COMPTROLLER GENERAL'S OFFICE
ACCOUNTING FOR INSURANCE RECOVERIES

Last update: 3/3/2020

Accounting & Financial Reporting for Insurance Recoveries

Background

WHY is the subject of insurance recoveries being addressed at this time? Has there been an update from GASB? Did something change?

- No – no changes to the current accounting and reporting guidelines*
- Insurance recoveries were continually coming up for the CG's Office because of certain insurance related documents, transactions and account balances that are routinely reviewed and monitored. Our goal was to determine what is acceptable, what isn't and more importantly – WHY? i.e. what authority is that determination based on?

❖ *Update: A clarification with regards to some conflicting language in past GASB statements related to certain types of insurance activities was published in January 2020 in GASB Stmt. 92. The guidance outlined here will allow the state to be in compliance with all current GASB requirements for accounting as well as for financial reporting.*

Accounting & Financial Reporting for Insurance Recoveries

Background

What's so controversial or complex about recording insurance recoveries?

For many agencies, there's been nothing hard or unclear about it at all.

1. A loss is incurred (i.e. property damage, civil wrong doing, etc.)
2. A claim is filed with the Insurance Reserve Fund (IRF) or other insurer.
3. The insurer pays out an amount for the loss.
4. The agency pays to repair/replace in cases of property damage or issue payouts for civil wrong doings based on legal settlements (tort, breach of contract, etc.).

NOTE: steps 3 & 4 may happen in reverse order if there is a delay in receiving the insurance proceeds, the repairs had to be done immediately, court case has already settled, or other various timing issues occur.

Accounting & Financial Reporting for Insurance Recoveries

Current State

How have agencies historically been recording insurance transactions in SCEIS?

Well, that's part of the issue…..it hasn't been consistent – and in some cases, not the way it needs to be done in order to separately report on insurance recoveries and the related loss expenditures.

The *majority* of agencies account for the loss and recovery as follows:

1. **RECOVERY**: Insurance Proceeds – are recorded as revenue when received in G/L 4530040000 – INSURANCE CLAIMS via IDT from the IRF or as a deposit from a non-IRF insurer.
   - When the IRF has finalized a payout, the agency is notified to create a SCEIS IDT invoice which the IRF will then pay via IDT. The agency is responsible for coding that customer invoice to the proper G/L account – typically a revenue account.
   - There is no agency workflow approval or central approval for the way an agency codes their *customer* invoices (i.e. when they are the receiver, not the payer).
2. **LOSS:** Expenses incurred – are recorded as paid out through the normal A/P disbursement process with no offset to revenue G/L's.

Accounting & Financial Reporting for Insurance Recoveries

Current State

What other approaches are agencies taking to account for the loss and associated insurance recovery?

Scenario #1: Initially recording the insurance proceeds as a direct reduction of expense rather than as revenue.

- Agency creates their IDT invoice and codes it to an expense G/L account so that when they get the insurance proceeds it reduces expense rather than increasing revenue.
- Coding an insurance proceeds deposit from a non-IRF insurer to an expense G/L account.

Scenario #2: Recording the insurance proceeds as revenue and later reclassing that revenue against expense (i.e. debit revenue, credit expense)

Both scenarios have the same net result: no insurance proceeds revenue recorded and detailed loss expenses are understated and not reportable.

Accounting & Financial Reporting for Insurance Recoveries

Current State

<u>What types of expenses are being reduced i.e. understated?</u>

Legal settlements, attorney fees, other maintenance expenses (real estate), motor vehicle services, equipment & supplies – print & copy end user (IT), etc.

- Certain types of expenses are compiled and reported on for: various legal requirements, statewide spending analysis, FOIA requests, etc.
  - The IT & Real Estate groups want to capture all of their expenses for statewide analysis.
  - There will likely be some new IRS reporting requirements under 6050X relating to legal settlement expenses.

<u>Why would agencies record insurance recoveries this way?</u>

Couple of reasons (and possibly others): 1) decrease expense in order to increase budget 2) reduce grant expenditures for grant reporting.

