LEGISLATIVE AUDITOR
STATE OF LOUISIANA

OFFICE OF GROUP BENEFITS
DIVISION OF ADMINISTRATION
STATE OF LOUISIANA

FINANCIAL STATEMENT AUDIT
ISSUED DECEMBER 22, 2004

LEGISLATIVE AUDITOR
1600 NORTH THIRD STREET
POST OFFICE BOX 94397
BATON ROUGE, LOUISIANA 70804-9397

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.

This document is produced by the Legislative Auditor, State of Louisiana, Post Office Box 94397, Baton Rouge, Louisiana 70804-9397 in accordance with Louisiana Revised Statute 24:513. Four copies of this public document were produced at an approximate cost of $11.08. This material was produced in accordance with the standards for state agencies established pursuant to R.S. 43:31. This report is available on the Legislative Auditor's Web site at www.lla.state.la.us. When contacting the office, you may refer to Agency ID No. 3589 or Report ID No. 04302253 for additional information.

In compliance with the Americans With Disabilities Act, if you need special assistance relative to this document, or any documents of the Legislative Auditor, please contact Wayne "Skip" Irwin, Director of Administration, at 225/339-3800.

OFFICE OF
LEGISLATIVE AUDITOR
STATE OF LOUISIANA
BATON ROUGE, LOUISIANA 70804-9397

STEVE J. THERIOT, CPA
LEGISLATIVE AUDITOR

1600 NORTH THIRD STREET
POST OFFICE BOX 94397
TELEPHONE: (225) 339-3800
FACSIMILE: (225) 339-3870
E-MAIL: www.lla.state.la.us

December 7, 2004

Independent Auditor's Report
on the Financial Statements

OFFICE OF GROUP BENEFITS
DIVISION OF ADMINISTRATION
STATE OF LOUISIANA
Baton Rouge, Louisiana

We have audited the accompanying special purpose (legal basis) financial statements of the Office of Group Benefits, an office within Louisiana state government, as of and for the year ended June 30, 2004, as listed in the foregoing table of contents. These financial statements are the responsibility of management of the Office of Group Benefits. Our responsibility is to express an opinion on these special purpose financial statements based on our audit.

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. 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 provides a reasonable basis for our opinion.

As described in note 1-B to the financial statements, the accompanying special purpose financial statements present only the funds of the Office of Group Benefits. As such, they present the appropriated and non-appropriated activity of the office that are part of the accounts and fund structure of the State of Louisiana. The Ancillary Appropriation Fund reflects appropriated activity of the office that is part of the General Fund of the State of Louisiana. The non-appropriated fund is an individual fund of the State of Louisiana not subject to budgetary control. Furthermore, the special purpose financial statements have been prepared on a legal basis of accounting, the purpose of which is to reflect compliance with the annual appropriation act for the appropriated fund and the financial position of the non-appropriated fund. These procedures differ from accounting principles generally accepted in the United States of America as described in the notes to the financial statements. Accordingly, the accompanying special purpose financial statements are not intended to and do not present financial position and results of operations in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the accompanying special purpose financial statements present fairly, in all material respects, the balances within the appropriated and non-appropriated funds of the Office of Group Benefits at June 30, 2004, and the transactions of the appropriated funds for the year then ended, on the basis of accounting described in note 1-D.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 7, 2004, on our consideration of the Office of Group Benefits' internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the accompanying special purpose financial statements of the Office of Group Benefits taken as a whole. The accompanying supplemental information schedule is presented for the purpose of additional analysis and has been subjected to the auditing procedures applied in the audit of the special purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the special purpose financial statements taken as a whole.

This report is intended solely for the information and use of the Office of Group Benefits and its management and is not intended to be, and should not be, used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Respectfully submitted,

Steve J. Theriot, CPA
Legislative Auditor

SLG:EFS:PEP:ss

[OGB04]

