall be used within the next six months. In no case shall approved carry over vacation continue from year to year.

(Emphasis added.) No such approval from the Agency Head was obtained for the excess leave noted.

A good internal control plan requires procedures to ensure that an adequate segregation of duties exists, so no one individual is in a position both to perpetrate and to conceal errors and/or irregularities. This would require someone without payroll access to perform a documented comparison of the final payroll register to employee timesheets, confirming that the payroll was proper. Those same internal control procedures should ensure also that employee service dates, leave earnings, and leave carry-overs are proper.

Without such procedures, there is an increased risk of errors or irregularities occurring and not being detected.

We recommend the Department implement procedures to ensure a proper segregation of duties, such as requiring someone without payroll access to perform a documented review of the final payroll register for accuracy and reasonableness. Those same procedures should ensure also that employee service dates, leave earnings, and leave carry-overs are proper.

Department Response:

A. **Payroll – Segregation of Duties**

The Department will initiate a process to have an individual without payroll access review the final payroll register.

B. **Payroll – Leave and Date Adjustments**

Adjustments to leave balances and tenure dates will be reviewed by a second person.

3. **Contracts**

During our testing of the Department's expenditures, we noted the following regarding contracts – or, in one instance, the lack thereof – entered into by the Department:

NEBRASKA DEPARTMENT OF INSURANCE

COMMENTS AND RECOMMENDATIONS

(Continued)

3. **Contracts** (Continued)

State Contracts Database

One contract tested was not included on the State Contracts Database, as required by State statute. The contract in question provided reinsurance coverage for the Excess Liability Fund (Fund), a trust fund created by Neb. Rev. Stat. § 44-2829(1) (Reissue 2010) and intended “for the exclusive use and purposes stated in the Nebraska Hospital-Medical Liability Act.”

During the examination period, payments on this reinsurance contract totaled \$1,625,000. As permitted by § 44-2829(6), those contract payments came from the Fund.

The Taxpayer Transparency Act (Act) is set out at §§ 84-602.01 to 84-602.04 (Cum. Supp. 2018, Supp. 2019). Neb. Rev. Stat. § 84-602.04(4)(a) (Supp. 2019) of the Act states, in relevant part, the following:

The web site described in this section shall include a link to the web site of the Department of Administrative Services. The Department’s web site shall contain:

(i) A data base that includes a copy of each active contract that is a basis for an expenditure of state funds, including any amendment to such contract and any document incorporated by reference in such contract . . .

(Emphasis added.) According to Neb. Rev. Stat. § 84-602.03(1)(a) (Cum. Supp. 2018) of the Act, “Expenditure of state funds means all expenditures of state receipts, whether appropriated or nonappropriated, by a state entity . . . [.]”

Section 84-602.03(4) of the Act defines “state receipts” as follows:

State receipts means revenue or other income received by a state entity from tax receipts, fees, charges, interest, or other sources which is (a) used by the state entity to pay the expenses necessary to perform the state entity’s functions and (b) reported to the State Treasurer in total amounts by category of income. State receipts does not include pass-through funds.

(Emphasis added.) Additionally, Section 84-602.03(2) of the Act provides the following definition for “pass-through funds”:

Pass-through funds means any funds received by a state entity if the state entity is acting only as an intermediary or custodian with respect to such funds and is obligated to pay or otherwise return such funds to the person entitled thereto.

(Emphasis added.) The Department claims that the balance held in the Fund falls within the definition of “pass-through funds” at § 84-602.03(2) of the Act and, therefore, the reinsurance contract was not required to be included on the State Contracts Database.

As mentioned already, the contract at issue provided reinsurance coverage for the Fund, and the \$1,625,000 paid for that coverage came from the Fund. Contrary to the definition of “pass-through funds” in § 84-602.03(2) of the Act, however, the Department was not “acting only as an intermediary or custodian with respect to” the Fund money paid to the reinsurance provider. Likewise, the Department was not “obligated to pay or otherwise return” the Fund money to the reinsurance provider, nor was the reinsurance provider “entitled” to receive that money.

Rather, the contract expenditures arose from the Department’s discretionary use of the Fund money, per § 44-2829(6), to pay for the cost of the reinsurance coverage purchased. Therefore, the Fund money must be seen as State receipts – which, under § 84-602.03(4) of the Act, are “used by the state entity to pay the expenses necessary to perform the state entity’s functions” – not pass-through funds held for a particular beneficiary or recipient claiming a proprietary interest in those monies.

NEBRASKA DEPARTMENT OF INSURANCE

COMMENTS AND RECOMMENDATIONS

(Continued)

3. Contracts (Concluded)

Good internal controls require procedures to ensure that all of the Department's contracts are available on the State Contracts Database.

Without such procedures, there is an increased risk of the Department not only failing to comply with State statute but also preventing both the Legislature and the general public from having access to important financial information, as intended by the Act.

Lack of Contract

The Department was unable to provide any written contract or agreement to support an \$11,799 payment to Midland Area Agency on Aging (Midland). Midland offers services related to the Senior Health Insurance Information Program (SHIIP), but documentation is lacking for the specific services that the Department received or the terms of the arrangement under which they were provided.

Additionally, the Department had only an invoice from Midland for the \$11,799 payment tested. The Department did not obtain any detailed documentation to support the costs listed on the invoice, which included personnel, travel, printing, phone, liability insurance, and audit costs.

Good internal controls require procedures to ensure that the Department memorializes its agreements in written contracts that specify the particulars of those arrangements and are kept on file for subsequent review. Those same procedures should ensure also that the Department obtains detailed documentation to support the costs included on invoices submitted for payment.

Without such procedures, there is an increased risk for the loss and/or misuse of funds.

We recommend the Department implement procedures to ensure the following: 1) all of its contracts are posted on the State Contracts Database, as required by the Act; 2) agreements are memorialized in written contracts that specify the particulars of those arrangements and are kept on file for subsequent review; and 3) detailed documentation is obtained to support costs on invoices submitted for payment.

Department Response:

A. Contracts – State Contracts Database

This type of contract had not historically been entered into EI or scanned into the state contract database. The agency has agreed to begin entering & scanning in line with auditor recommendations.

B. Contracts – Lack of Contract

The agency agrees that all contractors should be engaged with a written contract and entered into EI and the state contract database.

4. Capital Asset Issues

During our testing of the Department's capital assets, we noted the following:

- During the examination period, the Department sold a Dell Laptop at a surplus property auction. This asset was originally purchased using Federal funds. This item was grouped into a "lot" by DAS – Surplus Property. The Department received notification showing only the total proceeds of that lot, not the amount paid for each item. All proceeds of the sale were deposited into the Department of Insurance Cash Fund.

