

Medicare Supplement Insurance Fund
For the Period
January 1, 2001, Through June 30, 2001

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STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
State Capitol
Nashville, Tennessee 37243-0260
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John G. Morgan
Comptroller

January 28, 2003

The Honorable Phil Bredesen, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243

and
The Honorable Dave Goetz, Chairman
State Insurance Committee
State Capitol
Nashville, Tennessee 37243

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Medicare Supplement Insurance Fund for the period January 1, 2001, through 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/cj
02/074

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit
Medicare Supplement Insurance Fund
For the Period January 1, 2001, Through June 30, 2001

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 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.

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
Medicare Supplement Insurance Fund
For the Period January 1, 2001, Through June 30, 2001

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Medicare Supplement Insurance Fund For the Period January 1, 2001, Through June 30, 2001

INTRODUCTION

POST-AUDIT AUTHORITY

This is a report on the financial and compliance audit of the Medicare Supplement 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 State Insurance Committee was created by an act of the General Assembly, codified as Title 8, Chapter 27, Section 301, *Tennessee Code Annotated*. The purpose of the committee is to provide insurance benefits and services to state employees and retirees. A separate fund was established in January 2001 to account for revenues received and claims paid on behalf of retirees who are eligible for Medicare coverage and elect coverage under the Medicare Supplement Insurance Plan.

ORGANIZATION

The State Insurance Committee oversees the administration of the Medicare Supplement Insurance Fund as well as the State Employee Group Insurance Fund. The State Insurance Committee is composed of the Commissioner of Finance and Administration, the Comptroller of the Treasury, the State Treasurer, the Commissioner of Commerce and Insurance, the Commissioner of the Department of Personnel, a representative of the Tennessee State Employees Association, two elected representatives of state employees, and an elected representative of higher education.

The Department of Finance and Administration’s Division of Insurance Administration and the Treasury Department’s Tennessee Consolidated Retirement System (TCRS) coordinate in the administration of the Medicare Supplement Insurance Plans. TCRS is responsible for the

day-to-day operations including customer service to retirees, enrollment, and collection of premiums through TCRS. The Division of Insurance Administration is responsible for the processing of all payments, refunds, and cash receipts of the Medicare Supplement Insurance Fund.

Blue Cross and Blue Shield of Tennessee, Inc., has been contracted for administrative services, coordination with Medicare intermediaries, and payment of claims for the Medicare Supplement plans.

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

AUDIT SCOPE

The audit was limited to the period January 1, 2001, 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 period ended June 30, 2001. The Medicare Supplement 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*.

