



**MAHONING COUNTY SCHOOL
EMPLOYEE INSURANCE CONSORTIUM
MAHONING COUNTY**

REGULAR AUDIT

**FOR THE YEAR ENDED DECEMBER 31, 1998
AND THE SIX MONTH PERIOD ENDED JUNE 30, 1999**



**JIM PETRO
AUDITOR OF STATE**

STATE OF OHIO

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REPORT OF INDEPENDENT ACCOUNTANTS

Mahoning County School Employee Insurance Consortium
Mahoning County
225 Idaho Road
Youngstown, Ohio 44515-3703

To the Members of the Assembly and the Board of Directors:

We have audited the accompanying financial statements of the Mahoning County School Employee Insurance Consortium (the Insurance Consortium) as of and for the year ended December 31, 1998 and for the six month period ended June 30, 1999. These financial statements are the responsibility of the Insurance Consortium's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the Insurance Consortium prepares its financial statements on the basis of accounting prescribed or permitted by the Auditor of State, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash balances of Mahoning County School Employee Insurance Consortium, as of December 31, 1998 and June 30, 1999, and its cash receipts and cash disbursements for the year and period then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 9, 2000 on our consideration of the Insurance Consortium's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts.

This report is intended solely for the information and use of, management, Members of the Assembly, Board of Directors, and other officials authorized to receive this report under Section 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Jim Petro".

Jim Petro
Auditor of State

May 9, 2000

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - INSURANCE CONSORTIUM FUND
FOR THE YEAR ENDED DECEMBER 31, 1998 AND FOR THE PERIOD ENDED JUNE 30, 1999**

	1998	1999
Cash Receipts:		
Hospitalization Contributions from Members	\$10,038,995	\$5,331,213
Prescription Contributions from Members	1,753,995	1,122,241
Dental Contributions from Members	972,842	532,574
Payments from Stop Loss Provider	48,383	65,255
Earnings on Investments	114,375	48,452
 Total Cash Receipts	 12,928,590	 7,099,735
Cash Disbursements:		
Hospitalization Claims Payments	9,574,603	6,334,579
Prescription Claims Payments	2,069,122	1,287,257
Dental Claims Payments	873,044	511,578
Administration Fees - Hospitalization Claims	184,790	97,485
Administration Fees - Prescription Claims	59,446	31,282
Administration Fees - Dental Claims	38,600	23,119
Stop Loss Insurance Payments	425,681	204,688
Legal Fees	3,475	6,746
Miscellaneous Cash Disbursements	120,147	53,175
 Total Cash Disbursements	 13,348,908	 8,549,909
 Excess of Cash Receipts Over/ (Under) Cash Disbursements	 (420,318)	 (1,450,174)
 Fund Cash Balances - Beginning	 2,556,726	 2,136,408
 Fund Cash Balances - Ending	 \$2,136,408	 \$686,234

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

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**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1999 AND 1998**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Mahoning County School Employee Insurance Consortium (the Insurance Consortium) is a school district insurance consortium established pursuant to Ohio Revised Code Chapter 167. The legislative body of the Insurance Consortium is an Assembly consisting of the Superintendents, or a Superintendent's designee, from each member school district (participant). Officers of the Assembly are elected from the membership for a one year term. The Assembly appoints a Board of Directors, which acts as the managerial body of the Insurance Consortium, consisting of the superintendent from the Mahoning County Educational Service Center, the superintendent from the Austintown Local School District that serves as the Insurance Consortium's fiscal agent, and three other members of the Assembly who are elected from the membership for a two-year term. The Insurance Consortium administers medical, prescription and dental benefit plans for employees of the participating school systems and their eligible dependents.

Contributions to the Insurance Consortium are received monthly from the participant and their employees based upon amounts determined by independent insurance consultants. At June 30, 1999, a third-party insured the Insurance Consortium for claims in excess of \$135,000 per participant and \$12,026,500 in the aggregate, annually.

Besides the standard monthly contributions, the Insurance Consortium may extend an assessment to each participant based on a three-year window calculation determined by the independent insurance consultant. The calculation is based on the ratio of total expense to total income for each school during the previous three years ended July 31. The insurance consultant separately reviews each participant's medical, prescription, and dental balances for potential assessments. Conversely, a participant may be eligible for a one month or two month waiver of its monthly contributions based on the above calculation. A participant may pay assessments in advance if it believes a shortage will exist at the end of the period in periodic payments or a lump sum after the total assessment is determined.

Although a participant may withdraw from the Insurance Consortium or any particular benefits program, no participant withdrew from the Insurance Consortium during the period January 1, 1998 through June 30, 1999.

All administrative costs and expenses incurred for the maintenance of the Consortium have been paid by the participants through June 30, 1999.

The Insurance Consortium's management believes these financial statements present all activities for which the Insurance Consortium is financially accountable.

B. BASIS OF ACCOUNTING

The Insurance Consortium's financial statements follow the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned and disbursements are recognized when paid rather than when a liability is incurred.

The Insurance Consortium's financial statements include adequate disclosure of material matters, as prescribed or permitted by the Auditor of State.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1999 AND 1998
(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. CASH AND INVESTMENTS

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or disbursements, respectively.