NEBRASKA DEPARTMENT OF INSURANCE

COMMENTS AND RECOMMENDATIONS

(Continued)

4. **Capital Asset Issues** (Continued)

Without receiving detailed information regarding how much each item sold for, however, the Department is unable to ensure compliance with Neb. Rev. Stat. § 81-161.04(2) (Cum. Supp. 2018), which provides the following, in relevant part:

Except as otherwise provided in this subsection, the proceeds of the [surplus property] sales shall be deposited with the State Treasurer and credited to the General Fund unless the using agency certifies to the materiel division that the property was purchased in part or in total from either cash accounts or federal funds or from a percentage of such accounts or funds, in which case the proceeds of the sale to that extent shall be credited to the cash or federal account in the percentage used in originally purchasing the property.

(Emphasis added.) The Department did not make the certification referenced in the above statutory language, and the applicable Federal regulations do not require the sale proceeds to be returned to the Federal government. Consequently, the Department should have posted a journal entry to move those proceeds from the Department of Insurance Cash Fund to the General Fund.

- The Passed Transaction Report identifies capital asset purchases that were not added to the capital asset records. During testing of three purchases included on this report, totaling \$12,953, we noted that the Department “passed” on adding the items to the capital asset records because the items did not meet capitalization requirements. If items are “passed” on, the Department should post journal entries to record the purchase as an operating expense, rather than a capital asset purchase. However, the Department failed to process such journal entries, resulting in the Department’s accounting records overstating capital outlay expenditures.
- During testing of two capital asset additions, we noted that one addition recorded the incorrect value and date of acquisition for the assets purchased. This addition was for the purchase of four firearms. The Department reduced improperly the amount capitalized for each firearm purchased by the trade-in value received. The Department also failed to capitalize freight costs.

The table below offers a comparison of the Auditor of Public Accounts’ (APA) calculated value of the assets to the value capitalized by the Department:

	APA Calculated	Department Calculated	Variance
Total Cost of Firearms	\$ 1,636	\$ 1,636	\$ -
Less: Trade in Value	-	(1,100)	\$ (1,100)
Freight Costs	35	-	\$ (35)
Total Value to Capitalize	\$ 1,671	\$ 536	\$ (1,135)

Additionally, the Department used June 3, 2019, as the date of acquisition; however, no documentation was provided to support how this date was determined. Based upon information obtained from the Department, the correct date of acquisition appears to have been September 5, 2019, or 94 days later.

Good internal controls require procedures to ensure that proceeds from the sale of the Department’s surplus assets are handled in accordance with State statute. Those same procedures should ensure also that capital assets are recorded to the proper account codes, at the correct amounts, using the correct date of acquisition.

Without such procedures, there is an increased risk for not only noncompliance with State statute but also the Department’s capital assets being coded improperly in the accounting records, enhancing the opportunity for those assets to be misappropriated.

NEBRASKA DEPARTMENT OF INSURANCE

COMMENTS AND RECOMMENDATIONS

(Continued)

4. **Capital Asset Issues** (Concluded)

We recommend the Department implement procedures to ensure proceeds from the sale of the Department's surplus assets are handled in accordance with State statute. Those same procedures should ensure also that assets are recorded at the proper value and acquisition date, and journal entries are posted as necessary to ensure asset purchases are recorded to the proper account code.

Department Response:

A. **Capital Asset Issues – Surplus Attestation**

DAS/Materiel/Surplus Property has not required a certification and this agency was unaware of the requirement. The agency will place a certification on all Surplus Property Notification documents regarding the funds used to purchase the items listed on the document. After contacting the Dept. of Administrative Services (DAS) regarding this, DAS informed us that they do not have a system or forms set up to handle this statutory directive and appears to not have a plan to implement a process for the foreseeable future.

B. **Capital Asset Issues – Passed Transactions**

A more careful review of coding will be done. Assets coded to a fixed asset code will either have proper cost entered or the item will be moved to a non-fixed asset code if not capitalized.

C. **Capital Asset Issues – Incorrect Data**

This purchase involved a trade-in. Instructions on entry to account for this are erratic at best, and the entry was done incorrectly. Additional resources will be sought should this occur in the future.

5. **Travel Issues**

During testing of travel expenditures incurred by the Department, we noted the following:

- The Department utilized an outside vendor to help organize the 2019 “Insurtech on the Silicon Prairie” conference. The Department reimbursed the vendor for travel expenses incurred while assisting with the conference because the Department was responsible for collecting the conference registration fees. We noted that there was no written agreement between the Department and the vendor outlining what travel expenses were eligible for reimbursement.

As such, we applied the criteria that State employees are required to follow when submitting expense reimbursements. We noted that three meals were reimbursed, totaling \$68, for which there was no documentation on file to support the reimbursement. We noted also that one reimbursed meal, totaling \$9, was purchased before travel for the Nebraska conference began and, therefore, would not be a reasonable reimbursement by the Department.

- Three meal reimbursements incurred by two different Department employees were supported only by a credit card receipt, not an itemized receipt. The cost of these meals totaled \$90.

The Nebraska State Accounting Manual, AM-005, Travel Policies, Section 6 – Meals, provides the following, in relevant part:

Agencies are responsible to see that all submitted claims for food/meals are adequately substantiated. Unsubstantiated food/meals should not be reimbursed. Receipts are required unless the cost of the food/meal is under \$5.00. Per diem type claims should always be questioned.

NEBRASKA DEPARTMENT OF INSURANCE

COMMENTS AND RECOMMENDATIONS

(Continued)

5. Travel Issues (Concluded)

Good internal controls require procedures to ensure that all reimbursements for travel-related expenditures are supported by appropriate documentation, including written agreements and itemized receipts.

Without such procedures, there is an increased risk for not only loss and/or misuse of funds but also noncompliance with applicable accounting policies.

We recommend the Department implement procedures to ensure all reimbursements for travel-related expenditures are supported by appropriate documentation, including written agreements and itemized receipts.

Department Response:

A. Travel Issues – Outside Vendor Expenses

The agency will ensure that either an agreement exists between the agency and the outside vendor, or submitted expenses will be reimbursed using state guidelines.

B. Travel Issues – Meal Receipts

Teammates supplied detail for what was consumed for each of these receipts; however, a lost- receipt affidavit was not filled out, which would list the same information.

Teammates lacking detailed receipts will be directed to fill out the lost receipt affidavit form. An email was sent to all Teammates on 9/15/20, reminding them of meal reimbursement requirements.

6. Federal Compliance

We noted the following compliance issues regarding Federal funds received by the Department.

Payroll Documentation

Employees working on the Senior Health Insurance Information Program (SHIIP) did not maintain adequate documentation to support the number of hours charged to each grant. Hours charged to the various grants received by the Department were based on estimates. No subsequent review of these estimates was performed to ensure they were reasonable based on actual hours worked on each grant.