OFFICE OF GROUP BENEFITS
DIVISION OF ADMINISTRATION
STATE OF LOUISIANA
ALL APPROPRIATED AND NON-APPROPRIATED FUNDS

Balance Sheet (Legal Basis), June 30, 2004

	APPROPRIATED FUND - ANCILLARY APPROPRIATION	NON-APPROPRIATED - AGENCY FUND	TOTAL (MEMORANDUM ONLY)
ASSETS			
Cash (note 2)	$67,191,852	$170,208	$67,362,060
Receivables - fees and self-generated revenues	20,236,888		20,236,888
Other receivables		5,774	5,774
TOTAL ASSETS	$87,428,740	$175,982	$87,604,722
LIABILITIES AND FUND EQUITY			
Liabilities:			
Payables (note 7)	$27,142,395		$27,142,395
Amounts held in custody for others		$50,237	50,237
Other liabilities		125,745	125,745
Advance due to state treasury (note 12)	50,000		50,000
Deferred revenues	3,918,512		3,918,512
Estimated liabilities (note 8)	76,000,000		76,000,000
Total Liabilities	107,110,907	175,982	107,286,889
Fund Equity - fund balance (deficit) (note 13)	(19,682,167)	NONE	(19,682,167)
TOTAL LIABILITIES AND FUND EQUITY	$87,428,740	$175,982	$87,604,722

The accompanying notes are an integral part of this statement.

This page is intentionally blank.

OFFICE OF GROUP BENEFITS
DIVISION OF ADMINISTRATION
STATE OF LOUISIANA
ANCILLARY APPROPRIATION FUND

Statement of Revenues, Expenditures, and Changes in Fund Balance (Legal Basis)
For the Year Ended June 30, 2004

REVENUES	
Appropriated by legislature:	
State General Fund by fees and self-generated revenues	$853,844,798
EXPENDITURES	
Appropriated for health and life insurance for active and retired public employees	892,020,542
EXCESS (Deficiency) OF REVENUES OVER EXPENDITURES	(38,175,744)
FUND BALANCE AT BEGINNING OF YEAR	18,493,577
FUND BALANCE (Deficit) AT END OF YEAR	($19,682,167)

The accompanying notes are an integral part of this statement.

This page is intentionally blank.

OFFICE OF GROUP BENEFITS
DIVISION OF ADMINISTRATION
STATE OF LOUISIANA
ANCILLARY APPROPRIATION FUND

Statement of Revenues, Expenditures, and Unexpended Appropriation - Budget Comparison of Current-Year Appropriation - Budget (Legal Basis) and Actual
For the Year Ended June 30, 2004

	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES			
Appropriated by legislature:			
State General Fund by fees and self-generated revenues	$934,311,612	$946,503,189	$12,191,577
EXPENDITURES			
Appropriated for health and life insurance for active and retired public employees	934,311,612	885,667,551	48,644,061
UNEXPENDED APPROPRIATION - CURRENT YEAR	NONE	$60,835,638	$60,835,638

The accompanying notes are an integral part of this statement.

This page is intentionally blank.

INTRODUCTION

The Board of Trustees of the State Employees Group Benefits was created within the Office of the Governor, Division of Administration, effective July 1, 1998, as provided by Louisiana Revised Statute (R.S.) 42:801. Act 1178 of the 2001 Regular Session of the Louisiana Legislature changed the name of the State Employees Group Benefits Program to the Office of Group Benefits and removed the authority of the Board of Trustees to make policy decisions.

The office was formed to administer a program of group health and life insurance for active and retired state employees, active and retired school board employees, and certain political subdivisions' employees, as authorized by state statute. The office also administers the cafeteria plan and flexible-spending plan for plan members. The office's operations are divided into executive, administrative services, field service, claim service, claims processing, fiscal, data processing, and quality assurance functions. Approximately 130,631 plan members are enrolled in the program for fiscal year 2003-2004, of which 31,606 are enrolled through HMO contracts. The office has 339 authorized full-time staff positions. Funds are reestablished annually by provisions of the Ancillary Appropriations Act.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF PRESENTATION

The Governmental Accounting Standards Board (GASB) promulgates accounting principles generally accepted in the United States of America and reporting standards for state and local governments. These principles are found in the *Codification of Governmental Accounting and Financial Reporting Standards*, published by the GASB. However, the accompanying special purpose financial statements have been prepared on a legal basis prescribed by the Division of Administration, Office of Statewide Reporting and Accounting Policy, which differs from accounting principles generally accepted in the United States of America as explained in the following notes.

B. REPORTING ENTITY

The State of Louisiana has been determined to be the reporting entity under GASB Codification Section 2100. The accompanying financial statements represent activity of an office of state government and, therefore, are a part of the funds of the State of Louisiana and its basic financial statements. Annually, the State of Louisiana issues basic financial statements that are audited by the Louisiana Legislative Auditor.

