

**AUDIT REPORT  
OF THE  
NEBRASKA DEPARTMENT OF INSURANCE  
JULY 1, 2000 THROUGH JUNE 30, 2001**

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NEBRASKA DEPARTMENT OF INSURANCE

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## NEBRASKA DEPARTMENT OF INSURANCE

### **BACKGROUND**

The Nebraska Department of Insurance is responsible for the general supervision, control, and regulation of insurance companies, associations and societies, and the business of insurance in Nebraska, including companies in the process of organization. The Director of Insurance is appointed by the Governor, and is charged with the duty to enforce and execute all the insurance laws of Nebraska and to make the necessary rules and regulations to carry out the laws. The Department is funded with revenue received from occupational licenses and administrative fees. The major responsibilities of the Department are to:

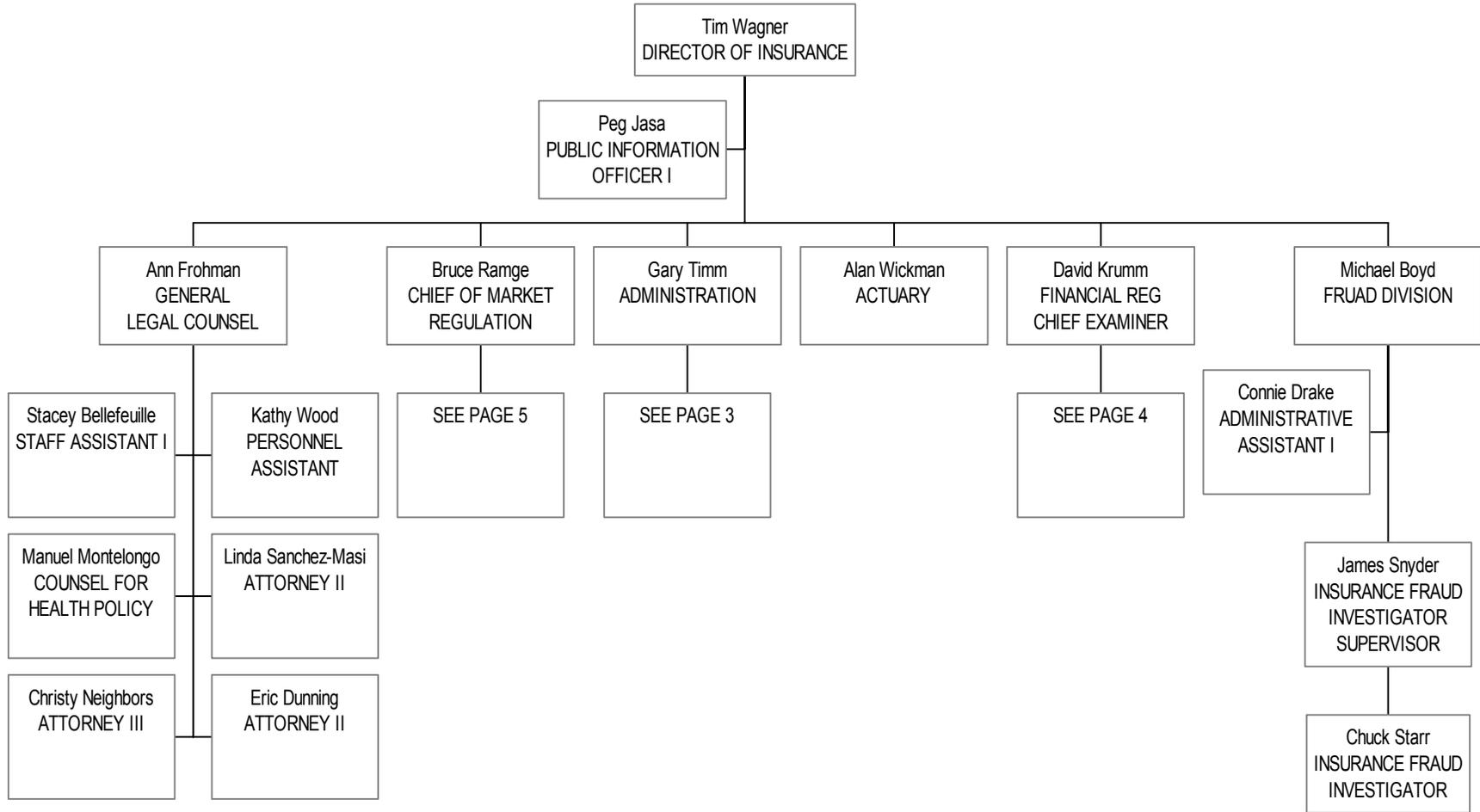
1. Supervise, license, and regulate insurance companies, agents, agencies, brokers, and consultants;
2. Issue Certificates of Authority permitting companies to sell insurance in the State;
3. Institute corrective action when an insurance company is faced with financial difficulties;
4. Perform financial and market conduct examinations of domestic and foreign insurance companies;
5. Approve and evaluate continuing education courses;
6. Investigate inquiries from consumers and alleged violations of insurance laws;
7. Act as a depository for domestic insurers required to maintain securities for the benefit of their policy holders;
8. Review and approve/disapprove all forms for insurance policies, riders, endorsements, and rates for property and casualty insurance sold in Nebraska;
9. Administer the Nebraska Medical Malpractice Excess Liability Fund; and
10. License and regulate ancillary, but related, areas of health maintenance organizations, prepaid legal service corporations, service contract companies, motor clubs, prepaid dental corporations, the comprehensive health insurance pool, intergovernmental risk management pools, risk retention and purchasing groups, and pre-need burial services.

### **MISSION STATEMENT**

To safeguard those affected by the business of insurance through the fulfillment of our statutory obligations and by promoting the fair and just treatment of all parties to insurance transactions.

