Local Government Group Insurance Fund

For the Year Ended
June 30, 2001

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

John G. Morgan
Comptroller

February 21, 2002

The Honorable Don Sundquist, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
The Honorable C. Warren Neel, Ph.D., 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, 2001. 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 certain deficiencies, which are detailed in the Results of the Audit section of this report. The Department of Finance and Administration's management has responded to the audit findings; the responses are included following each finding. The Division of State Audit will follow up the audit to examine the application of the procedures instituted because of the audit findings.

Sincerely,

John G. Morgan
Comptroller of the Treasury

JGM/mb
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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, 2001

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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.

INTERNAL CONTROL FINDINGS

The Tennessee Insurance System (TIS) Is Not Functioning Efficiently and Effectively**
TIS has not been designed, implemented, and maintained in a manner which allows it to function efficiently and effectively. As a result, changes are being made directly to the TIS database.

Application Development Facility (ADF) Changes Were Not Always Properly Supported or Made Correctly
ADF changes are used to manually adjust participants' accounts on TIS; however, some of these ADF changes had incomplete documentation or were made incorrectly.

** 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

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Audit Report
Local Government Group Insurance Fund
For the Year Ended June 30, 2001

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Local Government Group Insurance Fund
For the Year Ended June 30, 2001

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.

BACKGROUND

The Local Government 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 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., Aetna U.S. Healthcare, United Behavioral Healthcare, and John Deere Health are the contractors for the self-insured 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, 2000, through June 30, 2001, and was conducted in accordance with government auditing standards generally accepted in the United States of America. Financial statements are presented for the year ended June 30, 2001. 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 (allotment code 317.04).

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;

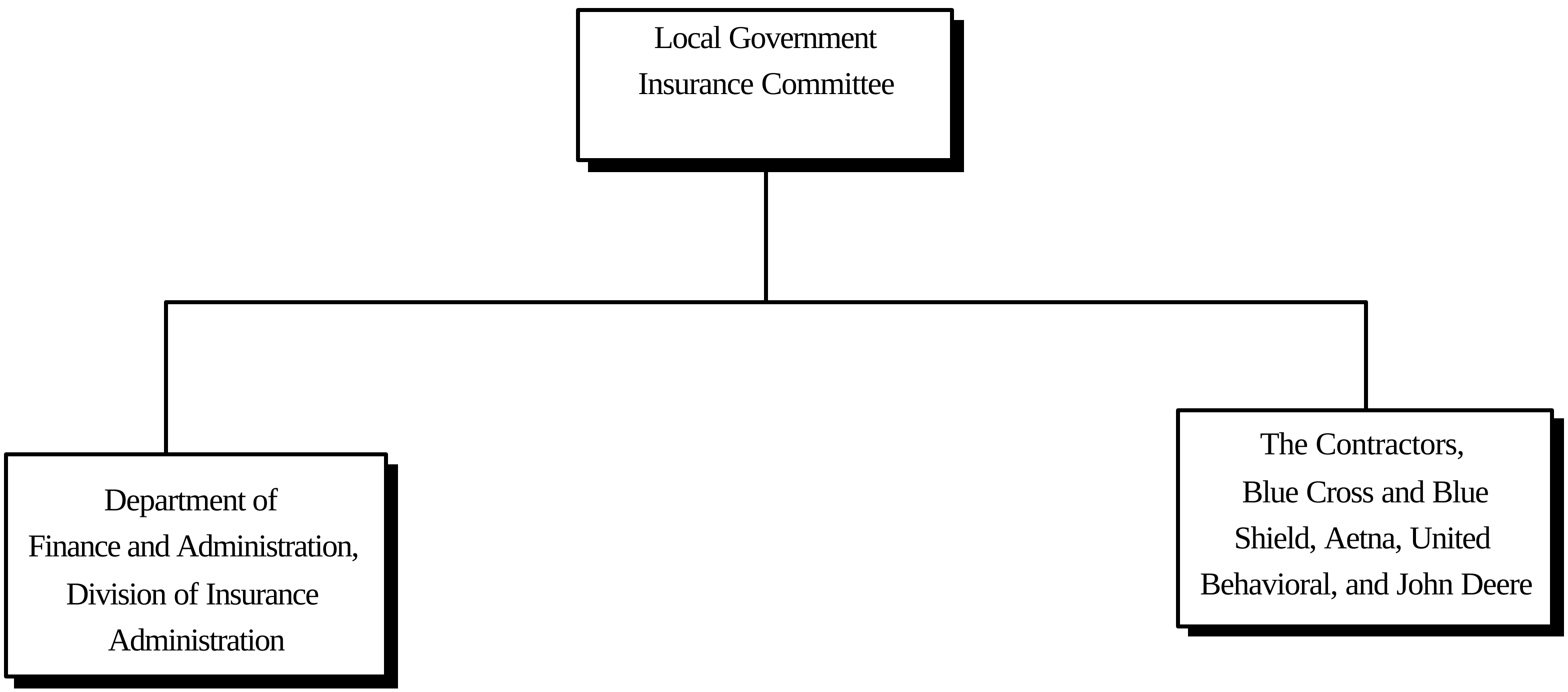
3. to determine the fairness of the presentation of the financial statements; and

4. to recommend appropriate actions to correct any deficiencies.

