

OFFICE OF GROUP BENEFITS

DIVISION OF ADMINISTRATION

STATE OF LOUISIANA

FINANCIAL AUDIT SERVICES

Management Letter
Issued December 27, 2023

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

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MICHAEL J. "MIKE" WAGUESPACK, CPA

FIRST ASSISTANT LEGISLATIVE AUDITOR
BETH Q. DAVIS, CPA

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Louisiana Legislative Auditor

Michael J. "Mike" Waguespack, CPA



Office of Group Benefits

December 2023

Audit Control # 80230031

Introduction

As a part of our audit of the State of Louisiana's Annual Comprehensive Financial Report and our work related to the Single Audit of the State of Louisiana (Single Audit) for the fiscal year ended June 30, 2023, we performed procedures at the Office of Group Benefits (OGB) to provide assurances on financial information that is significant to the state's Annual Comprehensive Financial Report; evaluate the effectiveness of OGB's internal control over financial reporting and compliance; and determine whether OGB complied with applicable laws and regulations. We also determined whether management has taken actions to correct the finding reported in the prior year.

Results of Our Procedures

Follow-up on Prior-year Finding

Our auditors reviewed the status of the prior-year finding reported in the OGB management letter dated December 29, 2022. The prior-year finding related to Inaccurate Annual Fiscal Reports has not been resolved and is addressed again in this letter.

Current-year Finding

Inaccurate Annual Fiscal Reports

For the sixth consecutive year, OGB, through the Office of Finance and Support Services (OFSS), submitted annual fiscal reports (AFRs) to the Office of Statewide Reporting and Accounting Policy (OSRAP) with errors requiring adjustments, including the following:

- The amounts input into the OSRAP AFR portal for the custodial fund did not agree to the trial balance. Employer contributions and deductions for health and life benefits were overstated by \$16.2 million, and receivables were overstated by \$18.8 million.

- Subsidy receivables were overstated by \$35.9 million in the custodial fund and \$60.5 million in the government-wide AFR because the full accrual adjustment calculations were based on a report that did not include consideration of amounts that had been paid or settled as of June 30, 2023.
- Prior-year pharmacy rebates collected in the current year were not properly allocated, causing the governmental fund revenue and expenditures to be overstated by \$18.9 million.
- The estimated liability for claims was not reduced for invoices received and paid in July for amounts incurred as of June 30, which were held as a separate payable in the AFR. As a result, the liability for these invoices was duplicated in the governmental fund AFR by \$18.2 million.

OFSS does not have an effective review and reconciliation process in place to identify and correct errors, including ensuring amounts are correctly input into OSRAP's AFR portal. Additionally, OFSS and OGB do not have effective procedures in place to ensure accurate data is provided by OGB for rebate and subsidy accruals and claim liabilities are not duplicated. Good internal control for financial reporting includes procedures to ensure accurate data is obtained for the financial reports; completed AFRs are reconciled to the trial balance and general ledger; and a supervisory review of the AFRs is conducted to identify and correct preparation errors, including input into the AFR portal before submission of the reports to OSRAP. Failure to establish adequate controls increases the risk that errors and omissions may occur and remain undetected.

OFSS should ensure the compilation procedures include reviewing and reconciling the completed AFRs to the trial balance and the general ledger. OFSS and OGB should ensure there is a process in place to prevent the duplication of claim liabilities. OGB should review the report for subsidy and rebate receivables for reasonableness and consistency with recent plan data prior to providing the information to OFSS. Management concurred with the finding and provided a corrective action plan (see Appendix A).

Annual Comprehensive Financial Report – State of Louisiana

As a part of our audit of the Annual Comprehensive Financial Report for the year ended June 30, 2023, we considered internal control over financial reporting and examined evidence supporting cash, revenue, receivables, self-insured health and drug claims expenditures, life insurance premium expenditures, Vantage Medical Home Health Plan premium expenditures, and other postemployment benefits disclosures.

Based on the results of these procedures, we reported a finding related to Inaccurate Annual Fiscal Reports as described previously. The finding related to Inaccurate

Annual Fiscal Reports will also be included in the Single Audit for the year ended June 30, 2023. In addition, the account balances and classes of transactions tested, as adjusted, are materially correct.