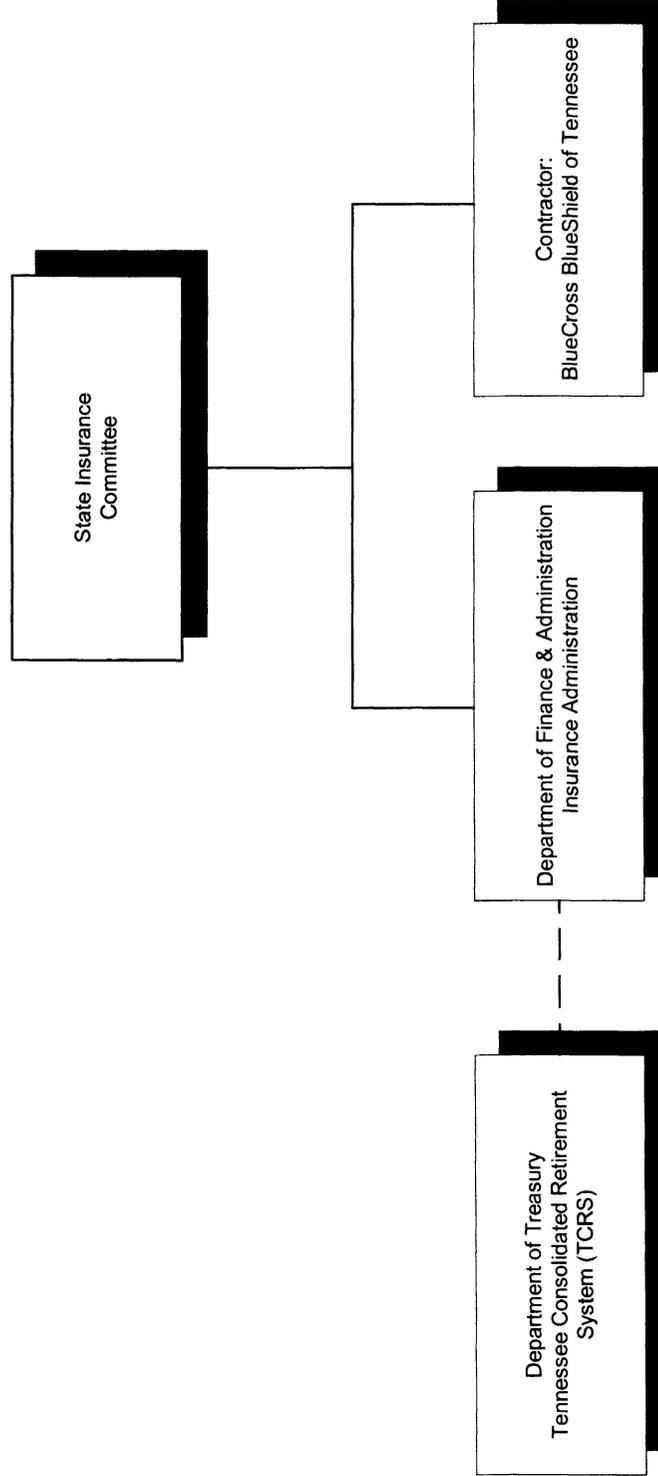
The audit covered fund 59 of the State of Tennessee Accounting and Reporting System (allotment code 317.86).

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.

**Medicare Supplement Insurance Fund
Administration
Organization Chart**



RESULTS OF THE AUDIT

AUDIT CONCLUSIONS

Internal Control

As part of the audit of the Medicare Supplement Insurance Fund's financial statements for the period January 1, 2001, through 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 Medicare Supplement 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***

October 29, 2002

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 Medicare Supplement Insurance Fund, as of and for the six-month period ended June 30, 2001, and have issued our report thereon dated October 29, 2002. 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 Medicare Supplement 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 Medicare Supplement 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 Medicare Supplement 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.

The Honorable John G. Morgan
October 29, 2002
Page Three

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,

A handwritten signature in black ink that reads "Arthur A. Hayes, Jr." The signature is written in a cursive style with a prominent initial "A" and a trailing flourish.

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

AAH/cj

FINDINGS AND RECOMMENDATIONS

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

Finding

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.

The Division of Insurance Administration is 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. Overriding system security to make manual adjustments is a significant deficiency in the design and operation of the system.

The division 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, the State of Tennessee Accounting and Reporting System (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, including the TIS Master Transaction Task. 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. The Division has implemented a number of changes that focus on this issue. Two years ago, accounting transactions were brought up to date, and the backlog of accounting transactions was eliminated. Positions were added to the accounting section to assist in this task. The TIS Automated Reconciliation Project has been completed. All of these improvements have positively addressed the TIS to STARS balancing problem.

Insurance Administration, Information Systems Management and the Office of Information Resources (all organizational components of the Department of Finance and Administration) are also engaged in a multiple year effort to upgrade the Tennessee Insurance System (TIS). TIS is the basic business tool that provides the eligibility, enrollment, and premium collection activities to support the state sponsored plans. TIS began operation in the summer of 1991.

Planning, analysis, and general design phases of the TIS Upgrade Project were complete in March 2002. Detailed design and programming will be completed in stages rather than in its entirety. The components specifically related to the balancing of TIS and STARS are scheduled early in the overall work program. In its totality, the project should be completed by the middle of 2005. The TIS upgrade project is intended to enhance the capabilities of the present system, provide some flexibility in reconfiguring specific TIS components and activities, and improve maintainability.

