



**ROSS COUNTY SCHOOL EMPLOYEES INSURANCE CONSORTIUM
ROSS COUNTY**

REGULAR AUDIT

FOR THE FISCAL YEAR ENDED JUNE 30, 1999



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

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REPORT OF INDEPENDENT ACCOUNTANTS

Ross County School Employees Insurance Consortium
Ross County
19463 Pherson Pike
Williamsport, Ohio 43164

We have audited the accompanying financial statement of the Ross County School Employees Insurance Consortium, Ross County, Ohio, (the Consortium) as of and for the year ended June 30, 1999. This financial statement is the responsibility of the Consortium's management. Our responsibility is to express an opinion on this financial statement 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 Consortium prepares its financial statement 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 statement referred to above presents fairly, in all material respects, the cash balance of the Consortium as of June 30, 1999, and its cash receipts and disbursements for the year then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 15, 2000 on our consideration of the Consortium's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

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

JIM PETRO
Auditor of State

February 15, 2000

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND CHANGES IN CASH BALANCE**

FOR THE YEAR ENDED JUNE 30, 1999

Cash Receipts:

Charges for Services	\$10,290,215
Earnings on Investments	27,818
Miscellaneous	<u>17,958</u>

Total Cash Receipts	<u>10,335,991</u>
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Cash Disbursements:

Current:

Re-insurance Payments & Administrative Fees	808,284
Claims Payments	9,820,620
Miscellaneous	<u>2,311</u>

Total Cash Disbursements	<u>10,631,215</u>
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Total Cash Receipts Over/(Under) Cash Disbursements	(295,224)
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Cash Balance, July 1, 1998	<u>551,004</u>
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Cash Balance, June 30, 1999	<u><u>\$255,780</u></u>
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The notes to the financial statements are an integral part of this statement.

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NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 1999

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Ross County School Employees Insurance Consortium (the Consortium), a Regional Council of Governments organized under Ohio Revised Code Chapter 167, was created for the purpose of establishing and administering a cooperative health insurance program. The Consortium is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio.

The Board of Directors is the legislative and managerial body of the Consortium. The Board of Directors is composed of a representative from member school districts who have been appointed by their respective school district (normally the Superintendent).

The Board of Directors appoint a Board of Education, of a member district, with the consent of the said Board of Education, as the Fiscal Agent for the Consortium. The Treasurer of the Fiscal Agent shall be the Treasurer of the Consortium. The Union Scioto Local School District was the Fiscal Agent for the Consortium through June 30, 1999. As of July 1, 1999, the Westfall Local School District is the appointed Fiscal Agent for the Consortium.

The Consortium's management believe this financial statement presents all activities for which the Consortium is financially accountable.

B. Basis of Accounting

This financial statement follows 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.

This statement includes adequate disclosure of material matters, as prescribed or permitted by the Auditor of State.

C. Cash and Investments

To improve cash management, all cash received by the Consortium is pooled in two central bank accounts. Monies are maintained in these accounts or temporarily used to purchase short term investments. During fiscal year 1999, investments were limited to a Repurchase Agreement. Nonparticipating investment contracts such as repurchase agreements and negotiable certificates of deposit are reported at cost.

2. EQUITY IN POOLED CASH AND INVESTMENTS

The Consortium maintains a cash and investments pool. The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of cash and investments at December 31 was as follows:

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

2. EQUITY IN POOLED CASH AND INVESTMENTS (Continued)

	<u>1999</u>
Demand deposits	\$ 86,595
Repurchase Agreement	<u>169,185</u>
Total deposits and investments	<u>\$ 255,780</u>

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

3. RISK MANAGEMENT

The Consortium is a regional council of government organized under Ohio Revised Code Chapter 167, for the purpose of establishing and carrying out a cooperative health and dental insurance program. The Consortium, which is open to any Board of Education of any school district in the State of Ohio, is governed by a Board of Directors who selects qualified insurance companies that provide the health insurance program that is adequate to meet the needs of each member school under its benefit plan for its employees. The Board of Directors also purchase stop loss coverage for claims in excess of a set amount both for individual claims (\$65,000) and in the aggregate (\$10,419,071).

Each member of the Consortium is obligated to pay a fee based on an estimate of the member's share of the Consortium costs for the fiscal year. Included in this estimate are the claims by eligible employees which are payable by each member, the member's share of the health and dental insurance premiums, and their proportionate share of the administrative cost of the Consortium. The actual balance of each member school's account is determined on a triennial basis. If a member is in a deficit position, one-half of the deficit is due immediately or can be paid over the next three years including interest of 10 percent. Prepayments of anticipated shortages may be made by member schools.

Member schools may withdraw from the Consortium at the end of any fiscal year, and may be removed for failure to make the required payments. The obligation for the payment of any negative balance in a member's account and the remaining claims of any of its eligible members is the responsibility of each individual school upon withdrawal from the Consortium.