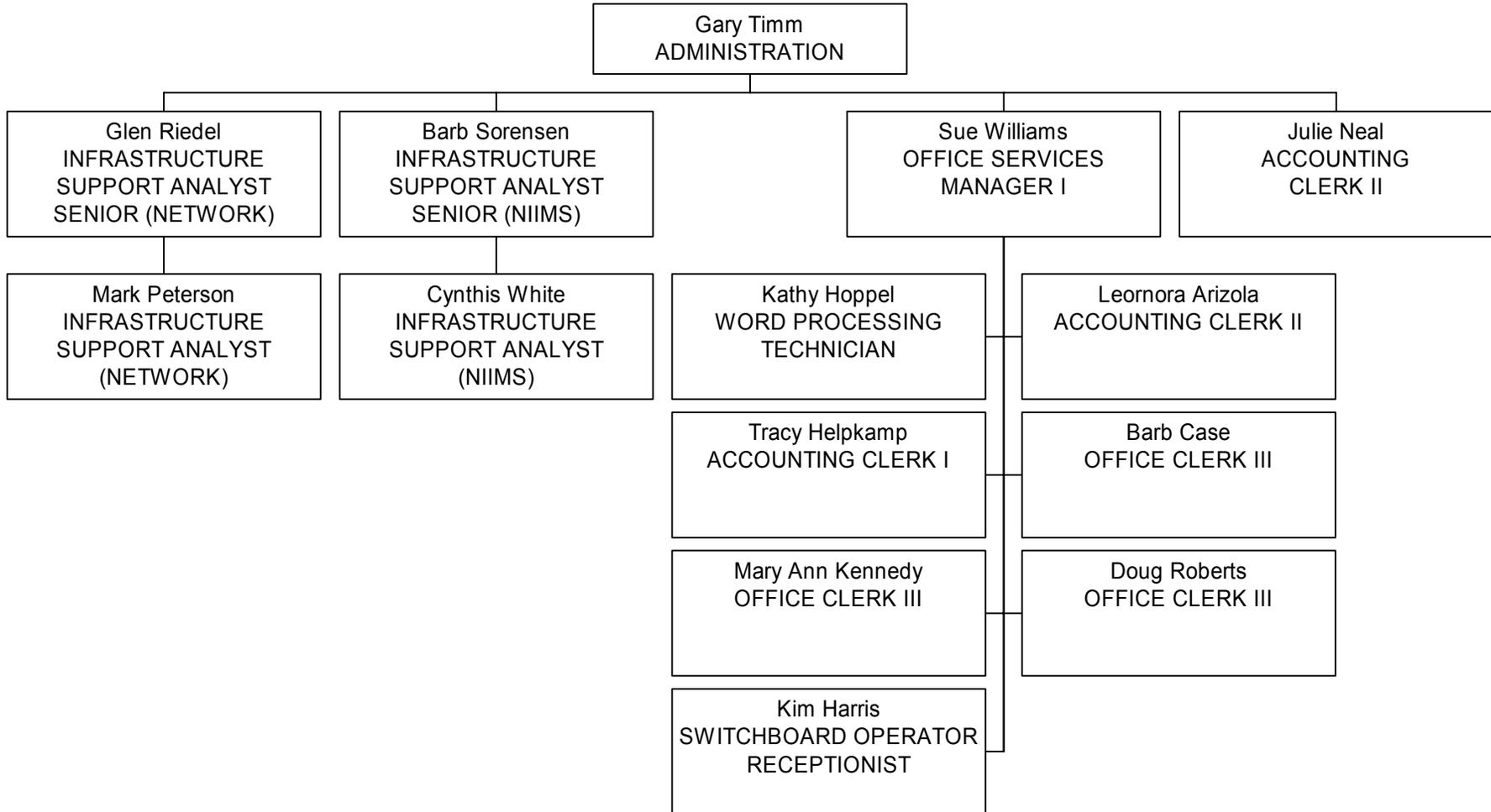
NEBRASKA DEPARTMENT OF INSURANCE

ORGANIZATIONAL CHART



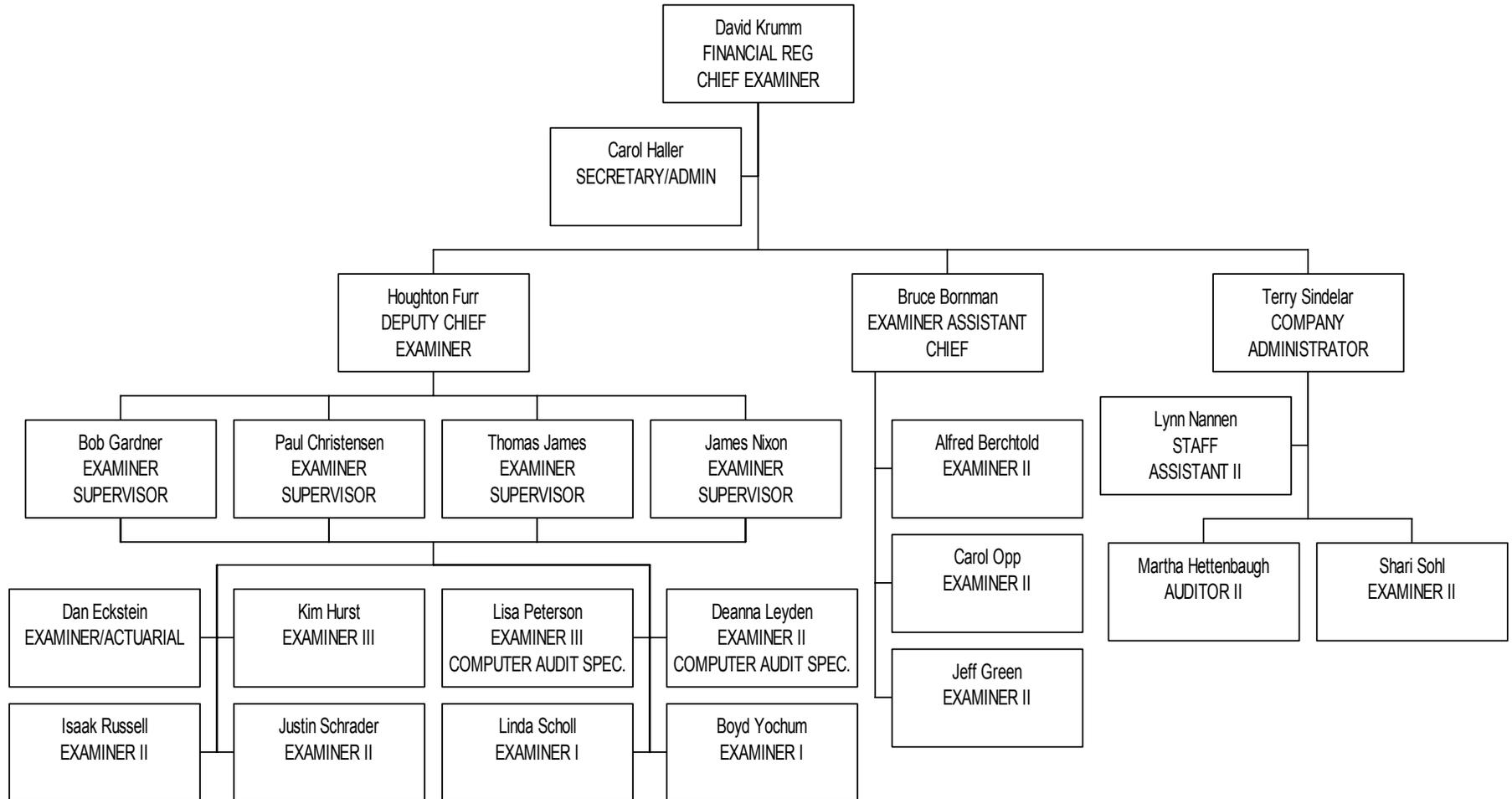
NEBRASKA DEPARTMENT OF INSURANCE

**ORGANIZATIONAL CHART**



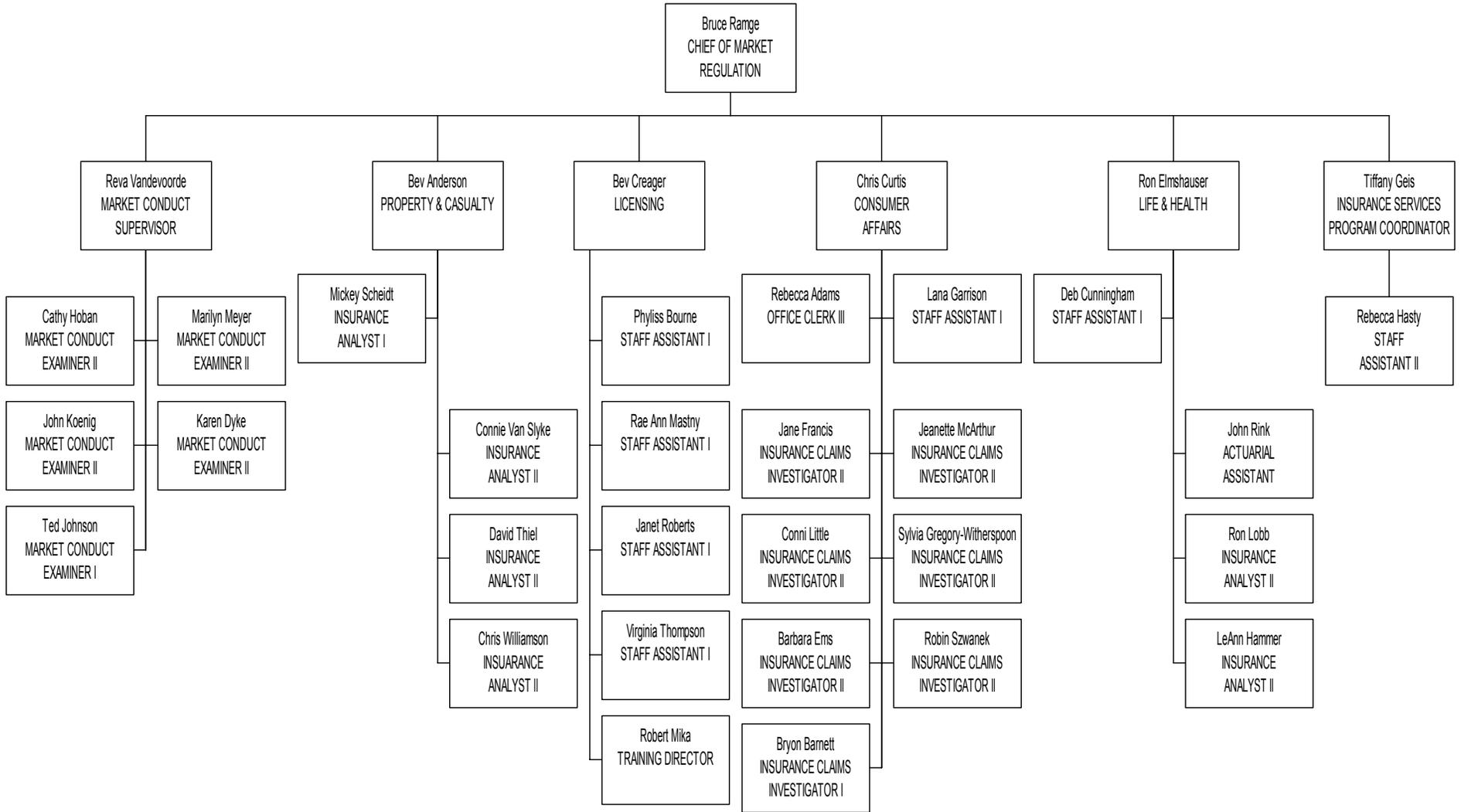
NEBRASKA DEPARTMENT OF INSURANCE

ORGANIZATIONAL CHART



NEBRASKA DEPARTMENT OF INSURANCE

ORGANIZATIONAL CHART



## NEBRASKA DEPARTMENT OF INSURANCE

### SUMMARY OF COMMENTS

During our audit of the Nebraska Department of Insurance, we noted certain matters involving the internal control over financial reporting and other operational matters which are presented here. Comments and recommendations are intended to improve the internal control over financial reporting, ensure compliance, or result in operational efficiencies.

