



REGION IV
P.O. BOX 2047
ATLANTA, GEORGIA 30301

JAN 27 1998

CIN: A-04-97-00117

Ms. Dottie W. Roach, Commissioner
Georgia Department of Administrative Services
200 Piedmont Avenue, Suite 1804 West
Atlanta, Georgia 30334

Dear Ms. Roach:

This final report provides you with the results of our review of the Reasonableness of Balances in Georgia's Self-insurance Funds. This review included the:

- Authorities Liability Fund
- Employees Liability Fund
- Tort Liability Fund
- Workers Compensation Fund
- Unemployment Compensation Fund

Objective

The objective of our review was to determine the reasonableness of the June 30, 1996 reserve balance for each of the five funds.

Summary of Findings

Two of the five funds (Workers Compensation and Unemployment Compensation) did not hold excess reserve balances as of June 30, 1996. However, the three liability funds (Authorities, Employees, and Tort) had excess reserve balances totaling \$62 million (\$5.3 million Federal share) as of June 30, 1996.

The excess reserve balances occurred because the:

- funds' loss experiences were better than expected;
- State failed to use discounted present value for reserve estimates; and
- State chose a higher than expected level of claims to set reserves.

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We recommend the State repay the \$5.3 million Federal share of excess reserve balances. This repayment may be accomplished either by a direct payment from the State to the Division of Cost Allocation (DCA), or through a reduction in future billings.

The State generally agreed with our finding that three of the self-insurance funds contained excess reserves as of June 30, 1996, but disagrees with the dollar amounts and with some of our recommendations for correction. The State's written comments and the OIG's response are summarized after the Recommendation section of our finding. Appendix A contains the complete text of the State's written comments.

INTRODUCTION

BACKGROUND

This review was requested by DCA because the financial statements for the Authorities, Employees and Tort Liabilities Funds indicated the reserves were higher than necessary. Because of their relative size and similarities to the three liability Funds, we also reviewed the Workers and Unemployment Compensation Funds.

The Authorities Liability Fund provides coverage for the comprehensive general liability claims arising from the acts of State Authorities.

The Employees Liability Fund provides broad form general coverage to State and local government agencies, including coverage for medical malpractice, fidelity, and excess automobile liability coverage.

The Tort Liability Fund provides liability coverage for torts committed by State employees.

The Workers Compensation Fund provides coverage for State employees injured on the job.

The Unemployment Compensation Fund covers temporary assistance payments to individuals who have been terminated from a State job.

The funds are administered in a similar manner¹. Billing, or premium rates are set based on actuarial studies for each of the funds. Participating agencies require estimates of their premium costs a year in advance for budgeting purposes. Therefore, the funds' administrative offices establish the billing rates almost two fiscal years (FYs) in advance.

¹ The Authorities, Tort, and Employees funds were actually merged for administration and reserve estimation purposes as of July 1, 1997.

The Georgia State Treasurer maintains the reserves for each of the Funds, and transfers are made to each Fund on an as-needed basis to pay claims.

SCOPE

The objective of our review was to determine the reasonableness of the June 30, 1996, reserve balance for each of the five funds.

To accomplish our objective we met with representatives of DCA and obtained pertinent information concerning the State of Georgia's Statewide Cost Allocation Plan. We also reviewed the Office of Management and Budget (OMB) Circular A-87 which allows States to recover costs of goods and services provided in the administration of Federal grant programs.

At the State offices, we: (1) reviewed financial statements and other financial data for each of the funds; (2) reviewed the reserve balances for reasonableness; (3) determined if asset transfers occurred during fiscal years 1994, 1995, or 1996 between the funds; and (4) determined if the premium and/or billing rates were justified.

The State has experienced significant employee turnover in recent years and the individuals responsible for the establishment of reserve criteria and interpretation of the actuarial reports during the period covered by this review no longer work for the State. Therefore, we relied on the documentation available in the files for the Funds but were not able to obtain the verbal representations or justifications from the individuals responsible for the rate-setting policies during the time period reviewed.