PRIOR AUDIT FINDING

Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the

LOCAL GOVERNMENT GROUP INSURANCE FUND ADMINISTRATION



recommendations in the prior audit report. The Department of Finance and Administration filed its report with the Department of Audit on August 31, 2001. A follow-up of the prior audit finding was conducted as part of the current audit. The prior audit report contained a finding concerning problems with the design of the Tennessee Insurance System. This finding has not been resolved and is repeated in 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, 2001, 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 government auditing standards generally accepted in the United States of America. Reportable conditions, along with recommendations and management's responses, are detailed in the findings and recommendations. 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.

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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 4, 2001

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, 2001, and have issued our report thereon dated December 4, 2001. We conducted our audit in accordance with government auditing standards generally accepted in the United States of America.

Compliance

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, 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 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 certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions.

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 conditions were noted:

- The Tennessee Insurance System is not functioning efficiently and effectively
- Application Development Facility changes were not always properly supported or made correctly

These conditions are described in the Findings and Recommendations 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 none of the reportable conditions described above is 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's management 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

AAH/mb

FINDINGS AND RECOMMENDATIONS

1. The Tennessee Insurance System is not functioning efficiently and effectively

Finding

As noted in the five 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, changes are being made directly to the TIS database through the Application Development Facility (ADF), necessitating manual reconciliations and adjustments. Management responded to the prior audit finding by stating that accounting transactions have been brought up-to-date with only an occasional problem, and two accounting positions have been added to the Division of Insurance accounting section. Also, the TIS upgrade project began in March 2000. Management stated that in addition to the TIS upgrade project, the division had implemented the TIS automated reconciliation project. Our review indicated that most accounting transactions were up-to-date, positions were added, and the TIS upgrade project is in progress. We also found that the automated reconciliation process is functioning and items that still require manual reconciliation are being handled appropriately. However, the upgrade project and Master Transaction Study are not complete. ADF is still used, and large differences between TIS and the State of Tennessee Accounting and Reporting System (STARS) still occur that result in manual processing.

The division is still using 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 audit, 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 division staff 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. We noted that differences between the daily net change in the TIS database and the cumulative accounting transactions passed from TIS to STARS daily during the year ended June 30, 2001, ranged from ($417,929.19) to $493.50. Differences in the daily net change must be researched and adjusted as necessary. Again, if the system had been designed and was functioning properly, there would not be a need for these additional manual procedures.

Recommendation

To ensure that all TIS system problems are corrected as soon as possible, the Director of Insurance Administration should complete the TIS upgrade project that began in March 2000 and begin the TIS Master Transaction Study that is scheduled for Fiscal Year 2002. As the system problems are corrected, the use of ADF changes should be minimized and, if possible, eventually eliminated. 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 issue of reconciliation between TIS and STARS has been the topic of considerable effort on the part of the Division for quite some time. The division has implemented a number of changes including the TIS reengineering project implemented in March of 2000 in order to address the balancing between TIS and STARS. As noted, accounting transactions have been brought up to date, positions have been added and the TIS Automated Reconciliation Project has been completed. All of these improvements have positively impacted the TIS to STARS balancing processes.

The TIS Upgrade Project began in March of 2000 and is scheduled for completion by April 2003. The planning and analysis phases of the project have been completed. The design phase is scheduled for completion by the end of January 2002. The project is intended to enhance the capabilities of the present system as well as improve is maintainability. Key areas that will be addressed with this systems project include the following:

- Enhance existing functionality,
- Add new functions,
- Enable TIS to balance with STARS,
- Improve interfaces with other systems,
- Improve processing, and
- Improve reporting.

Every effort is being made to correct as many problems as possible in the current version of TIS while designing the upgraded TIS so that the use of ADF will be minimized.

The TIS Master Transactions Study is scheduled to begin after July 1, 2003.

In summary the Division of Insurance Administration is committed to upgrade TIS, to the judicious use of ADF changes and subsequently to resolve the issue of TIS to STARS balancing.