45 CFR § 75.430(i)(1) (October 1, 2019) states, in relevant part, the following:

Charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must:

** * * **

(vii) Support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on more than one Federal award . . .

(viii) Budget estimates (i.e., estimates determined before the services are performed) alone do not qualify as support for charges to Federal awards . . . [.]

NEBRASKA DEPARTMENT OF INSURANCE

COMMENTS AND RECOMMENDATIONS

(Continued)

6. Federal Compliance (Continued)

West Central Nebraska Area Agency on Aging Subaward

We tested the SHIP subaward with the West Central Nebraska Area Agency on Aging (WCNAAA) and noted that the subaward did not contain all the information required by 45 CFR § 75.352 (October 1, 2019), including the Federal award identification number, Federal award date, total amount of Federal funds obligated to the subrecipient, total amount of the Federal award committed to the subrecipient, name of HHS awarding agency, CFDA number and name, identification of whether the award is R & D, indirect cost rate, and an approved federally recognized indirect cost rate negotiated between the subrecipient and the Federal government.

45 CFR § 75.352 (October 1, 2019) states, in relevant part, the following:

All pass-through entities must:

(a) Ensure that every subaward is clearly identified to the subrecipient as a subaward and includes the following information at the time of the subaward . . . :

(1) Federal Award Identification.

** * * **

(iii) Federal Award Identification Number (FAIN);

(iv) Federal Award Date (see § 75.2 Federal award date) of award to the recipient by the Federal agency;

** * * **

(vii) Total Amount of Federal Funds Obligated to the subrecipient by the pass-through entity including the current obligation;

(viii) Total Amount of the Federal Award committed to the subrecipient by the pass-through entity;

** * * **

(x) Name of HHS awarding agency, pass-through entity, and contact information for awarding official of the pass-through entity;

(xi) CFDA Number and Name; the pass-through entity must identify the dollar amount made available under each Federal award and the CFDA number at time of disbursement;

(xii) Identification of whether the award is R&D; and

(xiii) Indirect cost rate for the Federal award (including if the de minimis rate is charged per § 75.414).

** * * **

(4) An approved federally recognized indirect cost rate negotiated between the subrecipient and the Federal Government or, if no such rate exists, either a rate negotiated between the pass-through entity and the subrecipient (in compliance with this part), or a de minimis indirect cost rate as defined in §75.414(f);

We noted also that the subaward with the WCNAAA was a \$24,000 per year fixed amount subaward. The Department could not provide supporting financial documentation for how the \$24,000 per year amount was determined, and that it was a reasonable estimate of the WCNAAA's actual costs.

NEBRASKA DEPARTMENT OF INSURANCE

COMMENTS AND RECOMMENDATIONS

(Concluded)

6. **Federal Compliance** (Concluded)

45 CFR § 75.201(b) (October 1, 2019) states, in part, the following:

[P]ass-through entities as permitted in §75.353, may use fixed amount awards (see §75.2 Fixed amount awards) to which the following conditions apply:

(1) The Federal award amount is negotiated using the cost principles (or other pricing information) as a guide. The HHS awarding agency or pass-through entity may use fixed amount awards if the project scope is specific and if adequate cost, historical, or unit pricing data is available to establish a fixed amount award based on a reasonable estimate of actual cost

Good internal controls require procedures to ensure: (1) employee time charged to Federal awards is allowable and documented adequately; (2) subawards contain all required information; and (3) fixed amount subawards are supported by appropriate financial documentation to ensure the award amount is a reasonable estimate of actual cost, and that supporting documentation is maintained for future reference.

Without such procedures, there is an increased risk of grant awards being used for improper/unallowable costs.

We recommend the Department implement procedures to ensure hours charged to Federal awards are documented adequately, and subawards include all required information. Those same procedures should ensure also that fixed amount subawards are based on a reasonable estimate of actual cost, and documentation is maintained to support that determination.

Department Response:

A. Federal Compliance – Payroll Documentation

The agency will work with its new Process Improvement Coordinator to perform a time study to verify hours worked on each grant, establishing a base line for assignment of hours. This work will begin in 2021, after the Medicare open enrollment period ends.

B. Federal Compliance – West Central Area Agency on Aging Sub-award

The SHIP division manager is currently working on amending the contract language for all contracts to include necessary information. It should be noted that these are fixed amount awards. Years of data, including clients served, are used to establish award amounts. To date, the agency's federal partners have approved the methodology for the calculations.

APA Response: The Department was unable to provide any such financial data to support the fixed amount subaward was reasonable based on actual costs.



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

Charlie Janssen
State Auditor

Charlie.Janssen@nebraska.gov
PO Box 98917
State Capitol, Suite 2303
Lincoln, Nebraska 68509
402-471-2111, FAX 402-471-3301
auditors.nebraska.gov

NEBRASKA DEPARTMENT OF INSURANCE

INDEPENDENT ACCOUNTANT'S REPORT

Nebraska Department of Insurance
Lincoln, Nebraska

We have examined the accompanying Schedule of Revenues, Expenditures, and Changes in Fund Balances of the Nebraska Department of Insurance (Department) for the period July 1, 2018, through April 30, 2020. The Department's management is responsible for the Schedule of Revenues, Expenditures, and Changes in Fund Balances based on the accounting system and procedures set forth in Note 1. Our responsibility is to express an opinion on the Schedule of Revenues, Expenditures, and Changes in Fund Balances based on our examination.

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. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the Schedule of Revenues, Expenditures, and Changes in Fund Balances is based on the accounting system and procedures set forth in Note 1, in all material respects. An examination involves performing procedures to obtain evidence about the Schedule of Revenues, Expenditures, and Changes in Fund Balances. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material misstatement of the Schedule of Revenues, Expenditures, and Changes in Fund Balances, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

In our opinion, the Schedule of Revenues, Expenditures, and Changes in Fund Balances for the period July 1, 2018, through April 30, 2020, is based on the accounting system and procedures prescribed by the State of Nebraska Director of Administrative Services, as set forth in Note 1, in all material respects.

In accordance with *Government Auditing Standards*, we are required to report all deficiencies that are considered to be significant deficiencies or material weaknesses in internal control; fraud and noncompliance with provisions of laws or regulations that have a material effect on the Schedule of Revenues, Expenditures, and Changes in Fund Balances; and any other instances that warrant the attention of those charged with governance; noncompliance with provisions of contracts or grant agreements, and abuse that has a material effect on the subject matter or an assertion about the subject matter of the examination engagement. We are also required to obtain and report the views of management concerning the findings, conclusions, and recommendations, as well as any planned corrective actions. We performed our examination to express an opinion on whether the Schedule of Revenues, Expenditures, and Changes in Fund Balances is presented in accordance with the criteria described above and not for the purpose of expressing an opinion on the internal control over the Schedule of Revenues, Expenditures, and Changes in Fund Balances or on compliance and other matters; accordingly, we express no such opinions. Our examination disclosed certain findings that are required to be reported under *Government Auditing Standards*, and those findings, along with the views of management, are described in the Comments Section of the report.

