

STATE OF LOUISIANA LEGISLATIVE AUDITOR

Louisiana Public Employees
Deferred Compensation Plan
State of Louisiana
Baton Rouge, Louisiana

June 9, 1999



Financial and Compliance Audit Division

Daniel G. Kyle, Ph.D., CPA, CFE
Legislative Auditor

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LEGISLATIVE AUDITOR

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**LOUISIANA PUBLIC EMPLOYEES
DEFERRED COMPENSATION PLAN
STATE OF LOUISIANA
Baton Rouge, Louisiana**

**General Purpose Financial Statement
and Independent Auditor's Reports
As of December 31, 1998
With Required Supplementary Information**

Under the provisions of state law, this report is a public document. A copy of this report has been submitted to the Governor, to the Attorney General, and to other public officials as required by state law. A copy of this report has been made available for public inspection at the Baton Rouge office of the Legislative Auditor.

June 9, 1999

**LOUISIANA PUBLIC EMPLOYEES
DEFERRED COMPENSATION PLAN
STATE OF LOUISIANA**

General Purpose Financial Statement
and Independent Auditor's Reports
As of December 31, 1998
With Required Supplementary Information

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OFFICE OF
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May 26, 1999

Independent Auditor's Report
on the Financial Statement

**LOUISIANA PUBLIC EMPLOYEES
DEFERRED COMPENSATION COMMISSION
LOUISIANA PUBLIC EMPLOYEES
DEFERRED COMPENSATION PLAN
STATE OF LOUISIANA
Baton Rouge, Louisiana**

We have audited the accompanying general purpose financial statement of the Louisiana Public Employees Deferred Compensation Plan, a component unit of the State of Louisiana, as of December 31, 1998, as listed in the foregoing table of contents. This financial statement is the responsibility of management of the Louisiana Public Employees Deferred Compensation Plan. Our responsibility is to express an opinion on this financial statement based on our audit. We did not audit the financial statements of the Government Guaranteed Fund IV, an investment product managed by Great-West Life & Annuity Insurance Company, which represents 17.6% of the total assets of the Louisiana Public Employees Deferred Compensation Plan Agency Fund. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Government Guaranteed Fund IV, is based on the report of the other auditors.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the report of the other auditors, the general purpose financial statement referred to above presents fairly, in all material respects, the financial position of the Louisiana Public Employees Deferred Compensation Plan as of December 31, 1998, in conformity with generally accepted accounting principles.

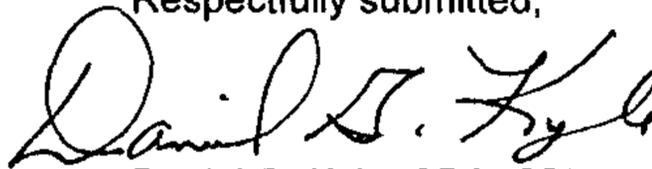
LEGISLATIVE AUDITOR

LOUISIANA PUBLIC EMPLOYEES
DEFERRED COMPENSATION COMMISSION
LOUISIANA PUBLIC EMPLOYEES
DEFERRED COMPENSATION PLAN
STATE OF LOUISIANA
Audit Report, December 31, 1998

In accordance with *Government Auditing Standards*, we have also issued a report dated May 26, 1999, on our consideration of the Louisiana Public Employees Deferred Compensation Plan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, and contracts.

The Year 2000 supplementary information on page 15 is not a required part of the basic financial statement, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and do not express an opinion on it. In addition, we do not provide assurance that the Louisiana Public Employees Deferred Compensation Plan is or will become Year 2000 compliant, that the plan's Year 2000 remediation efforts will be successful in whole or in part, or that parties with which the plan does business are or will become Year 2000 compliant.

Respectfully submitted,



Daniel G. Kyle, CPA, CFE
Legislative Auditor

BQD:THC:PEP:ss

[DEF COMP]

