

**ATTESTATION REPORT  
OF THE  
NEBRASKA DEPARTMENT OF INSURANCE  
JANUARY 1, 2013 THROUGH DECEMBER 31, 2013**

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**Issued on July 10, 2014**

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NEBRASKA DEPARTMENT OF INSURANCE

TABLE OF CONTENTS

	<u>Page</u>
<b>Background Information Section</b>	
Background	1
<b>Comments Section</b>	
Exit Conference	2
Summary of Comments	3
Comments and Recommendations	4 - 5
<b>Financial Section</b>	
Independent Accountant's Report	6 - 7
Schedule of Revenues, Expenditures, and Changes in Fund Balance	8
Notes to the Schedule	9 - 17
<b>Supplementary Information</b>	18
Resident and Nonresident Agents in Nebraska and Other Data	19
Taxes and Interest Income Distributed to Other Governmental Entities/Funds	20
Fees Collected	21

## NEBRASKA DEPARTMENT OF INSURANCE

### BACKGROUND

The Department of Insurance is the primary financial solvency regulator for all Nebraska domestic insurers and the market regulator for insurance transactions in Nebraska.

The Department enforces statutes and regulations to ensure compliance by individuals and entities subject to the Department's jurisdiction; analyzes and drafts appropriate legislation, regulations, bulletins and administrative orders; researches and interprets statutes, case law, regulations and other legal precedents and renders advice to other divisions; represents the Department at administrative hearings, legislative hearings and other meetings; and acts as a liaison to the attorney general's office regarding pending litigation.

As market regulator of all insurance transactions that take place in Nebraska, the Department annually reviews an average of 12,000 various life and health forms, including policies, riders, endorsements, applications, advertising, and rates. In addition, approximately 68,000 licenses are issued to insurance producers annually. The Department regulates the performance of insurance transactions by investigating the activities of insurers, such as claims handling, compliance monitoring, and insurance producer oversight.

Another major responsibility of the Department includes the collection of premium tax and associated retaliatory taxes, fire marshal tax and various renewal fees, and the audit and collection of premium and fire marshal tax for surplus and excess lines. Annually, the Department collects approximately \$80 million for distribution to the State of Nebraska.

The Department investigates referred cases of suspected insurance fraud and educates insurance company and law enforcement personnel on fraud indicators. The Department also conducts significant outreach through the Senior Health Insurance Information Program (SHIIP), a federally funded program that informs and advises older Nebraskans regarding Medicare, Medicaid and health insurance.

The 1976 Legislature adopted the Nebraska Hospital Medical Liability Act as an alternative way to address medical professional liability claims. The law ensures the availability of professional liability insurance for health care providers to encourage the availability of health care to Nebraskans. The Department collects premiums and qualifies health care providers that seek Excess Liability Fund or Residual Malpractice Insurance Authority coverage. Once health care providers are qualified under the act, the Department resolves medical professional liability claims made under the act. The first complete insurance code in Nebraska, enacted in 1913, provided for an insurance board to administer the code. Before 1913, the territorial auditor and later the state auditor issued certificates to insurance companies and exercised some powers in investigating and inspecting those companies.

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 of Insurance. In 1947, the Legislature passed laws that updated the 1913 code.

NEBRASKA DEPARTMENT OF INSURANCE

**EXIT CONFERENCE**

An exit conference was held June 24, 2014, with the Nebraska Department of Insurance to discuss the results of our examination. Those in attendance for the Department were:

<b>NAME</b>	<b>TITLE</b>
Julie Neal	Accountant
Christy Neighbors	Deputy Director/General Counsel
Bruce Ramage	Director
Jay Mitchell	Accounting and Finance Manager

## 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.

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

- 1. *Contracts:*** Two of five contracts did not have documentation to support the vendor selection process. One of five contracts did not have a documented legal review, and the Department was not monitoring to ensure the service was received.
- 2. *Service Organization Control Reports:*** The Department utilized service organizations for processing both license fees and premium tax payments, but it did not obtain a service organization control report for those entities.

More detailed information on the above items is provided hereafter. 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 Nebraska Department of Insurance.