The purpose of this report is to express an opinion on the Schedule of Revenues, Expenditures, and Changes in Fund Balances, as described in paragraph one above. Accordingly, this report is not suitable for any other purpose. This report is a matter of public record, and its distribution is not limited.

A handwritten signature in black ink, appearing to read "C. J. Janssen", with a long horizontal flourish extending to the right.

September 18, 2020

Charlie Janssen
Auditor of Public Accounts
Lincoln, Nebraska

NEBRASKA DEPARTMENT OF INSURANCE
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Period July 1, 2018, through April 30, 2020

	General Fund 10000	Insurance Cash Fund 22210	Federal General Fund 40000	Excess Liability Fund 62220	Premium & Retalitory Tax Suspense Fund 62240	Permanent School Fund 63340	Comprehensive Health Insurance Pool Fund 72210	Totals (Memorandum Only)
REVENUES:								
Taxes	\$ 88,975,934	\$ -	\$ -	\$ -	\$ 28,161,371	\$ -	\$ -	\$ 117,137,305
Intergovernmental	-	-	2,586,713	-	-	-	-	2,586,713
Sales & Charges	-	30,241,785	-	15,389,763	-	-	-	45,631,548
Miscellaneous	27,600	1,252,053	-	9,594,127	683,453	350,823	-	11,908,056
TOTAL REVENUES	89,003,534	31,493,838	2,586,713	24,983,890	28,844,824	350,823	-	177,263,622
EXPENDITURES:								
Personal Services	-	13,609,305	1,143,422	-	-	-	-	14,752,727
Operating	-	3,783,103	422,833	24,358,477	-	-	-	28,564,413
Travel	-	356,011	73,737	-	-	-	-	429,748
Capital Outlay	-	6,642	246,201	-	-	-	-	252,843
Government Aid	-	-	700,520	-	-	-	-	700,520
TOTAL EXPENDITURES	-	17,755,061	2,586,713	24,358,477	-	-	-	44,700,251
Excess (Deficiency) of Revenues Over (Under) Expenditures	89,003,534	13,738,777	-	625,413	28,844,824	350,823	-	132,563,371
OTHER FINANCING SOURCES (USES):								
Sales of Assets	-	12,469	-	-	-	-	-	12,469
Deposit to General Fund	(86,082,356)	-	-	-	-	-	-	(86,082,356)
Deposit to/from Common Fund	-	-	-	(625,413)	-	(350,823)	-	(976,236)
Operating Transfers In	729,692	-	-	-	-	-	-	729,692
Operating Transfers Out	(3,650,870)	(24,750,000)	-	-	(35,531,455)	-	-	(63,932,325)
TOTAL OTHER FINANCING SOURCES (USES)	(89,003,534)	(24,737,531)	-	(625,413)	(35,531,455)	(350,823)	-	(150,248,756)
Net Change in Fund Balances	-	(10,998,754)	-	-	(6,686,631)	-	-	(17,685,385)
FUND BALANCES, JULY 1, 2018	-	20,026,090	-	-	13,090,114	-	-	33,116,204
FUND BALANCES, APRIL 30, 2020	\$ -	\$ 9,027,336	\$ -	\$ -	\$ 6,403,483	\$ -	\$ -	\$ 15,430,819
FUND BALANCES CONSIST OF:								
General Cash	\$ -	\$ 13,423,978	\$ -	\$ -	\$ 6,403,483	\$ -	\$ 13,408,224	\$ 33,235,685
Petty Cash	-	450	-	-	-	-	-	450
Deposits with Vendors	-	274,601	-	-	-	-	-	274,601
Due to Vendors	-	(397,597)	-	-	-	-	(12,658,224)	(13,055,821)
Carry-Over Credit	-	(1,790,434)	-	-	-	-	-	(1,790,434)
Deposits	-	(135,089)	-	-	-	-	-	(135,089)
Due to Fund	-	(78,368)	-	-	-	-	(750,000)	(828,368)
Premium Tax	-	(2,270,205)	-	-	-	-	-	(2,270,205)
TOTAL FUND BALANCES	\$ -	\$ 9,027,336	\$ -	\$ -	\$ 6,403,483	\$ -	\$ -	\$ 15,430,819

The accompanying notes are an integral part of the schedule.

NEBRASKA DEPARTMENT OF INSURANCE

NOTES TO THE SCHEDULE

For the Period July 1, 2018, through April 30, 2020

1. Criteria

The accounting policies of the Nebraska Department of Insurance (Department) are on the basis of accounting, as prescribed by the Department of Administrative Services (DAS).

Per Neb. Rev. Stat. § 81-1107(2) (Reissue 2014), the duties of the State of Nebraska's Director of DAS include the following:

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[.]

In accordance with Neb. Rev. Stat. § 81-1111(1) (Reissue 2014), the State Accounting Administrator has prescribed the system of accounts and accounting to be maintained by the State and its departments and agencies and has developed necessary accounting policies and procedures. The prescribed accounting system currently utilizes EnterpriseOne, an accounting resource software, to maintain the general ledger and all detailed accounting records. Policies and procedures are detailed in the Nebraska State Accounting Manual published by DAS State Accounting Division (State Accounting) and are available to the public.

The financial information used to prepare the Schedule of Revenues, Expenditures, and Changes in Fund Balances was obtained directly from the general ledger and fund balance information maintained on EnterpriseOne. EnterpriseOne is not an accrual accounting system; instead, accounts are maintained on a modified cash basis. As revenue transactions occur, the agencies record the accounts receivable and related revenues in the general ledger. As such, certain revenues are recorded when earned, regardless of the timing of related cash flows. State Accounting does not require the Department to record all accounts receivable and related revenues in EnterpriseOne; as such, the Department's schedule does not include all accounts receivable and related revenues. In a like manner, expenditures and related accounts payable are recorded in the general ledger as transactions occur. As such, the schedule includes those expenditures and related accounts payable posted in the general ledger as of April 30, 2020, and not yet paid as of that date. The amount recorded as expenditures on the schedule, as of April 30, 2020, **does not** include amounts for goods and services received before April 30, 2020, which had not been posted to the general ledger as of April 30, 2020.

Other liabilities (primarily in the Distributive Fund Type) are recorded in accounts entitled Due to Vendors and Due to Fund. The assets in these funds are being held by the State as an agent and will be used to pay those liabilities to individuals, private organizations, other governments, and/or other funds. The recording of those liabilities reduces the fund balance/equity. For further information of the activity recorded to those accounts for the period July 1, 2018, through April 30, 2020, see Notes 9 and 12.