Statement A

**LOUISIANA PUBLIC EMPLOYEES
DEFERRED COMPENSATION PLAN
STATE OF LOUISIANA
ALL FUND TYPES AND ACCOUNT GROUPS**

Balance Sheet, December 31, 1998

| | FIDUCIARY FUND - DEFERRED COMPENSATION PLAN - AGENCY FUND | ACCOUNT GROUP - GENERAL FIXED ASSETS | TOTAL (MEMORANDUM ONLY) |
|---|--|--|-------------------------------|
| ASSETS | | | |
| Cash (note 2) | \$204,105 | | \$204,105 |
| Investments (note 3) | 336,747,462 | | 336,747,462 |
| Cash surrender value of life insurance (note 3) | 1,067,376 | | 1,067,376 |
| Contributions receivable | 1,431,162 | | 1,431,162 |
| Fixed assets - equipment (note 4) | | \$3,737 | 3,737 |
| TOTAL ASSETS | \$339,450,105 | \$3,737 | \$339,453,842 |
| LIABILITIES AND FUND EQUITY | | | |
| Liabilities: | | | |
| Accounts payable | \$204,105 | | \$204,105 |
| Due to commission activity account (note 12) | 64,761 | | 64,761 |
| Due to participants | 339,181,239 | | 339,181,239 |
| Total Liabilities | 339,450,105 | NONE | 339,450,105 |
| Fund Equity - investment in general fixed assets | NONE | \$3,737 | 3,737 |
| TOTAL LIABILITIES AND FUND EQUITY | \$339,450,105 | \$3,737 | \$339,453,842 |

The accompanying notes are an integral part of this statement.

**LOUISIANA PUBLIC EMPLOYEES
DEFERRED COMPENSATION PLAN
STATE OF LOUISIANA**

Notes to the Financial Statement
As of December 31, 1998

INTRODUCTION

As required by Louisiana Revised Statutes (R.S.) 42:1301-1309, the Louisiana Public Employees Deferred Compensation Plan is supervised by the Louisiana Public Employees Deferred Compensation Commission, a political subdivision of the State of Louisiana within the executive branch of government. The commission is composed of seven board members who serve without compensation. The plan was established to allow employees of the state to voluntarily elect to contribute, through payroll deductions, a portion of their compensation into the plan for the purpose of deferring the payment of federal and state income taxes on the contributions until such time as they are withdrawn by the employees. At December 31, 1998, there are approximately 24,307 participants in the plan.

On August 20, 1986, the commission selected Great-West Life & Annuity Insurance Company as the plan administrator for a term of three years beginning on January 1, 1987, and had extended the contract through December 31, 1995. On June 19, 1995, the commission selected, through a bid process, Great-West Life & Annuity Insurance Company as the plan administrator for a term of three years beginning on January 1, 1996. On October 20, 1998, the commission exercised the first of two options to extend this contract for three years beginning on January 1, 1999. The commission has no employees.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF PRESENTATION

The accompanying financial statement has been prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and reporting principles.

B. REPORTING ENTITY

GASB Codification Section 2100 has defined the governmental reporting entity to be the State of Louisiana. The Louisiana Public Employees Deferred Compensation Plan is considered a component unit (agency fund) of the State of Louisiana because the state has financial accountability as follows: (1) four of seven board members are elected or appointed officials from the executive branch of state government; (2) the State of Louisiana has fiduciary responsibility for the exercise of due care in the administration of the plan; and (3) under the provisions of Section 457 of the Internal Revenue Code, all

**LOUISIANA PUBLIC EMPLOYEES
DEFERRED COMPENSATION PLAN
STATE OF LOUISIANA
Notes to the Financial Statement (Continued)**

assets of the plan may be used to satisfy debts of the state. The accompanying financial statement presents information only as to the balances of the Louisiana Public Employees Deferred Compensation Plan, a component unit of the State of Louisiana. Annually, the State of Louisiana issues general purpose financial statements, which include the activity contained in the accompanying financial statement. The general purpose financial statements are audited by the Louisiana Legislative Auditor.

C. FUND ACCOUNTING

The Louisiana Public Employees Deferred Compensation Plan uses a fiduciary fund (agency fund) and an account group to report on its financial position. The agency fund accounts for the receipt of contributions and the payment of benefits to participants. Benefits are funded through employee contributions and investment earnings on these contributions.

D. BASIS OF ACCOUNTING

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. They are accounted for using the modified accrual basis of accounting. Accordingly, assets and liabilities are recognized when they occur, regardless of the timing of related cash flows.

E. CASH AND INVESTMENTS

Cash includes demand deposits. Under state law, the plan may deposit funds within a fiscal agent bank organized under the laws of the State of Louisiana, the laws of any other state in the Union, or the laws of the United States. The plan is authorized to invest in various investment products, including mutual funds, United States Treasury bills or notes, life insurance, fixed or variable annuities, and other investments approved by the commission.