<u>Why would some agencies *not* try to do this and get their budget back?</u>

Many insurance recoveries are not for material amounts. Agencies may have decided they already had enough budget in the current year to be able to utilize the CASH received for the insurance proceeds. Or….they didn't know if they could.

Accounting & Financial Reporting for Insurance Recoveries

Governmental Accounting Standards Board (GASB)

What does GASB guidance say about the accounting and financial reporting for insurance recoveries?

GASB Statement No. 42 – Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries

Insurance Recoveries

21. In governmental fund financial statements, restoration or replacement of an impaired capital asset should be reported as a separate transaction from the associated insurance recovery, which is reported as an other financing source or extraordinary item, as appropriate. In governmental and business-type activities in government-wide financial statements and in proprietary fund financial statements, restoration or replacement of an impaired capital asset should be reported as a separate transaction from the impairment loss and associated insurance recovery. The impairment loss should be reported net of the associated insurance recovery when the recovery and loss occur in the same year. Insurance recoveries reported in subsequent years should be reported as a program revenue, nonoperating revenue, or extraordinary item, as appropriate. Insurance recoveries should be recognized only when realized or realizable. For example, if an insurer has admitted or acknowledged coverage, an insurance recovery would be realizable. If the insurer has denied coverage, the insurance recovery generally would not be realizable. If not otherwise apparent in the financial statements, the amount and financial statement classification of insurance recoveries should be disclosed.

22. Insurance recoveries other than those related to impairment of capital assets, such as for theft or embezzlement of cash or other monetary assets, should be accounted for as described in paragraph 21.

Appendix B

BASIS FOR CONCLUSIONS

62. ……….The requirement that the insurance recovery be reported as an other financing source, special item, or extraordinary item is consistent with the guidance in paragraphs 88 and 89 of Statement 34. Subsequent expenditures to acquire a replacement capital asset should be reported separately.

Accounting & Financial Reporting for Insurance Recoveries

South Carolina State Law – Appropriation Act

Based on SC state law, are agencies allowed to retain insurance reimbursements, and if so, under what authority?

YES…..

FY 2020 Proviso 117.46

117.46. (GP: Insurance Claims) **Any** insurance reimbursement to an agency may be used to offset expenses related to the claim. These funds may be *retained, expended, and carried forward*.

Is this a new proviso?

No, it's been around since FY 2005.

Accounting & Financial Reporting for Insurance Recoveries

Insurance Claims Proviso

(GP: Insurance Claims) Any insurance reimbursement to an agency may be used to offset expenses related to the claim. These funds may be *retained, expended, and carried forward*.

Fiscal Year	Insurance Claims Proviso #
FY2005	72.84
FY2006	72.8
FY2007	72.76
FY2008	72.71
FY2009	89.68
FY2010	89.66
FY2011	89.61
FY2012	89.57
FY2013	89.55
FY2014	117.53
FY2015	117.51
FY2016	117.47
FY2017	117.47
FY2018	117.47
FY2019	117.47
FY2020	117.46
FY2021	117.45

Accounting & Financial Reporting for Insurance Recoveries

GASB, South Carolina State Law & You

- GASB (more or less) says to ***report*** insurance proceeds as other source revenue and that subsequent expenditures should be *reported* separately.
- SC state law says insurance reimbursements can be used to offset expenses i.e. get the cash and ***budget*** back.

How can agencies do both?

We believe the solution is the creation of new contra expense G/L accounts for agencies to use when recording insurance recoveries.

- What's a contra account?
  - A contra account is an account with a balance that is the opposite of the normal balance.
  - Expenses normally have a DEBIT balance so a contra expense account would have a CREDIT balance.

Accounting & Financial Reporting for Insurance Recoveries

GASB, South Carolina State Law, GAAP & You

How will contra accounts help?

For budgetary reporting:

- This will allow an agency to immediately reduce expense and in turn *increase* their budget when they receive and record insurance proceeds.

For GAAP reporting*:*

- Although these contra accounts will be 5XXXXXXXXX G/L accounts they will be easily identifiable and can be classified as a revenue source for state *reporting* purposes.
- There will be no need to net revenues and expenditures in order to increase budget.
- Actual expenditures will not be reduced and thus be understated.
- There will be *transparency* for insurance proceeds as well as for the expenses incurred related to the loss.

