



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

Mike Foley
State Auditor

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

December 18, 2024

Eric Dunning, Director
Nebraska Department of Insurance
PO Box 95087
Lincoln, Nebraska 68509

Dear Mr. Dunning:

We have audited, 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, 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, 2024, and the related notes to the financial statements, which collectively comprise the State's basic financial statements, and have issued our report thereon dated December 18, 2024. In planning and performing our audit of the financial statements, we considered the State's system of 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, 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. The 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 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 and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a significant deficiency.

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. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A *significant deficiency* is a deficiency, or a 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. We consider the following comment (Excess Liability Fund Adjustments) to be a significant deficiency.

This comment will also be reported in the State of Nebraska’s Statewide Single Audit Report Schedule of Findings and Questioned Costs.

Draft copies of this management letter were furnished to the Department to provide management with an opportunity to review and to respond to the comments and recommendations contained herein. The formal response received has been incorporated into this management letter. *Government Auditing Standards* require the auditor to perform limited procedures on the responses. The response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it. 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, 2024.

Excess Liability Fund Adjustments

The Auditor of Public Accounts (APA) identified two specific errors related to the calculation of the Excess Liability Fund reserves that resulted in \$2,390,000 in adjustments to the financial statements. The Excess Liability Fund is used by the Department for the exclusive use and purposes stated in the Nebraska Hospital-Medical Liability Act. The fund was created by a surcharge levied on health care providers in Nebraska qualified under the Act.

Since fiscal year 2022, the Department has hired an actuary to perform an analysis of the Excess Liability Fund’s reserves. The APA determined the fiscal year 2024 actuarial report contained a change to the June 30, 2023, unearned premiums balance, as shown in the table below:

Description	Amount
Balance at June 30, 2023, from FY 23 Report	\$ 5,128,000
Balance at June 30, 2023, from FY 24 Report	\$ 3,968,000
Difference	\$ 1,160,000

After the APA’s inquiry regarding this change, the Department determined that the actuary had identified an issue with the prior year actuary report and restated the amount. Therefore, an adjustment was needed to increase the beginning fund balance by \$1,160,000. However, the Department failed to notify State Accounting of this change.

The APA also found a second error in the fiscal year 2024 actuary report related to the June 30, 2024, unearned premium balance, as shown in the table below:

Description	Amount
June 30, 2024, Balance from Initial Report	\$ 5,597,000
June 30, 2024, Balance from Revised Report	\$ 4,367,000
Difference	\$ 1,230,000

After the APA’s inquiry regarding the initial reported unearned premium balance, the actuary informed the Department that \$1,230,000 in unearned premiums associated with prepaid policies had been double counted.

The APA then proposed, and State Accounting made, two adjustments to the financial statements.

A proper system of internal control requires procedures to ensure all accrual entries are accurate. Without such procedures, there is an increased risk of the financial statements being materially misstated.

We recommend the Department implement procedures to perform a detailed review of the actuary report, confirming prior year and current year information is consistent. We also recommend the Department assess whether the reported amounts are reasonable based on issues raised in the past. Finally, any changes identified should be reported promptly to State Accounting.

Department Response: In response, the Department will perform an internal review of the outside actuarial report upon its receipt and will notify State Accounting if modifications are necessary after review.

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It should be noted that this letter is critical in nature, as it contains only our comment and recommendation and does not include our observations on any strengths of the Department.

Our audit procedures were designed primarily to enable us to form an opinion on the Basic Financial Statements. Our audit procedures were also designed to enable us to report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards* 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.

The purpose of this letter is solely to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the effectiveness of State's internal control over financial reporting or compliance.

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 suitable for any other purposes. However, this communication is a matter of public record, and its distribution is not limited.

A handwritten signature in blue ink that reads "Kris Kucera". The signature is written in a cursive, flowing style.

Kris Kucera, CPA, CFE
Assistant Deputy Auditor