Inspector General Insights

Background: In reviewing the FY 21 proposed budget, the Office of Inspector General (OIG) noted a $1,000,000 transfer from the Group Health Fund to the General Fund. A similar transaction was also budgeted and executed in FY 19. This initial review was then expanded to identify any previous transfers to the General Fund from the self-insurance funds.

Pursuant to the FY 21 budget policy, funding for Group Health Insurance is comprised of employer contributions (80%) and employee contributions (20%). Beginning in FY 02, an additional 2% of premium costs were shifted from the employer (Board) to employees until an 80% employer/20% employee cost sharing arrangement was achieved in FY 06.

It is important to recognize that the employer-funded contributions are made from each of the respective operating funds (i.e., Utilities, Community Development, Solid Waste, Pelican Bay, Clerk Court operations, etc.), not just the General Fund. These operations are in separate funds due to restricted revenue sources/uses. Therefore, any distribution of excess carryforward should be shared proportionately among each of the respective operating funds based on the number of employees with each fund. It must also be noted that employees should share in the distribution, as they contribute 20% of the annual revenue into this fund. Excess carryforward in the Group Health Fund should not be used to supplement the General Fund's operating position, without a detailed analysis and pro-rata allocation.

Objective: The purpose of this review was to determine the impact of the transfers from the mixed composition of the insurance funds, into the General Fund.

Scope: We found transfers from three different self-insurance funds (Property and Casualty Insurance, Group Health, and Worker's Compensation) to the General Fund, dating back to Fiscal Year 2010.

Observations: Our expanded review revealed that beginning in Fiscal Year 2010, fourteen transfers amounting to $11,550,000 were from the Risk Management Division's three self-insurance funds (Property and Casualty Insurance, Group Health, and Worker's Compensation) to the General Fund.

Fiscal Year	Surplus Transfer from Property (516) to General Fund (001)	Surplus Transfer from Group Health (517) to General Fund (001)	Surplus Transfer from Workers Compensation (518) to General Fund (001)	Total Surplus Transfers
FY10	**$850,000**		**$850,000**	$1,700,000
FY11			$850,000	$850,000
FY12			$850,000	$850,000
FY13			$850,000	$850,000
FY14			$900,000	$900,000
FY15	$200,000		$1,000,000	$1,200,000
FY16	$200,000		$1,000,000	$1,200,000
FY17	$1,000,000			$1,000,000
FY18	$1,000,000			$1,000,000
FY19		$1,000,000		$1,000,000
FY20				$0
FY21		$1,000,000		$1,000,000
Total	**$3,250,000**	**$2,000,000**	**$6,300,000**	**$11,550,000**

Note: Bold items in FY 10 were noted in budget highlights as one-time transfers.

1. These fourteen (14) surplus fund transfers ignored the fact that all County operating funds contribute to the self-insurance funds on an annual basis and any surplus should be pro-rated back to the contributing funds and not solely to the General Fund. A pro-rated reallocation would result in a cumulative reduction of fund balance in the General Fund of $9,009,918.

2. Based on FY 21 position counts, the General Fund's allocated share (net of employee contributions and pro-rated amounts by fund) would be $254,201 of the $1 million dollars transferred in FY 21.

3. The Group Health Fund (517) share of the reallocation noted below (yellow highlight) is $484,208. However, $200,000 of this amount represents employee contributions (20% of the $1 million transferred from the Group Health Fund in FY 19).

4. An internal analysis prepared annually by Risk Management identified the extent to which there are excess funds available in the Group Health Fund (517):

Group Health Fund (517) Carryforward Analysis

Category	**FY 2019**	**FY 2020**	**FY 2021**
Group Health Fund (517) Carryforward (audited figures as of 9/30/17, 9/30/18, and 9/30/19)	$33,921,200	$35,907,400	$38,126,400
Less: Incurred But Not Reported (IBNR) Liability (Acturially Determined)	($3,450,000)	($4,123,000)	($4,769,000)
Less: 60 Days of Claims Reserve Target (recommended by Office of Insurance Regulation)	($4,962,873)	($4,962,873)	($5,833,333)
Less: Other Post Employment Benefits (OPEB) Liability	($7,846,368)	($7,846,368)	($9,169,502)
Net Surplus Funds	**$17,661,959**	**$18,975,159**	**$18,354,565**

Note: Claims reserve target and OPEB liability (see green highlights) were unchanged for FY 2019 and FY 2020 as the OPEB liability study is only prepared every other year.

Recommendations & Actions:

1. Establish a policy that any distribution of self-insurance fund surplus revenue should be distributed back to the contributing funds on a pro-rata basis.

2. Restore the transfers made from the insurance funds to the General Fund, or redistribute the transfers as needed. If distributed, the employees should get a proportionate share to maintain the integrity of the 80% employer/20% employee contribution ratio.

3. The Group Health Fund (517) carryforward analysis should be updated and presented as part of the annual budget policy to provide transparency of the financial condition of this fund and to aid in any policy decisions regarding employer/employee health insurance contributions.

4. Establish a policy requiring self-insurance fund reserves be maintained in amounts deemed to be reasonable. These reserves should be maintained at pre-established target levels, with any surpluses or shortfalls addressed during the annual premium-setting process.

Total # Transactions	**Amounts Audited or Reviewed**	**Questioned Costs**	**Taxpayer Savings**	**Observations / Recommendations**
14	$ 11,550,000.00	$ 9,009,918.00	N/A	4