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**Health Insurance Fund  
Balance Audit**

January 30, 2015



**City of Fort Worth  
Department of Internal Audit**

1000 Throckmorton Street  
Fort Worth, Texas 76102

**Audit Staff**

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**The Health Insurance Fund Balance Audit was requested due to concerns raised in a report of a consultant hired by a City of Fort Worth employee group.**

### **Audit Objectives**

The objectives of the audit were to review the consultant's report and determine the reason for the difference in the consultant's calculated change in the fund surplus versus the audited change in fund balance for the Group Health and Life Insurance Fund.

In addition, our objective was to review the fund balance over time and determine the appropriateness of transfers between the Group Health and Life Insurance Fund and other funds.

### **Audit Scope**

The audit scope included Group Health and Life Insurance Fund balances and transactions from October 1, 2009 to July 31, 2014 (which includes the consultant's review period of October 1, 2009 to September 30, 2012).

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## **Executive Summary**

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The Department of Internal Audit reviewed the July 22, 2013 report prepared by a consultant hired by a City of Fort Worth employee group. We also analyzed General Ledger (GL) accounting transactions in the Group Health and Life Insurance Fund, compared the audited fund balance to the required reserves, and reviewed the five-year financial projection for the Fund.

Our audit results identified variances between the consultant's calculations and the GL. While the consultant's report is based on data provided by the City of Fort Worth, we concluded that the variance between the consultant's calculated surplus and the audited change in fund balance results from:

- data provided by the City that did not include all revenues and expenditures;
- differences in the period used for comparison; and,
- a different accounting basis.

We did, however, agree that the account balance attributable to the City's health benefit program has been growing over the years. The FY2013 Group Health and Life Insurance Fund's ending fund balance of \$38.0 million is greater than the required reserve of approximately \$19.7 million.

There were large transfers between the Group Health and Life Insurance Fund and other funds from FY2011 to FY2013. However, we did not identify inappropriate fund transfers. The majority of transfers were required due to changes in accounting processes that were associated with the City of Fort Worth's PeopleSoft payroll system implementation.

A five-year projection prepared for the Fund shows a projected decline in the fund balance by FY2019, which would be \$1.4 million less than the projected required reserve. The cost and revenue assumptions used for the projection appear to be reasonable, but validation of those assumptions requires insurance industry expertise and is beyond the scope of this audit.



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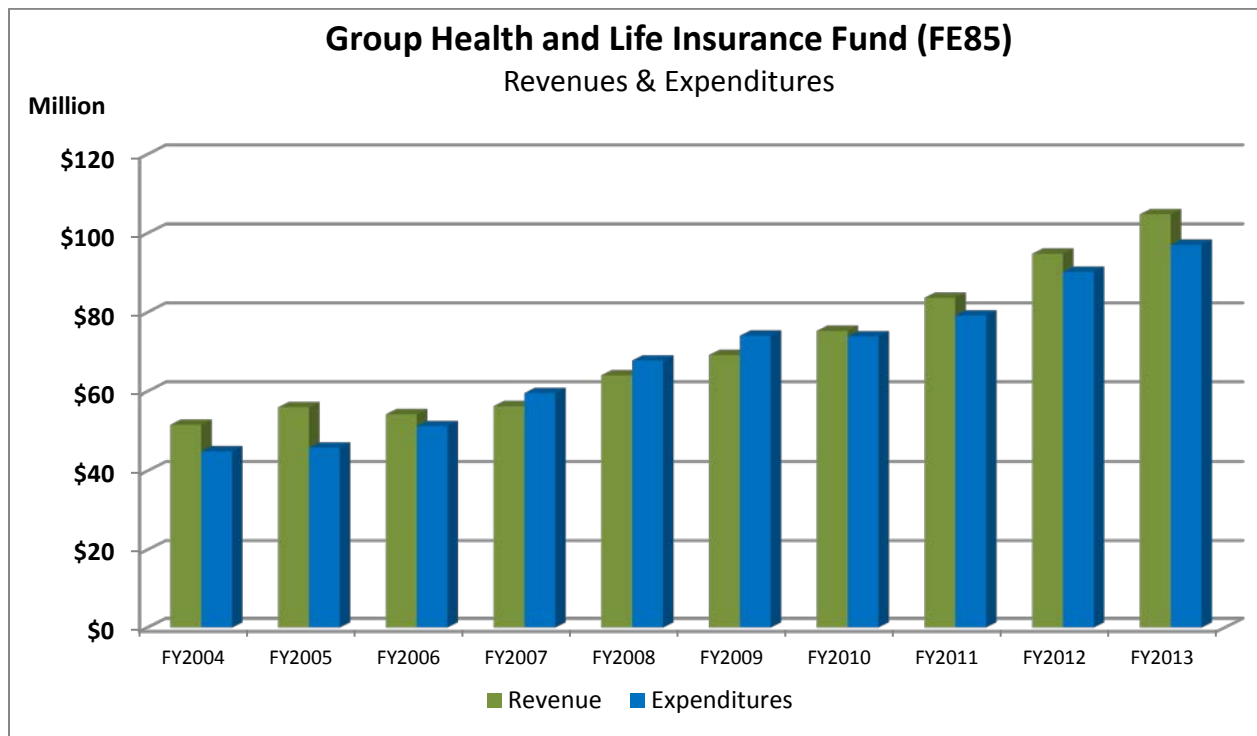
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## Background