1. ***Internal Controls – Receipts:*** During our observation of the receipting process, we noted the same employee performed multiple phases of the receipting process. Although passwords were not shared, employees performed the duties that another employee had signed on to perform, thus allowing multiple phases of the receipting process to be performed by one person.
2. ***Internal Controls – Fixed Assets:*** One employee maintained the fixed asset inventory listing, recorded additions and deletions to the fixed asset inventory listing, reviewed the 4800 exception report, prepared surplus property to be removed, and approved Surplus Property Notification forms.
3. ***Meal Log Policy:*** The Department did not have in place a written meal log policy.

More detailed information on the above items is provided hereafter. It should be noted this report is critical in nature since it contains only our comments and recommendations on the areas noted for improvement.

Draft copies of this report were furnished to the Department to provide them an opportunity to review the report and to respond to the comments and recommendations included in this report. All formal responses received have been incorporated into this report. Responses have been objectively evaluated and recognized, as appropriate, in the report. Responses that indicate corrective action has been taken were not verified at this time but will be verified in the next audit.

We appreciate the cooperation and courtesy extended to our auditors during the course of the audit.

NEBRASKA DEPARTMENT OF INSURANCE

COMMENTS AND RECOMMENDATIONS

**1. Internal Controls - Receipts**

Good internal control requires that no one person is in the position to both perpetuate and conceal errors or irregularities. This includes controls to ensure all receipts are remitted for deposit. Good internal control also requires procedures to ensure computer passwords are utilized by only the individual to whom the password was assigned.

The Department uses the Nebraska Insurance Information Management System (NIIMS) to initially record receipt transactions. The system is designed to use passwords so one individual cannot perform multiple phases of the receipting process, such as the input of check numbers and supporting insurance company information, validation of input, and creation of the deposit. During our observation of the receipting process, we noted the same employee performed multiple phases of the receipting process. Although passwords were not shared, employees would perform the duties that another employee had signed on to perform, thus allowing multiple phases of the receipting process to be performed by one person.

Without proper internal controls there is an increased risk of loss or misuse of State funds.

We recommend the Department implement procedures to ensure each employee performs only the computer functions related to an assigned password.

*Department's Response: While the Department agrees that an employee was using a computer that was logged-in by another employee, the Department disagrees that there was an increased risk of loss of State funds. The Department's receipting process has an additional step that is not necessary for proper internal control that checks the accuracy of what was originally input into the system. The Department also has a repetitive check of the accuracy of what was input into the system by having the division responsible for the service that funds were received also verify the accuracy of inputted information.*

*The Department has reminded staff of the policy that passwords are not to be shared and all work done on the computer should be done under their own user-id.*

**Auditors' Response: We consider the validation phase to be an essential element of internal control over the Department's receipt process.**

NEBRASKA DEPARTMENT OF INSURANCE

**COMMENTS AND RECOMMENDATIONS**

**2. Internal Controls – Fixed Assets**

Good internal control requires segregation of duties to ensure one employee is not able to handle all phases of a transaction from beginning to end.

One employee maintained the fixed asset inventory listing, recorded additions and deletions to the fixed asset inventory listing, reviewed the 4800 exception report, prepared surplus property to be removed, and approved Surplus Property Notification forms.

This was a prior audit comment in our fiscal year 1995 and 1999 audit reports.

Without proper internal controls there is an increased risk of loss or misuse of State assets.

We recommend the Department implement procedures to ensure an adequate segregation of duties exists. Procedures could include a review of a history report from the Statewide Inventory System by an employee independent of maintaining the fixed asset inventory records, to ensure all additions and deletions made were proper.

*Department's Response: The Department agrees with the finding and will have the Director review the history reports on an annual basis.*

**3. Meal Log Policy**

Internal Revenue Service (IRS) requirements and the Nebraska Accounting System (NAS) Manual, Conc-005, Travel Expense Policies, Section 5 requires employees to substantiate the costs of meals. Adequate accounting generally requires the use of a documentation record such as an account book, expense diary or log, or similar record near the time of incurrence of the expense. Such log should list the date, amount, and place (e.g. city) for each meal/food cost. A combination of receipts and detailed itemization is permitted. To satisfy the requirement of the State's accountable plan, the employee should use a documentation record to transfer cost information to the expense reimbursement form so reimbursement can be made.

We noted the Department did not have in place a written meal log policy. The lack of a written policy increases the risk of noncompliance with IRS requirements.

We recommend the Department implement a written meal log policy consistent with IRS requirements and the NAS Manual that includes monitoring procedures to ensure the policy is being followed.

NEBRASKA DEPARTMENT OF INSURANCE

**COMMENTS AND RECOMMENDATIONS**

**3. Meal Log Policy (Concluded)**

*Department's Response: While the Department agrees there is no agency-specific policy, employees were informed of the NAS policy on more than one occasion. The Department will implement this policy into its own policies.*

*However, the Department continues to believe that keeping a meal log and submitting an expense reimbursement is an example of duplicative documentation. If there is a question on the legitimacy of the meals claimed on the expense reimbursement, having the same person that completed the expense reimbursement also complete the meal log would not resolve this question.*

# STATE OF NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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## NEBRASKA DEPARTMENT OF INSURANCE

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### INDEPENDENT AUDITORS' REPORT

**Deann Haeffner, CPA**  
Deputy State Auditor  
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We have audited the financial statements of the Nebraska Department of Insurance as of and for the fiscal year ended June 30, 2001, as listed in the Table of Contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial statements based on our audit.

**Don Dunlap, CPA**  
Asst. Deputy Auditor  
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We conducted our audit 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

**Pat Reding, CPA**  
Asst. Deputy Auditor  
[reding@mail.state.ne.us](mailto:reding@mail.state.ne.us)

As discussed in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles.

**Tim Channer, CPA**  
Asst. Deputy Auditor  
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Also as discussed in Note 1, the financial statements present only the Nebraska Department of Insurance, and are not intended to present fairly the fund balances and the receipts and disbursements of the State of Nebraska in conformity with the cash receipts and disbursements basis of accounting.

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In our opinion, the financial statements referred to above present fairly, in all material respects, the fund balances of the Nebraska Department of Insurance as of June 30, 2001, and the receipts and disbursements for the fiscal year then ended, on the basis of accounting described in Note 1.

**Robert Hotz, JD**  
Legal Counsel  
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In accordance with Government Auditing Standards, we have also issued our report dated April 11, 2002, on our consideration of the Nebraska Department of Insurance's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The accompanying combining statements and schedule are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information, except for that portion marked "unaudited," on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Pat Reding, CPA

Manager

April 11, 2002

NEBRASKA DEPARTMENT OF INSURANCE  
**COMBINED STATEMENT OF ASSETS AND FUND BALANCES AND OTHER CREDITS**  
**ARISING FROM CASH TRANSACTIONS**  
**ALL FUND TYPES AND GENERAL FIXED ASSETS ACCOUNT GROUP**

June 30, 2001

	Governmental Fund Type	Proprietary Fund Type	Fiduciary Fund Type	Account Group	<b>Totals</b> (Memorandum Only)
	Special Revenue	Enterprise Fund	Trust and Agency	General Fixed Assets	
<b>Assets</b>					
Cash in State Treasury	\$ 12,919,733	\$ 5,046,935	\$ 15,592,167	\$ -	\$ 33,558,835
Investments	-	50,039,039	-	-	50,039,039
Deposit with Vendors	10,601	-	-	-	10,601
Petty Cash	450	-	-	-	450
Property, Plant, and Equipment	-	-	-	626,805	626,805
<b>Total Assets</b>	<b>\$ 12,930,784</b>	<b>\$ 55,085,974</b>	<b>\$ 15,592,167</b>	<b>\$ 626,805</b>	<b>\$ 84,235,730</b>
<b>Fund Balances and Other Credits</b>					
Other Credits:					
Investment in Fixed Assets	\$ -	\$ -	\$ -	\$ 626,805	\$ 626,805
Fund Balances:					
Reserved For Postage	10,601	-	-	-	10,601
Unreserved, Undesignated	12,920,183	55,085,974	15,592,167	-	83,598,324
<b>Total Fund Balances and Other Credits</b>	<b>\$ 12,930,784</b>	<b>\$ 55,085,974</b>	<b>\$ 15,592,167</b>	<b>\$ 626,805</b>	<b>\$ 84,235,730</b>

The accompanying notes are an integral part of the financial statements.

