

**Memorandum**

Date **MAR 4 1992**

From *[Signature]*  
Richard P. Kusserow  
Inspector General

Subject Review of the State of Mississippi Self-Insurance Funds  
(A-04-91-00024)

To Arnold R. Tompkins  
Assistant Secretary for  
Management and Budget

The purpose of this memorandum is to alert you to the issuance on March 5, 1992, of our final report. A copy is attached.

The subject audit was performed by the certified public accounting firm of Carmichael, Ingle, Saffert & Brasher, P.C., under a contract with the Office of Inspector General. In Mississippi's Unemployment Insurance Fund, excess reserves totaling \$8,134,380 were identified as of June 30, 1990.

The Office of Management and Budget (OMB) Circular A-87, which establishes cost principles for State and local governments, provides for Federal reimbursement of allowable costs and precludes profit or charges in excess of cost.

The State of Mississippi Unemployment Insurance Fund is a self-insurance fund established to provide coverage for unemployment claims arising from former employees of State agencies. The audit showed that the \$8,134,380 accumulated reserve balance occurred from charging State agencies premiums that were in excess of claims and operating expenses.

We recommended that the State make a financial adjustment of \$1,626,876 for the Federal share of the Unemployment Insurance Fund balance accumulated in excess of the amount allowed by Federal cost principles. The State should ensure that charges to Federal programs are in accordance with OMB Circular A-87 and the Statewide Cost Allocation Plan agreement with the Division of Cost Allocation (DCA) to preclude future excess charges to the Federal Government.

The State's Group Insurance Fund, another self-insurance type fund, had a deficit balance. We made no specific recommendations for this fund. However, we believe that

Page 2 - Arnold R. Tompkins

fund deficits should be eliminated by adjustment in premiums charged to departments and agencies. The Federal Government would then share appropriately in these costs.

The DCA concurred with our findings and recommendations. The State plans to monitor the billing rates more closely and make appropriate adjustments to prevent the accumulation of excess funds in the future.

If you have any questions, please call me or have your staff contact John A. Ferris, Assistant Inspector General for Human, Family and Departmental Services Audits at (202) 619-1175.

Attachment

Department of Health and Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**STATE OF MISSISSIPPI  
JACKSON, MISSISSIPPI**

**ACCOUNTANTS' REPORT ON AGREED-  
UPON PROCEDURES IN REGARD TO  
SELF-INSURANCE FUNDS**



**Richard P. Kusserow  
INSPECTOR GENERAL**

**A-04-91-00024**

REGION IV  
P.O. BOX 2047  
ATLANTA, GEORGIA 30301Common Identification Number  
A-04-91-00024

Dr. Edward L. Ranck  
Executive Director  
Department of Finance and Administration  
State of Mississippi  
P.O. Box 267  
Jackson, Mississippi 39205

Dear Dr. Ranck:

Enclosed is the final report on the Results of the Review of the State of Mississippi Self-Insurance Funds.

The review was performed by the Certified Public Accounting firm of Carmichael, Ingle, Saffert and Brasher, P.C. which is under contract with the Health and Human Services, Office of Inspector General, Office of Audit Services.

Excess reserves of \$8,134,380 accumulated in the Unemployment Insurance Fund. The State of Mississippi should ensure that charges to Federal programs are in accordance with Office of Management and Budget Circular A-87 and the Statewide Cost Allocation Plan agreement with the Division of Cost Allocation. Based on the results of the audit, we recommend that the State of Mississippi make a financial adjustment for \$1,626,876 to restore the Federal equity in the Fund.

At the exit conference, the State officials provided information supporting additional adjustments to the Unemployment Insurance Fund. We used these additional adjustments in calculating the final amount of the Unemployment Insurance Fund's excess reserve.

State officials were also of the opinion that the excess reserve in the Unemployment Insurance Fund should be offset with the deficit balance in the Group Insurance Fund. However, State officials did agree that the Group Insurance Fund deficit could be corrected through revised billing rates to State agencies.

The designation of financial or management practices as questionable or a recommendation for the disallowance of costs incurred or claimed, as well as other conclusions and recommendations in this report, represent the findings and opinions of the HHS, OIG, Office of Audit Services.

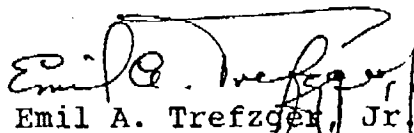
Page 2 - Dr. Edward L. Ranck

We request that you respond to the HHS action official named below within 30 days from the date of this letter. Your response should present any comments or additional information that you believe may effect the final determination.

