



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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Hon. Dirk Block, Presiding Judge
Nebraska Workers' Compensation Court
1010 Lincoln Mall, Suite 100
Lincoln, Nebraska 68508

Dear Judge Block:

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 Workers' Compensation Court (Court) 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 Court's 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 (Premium Tax Collection Coding Error) 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 Court to provide management with an opportunity to review and to respond to the comment and recommendation 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.

Premium Tax Collection Coding Error

In April 2024, the Department of Insurance transferred \$4,221,417 to the Court for the annual taxes received from insurance companies related to workers compensation insurance. The Court incorrectly recorded this tax revenue as Licenses, Fees and Permits instead of as Business and Franchise Taxes.

Neb. Rev. Stat. § 48-1,113 (Reissue 2021) requires “[e]very insurance company which is transacting workers’ compensation insurance business in this state” to pay an annual tax to the Department of Insurance based on the amount of direct-writing premiums received by the company. The Department of Insurance remits these taxes to “the State Treasurer for credit to the Compensation Court Cash Fund,” per this same statute.

A proper system of internal controls requires procedures to ensure the proper recording of taxes received. Without such procedures, there is an increased risk of material misstatements to the financial statements.

We recommend the Court implement procedures to ensure that tax revenues received from the Department of Insurance are recorded properly.

Court Response: The proposed management letter states in part: “In April 2024, the Department of Insurance transferred \$4,221,417 to the Court for the annual taxes received from insurance companies related to workers['] compensation insurance. The Court incorrectly reported this tax revenue as Licenses, Fee and Permits instead of as Business and Franchise Taxes.”

The relevant portion of Neb. Rev. Stat. § 48-1,113 provides: “Every insurance company which is transacting workers’ compensation insurance business in this state shall on or before March 1 of each year pay to the Director of Insurance an amount equal to one percent of the gross amount of direct writing premiums received by the company during the preceding calendar year for workers’ compensation insurance business transacted in this state.”

After this issue was brought to the court’s attention, the Court created a journal entry for Fiscal Year 2024 within the “Revenue - Taxes” series and described the revenue as insurance assessments. The Court also informed the Auditor Manager that the Court will update its procedures to reflect this new plan for categorizing the assessment “amounts” it receives in future years. Additionally, the Court will implement procedures to document its review of the revenue general ledger for all funds.

Since the statutes within the Workers’ Compensation Act don't describe these amounts as “taxes”, please understand that the Court is only agreeing to change the accounting coding for these transactions for purposes of the State’s financial statements, but it isn’t agreeing that these amounts are “taxes” for any other purpose. We understand the Auditor’s finding to be made only in the context of these accounting transactions, and want to make sure you’re aware the Court’s response is limited to this purpose, too.

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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 Court.

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 Court 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 Court.

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 Court, 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.



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