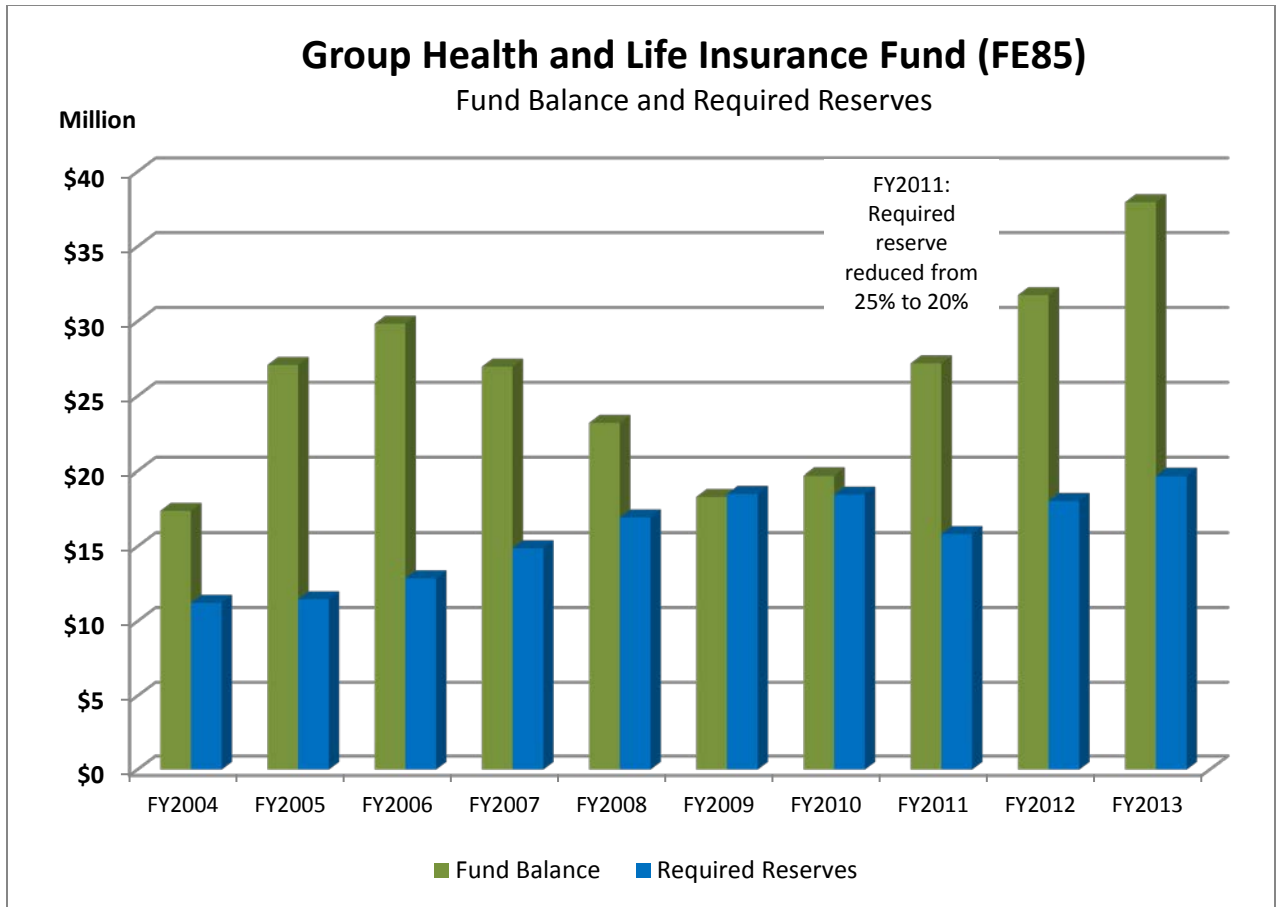
The Group Health and Life Insurance Fund (FE85) provides funding for insurance coverage for approximately 8,300 employees and retirees plus their dependents. The City of Fort Worth’s financial policies require a fund balance reserve that is a percentage of estimated future expenditures. That percentage was changed from 25% for FY2010, to 20% beginning in FY2011, and was changed to 15% starting in FY2015.