Accounting & Financial Reporting for Insurance Recoveries

Contra Accounts

How will the contra accounts be used?

Example: Agency is notified by the IRF that they will be receiving funds for an insurance claim.

- The agency would create their IDT invoice (FB70/ZARIDT – Doc Type ZJ) using one of the newly created 5XXXXXXXXX contra accounts.

  DR A/R (this is automatic; agency only fills in the CREDIT lines)

  CR 5XXXXXXXXX – INSURANCE RECOVERIES CONTRA

- This immediately increases budget for the agency.
- Subsequent expenditures will be recorded as usual – or if they have already been incurred they will remain on the books as initially recorded.
- An insurance proceeds check deposit from a non-IRF insurer would be recorded in the same manner:

  DR Cash

  CR 5XXXXXXXXX – INSURANCE RECOVERIES CONTRA

Accounting & Financial Reporting for Insurance Recoveries

Contra Accounts

<u>What if an agency doesn't know the exact account assignment that will need to be reduced at the time of IDT invoice creation or check deposit?</u>

An agency is notified by the IRF that they will be receiving funds for an insurance claim.

- The agency would create their IDT invoice using one of the newly created 5XXXXXXXXX accounts.

  DR A/R

  CR 5XXXXXXXXX – INSURANCE RECOVERIES CONTRA Fund 37540000 – INSURANCE REIMBURSEMENT (or other agency fund)

- When the agency knows the account assignment that ended up paying for the associated loss expenses, a reclass journal entry can be recorded.

  DR 5XXXXXXXXX – INSURANCE RECOVERIES CONTRA Fund 37540000 – INSURANCE REIMBURSEMENT

  CR 5XXXXXXXXX – INSURANCE RECOVERIES CONTRA Fund 50550000 – INSURANCE REIMBURSEMENT Grant E120XXXXXXXX

Accounting & Financial Reporting for Insurance Recoveries

Contra Accounts

New insurance contra expense accounts available & ready to use:

1. G/L 5025000000 – INSURANCE RECOVERIES CONTRA – SERVICES
2. G/L 5025000001 – INSURANCE RECOVERIES CONTRA – LEGAL SETTLEMENTS
3. G/L 5025000002 – INSURANCE RECOVERIES CONTRA – ATTORNEY FEES
4. G/L 5025000003 – INSURANCE RECOVERIES CONTRA – VEHICLE SERVICES
5. G/L 5025009000 – INSURANCE RECOVERIES CONTRA – REAL ESTATE REPAIRS & MAINTENANCE
6. G/L 5025007000 – INSURANCE RECOVERIES CONTRA – IT REPAIRS & MAINTENANCE
7. G/L 5035000000 – INSURANCE RECOVERIES CONTRA – SUPPLIES & MATERIALS
8. G/L 5035009000 – INSURANCE RECOVERIES CONTRA – REAL ESTATE SUPPLIES & MATERIALS
9. G/L 5035007000 – INSURANCE RECOVERIES CONTRA – IT SUPPLIES & MATERIALS

Accounting & Financial Reporting for Insurance Recoveries

Contra Accounts

<u>What if an agency needs an expense ‘bucket’ not listed?</u>

Contact the CG’s Office and a new account can likely be created.

Please note: *insurance expense* should NOT be reduced for insurance recoveries. Agencies should only reduce insurance expense when receiving credit memos and returns of premium in the same year in which the premium was paid. Examples of appropriate reductions in insurance expense: change in carrying value, change in number of people covered, overpayment, change in number of items insured.

<u>Are agencies required to use these contra accounts? What if an agency would prefer to continue recording their insurance proceeds to revenue G/L 4530040000 – INSURANCE CLAIMS?</u>

That’s OK……as long as the insurance proceeds <u>remain separate</u> from the loss expenditures, it is fine to continue recording the receipt to revenue. If an agency feels they have enough current year budget to be able to expend the insurance proceeds cash then there’s no reason to change your current process if you’d prefer not to.