Financial and Compliance Audit Report

Local Government Group Insurance Fund
For the Year Ended June 30, 2023

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Comptroller of the Treasury

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Mission Statement
The mission of the Comptroller's Office is to make government work better.

Comptroller Website
comptroller.tn.gov
November 30, 2023

The Honorable Bill Lee, Governor
Members of the General Assembly
The Honorable Jim Bryson, Chairman
Local Government Insurance Committee

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Local Government Group Insurance Fund for the year ended June 30, 2023. You will note from the independent auditor’s report that an unmodified opinion was given on the fairness of the presentation of the financial statements.

Consideration of internal control over financial reporting and tests of compliance resulted in no audit findings.

Sincerely,

[Signature]

Katherine J. Stickel, CPA, CGFM, Director
Division of State Audit

23/079
# Audit Report

**Local Government Group Insurance Fund**  
For the Year Ended June 30, 2023

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LOCAL GOVERNMENT GROUP INSURANCE FUND

AUDIT HIGHLIGHTS

Opinion on the Financial Statements

The opinion on the financial statements is unmodified.

Audit Findings

The audit report contains no findings.

Prior Audit Findings

There were no findings in the prior audit report.
Independent Auditor’s Report

The Honorable Bill Lee, Governor
Members of the General Assembly
The Honorable Jim Bryson, Chairman
Local Government Insurance Committee

Report on the Audit of the Financial Statements

Opinion
We have audited the accompanying financial statements of the Local Government Group Insurance Fund, an enterprise fund of the State of Tennessee, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the fund’s basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Local Government Group Insurance Fund as of June 30, 2023, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion
We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Local Government Group Insurance Fund and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion. Tennessee statutes, in addition to audit responsibilities, entrust certain other responsibilities to the Comptroller of the Treasury. Those responsibilities include serving as a member of the board of directors of the Local Government
Insurance Committee. We do not believe that the Comptroller’s service in this capacity affected our ability to conduct an independent audit of the Local Government Group Insurance Fund.

**Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the fund’s ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

**Auditor’s Responsibility for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion.

Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the fund’s internal control. Accordingly, no such opinion is expressed.
• evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

• conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the fund’s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

**Emphasis of Matters**

As discussed in Note 1, the financial statements present only the Local Government Group Insurance Fund, an enterprise fund, and do not purport to, and do not, present fairly the financial position of the State of Tennessee, as of June 30, 2023, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

**Other Matters**

**Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the ten-year claims development information on pages 13 through 14 be presented to supplement the basic financial statements. Such information is the responsibility of management, and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued our report dated November 16, 2023, on our consideration of the fund’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control
over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the fund’s internal control over financial reporting and compliance.

Katherine J. Stickel, CPA, CGFM, Director
Division of State Audit
November 16, 2023
<table>
<thead>
<tr>
<th>Assets</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Current assets:</td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents (Note 2)</td>
<td>$73,167</td>
</tr>
<tr>
<td>Accounts receivable (Note 3)</td>
<td>386</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td><strong>73,553</strong></td>
</tr>
</tbody>
</table>

| Liabilities                                 |       |
| Current liabilities:                        |       |
| Accounts payable and accruals (Note 4)      | 14,827 |
| Unearned revenue                            | 46    |
| **Total liabilities**                       | **14,873** |

| Net position                                |       |
| Unrestricted                                | 58,680 |
| **Total net position**                      | **$58,680** |

The notes to the financial statements are an integral part of this statement.
<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating revenues</strong></td>
<td></td>
</tr>
<tr>
<td>Premiums</td>
<td>$185,905</td>
</tr>
<tr>
<td>Total operating revenues</td>
<td>185,905</td>
</tr>
<tr>
<td><strong>Operating expenses</strong></td>
<td></td>
</tr>
<tr>
<td>Contractual services</td>
<td>$9,394</td>
</tr>
<tr>
<td>Benefits</td>
<td>169,700</td>
</tr>
<tr>
<td>Other</td>
<td>1,627</td>
</tr>
<tr>
<td>Total operating expenses</td>
<td>180,721</td>
</tr>
<tr>
<td><strong>Operating income</strong></td>
<td>5,184</td>
</tr>
<tr>
<td><strong>Nonoperating revenues</strong></td>
<td></td>
</tr>
<tr>
<td>Grants</td>
<td>13,674</td>
</tr>
<tr>
<td>Interest income</td>
<td>1,730</td>
</tr>
<tr>
<td>Total nonoperating revenues</td>
<td>15,404</td>
</tr>
<tr>
<td>Increase in net position</td>
<td>20,588</td>
</tr>
<tr>
<td>Net position - beginning of year</td>
<td>38,092</td>
</tr>
<tr>
<td>Net position - end of year</td>
<td>$58,680</td>
</tr>
</tbody>
</table>

