Local Government Group Insurance Fund

For the Year Ended
June 30, 1999

Arthur A. Hayes, Jr., CPA, JD, CFE
Director

Edward Burr, CPA
Assistant Director

Katherine J. Anderson, CPA
Audit Manager

Herb Kraycirik, CPA
In-Charge Auditor

Mary C. Cole, CPA
Mark Collins
Suzzie Singleton
Staff Auditors

Gerry C. Boaz, CPA
Technical Analyst

Amy Brack
Editor

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
State Capitol
Nashville, Tennessee 37243-0260
(615) 741-2501

John G. Morgan
Comptroller

May 4, 2000

The Honorable Don Sundquist, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
The Honorable John Ferguson, Chairman
Local Government Insurance Committee
State Capitol
Nashville, Tennessee 37243

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Local Government Group Insurance Fund for the year ended June 30, 1999. You will note from the independent auditor's report that an unqualified opinion was given on the fairness of the presentation of the financial statements.

Consideration of internal control over financial reporting and tests of compliance disclosed a deficiency, which is detailed in the Results of the Audit section of this report. The Department of Finance and Administration's management has responded to the audit finding. The Division of State Audit will follow up the audit to examine the application of the procedures instituted because of the audit finding.

Sincerely,

John G. Morgan

John G. Morgan
Comptroller of the Treasury

JGM/ks
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State of Tennessee

Audit Highlights

Comptroller of the Treasury — Division of State Audit

Financial and Compliance Audit

Local Government Group Insurance Fund

For the Year Ended June 30, 1999

AUDIT OBJECTIVES

The objectives of the audit were to consider the fund's internal control over financial reporting; to determine compliance with certain provisions of laws, regulations, and contracts; to determine the fairness of the presentation of the financial statements; and to recommend appropriate actions to correct any deficiencies.

AUDIT FINDING

The Tennessee Insurance System Has Significant Problems Which Caused TIS and STARS Not to Reconcile**

Daily activity recorded in the Tennessee Insurance System (TIS) does not agree with the corresponding State of Tennessee Accounting and Reporting System (STARS) accounting transactions, nor can it be reconciled.

** This finding is repeated from prior audits.

OPINION ON THE FINANCIAL STATEMENTS

The opinion on the financial statements is unqualified.

"Audit Highlights" is a summary of the audit report. To obtain the complete audit report which contains all findings, recommendations, and management comments, please contact

Comptroller of the Treasury, Division of State Audit
1500 James K. Polk Building, Nashville, TN 37243-0264
(615) 741-3697

Audit Report
Local Government Group Insurance Fund
For the Year Ended June 30, 1999

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Local Government Group Insurance Fund
For the Year Ended June 30, 1999

INTRODUCTION

POST-AUDIT AUTHORITY

This is a report on the financial and compliance audit of the Local Government Group Insurance Fund. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated,* which authorizes the Department of Audit to "perform currently a post-audit of all accounts and other financial records of the state government, and of any department, institution, office, or agency thereof in accordance with generally accepted auditing standards and in accordance with such procedures as may be established by the comptroller."

Section 8-4-109, *Tennessee Code Annotated,* authorizes the Comptroller of the Treasury to audit any books and records of any governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

LEGISLATIVE HISTORY

The Local Government Group Insurance Committee was created in July 1991 by an act of the General Assembly, codified as Title 8, Chapter 27, Section 207, *Tennessee Code Annotated*. The purpose of the committee is to provide a program of health insurance coverage for employees of local governments and quasi-governmental organizations that were established for the primary purpose of providing services for or on behalf of state and local governments.

ORGANIZATION

The Local Government Group Insurance Committee oversees the administration of the Local Government Group Insurance Fund. The insurance committee is composed of the Commissioner of Finance and Administration, the Comptroller of the Treasury, the State Treasurer, one representative appointed by the Tennessee Municipal League, and one representative appointed by the Tennessee County Services Association.

The Department of Finance and Administration, Division of Insurance Administration, is responsible for processing all payments and cash receipts of the fund through the state's accounting system.

Blue Cross and Blue Shield of Tennessee, Inc., and HealthSource are the contractors for the self-insured insurance programs. These contractors process all participant claims, make all claim payments, provide access to a preferred provider organization, and carry out all utilization management functions.

An organization chart of the fund's administration is on the following page.