NEBRASKA DEPARTMENT OF INSURANCE  
**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS,  
AND CHANGES IN FUND BALANCES**  
For the Fiscal Year Ended June 30, 2001

	Governmental Fund Types		Proprietary Fund Type	Fiduciary Fund type	<b>Totals</b> (Memorandum Only)
	General	Special Revenue	Enterprise	Trust and Agency	
<b>RECEIPTS:</b>					
Taxes (Net of Refunds totaling \$953,015)	\$ 14,358,221	\$ 1,489,660	\$ -	\$ 19,020,024	\$ 34,867,905
Intergovernmental	-	207,038	-	-	207,038
Sales and Charges	-	7,454,133	1,866,539	-	9,320,672
Miscellaneous	18,947	1,013,443	5,563,903	1,157,214	7,753,507
<b>TOTAL RECEIPTS</b>	<b>14,377,168</b>	<b>10,164,274</b>	<b>7,430,442</b>	<b>20,177,238</b>	<b>52,149,122</b>
<b>DISBURSEMENTS:</b>					
Personal Services	-	4,329,251	108,739	-	4,437,990
Operating	-	927,285	8,176,522	-	9,103,807
Travel	-	327,021	1,370	-	328,391
Capital Outlay	-	71,764	-	-	71,764
<b>TOTAL DISBURSEMENTS</b>	<b>-</b>	<b>5,655,321</b>	<b>8,286,631</b>	<b>-</b>	<b>13,941,952</b>
Excess of Receipts Over (Under) Disbursements	14,377,168	4,508,953	(856,189)	20,177,238	38,207,170
<b>OTHER FINANCING SOURCES (USES):</b>					
Sales of Assets	-	2,046	-	-	2,046
Operating Transfers In	3,934,210	-	-	16,175,455	20,109,665
Operating Transfers Out	-	(3,165,265)	-	(16,944,400)	(20,109,665)
Deposits to State General Fund	(18,311,378)	-	-	-	(18,311,378)
Deposits to Common Fund	-	(1,489,660)	-	(24,302,985)	(25,792,645)
Distributive Activity:					
Ins	-	23,574,338	-	15,916,368	39,490,706
Outs	-	(24,101,811)	-	(6,294,101)	(30,395,912)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(14,377,168)</b>	<b>(5,180,352)</b>	<b>-</b>	<b>(15,449,663)</b>	<b>(35,007,183)</b>
Excess of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses	-	(671,399)	(856,189)	4,727,575	3,199,987
<b>FUND BALANCES, JULY 1, 2000</b>	<b>-</b>	<b>13,602,183</b>	<b>55,942,163</b>	<b>10,864,592</b>	<b>80,408,938</b>
<b>FUND BALANCES, JUNE 30, 2001</b>	<b>\$ -</b>	<b>\$ 12,930,784</b>	<b>\$ 55,085,974</b>	<b>\$ 15,592,167</b>	<b>\$ 83,608,925</b>

The accompanying notes are an integral part of the financial statements.

NEBRASKA DEPARTMENT OF INSURANCE  
**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES**  
 BUDGET AND ACTUAL  
 General, Cash, and Federal Funds  
 For the Fiscal Year Ended June 30, 2001

	GENERAL FUND			CASH FUNDS		
	BUDGET	ACTUAL (BUDGETARY BASIS)	VARIANCE FAVORABLE (UNFAVORABLE)	BUDGET	ACTUAL (BUDGETARY BASIS)	VARIANCE FAVORABLE (UNFAVORABLE)
RECEIPTS:						
Taxes		\$ 14,358,221			\$ 1,489,660	
Intergovernmental		-			-	
Sales and Charges		-			7,454,133	
Miscellaneous		18,947			1,013,443	
TOTAL RECEIPTS		<u>14,377,168</u>			<u>9,957,236</u>	
DISBURSEMENTS:						
Personal Services		-			4,258,603	
Operating		-			800,409	
Travel		-			322,107	
Capital Outlay		-			67,164	
Total Budgeted	\$ -	-	\$ -	\$ 7,382,087	5,448,283	\$ 1,933,804
Under (Over) Budgeted (Note 17)	-	-	-	-	-	-
TOTAL DISBURSEMENTS	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>	<u>\$ 7,382,087</u>	<u>5,448,283</u>	<u>\$ 1,933,804</u>
Excess of Receipts Over (Under) Disbursements		<u>14,377,168</u>			<u>4,508,953</u>	
OTHER FINANCING SOURCES (USES):						
Sale of Assets		-			2,046	
Operating Transfers In		3,934,210			-	
Operating Transfers Out		-			(3,165,265)	
Deposits to Common Fund		-			(1,489,660)	
Deposits to State General Fund		(18,311,378)			-	
Distributive Activity:						
Ins		-			23,574,338	
Outs		-			(24,101,811)	
TOTAL OTHER FINANCING SOURCES (USES)		<u>(14,377,168)</u>			<u>(5,180,352)</u>	
Excess of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses		-			(671,399)	
FUND BALANCES, JULY 1, 2000		<u>-</u>			<u>13,602,183</u>	
FUND BALANCES, JUNE 30, 2001	<u>\$ -</u>	<u>-</u>		<u>\$ 12,930,784</u>		

The accompanying notes are an integral part of the financial statements.

(Continued)

NEBRASKA DEPARTMENT OF INSURANCE  
**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES**  
 BUDGET AND ACTUAL  
 General, Cash, and Federal Funds  
 For the Fiscal Year Ended June 30, 2001

	FEDERAL FUND			TOTALS (MEMORANDUM ONLY)		
	BUDGET	ACTUAL	VARIANCE	BUDGET	ACTUAL	VARIANCE
		(BUDGETARY BASIS)	FAVORABLE (UNFAVORABLE)		(BUDGETARY BASIS)	FAVORABLE (UNFAVORABLE)
RECEIPTS:						
Taxes		\$ -			\$ 15,847,881	
Intergovernmental		207,038			207,038	
Sales and Charges		-			7,454,133	
Miscellaneous		-			1,032,390	
TOTAL RECEIPTS		<u>207,038</u>			<u>24,541,442</u>	
DISBURSEMENTS:						
Personal Services		70,648		\$ 5,038,713	4,329,251	\$ 709,462
Operating		126,876		1,800,590	927,285	873,305
Travel		4,914		619,323	327,021	292,302
Capital Outlay		4,600		130,000	71,764	58,236
Total Budgeted	\$ 206,539	207,038	\$ (499)	7,588,626	5,655,321	1,933,305
Under (Over) Budgeted (Note 17)	201,341	-	201,341	201,341	-	201,341
TOTAL DISBURSEMENTS	<u>\$ 407,880</u>	<u>207,038</u>	<u>\$ 200,842</u>	<u>\$ 7,789,967</u>	<u>5,655,321</u>	<u>\$ 2,134,646</u>
Excess of Receipts Over (Under) Disbursements		<u>-</u>			<u>18,886,121</u>	
OTHER FINANCING SOURCES (USES):						
Sale of Assets		-			2,046	
Operating Transfers In		-			3,934,210	
Operating Transfers Out		-			(3,165,265)	
Deposits to Common Fund		-			(1,489,660)	
Deposits to State General Fund		-			(18,311,378)	
Distributive Activity:						
Ins		-			23,574,338	
Outs		-			(24,101,811)	
TOTAL OTHER FINANCING SOURCES (USES)		<u>-</u>			<u>(19,557,520)</u>	
Excess of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses		<u>-</u>			<u>(671,399)</u>	
FUND BALANCES, JULY 1, 2000		<u>-</u>			<u>13,602,183</u>	
FUND BALANCES, JUNE 30, 2001		<u>\$ -</u>			<u>\$ 12,930,784</u>	

The accompanying notes are an integral part of the financial statements.