In accordance with the principles of the Freedom of Information Act (Public Law 90-23), Office of Inspector General, Office of Audit Services reports issued to the Department's grantees and contractors are made available, if requested, to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act which the Department chooses to exercise. (See 45 CFR Part 5.)

To facilitate identification, please refer to Common Identification Number A-04-91-00024 in all correspondence relating to this report.

Sincerely yours,

  
Emil A. Trefzger, Jr.  
Regional Inspector General  
for Audit Services, Region IV

Enclosure

Direct Reply To:

Director  
Division of Cost Allocation and Liaison  
W.J. Cohen Bldg. - Room 1067  
330 Independence Ave., S.W.  
Washington, D.C. 20201

cc: Pete Johnson  
State Auditor  
State of Mississippi  
P.O. Box 956  
Jackson, Mississippi 39205

TABLE OF CONTENTS

	<u>PAGE</u>
INTRODUCTION	1
BACKGROUND	1
SCOPE	3
FINDINGS AND RECOMMENDATIONS	
Unemployment Insurance Fund	4
Group Insurance Fund	6
EXHIBIT I - Schedule of Federal Reclaim - Unemployment Insurance Fund	8
EXHIBIT II - Schedule of Interest Not Credited by the State Treasury to the Unemployment Insurance Fund	9
EXHIBIT III - Schedule of Interest Earned on Transfer In to the Group Insurance Fund	10
APPENDIX A - Accountants' Report on Agreed-Upon Procedures	11
APPENDIX B - Auditee's Response	13

Certified Public Accountants

Mr. Emil A. Trefzger, Jr., CPA  
Regional Inspector General for Audit Services  
U.S. Department of Health and Human Services  
Office of Inspector General, Office of Audit Services  
101 Marietta Tower, Suite 1401  
Atlanta, Georgia 30323

Dear Mr. Trefzger:

The purpose of this report is to provide you with the RESULTS OF CERTAIN AGREED-UPON PROCEDURES OF THE SELF-INSURANCE FUNDS OF THE STATE OF MISSISSIPPI.

#### EXECUTIVE SUMMARY

Our agreed-upon procedures revealed two self-insurance funds being maintained by the State of Mississippi. The Unemployment Insurance Fund appeared to have excess reserves of \$8,134,380. We have recommended an adjustment of \$1,626,876, based on 20 percent Federal Financial Participation, to restore the Federal equity in this Fund. The Group Insurance Fund did not appear to have excess reserves and we made no specific recommendations in regard to this Fund.

The State did not agree with our recommendation to adjust the Unemployment Insurance Fund balance. However, the State did agree to monitor billing rates and make appropriate adjustments to prevent the future accumulation of excess funds. The State's Response and the Auditor's Comments are summarized after the Recommendation section of each finding. Refer to Appendix B for a complete copy of the State's response.

#### INTRODUCTION

##### BACKGROUND

The Office of Management and Budget (OMB) Circular A-87 allows States to recover costs of goods and services provided in the administration of Federal grant programs. Some of these goods and services are provided by a central State agency and billed directly to the user agency. It is intended that the central State agency operate on a break-even basis through user charges for goods and services provided. A profit indicates an overcharge for goods and services and a loss, an undercharge.

Circular A-87 classified central State service agencies which directly bill for goods and services as either cost-reimbursement or reserve-type activities. The reserve-type activity that

directly bills must maintain a reserve fund balance (usually based on an actuarial study), in order to meet present and future claims. The reserve-type directly billed activity (usually referred to as trust fund) is designed to collect sufficient revenue from billings and investment income to pay for present and future claims and for complete administration of the activity.

The joint or common costs of any goods or services benefitting Federally-funded programs must be recovered through the Statewide Cost Allocation Plan (SWCAP). The approved SWCAP is an agreement between the State of Mississippi and the Department of Health and Human Services (DHHS), that is negotiated by the DHHS, Division of Cost Allocation (DCA). The plan identifies which costs are to be allocated to various programs and which costs may be billed directly to the using agency.

The self-insurance funds (Funds) that are maintained by the State of Mississippi are:

- Unemployment Insurance Fund
- Group Insurance Fund



## SCOPE

Our preliminary review steps included meetings with representatives of the DCA in Atlanta, Georgia. We obtained pertinent information concerning the State of Mississippi's SWCAP and reviewed the objectives of the agreed-upon procedures with DCA.