4. ACTUARIAL REPORT

An Actuarial Valuation of Claim Liability and Funded Status was performed on the consortium for the year ended June 30, 1999. The purpose of the valuation is to estimate claims that have been incurred but not yet reported under the health plan as of a valuation date, to compare its liability to funds reserved, and thereby determine whether the amounts reserved meet the requirements of Section 9.833 of the Ohio Revised Code. As of June 30, 1999, it was determined that the Consortium was underfunded by \$1,556,712 to pay incurred but not reported claims.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

5. FISCAL POSITION OF MEMBERS

As of June 30 ,1999 the Members of the Consortium had the following fiscal position:

Member	Position
Adena LSD	(\$162,419)
Amanda Clearcreek LSD	240,170
Blanchester LSD	(303,143)
Bright LSD	(37,030)
Circleville CSD	38,318
Huntington LSD	173,542
Logan Elm LSD	(4,038)
Lynchburg-Clay LSD	(39,385)
Madison Plains LSD	43,873
Paint Valley LSD	114,216
Pickaway-Ross JVSD	(402,565)
Ross ESC	183,059
Scioto Valley LSD	102,309
South Point LSD	(639,463)
Teays Valley LSD	79,960
Union Scioto LSD	372,663
Westfall LSD	238,972
Zane Trace LSD	41,794
Total Member positions June 30, 1999	<u><u>\$40,831</u></u>
Claims received prior to June 30 paid subsequent to June 30	235,668
Stop Loss reimbursement due June 30 received subsequent to June 30	20,719
Cash position June 30, 1999	<u><u>\$255,780</u></u>

Each members fiscal position with the Consortium will be presented on their respective financial statements as either an asset or a liability (negative position).

6. SUBSEQUENT EVENTS

Subsequent to June 30, 1999 the Consortium paid claims that had been received prior to June 30, 1999 in the amount of \$235,668. Subsequent to June 30, 1999 the Consortium received a stop loss reimbursement of \$20,719 that was due as of June 30, 1999.

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

Ross County School Employees Insurance Consortium
Ross County
19463 Pherson Pike
Williamsport, Ohio 43164

We have audited the accompanying financial statement of the Ross County School Employees Insurance Consortium, Ross County, Ohio, (the Consortium) as of and for the year ended June 30, 1999, and have issued our report thereon dated February 15, 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 Consortium's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 1999-60771-001 and 1999-60771-002.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the 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 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 Consortium's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statement. The reportable conditions are described in the accompanying schedule of findings as items 1999-60771-002 and 1999-60771-003.

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. We believe that reportable conditions 1999-60771-002 and 1999-60771-003, described above are material weaknesses. We also noted an other matter involving the internal control over financial reporting that does not require inclusion in this report, that we have reported to management of the Consortium in a separate letter dated February 15, 2000.

This report is intended for the information and use of the Board of Directors and management, and is not intended to be and should not be used by anyone other than these specified parties.

JIM PETRO
Auditor of State

February 15, 2000

**SCHEDULE OF FINDINGS
JUNE 30, 1999**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 1999-60771-001

Ohio Rev. Code Section 9.833 (C)(1) states that such funds shall be reserved as are necessary, in the exercise of sound prudent actuarial judgement, to cover potential cost of health care benefits for the officers and employees of the political subdivision. 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 in accordance with accepted loss reserving standards, and are fairly stated in accordance with sound loss reserving principles.

An Actuarial Valuation of Claim Liability and Funded Status was performed on the consortium for the year ended June 30, 1999. The purpose of the valuation was to estimate claims that have been incurred but not yet reported under the health plan as of a valuation date, to compare its liability to funds reserved, and thereby determine whether the amounts reserved meet the requirements of Section 9.833 of the Ohio Revised Code. As of June 30, 1999, it was determined that the Consortium was underfunded by \$1,556,712 to pay incurred but not reported claims.

Member premiums have not been set at sufficiently high levels to comply with Ohio Rev. Code Section 9.833. Eliminating this deficit will require raising member premiums to (1) fund incurred but not reported claims on an ongoing basis, and (2) include an additional premium increase to eliminate the accumulated deficiency the actuary reported. Ohio Rev. Code Section 9.833 does not permit the Consortium to operate on a pay-as-you go basis, which appears to have been the method used to set premium rates in the past.

FINDING NUMBER 1999-60771-002

The Consortium did not maintain records that separately identify, by member districts, all contributions from the respective members. The Consortium also did not maintain records that account for all disbursements or transfers from the Consortium made on behalf of each member. The member fiscal positions disclosed in Note 5 required an audit adjustment.

Per Section 3(B) of the Agreement and By-Laws for the Ross County School Employees Insurance Consortium, the Fiscal Agent is required to maintain records that separately identify, by member, all contributions and expenditures made by the Consortium on behalf of the respective members.

Failure to maintain sufficient accounting records for each member has led to significant errors occurring without timely detection. The Consortium fiscal agent should maintain records in a manner that each member contributions and disbursements can be separately identified and reported. These reports should be forwarded to the member districts monthly.

FINDING NUMBER 1999-60771-003

The Consortium did not reconcile their activity and fund balance to the summary reports provided by their third party administrator (TPA). The summary reports provided by the TPA contained several errors in reporting claims activity and specific reimbursement adjustments. Lack of having these reconciliation and monitoring controls in place allow for errors to occur without timely detection.

The Consortium Fiscal Agent should perform a monthly reconciliation of the Consortium activity and fund balance to amounts reported by the TPA. The Consortium Board of Directors should periodically monitor these reconciliations and they should be forwarded to the member schools on a monthly basis.



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SCHOOL EMPLOYEES INSURANCE CONSORTIUM

ROSS 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
MARCH 21, 2000**