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 current use of ADF will be minimized.

The TIS Master Transaction Study has been combined with the TIS Upgrade Project.

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

2. Application Development Facility changes were not always properly supported or made correctly

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. Several steps have been taken to improve the processes associated with the use of the Application Development Facility (ADF). These steps are intended to reduce the number of ADFs and to ensure the proper documentation of every ADF transaction.

A supervisor in the Operations Section now reviews all ADFs to determine that proper documentation is provided to support each transaction. The individuals in the Systems Support Section authorized to execute ADFs now have access to a dedicated printer to ensure that all documentation is available and is placed with the transaction's supporting documentation. Finally, an Account Tech 2 reviews the transaction to ensure that all ADFs have been processed as intended and are properly documented.

A user manual for completing ADF requests was recently published by the Systems Support Unit in the Division. Also, a class on completing ADFs was conducted recently for the Insurance Benefits Analysts and the accounting personnel in the Division. Systems Support Unit personnel conducted this class.



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Independent Auditor's Report

October 29, 2002

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 Medicare Supplement Insurance Fund as of June 30, 2001, and the related statements of revenues, expenses, and changes in equity and cash flows for the period January 1, 2001, through June 30, 2001. 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 Medicare Supplement Insurance Fund as of June 30, 2001, and the results of its operations and cash flows for the period January 1, 2001, through June 30, 2001, in conformity with accounting principles generally accepted in the United States of America.

The Honorable John G. Morgan
October 29, 2002
Page Two

The required supplementary information on page 20 is not a required part of the basic financial statements but is 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 measurements and presentation of the supplementary information. However, we did not audit the information and do not express an opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2002, 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,

A handwritten signature in black ink that reads "Arthur A. Hayes, Jr." with a stylized flourish at the end.

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

AAH/cj

Medicare Supplement Insurance Fund
Balance Sheet
June 30, 2001

(Expressed in Thousands)

	<u>June 30, 2001</u>
<u>ASSETS</u>	
Current assets:	
Cash (Note 2)	\$ <u>11,353</u>
Total assets	\$ <u><u>11,353</u></u>
 <u>LIABILITIES AND EQUITY</u>	
Liabilities:	
Current liabilities:	
Accounts payable and accruals	\$ 4,077
Deferred revenue	<u>237</u>
Total liabilities	<u>4,314</u>
Equity:	
Retained earnings, unreserved	<u>7,039</u>
Total equity	<u>7,039</u>
Total liabilities and equity	\$ <u><u>11,353</u></u>

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

Medicare Supplement Insurance Fund
Statement of Revenues, Expenses, and Changes in Equity
For the Period January 1, 2001, Through June 30, 2001

(Expressed in Thousands)

OPERATING REVENUES

Premiums	\$ <u>19,954</u>
Total operating revenues	<u>19,954</u>

OPERATING EXPENSES

Contractual services	2,375
Benefits	<u>13,342</u>
Total operating expenses	<u>15,717</u>
Operating income	<u>4,237</u>

NONOPERATING REVENUES

Interest income	<u>191</u>
Income before operating transfer	4,428
Operating transfer from general fund	<u>2,611</u>
Net income	7,039
Equity, January 1	<u>0</u>
Equity, June 30	<u>\$ <u>7,039</u></u>

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

Medicare Supplement Insurance Fund
Statement of Cash Flows
For the Period January 1, 2001, Through June 30, 2001

(Expressed in Thousands)

CASH FLOWS FROM OPERATING ACTIVITIES:

Receipts from customers and users	\$	20,191
Payments to suppliers		(11,640)
		8,551

Net cash from operating activities		8,551
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CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:

Operating transfers in		2,611
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Net cash from noncapital financing activities		2,611
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CASH FLOWS FROM INVESTING ACTIVITIES:

Interest received		191
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Net cash from investing activities		191
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Net increase in cash and cash equivalents		11,353
-------------------------------------------	--	--------

Cash and cash equivalents - January 1, 2001		0
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Cash and cash equivalents - June 30, 2001	\$	11,353
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Cash flows from operating activities:

Operating income	\$	4,237
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Adjustments to reconcile operating income
to net cash provided by operating activities:

Increase in accounts payable		4,077
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Increase in deferred revenue		237
------------------------------	--	-----

Total adjustments		4,314
-------------------	--	-------

Net cash from operating activities:	\$	8,551
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The notes to the financial statements are an integral part of this statement.