(Concluded)

NEBRASKA DEPARTMENT OF INSURANCE

NOTES TO FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2001

1. **Summary of Significant Accounting Policies**

The accounting policies of the Nebraska Department of Insurance are on the basis of accounting as described in the Nebraska Accounting System Manual.

- A. **Reporting Entity.** The Nebraska Department of Insurance (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 financial statements include all funds of the Department. The Department has also considered all potential component units for which it is financially accountable, and other organizations which are fiscally dependent on the Department, or the significance of their relationship with the Department are such that exclusion would be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Department to impose its will on that organization, or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the Department.

These financial statements present the Nebraska Department of Insurance. No component units were identified. The Nebraska Department of Insurance is part of the primary government for the State of Nebraska's reporting entity.

- B. **Basis of Accounting.** The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The accounting records of the Department are maintained and the Department's financial statements were prepared on the basis of cash receipts and disbursements. As such, the measurement focus includes only those assets and fund balances arising from cash transactions on the Combined Statement of Assets and Fund Balances for all funds of the Department. This differs from governmental generally accepted accounting principles (GAAP) which require all governmental funds to be accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financial sources) and decreases (i.e., expenditures and other financing uses) in net current assets. All proprietary and nonexpendable trust funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet.

NEBRASKA DEPARTMENT OF INSURANCE

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. **Summary of Significant Accounting Policies (Continued)**

Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

Under the cash receipts and disbursements basis of accounting, revenues are recognized when received and expenditures are recognized when paid. This presentation differs from governmental generally accepted accounting principles (GAAP), which requires the use of the modified accrual basis for governmental and agency fund types and the accrual basis for proprietary and nonexpendable trust fund types. Under the modified accrual basis of accounting, revenues are recognized when they are considered susceptible to accrual and expenditures are recognized when the liability is incurred. Under the accrual basis of accounting, revenues are recognized when earned and expenditures are recognized when the liability is incurred.

- C. **Fund Accounting.** The accounts and records of the Department are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a self-balancing set of accounts which records receipts, disbursements, and the fund balance. The fixed asset account group is a financial reporting device designed to provide accountability over fixed assets. The fund types and account group presented on the financial statements are those required by GAAP, and include:

**General Fund.** Reflects transactions related to resources received and used for those general operating services traditionally provided by state government and which are not accounted for in any other fund.

**Special Revenue Funds.** Reflect transactions related to occupational licensing, administrative fees, examinations, insurance premiums, retaliatory taxes, federal grant monies, and deposits to other agencies.

**Enterprise Fund.** Reflects transactions used to account for excess liability fund operations that are financed and operated in the manner similar to private business, or where the governing body has decided that the determination of revenues earned, expenses incurred, or net income is necessary for management accountability.

**Trust and Agency Funds.** Reflect transactions related to insurance premium and retaliatory taxes, and fines and penalties which are required by statute to be collected by the Department as a trustee or as an agent for other State agencies.

NEBRASKA DEPARTMENT OF INSURANCE

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. **Summary of Significant Accounting Policies (Continued)**

**General Fixed Assets Account Group.** Used to account for general fixed assets of the Department.

This fund type classification differs from the budgetary fund types used by the Nebraska Accounting System.

The fund types established by the Nebraska Accounting System that are used by the Department are:

**1000 - General Fund** - accounts for all financial resources not required to be accounted for in another fund.

**2000 - Cash Funds** - account for receipts generated by specific activities from sources outside of State government and the disbursements directly related to the generation of the receipts.

**4000 - Federal Funds** - account for all federal grants and contracts received by the State.

**6000 - Trust Funds** - account for assets held by the State in a trustee capacity. Disbursements are made in accordance with the terms of the trust. No appropriation control is established for this fund type.

**7000 - Distributive Funds** - account for assets held by the State as an agent for individuals, private organizations, other governments, or other funds. No appropriation control is established for this fund type.

- D. Budgetary Process.** The State's biennial budget cycle ends on June 30 of the odd-numbered years. By September 15, prior to a biennium, the Department and all other State agencies must submit their budget request for the biennium beginning the following July 1. There are no annual budgets prepared for Trust and Distributive funds. The requests are submitted on forms that show estimated funding requirements by programs, sub-programs, and activities. The Executive Branch reviews the requests, establishes priorities, and balances the budget within the estimated resources available during the upcoming biennium.

NEBRASKA DEPARTMENT OF INSURANCE

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. **Summary of Significant Accounting Policies (Continued)**

The Governor's budget bill is submitted to the Legislature in January. The Legislature considers revisions to the bill and submits the revised appropriations bill to the Governor for signature. The Governor may: a) approve the appropriations bill in its entirety, b) veto the bill, or c) line item veto certain sections of the bill. Any vetoed bill or line item can be overridden by a three-fifths vote of the Legislature.

The appropriations that are approved will generally set spending limits for a particular program within the agency. Within the agency or program, the Legislature may provide funding from one to five budgetary fund types. Thus, the control is by fund type, within a program, within an agency. The central accounting system maintains this control. A separate publication entitled "Annual Budgetary Report" shows the detail of this level of control. This publication is available from the Department of Administrative Services, Accounting Division.

Appropriations are usually made for each year of the biennium with unexpended balances being reappropriated at the end of the first year of the biennium. For most appropriations, balances lapse at the end of the biennium.

All State budgetary disbursements for the general, cash, and federal fund types are made pursuant to the appropriations which may be amended by the Legislature, upon approval by the Governor. State agencies may reallocate the appropriations between major object of expenditure accounts, except that the Legislature's approval is required to exceed the personal service limitations contained in the appropriations bill. Increases in total general and cash fund appropriations must also be approved by the Legislature as a deficit appropriations bill. Appropriations for programs funded in whole or in part from federal funds may be increased to the extent that receipts of federal funds exceed the original budget estimate.

The Department utilizes encumbrance accounting to account for purchase orders, contracts, and other disbursement commitments. However, State law does not require that all encumbrances be recorded in the State's centralized accounting system, and, as a result, the encumbrances that were recorded in the accounting system have not been included in the accompanying financial statements, except for the impact as described below.

Under State budgetary procedures, appropriation balances related to outstanding encumbrances at the end of the biennium are lapsed and reappropriated in the first year of the next biennium. The effect of the Department's current procedure is to

NEBRASKA DEPARTMENT OF INSURANCE

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. Summary of Significant Accounting Policies (Continued)

include in the budget columns, Total Disbursements line, of the Statement of Receipts, Disbursements, and Changes in Fund Balances - Budget and Actual the current year's appropriations plus the amounts reappropriated for encumbrances outstanding at the end of the prior biennium. This procedure indicates the Department's intention to honor the encumbrances at the end of a biennium. The disbursements columns of the Statement include cash payments related to the appropriated and reappropriated amounts. For the year ended June 30, 2001, there were no budgetary funds in which disbursements exceeded appropriations.

Budgets for object of expenditure accounts are included in the Nebraska Department of Administrative Services Budget Status Report. They are budgeted at the program level and not within separate budgetary fund types for the program. As a result, for financial reporting purposes, budget amounts for object of expenditure accounts are shown only for total budgeted funds.

Receipts are not budgeted. Therefore, there are no budgeted amounts shown on the Budget and Actual Statement.

There are no annual budgets prepared for Trust and Distributive Funds, and, as a result, no budgetary comparisons are presented.

A reconciliation of the budgetary fund classifications versus GAAP fund classifications as of June 30, 2001 follows:

	BUDGETARY FUND BALANCES	FINANCIAL STATEMENT FUND BALANCES		
		PRIMARY GOVERNMENT		
	Total	Special Revenue	Enterprise	Trust and Agency
PERSPECTIVE DIFFERENCES:				
Classifications of budgetary fund balances into				
Financial Statement fund structure:				
Cash	\$ 12,930,784	\$ 12,930,784	\$ -	\$ -
Budgetary fund balances classified into Financial	\$ 12,930,784			
Statement fund structure				
Entity Difference:				
Record funds not budgeted		-	55,085,974	15,592,167
Financial Statement Fund Balances,		\$ 12,930,784	\$ 55,085,974	\$ 15,592,167
June 30, 2001				

NEBRASKA DEPARTMENT OF INSURANCE

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. **Summary of Significant Accounting Policies (Continued)**

**E. Fixed Assets.** General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisitions are reflected as disbursements in governmental funds, and the related assets are reported in the general fixed assets account group. All purchased fixed assets are valued at cost, where historical records are available, and at an estimated historical cost, where no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date received. Assets on hand as of June 30, 2001 have been recorded at cost by the Department. Generally, equipment which has a cost in excess of \$300 at the date of acquisition and has an expected useful life of two or more years is capitalized.