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. The Department declined to respond.

# NEBRASKA DEPARTMENT OF INSURANCE

## COMMENTS AND RECOMMENDATIONS

### 1. Contracts

Neb. Rev. Stat. § 73-505 (Reissue 2009) states:

*State agency directors shall be responsible for maintaining accurate documentation of the process used for selection of all contracts for services and for ensuring and documenting that services required under the contract are being performed in compliance with the terms of the contract for services. Such documentation shall be kept with each contract for services.*

A good internal control plan requires contractual agreements between State agencies and outside vendors be reviewed by legal counsel. In addition, a good internal control plan and sound business practice requires agencies monitor and verify all items purchased on contract are received.

During testing, we noted the following:

- Two of five contracts tested did not have the basis for vendor selection on file. These contracts were for insurance examination services. The Department indicated they had a process for selecting the vendor; however, that process was not documented. Total payments to these vendors during the calendar year were \$285,584 and \$1,328,285. This was noted in the previous Department of Insurance report.
- For one of five contracts, the Department did not have documentation to support the services had been received. The vendor was paid \$4,160 during the calendar year. In addition, the Department did not have documentation to support this contract had been reviewed by legal counsel.

Without documentation to support the vendor selection process, the Department is not in compliance with State statute. Without adequate monitoring of contracts, there is an increased risk the Department may not receive all the services purchased. Without a documented legal review, there is an increased risk a contract is not properly reviewed prior to being entered into.

We recommend the Department document both the basis for vendor selection and its legal counsel's review of contracts. We also recommend the Department monitor its contracts to ensure services contracted for have been received and maintain documentation to support that such monitoring has taken place.

### 2. Service Organizational Control Report

A good internal control plan requires the Department request and obtain a Service Organization Control (SOC) report for any service organization providing services that are part of the Department's business process. A SOC report provides an independent assessment of the controls at the service organization providing services to the Department and also provides information on controls the Department should have to complement the service organization's controls.

NEBRASKA DEPARTMENT OF INSURANCE

**COMMENTS AND RECOMMENDATIONS**

(Concluded)

**2. Service Organizational Control Report (Concluded)**

The Department uses a number of information systems in its daily operations that are maintained and supported by outside vendors. The Department's State Based System (SBS) records the Department's receipts and tracks agent license information and agent continuing education hours. The National Insurance Producer Registry (NIPR) is used to process insurance license and appointment fee payments. The Online Premium Tax for Insurance (OPTins) application is used to record premium tax information and collect premium tax payments. Since these systems are responsible for processing significant licensing and premium tax payments, the Department should request and obtain SOC reports to provide assurance their vendors' processes are operating effectively.

The Department was able to obtain SOC reports for the systems previously identified. The reports were for the calendar year ending December 31, 2013. However, the Department did not have processes in place to obtain and review these reports on an annual basis.

Without obtaining and reviewing the SOC reports, there is an increased risk the service organization could have significant problems the Department would not be aware of. In addition, a review of the SOC report is necessary for the Department to implement controls complementary to the service organization's controls.

We recommend the Department request and obtain SOC reports on an annual basis. We further recommend the Department review the reports to ensure their service organization's controls are operating effectively, and the Department has controls in place to complement the service organization's controls.



## NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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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 Balance of the Nebraska Department of Insurance (Department) for the year ended December 31, 2013. The Department's management is responsible for the Schedule of Revenues, Expenditures, and Changes in Fund Balance. Our responsibility is to express an opinion 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 and, accordingly, included examining, on a test basis, evidence supporting the Schedule of Revenues, Expenditures, and Changes in Fund Balance and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, the schedule referred to above presents, in all material respects, the revenues, expenditures, and changes in fund balance of the Nebraska Department of Insurance for the year ended December 31, 2013, based on the accounting system and procedures prescribed by the State of Nebraska Director of Administrative Services, as described in Note 1.