The Department had accounts receivable not included in the Schedule of \$1,473,398 as of June 30, 2019, from Insurance Company Renewal Fees and Examination Fees. State Accounting did not require the Department to record its receivables on the general ledger, and these amounts are not reflected in revenues or fund balances on the Schedule. As State Accounting did not require the Department to record its receivables on the general ledger, the Department determined the receivables balance as of June 30 annually for Comprehensive Annual Financial Report (CAFR) reporting purposes. The most recent available balance at the time of the examination was June 30, 2019.

Liabilities for accrued payroll and compensated absences are not recorded in the general ledger.

NEBRASKA DEPARTMENT OF INSURANCE

NOTES TO THE SCHEDULE

(Continued)

1. Criteria (Continued)

The following fund types are established by the State and used by the Department:

10000 – General Fund – accounts for activities funded by general tax dollars and related expenditures and transfers.

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 the financial activities related to the receipt and disbursement of funds generated from the Federal government as a result of grants and contracts. 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.

70000 – Distributive Funds – account for assets held by the State as an agent for individuals, private organizations, other governments, and/or other funds.

The following major revenue account classifications are established by State Accounting and used by the Department:

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

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, fines, and penalties.

The following major expenditure account classifications are established by State Accounting and used by the Department:

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

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 that 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.

NEBRASKA DEPARTMENT OF INSURANCE

NOTES TO THE SCHEDULE

(Continued)

1. **Criteria** (Concluded)

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 accounting classifications and procedures established by State Accounting and used by the Department include the following:

Assets – Resources owned or held by a government that have monetary value. Assets include cash accounts and deposits with vendors. Cash accounts and deposits with vendors are included in fund balance and are reported as recorded in the general ledger.

Liabilities – Legal obligations arising out of transactions in the past that must be liquidated, renewed, or refunded at some future date. Accounts payable transactions are recorded as expenditures, resulting in a decrease to fund balance. Other liabilities recorded in the general ledger for the Departments' funds at April 30, 2020, included amounts recorded in Deposits, Due to Fund, and Due to Vendors. The activity of these accounts are not recorded through revenue and expenditure accounts on the Schedule of Revenues, Expenditures, and Changes in Fund Balances. The activity processed on the general ledger through these accounts is summarized in Notes 9 and 12. The Carry-Over Credit liability is excess taxes paid by insurance companies which are due when they request repayment or the credit can be used to offset future taxes. The Premium Tax liability is the account used to record insurance company annual premium tax filings. More information regarding this liability is presented in Note 11.

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

2. **Reporting Entity**

The Department is a State agency established under and governed by the laws of the State of Nebraska. As such, the Department is exempt from State and Federal income taxes. The schedule includes all funds of the Department included in the general ledger.

The Department 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. **General Cash**

General cash accounts are under the control of the State Treasurer or other administrative bodies, as determined by law. All cash deposited with the State Treasurer is initially maintained in a pooled cash account. On a daily basis, the State Treasurer invests cash not needed for current operations with the State's Investment Council, which maintains an operating investment pool for such investments. Interest earned on those investments is allocated to funds based on their percentage of the investment pool.

NEBRASKA DEPARTMENT OF INSURANCE

NOTES TO THE SCHEDULE

(Continued)

5. Capital Assets

Capital assets include land, buildings, equipment, improvements to buildings, construction in progress, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items). Under State Accounting policies, expenditures for such capital assets are not capitalized as an asset in the funds used to acquire or construct them. Rather, costs of obtaining the capital assets are reflected as expenditures in the general ledger and are reported as such on the Schedule.

However, State Accounting does adjust such expenditures and reports the capital assets as assets for the State of Nebraska in the CAFR. In addition, the Department takes an annual inventory, recording in the State Accounting System all equipment that has a cost of \$5,000 or more, and all firearms.

For the CAFR, the State requires the Department to value 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 \$5,000 or more at the date of acquisition and has an expected useful life of more than one year is capitalized. Depreciation expenses are 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 the asset's life is not capitalized.

Equipment is depreciated in the CAFR using the straight-line method with estimated useful lives of 3 to 10 years.

Capital asset activity of the Department recorded in the State Accounting System for the period July 1, 2018, through April 30, 2020, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets				
Equipment	\$ 191,156	\$ 3,484	\$ 24,799	\$ 169,841
Less accumulated depreciation* for:				
Equipment				<u>160,997</u>
Total capital assets, net of depreciation				<u><u>\$ 8,844</u></u>

*Note: The accounting system-generated depreciation noted in the table above is through February 26, 2020.

6. Transfers

Based on the requirements of LB 327 (2017), § 265(1)(f), and LB 294 (2019), § 261(1)(e), \$24,750,000 was transferred from the Insurance Cash Fund to the General Fund.

A transfer out of the General Fund of \$3,650,870 to the State Treasurer Mutual Finance Assistance Fund was made due to requirements of Neb. Rev. Stat. § 77-912 (Reissue 2018).

The \$35,531,455 Operating Transfer Out of the Premium and Retaliatory Tax Suspense Fund consists of transfers, totaling \$34,801,763, to the Comprehensive Health Insurance Pool (CHIP) Fund, and transfers, totaling \$729,692, in interest earned, to the General Fund. These transfers were made in accordance with Neb. Rev. Stat. § 77-918 (Reissue 2018).

NEBRASKA DEPARTMENT OF INSURANCE

NOTES TO THE SCHEDULE

(Continued)

7. Excess Liability Fund

The Excess Liability Fund (Fund) is an Enterprise Fund established to provide limited liability for physicians working in Nebraska. The Nebraska State Treasurer maintains and has responsibility for this Fund. The net activity recorded by the Department in the Fund is shown as a deposit to common funds on the financial schedule.

Neb. Rev. Stat. § 44-2829 (Reissue 2010) requires all annual surcharges levied on qualified health care providers in Nebraska collected by the Department to be deposited into the Fund. The Department may use money from the Fund to aid in protecting the Fund against claims. All expenses of collecting, protecting, and administering the Fund are paid from the Fund. Neb. Rev. Stat. § 44-2832(1) (Reissue 2010) requires the Director of DAS to issue a warrant drawn on the Fund in the amount of each claim submitted by the Director of the Department.

At the end of each fiscal year, the Department estimates a loss reserve amount for this Fund. At June 30, 2019, the loss reserve estimate made by the Department was \$30,748,000. This estimate is not recorded on the State’s accounting system and is not included on the Schedule of Revenues, Expenditures, and Changes in Fund Balances. It is recorded in the State’s annual CAFR. At the time of the examination, the June 30, 2019, estimate was the most current available.