Investments in the fixed earnings and variable earnings options are valued at the fixed earnings rates or variable unit values as reported by the investment carriers, which approximates fair value. These values represent contributions received plus investment income earned to date less applicable charges and amounts withdrawn. Purchases and sales of fixed and variable earnings investments are recorded on the trade date. Assets held in the payout annuity contracts are for participants who have annuitized and are valued at amounts reported by the insurance carriers, which approximates fair value. These values represent the reserves established by the insurance carriers and are based on actuarial assumptions as to anticipated mortality, withdrawals, and investment

**LOUISIANA PUBLIC EMPLOYEES
DEFERRED COMPENSATION PLAN
STATE OF LOUISIANA
Notes to the Financial Statement (Continued)**

yield. Such assumptions are periodically reviewed and updated by the insurance carriers.

F. FIXED ASSETS

Fixed assets are accounted for in the general fixed assets account group, rather than in the agency fund. No depreciation has been provided on general fixed assets. All fixed assets are valued at historical cost. The account group is not a fund. It is concerned only with the measurement of financial position, not with the measurement of results of operations.

G. TOTAL COLUMN ON BALANCE SHEET

The total column on the balance sheet is captioned Memorandum Only (overview) to indicate that it is presented only to facilitate financial analysis. Data in this column does not present financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation.

2. CASH

At December 31, 1998, the plan has cash in demand deposits totaling \$204,105. The commission has directed that the deposits of the plan in excess of federal insurance be secured by the pledge of securities owned by the fiscal agent banks. Deposit balances (bank balances) of \$1,791,496 at December 31, 1998, are fully secured by federal deposit insurance (GASB Category 1).

3. INVESTMENTS

Investments of \$336,747,462, as presented on Statement A, are valued at fair value. The plan maintains investments with several product companies offering different types of investment options. The following itemizes the various product companies, the carrying value of the investments at December 31, 1998, the valuation method used in determining the carrying value, and the fair value of investments at December 31, 1998:

**LOUISIANA PUBLIC EMPLOYEES
DEFERRED COMPENSATION PLAN
STATE OF LOUISIANA**
Notes to the Financial Statement (Continued)

| <u>Product/Company Investment Options</u> | <u>Valuation Method</u> | <u>Carrying Value at December 31, 1998</u> | <u>Fair Value at December 31, 1998</u> |
|--|-------------------------|--|--|
| Investments not categorized: | | | |
| Great-West Life & Annuity Insurance Company: | | | |
| Insurance contracts - fixed annuity | Fair value | \$79,214,800 | \$79,214,800 |
| Maxim Series Fund - mutual fund | Fair value | 126,516,732 | 126,516,732 |
| American Century - Twentieth Century Ultra Investor's Fund - mutual fund | Fair value | 54,239,078 | 54,239,078 |
| Fidelity Advisor Growth Opportunities Fund - mutual fund | Fair value | 10,468,959 | 10,468,959 |
| Annuity contracts | Fair value | 6,582,473 | 6,582,473 |
| Total Great-West Life & Annuity Insurance Company | | <u>277,022,042</u> | <u>277,022,042</u> |
| Government Guaranteed Fund IV - United States government obligations | Amortized cost | 58,784,150 | 59,657,194 |
| Commercial Life Insurance Company - annuity | Fair value | <u>68,226</u> | <u>68,226</u> |
| Total Investments | | <u>\$335,874,418</u> | <u>\$336,747,462</u> |

The plan also has an investment in life insurance with Reliance Standard Life Insurance Company. This investment is valued at the cash surrender value of the life insurance policies, which is \$1,067,376 at December 31, 1998.

4. CHANGES IN GENERAL FIXED ASSETS

Fixed assets of the plan, administered by the Louisiana Public Employees Deferred Compensation Commission, total \$3,737 at December 31, 1998, which remain unchanged from December 31, 1997.

5. CHANGES IN ASSETS AND LIABILITIES

The following represents changes in assets and liabilities for the Louisiana Public Employees Deferred Compensation Plan occurring during the year ended December 31, 1998:

**LOUISIANA PUBLIC EMPLOYEES
DEFERRED COMPENSATION PLAN
STATE OF LOUISIANA
Notes to the Financial Statement (Continued)**

| | Balance at January 1, 1998 | Additions | Deductions | Balance at December 31, 1998 |
|---|-------------------------------|----------------------|---------------------|---------------------------------|
| Assets | | | | |
| Cash | \$239,182 | \$58,748,169 | \$58,783,246 | \$204,105 |
| Investments, at fair value | 269,695,992 | 83,792,958 | 16,741,488 | 336,747,462 |
| Cash surrender value of life insurance | 1,285,807 | 233,115 | 451,546 | 1,067,376 |
| Accounts receivable: | | | | |
| Participant | 1,669,476 | 1,431,162 | 1,669,476 | 1,431,162 |
| Other receivables | 22,781 | 2,571,183 | 2,593,964 | |
| Total Assets | \$272,913,238 | \$146,776,587 | \$80,239,720 | \$339,450,105 |
| Liabilities | | | | |
| Accounts payable | \$240,190 | \$16,041,846 | \$16,077,931 | \$204,105 |
| Due to Commission Activity Fund | 96,227 | 2,474,899 | 2,506,365 | 64,761 |
| Due to participants | 272,576,821 | 83,652,868 | 17,048,450 | 339,181,239 |
| Total Liabilities | \$272,913,238 | \$102,169,613 | \$35,632,746 | \$339,450,105 |

6. PLAN RESTRICTIONS

The deferred compensation plan is authorized under Section 457 of the Internal Revenue Code. Amounts deferred by participants are limited to the lesser of \$8,000, or 33 1/3% of the participants' includible compensation. Any amounts deferred are not subject to federal or state income tax withholdings, nor are they includible as gross income until actually paid or otherwise made available to the participant. The State of Louisiana contributes an employer's match to certain employees' contributions limited to 6.2% of the employees' compensation. Contributions by the state for the year ended December 31, 1998, totaled \$774,986.

All assets of the plan are subject to the cognizable claims of general creditors of the State of Louisiana; may be used in satisfaction of the debts of the state; and are subject to the operation of law, attachment, levy, judgments, garnishments, executions, or any other process of law that may be employed by creditors of the state or any person or entity claiming by, through, or under such creditors. Participant rights under the plan are equal to those of general creditors of the state in an amount equal to the fair value of the deferred account for each participant. The Small Business Job Protection Act of 1996 (Public Law 104-188) amended Section 457 of the Internal Revenue Code to require that amounts deferred under a Section 457 plan be held in trust for the exclusive benefit of participating employees and not be accessible by the government or its creditors. However, the trust provision of this Act for plans existing as of August 20, 1996, does not apply until January 1, 1999. As a result, GASB Statement 32 was issued in October 1997, which requires that the plan be reported as an expendable trust fund effective for periods beginning after December 31, 1998, or earlier upon implementation of the

**LOUISIANA PUBLIC EMPLOYEES
DEFERRED COMPENSATION PLAN
STATE OF LOUISIANA
Notes to the Financial Statement (Continued)**

trust provisions of the Act. The trust provisions of the Act were implemented by the Plan effective January 1, 1999.

Participants of the plan may withdraw funds from the plan only upon retirement or disability as determined in accordance with retirement laws of the state, termination of employment with the state, or financial hardship as approved by the plan's hardship committee. Upon retirement or disability, employees may select various benefit options, including lump sum payments and periodic payments for a designated term that is not in excess of the life expectancy of the participant or the joint and last survivor life expectancy of the participant and his or her spouse.

It is the opinion of the state's legal counsel, the Louisiana Attorney General, that the state has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor. Of the \$339,181,239 in the plan at December 31, 1998, \$313,933,618 is applicable to the State of Louisiana, while the remaining \$25,247,621 represents the assets of other governmental jurisdictions participating in the plan.

As of April 1, 1987, the Government Securities Fund was closed to new plan participants. Participants joining the plan after this date are restricted to the Great-West Life investment options. The Government Securities Fund is now reported as the Government Guaranteed Fund IV.

7. INVESTMENT EARNINGS

The annual rates of interest credited to participant accounts on investments with the various product companies for the year ended December 31, 1998, are as follows:

| <u>Product/Company</u> | <u>Product</u> | <u>Interest Rate</u> |
|--|----------------------|----------------------|
| Government Guaranteed Fund IV | Various investments: | |
| | January - March | 5.45% |
| | April - June | 5.45% |
| | July - September | 5.45% |
| | October - December | 5.35% |
| Great-West Life & Annuity Insurance Company - Guaranteed Fund | Fixed annuity: | |
| | January - March | 5.44% |
| | April - June | 5.44% |
| | July - September | 5.39% |
| | October - December | 5.33% |

**LOUISIANA PUBLIC EMPLOYEES
DEFERRED COMPENSATION PLAN
STATE OF LOUISIANA
Notes to the Financial Statement (Continued)**

Investment earnings for the Maxim Series Fund, American Century - Twentieth Century Ultra Investors Fund, and Fidelity Advisor Growth Opportunities Fund are not expressed as a percentage because earnings result from gains or losses arising from investment transactions and fluctuations in fair value of the applicable investments. Investment earnings for the Government Guaranteed Fund IV and Great-West Life & Annuity Insurance Company - Guaranteed Fund are reported at net, less the administrative charges of the plan, as disclosed in note 8 below.