The notes to the financial statements are an integral part of this statement.
### Cash flows from operating activities

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Receipts from fund members</td>
<td>$189,547</td>
</tr>
<tr>
<td>Payments to insurance companies and health care providers</td>
<td>(185,677)</td>
</tr>
<tr>
<td>Payments for state services</td>
<td>(126)</td>
</tr>
<tr>
<td><strong>Net cash provided by operating activities</strong></td>
<td><strong>3,744</strong></td>
</tr>
</tbody>
</table>

### Cash flows from noncapital financing activities

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grants received</td>
<td>13,674</td>
</tr>
<tr>
<td><strong>Net cash provided by noncapital financing activities</strong></td>
<td><strong>13,674</strong></td>
</tr>
</tbody>
</table>

### Cash flows from investing activities

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest received</td>
<td>1,730</td>
</tr>
<tr>
<td><strong>Net cash provided by investing activities</strong></td>
<td><strong>1,730</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net increase in cash and cash equivalents</strong></td>
<td><strong>19,148</strong></td>
</tr>
<tr>
<td>Cash and cash equivalents - beginning of year</td>
<td>54,019</td>
</tr>
<tr>
<td>Cash and cash equivalents - end of year</td>
<td>73,167</td>
</tr>
</tbody>
</table>

### Reconciliation of operating income to net cash used by operating activities

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating income</td>
<td>5,184</td>
</tr>
<tr>
<td>Adjustments to reconcile operating income to net cash provided by operating activities:</td>
<td></td>
</tr>
<tr>
<td>Changes in assets and liabilities:</td>
<td></td>
</tr>
<tr>
<td>Changes in accounts receivable</td>
<td>824</td>
</tr>
<tr>
<td>Changes in accounts payable</td>
<td>(2,262)</td>
</tr>
<tr>
<td>Changes in unearned revenue</td>
<td>(2)</td>
</tr>
<tr>
<td><strong>Net cash provided by operating activities</strong></td>
<td><strong>$3,744</strong></td>
</tr>
</tbody>
</table>
Note 1. Summary of Significant Accounting Policies

Reporting Entity

The Local Government Group Insurance Fund is used to account for revenues received and claims paid on behalf of current employees of local governments and quasi-governmental organizations established for the primary purpose of providing services for or on behalf of state and local governments. The fund has been included as an enterprise fund in Tennessee’s Annual Comprehensive Financial Report. That report is available on the state’s website at https://www.tn.gov/finance/rd-doa/fa-acctfin-ar.html.

The financial statements present only that portion of the State of Tennessee’s activities that is attributable to the transactions of the Local Government Group Insurance Fund.

Basis of Presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

Measurement Focus and Basis of Accounting

The accompanying financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Operating revenues and expenses are distinguished from nonoperating items in the Local Government Group Insurance Fund. Operating revenues and expenses generally result from providing services in connection with the fund’s principal ongoing insurance operations. Operating expenses include the cost of those services and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Cash Equivalents

This classification includes instruments that are readily convertible to know amounts of cash and have original maturities of three months or less.
Note 2. Deposits

The Local Government Group Insurance Fund had $73,167,086 in the State Pooled Investment Fund (SPIF) at June 30, 2023. The SPIF, administered by the State Treasurer, is authorized by statute to invest funds in accordance with policy guidelines approved by the State Funding Board. The current resolution of that board gives the Treasurer approval to invest in collateralized certificates of deposit in authorized state depositories; prime commercial paper; prime bankers’ acceptances; bonds, notes, and bills of the United States Treasury or other obligations guaranteed as to principal and interest by the United States or any of its agencies; repurchase agreements for obligations of the United States or its agencies; and securities lending agreements whereby securities may be loaned for a fee.

Investments in the SPIF are measured at amortized cost. SPIF investments are not rated by nationally recognized statistical ratings organizations. The pooled investment fund’s required risks disclosures are presented in the SPIF financial statements and notes, which are available on the state’s website at https://treasury.tn.gov/Explore-Your-TN-Treasury/About-the-Treasury/Department-Reports.

