

TEACHER GROUP INSURANCE FUND

**FOR THE YEAR ENDED
JUNE 30, 1995**

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July 9, 1996

The Honorable Don Sundquist, Governor
and
Members of the General Assembly
and
The Honorable Bob Corker, Chairman
Local Education Insurance Committee
State Capitol
Nashville, Tennessee 37243

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Teacher Group Insurance Fund for the year ended June 30, 1995. 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 the internal control structure and tests of compliance resulted in no audit findings.

Very truly yours,

W. R. Snodgrass
Comptroller of the Treasury

WRS/mm
96/079

State of Tennessee

A u d i t H i g h l i g h t s

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit
Teacher Group Insurance Fund
For the Year Ended June 30, 1995

AUDIT OBJECTIVES

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

AUDIT FINDINGS

The audit report contains no findings.

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
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AUDIT REPORT
TEACHER GROUP INSURANCE FUND
FOR THE YEAR ENDED JUNE 30, 1995

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TEACHER GROUP INSURANCE FUND
FOR THE YEAR ENDED JUNE 30, 1995

INTRODUCTION

POST-AUDIT AUTHORITY

This is a report on the financial and compliance audit of the Teacher 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.

OBJECTIVES OF THE AUDIT

The objectives of the audit were

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

Although this audit was not intended to serve as an organization-wide audit as described in the Single Audit Act of 1984 and Office of Management and Budget (OMB) Circular A-128, “Audits of State and Local Governments,” it included tests of compliance with applicable federal laws and regulations and consideration of the internal control structure used in administering federal financial assistance programs. This audit is a segment of the organization-wide audit of the State of Tennessee, which is conducted in accordance with the Single Audit Act of 1984 and OMB Circular A-128.

SCOPE OF THE AUDIT

The audit was limited to the period July 1, 1994, through June 30, 1995, and was conducted in accordance with generally accepted government auditing standards. Financial statements are presented for the year ended June 30, 1995, and for comparative purposes, the year ended June 30, 1994. The Teacher 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 56 of the State of Tennessee Accounting and Reporting System.

BACKGROUND AND ORGANIZATION

LEGISLATIVE HISTORY

The Local Education Insurance Committee was created in 1986 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 access to health insurance coverage to teachers of political subdivisions of the State of Tennessee.

ORGANIZATION

The Local Education Insurance Committee oversees the administration of the Teacher Group Insurance Fund. The committee is composed of the Governor, who may designate the Commissioner of Education to attend in his place as a full voting member, a representative of local school boards to be selected by the Tennessee School Boards Association, the State Treasurer, the Commissioner of Commerce and Insurance, the Comptroller of the Treasury, the Commissioner of Finance and Administration, and three teachers elected to represent the three grand divisions under the procedures contained in Title 8, Chapter 34, Section 302, *Tennessee Code Annotated*.

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

The contractor, Blue Cross and Blue Shield of Tennessee, Inc., processes all participant claims, makes all claim payments, provides access to a preferred provider organization, and carries out the plan's utilization management function.

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

PRIOR AUDIT FINDINGS

There were no findings in the prior audit report.

OBSERVATIONS AND COMMENTS

The TennCare Section of the Division of State Audit has performed a compliance audit of the State Insurance Plans for the period January 1 through December 31, 1994. The results of that audit will be issued under separate cover.

RESULTS OF THE AUDIT

AUDIT CONCLUSIONS

Internal Control Structure

As part of the audit of the Teacher Group Insurance Fund's financial statements for the year ended June 30, 1995, we considered the internal control structure to determine auditing procedures for the purpose of expressing an opinion on the financial statements, as required by generally accepted government auditing standards. The report on the internal control structure is on the following pages. Consideration of the internal control structure disclosed no material weaknesses.

Fairness of Financial Statement Presentation

The Division of State Audit has rendered an unqualified opinion on the financial statements of the Teacher Group Insurance Fund. In our opinion, the statements included in this report present fairly, in all material respects, the financial position of the fund as of June 30, 1995, and the results of its operations and cash flows for the year then ended. The independent auditor's report follows the compliance report.

Compliance with Laws and Regulations

With respect to the items tested, the Teacher Group Insurance Fund complied with the provisions of laws, regulations, and contracts that may have a material effect on the fund's financial statements. The compliance report follows the report on the internal control structure.

**Report on the Internal Control Structure Based on an
Audit of the Financial Statements Performed in Accordance with
*Government Auditing Standards***

December 21, 1995

The Honorable W. R. Snodgrass
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Snodgrass:

We have audited the financial statements of the Teacher Group Insurance Fund as of and for the year ended June 30, 1995, and have issued our report thereon dated December 21, 1995.

We conducted our audit 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.

The fund's management is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

The Honorable W. R. Snodgrass
December 21, 1995
Page Two

In planning and performing our audit of the fund's financial statements for the year ended June 30, 1995, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above.

However, we noted certain matters involving the internal control structure and its operation that we have reported to the fund's management in a separate letter.

This report is intended for the information of the General Assembly of the State of Tennessee and management. However, this report is a matter of public record, and its distribution is not limited.

Sincerely,

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

AAH/mm

**Compliance Report Based on an Audit of the
Financial Statements Performed in Accordance
With *Government Auditing Standards***

December 21, 1995

The Honorable W. R. Snodgrass
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Snodgrass:

We have audited the financial statements of the Teacher Group Insurance Fund as of and for the year ended June 30, 1995, and have issued our report thereon dated December 21, 1995.