C. FUND ACCOUNTING

The Office of Group Benefits uses fund accounting, along appropriation lines, to reflect its compliance with provisions of the annual appropriation act and to reflect the financial position of its non-appropriated fund. This differs from the fund accounting of accounting principles generally accepted in the United States of America where the intent is to measure the financial position and results of operations of the governmental reporting entity as a whole. Therefore, the funds within the accompanying financial statements have been divided between appropriated and non-appropriated funds and not by the conventional fund types of accounting principles generally accepted in the United States of America.

The funds do not include any noncurrent assets or liabilities. Noncurrent assets, capital assets, and long-term liabilities are reflected in the State of Louisiana's basic financial statements.

The funds presented in the special purpose financial statements are described as follows:

APPROPRIATED FUND

Ancillary Appropriation Fund

The Office of Group Benefits administers a self-insured group health insurance program and group life insurance program for state employees, for other specified public employees, and for individuals who qualify for continued group health coverage under the Consolidated Omnibus Reconciliation Act (COBRA) of 1985. The group life insurance program is underwritten by Prudential Insurance Company of America. This fund accounts for the office's appropriated revenues, operating expenditures, and minor capital acquisitions.

NON-APPROPRIATED FUND

Agency Fund - Dependent Care Flexible Spending Account Plan/Health Care Flexible Spending Account Plan

The Dependent Care Flexible Spending Account Plan/Health Care Flexible Spending Account Plan agency fund accounts for transactions of a qualified dependent care assistance program pursuant to Internal Revenue Code, Title 26, Subtitle A, Chapter 1, Subchapter B, Part III, Section 129, and transactions related to qualified amounts received under accident and health plans pursuant to Internal Revenue Code, Title 26, Subtitle A, Chapter 1, Subchapter B, Part III, Section 105. Plan members make deposits into the fund through payroll deductions and make withdrawals when qualifying expenditures have been incurred. This fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations.

D. BASIS OF ACCOUNTING

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The funds in the accompanying financial statements measure the resources provided by the legislature to fund current-year expenditures and the use of those resources by the program.

Basis of accounting refers to when revenues and expenditures are recognized and reported in the financial statements, regardless of the measurement focus applied. The accompanying financial statements reflect revenues and expenditures in accordance with applicable statutory provisions and regulations of the Division of Administration, Office of Statewide Reporting and Accounting Policy.

Under the foregoing legal provisions, the office uses the following practices in recognizing revenues and expenditures:

Revenues

Fees and self-generated revenues are recognized when earned, to the extent that they will be collected within 45 days of the close of the fiscal year.

Expenditures

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except that obligations of employees' vested annual and sick leave are recognized as expenditures when paid. Furthermore, any expenditures of a long-term nature for which funds have not been appropriated during the current year are not recognized in the accompanying financial statements.

E. BUDGET PRACTICES

The ancillary appropriation, made for the operations of the office, is an annual lapsing appropriation consisting of self-generated funds. Revenues and expenditures for budget purposes are recognized on the basis of accounting as described in note 1-D, except that revenues reflected on Statement C include carryover monies and receipts that have been recorded as deferred revenue when collected. In addition, salaries and related benefits and health claims are recognized when paid on Statement C. The revenues and expenditures shown on Statement B are reconciled with the respective amounts shown on Statement C as follows:

Statement B revenues	$853,844,798
Add:	
Deferred revenues	3,918,512
Carryover from prior year	88,776,722
Less - prior-year deferred revenues	(36,843)
Statement C revenues	$946,503,189
Statement B expenditures	$892,020,542
Less - estimated liabilities (net)	(6,200,000)
Less - payroll payable (net)	(152,991)
Statement C expenditures	$885,667,551

The office is prohibited by statute from over expending the program levels established in the budget. Budget revisions are granted by the Joint Legislative Committee on the Budget. Interim emergency appropriations may be granted by the Interim Emergency Board. The budget information included in the financial statements includes the original appropriation of $934,311,612. There were no amendments.

Statement C reflects that the office did not exceed its budget for fiscal year 2003-2004. The annual appropriation provides that any unexpended balance in the office's self-generated funds may be retained as fund equity to fund future expenditures of the office. The non-appropriated funds are not subject to budgetary control.

F. CASH

Cash includes cash on hand, demand deposits, and cash in state treasury. Under state law, the office may deposit funds with 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.