We did not test the financial statements of these Funds. We also did not review the Funds' costs for allowability.

Our field work was performed in Atlanta, Georgia from April 1997 to June 1997. Our review was conducted in accordance with generally accepted government auditing standards. On October 20, 1997, we held an exit conference with State officials to discuss the draft report's findings and recommendations. On December 12, 1997, we received the State's written comments.

FINDINGS AND RECOMMENDATIONS

Both the Workers Compensation and Unemployment Compensation Funds did not hold excess reserve balances as of June 30, 1996. However, as of the same date, the three liability funds (Authorities, Employees, and Tort) had excess reserve balances totaling \$62.0 million (\$5.3 million Federal share).

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Both the Workers Compensation and Unemployment Compensation Funds did not hold excess reserve balances as of June 30, 1996. However, as of the same date, the three liability funds (Authorities, Employees, and Tort) had excess reserve balances totaling \$62.0 million (\$5.3 million Federal share).

The excess reserve balances occurred for several reasons. The Funds' loss experiences were better than expected. The State did not use discounted present value for reserve estimates; and, the State chose a higher than expected level of claims to set reserves.

Loss Experience Better Than Expected

Estimated claims were significantly less than expected in both the Tort and Authorities Funds. Actuarial statements prepared on behalf of the funds provide estimates of total liabilities incurred up through the report date. The State relies on the actuarial estimates for claims liabilities.

The **Tort Fund**, established in 1991, provided an alternative source of compensation to claimants who otherwise would have pursued recovery through the Authorities and Employees Liability Funds. As a new liability fund, the Tort Fund did not have reliable loss experience on which the actuaries could base their estimates.² The 1996 actuarial report for the Tort Fund states, "The ultimate expected losses have been decreased 11.2% or \$14.1 million from \$125.6 million. The reduction are [sic] a result of better than expected development in almost all of the policy periods." The collateral impact of the Tort Fund on the other two Funds made estimation claims difficult for all three.

In 1995 the actuaries estimated the incurred but unpaid claim liability for the Authorities Fund at \$1,096,893 through June 30, 1995 (50 percent confidence level, undiscounted). The estimated incurred but unpaid claim liability was \$104,945 through June 30, 1996. According to the actuaries, "The estimated ultimate liabilities have decreased...due to better than expected development in policy periods after the implementation of Senate Bill 415. While, there are still a few claims being reported under this Fund, the number of claims has dropped more significantly than originally estimated."

For the State's position on this issue and the OIG's response refer to report page 7.

Failure To Use Discounted Present Value For Reserves

Historical billing records indicate the State set reserve levels for the Authorities, Employees, and Tort Funds using a non-discounted figure. This practice resulted in significantly higher premiums being charged to participating agencies than was necessary to insure the solvency of the Funds.

The actuarial reports quantify claims liabilities on both a cash and a discounted present value basis. Depending on the type of liability, claims may take several years from the point at which they are incurred until they are discharged. Fund management can use the intervening periods to

² The actuarial reports indicate that the actuaries relied on the loss experience of the Employees' Fund in estimating the claims losses for early years of the Tort Fund.

accrue additional assets in the form of earnings on reserves. The discount rate should be the expected return on fund reserves during the intervening periods.

OMB Circular A-87, Cost Principles for State, Local and Indian Tribal Governments, allows contributions to reserves for certain self-insurance programs subject to certain provisions, among which are, "...provision for known or reasonably estimated self-insured liabilities, which do not become payable for more than one year after the provision is made, shall not exceed the discounted present value of the liability. The rate used for discounting the liability must be determined by giving consideration to such factors as the government unit's settlement rate for those liabilities and its investment rate of return..."

The practice of setting reserve levels using a non-discounted figure resulted in higher than necessary reserves. For example, in the **Employees Fund** non-discounted reserve requirements were approximately \$3.3 million more than discounted requirements. Similarly, in the **Authorities Fund** the reserve requirements vary by almost \$16,000.