Our examination was performed at various offices related to each of the Funds reviewed from May 20, 1991 to July 26, 1991. Our examination was made in accordance with certain agreed-upon procedures performed in accordance with Governmental Auditing Standards, 1988 Revision, issued by the Comptroller General of the United States solely to assist the U.S. Department of Health and Human Services in connection with its evaluation of self-insurance funds.

We obtained the General Purpose Financial Statements (GPFS) of the various departments of the State of Mississippi for the fiscal year ending June 30, 1990, performed an analysis of these statements and determined that the above listed Funds needed further evaluation. For each of the Funds listed above, we performed, but were not limited to, the following procedures:

1. obtained and reviewed financial statements and other financial data of each individual Fund;
2. determined if the Fund had significant Federal Financial Participation;
3. reviewed the reserve balances for reasonableness;
4. determined if any transfers of funds occurred during the fiscal year or prior fiscal years; and
5. determined if premium rates were justified.

During our examination, we did not test the financial statements of these Funds. Neither did we review the Funds' costs for allowability.

At the exit conference on November 5, 1991 with various State of Mississippi officials, the State provided us with written comments.

FINDINGS AND RECOMMENDATIONS

Our review revealed certain findings and results in regard to our agreed-upon procedures performed as outlined above.

STATE OF MISSISSIPPI UNEMPLOYMENT INSURANCE FUND

The State of Mississippi Unemployment Insurance Fund is a self-insurance fund established by the State of Mississippi to provide coverage for unemployment claims arising from former employees of State agencies.

We reviewed the State of Mississippi Unemployment Insurance Fund's accounting records from July 1, 1977, which is the inception of the Fund, through June 30, 1990 and our review revealed the following:

- a. Transfer out of \$5,500,000 to the General Fund of the State of Mississippi on June 30, 1990. No interest was lost to the Federal Government because this transfer took place on the last day of the year.
- b. The Fund's assets were maintained by the State of Mississippi and the interest which was earned on the assets by the State Treasury was not remitted to the Unemployment Insurance Fund. Interest earned of approximately \$5,097,442 by the State Treasury was not credited to the Fund. (Refer to Exhibit II)
- c. A reserve balance of \$4,227,468 was considered to be in accordance with Federal cost principles. The reserve balance was determined by State law which requires a reserve balance of 2% of the first \$6,000 of each employees wages to be maintained.
- d. Adjustments have been made to the SWCAP for the fiscal years ending June 30, 1989 and June 30, 1990 in the amounts of (\$1,985,108) and (\$3,736,510) respectively.

Accrual basis fund balance at June 30, 1990 per the State Auditor's audited financial statements	\$ 7,485,024
Transfer out to the General Fund	5,500,000
Interest earned by State Treasury and not credited to the Fund	5,097,442
Reserve in accordance with Federal cost principles	<u>(4,227,468)</u>
Accrual basis adjusted fund balance at June 30, 1990	\$13,855,998

Adjustments made to the SWCAP  
for the fiscal years ending:

June 30, 1989	(1,985,108)
June 30, 1990	<u>(3,736,510)</u>

Adjusted fund balance \$8,134,380

Office of Management and Budget (OMB) Circular A-87, which establishes cost principles for State and Local governments, provides for Federal reimbursement of allowable costs and precludes charges in excess of cost.

OMB Circular A-87, Attachment A, Section A.1 states in part:

"... no provision for profit or other increment above cost is intended."

We determined the Federal share of the excess reserve balances in accordance with the following DCA policy:

- For State agencies, DCA has determined a standard estimated Federal Financial Participation rate of 20 percent.

We have determined that of the \$8,134,380 fund balance not yet adjusted in the SWCAP, 20 percent or \$1,626,876 is the Federal share of the excess reserve balance.

The adjusted fund balance of \$8,134,380 arose because premiums have been charged in excess of expenditures.

RECOMMENDATIONS

We recommend that the State of Mississippi:

1. Make an adjustment that will restore the Federal equity in the \$8,134,380 adjusted fund balance which has been estimated to be \$1,626,876. (Refer to Exhibit I).
2. Ensure that charges to Federal programs are in accordance with OMB Circular A-87 and the SWCAP agreement with DCA.

STATE'S RESPONSE

The State did not concur with our initial calculation of interest on the loan to the Disaster Relief Fund or the consideration of the adjustments made to the SWCAP in determining the interest not properly credited to the fund by the State Treasury.