G. LONG-TERM OBLIGATIONS

The office is by statute not allowed to incur bonded indebtedness and, therefore, no recognition within the accompanying financial statements is necessary. Furthermore, any long-term obligations of the office arising from installment purchases, lease commitments, judgments, compensated absences, loss adjusting expenses for health claims, or from any other source are not recognized in the accompanying special purpose financial statements.

H. COMPENSATED ABSENCES

Employees earn and accumulate annual and sick leave at various rates, depending on their years of service, without limitation on the balance that can be accumulated. Upon separation of employment, employees or their heirs are compensated for up to 300 hours of unused annual leave at the employee's hourly rate of pay but are not compensated for unused sick leave. Unused annual leave in excess of 300 hours plus unused sick leave is used to compute retirement benefits. The liability for unused annual and sick leave is not recorded in the accompanying financial statements.

Certain employees of the office are eligible to earn compensatory time, as defined by the Department of Civil Service and the Fair Labor Standards Act. These employees can earn and accumulate one hour or one and one-half hour for each hour of overtime worked, depending on their position and rate of pay. Generally, the employees are allowed to carry up to 360 hours of accrued compensatory leave from one calendar year to another; however, under federal regulations, certain employees are compensated for unused compensatory leave six months after the end of the quarter in which the leave was earned. Accumulated compensatory leave is not accrued (reflected) in the accompanying special purpose financial statements.

I. TOTAL COLUMN ON BALANCE SHEET

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

2. CASH

Cash is composed of the following:

Petty cash on hand	$100
Demand deposits	49,900
Cash on deposit with the state treasury	67,312,060
Total	$67,362,060

These deposits are stated at cost, which approximates market. Under state law, these deposits (or resulting bank balances) must be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent bank. The market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent. The office has deposit balances (collected bank balances) of $106,257 at June 30, 2004. These deposits are fully secured from risk by federal deposit insurance and pledged securities.

Cash balances held and controlled by the state treasurer are secured from risk by the state treasurer through separate custodial agreements, and the risk disclosures required by accounting principles generally accepted in the United States of America are included within the state's basic financial statements. The following is a summary of cash in the state treasury:

Means of finance	$68,104,946
Operating account	(963,094)
Escrow account	170,208
Total	$67,312,060

3. PENSION PLAN

Substantially all employees of the office are members of the Louisiana State Employees Retirement System, a cost-sharing, multiple-employer defined benefit pension plan. Required disclosures for the plan for fiscal year 2004 are included in the Louisiana Comprehensive Annual Financial Report prepared by the Louisiana Division of Administration, Post Office Box 94095, Baton Rouge, Louisiana 70804-9095.

4. POSTEMPLOYMENT HEALTH CARE AND LIFE INSURANCE BENEFITS

The office provides certain continuing health care and life insurance benefits for its retired employees. Substantially all of the office's employees become eligible for these benefits if they reach normal retirement age while working for the office. These benefits for retirees and similar benefits for active employees are provided through the office and the Prudential Insurance Company of America, the life insurance underwriter. The monthly premiums are paid jointly by the employee and the office. The office's costs of providing retiree health care and life insurance benefits are recognized as expenditures when the monthly premiums are paid. For the year ended June 30, 2004, the costs of retiree benefits totaled $253,806 for 55 retirees.

5. JUDGMENTS, CLAIMS, AND SIMILAR CONTINGENCIES

The office is involved in 37 pending lawsuits at June 30, 2004, that have been reported to the Attorney General’s Office and are not reflected in the accompanying financial statements. The office has been advised by legal counsel that, while it is impossible to ascertain the ultimate legal and financial responsibility with respect to such litigation as of June 30, 2004, it is the staff's opinion that the ultimate aggregate liability will be $5,258,500. In addition, it is reasonably possible that an additional $388,805 liability could be imposed. These amounts are not reflected in the accompanying special purpose financial statements, but the settlement amount would be paid by the office if judgment were rendered in favor of the plaintiff.

Claims and litigation costs of $68,251 were incurred in the current year and are reflected in the accompanying financial statements.

Obligations and losses arising from judgments, claims, and similar contingencies not relating to health and life claims are paid through the state's self-insurance fund or by General Fund appropriation and are not reflected in the accompanying special purpose financial statements. The self-insurance fund is operated by the Office of Risk Management, the state agency responsible for the state's self-insurance program.