Assets in the general fixed assets account group are not depreciated. Fixed assets do not include infrastructure, such as roads and bridges, as these assets are immovable and of value only to the government. The cost of normal maintenance and repairs that does not add to the value of the asset or extend asset life is not capitalized.

**F. Cash in State Treasury.** Cash in the State Treasury represents the cash balance of a fund as reflected on the Nebraska Accounting System. Investment of all available cash is made by the State Investment Officer, on a daily basis, based on total bank balances. Investment income is distributed based on the average daily book cash balance of funds designated for investment. Determination of whether a fund is considered designated for investment is done on an individual fund basis. All of the funds of the Department were designated for investment during fiscal year 2001.

**G. Distributive Activity.** Distributive Activity transactions are those recorded directly to a fund's liability accounts rather than through a receipt or disbursement account. These transactions represent funds received by the Department which are owed to some individual, organization, or other government agency, or are deposits which will be returned on completion of some specified requirement.

**H. Inventories.** Disbursements for items of an inventory nature are considered expended at the time of purchase rather than at the time of consumption.

**I. Compensated Absences.** All permanent employees working for the Department earn sick and annual leave and are allowed to accumulate compensatory leave rather than being paid overtime. Temporary and intermittent employees and Board and Commission members are not eligible for paid leave. Under GAAP, the vested portion of the employee's compensated absences is recorded in the

NEBRASKA DEPARTMENT OF INSURANCE

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. **Summary of Significant Accounting Policies (Continued)**

Long Term Debt Account Group for governmental funds and amounts related to proprietary funds and non-expendable trust funds would be reflected separately in those funds. Under the receipts and disbursements basis of accounting, the balances which would otherwise be reported in the Long Term Debt Account Group are not reported since they do not represent balances arising from Cash Transactions.

**J. Receipts.** The major account titles and descriptions as established by the Nebraska Accounting System that are used by the Department are:

**Appropriations.** Appropriations are granted by the Legislature to make disbursements and to incur obligations. The amount of appropriations reported as receipts is the amount spent.

**Taxes.** Compulsory charges levied by a government for the purpose of financing services performed for the common benefit, which is primarily Insurance Premium Tax.

**Intergovernmental.** Receipts from other governments in the form of grants, entitlements, shared revenues, payments in lieu of taxes, or reimbursements.

**Sales and Charges.** Income derived from sales of merchandise and commodities, compensation for services rendered, and charges for various licenses, permits, and fees.

**Miscellaneous.** Receipts from sources not covered by other major categories. Enterprise Fund Miscellaneous in the amount of \$5,563,903 represents Investment Interest Income and Gain on Investments. Miscellaneous also includes Investment Interest in the amount of \$1,004,544 in Special Revenue and \$863,589 in Trust and Agency funds.

**K. Disbursements.** The major account titles and descriptions as established by the Nebraska Accounting System that are used by the Department are:

**Personal Services.** Salaries, wages, and related employee benefits provided for all persons employed by a government.

**Operating.** Disbursements directly related to a program's primary service activities.

NEBRASKA DEPARTMENT OF INSURANCE

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. **Summary of Significant Accounting Policies (Concluded)**

**Travel.** All travel disbursements for any state officer, employee, or member of any commission, council, committee, or board of the State.

**Capital Outlay.** Disbursements which result in the acquisition of or an addition to fixed assets. Fixed assets are resources of a long-term character, owned or held by the government.

2. **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 since interfund balances and transactions have not been eliminated.

3. **Cash, Investments, and Securities Lending**

Neb. Rev. Stat. Section 72-1247 R.S.Supp., 2000 authorizes the State Investment Officer to invest funds in accordance with the prudent person rule. The State Investment Officer may not buy on margin, buy call options, or buy put options.

Governmental Accounting Standards Board (GASB) Statement Number 3 requires government entities to categorize investments for the purpose of giving an indication of the level of risk assumed by the entity at year-end. Category 1 includes investments that are insured or registered, or for which securities are held by the State or its agent in the name of the State. Category 2 includes uninsured and unregistered investments for which securities are held by the counterparty trust department or agent in the name of the State. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department but not in the State's name.

The State Investment Officer participates in securities lending transactions, where securities are loaned to broker-dealers and banks with a simultaneous agreement to return the collateral for the same securities in the future. The custodial bank administers the securities lending program and receives cash, United States Government or government agency obligations, or convertible bonds at least equal in value to the market value of the loaned securities as collateral for securities of the type on loan at year-end. Securities lent at year-end for cash collateral are presented as unclassified in the following schedule of custodial risk; securities lent for securities collateral are classified according to the category for the collateral. At year-end, the Excess Liability Fund, a part of Investment Pool D, had no credit risk exposure to borrowers because the amounts the Excess Liability Fund owed the borrowers exceeded the amounts the borrowers owed the Excess Liability Fund. The collateral securities cannot be pledged or sold by the Excess Liability

NEBRASKA DEPARTMENT OF INSURANCE

NOTES TO FINANCIAL STATEMENTS

(Continued)

3. **Cash, Investments, and Securities Lending (Concluded)**

Fund unless the borrower defaults. There are no restrictions on the amount of securities that can be loaned, and there were no losses resulting from borrower default during the year.

Generally, either the Excess Liability Fund or the borrowers can terminate securities loans on demand. Cash collateral is invested in one of the lending agent's short-term investment pools that had average durations of 68 and 75 days. Because loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. There is no loss indemnification provided to the Excess Liability Fund by the contract with the custodian.

These investments meet the criteria of GASB Statement Number 3, Category 1.

The carrying amount of investments at June 30, 2001, is at market value as set forth below:

<b>Investments – Category 1</b>	
Corporate Bonds Not on Securities Loan	\$ 22,120,167
Government Agency Obligations	12,591,916
US Treasury Obligations	9,534,868
Foreign Government Obligations	413,944
Municipal Bonds	217,451
<b>Not Categorized</b>	
Mutual Funds	5,040,503
Investments held by Broker-Dealers Under Securities	
Loan With Cash Collateral US Corporate Bonds	120,190
Total	<u>\$ 50,039,039</u>

4. **Contingencies and Commitments**

**Risk Management.** The Department is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets, errors or omissions, injuries to employees, and natural disasters. The Department, as part of the primary government for the State, participates in the State's risk management program. The Nebraska Department of Administrative Services (DAS) Division of Risk Management is responsible for maintaining the insurance and self-insurance, programs for the State. The State generally self-insures for general liability and workers compensation. The State has chosen to purchase insurance for:

NEBRASKA DEPARTMENT OF INSURANCE

NOTES TO FINANCIAL STATEMENTS

(Continued)

4. **Contingencies and Commitments (Concluded)**

- A. Motor vehicle liability, which is insured for the first \$5 million of exposure per accident. Insurance is also purchased for medical payments, physical damage, and uninsured and underinsured motorists with various limits and deductibles. State Agencies have the option to purchase coverage for physical damage to vehicles.
- B. The DAS-Personnel Division maintains health care and life insurance for eligible employees.
- C. Crime coverage, with a limit of \$1 million for each loss, and a \$10,000 retention per incident.
- D. Real and personal property on a blanket basis for losses up to \$250,000,000, with a self-insured retention of \$200,000 per loss occurrence. Newly-acquired properties are covered up to \$1,000,000 for 60 days or until the value of the property is reported to the insurance company. The perils of flood and earthquake are covered up to \$10,000,000.
- E. State Agencies have the option to purchase building contents and inland marine coverage.

No settlements exceeded commercial insurance coverage in any of the past three fiscal years. Health care insurance is funded in the Compensation Insurance Trust Fund through a combination of employee and State contributions. Workers' compensation is funded in the Workers' Compensation Internal Service Fund through assessments on each agency based on total agency payroll and past experience. Tort claims, theft of, damage to, or destruction of assets, errors or omissions, and natural disasters would be funded through the State General Fund or by individual agency assessments as directed by the Legislature, unless covered by purchased insurance. No amounts for estimated claims have been reported in the Nebraska Department of Insurance's financial statements.

**Litigation.** The potential amount of liability involved in litigation pending against the Department, if any, could not be determined at this time. However, it is the Department's opinion that final settlement of those matters should not have an adverse effect on the Department's ability to administer current programs. Any judgment against the Department would have to be processed through the State Claims Board and be approved by the Legislature.