AUDITOR'S COMMENTS

We concur with the State of Mississippi and have made the necessary adjustments to the excess reserve balance. We also have recalculated, with consideration given to the adjustments made to the SWCAP, the interest earned by the State Treasury and not credited to the Fund.

STATE OF MISSISSIPPI GROUP INSURANCE FUND

The State of Mississippi Group Insurance Fund is a self-insurance fund established by the State of Mississippi to provide health coverage to employees of State agencies.

We reviewed the State of Mississippi Group Insurance Fund's accounting records from July 1, 1982, which is the inception of the Fund, to June 30, 1990 and our review revealed the following:

- a. Transfer in of \$4,000,000 from a General Fund appropriation by the State of Mississippi.
- b. Interest of approximately \$5,034,565 was earned on the transfer in from the General Fund appropriation. (Refer to Exhibit III)
- c. Adjustments have been made to the SWCAP for the fiscal years ending June 30, 1989 and June 30, 1990 in the amounts of (\$2,102,666) and (\$3,075,660), respectively.

Accrual basis fund balance at June 30, 1990 per the State Auditor's audited financial statements	\$ 2,088,184
Transfer in from General Fund appropriations	(4,000,000)
Interest associated with General Fund Appropriation	<u>(5,034,565)</u>
Accrual basis adjusted fund balance at June 30, 1990	\$ (6,946,381)
Adjustments made to the SWCAP for the fiscal years ending:	
June 30, 1989	(2,102,666)
June 30, 1990	<u>(3,075,660)</u>
Adjusted fund balance	<u><u>\$(12,124,707)</u></u>

Our review revealed that the fund balance appeared reasonable due to an accrual basis deficit fund balance at June 30, 1990 of (\$6,946,381). The adjustments for the Group Insurance Fund which have been made to the SWCAP for the fiscal years ending June 30, 1989 and 1990 do not appear to have been correctly calculated. The adjustments to the SWCAPs did not include an allowance for the \$4,000,000 transfer in by the State of Mississippi or the interest associated with the transfer in. We recommend that future adjustments made to the SWCAPs for the Group Insurance Fund be based on accrual basis adjusted fund balances as determined above. We have no other specific recommendations in regard to this Fund.

STATE'S RESPONSE

State officials feel that a recommendation should have been made for an adjustment in the State's favor because the report reflects a deficit reserve balance in the fund.

AUDITOR'S COMMENTS

We have no specific recommendation in regard to this Fund. However, it appears that the Fund deficits should be eliminated through adjustments in premiums charged to departments and agencies. The Federal government would then pick-up their share of these increased costs.

STATE OF MISSISSIPPI  
 SELF-INSURANCE REVIEW  
 SCHEDULE OF FEDERAL RECLAIM

State of Mississippi Unemployment Insurance Fund

Accrual basis fund balance at June 30, 1990 per State of Mississippi State Auditor's audited financial statements	\$ 7,486,024
Adjustments to fund balance:	
Transfer to the General Fund of the State of Mississippi	5,500,000
Interest earned by the State Treasury and Not Credited to the Fund	5,097,442
Reserve balance in accordance with Federal cost principles	<u>(4,227,468)</u>
Accrual Basis Adjusted Fund Balance	\$13,855,998
Adjustments made to the SWCAP for the fiscal years ending June 30, 1989	(1,985,108)
June 30, 1990	<u>(3,736,510)</u>
Adjusted Fund Balance	<u>\$8,134,380</u>
Amount of Federal Reclaim:	
State of Mississippi	\$8,134,380
Division of Cost Allocation's standard estimated Federal Financial Participation Rate	<u>20%</u>
TOTAL FEDERAL RECLAIM	<u>\$ 1,626,876</u>