6. COMPENSATED ABSENCES

The liability for unused annual leave payable at June 30, 2004, computed in accordance with the *Codification of Governmental Accounting and Financial Reporting Standards* Section C60.104, is estimated to be $1,461,974. The leave payable is not accrued (reflected) in the accompanying special purpose financial statements.

The liability for accrued compensatory leave at June 30, 2004, computed in accordance with the *Codification of Governmental Accounting and Financial Reporting Standards* Section C60, is estimated to be $21,278. Accumulated compensatory leave is not accrued (reflected) in the accompanying special purpose financial statements.

7. PAYABLES

Payables at June 30, 2004, consist of $26,625,719 for accounts payable and $516,676 for accrued payroll payable.

8. ESTIMATED LIABILITIES

The estimated liabilities for health claims reported but unpaid (RBU) and incurred but unreported (IBU), as shown on Statement A in accordance with the instructions of the Division of Administration, Office of Statewide Reporting and Accounting Policy, total $76,000,000 at June 30, 2004. The estimated liability for the RBU and IBU is based upon information submitted by the actuarial firm of Milliman, Inc.

9. INTEREST EARNINGS

The Office of Group Benefits does not maintain investment accounts. The State Treasurer's Office invests the office's idle funds. The amount of interest paid by the Treasurer's Office during the fiscal year was $1,268,489.

10. LEASE AND RENTAL COMMITMENTS

The office has several noncancelable operating leases for rental of office space. The annual operating lease payments for the next 15 fiscal years are presented as follows:

Fiscal year	Office Space
2005	$684,092
2006	664,493
2007	643,136
2008	643,136
2009	637,289
2010-2014	3,120,000
2015-2019	2,808,000
Total	$9,200,146

All lease agreements have non-appropriation exculpatory clauses that allow for lease cancellation if the Louisiana Legislature does not make an appropriation for their continuation during any future fiscal period. Total operating lease expenditures for fiscal year 2003-2004 amounted to $926,807. The Office of Group Benefits does not have any capital lease agreements at June 30, 2004.

11. DEFERRED COMPENSATION PLAN

Certain employees of the office participate in the Louisiana Public Employees Deferred Compensation Plan adopted under the provisions of the Internal Revenue Code Section 457. Complete disclosures relating to the Plan are included in the separately issued audit report for the Plan, available from the Louisiana Legislative Auditor, Post Office Box 94397, Baton Rouge, Louisiana 70804-9397.

12. ADVANCE DUE TO STATE TREASURY

The office received an advance from the state treasury for imprest fund operations totaling $50,000, as authorized by the Commissioner of Administration in accordance with Title 39 of the Louisiana Revised Statutes. The fund is permanently established and periodically replenished from office operating funds.

13. FUND BALANCE (DEFICIT)

As shown on Statement A, at June 30, 2004, the office has a fund balance deficit of $19,682,167. The office is attempting to resolve the deficit by a health premium rate increase for the 2006 fiscal year.

14. UNRECORDED ESTIMATED LIABILITIES

The office has not recognized a potential liability of approximately $4,455,000 for a final invoice from the former prescriptions benefits manager, Merck Medco. This invoice has not been paid because of a dispute resulting from an audit performed on fiscal year 1998-1999 claims.

The office has also not recognized a potential liability of approximately $1,200,000 for Medicaid claims. This amount is based on claims submitted by Health Management Systems, Incorporated, on behalf of the Department of Health and Hospitals. Medicaid is payor of last resort, and these claims were previously paid by Medicaid for plan members of the office.

The chance of either of these losses occurring is more than remote but less than likely. Therefore, in accordance with Financial Accounting Standards Board Statement 5, these potential liabilities are not recorded in the special purpose financial statements but are disclosed in the notes.

15. GASB 34 ACCRUALS

The following schedule presents the adjustments necessary to convert the modified accrual basis accounts receivable, as shown in Statement A, to full accrual basis accounts receivable as required by the Office of Statewide Reporting and Accounting Policy.