Note 3. Accounts Receivable

Receivables at June 30, 2023, consist of the following (expressed in thousands):

| Receivables from insurance carriers | $268 |
| Receivables from local governments | 269  |
| Other receivables                  | 21   |
| Allowance for doubtful accounts    | (172)|
| Accounts receivables, net          | $386 |

The net accounts receivable amount represents the amount that is expected to be collected within one year.

Note 4. Risk Management

The Local Government Group Insurance Fund, a public entity risk pool, was established in July 1991 to provide a program of health insurance coverage for employees of local governments and quasi-governmental organizations that were established for the primary purpose of providing services for or on the behalf of state and local governments. In accordance with Sections 8-27-401 and 8-27-702, *Tennessee Code Annotated*, all local governments and quasi-governmental organizations described
above are eligible to participate. Fund members at June 30, 2023, included 73 counties, 212 municipalities, and 114 quasi-governmental organizations, with 17,150 active employees maintaining coverage through 1 of 4 options: the premier preferred provider organization (PPO) plan, the standard PPO plan, the limited PPO plan, or the consumer driven health plan with health savings account (CDHP/HSA). The state does not retain any risk for losses by this fund.

The Local Government Group Insurance Fund assumes responsibility for determining plan benefits and eligibility; establishing premiums sufficient to fund plan obligations; recording and reporting financial transactions accurately; reporting enrollment to vendors; processing claims submitted for services provided to plan participants; communicating with plan participants; and complying with appropriate state and federal laws and regulations. Plan participants are required to pay premiums on time, file claims for services received, report changes in eligibility of themselves or their dependents, and ensure that only eligible expenses are paid by the plan. Individuals who cancel coverage may be required to demonstrate a qualifying event to rejoin the plan. Employers must wait 24 months before rejoining the plan if the employer elects to withdraw from the plan.

The Local Government Group Insurance Fund establishes claims liabilities for self-insured options based on estimates of the ultimate cost of claims that have been reported but not settled and of claims that have been incurred but not reported. Employees and providers have 13 months to file medical claims. The process used to compute claims liabilities does not necessarily result in an exact amount. Claims liabilities are recomputed periodically using actuarial and statistical techniques to produce current estimates. Adjustments to claims liabilities are charged or credited to expense in the period in which they are made. The Local Government Group Insurance Fund considers investment income in determining if a premium deficiency exists.

As discussed above, the Local Government Group Insurance Fund establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represents changes in those aggregate liabilities during the year (expressed in thousands):
Unpaid claims at the beginning of the year | $ 13,810
---|---
Incurred claims:
  Provision for insured events of the current year | 201,330
  Decrease in provision for insured events of prior years | (1,925)
Total incurred claims expenses | 199,405
Payments:
  Claims attributable to insured events of the current year | 189,813
  Claims attributable to insured events of the prior years | 11,794
Total payments | 201,607
Total unpaid claims at the end of the year | $ 11,608
The table below illustrates how the Local Government Group Insurance Fund’s earned revenues and investment income compare to related costs of loss and other expenses assumed by the fund for each of the last 10 years. The rows of the table are defined as follows: (1) This line shows the total of each fiscal year’s earned contribution revenues and investment revenues. (2) This line shows each fiscal year’s other operating costs of the fund, including overhead and claims expense not allocable to individual claims. (3) This line shows the fund’s incurred claims and allocated claim adjustment expenses (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called policy year); some of these amounts are unavailable. (4) This section shows the cumulative amounts paid as of the end of successive years for each policy year; some of these amounts are unavailable. (5) This section shows how each policy year’s incurred claims increased or decreased as of the end of successive years; some of these amounts are unavailable. This annual reestimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known. (6) This line compares the latest reestimated incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and reestimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature fiscal years. The columns of the table show data for successive fiscal and policy years.
### Ten-Year Claims Development Information (Continued)

#### Fiscal and Policy Year Ended

- **(expressed in thousands of dollars)**
- **2014** | **2015** | **2016** | **2017** | **2018** | **2019** | **2020** | **2021** | **2022** | **2023**

1. **Required contribution and investment revenue earned (fiscal year):**
   - $108,834
   - $108,860
   - $114,373
   - $127,183
   - $136,992
   - $150,764
   - $158,039
   - $161,967
   - $172,331
   - $187,635