AUDIT SCOPE

The audit was limited to the period July 1, 1998, through June 30, 1999, and was conducted in accordance with generally accepted government auditing standards. Financial statements are presented for the year ended June 30, 1999, and for comparative purposes, the year ended June 30, 1998. The Local Government Group Insurance Fund forms an integral part of state government and as such has been included as an enterprise fund in the *Tennessee Comprehensive Annual Financial Report.*

The audit covered fund 58 of the State of Tennessee Accounting and Reporting System.

OBJECTIVES OF THE AUDIT

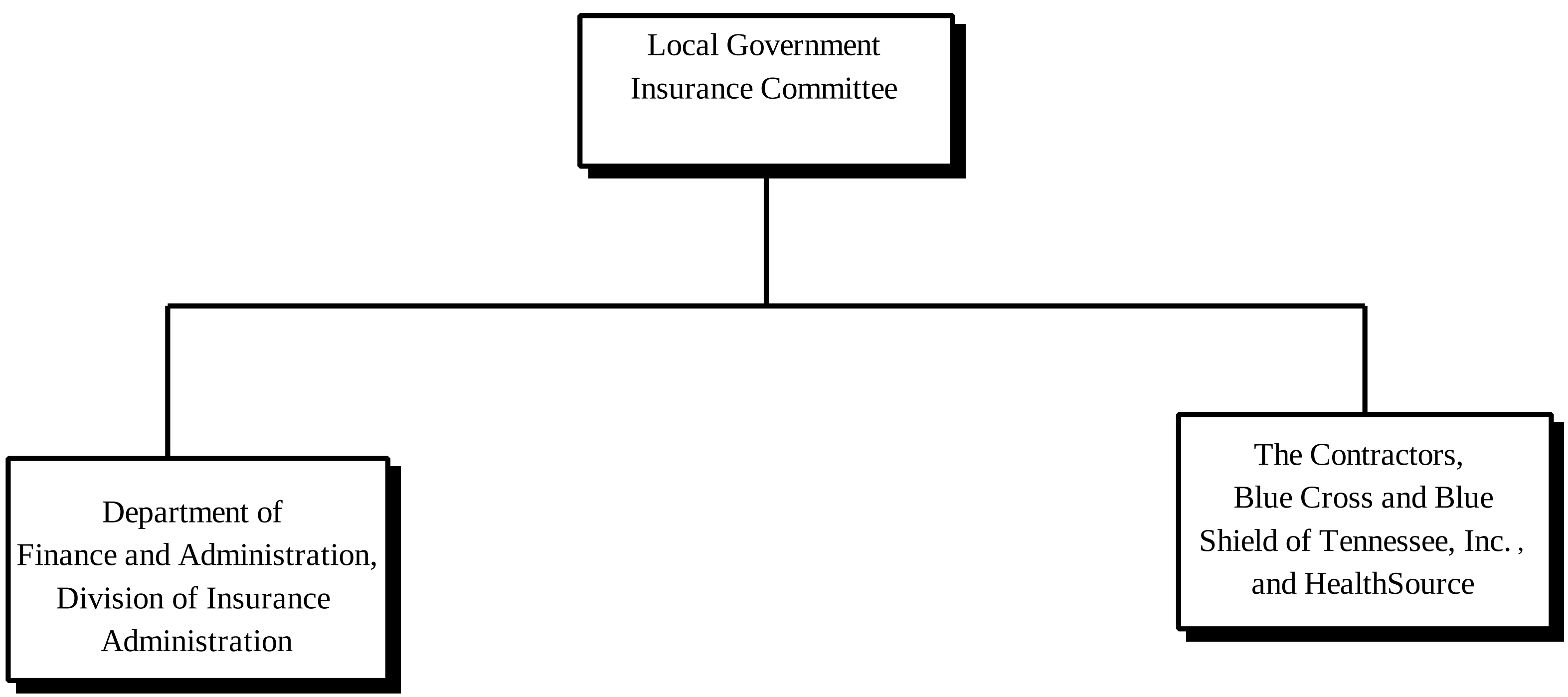
The objectives of the audit were

1. to consider the fund's internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements;
2. to determine compliance with certain provisions of laws, regulations, and contracts;
3. to determine the fairness of the presentation of the financial statements; and
4. to recommend appropriate actions to correct any deficiencies.