Medicare Supplement Insurance Fund
Notes to the Financial Statements
June 30, 2001

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Medicare Supplement Insurance Fund is used to account for revenues received and claims paid on behalf of qualified retired state employees and teachers. Instituted in January 1989, the coverage was offered on a fully insured basis through December 2000. On January 1, 2001, the financial arrangement was converted to self-insured and a third plan option offered to participants. 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 Medicare Supplement 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.

NOTE 2. DEPOSITS

The Medicare Supplement Insurance Fund had \$11,353,000 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'

Medicare Supplement Insurance Fund
Notes to the Financial Statements (Cont.)
June 30, 2001

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*. That report may be obtained by writing to the Department of Finance and Administration, Division of Accounts, 14th Floor William R. Snodgrass Tennessee Tower, 312 Eighth Avenue North, Nashville, Tennessee 37243-0298.

NOTE 3. RISK MANAGEMENT

In 1988, the State of Tennessee adopted legislation authorizing the provision of Medicare Supplement coverage for qualified retired state employees and teachers. Instituted in January 1989, the coverage was offered on a fully insured basis through December 2000. On January 1, 2001, the financial arrangement was converted to self-insured, and a third plan option was offered to participants.

In accordance with Section 8-27-701, *Tennessee Code Annotated*, the State Insurance Committee established a Medicare Supplement Insurance Fund, which became a public entity risk pool, on January 1, 2001. Fund members at June 30, 2001, included 20,739 retirees and dependents who selected one of three Medicare Supplement Insurance plan offerings.

The Medicare Supplement 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, provide for the filing of claims for services received, and report changes in eligibility of themselves or their dependents.

The Medicare Supplement 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. Retirees and providers have 13 months to file medical claims. The process used to compute claims liabilities does not necessarily result in an exact amount. A reserve of 22% of estimated yearly disbursements was established. Claims liabilities will be

Medicare Supplement Insurance Fund
Notes to the Financial Statements (Cont.)
June 30, 2001

periodically recomputed as the data to determine the reserve requirements become available. Adjustments to claims liabilities will be charged or credited to expense in the period in which they are made. The Medicare Supplement Insurance Fund considers investment income in determining if a premium deficiency exists.

As discussed above, the Medicare Supplement 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 period January 1, 2001, through June 30, 2001 (expressed in thousands):

	2001
Unpaid claims at beginning of year	\$ 0
Incurred claims, provision for insured events of the current year	<u>13,342</u>
Total incurred claims expenses	13,342
Payments	<u>9,265</u>
Total unpaid claims at end of year	<u>\$ 4,077</u>

Medicare Supplement Insurance Fund Required Supplementary Information Claims Development Information

The table below will illustrate how the Medicare Supplement Insurance Fund's earned revenues and investment income compare to related costs of loss and other expenses assumed by the Medicare Supplement Insurance Fund as of the end of each of the last ten years as previous years' information becomes available. As of June 30, 2001, only six months of data are available. The rows of the table are defined as follows: (1) This line shows the total of each fiscal year's or period's earned contribution revenues and investment revenues. (2) This line shows each fiscal year's or period'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 or period. (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.

	Audit Period Ended June 30 (Expressed in Thousands)
	<u>2001</u>
(1) Net earned required contribution and investment revenues	\$ 20,145
(2) Unallocated expenses	2,375
(3) Estimated incurred claims and expenses, end of period	13,342
(4) Paid (cumulative) as of: End of period	9,265
(5) Reestimated incurred claims and expenses: End of period	13,342
(6) Increase (decrease) in estimated incurred claims and expenses from end of period	0