EXHIBIT II

SCHEDULE OF INTEREST NOT CREDITED BY THE STATE  
TREASURY TO THE UNEMPLOYMENT INSURANCE FUND

FYE	FUND BALANCE AT YEAR END	ADJUSTMENTS MADE TO SWCAP	ADJUSTED FUND BALANCE ON WHICH INTEREST WAS NOT CREDITED	INTEREST NOT CREDITED IN PRIOR YEAR	TOTAL FUND BALANCE ON WHICH INTEREST WAS NOT CREDITED	APPLICABLE INTEREST RATE	TOTAL INTEREST NOT CREDITED BY STATE TREASURY TO FUND
6/30/78	\$ 813,863		\$		813,863	6.00%	\$ 48,832
6/30/79	2,543,666			48,832	2,592,498	6.00%	155,550
6/30/80	2,660,337			155,550	2,815,887	6.00%	168,953
6/30/81	4,472,173			168,953	4,641,126	6.00%	278,468
6/30/82	5,485,155			278,468	5,763,623	7.70%	443,799
6/30/83	3,707,171			443,799	4,150,970	7.70%	319,625
6/30/84	6,475,865			319,625	6,795,490	8.68%	589,849
6/30/85	7,608,743			589,849	8,198,592	8.13%	666,545
6/30/86	7,283,500			666,545	7,950,045	6.43%	511,188
6/30/87	8,197,683			511,188	8,708,871	5.46%	475,504
6/30/88	9,826,008			475,504	10,301,512	5.91%	608,819
6/30/89	9,575,387	(1,985,198)	7,590,189	608,819	8,199,008	7.81%	640,343
6/30/90	7,486,024	(3,736,510)	1,764,316	640,343	2,404,659	7.90%	189,968
							\$ 5,097,442

EXHIBIT III

SCHEDULE OF INTEREST EARNED ON  
TRANSFER IN TO THE GROUP INSURANCE FUND

FYE	TRANSFER IN TO FUND	CUMULATIVE AMOUNT OF FUND BALANCE ATTRIBUTABLE TO TRANSFER IN TO FUND	FUND BALANCE PER AUDITED FINANCIAL STATEMENTS	ADJUSTMENTS MADE TO SWCAP	ADJUSTED FUND BALANCE ON WHICH INTEREST WAS NOT CREDITED	% OF FUND BALANCE ATTRIBUTABLE TO TRANSFER IN TO FUND	TOTAL INTEREST EARNED BY FUND	AMOUNT OF INTEREST ATTRIBUTABLE TO TRANSFER IN TO FUND
6/30/83	\$4,000,000	\$4,000,000			\$ 2,962,657	100.00%	47,156	47,156
6/30/84		4,047,156			1,884,399	100.00%	416,633	416,633
6/30/85		4,463,789			6,169,097	72.36%	354,741	256,681
6/30/86		4,720,470			11,753,376	40.16%	927,985	372,704
6/30/87		5,093,173			14,973,012	34.02%	1,137,755	387,015
6/30/88		5,480,189			16,206,999	33.81%	1,464,852	495,321
6/30/89		5,975,510	11,679,759	(2,102,666)	9,577,093	62.39%	2,184,901	1,363,242
6/30/90		7,338,752	2,088,184	(3,075,660)	(3,090,142)	100.00%	1,695,813	1,695,813
								<u>\$ 5,034,565</u>



**APPENDIX A**

**ACCOUNTANTS' REPORT ON  
AGREED UPON PROCEDURES**

Certified Public Accountants

Mr. Emil A. Trefzger, Jr., C.P.A.  
Regional Inspector General for Audit Services  
U. S. Department of Health and Human Services  
Office of Inspector General  
Office of Audit Services  
101 Marietta Tower, Suite 1401  
Atlanta, Georgia 30323

ACCOUNTANTS' REPORT ON AGREED-UPON PROCEDURES

We have performed certain agreed-upon procedures, as discussed below, to accounting records of the State of Mississippi as of June 30, 1990, solely to assist the U.S. Department of Health and Human Services in connection with its evaluation of self-insurance funds of various States. It is understood that this report is subject to the Freedom of Information Act (Public Law 90-23) which governs all reports issued by or through the U.S. Department of Health and Human Services.

We evaluated the self-insurance funds of the State of Mississippi to:

- determine the need for self-insurance funds;
- determine the basis for the self-insurance funds;
- identify self-insurance funds which have significant Federal Financial Participation;
- identify self-insurance funds which have generated excess reserve balances; and
- determine the Federal equity in the excess reserve balances, if any.

Because the above procedures do not constitute an audit made in accordance with generally accepted auditing standards or Governmental Auditing Standards (1988 Revision) issued by the Comptroller General of the United States, we do not express an opinion on any of the accounts or items referred to above. In connection with the procedures referred to above, no matters came to our attention that caused us to believe that the specified account or items should be adjusted other than those recommended in the Findings and Recommendations section of the report. Had we performed additional procedures or had we made an audit of the financial statements in accordance with generally accepted auditing standards, matters might have come to our attention that would have been reported to you. This report relates only to the accounts and items specified above and does not extend to any financial statements of the State of Mississippi taken as a whole.