PRIOR AUDIT FINDING

There were no findings in the prior audit report; however, the report did refer to one finding in the 1998 audit report on the Department of Finance and Administration concerning the lack of reconciliation between the Tennessee Insurance System (TIS) and the State of Tennessee Accounting and Reporting System (STARS).

LOCAL GOVERNMENT GROUP INSURANCE FUND
ADMINISTRATION
ORGANIZATION CHART



REPEATED AUDIT FINDING

The prior audit report of the Department of Finance and Administration contained a finding concerning the lack of reconciliation between TIS and STARS. This finding has not been resolved and is repeated in the Results of the Audit section of this report.

RESULTS OF THE AUDIT

AUDIT CONCLUSIONS

Internal Control

As part of the audit of the Local Government Group Insurance Fund's financial statements for the year ended June 30, 1999, we considered internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements, as required by generally accepted government auditing standards. Consideration of internal control over financial reporting disclosed no material weaknesses.

Compliance

The results of our audit tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Fairness of Financial Statement Presentation

The Division of State Audit has rendered an unqualified opinion on the Local Government Group Insurance Fund's financial statements.

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-0264
PHONE (615) 741-3697
FAX (615) 532-2765

Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

December 10, 1999

The Honorable John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the financial statements of the Local Government Group Insurance Fund, as of and for the year ended June 30, 1999, and have issued our report thereon dated December 10, 1999. We conducted our audit in accordance with generally accepted government auditing standards.

<u>Compliance</u>

As part of obtaining reasonable assurance about whether the Local Government Group Insurance Fund's financial statements are free of material misstatement, we performed tests of the fund's compliance with certain provisions of laws, regulations, and contracts. 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*.

<u>Internal Control Over Financial Reporting</u>

In planning and performing our audit, we considered the Local Government Group Insurance Fund'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. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Local Government Group Insurance Fund's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements.

The following reportable condition was noted:

- The Tennessee Insurance System has significant problems which caused TIS and STARS not to reconcile

This condition is described in the Finding and Recommendation section of this report.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

We also noted other matters involving the internal control over financial reporting, which we have reported to the Department of Finance and Administration in a separate letter.

This report is intended solely for the information and use of the General Assembly of the State of Tennessee and management and 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.

Sincerely,

Arthur A. Hayes, Jr.

Arthur A. Hayes, Jr., CPA, Director
Division of State Audit

AAH/ks

The Tennessee Insurance System has significant problems which caused TIS and STARS not to reconcile

Finding

As noted in the three prior audits, the Tennessee Insurance System (TIS) has not been designed, implemented, and maintained in a manner which allows it to function efficiently and effectively. As a result, the system is not producing the desired results, and changes are being made directly to the TIS database through the Application Development Facility (ADF). Because these changes are not being made to the insurance accounting on the State of Tennessee Accounting and Reporting System (STARS), TIS and STARS do not reconcile. Management responded to the prior audit finding and stated that the Division of Insurance Administration was committed to resolving the problems with TIS. Management stated that through ongoing maintenance some of the issues have been resolved or minimized. The department is to begin a major reengineering effort of the system in FY 2000. Management did reduce the number of items on the System Information Request Log; however, the reconciliation problems still exist.

The division is still using Application Development Facility (ADF), a software program, to manually adjust participants' accounts on TIS. These adjustments to participants' accounts are made directly in the TIS database rather than through transactions. The system's security must be overridden in order for an ADF change to be made. The division sends a request for the ADF change to the department's Information Systems Management (ISM) group, which in turn submits a request to the Office for Information Resources (OIR). OIR assigns one of its employees to make the ADF changes on the TIS database. As noted in the prior audits, overriding system security to make manual adjustments is a significant deficiency in the design and operation of the system.

The Division of Insurance Administration uses ADF as a "quick fix" to correct participant balances or errors attributable to unresolved system problems. Although division staff maintain paper documentation of the ADF changes, the system has no history or record of the changes because they simply overwrite previous information in the database. If the system had been designed and was functioning properly, use of ADF would not be necessary. As previously noted, making changes directly to a database instead of correcting errors through properly authorized and documented transactions circumvents system controls.

In addition, when the TIS database is corrected using ADF, STARS is not updated concurrently. As a result, the two systems do not agree, nor can they be completely reconciled. The division has work groups working to address reengineering the information system and focusing on balancing TIS to STARS. However, the auditors noted that unreconciled amounts between the daily net change in the TIS database and the cumulative accounting transactions passed from TIS to STARS daily during fiscal year 1999 ranged from ($195,347.32) to $11,497.12.