In accordance with *Government Auditing Standards*, we are required to report findings of deficiencies in internal control, violations of provisions of contracts or grant agreements, and abuse that are material to the Schedule of Revenues, Expenditures, and Changes in Fund Balance and any fraud and illegal acts that are more than inconsequential that come to our attention during our examination. We are also required to obtain the views of management on those matters. We performed our examination to express an opinion on whether the Schedule of Revenues, Expenditures, and Changes in Fund Balance 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 Balance 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.

This report is intended solely for the information and use of management, others within the Department, and the appropriate Federal and regulatory agencies, and it is not intended to be, and should not be, used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

June 25, 2014



Mike Foley  
Auditor of Public Accounts

**DEPARTMENT OF INSURANCE**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
For the Calendar Year Ended December 31, 2013

	General Fund 10000	Insurance Cash Fund 22210	Federal General Fund 40000	Excess Liability Fund 62220	Premium & Retaliatory Tax Suspende Fund 62240	Permanent School Fund 63340	Comprehensive Health Insurance Pool Fund 72210	Totals (Memorandum Only)
<b>REVENUES:</b>								
Taxes	34,965,752	-	-	-	14,273,542	-	-	49,239,294
Intergovernmental	-	-	2,769,185	-	-	-	-	2,769,185
Sales & Charges	-	17,069,781	-	4,849,128	-	(8)	-	21,918,901
Miscellaneous	21,064	511,226	-	(412,910)	273,403	992,661	-	1,385,444
<b>TOTAL REVENUES</b>	<b>34,986,816</b>	<b>17,581,007</b>	<b>2,769,185</b>	<b>4,436,218</b>	<b>14,546,945</b>	<b>992,653</b>	<b>-</b>	<b>75,312,824</b>
<b>EXPENDITURES:</b>								
Personal Services	-	6,961,490	538,897	-	-	-	-	7,500,387
Operating	-	3,101,228	2,200,061	4,881,293	-	-	-	10,182,582
Travel	-	228,295	30,227	-	-	-	-	258,522
Capital Outlay	-	1,960	-	-	-	-	-	1,960
<b>TOTAL EXPENDITURES</b>	<b>-</b>	<b>10,292,973</b>	<b>2,769,185</b>	<b>4,881,293</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>17,943,451</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	34,986,816	7,288,034	-	(445,075)	14,546,945	992,653	-	57,369,373
<b>OTHER FINANCING SOURCES (USES):</b>								
Sales of Assets	-	2,140	-	-	-	-	-	2,140
Deposit to General Fund	(33,594,123)	-	-	-	-	-	-	(33,594,123)
Deposit to/from Common Fund	-	-	-	315,963	-	(992,653)	-	(676,690)
Operating Transfers In	282,307	-	-	-	-	-	-	282,307
Operating Transfers Out	(1,675,000)	(6,000,000)	-	-	(13,319,755)	-	-	(20,994,755)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(34,986,816)</b>	<b>(5,997,860)</b>	<b>-</b>	<b>315,963</b>	<b>(13,319,755)</b>	<b>(992,653)</b>	<b>-</b>	<b>(54,981,121)</b>
Net Change in Fund Balances	-	1,290,174	-	(129,112)	1,227,190	-	-	2,388,252
<b>FUND BALANCES, JANUARY 1, 2013</b>	<b>-</b>	<b>10,490,572</b>	<b>-</b>	<b>91,328,986</b>	<b>13,232,768</b>	<b>-</b>	<b>-</b>	<b>115,052,326</b>
<b>FUND BALANCES, DECEMBER 31, 2013</b>	<b>\$ -</b>	<b>\$ 11,780,746</b>	<b>\$ -</b>	<b>\$ 91,199,874</b>	<b>\$ 14,459,958</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 117,440,578</b>
<b>FUND BALANCES CONSIST OF:</b>								
General Cash	\$ -	\$ 16,226,970	\$ -	\$ 25,414,872	\$ 14,459,958	\$ -	\$ 14,923,911	\$ 71,025,711
Petty Cash	-	450	-	-	-	-	-	450
Deposits with Vendors	-	10,601	-	-	-	-	-	10,601
Accounts Receivable Invoiced	-	17,367	-	-	-	-	-	17,367
Due From Other Government	-	58	-	-	-	-	-	58
Long-Term Investments	-	-	-	65,805,965	-	-	-	65,805,965
Premium Tax	-	(79,446)	-	-	-	-	-	(79,446)
Carry-over Credit	-	(788,351)	-	-	-	-	-	(788,351)
Due to Vendors	-	(41,220)	-	(20,963)	-	-	(14,742,887)	(14,805,070)
Due to Fund	-	(3,565,683)	-	-	-	-	(181,024)	(3,746,707)
<b>TOTAL FUND BALANCES</b>	<b>\$ -</b>	<b>\$ 11,780,746</b>	<b>\$ -</b>	<b>\$ 91,199,874</b>	<b>\$ 14,459,958</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 117,440,578</b>