*Carmichael, Ingle, Saffert & Brasher, P.C.*

CARMICHAEL, INGLE, SAFFERT & BRASHER, P.C.  
July 26, 1991

**APPENDIX B**

**AUDITEE'S RESPONSE**



## STATE OF MISSISSIPPI

DEPARTMENT OF FINANCE AND ADMINISTRATION

RAY MABUS  
GOVERNOR

November 5, 1991

Mr. Emil A. Trefzger, Jr.  
Regional Inspector General for  
Audit Services, Region IV  
P. O. Box 2047  
Atlanta, GA 30301

Dear Mr. Trefzger:

As requested in your letter accompanying the draft report on the Results of the Review of Self-Insurance Funds in the State of Mississippi, the following written response is provided.

The first and most important recommendation we would like to make is that, for the purposes of federal financial adjustments, the reserves of both the Unemployment Insurance Fund and the Health Insurance Fund be treated the same. The calculations in the draft report show a positive \$11,162,394\* fund balance in one fund and a negative \$11,879,287\* in the other fund. To make a financial adjustment for the positive \$11M\* fund balance and not for the negative \$11M\* fund balance is not equitable in our opinion. We feel that since the federal involvement in both funds is the same, fund balances should offset each other.

The second most important recommendation we would like to make is that financial adjustments be made through the Statewide Central Services Cost Allocation Plan (SWCAP). The precedent for this has been established with adjustments made in the 1990 and 1989 fixed cost agreements for the excess reserves in the Unemployment Insurance and Health Insurance funds. In addition, the state calculated adjustments for both the Unemployment Insurance and Health Insurance funds (see Attachment A) and requested that those adjustments be made in Fiscal Year 1991. The DHHS Division of Cost Allocation decided, however, to wait and make an adjustment in Fiscal Year 1993. An agreement to evaluate the fund balances again in FY 1993 with any adjustment to be identified in Exhibit A of the Cost Allocation Agreement is documented in writing and concurred with by both parties (see Attachment B).

There are several points we would like to make concerning the calculations in the draft report. The calculation of interest lost

\*Auditor's Note: The revised balance is now \$12,124,707 in the Group Insurance Fund and \$8,134,380 in the Unemployment Insurance Fund.

Mr. Emil A. Trefzger, Jr.  
 November 5, 1991  
 Page 2

on the loan to the Disaster Relief Fund (Exhibit II)<sup>F</sup> should be eliminated since the receivable for this loan is included in the fund balance of the Unemployment Insurance Fund. Since the fund balance is used to calculate interest earned by the State Treasury and not credited to the fund, the interest associated with the loan is being counted twice. This concern was discussed with the auditors in July. When we received a copy of the first draft report, the interest for this item was crossed out which was interpreted as agreement. We also believe that the fund balances used to calculate interest should be reduced for the adjustments made through the SWCAP for excess reserves in the Unemployment and Health funds. By making the adjustments through the SWCAP, we have already reduced the federal involvement in these funds for these excesses and interest should not continue to accrue.

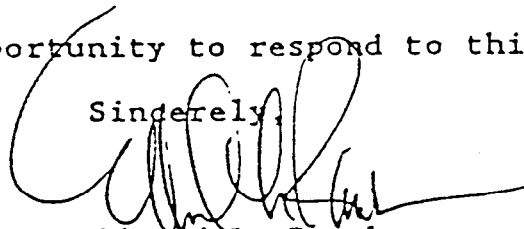
The repayments of the Disaster Relief Fund loan shown on Exhibit I<sup>F</sup> are not correct. Reclassifications between "due from" and "advance to" categories made for purposes of the Comprehensive Annual Financial Report were misleading to the auditors. Additional details of repayments were provided to the auditors but corrections have not yet been made. We do not feel that these interest calculations should be included due to the double-counting mentioned above. If this interest calculation remains in the final report, corrections to this schedule need to be made.

Although we are not prepared to raise issue with the 20% federal participation rate at this time, we would like to reserve the right to challenge that rate if further analysis supports a lower rate.

Once a decision is made on the resolution of this audit, the State plans to monitor the billing rates more closely and make appropriate adjustments to prevent the accumulation of excess funds in the future.

Thank you for the opportunity to respond to this draft report.

Sincerely,



Edward L. Ranck  
 Executive Director

ELR/SPL/nb

#### Attachments

\*"Auditor's Note: Based on the State's comments, the original Exhibit II has been removed and replaced with an Exhibit II covering material in this final report."