8. ADMINISTRATIVE CHARGES

The contract between the commission and Great-West Life & Annuity Insurance Company provides for charges of .85% of assets in the Government Guaranteed Fund IV and all Great-West Life & Annuity funds that are calculated and deducted daily on a pro rata basis. The contract was amended October 20, 1998, to reduce the administration fee from .85% to .55% of assets. This change was effected for all variable assets on December 11, 1998. All fixed funds reflected the .85% charge through December 31, 1998. During the year ended December 31, 1998, administrative charges of \$2,441,234 were paid to Great-West Life & Annuity Insurance Company.

As of January 1, 1996, the commission entered into an agreement for the Great-West Life & Annuity Insurance Company to provide management advisory services for the Government Guaranteed Fund IV. The annual fee for these services includes a .15% fund management fee and a .22% insurance wrapper fee on investments in the fund to be paid to the administrator at the end of each quarter on a pro rata basis. The insurance wrapper guarantees that each Government Guaranteed Fund IV participant will receive the full book value of his/her account upon transfer and/or distribution from the plan. During the year ended December 31, 1998, management and insurance wrapper fees of \$196,194 were charged by Great West Life & Annuity Insurance Company.

9. RELATED PARTY TRANSACTIONS

In addition to acting in the capacity of plan administrator of the Louisiana Public Employees Deferred Compensation Plan, Great-West Life Assurance Company, through its wholly-owned subsidiary, Great-West Life & Annuity Insurance Company, offers fixed annuity and mutual fund products to plan participants. At December 31, 1998, investments in these products represent 99.2% of total plan assets. Of this figure, 75.8% represents monies held in separate asset accounts, which are not subject to the general creditors of Great-West Life & Annuity Insurance Company.

**LOUISIANA PUBLIC EMPLOYEES
 DEFERRED COMPENSATION PLAN
 STATE OF LOUISIANA
 Notes to the Financial Statement (Continued)**

10. GOVERNMENT GUARANTEED FUND IV DISTRIBUTIONS

At December 31, 1998, the participant account balances, which comprise the Government Guaranteed Fund IV, total \$58,208,813. The fair value of the net assets of the Government Guaranteed Fund IV as of December 31, 1998, is \$59,657,194. Participant distributions are based on the amount of their account balance, whereas distributions as a result of termination of the group annuity contract are based on net assets attributable to the contract and can be made to the plan through (1) transfer of the underlying securities and any remaining cash balance or (2) transfer of the cash balance after sale of the fund's securities.

11. LITIGATION

There is no pending litigation at December 31, 1998.

12. COMMISSION ACTIVITY ACCOUNT

The Louisiana Public Employees Deferred Compensation Commission maintains a commission activity account to fund the expenses of the commission and to pay administrator fees. Balances of this account are included within the agency fund balances shown on Statement A. The following represents a summary of additions and deductions to the commission activity account balances during the year ended December 31, 1998:

| | | |
|------------------------------|------------------|-----------------|
| Balance at January 1, 1998 | | \$96,227 |
| Additions: | | |
| Interest earnings | \$4,387 | |
| Product company fees | 2,470,512 | 2,474,899 |
| | <u>2,474,900</u> | |
| Deductions: | | |
| Administrator fees | 2,441,234 | |
| Other expenses | 65,131 | 2,506,365 |
| | <u>2,506,365</u> | |
| Balance at December 31, 1998 | | <u>\$64,761</u> |

13. CHANGES IN INVESTMENT PRODUCTS

Effective April 1, 1998, the following investment options were made available: Maxim Conservative Profile Fund, Maxim Moderately Conservative Profile Fund, Maxim Moderate Profile Fund, Maxim Moderately Aggressive Profile Fund, and the Maxim Aggressive Profile Fund. During the fiscal year ended December 31, 1998, the commission elected to discontinue the Maxim Midcap Portfolio (Growth Fund I) effective February 5, 1999.