Departmental memorandums state that the TIS database is correct but the accounting information on STARS is incorrect. Although STARS has been corrected to the extent possible, there can be no assurance all needed corrections have been made since not all ADF changes made to TIS were made on STARS and TIS does not maintain history records of all past transactions. We performed analytical reviews and other measures at year-end to ensure the insurance funds' financial statements presented in the state's Comprehensive Annual Financial Report were fairly stated. These additional procedures would not have been necessary had all TIS activity been properly reflected in STARS.

Recommendation

The Commissioner should require the Director of Insurance Administration to develop plans of action to ensure that all TIS system problems are corrected as soon as possible. As the system problems are corrected, the use of ADF changes should be minimized and, if possible, eventually eliminated. Until that time, STARS should be concurrently updated as ADF changes are made to TIS. In addition, the work groups should continue to meet until all the problems causing the unreconciled amounts are resolved and TIS and STARS can be reconciled. As problems arise in the future, causes of the problems should be quickly identified and TIS should be corrected quickly through program changes or other appropriate means.

Management's Comment

We concur. The TIS Re-engineering project is scheduled to begin in February 2000. Although this project should address many of the systems problems that require ADF changes to be made, there is no assurance that all will be addressed. Therefore, a TIS Master Transaction Study has been identified for FY 2001 that is intended to analyze all uses of ADF in the support of TIS, and to identify strategies for eliminating its use. However, there will likely be errors in the entry of transactions, either in the Division of Insurance Administration or by participating agencies, which will impact the eligibility information maintained by the Tennessee Insurance System. These errors will require the circumvention of controls and edits to address the immediate problem caused by the error. What is essential is to have the procedures in place to ensure that the changes made are addressed in both TIS and STARS, and that a request for service to correct the underlying error is submitted and program changes made accordingly.

The Division of Insurance Administration has carefully reviewed the use of ADF's to minimize their occurrence. The Division has instituted a training program for agency insurance preparers to improve the information and support they receive and has instituted reviews of the origins of ADF's to identify the system sources of these adjustments and the sources attributable to human performance. Finally, the Division has separated activities associated with the receipt and processing of ADF's to ensure adequate internal control of ADF application, justification and record retention.

Additionally, the use of ADF is not the only cause of the problem with the TIS to STARS reconciliation. There are program errors causing incorrect accounting transactions to be generated as well. That is, all records and data values in TIS may be correct, but the accounting for the activity in TIS, which is fed to STARS, in incorrect. Again, it is essential to have procedures in place to ensure that a request for service to correct the underlying error is submitted and program changes made accordingly.

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-0264
PHONE (615) 741-3697
FAX (615) 532-2765

Independent Auditor's Report

December 10, 1999

The Honorable John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the accompanying balance sheets of the Local Government Group Insurance Fund, as of June 30, 1999, and June 30, 1998, and the related statements of revenues, expenses, and changes in retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the fund's management. Our responsibility is to express an opinion on these financial statements, based on our audits.

We conducted our audits in accordance with generally accepted government auditing standards. 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 audits provide a reasonable basis for our opinion.

In our report dated January 25, 1999, we qualified our opinion on the 1998 financial statements because insufficient audit evidence existed to support the Local Government Group Insurance Fund's disclosures required by Governmental Accounting Standards Board (GASB) Technical Bulletin 98-1, *Disclosures about Year 2000 Issues.* The Local Government Group Insurance Fund's disclosures are now reported as required supplementary information as permitted by GASB Technical Bulletin 99-1, *Disclosures about Year 2000 Issues—an amendment of Technical Bulletin 98-1.* Accordingly, our present opinion on the 1998 statements, as expressed herein, is different from our prior report on the 1998 financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Local Government Group Insurance Fund, as of June 30, 1999, and June 30, 1998, and the results of its operations and cash flows for the years then ended in conformity with generally accepted accounting principles.

The Year 2000 Disclosures on page 20 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and do not express an opinion on it. In addition, we do not provide assurance that the Local Government Group Insurance Fund is or will become year 2000 compliant, that the fund's year 2000 remediation efforts will be successful in whole or in part, or that parties with which the Local Government Group Insurance Fund does business are or will become year 2000 compliant.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 1999, on our consideration of the fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts.