2. **Unallocated expenses (fiscal year):**
   - 6,645
   - 7,535
   - 8,012
   - 8,418
   - 7,979
   - 8,267
   - 8,942
   - 9,469
   - 10,024
   - 11,021

3. **Estimated incurred claims and expenses, end of policy year:**
   - 99,097
   - 103,694
   - 118,900
   - 126,741
   - 135,195
   - 155,172
   - 169,981
   - 184,295
   - 197,090

4. **Paid (cumulative) as of:**
   - **End of policy year:** 92,792
   - 97,837
   - 111,866
   - 119,188
   - 126,563
   - 143,818
   - 153,132
   - 171,381
   - 184,165
   - *
   - **One year later:** 98,622
   - 103,813
   - 118,709
   - 126,653
   - 134,667
   - 155,745
   - 172,699
   - 183,478
   - *
   - **Two years later:** 98,627
   - 103,981
   - 118,775
   - 126,844
   - 134,812
   - 159,786
   - 173,603
   - *
   - **Three years later:** 98,627
   - 103,911
   - 118,802
   - 126,837
   - 137,163
   - 159,754
   - *
   - **Four years later:** 98,581
   - 103,910
   - 118,799
   - 128,756
   - 137,163
   - *
   - **Five years later:** 98,584
   - 103,911
   - 119,713
   - 128,756
   - *
   - **Six years later:** 98,584
   - 103,912
   - 119,173
   - *
   - **Seven years later:** 98,584
   - 103,917
   - *
   - **Eight years later:** 98,584
   - *
   - **Nine years later:** *

5. **Reestimated incurred claims and expenses:**
   - **End of policy year:** 99,097
   - 103,694
   - 118,900
   - 126,741
   - 135,195
   - 155,172
   - 169,981
   - 184,295
   - 197,090
   - *
   - **One year later:** 98,653
   - 104,054
   - 118,777
   - 126,701
   - 134,680
   - 155,859
   - 173,073
   - 183,690
   - *
   - **Two years later:** 98,628
   - 104,016
   - 118,766
   - 126,848
   - 135,087
   - 159,772
   - 173,081
   - *
   - **Three years later:** 98,635
   - 103,911
   - 118,793
   - 126,856
   - 137,104
   - 159,747
   - *
   - **Four years later:** 98,581
   - 103,910
   - 118,793
   - 128,756
   - 136,385
   - *
   - **Five years later:** 98,584
   - 103,911
   - 119,713
   - 128,756
   - *
   - **Six years later:** 98,584
   - 103,911
   - 119,713
   - *
   - **Seven years later:** 98,584
   - 103,911
   - *
   - **Eight years later:** 98,584
   - *
   - **Nine years later:** *

6. **Increase (decrease) in estimated incurred claims and expenses from end of policy year:**
   - (513)
   - 217
   - 815
   - 2,015
   - 1,190
   - 4,575
   - 3,100
   - (605)
   - *

* Data not available.
Independent Auditor’s Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance With Government Auditing Standards

The Honorable Bill Lee, Governor
Members of the General Assembly
The Honorable Jim Bryson, Chairman
Local Government Insurance Committee

We have audited the financial statements of the Local Government Group Insurance Fund, an
enterprise fund of the State of Tennessee, as of and for the year ended June 30, 2023, and the related
notes to the financial statements, which collectively comprise the fund’s basic financial statements, and
have issued our report thereon dated November 16, 2023. We conducted our audit in accordance
with auditing standards generally accepted in the United States of America and the standards
applicable to financial audits contained in Government Auditing Standards issued by the Comptroller
General of the United States.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Local
Government Group Insurance Fund’s internal control over financial reporting (internal control) to
determine the audit procedures that are appropriate in the circumstances for the purpose of expressing
our opinion on the financial statements, but not for the purpose of expressing an opinion on the
effectiveness of the fund’s internal control. Accordingly, we do not express an opinion on the
effectiveness of the fund’s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow
management or employees, in the normal course of performing their assigned functions, to prevent,
or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a
combination of deficiencies, in internal control, such that there is a reasonable possibility that a
material misstatement of the entity’s financial statements will not be prevented, or detected and
corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in
internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Local Government Group Insurance Fund's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, 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 no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

**Purpose of This Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity’s internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Katherine J. Stickel, CPA, CGFM, Director
Division of State Audit
November 16, 2023