



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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Eric Dunning, Director
Department of Insurance
P.O. Box 95087
Lincoln, Nebraska 68509-5087

Dear Mr. Dunning:

We have audited, in accordance with the 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, 2025, 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 17, 2025. 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 a certain internal control or compliance matter related to the activities of the Department of Insurance (Department) or other operational matter that is presented below for your consideration. The comment and recommendation, which has been discussed with the appropriate members of the Department'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 comment below to be a significant deficiency.

The 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 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, 2025.

Incorrect Coding for Annual Distribution

In accordance with several State statutes, the Department is required to distribute all funds remaining in the Comprehensive Health Insurance Pool Distributive Fund (CHIP Fund) no later than May 1 each year. The CHIP Fund receives premium and related retaliatory taxes paid by insurers writing health insurance in Nebraska. Such revenue is recorded in a liability object account in the accounting system due to the distributive nature of the CHIP Fund.

In April 2025, the Department recorded its annual balance distribution, totaling \$68,125,719, using a transfer out object account instead of offsetting the liability object account that was originally used when the revenue was received. By not using the liability account to remove the activity from that fund, the payable was still included on the financial statements in error.

In July 2025, after inquiry during audit fieldwork, the Department recorded another transaction that reversed the original transfer out account of the CHIP Fund and recorded it instead as an offset to the liability accounts. That July 2025 transaction was identified in the accounting system as a transaction from the prior period (fiscal year 2025), so the Department of Administrative Services – State Accounting Division (State Accounting) properly included the entry as fiscal year 2025 activity.

This error, which was initially identified during the audit, did not require a formal adjustment to the financial statement because the Department entered the subsequent transaction described above. Had the subsequent entry not been recorded, the State's financial statements could have contained a \$68 million overstatement of liabilities and transfers.

A proper system of internal controls requires procedures to ensure accurate financial information is recorded in the State's accounting system. Without such procedures, the risk for misstated financial information substantially increases.

We recommend the Department implement procedures to ensure its accounting entries are complete and accurate for proper financial statement presentation.

Department Response: The CHIP Fund (72210) was closed out as required and distributed properly per statute; however, incorrect coding was used for the CHIP fund portion of the entry. The Department will contact DAS/Accounting for guidance should similar issues occur.

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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 results of that testing, and not to provide an opinion on the effectiveness of the 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.



Kris Kucera, CPA, CFE
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