Audited expenditures for the Fund were \$90.2 million in FY2012 and \$98.5 million in FY2013. Insurance costs, including claims expenditures, Medicare Advantage premiums, and stop-loss premiums comprise approximately 93% of fund expenditures. Approximately 74% of the revenues of the Fund are from City contributions and approximately 26% of revenues are from employee payroll deductions and retiree deductions or payments.

A consultant’s report stated that the Fund surplus for the period from October 1, 2009 to September 30, 2012, should have grown by \$19.7 million and did not reconcile to the actual change in balance of \$12.7 million. The consultant stated that the [\\$7.0 million](#) difference might indicate that funds were withdrawn for other purposes.



Source: CFW Audited Statements of Revenues, Expenditures & Changes in Fund Balance



Source: CFW Audited Statements of Revenues, Expenditures & Changes in Fund Balance

## Objectives

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The objectives of this audit were to:

- review the consultant's report and identify reasons for the reported difference between the change in surplus calculated by the consultant and the audited change in fund balance;
- review the surplus in the Group Health and Life Insurance Fund; and,
- review the appropriateness of transfers of funds between the Fund and other funds.

## Scope

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The audit scope included Group Health and Life Insurance Fund transactions and balances from October 1, 2009 to July 31, 2014, which includes the consultant's reporting period of October 1, 2009 to September 30, 2012.

For this audit, claims expenditure validation was limited to verifying that claims expenditures recorded in the GL were supported by payment requests from the claims administrator and recorded correctly. We did not perform an audit of insurance claims.

## Methodology

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To accomplish our audit objectives, we completed the following steps:

- interviewed CFW Human Resources staff responsible for managing health insurance and Financial Management Services staff responsible for the financial statements for the Fund;
- analyzed GL transactions and audited financial statement account balances;
- analyzed the consultant's report dated July 22, 2013, and,
- analyzed reports prepared by other insurance consultants.

We conducted this audit in accordance with generally accepted government auditing standards, except for peer review. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## Audit Results

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### Fund Balance Comparison ([See Exhibit I](#))

Factors that resulted in the difference between the consultant's calculated surplus and the GL/audited change in fund balance include:

- The consultant's report, although based on information provided by the City, understated premium revenues and claims expenditures by \$6,446,820.24 and \$16,514,495.69, respectively; and overstated administrative expenditures by \$1,150,901.96.
  - The report used to determine revenue did not match the recorded GL revenue.
  - Claims and premium expenditures did not include all non-administrative expenditures including stop-loss premiums and Medicare Advantage premiums.
  - Administrative expenditures were overstated compared to the GL.
- Although stop-loss ineligible claims should not be classified as a deduction from claims paid, Calendar Year 2010 included a deduction for stop-loss ineligible claims in the amount of \$7,176,165.02. Deductions for stop-loss ineligible claims were not made in any other years.
- A change in Calendar Year fund surplus was compared to a change in the Fiscal Year cash account balance. This resulted in a variance of \$1,281,018.67.
- The change in surplus was calculated on a cash accounting basis. As a result, changes in receivables and payables were not factored into the calculation. This resulted in a net variance of \$696,769.47.
- The ending cash account balance used for the comparison did not include all transactions prior to year-end close. This resulted in a variance of (\$90,418.85).