On June 1, 2000, a District Court opined that the \$1.25 million limit on the total amount of damages recoverable in a medical malpractice action was unconstitutional. This case has been appealed to the Nebraska Supreme Court. The Court previously determined the Medical Malpractice Act constitutional. Should the Court reverse its previous position, it is not possible, at the present time, to estimate the increase in liability to the Excess Liability Fund should the limit be eliminated.

NEBRASKA DEPARTMENT OF INSURANCE

NOTES TO FINANCIAL STATEMENTS

(Continued)

5. **State Employees Retirement Plan (Plan)**

The Plan is a single-employer defined contribution plan administered by the Public Employees Retirement Board in accordance with the provisions of the State Employees Retirement Act and may be amended by legislative action. In the defined contribution plan, retirement benefits depend on total contributions, investment earnings, and the investment options selected. Membership in the Plan is mandatory for all permanent full-time employees on reaching the age of thirty and completion of twenty-four months of continuous service. Full time employee is defined as an employee who is employed to work one-half or more of the regularly scheduled hours during each pay period. Voluntary membership is permitted for all permanent full-time or permanent part-time employees upon reaching age twenty and completion of twelve months of permanent service within a five-year period. Any individual appointed by the Governor may elect to not become a member of the Plan.

Employees contribute 4.33% of their monthly compensation until such time as they have paid during any calendar year a total of eight hundred sixty four dollars, after which time they shall pay a sum equal to 4.8% of their monthly compensation for the remainder of such calendar year. The Department matches the employee's contribution at a rate of 156% of the employee's contribution.

The employee's account is fully vested. The employer's account is vested 100% after five years participation in the plan or at retirement.

For the fiscal year ended June 30, 2001, employees contributed \$155,290 and the Department contributed \$242,252.

6. **Distributive Activity**

The Department's distributive activity for the audit period consists of amounts recorded through liability accounts.

Generally, the Department has three types of transactions recorded through liability accounts. First, the Department collects insurance premium tax prepayments and initially deposits them into the Insurance Cash Fund. These amounts are later transferred 50% into the General Fund and 50% into the Retaliatory Tax Suspense Fund, as per statute. Second, prepayments applied to the current tax year, which were collected in the prior tax year, and refunds of prepayments reduce the liability. Third, per Neb. Rev. Stat. Section 44-4225(2) R.S.Supp., 2000 the Department remits the premium tax payments and prepayments to the Comprehensive Health Insurance Pool Distributive Fund (CHIP). The transferred amount is recorded in a liability account. As requests for disbursements from the CHIP Board are received and payments are made, the liability is reduced.

NEBRASKA DEPARTMENT OF INSURANCE

NOTES TO FINANCIAL STATEMENTS

(Continued)

7. **Fixed Assets**

The following is a summary of changes in the general fixed assets account group during the fiscal year:

	Balance <u>July 1, 2000</u>	<u>Additions</u>	<u>Retirements</u>	Balance <u>June 30, 2001</u>
Equipment	\$ 730,997	\$ 73,930	\$ 178,123	\$ 626,805

The total amount of fixed assets in the Enterprise Fund at June 30, 2001, was \$5,998. Since the Department reports on a cash basis, this amount is not reflected in the financial statements and it has not been reduced by accumulated depreciation.

8. **Full Accountability of the Federal Fund**

Only the cash transactions are reported on the financial statements for this fund. They do not show appropriations and authorizations to spend. To show the full accountability over this fund the following schedules reflect appropriations and authorization to spend. Appropriations and authorization to spend do not represent cash transactions.

<b>Federal Fund</b>	
Beginning Federal Grant Authorization July 1, 2000	\$ 213,744
New Federal Grant Authorization	201,341
Total Federal Grant Authorization	<u>415,085</u>
Disbursements	<u>(207,038)</u>
Ending Federal Grant Authorization Balance June 30, 2001	<u>\$ 208,047</u> (1 )

(1) \$7,205 of this amount are expired Federal Grant Authorizations which represent grants with grant periods ending on or before June 30 and, therefore, are no longer available. These grants have not yet been removed from the official State accounting records pending formal review and authorization for removal by the Federal government.

9. **GASB 34**

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments. The State of Nebraska is planning to implement the Statement for the fiscal year ending June 30, 2002. The new accounting and reporting standards will impact the State’s revenue and expenditure recognition, and assets, liabilities, and fund equity reporting. The financial statements will be reformatted to reflect the new standards.

NEBRASKA DEPARTMENT OF INSURANCE

NOTES TO FINANCIAL STATEMENTS

(Continued)

10. **Special Legislative Session**

In 2001, the Legislature, as a result of the Special Session, LB 1, Section 268(1)(g), lapsed an additional \$4,000,000 from the Insurance Cash Fund (2221) to the General Fund for fiscal year 2002.

11. **Excess Liability Fund**

The Excess Liability Fund (6222) is an Enterprise Fund. The Nebraska State Treasurer maintains and has responsibility for this Fund.

Neb. Rev. Stat. Section 44-2829 R.R.S. 1998 requires all annual surcharges levied on qualified health care providers in Nebraska collected by the Department 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. Section 44-2832 R.R.S. 1998 requires the Director of Administrative Services to issue a warrant drawn on the fund in the amount of each claim submitted by the Director of the Department of Insurance.

Annually, the Department estimates a loss reserve amount for this Fund. At June 30, 2001, the loss reserve estimate made by the Department was \$46,200,000. Under the cash basis of accounting this amount is not reported on the financial statements. Under the accrual basis of accounting this amount would be recorded as a liability and would reduce the fund balance.

12. **Fire Insurance Tax Fund**

The Fire Insurance Tax Fund, Fund 2122, is a Special Revenue Fund. The Nebraska State Fire Marshal maintains and has responsibility for this Fund.

Neb. Rev. Stat. Section 81-523 R.R.S. 1996, requires fire insurance premium taxes collected by the Department be credited to the Fire Insurance Tax Fund. Fire Insurance premium taxes collected is presented in Fund 2122 as Receipts – Taxes and Deposits to Common Fund.

13. **Insurance Tax Fund**

Fund 7752, Insurance Tax Fund, is an Agency Fund. The State Treasurer maintains and has responsibility for this Fund.

Neb. Rev. Stat. Section 77-918 R.S.Supp., 2000 requires insurance companies to make prepayments of premium taxes. These prepayments are to be deposited one-half to the General Fund and one-half to Fund 6224, Premium and Retaliatory Tax Suspense Fund.

NEBRASKA DEPARTMENT OF INSURANCE

NOTES TO FINANCIAL STATEMENTS

(Continued)

13. **Insurance Tax Fund (Concluded)**

The Department transfers the balance of the preceding year's prepayments deposited in Fund 6224 to Fund 7752 on or before May 1 of each year. In addition, the interest earned in Fund 6224 on the immediately preceding year's prepayments is transferred to the General Fund.

Prepayments of premium taxes collected and related interest earnings are deposited in Fund 6224 as Receipts – Taxes and Miscellaneous respectively, and disbursed as Operating Transfers Out. The transfer of interest earned is recorded in the General Fund as Other Financing Sources – Operating Transfers In. The transfer of the preceding year's premium tax prepayments collected is recorded in Fund 7752 as Other Financing Sources – Operating Transfers In. Disbursements of such funds are shown as Deposits to Common Fund.

Neb. Rev. Stat. Section 77-912 R.S.Supp., 2000 requires all premium tax payments to be deposited 50% to the State Treasurer's Insurance Tax Fund, 40% to the General Fund, and 10% to the Mutual Finance Assistance Fund.

Final premium taxes collected are presented in the General Fund as Receipts – Taxes and Fund 7752, as Receipts – Taxes. Disbursements of premium taxes are shown in the General Fund as Deposits to State General Fund and in Fund 7752 as Deposits to Common Fund.

14. **Permanent School Fund**

The Permanent School Fund, Fund 6334, is a Non-Expendable Trust Fund. This is a common fund that is shared with several other State agencies in the Nebraska Accounting System. All amounts contributed to this Fund by participating State agencies are reflected in fund balances of the Fund's custodial agency, the Nebraska Board of Educational Lands and Funds.

Neb. Rev. Stat. Section 44-3,127 R.R.S. 1998, requires fines and penalties collected by the Department be credited to the permanent school fund. Fines collected are presented in Fund 6334 as Receipts – Miscellaneous and Deposits to Common Fund.