The accompanying notes are an integral part of the schedule.

NEBRASKA DEPARTMENT OF INSURANCE

NOTES TO THE SCHEDULE

For the Calendar Year Ended December 31, 2013

1. Criteria

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

Per Neb. Rev. Stat. § 81-1107(2) (Reissue 2008), the duties of the State of Nebraska's Director of the Department of Administrative Services (DAS) include:

*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 2008), 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 Balance 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 only those expenditures and accounts payable posted in the general ledger before December 31, 2013, and not yet paid as of that date. The amount recorded as expenditures on the schedule, as of December 31, 2013, **does not** include amounts for goods and services received before December 31, 2013, which had not been posted to the general ledger as of December 31, 2013.

Other liabilities (primarily in the Distributive Fund Type) are recorded in accounts entitled Due to Vendors and Due to Fund for the Department. 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 calendar year ended December 31, 2013, see Notes 10 and 13.

NEBRASKA DEPARTMENT OF INSURANCE

**NOTES TO THE SCHEDULE**  
(Continued)

**1. Criteria** (Continued)

As of June 30, 2013, the Department had accounts receivable of \$1,395,796 from Insurance Company Renewal Fees and Examination Fees, which were not included in the Schedule. State Accounting did not require the Department to record this receivable on the general ledger, and this amount is not reflected in revenues or fund balances on the Schedule. This receivable is reported annually in the Comprehensive Annual Financial Report for the State and, thus, the receivable amount, as of December 31, 2013, was not available.

The Department does not record liabilities of the Excess Liability Fund on the State's accounting system. These liabilities are determined annually for inclusion in the State's Comprehensive Annual Financial Report, which is for the fiscal year ended June 30. As of June 30, 2013, the Department had liabilities, attributable to a reserve for claims, of \$23,890,000. These liabilities and the related expenses are not shown in the financial schedule. Liabilities for accrued payroll and compensated absences are not recorded in the general ledger.

The fund types established by the State that are used by the Department are:

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

**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.

NEBRASKA DEPARTMENT OF INSURANCE

**NOTES TO THE SCHEDULE**

(Continued)

1. **Criteria** (Continued)

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

**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.

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

**Assets** – Government-owned or held resources that have monetary value. Assets include cash accounts, deposits with vendors, long-term investments, and receivable accounts. Accounts receivable are recorded as an increase to revenues resulting in an increase to fund balance on the schedule. Cash accounts and deposits with vendors are also included in fund balance and are reported as recorded in the general ledger. Long-term investments (investments) are stated at fair value, based on quoted market prices. Law or legal instruments may restrict these investments. Investments are under the control of the State Treasurer or other administrative bodies, as determined by law.

**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 Department's funds at December 31, 2013, included amounts recorded in Due to Vendors and Due to Fund. The activity of these

NEBRASKA DEPARTMENT OF INSURANCE

**NOTES TO THE SCHEDULE**

(Continued)

**1. Criteria** (Concluded)

accounts is not recorded through revenue and expenditure accounts on the Schedule of Revenues, Expenditures, and Changes in Fund Balance. The activity processed on the general ledger through these accounts is summarized in Notes 10 and 13. The Carry-over Credit 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 12.

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

**2. Reporting Entity**

The Nebraska Department of Insurance 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 Nebraska Department of Insurance 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.