For the State's position on this issue and the OIG's response refer to report page 7.

Use of a Higher Than Expected Level of Claims to Set Reserves

The State adopted a confidence level higher than actuarially expected claims when setting reserves for the Employees and Tort Liability Funds. As a result, reserves are higher than necessary, on average, to fund claims.

Disregarding any unexpected developments, fund reserves should be large enough to pay the claims estimated by the actuaries. Reserve amounts greater than the "expected" claims liability provide an additional cushion in case claim levels are higher. The actuarial reports provide for these higher claim possibilities by offering ranges of estimates referred to as *confidence levels*.

A confidence level of 50 percent indicates the reserve level is sufficient to cover claims in 50 percent of the possible scenarios. A confidence level greater than 50 percent indicates the reserve level will be sufficient to cover claims in a higher percentage of possible outcomes.

The reserve levels recommended by the actuaries at a discounted present value, 50 percent confidence level have historically been sufficient to pay the claims which mature annually. As of June 30, 1996, fund balances averaged 4.5 years of claim payments.

In the **Employees and Tort Liability Funds**, the billing rates were set using an 85 percent confidence level. The difference between using an 85 percent confidence level and a 50 percent confidence level is approximately \$2.3 and \$14.9 million, respectively.

For the State's position on this issue and the OIG's response refer to report pages 7 and 8.

Computation of Excess Reserves

The Funds reviewed were expected to cover both claims and administrative expenses through billed premiums to participating agencies. Annual actuarial reports provided estimates of outstanding claims liabilities. Administrative expenses and fund cash balances are shown on the financial statements of each fund. The initial capital used to establish some of the self-insurance funds was contributed from the State's General Fund.

The table below shows our calculation of excess reserves as of June 30, 1996.

Fund	Cash Bal. as of 6/30/96	Outstanding Claims Liab.	FY '96 Admin.	Excess Reserves	GA Contrib. + Earnings	Fed. Share of Excess
Tort	\$73,742,004	\$67,704,458	\$5,277,186	\$760,360	\$0	\$152,072
Employees	\$73,057,005	\$20,690,388	\$2,696,258	\$49,670,359	\$30,274,366	\$3,879,199
Authorities	\$12,401,930	\$92,899	\$713,025	\$11,596,006	\$5,006,809	\$1,317,839
Workers Comp.	\$55,762,426	\$136,978,000	\$6,645,562	None	\$19,498,694	\$0
Unemployment	\$2,865,223	\$11,017,576	\$134,167	None	\$5,468,426	\$0
Totals	\$217,828,588	\$236,483,321	\$15,466,198	\$62,026,725	\$60,248,295	\$5,349,110

To calculate excess reserves, we used: the Fund balance and administrative expenses taken from the audited financial statements of each of the Funds; and claims liability as determined by the actuarial firm, using discounted present value at a 50 percent confidence level. The excess reserves were calculated by subtracting the claims liability and administrative expenses from the fund balance. The Federal share of the excess represents twenty percent of the excess reserves less State contributed capital and earnings.

State Actions

In recognition of the excessive balances of the Tort, Employees and Authorities Funds, the State refunded \$4 million to participating agencies. The refund was distributed in proportion to each agency's premium contribution to the combined funds for State fiscal year 1997. However, there was no assurance these participating agencies would refund the Federal government their share. In addition, the State did not bill participating agencies a premium for the Employees Fund for FY 1998.

RECOMMENDATIONS

We recommend the State repay the \$5.3 million Federal share of excess reserve balances in these Funds. This repayment may be accomplished either by a direct payment from the State to the DCA, or through a reduction in future billings.

We also recommend the State more closely follow the requirements of OMB Circular A-87, and more thoroughly document the method for calculating premiums in future years, taking into account: administrative expenses, discounted values for liabilities to be paid more than one year from the valuation date, and the most probable level of future claims.