2. <u>Application Development Facility changes were not always properly supported or made correctly</u>

Finding

Application Development Facility (ADF) changes were not always properly supported or made correctly. The Division of Insurance Administration uses the ADF software program to manually adjust participants' accounts on the Tennessee Insurance System (TIS). ADF is a "quick fix" to correct balances or errors attributable to unresolved system problems. When finding 1 is resolved, the use of ADF should no longer be needed. Currently, however, ADF is the only method available to correct errors or adjust participants' accounts that cannot be adjusted directly through TIS.

ADF changes overwrite previous information in the database without leaving a record of the change in the system. For control purposes, the division maintains paper documentation for each ADF change. However, for 5 of 25 items tested (20%), the ADF change either was not made correctly or could not be verified for correctness. The testwork produced the following results:

- For 3 of the 25 ADF changes tested (12%), the changes were made incorrectly or not made at all.
- For 2 of the 25 ADF changes tested (8%), the changes could not be verified for correctness due to lack of documentation.

If ADF changes are not made correctly, then participants' accounts on the Tennessee Insurance System will be inaccurate. These situations contribute to the TIS reconciliation problems. If paper documentation is not maintained for ADF changes, the related data change will not be supported at all.

Recommendation

The Division of Insurance Administration should continue its efforts to reengineer the TIS system in order to eliminate the need for ADF changes. Until the time when the reengineering is complete, the division should concentrate its efforts to keep ADF changes minimal. When ADF changes are necessary, extra care should be taken to ensure that the changes were made as intended. The Director should ensure that all changes are reviewed by a supervisor to ensure that the change made was the correct one. The Director should also ensure that complete paper documentation is maintained for all ADF changes.

Management's Comment

We concur. The planning and analysis phases of the TIS Upgrade Project have been completed. The general design phase of the project is expected to be completed by the end of January 2002. Detail design will then resume. The project is scheduled for implementation in April 2003. Every effort is being made to correct as many system problems as possible in the current version of TIS while designing the upgraded TIS so that the current use of ADF is minimized.

The Division's Accounting Technician II reviews all ADFs processed to ensure that changes were made as intended. An additional step will be put in place where a supervisor reviews all ADFs after completion. Also, in order to ensure that complete paper documentation is maintained for all ADF changes, a dedicated printer has been installed at the workstation where ADF changes are conducted.

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Independent Auditor's Report

December 4, 2001

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

Dear Mr. Morgan:

We have audited the accompanying balance sheet of the Local Government Group Insurance Fund as of June 30, 2001, and the related statements of revenues, expenses, and changes in retained earnings and cash flows for the year 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 audit.

We conducted our audit in accordance with government auditing standards generally accepted in the United States of America. 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.

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, 2001, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The required supplementary information, including ten-year claims development information on page 20, is not a required part of the basic financial statements, and we did not audit and do not express an opinion on such information. However, we have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. As a result of such limited procedures, we believe that the information described above is not in conformity with guidelines established by the Governmental Accounting Standards Board because the information about cumulative claims paid from July 1, 1991, through June 30, 1998, is not shown, and incurred claims and expenses were not reestimated.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2001, 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. 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.

Sincerely,

Arthur A. Hayes, Jr., CPA,
Director

AAH/mb

Exhibit A

Local Government Group Insurance Fund
Balance Sheet
June 30, 2001

(Expressed in Thousands)

ASSETS		
Current assets:		
Cash (Note 2)	$	11,665
Accounts receivable		81
Total assets	$	11,746
LIABILITIES AND EQUITY		
Liabilities:		
Current liabilities:		
Accounts payable and accruals	$	9,258
Deferred revenue		69
Total liabilities		9,327
Equity:		
Retained earnings, unreserved		2,419
Total equity		2,419
Total liabilities and equity	$	11,746

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

Exhibit B

Local Government Group Insurance Fund
Statement of Revenues, Expenses, and Changes in Retained Earnings
For the Year Ended June 30, 2001

(Expressed in Thousands)

OPERATING REVENUES		
Premiums	$	57,685
Other		2
Total operating revenues		57,687
OPERATING EXPENSES		
Contractual services		5,796
Rentals and insurance		1,400
Benefits		60,846
Other		519
Total operating expenses		68,561
Operating loss		(10,874)
NONOPERATING REVENUES		
Interest income		906
Total nonoperating revenues		906
Net income (loss)		(9,968)
Retained earnings, July 1		12,387
Equity, June 30	$	2,419

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

Exhibit C

Local Government Group Insurance Fund
Statement of Cash Flows
For the Year Ended June 30, 2001

(Expressed in Thousands)

CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers and users	$	60,246
Payments to suppliers		(65,772)
Net cash from operating activities		(5,526)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received		906
Net cash from investing activities		906
Net increase (decrease) in cash and cash equivalents		(4,620)
Cash and cash equivalents - June 30, 2000		16,285
Cash and cash equivalents - June 30, 2001	$	11,665
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Cash flows from operating activities:		
Operating income (loss)	$	(10,874)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
(Increase) decrease in accounts receivable		11
Increase (decrease) in accounts payable		5,341
Increase (decrease) in deferred revenue		(4)
Total adjustments		5,348
Net cash from (used for) operating activities:	$	(5,526)

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, 2001

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 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 accounting principles generally accepted in the United States of America 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 and demand deposits, such as the pooled investment fund.