**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.

NEBRASKA DEPARTMENT OF INSURANCE

**NOTES TO THE SCHEDULE**  
(Continued)

**5. Capital Assets** (Concluded)

However, State Accounting does adjust such expenditures and reports the capital assets as assets for the State of Nebraska in the Comprehensive Annual Financial Report (CAFR). In addition, the Department takes an annual inventory, recording in the State Accounting System all equipment that has a cost of \$1,500 or more at the date of acquisition.

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 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's accounting system for the year ended December 31, 2013, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets				
Equipment	\$ 115,598	\$ 1,960	\$ 50,126	\$ 67,432
Less accumulated depreciation for:				
Equipment				<u>60,743</u>
Total capital assets, net of depreciation				<u>\$ 6,689</u>

*\*Note: The accumulated depreciation noted in the table above was calculated in the accounting system through September 30, 2013. Depreciation for October through December 2013 was not run in the accounting system until 2014.*

**6. Investments**

Long-Term Investments represent the balance reflected on EnterpriseOne. These investments are part of the Nebraska Excess Liability Fund. The \$412,910 reduction in the Excess Liability Fund's Miscellaneous revenue is the result of the Fund's Long-Term Investments performance during the calendar year. Additional information on the Excess Liability Fund can be found in the State of Nebraska's CAFR.

NEBRASKA DEPARTMENT OF INSURANCE

**NOTES TO THE SCHEDULE**

(Continued)

**7. Transfers**

Based on the requirements of 2011 Neb. Laws LB 374, § 265 (2)(e), and 2013 Neb. Laws LB 195, § 266 (1)(e), \$6,000,000 was transferred from the Insurance Cash Fund to the General Fund.

A transfer out of the General Fund of \$1,675,000 to the State Treasurer Mutual Finance Assistance Fund was made due to Neb. Rev. Stat. § 77-912 (Cum. Supp. 2012).

The \$13,319,755 Operating Transfer Out of the Premium and Retaliatory Tax Suspense Fund consists of a transfer of \$13,037,448 to the State Treasurer's Insurance Tax Fund, and a transfer of \$282,307, in interest earned, to the General Fund. Both transfers were made in accordance with Neb. Rev. Stat. § 77-918 (Cum. Supp. 2012).

**8. Excess Liability Fund**

The Excess Liability 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.

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 the Department of Administrative Services to issue a warrant drawn on the fund in the amount of each claim submitted by the Director of the Department.

Annually, the Department estimates a loss reserve amount for this Fund. At June 30, 2013, the loss reserve estimate made by the Department was \$23,890,000. This estimate is not recorded on the State's Accounting System and is not included on the Schedule. It is recorded in the Comprehensive Annual Financial Report for the fiscal year ended June 30, 2013.

**9. Deposits to/from Common 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 \$992,653 were deposited into the Permanent School Fund during the calendar year ended December 31, 2013.

Deposits from common funds for the Excess Liability Fund consist of transactions recorded by the State Treasurer consisting of interest earnings and charges for accounting services performed by the Department of Insurance. Interest earnings amounted to \$504,013, and charges for accounting services amounted to \$188,050, resulting in a net deposit of \$315,963.

NEBRASKA DEPARTMENT OF INSURANCE

**NOTES TO THE SCHEDULE**  
(Continued)

**10. Comprehensive Health Insurance Pool (CHIP) Fund**

Neb. Rev. Stat. § 44-4225(2) (Cum. Supp. 2012) 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. The statute requires, in relevant part:

*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 subdivision (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). Below is a summary of the changes in Due to Vendors that occurred during the calendar year 2013.

Fund	Balance January 1, 2013	In	Out	Balance December 31, 2013
Comprehensive Health Insurance Pool	\$ 22,734,697	\$ 41,500,177	\$ 49,491,987	\$ 14,742,887

During the calendar year, the Department paid the administrator of the Comprehensive Health Insurance Pool \$19,433,802 for operation of and payment of claims made against the pool. In addition, \$12,023,274 was transferred to the General Fund, \$15,029,093 was transferred to the State Treasurer’s Insurance Tax Fund, and \$3,005,818 was transferred to the State Treasurer’s Mutual Finance Assistance Fund.