Sincerely,

Arthur A. Hayes, Jr.

Arthur A. Hayes, Jr., CPA, Director
Division of State Audit

AAH/ks

Exhibit A

LOCAL GOVERNMENT GROUP INSURANCE FUND
BALANCE SHEETS
JUNE 30, 1999, AND JUNE 30, 1998

(Expressed in Thousands)

	June 30, 1999	June 30, 1998
ASSETS		
Current assets:		
Cash (Note 2)	$ 14,737	$ 11,695
Accounts receivable	87	17
Due from component units	4	12
Total assets	$ 14,828	$ 11,724
LIABILITIES AND EQUITY		
Liabilities:		
Current liabilities:		
Warrants payable	$ 630	$ 588
Accounts payable and accruals	3,261	3,150
Due to component units	6	8
Deferred revenue	78	9
Total liabilities	3,975	3,755
Equity:		
Retained earnings, unreserved	10,853	7,969
Total equity	10,853	7,969
Total liabilities and equity	$ 14,828	$ 11,724

The notes to the financial statements are an integral part of this statement.

Exhibit B

LOCAL GOVERNMENT GROUP INSURANCE FUND
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS
FOR THE YEARS ENDED JUNE 30, 1999, AND JUNE 30, 1998

(Expressed in Thousands)

	Year Ended June 30, 1999	Year Ended June 30, 1998
OPERATING REVENUES		
Premiums	$ 37,503	$ 33,284
Other	-	2
Total operating revenues	37,503	33,286
OPERATING EXPENSES		
Contractual services	1,331	1,016
Rentals and insurance	13,890	10,668
Benefits	19,681	18,876
Other	401	319
Total operating expenses	35,303	30,879
Operating income	2,200	2,407
NONOPERATING REVENUES		
Interest income	684	562
Total nonoperating revenues	684	562
Net income	2,884	2,969
Retained earnings, July 1	7,969	5,000
Retained earnings, June 30	$ 10,853	$ 7,969

The notes to the financial statements are an integral part of this statement.

Exhibit C

LOCAL GOVERNMENT GROUP INSURANCE FUND
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 1999, AND JUNE 30, 1998

(Expressed in Thousands)

	June 30, 1999	June 30, 1998
Cash flows from operating activities:		
Operating income	$ 2,200	$ 2,407
Adjustments to reconcile operating income to net cash provided by operating activities:		
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(70)	494
(Increase) decrease in due from component units	8	(12)
Increase (decrease) in warrants payable	42	(391)
Increase (decrease) in accounts payable and accruals	111	(1,126)
Increase (decrease) in due to component units	(2)	5
Increase in deferred revenue	69	9
Total adjustments	158	(1,021)
Net cash from operating activities:	2,358	1,386
Cash flows from investing activities:		
Interest received	684	562
Net cash from investing activities	684	562
Net increase in cash	3,042	1,948
Cash, July 1	11,695	9,747
Cash, June 30	$ 14,737	$ 11,695

The notes to the financial statements are an integral part of this statement.

Local Government Group Insurance Fund
Notes to the Financial Statements
June 30, 1999, and June 30, 1998

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Local Government Group Insurance Fund is used to account for revenues received and claims paid on behalf of employees of local governments and quasi-governmental organizations established for the primary purpose of providing services for or on behalf of state and local government employees. The fund is part of the primary government and has been included as an enterprise fund in the *Tennessee Comprehensive Annual Financial Report*.

B. Basis of Presentation

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The Local Government Group Insurance Fund follows all applicable GASB pronouncements as well as applicable private-sector pronouncements issued on or before November 30, 1989.

C. Measurement Focus and Basis of Accounting

The accompanying financial statements have been prepared using the accrual basis of accounting and the flow of economic resources measurement focus. Under this basis, revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred.

D. Cash

Cash is defined as cash on hand; demand deposits, such as the pooled investment fund; and investments with three months or less to maturity when purchased.