March 26, 1990

Attachment A

Mr. Harvey Cummins  
Director, Division of Cost Allocation  
Department of Health  
and Human Services  
101 Marietta Tower  
Atlanta, GA 30323

Dear Harvey:

Enclosed for your review are some additional documents pertaining to the State of Mississippi's cost allocation plan based on June 30, 1989 actual costs. We are providing the following documents:

- I. Schedule computing June 30, 1989 Fund Balances for Health Insurance, Life Insurance, and Unemployment Insurance.
- II. Schedule computing amount to be adjusted for Health Insurance and Unemployment Insurance.
- III. Schedule computing Health Insurance adjustment for each department.
- IV. Schedule computing Unemployment Insurance adjustment for each department.
- V. Mississippi's Comprehensive Annual Finance Report for the fiscal year ended June 30, 1989.

If your office agrees with the two adjustments, we will incorporate the amounts into Exhibit A.

If you have any questions, please call me at 355-2253.

Sincerely,

J.C. McBee

JCM/mb  
Enclosures

STATE OF MISSISSIPPI

FYE JUNE 30, 1989

GROUP INSURANCE

	Group Health Insurance (1)	Group Life Insurance (1)	Total Group Insurance	Unemployment Insurance	Reference
Fund Balance as of July 1, 1988	\$15,522,376	\$ 684,623	\$16,206,999	\$2,826,008	Financial Report Page 137
Revenue:					
Premiums	\$55,037,297	\$3,141,664	\$58,178,961	\$2,765,533	"
Interest	2,066,916	117,985	2,184,901		"
Other	459,411	26,224	485,635		"
Total Revenue	\$57,563,624	\$3,285,873	\$60,849,497	\$2,765,533	"
Expenses:					
Benefits	\$60,305,872	\$3,442,407	\$63,748,279	\$1,031,046	"
Admin Fees	1,540,521	87,937	1,628,458		"
Total Expenses	\$61,846,393	\$3,530,344	\$65,376,737	\$1,031,046	"
Excess of Revenues Over<Under> Expenses	\$<4,282,769>	\$ <244,471>	\$<4,527,240>	\$1,734,487	"
Fund Balance as of June 30, 1989	\$11,239,607	\$ 440,152	\$11,679,759	\$11,560,495	"

(1) Group Health & Life Insurance has been split using percentage of premiums for the year. Percentage is 94.6% for Health and 5.4% for Life Insurance.

STATE OF MISSISSIPPI

FYE JUNE 30, 1989

ADJUSTMENT FOR HEALTH INSURANCE & UNEMPLOYMENT

	<u>Health Insurance</u>	<u>Unemployment Insurance</u>
Fund Balance, June 30, 1989	\$11,239,607	\$11,560,495
Less: Estimated amount for claims reserves	<u>8,511,323</u>	<u>4,227,468</u>
Subtotal	\$ 2,728,284	\$ 7,333,027
State's percentage of contribution	<u>72%</u>	<u>100%</u>
Amount to be adjusted	\$ 1,964,364	\$ 7,333,027
Amount adjusted in previous years	<u>5,047,958</u>	<u>5,598,541</u>
Total Adjustment	\$<3,083,594> =====	\$ 1,734,486 =====





## DEPARTMENT OF HEALTH &amp; HUMAN SERVICES

Region IV  
101 Marietta Tower  
Atlanta GA 30323Attachment B

October 11, 1990

Mr. John W. Cook  
Executive Director  
Department of Finance & Administration  
State of Mississippi  
901 Walter Sillers Building  
P. O. Box 267  
Jackson, Mississippi 39205

Dear Mr. Brown:

The enclosed Cost Allocation Agreement approves the State-Wide Cost Allocations for the fiscal year ending June 30, 1991. Any variances resulting from the difference between the amounts cited as fixed in the Agreement and the actual experience for the fiscal year ending June 30, 1991 will be adjusted in accordance with the terms of the Cost Allocation Agreement.

The approved Central Service Costs contained in the Agreement may be considered as part of the operating costs of your various State Departments and Agencies in which federally supported programs are conducted for the fiscal year beginning July 1, 1990. The indirect cost rate proposals for those departments allocating cost to federal programs should clearly identify the adjustments made to segregate costs between direct and indirect, and to properly reflect those costs normally filled and those included in the State-Wide Cost Allocation Plan.