	Accounts Receivable Modified Accrual Basis	Full Accrual Adjustment	Allowance for Doubtful Accounts	Accounts Receivable Full Accrual Basis
Appropriated Revenues - fees and self-generated	$20,236,888	$3,806,891	($27,476)	$24,016,303
Appropriated Expenditures - pharmaceutical rebates		$4,410,299		$4,410,299
Non-Appropriated Revenues - agency funds	$5,774			$5,774

16. COOPERATIVE ENDEAVORS

The office has entered into a cooperative endeavor agreement for a clinical trial of the possible costs and health benefits of the surgical treatment of morbid obesity with Louisiana State University Health Sciences Center, Department of Surgery and Tenet Health System Hospitals, Inc., dba St. Charles General Hospital for a gastric bypass pilot program. The agreement is effective October 16, 2003, through September 14, 2005, for up to forty morbid obesity surgeries. The estimated liability outstanding at June 30, 2004, which is not reflected in the accompanying financial statements, is $950,000, which is to be funded through self-generated revenue.

17. SUBSEQUENT EVENTS

(A) Effective July 1, 2004, the Office of Group Benefits implemented a 10.6% aggregate rate increase for all health plan options.

(B) Effective July 1, 2004, Catalyst, Inc., replaced Advance PCS as the prescription benefits manager.

(C) Effective July 1, 2004, a $1,000,000 Lifetime Maximum Benefit for Managed Care Option participants was implemented.

(D) The optional life insurance program will discontinue on December 31, 2004.

OFFICE OF GROUP BENEFITS
DIVISION OF ADMINISTRATION
STATE OF LOUISIANA
SUPPLEMENTAL INFORMATION SCHEDULE
For the Year Ended June 30, 2004

SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES - NON-APPROPRIATED FUND

Changes in assets and liabilities for the Dependent Care Flexible Spending Account Plan/Health Care Flexible Spending Account Plan Agency Fund for the year ended June 30, 2004, are presented on Schedule 1.

OFFICE OF GROUP BENEFITS
DIVISION OF ADMINISTRATION
STATE OF LOUISIANA
NON-APPROPRIATED FUND - AGENCY FUND

Schedule of Changes in Assets and Liabilities
For the Year Ended June 30, 2004

	BALANCE JULY 1, 2003	ADDITIONS	DEDUCTIONS	BALANCE JUNE 30, 2004
Dependent Care/Health Care				
Flexible Spending Account Plan				
ASSETS				
Cash	$131,696	$992,702	($954,190)	$170,208
Receivables	31,941	5,774	(31,941)	5,774
TOTAL ASSETS	$163,637	$998,476	($986,131)	$175,982
LIABILITIES				
Amounts held in custody for others	$8,724	$872,731	($831,218)	$50,237
Other liabilities	154,913	125,745	(154,913)	125,745
TOTAL LIABILITIES	$163,637	$998,476	($986,131)	$175,982

This page is intentionally blank.

OTHER REPORT REQUIRED BY

GOVERNMENT AUDITING STANDARDS

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

OFFICE OF
LEGISLATIVE AUDITOR
STATE OF LOUISIANA
BATON ROUGE, LOUISIANA 70804-9397

STEVE J. THERIOT, CPA
LEGISLATIVE AUDITOR

1600 NORTH THIRD STREET
POST OFFICE BOX 94397
TELEPHONE: (225) 339-3800
FACSIMILE: (225) 339-3870
E-MAIL: www.lla.state.la.us

December 7, 2004

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

OFFICE OF GROUP BENEFITS
DIVISION OF ADMINISTRATION
STATE OF LOUISIANA
Baton Rouge, Louisiana

We have audited the special purpose financial statements of the Office of Group Benefits as of and for the year ended June 30, 2004, and have issued our report thereon dated December 7, 2004. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Office of Group Benefits' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the special purpose financial statements and not to provide an opinion 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 that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the special purpose financial statements 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Office of Group Benefits' special purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 the following instance of noncompliance that is required to be reported under *Government Auditing Standards*.

Uncollected Health Insurance Premiums

The Office of Group Benefits (OGB) violated Article VII, Section 14(A) of the Louisiana Constitution by providing health care services to the Franklin and Pointe Coupee Parish school boards, while not collecting their entire health insurance premiums. Allowing nonpayment of lawful amounts owed constitutes, in effect, an interest-free loan from OGB to the school boards. Article VII, Section 14(A) of the Louisiana Constitution states, "Prohibited Uses. Except as otherwise provided by this constitution, the funds, credit, property, or things of value of the state or of any political subdivision shall not be loaned, pledged, or donated to or for any person, association, or corporation, public or private."