2. EQUITY IN POOLED CASH AND INVESTMENTS

The carrying amount of the Insurance Consortium's cash and investments at December 31, 1998 and June 30, 1999 was as follows:

	12/31/98	6/30/99
Demand deposits	\$ (370,209)	\$ (708,840)
Repurchase agreements	<u>2,506,617</u>	<u>1,395,074</u>
Total deposits and investments	<u>\$2,136,408</u>	<u>\$ 686,234</u>

Deposits: Deposits are either insured by the Federal Depository Insurance Corporation or collateralized by the financial institution's public entity deposit pool.

Investments: Repurchase Agreements are uninsured and unregistered investments for which the securities are held by the counterparty, or its trust department or agent, in the Insurance Consortium's name.

3. CHANGE IN FISCAL YEAR

On May 6, 1999, the Insurance Consortium Assembly passed a resolution changing the Insurance Consortium's fiscal year to be the twelve month period beginning July 1 and ending June 30.

4. UNFUNDED CLAIMS

The Insurance Consortium obtains an actuarial report that reflects a valuation that provides an estimate of runoff liability for incurred but not reported (IBNR) claims of the insurance program based on an analysis of historic claims data and generally accepted actuarial principles. The actuarial report for the period ended July 31, 1999 reflects estimated claims as of July 31, 1999 at \$2,151,539. Reported reserve funds available to pay IBNR claims as of that date are \$794,609. Thus, according to the actuarial report estimated IBNR claims as of July 31, 1999 were unfunded by \$1,356,930.

The agreement establishing the Insurance Consortium provides that the member school districts (participants) assume the financial risk of the Insurance Consortium to ensure the stability of the Insurance Consortium's financial position. The agreement also provides that the participants' contributions to the Insurance Consortium, and the disbursements made by the Insurance Consortium on the participants' behalf, shall be evaluated annually to decide whether the Insurance Consortium should make an adjustment to the amount the participants contribute. Pursuant to this funding arrangement, the Insurance Consortium assessed the participants in December 1999 an additional aggregate amount of \$496,665. Also, pursuant to the agreement, the participants provide monthly contributions to the Insurance Consortium. In December 1999, the Insurance Consortium Assembly passed a resolution requiring each participant to make an additional (thirteenth) payment for 1999. The aggregate amount of these additional payments was \$925,682. Thus, the assessment and thirteenth payment generated additional revenues of \$1,422,347 to meet the above stated IBNR claims.



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REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Mahoning County School Employee Insurance Consortium
Mahoning County
225 Idaho Road
Youngstown, Ohio 44515-3703

To the Members of the Assembly and the Board of Directors:

We have audited the financial statements of the Mahoning County School Employee Insurance Consortium (the Insurance Consortium) as of and for the year ended December 31, 1998 and the six month period ended June 30, 1999 and have issued our report thereon dated May 9, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Insurance Consortium's financial statements are free of material misstatement, we performed tests of its 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 1999-11150-001.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Insurance Consortium's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Insurance Consortium's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings as item 1999-11150-001.

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 do not believe the reportable condition described above is a material weakness.

Mahoning County School Employee Insurance Consortium
Mahoning County
Report of Independent Accountants on Compliance and on
Internal Control Required by *Government Auditing Standards*
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This report is intended for the information and use of management, Members of the Assembly, and Board of Directors, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Jim Petro", with a large, stylized flourish at the end.

Jim Petro
Auditor of State

May 9, 2000

**SCHEDULE OF FINDINGS
DECEMBER 31, 1998 AND JUNE 30, 1999**

FINDING RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

Finding Number 1999-11150-001

**Non-Compliance Citation
Reportable Condition**

Ohio Revised Code § 9.833, provides in part, that a political subdivision, maintaining an individual self-insurance program to provide authorized health care benefits, shall reserve such funds as necessary in the exercise of sound and prudent actuarial judgement, to cover potential costs of health care benefits for the officers and employees of the political subdivision. To determine if such minimum reserve requirements are satisfied, the insurance program shall obtain a report of amounts so reserved and disbursements made from such funds, together with a written report of a member of the American Academy of Actuaries certifying whether the amounts reserved conform to the requirements of this division, are computed according to accepted loss reserving standards and are stated fairly according to sound loss principles, within ninety days after the last day of the fiscal year.

The Insurance Consortium received an actuarial report for the period ended July 31, 1999 reflecting a valuation that provides an estimate of runoff liability for incurred but not reported (IBNR) claims of the insurance program based on an analysis of historic claims data and generally accepted actuarial principles. The above actuarial report for the Insurance Consortium reflects estimated claims as of July 31, 1999 at \$2,151,539. Reported reserve funds available to pay IBNR claims as of that date are \$794,609. Therefore, according to the actuarial report the minimum reserve requirements required by Ohio Revised Code § 9.833 were not satisfied.

Also, the actuarial reports for the periods ended July 31, 1998 and July 31, 1999 were dated March 26, 1999 and February 2, 2000, respectively. The periods covered by the actuarial reports do not correlate with the Insurance Consortium's fiscal years and were not prepared within ninety days after the last day of the Insurance Consortium's fiscal years.

We recommend the Insurance Consortium create internal control over the evaluation of IBNR claims and comparison to reserve funds and over the monitoring of periodic assessments. Correlating the periods covered by the actuarial reports with the Insurance Consortium's fiscal years and obtaining the reports within ninety days after the last day of the Insurance Consortium's fiscal years may assist management in ensuring that the Insurance Consortium's minimum reserve requirements are satisfied.



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SCHOOL EMPLOYEE INSURANCE CONSORTIUM

MAHONING COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 30, 2000**