**LOUISIANA PUBLIC EMPLOYEES
DEFERRED COMPENSATION PLAN
STATE OF LOUISIANA
Notes to the Financial Statement (Concluded)**

14. SUBSEQUENT EVENT

Effective January 1, 1999, the plan implemented the provisions of the Small Business Job Protection Act of 1996 (Public Law 104-188), which amended Section 457 of the Internal Revenue Code to require that amounts deferred under a Section 457 plan be held in trust for the exclusive benefit of participating employees and not be accessible by the government or its creditors. In accordance with GASB Statement 32, which was issued in response to the Act, the plan will be reported as an expendable trust fund for the fiscal year ending December 31, 1999.

**SUPPLEMENTARY INFORMATION REQUIRED BY THE
GOVERNMENTAL ACCOUNTING STANDARDS BOARD**

The following pages contain supplementary information as required by *Technical Bulletin 98-1*, issued by the Governmental Accounting Standards Board (GASB) in October 1998. The provisions of the GASB technical bulletin, effective for financial statements dated after October 31, 1998, require disclosures in the notes to the financial statements about the governmental entity's readiness in addressing Year 2000 issues for its computer systems and other electronic equipment. In March 1999, GASB issued *Technical Bulletin 99-1*, which allowed the disclosure of Year 2000 issues in required supplementary information.

**LOUISIANA PUBLIC EMPLOYEES
DEFERRED COMPENSATION PLAN
STATE OF LOUISIANA
REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended December 31, 1998**

YEAR 2000 ISSUE

The Year 2000 issue is the result of shortcomings in many electronic data processing systems and other equipment that may adversely affect the Louisiana Public Employees Deferred Compensation Plan's operations as early as 1999.

Plan data is held in the Innovative Strategic Investment System (ISIS) of Great-West Life & Annuity Insurance Company (the plan administrator), which currently uses a four-digit year format. Although the data is already stored in a four-digit format, the associated applications were analyzed, assessed, remediated as needed, tested, and validated to ensure Year 2000 readiness. As of December 15, 1998, this process was complete. The cost of this process was absorbed by the plan administrator.

In addition to the above, the plan administrator obtained written assurances from parties with whom the plan does business that they will achieve Year 2000 readiness in time to meet the needs of the plan.

Management believes that the plan will be able to process date and/or date-related information correctly before, during, and after January 1, 2000. However, because of the unprecedented nature of the Year 2000 issue, its effects and the success of related remediation efforts will not be fully determined until the Year 2000 and thereafter. Consequently, management cannot guarantee that the plan is or will be Year 2000 ready, that the plan's remediation efforts will be successful in whole or in part, or that parties with whom the plan does business will be Year 2000 ready.

**OTHER REPORT REQUIRED BY
GOVERNMENT AUDITING STANDARDS**

The following pages contain a report on compliance with laws and regulations and on internal controls as required by *Government Auditing Standards*, issued by the Comptroller General of the United States. This report is based solely on the audit of the financial statement and includes, where appropriate, any reportable conditions and/or material weaknesses in internal control or compliance matters that would be material to the presented financial statement.



OFFICE OF
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May 26, 1999

Report on Compliance and on Internal Control Over
Financial Reporting Based on an Audit of the Financial Statement
Performed in Accordance With *Government Auditing Standards*

**LOUISIANA PUBLIC EMPLOYEES
DEFERRED COMPENSATION COMMISSION
LOUISIANA PUBLIC EMPLOYEES
DEFERRED COMPENSATION PLAN
STATE OF LOUISIANA
Baton Rouge, Louisiana**

We have audited the general purpose financial statement of the Louisiana Public Employees Deferred Compensation Plan, a component unit of the State of Louisiana, as of December 31, 1998, and have issued our report thereon dated May 26, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Louisiana Public Employees Deferred Compensation Plan's general purpose financial statement is free of 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Louisiana Public Employees Deferred Compensation Plan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal

EXHIBIT A

LEGISLATIVE AUDITOR

LOUISIANA PUBLIC EMPLOYEES
DEFERRED COMPENSATION COMMISSION
LOUISIANA PUBLIC EMPLOYEES
DEFERRED COMPENSATION PLAN
STATE OF LOUISIANA
Compliance and Internal Control Report
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control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

This report is intended for the information and use of the plan and its management and is not intended to be and should not be used by anyone other than these specified parties. By provisions of state law, this report is a public document, and it has been distributed to appropriate public officials.

Respectfully submitted,



Daniel G. Kyle, CPA, CFE
Legislative Auditor

BQD:THC:PEP:ss

[DEFCOMP]