As of August 2, 2004, Franklin and Pointe Coupee Parish school boards owe OGB fiscal year 2004 premiums totaling $493,339 and $636,533, respectively. Health care services have been provided to Franklin Parish School Board without full payment since December 2003 and to Pointe Coupee Parish School Board since January 2004. Allowing participants in the state's health insurance plan to not pay premiums may eventually jeopardize the solvency of OGB and its ability to pay claims for other participants.

OGB should pursue collection of the amounts owed for health insurance premiums from Franklin and Pointe Coupee Parish school boards and develop policies to adequately address similar nonpayment of premiums in the future. Although management did not concur with the finding noting that discontinuation of health benefits would imperil the health of plan members and disrupt the education process in the parishes, management provided a corrective action plan (see Appendix A, pages 1-2).

Additional Comment: Although we may be empathetic with the school boards, as well as with their employees, OGB is not the proper vehicle to remedy the financial problems of the school boards.

This report is intended solely for the information and use of the Office of Group Benefits and its management and is not intended to be, and should not be, used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Respectfully submitted,

Steve J. Theriot, CPA
Legislative Auditor

SLG:EFS:PEP:ss
[OGB04]

State of Louisiana
Office of Group Benefits
P.O. Box 44036
Baton Rouge, Louisiana 70804

September 13, 2004

Mr. Steve J. Theriot, CPA
Legislative Auditor
P. O. Box 94397
Baton Rouge, LA 70804-9397

Area offices
Alexandria
318.487.5731
800.813.1578
Baton Rouge
225.925.6625
800.272.8451
Lafayette
337.262.1357
800.414.6409
Lake Charles
337.475.8052
800.525.3256
Metairie
504.838.5136
800.335.6208
Monroe
318.362.3435
800.335.6206
Shreveport
318.676.7026
800.813.1574
TDD
225.925.6770
800.259.6771

Re: Uncollected Health Insurance Premiums

Dear Mr. Theriot:

I have received correspondence from your office dated August 24, 2004 which included a reportable audit finding titled: *Uncollected Health Insurance Premiums*.

We do not concur with your finding. Article VII, Section 14(B) of the Louisiana Constitution states, in pertinent part, that "Nothing in this section shall prevent ... contributions of public funds to pension and insurance programs for the benefit of public employees." While the Office of Group Benefits (OGB) does not intend to make contributions to the insurance programs of the Franklin and Pointe Coupee Parish School Boards, we do believe that the quoted section recognizes the important role of public employee health benefits and provides sufficient latitude to work with the school boards during times of financial stress.

The underpayment of premiums by the Franklin and Pointe Coupee Parish School Boards raises substantial issues concerning plan member health and the effective education of children in those parishes. According to information provided to this office, the employee portion of the premium is being collected by the school boards and is being transmitted to OGB. The discontinuation of health benefits for plan members who are in good faith paying their premiums would imperil the health of those individuals and could severely disrupt the education of children in those parishes. Some of these plan members are pregnant, suffering from cancer, or have other chronic diseases. Any interruption of their health care services could be detrimental to their well being. In the event that we discontinue health benefits to school board participants it is highly likely that the educational process for children in the two parishes would be interrupted.

Enclosed are copies of correspondence dated August 16, 2004 requesting submission of corrective action plans from the Franklin and Pointe Coupee Parish School Boards. A draft response has been submitted by the Pointe Coupee Parish School Board dated August 24, 2004 and is enclosed with this correspondence. We are waiting for a response from the Franklin Parish School Board.

OGB established minimum requirements for the corrective action plans to be submitted by the school boards. Those requirements are as follows:

1. The corrective action plan must be submitted to OGB for approval and acceptance on or before October 1, 2004,

2. When submitted, the corrective action plan must be accompanied by a resolution dully adopted by the school board authorizing and confirming agreement to the corrective action plan,

3. The corrective action plan must provide that all future monthly invoices will be paid in full by the date due,

4. If the unpaid balance can not be paid in full immediately, the corrective action plan must provide that down payments will be made to reduce the unpaid balance owed to OGB by a specific date each month,

5. The corrective action plan must provide that all past due balances will be paid in full on or before March 31, 2005.

This situation did not originate with OGB, nor, does the solution lie with this agency. We are carefully trying to balance our responsibilities to all of our plan members, including those who are covered through the respective school boards. Thank you for the opportunity to respond to this finding. If I may provide additional information, please contact me.

Sincerely,

A. Kip Wall
Chief Executive Officer

AKW/djj

Enclosures