NOTE 2. DEPOSITS

The Local Government Group Insurance Fund had $14,736,835 in the State Treasurer's pooled investment fund at June 30, 1999, and $11,694,677 at June 30, 1998. The pooled investment fund administered by the State Treasurer is authorized by statute to invest funds in accordance with policy guidelines approved by the State Funding Board. The current resolution of that board gives the Treasurer approval to invest in collateralized certificates of deposit in authorized state depositories, prime commercial paper, prime bankers' acceptances, certain repurchase agreements, various U.S. Treasury and agency obligations, limited money market mutual funds, and obligations of the State of Tennessee pursuant to *Tennessee Code Annotated*, Section 9-4-602(b). The pooled investment fund is also authorized to enter into securities lending agreements in which U.S. government securities may be loaned to brokers for a fee. The loaned securities are transferred to the borrower by the custodial agent upon simultaneous receipt of collateral securities. The pooled investment fund's custodial credit risk is presented in the *Tennessee Comprehensive Annual Financial Report.*

NOTE 3. RISK MANAGEMENT

The Local Government Group Insurance Fund, a public entity risk pool, was established in July 1991 to provide a program of health insurance coverage for employees of local governments and quasi-governmental organizations that were established for the primary purpose of providing services for or on the behalf of state and local governments. In accordance with *Tennessee Code Annotated*, Section 8-27-207, all local governments and quasi-governmental organizations described above are eligible to participate. Fund members at June 30, 1999, included 29 counties, 74 municipalities, and 149 quasi-governmental organizations, with 11,976 employees and 363 retirees maintaining coverage through one of three options: preferred provider plan, point of service plan, or a health maintenance organization. The state does not retain any risk for losses by this fund.

The Local Government Group Insurance Fund assumes responsibility for determining plan benefits and eligibility, establishing premiums sufficient to fund plan obligations, recording and reporting financial transactions accurately, reporting enrollment to vendors, the processing of claims submitted for services provided to plan participants, communicating with plan participants, and complying with appropriate state and federal laws and regulations. Plan participants are required to pay premiums on time, file claims for services received, report changes in eligibility of themselves or their dependents, and ensure that only eligible expenses are paid by the plan. Individuals who cancel coverage may be required to demonstrate a qualifying event to rejoin the plan. Employers must wait 24 months before rejoining the plan if the employer elects to withdraw from the plan. In the case of the individuals or groups rejoining the plan, a preexisting condition exclusion currently applies.

The Local Government Group Insurance Fund establishes claims liabilities based on estimates of the ultimate cost of claims that have been reported but not settled and of claims that have been incurred but not reported. Employees and providers have 13 months to file medical claims. The process used to compute claims liabilities does not necessarily result in an exact amount. Claims liabilities are recomputed periodically using actuarial and statistical techniques to produce current estimates, which are 16 percent of the prior 12 months' claims. Adjustments to claims liabilities are charged or credited to expense in the period in which they are made. The Local Government Group Insurance Fund does not consider investment income in determining if a premium deficiency exists.

As discussed above, the Local Government Group Insurance Fund establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represents changes in those aggregate liabilities during the past two years (expressed in thousands):

	1999	1998
Unpaid claims at beginning of year	$ 3,232	$ 4,251
Incurred claims, provision for insured events of the current fiscal year	20,244	19,499
Total incurred claims expenses	$23,476	$23,750
Payments	20,245	20,518
Total unpaid claims at end of year	$ 3,231	$ 3,232

State of Tennessee
Local Government Group Insurance Fund
Required Supplementary Information
Eight-Year Claims Development Information

(Expressed in Thousands)

The table below illustrates how the Local Government Group Insurance Fund's earned revenues and investment income compare to related costs of loss and other expenses assumed by the Local Government Group Insurance Fund as of the end of each of the last eight years, since the inception of the fund. The rows of the table are defined as follows: (1) This line shows the total of each fiscal year's earned contribution revenues and investment revenues. (2) This line shows each fiscal year's other operating costs of the fund, including overhead. (3) This line shows the fund's incurred claims and allocated claim adjustment expenses (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred. (4) This section shows the cumulative amounts paid as of the end of successive years for each fiscal year; some of these amounts are unavailable. (5) This section shows how each fiscal year's incurred claims increased or decreased as of the end of successive years; these amounts are unavailable for prior years. This annual reestimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known. (6) This line compares the latest reestimated incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of claims cost is greater or less than originally thought. As data for individual fiscal years mature, the correlation between original estimates and reestimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature fiscal years. The columns of the table show data for successive fiscal years.