State's Comments and OIG Response

The State generally agreed with our finding that three of the self-insurance funds contained excess reserves as of June 30, 1996, but disagrees with the dollar amounts and with some of our recommendations for correction. The State's comments are as follows:

State's Comments - Loss Experience

The State concurs that loss experience to date is better than expected. However, the State is concerned that recent adverse legal developments will increase the outstanding liability of the self-insurance funds, and has commissioned a revised actuarial study to estimate the monetary impact. Results of the study are expected by the end of January, 1998.

OIG's Response - Loss Experience

With respect to the potential increased liabilities of the self-insurance funds due to adverse legal developments, we agree with the State's approach. While the scope of our audit was limited to the financial condition of the funds as of June 30, 1996, it would be appropriate to consider any subsequent events which retroactively impact either the funds' assets or *probable* liabilities. We would expect the State's future reserve levels to reasonably reflect any such changes, using an actuarially sound estimating technique.

State's Comments - Discounted Present Values

The State concurs that reserves should be set using discounted present values and, beginning with State FY 99, will set contribution levels using discounted amounts for reserve level estimates.

OIG's Response - Discounted Present Values

We agree with the State's decision to use discounted present values in setting reserve levels.

State's Comments - Expected Confidence Level

The State does not concur that the 50 percent or "expected" claims confidence level should be used in setting reserve levels. The State contends that the language contained within the A-87 guidelines is vague and leaves discretion to the State in selecting which confidence level to use. As justification for the selection of a confidence level higher than 50 percent the State notes that it is not able to assess additional premiums to participating agencies within a budget year if the

amounts originally assessed prove to be insufficient to cover claims payments. The State further notes that use of a 75 percent confidence level to set reserves in the Workers Compensation Fund and the Unemployment Fund has not been historically sufficient to pay claims, and cites this as an example of “historical experience” and “reasonable assumption” which should be left to the discretion of the State.³

OIG's Response - Expected Confidence Level

We disagree with the State and maintain our original position regarding the use of an “expected” or 50 percent claims confidence level in setting reserves. OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, states that, “Contributions to reserves must be based on sound actuarial principles using historical experience and reasonable assumptions... Reserve levels related to employee-related coverages will normally be limited to the value of claims (a) submitted and adjudicated but not paid, (b) submitted but not adjudicated, and (c) incurred but not reported. Reserve levels in excess of the amounts based on the above must be identified and justified in the cost allocation plan or indirect cost rate proposal.” The Comment and Response section of Circular A-87 also addresses the above language in the following manner:

Comment: The Circular states that self-insurance reserves must be based on sound actuarial principles using the most likely assumptions. This seems to be an attempt to limit sound actuarial principles.

Response: This language was not intended to restrict sound actuarial principles. The language was changed to clarify that sound actuarial assumptions should recognize actual past, as well as probable future, events when determining premiums and reserve levels. [emphasis added]

The 50 percent confidence level is the *probable* or *expected* amount of claims. The State contends that a requirement to maintain reserves at the 50 percent confidence level limits their discretion in applying past experience and judgment. However, such a position misconstrues the goal of an actuarial study. Factors such as the applicable discount rate, individual claim loss accrual amount, liability coverage provisions, participation requirements, and promptness of claims adjudication all fall within the discretion of the State, and all impact the ultimate level of required reserves. Once these factors are quantified, actuaries simply calculate the *probable* level of claims to be incurred in any given year. For the State to then adjust these estimates to a higher level removes the decision from one “based on sound actuarial principles” to one based on the State’s judgment. If the State takes this approach, OMB Circular A-87 requires “Reserve levels in excess of the amounts based on the above [actuarially determined amounts] must be identified and justified in the cost allocation plan or indirect cost rate proposal.” During our review, the

³ The State indicates that a confidence level between the 50 percent level cited in this report and a 75 percent level may be more appropriate.