E. Reclassifications

Effective June 30, 2001, warrants are no longer reported on the balance sheet of the fund. The issuance of warrants, rather than the subsequent acceptance by the treasurer of the warrants, is deemed to effectively reduce the cash balance. The June 30, 2000, cash balance has been restated to reflect this reclassification.

The Statement of Cash Flows has been prepared using the direct method. The direct method presents the cash receipts and cash disbursements of the fund for the year, including cash flows from operating activities. Operating activities are generally the cash effects of transactions and other events that enter into the determination of operating income. A reconciliation of the operating income to net cash flow from operating activities is also presented in this statement. In prior years, the Statement of Cash Flows was presented using the indirect method. Under this indirect method, the operating income is reconciled to the net cash flow from operating activities, and nonoperating cash receipts and cash disbursements are presented.

NOTE 2. DEPOSITS

The Local Government Group Insurance Fund had $11,665,073 in the State Treasurer's pooled investment fund at June 30, 2001. 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 and prime bankers' acceptances, bonds, notes, and bills of the United States Treasury or other obligations guaranteed as to principal and interest by the United States or any of its agencies and in repurchase agreements for obligations of the United States or its agencies which are fully guaranteed as to principal and interest by the United States; and in certain obligations of the state. 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 behalf of state and local governments. In accordance with Section 8-27-207, *Tennessee Code Annotated*, all local governments and quasi-governmental organizations described above are eligible to participate. Fund members at June 30, 2001, included 49 counties, 101 municipalities, and 225 quasi-governmental organizations, with 19,220 employees and 607 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, processing 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 for self-insured options 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. At June 30, 2001, the Local Government Insurance Committee had established reserve requirements, based upon claims payments for the prior 12 months, of 15% for the PPO option; 18% for the POS option; and 16% for the HMO option. Adjustments to claims liabilities are charged or credited to expense in the period in which they are made. The Local Government Group Insurance Fund considers 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):

	2001	2000
Unpaid claims at beginning of year	$ 3,910	$ 3,231
Incurred claims, provision for insured events of the current year	61,324	28,825
Total incurred claims expenses	65,234	32,056
Payments	55,984	28,146
Total unpaid claims at end of year	$ 9,250	$ 3,910

Local Government Group Insurance Fund
Required Supplementary Information
Ten-Year Claims Development Information

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 ten years. 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. 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
(Expressed in Thousands)

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
(1) Net earned required contribution and investment revenues	$21,805	$30,633	$41,819	$40,589	$34,857	$34,944	$33,846	$38,187	$37,728	$58,593
(2) Unallocated expenses	519	621	1,267	852	1,425	1,184	1,335	1,732	4,251	6,315
(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	28,825	61,324
(4) Paid (cumulative) as of:										
End of fiscal year	*	*	*	*	*	*	*	16,765	26,198	52,187
One year later	*	*	*	*	*	*	*	18,948	30,257	
Two years later	*	*	*	*	*	*	*	19,003		
Three years later	*	*	*	*	*	*	*			
Four years later	*	*	*	*	*	*				
Five years later	*	*	*	*	*					
Six years later	*	*	*	*						
Seven years later	*	*	*							
Eight years later	*	*								
Nine years later	*									

Local Government Group Insurance Fund
Required Supplementary Information (Cont.)
Ten-Year Claims Development Information

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
(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	28,825	61,324
One year later	19,752	30,128	41,865	33,483	30,138	23,673	19,499	19,023	30,376	
Two years later	19,752	30,128	41,865	33,483	30,138	23,673	19,499	19,003		
Three years later	19,752	30,128	41,865	33,483	30,138	23,673	19,499			
Four years later	19,752	30,128	41,865	33,483	30,138	23,673				
Five years later	19,752	30,128	41,865	33,483	30,138					
Six years later	19,752	30,128	41,865	33,483						
Seven years later	19,752	30,128	41,865							
Eight years later	19,752	30,128								
Nine years later	19,752									
(6) Increase (decrease) in estimated incurred claims and expenses from end of fiscal year	0	0	0	0	0	0	0	(1,241)	1,551	0

* Data not available