**11. Pledged Securities**

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

*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 its policyholders in the United States in the amount of one hundred thousand dollars.*

Neb. Rev. Stat. § 44-319.06 (Reissue 2010) specifies that every foreign insurer or assessment association shall 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 December 31, 2013, the face value of securities pledged to the Department totaled \$176,846,217. 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.

NEBRASKA DEPARTMENT OF INSURANCE

**NOTES TO THE SCHEDULE**  
(Continued)

**12. Insurance Premium Tax**

Neb. Rev. Stat. § 77-908 (Cum. Supp. 2012) 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 (Cum. Supp. 2012) 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 (Cum Supp. 2012), Neb. Rev. Stat. § 44-6606 (Reissue 2010), Neb. Rev. Stat. § 44-157 (Reissue 2010), Neb. Rev. Stat. § 44-4225(2) (Cum. Supp. 2012), 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 calendar year 2013.

Fund	Balance January 1, 2013	In	Out	Balance December 31, 2013
Insurance Cash Fund	\$ 391,995	\$ 31,830,720	\$ 32,143,269	\$ 79,446

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

Distribution To	Amount
Comprehensive Health Insurance Pool Distributive Fund	\$11,297,614
General Fund	\$6,852,692
State Treasurer's Insurance Tax Fund	\$5,686,504
Workers' Compensation Court Cash Fund	\$3,529,169
State Treasurer's Mutual Finance Assistance Fund	\$2,069,790
Department of Insurance Cash Fund Receipts	\$1,534,855
Insurance Providers for Overpayments	\$1,126,515
Department of Insurance Cash Fund Carry-over Credit Liability	\$44,978
Department of Health and Human Services Cash Fund	\$1,152

NEBRASKA DEPARTMENT OF INSURANCE

**NOTES TO THE SCHEDULE**  
(Concluded)

**12. Insurance Premium Tax** (Concluded)

The Department transfers the balance of the preceding year's prepayments deposited in the Premium and Retaliatory Tax Suspense Fund to the State Treasurer's Insurance Tax Fund, on or before May 1st of each year in accordance with § 77-918. In addition, the interest earned in the Premium and Retaliatory Tax Fund on the preceding year's prepayments is transferred to the General Fund in accordance with § 77-918. The amounts transferred are found in Note 7.

**13. Changes in Due to Fund**

Fund	Balance January 1, 2013	In	Out	Balance December 31, 2013
Insurance Cash Fund	\$ 3,219,065	\$ 4,478,256	\$ 4,131,638	\$ 3,565,683

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 February 15th, May 15th, August 15th, and November 15th in accordance with Neb. Rev. Stat. § 44-5506 (Cum. Supp. 2012). 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 (Cum. Supp. 2012).

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 Balance. Supplementary information is presented for purposes of additional analysis. The information provided was the most recent the Department had available at the time of the examination. Such information has not been subjected to the procedures applied in the examination of the Schedule of Revenues, Expenditures, and Changes in Fund Balance, and, accordingly, we express no opinion on it.

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

Calendar Year	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Financial Examinations Completed	27	25	26	30	23
Investigation Files Closed	1,483	1,519	1,600	1,398	1,202
Health Policy Forms Approved	10,748	8,907	9,277	8,007	7,959
Health Ins. Rate Filings/Increases Reviewed	1,380	1,841	2,103	3,238	3,532
Property and Casualty Filings Reviewed	4,826	3,918	4,018	4,078	3,943
Active Licenses at Year End:					
Resident Agents	16,697	16,347	16,170	15,691	15,390
Nonresident Agents	48,162	49,672	53,243	54,601	58,725
Resident Consultants	179	180	179	199	212
Nonresident Consultants	81	105	126	156	157
Insurance Agencies	7,677	7,892	7,814	8,366	7,507
Domestic Insurance Companies	107	106	105	105	102