State did not provide sufficient justification for us to determine that the additional reserves were warranted.

Furthermore, Circular A-87 implies that the OMB anticipates a specific dollar level of liability which is actuarially calculable and quantifiable. Allowing the State to select any confidence level it chooses as the actuarially determined reserve requirement would render any restrictions within Circular A-87 regarding self-insurance reserves virtually meaningless. The State could select a 100% confidence level and collect amounts sufficient to cover any unforeseen catastrophe. Such an action would fall outside the scope of self-insurance reserves and violate Circular A-87's prohibition against contingency reserves which states: "12. Contingencies. Contributions to a contingency reserve or any similar provision made for events the occurrence of which cannot be foretold with certainty as to time, or intensity, or with an assurance of their happening, are unallowable. *The term "contingency reserve" excludes self-insurance reserves* (see subsection 25.c.), pension plan reserves (see subsection 11.e.), and post-retirement health and other benefit reserves (see subsection 11.f.) computed using acceptable actuarial cost methods." (Emphasis added).

Additional State Comments

The State provided five comments which do not relate specifically to one of the three causes for the over funding discussed above, but which more generally relate to the Report's recommendations. The State's comments are, briefly:

1. DOAS is reducing insurance premiums;
2. DOAS is not responsible for monitoring the use of insurance refunds;
3. Other Risk Management programs are under funded;
4. Timing of the budget process is critical; and
5. There is no Federal Funding within the Authorities Fund.

OIG Response to Additional State Comments

DOAS is reducing insurance premiums

The State's comments concerning reduction in insurance premiums parallel our report's discussion of actions taken by the State in reducing the over funding we found. Our recommendations anticipate that one method of reducing the over funding is a reduction in future premiums charged to participating agencies.

DOAS is not responsible for monitoring the use of insurance refunds

In their written comments, DOAS stated that it is not their responsibility to monitor the use of insurance refunds. Our report contains a statement that there is "no assurance these participating agencies would refund the Federal government their share" (Report p. 6). We realize that the

DOAS may not be responsible for a monitoring program for the refunds. However, the State of Georgia has a fiduciary responsibility to assure that all applicable credits (refunds) are properly accounted for, including earned or imputed interest from the date of the transfer. In this regard it would seem that the DOAS, as the State agency responsible for issuing premium refunds would, at a minimum, take the lead in notifying the State agencies that Federal programs should be credited with their share of the refund.

Other Risk Management programs are under funded

The State's comment regarding other risk management programs which are underfunded is, in effect, a concurrence with our audit finding that two of the self-insurance funds we analyzed did not contain excess reserves. The State should correct any funding deficiencies by increased billings to affected agencies. However, this comment does not impact the recommendations made concerning the remaining three funds which have excess reserves.

Timing of the budget process is critical

In their comment regarding the budget process and related restrictions on additional appropriations, the State notes that a lag of up to 18 months exists between the date the actuarial reports are prepared and the date on which the premiums are actually collected. At least one full year's advance notice is required by State agencies for budgetary purposes. As part of our review we analyzed the amount of claims paid on an annual basis compared to the level of reserves. Our analysis indicated that as of June 30, 1996 the recommended reserves at a discounted 50 percent confidence level in the Tort, Employees, and Authorities Liabilities Funds would be sufficient to pay claims for approximately 6.05, 4.12, and 5.42 years, respectively. Thus, the self-insurance funds would have sufficient assets to pay claims through at least three budget cycles without replenishment.⁴ Assuming unusually large losses in any one year, there would be time for the State to correct the losses through increased premiums during the next regularly scheduled billing period.

There is no Federal Funding within the Authorities Fund

The State's final comment is that there is no Federal Participation in the Authorities Liability Fund. As part of our review we calculated the Federal Participation percentage for the State as a whole to be 31.98 percent. We then chose the more conservative standard estimate of Federal participation of 20 percent which we applied to all of the self-insurance Funds reviewed. The standard estimate is considered to be an average, and we did not attempt to calculate a Federal participation percentage with respect to each specific fund.