8. Permanent School Fund

Deposits to common funds include the collection of fines and penalties. In compliance with Neb. Rev. Stat. § 44-3,127 (Reissue 2010), fines and penalties of \$350,823 were deposited into the Permanent School Fund during the period July 1, 2018, through April 30, 2020.

9. Comprehensive Health Insurance Pool (CHIP) Fund

Neb. Rev. Stat. § 44-4225(2) (Cum. Supp. 2018) created the Comprehensive Health Insurance Pool Distributive Fund (CHIP Fund), which is used for the operation of and payment of claims made against the pool. That statute requires, in relevant part, the following:

Commencing with the premium and related retaliatory taxes for the taxable year ending December 31, 2001, and for each taxable year thereafter, any premium and related retaliatory taxes imposed by section 44-150 or 77-908 paid by insurers writing health insurance in this state, except as otherwise set forth in subdivisions (1) and (2) of section 77-912, shall be remitted to the State Treasurer for credit to the fund.

Any money remaining in the CHIP Fund from the previous tax year collections is transferred to the General Fund, State Treasurer’s Insurance Tax Fund, and the State Treasurer’s Mutual Finance Assistance Fund on or before May 1st, as required by § 44-4225(5). The Department records premium taxes received in the CHIP Fund using the Due to Vendors account code. The Department records interest earned on the CHIP Fund balance using the Due to Fund account code. Changes in Due to Vendor and Due to Fund are shown below:

Comprehensive Health Insurance Pool Fund	Balance July 1, 2018	In	Out	Balance April 30, 2020
Due to Vendors	\$ 16,823,121	\$ 103,136,307	\$ 107,301,204	\$ 12,658,224
Due to Fund	63,225	1,983,659	1,296,884	750,000

During the calendar year, the Department paid the administrator of CHIP \$352,128 for operation of and payment of claims made against the pool. The balance remaining in the fund is transferred out in accordance with § 44-4225(5).

NEBRASKA DEPARTMENT OF INSURANCE

NOTES TO THE SCHEDULE

(Continued)

10. Pledged Securities

Neb. Rev. Stat. § 44-319.02 (Reissue 2010) requires the following:

Every domestic insurer hereafter organized to transact the business of insurance in this state shall deposit and continually maintain with the Department of Insurance eligible securities for the benefit of all of its policyholders in the United States in the amount of one hundred thousand dollars.

Neb. Rev. Stat. § 44-319.06 (Reissue 2010) directs every foreign insurer or assessment association to deposit and maintain with the Department, or with the proper official of some other state, eligible securities in the amount of not less than \$100,000 for the benefit of all its policyholders in the United States.

To meet these requirements, insurance companies either place securities in joint custody with the Department or deposit securities in an authorized depository in the State of Nebraska. At April 30, 2020, the face value of securities pledged to the Department totaled \$201,580,043. These securities are not presented in the Department’s financial schedule.

The interest received on the securities held in joint-custody is sent directly by the bank to the individual insurance companies and does not enter the State accounting system.

11. Insurance Premium Tax

Neb. Rev. Stat. § 77-908 (Reissue 2018) requires insurance companies that transact business in the State of Nebraska to pay premium taxes based on the amounts and types of insurance lines they sell during the calendar year.

Neb. Rev. Stat. § 77-918 (Reissue 2018) requires companies that had a premium tax liability of \$4,000 or more in the prior year to make prepayments for the current year’s premium taxes to the Director of the Department. Prepayments are based on a percentage of the prior year’s premium taxes or an estimate of premium taxes owed for the current year. Prepayments are due on or before April 15th, June 15th, and September 15th of each year. Per § 77-908, the final premium tax payment is due on or before March 1st of the following year.

Total insurance premium tax prepayments received by the Department are divided in half, with one half being placed in the General Fund and the other half being placed in the Premium and Retaliatory Tax Suspense Fund. The final tax payment, due on or before March 1st, is deposited into the Department’s Insurance Cash Fund as a liability until the final distribution is made on or before May 1st. The final tax payment is distributed in accordance with Neb. Rev. Stat. § 77-912 (Reissue 2018), Neb. Rev. Stat. § 44-6606 (Reissue 2010), Neb. Rev. Stat. § 44-157 (Reissue 2010), Neb. Rev. Stat. § 44-4225(2) (Cum Supp. 2018), and Neb. Rev. Stat. § 44-32,163 (Reissue 2010). In addition, during the year, the Department periodically transferred insurance premium tax receipts to the State Treasurer’s Mutual Finance Assistance Fund to ensure 10 percent of insurance premium taxes are remitted to the fund in accordance with § 77-912.

Below is a summary of the changes in the premium tax liability that occurred during the period July 1, 2018, through April 30, 2020:

Fund	Balance July 1, 2018	In	Out	Balance April 30, 2020
Insurance Cash Fund	\$ 1,218,365	\$ 91,739,986	\$ 90,688,146	\$ 2,270,205

NEBRASKA DEPARTMENT OF INSURANCE

NOTES TO THE SCHEDULE
(Concluded)

11. Insurance Premium Tax (Concluded)

The distribution of the annual premium tax filings is summarized below:

Distribution To	Amount
Comprehensive Health Insurance Pool Distributive Fund	\$ 40,474,838
General Fund	\$ 13,287,492
State Treasurer's Insurance Tax Fund	\$ 8,305,258
Workers' Compensation Court Cash Fund	\$ 7,624,834
Workers' Compensation Court Trust Fund	\$ 4,869,002
State Treasurer's Mutual Finance Assistance Fund	\$ 6,770,534
Department of Insurance Cash Fund Receipts	\$ 3,464,928
Insurance Providers for Overpayments	\$ 4,095,386
Department of Insurance Cash Fund Carry-Over Credit Liability	\$ 1,786,616
Department of Health and Human Services Cash Fund	\$ 9,258
Total	\$ 90,688,146

12. Changes in Due to Fund

Fund	Balance July 1, 2018	In	Out	Balance April 30, 2020
Insurance Cash Fund	\$ 1,277,057	\$ 10,253,491	\$ 11,452,180	\$ 78,368

The Insurance Cash Fund collects Surplus Line Premium Taxes on insurance policies sold outside of the standard market. The tax is remitted quarterly by the agent or agency who sold the qualifying policy. Remittances are due March 1st, June 1st, September 1st, and December 1st, in accordance with Neb. Rev. Stat. § 44-5506 (Cum. Supp. 2018). The tax payments are deposited into the Insurance Cash Fund as a liability until the final distribution is made on or before May 1st. The final tax payment is distributed in accordance with Neb. Rev. Stat. § 77-912 (Reissue 2018).