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

Source: 2008-2012 Summary of Insurance Business in Nebraska

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

<b>Taxes</b>	<b>CY 2008</b>	<b>CY 2009</b>	<b>CY 2010</b>	<b>CY 2011</b>	<b>CY 2012</b>
Premium Tax	\$ 49,780,810	\$ 45,954,839	\$ 56,307,913	\$ 44,479,957	\$ 71,593,408
Fire Insurance Tax	2,638,324	2,783,783	2,798,571	2,895,484	3,235,978
Workers' Compensation	-	3,260,883	3,062,041	3,218,927	3,529,169
Workers' Compensation Trust Fund	-	-	-	-	-
Premium Tax Transferred to CHIP Fund	23,381,858	26,533,247	17,775,047	33,489,244	9,452,724
<b>Total Taxes</b>	<b>\$ 75,800,992</b>	<b>\$ 78,532,752</b>	<b>\$ 79,943,572</b>	<b>\$ 84,083,612</b>	<b>\$ 87,811,279</b>
Interest Income from Premium					
Tax Prepayments	\$ 977,847	\$ 661,304	\$ 809,673	\$ 548,302	\$ 735,599
Late Payment Penalties and Administrative Fines*	288,191	341,699	34,638	173,963	782,953
<b>Total Interest and Penalties</b>	<b>\$ 1,266,038</b>	<b>\$ 1,003,003</b>	<b>\$ 844,311</b>	<b>\$ 722,265</b>	<b>\$ 1,518,552</b>
<b>Total Revenue Distributed to Other   Governmental Entities/Funds</b>	<b>\$ 77,067,030</b>	<b>\$ 79,535,755</b>	<b>\$ 80,787,883</b>	<b>\$ 84,805,877</b>	<b>\$ 89,329,831</b>

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

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 CY 2012 tax distribution occurs in calendar year 2013.

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

Source: 2008-2012 Summary of Insurance Business in Nebraska

NEBRASKA DEPARTMENT OF INSURANCE  
FEES COLLECTED

<u>Fees:</u>	<u>FY 2007-2008</u>	<u>FY 2008-2009</u>	<u>FY 2009-2010</u>	<u>FY 2010-2011</u>	<u>FY 2011-2012</u>
Examination Fees	\$ 2,172,855	\$ 4,709,450	\$ 4,526,714	\$ 3,278,940	\$ 3,181,914
Admin. Fee Professional Medical Liability	204,735	159,262	194,725	201,254	175,103
Publications/Photocopies/Fraud Conference	33,519	22,501	19,485	15,240	17,866
Agent Certification	29,636	25,415	26,105	24,315	22,540
Legal Filing Fees	21,313	7,893	11,572	15,471	10,858
Miscellaneous Fees (Filing Fees)	931,139	909,956	1,026,210	1,061,716	1,109,896
Admin. Fees Premium Taxes	35,750	32,938	30,930	30,930	32,514
Pre-Admission Review Fees	32,500	25,500	22,000	15,000	17,000
P&C Filing Fees	388,385	338,021	437,510	504,998	389,526
L&H Filing Fees	127,476	127,945	101,915	119,056	120,010
Fraud Fee	330,494	720,558	417,808	378,917	361,137
Certificate of Authority	63,745	75,109	66,609	67,535	67,935
Agency License	455,115	499,225	533,645	537,659	505,795
Company Appointment/Cancellation	4,799,030	5,082,528	4,619,755	5,070,227	5,870,436
Agent's License	2,511,237	2,546,317	2,606,417	2,803,886	2,808,033
Utilization Review Agents	4,505	6,100	5,800	4,200	4,500
Continuing Education Approval/Course Comp.	73,580	53,240	42,550	42,725	46,150
Reinsurance Intermediary	4,250	1,250	2,250	4,250	4,500
Third-Party Administrator	64,955	65,655	69,210	69,035	71,910
Pre-License Certification/Course Approval	15,750	4,890	250	550	400
	<u>\$ 12,299,969</u>	<u>\$ 15,413,753</u>	<u>\$ 14,761,460</u>	<u>\$ 14,245,904</u>	<u>\$ 14,818,023</u>

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

Source: 2008-2012 Summary of Insurance Business in Nebraska