⁴ We emphasize the measurement basis here is the amount of claims paid in a year, not the actuarially calculated ultimate loss payout for incurred claims (which may take several years to mature).

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In accordance with the principles of the Freedom of Information Act (Public Law 90-23), OIG, Office of Audit Services (OAS) 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 the exemptions in the Act which the Department chooses to exercise.

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

To facilitate identification, please refer to the above Common Identification Number (CIN) A-04-97-00117 in any correspondence related to this report.

Sincerely yours,



Charles J. Curtis
Regional Inspector General
for Audit Services, Region IV

Direct Reply To:

Director, Division of Cost Allocation
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Trust • Excellence • Service

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Leslie L. Lowe
Controller

December 12, 1997

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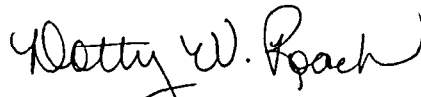
CIN:A-04-97-00117

Dear Mr. Curtis:

Attached is our response to your audit entitled Review of the Reasonableness of Balances in Georgia's Self-Insurance Funds. At the request of your staff, Truman Mayfield, we are responding to this audit without the new actuarial calculations that we have asked J&H Marsh & McLennan to produce. Subject to the completion of these actuarial studies, we will supplement our response with this additional data.

We look forward to our continued discussions and negotiations with your staff concerning the health of the self-insurance funds of the State of Georgia.

Sincerely,


Dotty W. Roach
Commissioner

cc: Claude L. Vickers
State Auditor, Georgia

**Department of Administrative Services
Response to Office of Inspector General Report
December 12, 1997**

Review of the Reasonableness of the Balances in Georgia's Self-Insurance Funds, September 1997, A-04-97-00117

Finding: Loss Experience Better than Expected

DOAS concurs that loss experience to date is better than expected. However, due to two recent Georgia Supreme Court rulings concerning death claims [S97A0468, Georgia Department of Human Resources v. Phillips Inc. and S96A1349, Keenan et al v. Plouffe, Jr. et al], the current liability of \$1,000,000 per occurrence per individual will double to \$2,000,000 per occurrence per individual. With 68 open files involving death claims, DOAS' liability could be \$2,000,000 x 68 (= \$136,000,000) instead of \$1,000,000 x 68 (= \$68,000,000).

DOAS has contracted with J&H Marsh & McLennan to redevelop actuarial studies with this new information included in the calculations. DOAS has asked for an extension to respond to this audit to allow the actuarial study to be completed, but was requested to respond without this information. DOAS insists on using these updated actuarial studies as part of our official response to this audit. DOAS anticipates that this new actuarial study will eliminate the audit claim of over funding due to the need for increased reserve funds. Thus, DOAS reserves the right to update this response in our final written reply which we will prepare and forward by January 31, 1998.

Finding: Failure to Use Discounted Present Value for Reserves

DOAS concurs with this finding. Effective for FY99 premiums and forward, DOAS will utilize present value calculations when setting all risk management rates.

Finding: Use of a Higher than Expected Level of Claims to Set Reserves

DOAS does not concur with this finding. While representatives with the Inspector General's Office cite that 50% confidence levels are sufficient, there is no language within A-87 guidelines to support this conclusion. Rather, the A-87 language is vague and appears to leave discretion with the state program. The A-87 language is as follows:

Contributions to reserves must be based on sound actuarial principles using historical experience and reasonable assumptions. Reserve levels must be analyzed and updated at least biennially for each major risk being insured and take into account any reinsurance,

coinsurance, etc. [Federal Register, Vol. 60, No. 95, p. 26499, May 17, 1995]

DOAS reads this language and does not concur that only 50% confidence levels are to be utilized by every state and every insurance program. The actuarial study provides this program with projected liabilities at different confidence levels. The actuarial study also recommends a higher confidence level due to the inability to reassess fees during the middle of a fiscal year, if needed.