NEBRASKA DEPARTMENT OF INSURANCE

SUPPLEMENTARY INFORMATION

Our examination was conducted for the purpose of forming an opinion on the Schedule of Revenues, Expenditures, and Changes in Fund Balances. Supplementary 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 DEPARTMENT OF INSURANCE
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Period July 1, 2018, through June 30, 2019

Exhibit A

	General Fund 10000	Insurance Cash Fund 22210	Federal General Fund 40000	Excess Liability Fund 62220	Premium & Retalitory Tax Suspende Fund 62240	Permanent School Fund 63340	Comprehensive Health Insurance Pool Fund 72210	Totals (Memorandum Only)
REVENUES:								
Taxes	\$ 44,091,485	\$ -	\$ -	\$ -	\$ 16,630,990	\$ -	\$ -	\$ 60,722,475
Intergovernmental	-	-	1,313,836	-	-	-	-	1,313,836
Sales & Charges	-	18,641,288	-	8,545,176	-	-	-	27,186,464
Miscellaneous	26,237	686,816	-	3,498,913	395,250	256,623	-	4,863,839
TOTAL REVENUES	44,117,722	19,328,104	1,313,836	12,044,089	17,026,240	256,623	-	94,086,614
EXPENDITURES:								
Personal Services	-	7,360,912	594,694	-	-	-	-	7,955,606
Operating	-	1,690,345	286,429	14,376,356	-	-	-	16,353,130
Travel	-	211,343	48,655	-	-	-	-	259,998
Capital Outlay	-	6,106	9,795	-	-	-	-	15,901
Government Aid	-	-	374,263	-	-	-	-	374,263
TOTAL EXPENDITURES	-	9,268,706	1,313,836	14,376,356	-	-	-	24,958,898
Excess (Deficiency) of Revenues Over (Under) Expenditures	44,117,722	10,059,398	-	(2,332,267)	17,026,240	256,623	-	69,127,716
OTHER FINANCING SOURCES (USES):								
Sales of Assets	-	265	-	-	-	-	-	265
Deposit to General Fund	(42,701,764)	-	-	-	-	-	-	(42,701,764)
Deposit to/from Common Fund	-	-	-	2,332,267	-	(256,623)	-	2,075,644
Operating Transfers In	384,042	-	-	-	-	-	-	384,042
Operating Transfers Out	(1,800,000)	(12,250,000)	-	-	(19,053,621)	-	-	(33,103,621)
TOTAL OTHER FINANCING SOURCES (USES)	(44,117,722)	(12,249,735)	-	2,332,267	(19,053,621)	(256,623)	-	(73,345,434)
Net Change in Fund Balances	-	(2,190,337)	-	-	(2,027,381)	-	-	(4,217,718)
FUND BALANCES, JULY 1, 2018	-	20,026,090	-	-	13,090,114	-	-	33,116,204
FUND BALANCES, JUNE 30, 2019	\$ -	\$ 17,835,753	\$ -	\$ -	\$ 11,062,733	\$ -	\$ -	\$ 28,898,486
FUND BALANCES CONSIST OF:								
General Cash	\$ -	\$ 22,564,143	\$ -	\$ -	\$ 11,062,733	\$ -	\$ 26,510,483	\$ 60,137,359
Petty Cash	-	450	-	-	-	-	-	450
Deposits with Vendors	-	1,024,601	-	-	-	-	-	1,024,601
Due to Vendors	-	(1,311,193)	-	-	-	-	(26,435,823)	(27,747,016)
Carry-Over Credit	-	(1,920,625)	-	-	-	-	-	(1,920,625)
Deposits	-	(82,972)	-	-	-	-	-	(82,972)
Due to Fund	-	(1,421,256)	-	-	-	-	(74,660)	(1,495,916)
Premium Tax	-	(1,017,395)	-	-	-	-	-	(1,017,395)
TOTAL FUND BALANCES	\$ -	\$ 17,835,753	\$ -	\$ -	\$ 11,062,733	\$ -	\$ -	\$ 28,898,486

NEBRASKA DEPARTMENT OF INSURANCE
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Period July 1, 2019, through April 30, 2020

Exhibit B

	General Fund 10000	Insurance Cash Fund 22210	Federal General Fund 40000	Excess Liability Fund 62220	Premium & Retalitory Tax Suspende Fund 62240	Permanent School Fund 63340	Comprehensive Health Insurance Pool Fund 72210	Totals (Memorandum Only)
REVENUES:								
Taxes	\$ 44,884,449	\$ -	\$ -	\$ -	\$ 11,530,381	\$ -	\$ -	\$ 56,414,830
Intergovernmental	-	-	1,272,877	-	-	-	-	1,272,877
Sales & Charges	-	11,600,497	-	6,844,587	-	-	-	18,445,084
Miscellaneous	1,363	565,237	-	6,095,214	288,203	94,200	-	7,044,217
TOTAL REVENUES	<u>44,885,812</u>	<u>12,165,734</u>	<u>1,272,877</u>	<u>12,939,801</u>	<u>11,818,584</u>	<u>94,200</u>	<u>-</u>	<u>83,177,008</u>
EXPENDITURES:								
Personal Services	-	6,248,393	548,728	-	-	-	-	6,797,121
Operating	-	2,092,758	136,404	9,982,121	-	-	-	12,211,283
Travel	-	144,668	25,082	-	-	-	-	169,750
Capital Outlay	-	536	236,406	-	-	-	-	236,942
Government Aid	-	-	326,257	-	-	-	-	326,257
TOTAL EXPENDITURES	<u>-</u>	<u>8,486,355</u>	<u>1,272,877</u>	<u>9,982,121</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>19,741,353</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>44,885,812</u>	<u>3,679,379</u>	<u>-</u>	<u>2,957,680</u>	<u>11,818,584</u>	<u>94,200</u>	<u>-</u>	<u>63,435,655</u>
OTHER FINANCING SOURCES (USES):								
Sales of Assets	-	12,204	-	-	-	-	-	12,204
Deposit to General Fund	(43,380,592)	-	-	-	-	-	-	(43,380,592)
Deposit to/from Common Fund	-	-	-	(2,957,680)	-	(94,200)	-	(3,051,880)
Operating Transfers In	345,650	-	-	-	-	-	-	345,650
Operating Transfers Out	(1,850,870)	(12,500,000)	-	-	(16,477,834)	-	-	(30,828,704)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(44,885,812)</u>	<u>(12,487,796)</u>	<u>-</u>	<u>(2,957,680)</u>	<u>(16,477,834)</u>	<u>(94,200)</u>	<u>-</u>	<u>(76,903,322)</u>
Net Change in Fund Balances	<u>-</u>	<u>(8,808,417)</u>	<u>-</u>	<u>-</u>	<u>(4,659,250)</u>	<u>-</u>	<u>-</u>	<u>(13,467,667)</u>
FUND BALANCES, JULY 1, 2019	<u>-</u>	<u>17,835,753</u>	<u>-</u>	<u>-</u>	<u>11,062,733</u>	<u>-</u>	<u>-</u>	<u>28,898,486</u>
FUND BALANCES, APRIL 30, 2020	<u>\$ -</u>	<u>\$ 9,027,336</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,403,483</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 15,430,819</u>
FUND BALANCES CONSIST OF:								
General Cash	\$ -	\$ 13,423,978	\$ -	\$ -	\$ 6,403,483	\$ -	\$ 13,408,224	\$ 33,235,685
Petty Cash	-	450	-	-	-	-	-	450
Deposits with Vendors	-	274,601	-	-	-	-	-	274,601
Due to Vendors	-	(397,597)	-	-	-	-	(12,658,224)	(13,055,821)
Carry-Over Credit	-	(1,790,434)	-	-	-	-	-	(1,790,434)
Deposits	-	(135,089)	-	-	-	-	-	(135,089)
Due to Fund	-	(78,368)	-	-	-	-	(750,000)	(828,368)
Premium Tax	-	(2,270,205)	-	-	-	-	-	(2,270,205)
TOTAL FUND BALANCES	<u>\$ -</u>	<u>\$ 9,027,336</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,403,483</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 15,430,819</u>