### Reserve

The Group Health and Life Insurance Fund balance has exceeded required reserves every year since FY2009. At the end of FY2013, the \$38.0 million fund balance was approximately twice as much as the required \$19.7 million balance.

A five-year projection is prepared each year by the Human Resources Department and the Budget Division of the Financial Management Services Department, using advice from a consultant to evaluate the effect of changes in costs and revenues on future balances. The projection model is sensitive to changes in claims costs and premium revenue changes.

A one-percent change in the rate of increase in the cost of claims has an \$11.6 million effect on the projected five-year fund surplus balance. This high sensitivity to changes in cost factors makes the five-year projection subject to significant variance in the expected results.

### Transfers

Large transfer journal entries between the Group Health and Life Insurance Fund and other funds were processed each year from FY2011 to FY2013. We did not identify inappropriate transfers, as the



transfers were required to correct PeopleSoft payroll implementation errors and for related process changes.

We did not identify journal entries related to vacant positions, and Financial Management Services Department personnel were not aware of journal entries related to vacant positions. Government Accounting Standards Board Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues* required the reclassification of some revenues and expenditures each year at year-end. However, the reclassification entries do not affect the net fund balance in the Fund.

### **Consultant Recommendations**

The consultant made recommendations for improvement to ensure appropriate fiscal management of the Fund. The City of Fort Worth's current practice includes steps that address the recommendations.





## Acknowledgements

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The Department of Internal Audit would like to thank the Human Resources Department for their cooperation and assistance during this audit.



**Exhibit I**  
**Change in Surplus Compared to Change in GL Cash Balance**  
 Group Health and Life Insurance Fund (FE85)

	<b>Consultant</b>	<b>General Ledger (G/L)</b>	<b>Variance</b>
Calendar Years (CY) 2010, 2011 & 2012 to 9/30/12:			
Revenue	\$232,032,011.00	\$238,478,831.24	
Less: Claims & Premiums	(194,902,842.58)	(211,417,338.27)	
Less: Administration costs	(17,405,220.00)	(16,254,318.04)	
<b>Subtotal – Net revenue</b>	<b>\$19,723,948.42</b>	<b>\$10,807,174.93</b>	<b>\$8,916,773.49</b>
Plus: Understatement of revenue	6,446,820.24	0.00	6,446,820.24
Overstatement of admin costs	1,150,901.96	0.00	1,150,901.96
Less: Overstatement of claims & premiums	(16,514,495.69)	0.00	(16,514,495.69)
Difference in beginning Cash Account balance calendar vs. fiscal year			
Cash Bal January 1, 2010	\$20,717,605.05		
Cash Bal October 1, 2009	<u>(19,436,586.38)</u>	1,281,018.67	1,281,018.67
Plus: Increase in payables			
(net) CY2010	\$22,751.06		
CY2011	(909.40)		
CY2012	<u>687,499.28</u>	709,340.94	709,340.94
			0.00
Less: Increase in receivables			
(net) CY2010	\$149,900.38		
CY2011	5,846.36		
CY2012	<u>(168,318.21)</u>	(12,571.47)	(12,571.47)
			0.00
Difference between interim cash balance and audited ending cash balance at 9/30/12	(90,418.85)	0.00	(90,418.85)
<b>Change in cash balance (consultant vs. GL)</b>	<b>\$12,694,544.22</b>	<b>\$11,503,944.40</b>	<b>\$1,190,599.82</b>
<b>Net revenue less change in cash balance</b>	<b>\$7,029,404.20</b>	<b>(\$696,769.47)</b>	<b>N/A</b>