It is our opinion that levels greater than 50% confidence level but less than 75% confidence level are in a range that meets the definition of the A-87 guidelines. As a matter of comparison, utilizing a 75% confidence level for the Worker's Compensation Fund and the Unemployment Fund have not been sufficient to adequately fund these reserves. This would be the type of information that would constitute a "reasonable assumption" and "historical experience." The Risk Management Program should have the latitude to make some decisions for itself and rely on its own actuarial studies and our unique circumstances when setting these confidence levels. Certainly, the A-87 guidelines would indicate that we have such latitude.

Additionally, DOAS would like to note other factors that are relevant to this audit report.

1) DOAS is reducing insurance premiums

During FY97, DOAS refunded \$4 million in premiums to customers. For the FY98 premiums, DOAS reduced these by \$4 million from the previous year. We did not bill for Employee and Authority Liability premiums in FY98 which was a further reserve fund reduction of \$13 million. For FY99 premiums, no rate for Employee and Authority were projected and the Tort Liability premium was reduced by \$500,000.

As stated in the audit document on page 6, one method of adjustment is "through a reduction in future billings." DOAS has taken actions to reduce future billings. Therefore, DOAS should not be required to refund any funds at this time since we have elected this method for reducing excess reserves.

2) DOAS is not responsible for recipients' actions

The audit report criticizes the refund that DOAS returned to customer agencies during FY97. The report states, "...there was no assurance these participating agencies would refund the Federal Government their share." The source of funding used by agencies to pay insurance premiums to DOAS and the methods of off-setting expenses due to refunds are matters outside the responsibility of this agency. DOAS clearly made refunds proportionate to premiums. Subsequent actions taken by federally funded programs to complete corresponding reductions of expenses are matters the Inspector General should address to federally funded recipients in receipt of those funds.

3) Other Risk Management Funds are Under Funded

DOAS would like to make note of the under funded self-insurance programs as noted in the chart on page 6 of the audit report. DOAS questions how we can be "reasonable" and "sound" in our management practices when the federal cost allocation position is to take advantage of over-billing situations and ignore the under funded situations. Clearly, this chart indicates that DOAS is severely under funded within the Worker's Compensation and Unemployment reserve funds. It is our opinion that the federal position is unreasonable in ignoring these "net" balances in the total equation.

4) Timing of the Budget Process is Critical

DOAS actuarial studies are conducted during the last quarter of a fiscal year. These actuarial studies are utilized to set rates for the fiscal year that is 15 months ahead in time. The budget process in Georgia requires that projections be made during the budget preparation time which is at least 10 - 12 months in advance of the funding year. As the legislature meets during the six months prior to the beginning of this same fiscal year, budget projections are not updated and adjusted. The adjustments come in the later years to follow. Thus, the Risk Management rates are adjusted year to year, but with a lag of almost a year and a half. For example, the two Supreme Court cases that were cited in this response have occurred since rates have been set for FY99.

The next opportunity for DOAS to take advantage of this critical information is during the next budgetary preparation cycle which will project FY2000 premiums. The annual process of adjusting to actuarial requirements with two year budget lags has prevented excess build up of the reserve funds for any extended period of time. Just as DOAS is limited in its ability to simply send out new premium notices to adjust to events outside the established budgetary process, the federal government should use its own well established cost allocation process to have funding adjustments work through that process in due time.

5) No Federal Funding within the Authorities Fund

In a previous federal audit of the self-insurance program during 1991, the federal auditors at that time determined that the amount of federal funds involved in the organizations representing the Authorities Liability Fund was insignificant. With this consideration, the amount "over funded" according to this audit report is reduced by \$1,317,839.

With consideration of all these items of discussion, DOAS will continue to adjust future rates if necessary to lower reserve balances. A Final written response including new actuarial material will be completed by January 31, 1998.