During our review of your Plan the following items were discussed, and agreements were reached on an acceptable methodology for handling them in subsequent Plans.

1. General and Administrative Function:

In any central services where there are two or more functions, the general and administrative costs first and second additions must be allocated to each function based upon the percentage of salaries and wages and not on the percentage of departmental expenditures.

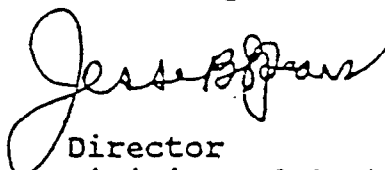
Mr. Cecil C. Brown  
Page 2  
October 11, 1990

2. Group and Unemployment Insurance Funds:

It was agreed that for fiscal year 1993 the state will evaluate the fund balances of the Group Insurance and Unemployment Insurance funds. This evaluation will be consistent with the procedure used in fiscal year 1987 when the state agreed to an adjustment of excess fund balances in both funds. All prior adjustments will be considered in calculating an "acceptable" fund balance. The "acceptable" fund balance will then be compared to the actual fund balance and the difference identified to the departments and/or agencies in Exhibit A of the Agreement.

Enclosed are the original and one copy of the Cost Allocation Agreement. Please sign both copies and return the original to this office at your earliest convenience, retaining the copy for your file. In addition, please sign the copy of this letter of transmittal in the space provided indicate your concurrence with the understanding cited above.

Sincerely,




Director  
Division of Cost Allocation

Enclosures:

CONCURRENCE:

State of Mississippi  
(Organization)

  
(Signature)

John W. Cook  
(Name)

Executive Director  
(Title)

November 20, 1990  
(Date)

Attachment C

EXHIBIT I

STATE OF MISSISSIPPI  
SELF-INSURANCE REVIEW  
SCHEDULE OF FEDERAL RECLAIM

State of Mississippi Unemployment Insurance Fund

Balance of fund at June 30, 1990 per State of Mississippi State Auditor's audited financial statements	\$ 7,486,024
Adjustments to fund balance:	
Transfer to the General Fund of the State of Mississippi	5,500,000
Interest associated with loan to the Disaster Relief Fund	<del>2,394,145</del>
Interest earned by the State Treasury and Not Credited to the Fund	5,670,671
Reserve balance in accordance with Federal cost principles	<u>(4,227,468)</u>
Adjusted Fund Balance	\$16,760,372
Adjustments made to the SWCAP for the fiscal years ending June 30, 1989	(1,985,108)
June 30, 1990	<u>(3,736,510)</u>
Fund Balance Not Previously Adjusted in the SWCAP	<u>\$11,038,754</u>
Amount of Federal Reclaim:	
State of Mississippi	\$11,038,754
Division of Cost Allocation (DCA-RHS) Standard estimate of state cost savings	<u>208</u>
<b>TOTAL FEDERAL RECLAIM</b>	<u><b>\$ 2,207,751</b></u>

**DRAFT  
FOR DISCUSSION PURPOSES ONLY**

STATE OF MISSISSIPPI GROUP INSURANCE FUND

The State of Mississippi Group Insurance Fund is a self-insurance fund established by the State of Mississippi to provide health coverage to employees of state agencies.

We reviewed the State of Mississippi Group Insurance Fund's reserve balance accounting records from July 1, 1982, which is the inception of the fund, to June 30, 1990 and our review revealed the following:

- a. Transfer in of \$4,000,000 from a General Fund appropriated by the State of Mississippi.
- b. Interest of approximately \$4,789,145 was earned on the transfers in from the General Fund appropriation. (Refer to Exhibit IV)
- c. Adjustments have been made to the SWCAP for the fiscal years ending June 30, 1989 and June 30, 1990 in the amount of (\$2,102,666) and (\$3,075,657) respectively.

Accrual basis fund balance at June 30, 1990 per the State Auditor's audited financial statements	\$ 2,088,184
Transfer in from General Fund appropriations	(4,000,000)
Interest associated with General Fund Appropriation	<u>(4,789,145)</u>
Accrual basis adjusted fund balance at June 30, 1990	\$(6,700,961)
Adjustments made to the SWCAP for the fiscal years ending:	
June 30, 1989	(2,102,666)
June 30, 1990	<u>(3,075,657)</u>
Fund balance not previously adjusted in the SWCAP	<u>\$(1,879,284)</u>

**DRAFT  
FOR DISCUSSION PURPOSES ONLY**