	Fiscal Year Ended June 30							
	1992	1993	1994	1995	1996	1997	1998	1999
(1) Net Earned required contribution and investment revenues	$21,805	$30,633	$41,819	$40,589	$34,857	$34,944	$33,846	$38,187
(2) Unallocated expenses	519	621	1,267	852	1,425	1,184	1,335	1,732
(3) Estimated incurred claims and expenses, end of fiscal year	19,752	30,128	41,865	33,483	30,138	23,673	19,499	20,244
(4) Paid (cumulative) as of:								
End of fiscal year	16,765	*	*	*	*	*	*	*
One year later	*	*	*	*	*	*	*	
Two years later	*	*	*	*	*	*		
Three years later	*	*	*	*	*			
Four years later	*	*	*	*				
Five years later	*	*	*					
Six years later	*	*						
Seven years later	*							

State of Tennessee
Local Government Group Insurance Fund
Required Supplementary Information
Eight-Year Claims Development Information (Cont.)

(Expressed in Thousands)

	1992	1993	1994	1995	1996	1997	1998	1999
(5) Reestimated incurred claims and expenses:								
End of fiscal year	19,752	30,128	41,865	33,483	30,138	23,673	19,499	20,244
One year later	*	*	*	*	*	*	*	
Two years later	*	*	*	*	*	*		
Three years later	*	*	*	*	*			
Four years later	*	*	*	*				
Five years later	*	*	*					
Six years later	*	*						
Seven years later	*							
(6) Increase (decrease) in estimated incurred claims and expenses from end of fiscal year	*	*	*	*	*	*	*	*

* Data not available

State of Tennessee
Local Government Group Insurance Fund
Required Supplementary Information
Year 2000 Compliance

Year 2000 Readiness Disclosure. The year 2000 issue (Y2K) arises because most computer software programs allocate two digits to the data field for year on the assumption that the first two digits will be 19. Such programs will thus interpret the year 2000 as the year 1900, the year 2001 as 1901, etc. Absent reprogramming, Y2K affects both computer hardware (i.e., the embedded logic of computer chips) and computer software, and could affect both the ability to enter data into the computer programs and the ability of such programs to correctly process data. Y2K affects the computer applications and other equipment of the state and its vendors, investment providers, and bond trustees.

The state has completed its assessment of Y2K and has determined that certain computer applications are mission-critical, certain are critical, and certain are supportive. Mission-critical computer applications are those for which there are no reliable manual alternatives, and for which failure to be in Y2K compliance would prevent the state from fulfilling its mission. Critical computer applications are those for which there are manual alternatives, but the state would unlikely be able to fully or efficiently perform the functions manually, because of the volume of manual activity that would be required. Supportive computer applications are those for which there are manual alternatives, and the state expects to be able to perform such functions manually, if necessary.

The Division of Insurance Administration (DIA) has identified two mission-critical computer applications. The Tennessee Insurance System (TIS) is used by DIA to track financial and administrative data relative to plan participants. DIA also relies upon the State of Tennessee Accounting and Reporting System (STARS) for financial transactions processing and reporting. Both systems are administered by the Department of Finance and Administration. As of June 30, 1999, both systems had reportedly completed the remediation stage and were near completion of the validation/testing stage. The state considers validation/testing, in this context, to mean the development of test data and test scripts, the running of test scripts, and the review of test results. All of these are crucial for this stage of the conversion process to be successful. The state is continuing the validation/testing stage of both systems. DIA expects to have STARS complete the validation/testing stage during July 1999, and TIS complete this stage during October 1999. In addition, the state is in the process of assessing and remediating the Y2K effect on other equipment.

The fund's Y2K initiatives did not result in the commitment of significant financial resources as of the end of the state's reporting period.

The state's efforts to ensure Y2K compliance of its computer applications and other equipment are not a guarantee that systems and equipment will be Y2K compliant.

State of Tennessee
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Year 2000 Compliance (Cont.)

The state is continuing to solicit information from other organizations whose Y2K compliance could affect the state regarding the status of their assessment, testing, and remediation of their computer applications and other equipment. Of the organizations that have responded to date, all expect to achieve compliance in a manner that will not have a material negative effect on the state's operations or financial status, although no assurances can be given that circumstances will not change. The state does not have full and complete information, however, from these other organizations regarding the status of implementing Y2K compliance. Any failure by some or all of these organizations to be in Y2K compliance may have a material negative impact on the state's operations or financial status.