We conducted our audit 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.

Compliance with laws, regulations, and contracts applicable to the Teacher Group Insurance Fund is the responsibility of the fund's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the fund's compliance with certain provisions of laws, regulations, and contracts. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under generally accepted government auditing standards.

The Honorable W. R. Snodgrass
December 21, 1995
Page Two

This report is intended for the information of the General Assembly of the State of Tennessee and management. However, this report is a matter of public record, and its distribution is not limited.

Sincerely,

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

AAH/mm

Independent Auditor's Report

December 21, 1995

The Honorable W. R. Snodgrass
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Snodgrass:

We have audited the accompanying balance sheets of the Teacher Group Insurance Fund as of June 30, 1995, and June 30, 1994, 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 opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Teacher Group Insurance Fund, as of June 30, 1995, and June 30, 1994, and the results of its operations and cash flows for the years then ended in conformity with generally accepted accounting principles.

The Honorable W. R. Snodgrass
December 21, 1995
Page Two

In accordance with generally accepted government auditing standards, we have also issued reports dated December 21, 1995, regarding our consideration of the fund's internal control structure and its compliance with laws and regulations.

Sincerely,

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

AAH/mm

TEACHER GROUP INSURANCE FUND
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 1995, AND JUNE 30, 1994

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Teacher Group Insurance Fund is used to account for revenues received and claims paid on behalf of teachers of political subdivisions of the state who have elected coverage under a group medical plan similar to that offered to state 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 Teacher 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.

NOTE 2. DEPOSITS

The Teacher Group Insurance Fund had \$29,064,000 in the State Treasurer's pooled investment fund at June 30, 1995, and \$35,198,000 at June 30, 1994.

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,

TEACHER GROUP INSURANCE FUND
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
JUNE 30, 1995, AND JUNE 30, 1994

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 pool's custodial credit risk is presented in the *Tennessee Comprehensive Annual Financial Report* for the year ended June 30, 1995.

NOTE 3. RISK MANAGEMENT

The Teacher Group Insurance Fund, a public entity risk pool, was established in January 1986 to provide a program of health insurance coverage for the teachers of the political subdivisions of the state. In accordance with *Tennessee Code Annotated*, Section 8-27-302, all local education agencies are eligible to participate. Fund members at June 30, 1995, included 104 local education agencies, with 27,434 teachers and support personnel and 1,365 retirees insured. The state does not retain any risk for losses by this fund.

The Teacher 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. Teachers 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 a variety of actuarial and statistical techniques to produce current estimates, which are 18% 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 Teacher Group Insurance Fund does not consider investment income in determining if a premium deficiency exists, since any earnings are immaterial.

As discussed above, the Teacher 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 (expressed in thousands) in those aggregate liabilities for the fund during the past two years:

TEACHER GROUP INSURANCE FUND
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
JUNE 30, 1995, AND JUNE 30, 1994

	<u>1995</u>	<u>1994</u>
Unpaid claims at beginning of year	\$12,131	\$10,368
Incurred claims, provision for insured events of the current fiscal year	<u>73,741</u>	<u>69,157</u>
Total incurred claims expenses	85,872	79,525
Payments	<u>72,773</u>	<u>67,394</u>
Total unpaid claims at end of year	<u>\$13,099</u>	<u>\$12,131</u>

TEACHER GROUP INSURANCE FUND
REQUIRED SUPPLEMENTARY INFORMATION
TEN-YEAR CLAIMS DEVELOPMENT INFORMATION

(Expressed in Thousands)

The table below illustrates how the Teacher Group Insurance Fund's earned revenues and investment income compare to related costs of loss and other expenses assumed by the Teacher 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 policy year; these amounts are unavailable. (5) This section shows how each policy 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, and 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 policy 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 policy years. The columns of the table show data for successive policy years.

	Fiscal Year Ended June 30									
	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>
(1) Net earned required contribution and investment revenues	\$4,589	\$11,891	\$17,889	\$26,855	\$35,939	\$43,308	\$51,804	\$63,291	\$75,715	\$79,410
(2) Unallocated expenses	138	369	507	579	730	931	991	1,234	2,224	1,794
(3) Estimated incurred claims and expenses, end of fiscal year	2,336	11,441	18,797	28,362	39,038	43,439	51,605	58,521	69,157	73,087
(4) Paid (cumulative) as of:										
End of policy year	*	*	*	*	*	*	*	*	*	*
One year later	*	*	*	*	*	*	*	*	*	
Two years later	*	*	*	*	*	*	*	*		
Three years later	*	*	*	*	*	*	*			
Four years later	*	*	*	*	*	*				
Five years later	*	*	*	*	*					
Six years later	*	*	*	*						
Seven years later	*	*	*							
Eight years later	*	*								
Nine years later	*									

(continued on next page)

Fiscal Year Ended June 30

	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>
(5) Reestimated incurred claims and expenses:										
End of policy year	*	*	*	*	*	45,439	51,605	58,521	69,157	73,741
One year later	*	*	*	*	*	*	*	*	*	
Two years later	*	*	*	*	*	*	*	*		
Three years later	*	*	*	*	*	*	*			
Four years later	*	*	*	*	*	*				
Five years later	*	*	*	*	*					
Six years later	*	*	*	*						
Seven years later	*	*	*							
Eight years later	*	*								
Nine years later	*									
 (6) Increase (decrease) in estimated incurred claims and expenses from end of policy year										
	*	*	*	*	*	—	—	—	—	(654)

* Data not available