NEBRASKA DEPARTMENT OF INSURANCE
RESIDENT AND NONRESIDENT AGENTS IN NEBRASKA AND OTHER DATA

Exhibit C

Calendar Year	2014	2015	2016	2017	2018
Financial Examinations Completed	86	78	48	46	79
Investigation Files Closed	1,520	1,464	1,573	1,436	1,293
Health Policy Forms Approved	8,941	9,618	15,833	11,923	7,909
Health Ins. Rate Filings/Increases Reviewed	2,800	2,508	596	602	610
Property and Casualty Filings Reviewed	4,340	4,628	3,950	4,119	3,553
Active Licenses at Year End:					
Resident Producers	14,781	14,789	17,932	16,514	16,137
Nonresident Consultants	155	143	150	158	99
Nonresident Producers	65,053	63,387	71,433	78,216	87,618
Insurance Agencies	7,979	7,980	8,757	9,086	9,159
Resident Consultants	211	210	199	195	193
Domestic Insurance Companies	100	103	107	112	110

The information provided was the most recent available by the Department at the time of the examination.

Source: 2014-2018 Summary of Insurance Business in Nebraska

NEBRASKA DEPARTMENT OF INSURANCE
TAXES AND INTEREST INCOME DISTRIBUTED TO OTHER GOVERNMENTAL ENTITIES/FUNDS

Exhibit D

Taxes	CY 2014	CY 2015	CY 2016	CY 2017	CY 2018
Premium Tax	\$ 87,615,083	\$ 83,181,075	\$ 80,990,524	\$ 88,759,318	\$ 92,915,380
Fire Insurance Tax	3,519,438	4,072,270	3,927,287	4,097,307	4,966,846
Workers' Compensation	3,969,003	4,027,734	4,002,922	3,896,472	3,856,351
Workers' Compensation Trust Fund	-	-	-	-	-
Premium Tax Transferred to CHIP Fund **	(5,075,000)	(70,883)	649,090	327,056	(28,347)
Total Taxes	90,028,524	91,210,196	89,569,823	97,080,153	101,710,230
Interest Income from Premium Tax Prepayments	692,016	821,906	789,300	750,249	902,952
Late Payment Penalties and Administrative Fines*	242,025	82,885	278,619	234,031	155,072
Total Interest and Penalties	934,041	904,791	1,067,919	984,280	1,058,024
Total Revenue Distributed to Other Governmental Entities/Funds	\$ 90,962,565	\$ 92,114,987	\$ 90,637,742	\$ 98,064,433	\$ 102,768,254

*Includes, per Neb. Rev. Stat. § 44-322(1)(b)(ii), a forfeiture amount of \$100 per day until Annual Financial Statement submission requirements are met.

**To reflect more accurately the premium taxes paid by insurers, net transfers to the CHIP (Comprehensive Health Insurance Pool) Fund have been included. The CHIP Fund provides funding per Neb. Rev. Stat. § 44-4225.

The Nebraska Department of Insurance collects taxes based on the premiums charged for insurance written in Nebraska. Tax revenue collected by the Department is distributed to other governmental units including the General Fund, the Workers' Compensation Court, School Districts, Counties, and Municipalities. The tax distribution is done in the year following tax year, thus, the calendar year 2018 tax distribution occurs in calendar year 2019.

The information provided was the most recent available by the Department at the time of the examination.

Source: 2014-2018 Summary of Insurance Business in Nebraska

NEBRASKA DEPARTMENT OF INSURANCE
FEES COLLECTED

Exhibit E

Fees:	<u>FY 2013-2014</u>	<u>FY 2014-2015</u>	<u>FY 2015-2016</u>	<u>FY 2016-2017</u>	<u>FY 2017-2018</u>
Examination Fees	\$ 3,891,122	\$ 4,643,179	\$ 4,809,450	\$ 4,931,476	\$ 5,861,367
Admin. Fee Professional Medical Liability	202,514	423,662	74,629	141,000	24,036
Publications/Photocopies/Fraud Conference	2,918	3,598	6,140	2,732	2,592
Agent Certification	20,965	19,809	19,695	20,929	18,157
Legal Filing Fees	19,431	20,965	30,129	42,132	18,064
Miscellaneous Fees (Filing Fees)	1,062,073	1,102,939	1,074,569	1,101,026	1,087,642
Admin. Fees - Premium Taxes	63,430	40,694	40,694	39,358	38,953
Pre-Admission Review Fees	17,680	17,600	18,000	30,000	20,000
P&C Filing Fees	440,611	557,818	507,452	471,112	688,477
L&H Filing Fees	218,195	149,702	131,627	128,990	142,760
Fraud Fee	470,472	467,586	504,627	500,213	512,716
Certificate of Authority	70,690	72,699	73,153	71,204	79,655
Agency License	535,365	553,240	572,700	605,400	636,025
Company Appoint/Cancellation	6,531,341	6,286,537	6,037,534	6,553,623	6,700,571
Agent's License	3,141,700	3,329,745	3,477,455	3,245,181	3,289,039
Continuing Education Approval/Course Comp.	47,650	49,300	42,300	42,600	44,800
Reinsurance Intermediary	4,000	-	-	-	-
Third Party Administrator	72,200	69,800	73,600	73,800	79,065
Total Fees	<u>\$ 16,812,357</u>	<u>\$ 17,808,873</u>	<u>\$ 17,493,754</u>	<u>\$ 18,000,776</u>	<u>\$ 19,243,919</u>

The information provided was the most recent available by the Department at the time of the examination.

Source: 2014-2018 Summary of Insurance Business in Nebraska