15. **Comprehensive Health Insurance Pool Distributive Fund (CHIP)**

Neb. Rev. Stat. Section 44-4225(2) R.S.Supp., 2000 created the Comprehensive Health Insurance Pool Distributive Fund (CHIP). The Fund is used for the operation of and payment of claims made against the pool. The statute requires that "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

NEBRASKA DEPARTMENT OF INSURANCE

NOTES TO FINANCIAL STATEMENTS

(Continued)

**15. Comprehensive Health Insurance Pool Distributive Fund (CHIP) (Concluded)**

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.”

**16. Trust Deposits**

Neb. Rev. Stat. Section 44-319.02 R.R.S. 1998 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 of its policyholders in the United States in the amount of one hundred thousand dollars.”

Neb. Rev. Stat. Section 44-319.06 R.R.S. 1998 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 of its policyholders in the United States.

Other types of insurance companies, domestic/foreign health and accident assessment associations, prepaid dental service corporations, legal expense insurers, motor clubs, prepaid limited health service organizations, etc. have varying minimum trust deposit requirements.

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 June 30, 2001, the face value of securities pledged to the Department totaled \$231,688,078. These securities are not presented in the Department’s financial statements.

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.

**17. Under Budgeted**

Budgeted expenditures on the statement of Receipts, Disbursements, and Changes in Fund Balances Budget and Actual are amounts reflected on the Department’s Budget Status Report for fiscal year 2001. The amount underbudgeted was due to an increase in appropriations.

NEBRASKA DEPARTMENT OF INSURANCE  
**COMBINING STATEMENT OF ASSETS AND FUND BALANCES**  
**ARISING FROM CASH TRANSACTIONS**  
**ALL TRUST AND AGENCY FUNDS**

June 30, 2001

	Retaliatory Tax Suspense Fund 6224	Comprehensive Health Insurance Pool Fund 7221	<b>Total Trust &amp; Agency Funds</b>
<b>Assets</b>			
Cash in State Treasury	\$ 5,969,900	\$ 9,622,267	\$ 15,592,167
Total Assets	\$ 5,969,900	\$ 9,622,267	\$ 15,592,167
<b>Fund Balances</b>			
Fund Balances:			
Unreserved, Undesignated	\$ 5,969,900	\$ 9,622,267	\$ 15,592,167
Total Fund Balances	\$ 5,969,900	\$ 9,622,267	\$ 15,592,167

NEBRASKA DEPARTMENT OF INSURANCE  
**COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS,  
AND CHANGES IN FUND BALANCES**  
**ALL SPECIAL REVENUE FUNDS**  
For the Fiscal Year Ended June 30, 2001

	Fire Insurance Tax Fund 2122	Insurance Cash Fund 2221	Federal General Fund 4000	<b>Total Special Revenue Funds</b>
<b>RECEIPTS:</b>				
Taxes	\$ 1,489,660	\$ -	\$ -	\$ 1,489,660
Intergovernmental	-	-	207,038	207,038
Sales and Charges	-	7,454,133	-	7,454,133
Miscellaneous	-	1,013,443	-	1,013,443
<b>TOTAL RECEIPTS</b>	<b>1,489,660</b>	<b>8,467,576</b>	<b>207,038</b>	<b>10,164,274</b>
<b>DISBURSEMENTS:</b>				
Personal Services	-	4,258,603	70,648	4,329,251
Operating	-	800,409	126,876	927,285
Travel	-	322,107	4,914	327,021
Capital Outlay	-	67,164	4,600	71,764
<b>TOTAL DISBURSEMENTS</b>	<b>-</b>	<b>5,448,283</b>	<b>207,038</b>	<b>5,655,321</b>
Excess of Receipts Over (Under) Disbursements	1,489,660	3,019,293	-	4,508,953
<b>OTHER FINANCING SOURCES (USES):</b>				
Sales of Assets	-	2,046	-	2,046
Operating Transfers Out	-	(3,165,265)	-	(3,165,265)
Deposits to Common Fund	(1,489,660)	-	-	(1,489,660)
Distributive Activity:				
Ins	-	23,574,338	-	23,574,338
Outs	-	(24,101,811)	-	(24,101,811)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(1,489,660)</b>	<b>(3,690,692)</b>	<b>-</b>	<b>(5,180,352)</b>
Excess of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses	-	(671,399)	-	(671,399)
<b>FUND BALANCES, JULY 1, 2000</b>	<b>-</b>	<b>13,602,183</b>	<b>-</b>	<b>13,602,183</b>
<b>FUND BALANCES, JUNE 30, 2001</b>	<b>\$ -</b>	<b>\$ 12,930,784</b>	<b>\$ -</b>	<b>\$ 12,930,784</b>

NEBRASKA DEPARTMENT OF INSURANCE  
**COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS,  
AND CHANGES IN FUND BALANCES  
ALL TRUST AND AGENCY FUNDS**  
For the Fiscal Year Ended June 30, 2001

	Retaliatory Tax Suspense Fund 6224	Permanent School Fund 6334	Comprehensive Health Insurance Pool Fund 7221	Insurance Tax Fund 7752	<b>Total Trust &amp; Agency Funds</b>
RECEIPTS:					
Taxes	\$ 11,186,119	\$ -	\$ -	\$ 7,833,905	\$ 19,020,024
Miscellaneous	863,589	293,625	-	-	1,157,214
<b>TOTAL RECEIPTS</b>	<b>12,049,708</b>	<b>293,625</b>	<b>-</b>	<b>7,833,905</b>	<b>20,177,238</b>
OTHER FINANCING SOURCES (USES):					
Operating Transfers In	-	-	-	16,175,455	16,175,455
Operating Transfers Out	(16,944,400)	-	-	-	(16,944,400)
Deposits to Common Fund	-	(293,625)	-	(24,009,360)	(24,302,985)
Distributive Activity:					
Ins	-	-	15,916,368	-	15,916,368
Outs	-	-	(6,294,101)	-	(6,294,101)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(16,944,400)</b>	<b>(293,625)</b>	<b>9,622,267</b>	<b>(7,833,905)</b>	<b>(15,449,663)</b>
Excess of Receipts and Other Financing Sources Over (Under) Other Financing Uses	(4,894,692)	-	9,622,267	-	4,727,575
FUND BALANCES, JULY 1, 2000	10,864,592	-	-	-	10,864,592
FUND BALANCES, JUNE 30, 2001	<u>\$ 5,969,900</u>	<u>\$ -</u>	<u>\$ 9,622,267</u>	<u>\$ -</u>	<u>\$ 15,592,167</u>

NEBRASKA DEPARTMENT OF INSURANCE  
**STATISTICAL INFORMATION**  
**UNAUDITED**

	As of December 31				
	1996	1997	1998	1999	2000
Financial Examinations Completed	35	42	31	31	56
Investigation Files Opened	2,283	2,733	2,700	2,432	2,317
Investigation Files Closed	2,669	2,958	3,026	3,153	2,773
Health Policy Forms Approved	10,701	9,800	10,502	10,248	9,836
Property and Casualty Filings Reviewed	6,485	4,419	4,427	4,421	4,163
Active Licenses at Year End:					
Resident Agents	15,297	16,674	16,704	17,620	16,195
Nonresident Agents	11,597	13,956	15,397	15,100	20,443
Resident Brokers	596	587	566	549	533
Nonresident Brokers	408	396	395	385	378
Resident Consultants	203	201	199	194	192
Nonresident Consultants	33	32	32	34	31
Agent's Appointments	171,304	174,054	178,386	181,848	201,820
Insurance Agencies	4,596	4,881	4,919	5,090	5,455
Domestic Insurance Companies	135	136	137	131	128

Source: Annual Summary of Insurance Business in Nebraska for the Years 1996-2000.

# STATE OF NEBRASKA

## AUDITOR OF PUBLIC ACCOUNTS

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### NEBRASKA DEPARTMENT OF INSURANCE

## **REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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We have audited the financial statements of the Nebraska Department of Insurance as of and for the year ended June 30, 2001, and have issued our report thereon dated April 11, 2002. The report notes the financial statements were prepared on the basis of cash receipts and disbursements and was modified to emphasize that the financial statements present only the funds of the Nebraska Department of Insurance. We conducted our audit 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.

### Compliance

As part of obtaining reasonable assurance about whether the Nebraska Department of Insurance's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Nebraska Department of Insurance's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal

control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the Nebraska Department of Insurance in the Comments Section of this report as Comment Number 1 (Internal Controls - Receipts), Comment Number 2 (Internal Controls - Fixed Assets), and Comment Number 3 (Meal Log Policy).

This report is intended solely for the information and use of the Department, the appropriate Federal and regulatory agencies, and citizens of the State of Nebraska, and is not intended to be and should not be used by anyone other than these specified parties.

Pat Reding, CPA

Manager

April 11, 2002