Single Audit of the State of Louisiana

As a part of the Single Audit for the year ended June 30, 2023, we performed certain procedures as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) on information submitted by OGB to the Division of Administration's Office of Statewide Reporting and Accounting Policy on the status of the prior-year finding for the preparation of the state's Summary Schedule of Prior Audit Findings. Information submitted for the preparation of the state's Summary Schedule of Prior Audit Findings is materially correct.

Trend Analysis

We compared the most current and prior-year financial activity using OGB's Annual Fiscal Reports and/or system-generated reports and obtained explanations from OGB's management for any significant variances.

The recommendations in this letter represent, in our judgment, those most likely to bring about beneficial improvements to the operations of OGB. The nature of the recommendations, their implementation costs, and their potential impact on the operations of OGB should be considered in reaching decisions on courses of action.

Under Louisiana Revised Statute 24:513, this letter is a public document, and it has been distributed to appropriate public officials.

Respectfully submitted,



Michael J. "Mike" Waguespack, CPA
Legislative Auditor

KW:DM:BH:BQD:ch

OGB2023

APPENDIX A: MANAGEMENT'S RESPONSE

Office of Finance and Support Services
State of Louisiana
Division of Administration

JOHN BEL EDWARDS
GOVERNOR



JAY DARDENNE
COMMISSIONER OF ADMINISTRATION

December 19, 2023

Michael J. "Mike" Waguespack, CPA
Legislative Auditor
P.O. Box 94397
Baton Rouge, LA 70804-9397

Dear Mr. Waguespack:

The Office of Finance and Support Services (OFSS) and Office of Group Benefits (OGB) appreciate the opportunity to respond to the finding titled, Inaccurate Annual Fiscal Reports, resulting from the fiscal year ending June 30, 2023 OGB financial audit.

The Annual Fiscal Reports (AFRs) for the OGB are uniquely formatted to meet the specific reporting requirements relative to this industry and type of fund. Because of the OGB's uniqueness, OFSS must perform two different basis of accounting principles in the AFR preparation.

Management concurs with the finding and recommendation. OFSS and OGB will work together to ensure that future fiscal transactions are reported correctly on the financial statements. OGB's annual receipts and disbursements exceed \$1.6 billion annually. Because retirees of non-state entities (locals) participate in the plan, OFSS must estimate amounts attributable to the non-state retirees which are removed from the OGB General Fund and reported in a separate fiduciary fund. To further complicate this allocation, not all transactions are allocated in the same manner due to the OGB General Fund and the fiduciary fund requiring two different bases of accounting. These accounting complexities combined with the limited time to prepare and review the financial statements are the primary contributing factors for these errors. To eliminate or reduce the future recurrence of these types of errors, OFSS has already taken steps to simplify and streamline the allocation methodology and compilation process for these two OGB AFRs.

The adjustments presented to OFSS that are necessary for proper presentation of the OGB financial statements in the fiscal year ending June 30, 2023 Annual Comprehensive Financial Report for the State of Louisiana have been accepted and made by OSRAP.

Michael J. "Mike" Waguespack, Legislative Auditor

December 19, 2023

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Thank you for your team's commitment to high standards and professionalism in working with OFSS and OGB during the audit. If you have any questions or need additional information, please contact Kerri Traxler via email at Kerri.Traxler@la.gov or telephone at (225) 342-5943.

Sincerely,



Kerri Traxler, MBA

Deputy Undersecretary

Cc: Jay Dardenne, Commissioner of Administration
Barbara Goodson, Deputy Commissioner
Randy Davis, CPA, Assistant Commissioner
Erin Sindelar, CPA, Internal Audit Administrator
Anthony Hamilton, Audit Manager, Internal Audit
David Couvillon, OGB Chief Executive Officer
Melissa Mayers, OGB Chief Operating Officer
Bill Guerra, OGB Administrator
Brian Fleming, CPA, Director of OSRAP
Jovan Haynes, Director of Financial Reporting

APPENDIX B: SCOPE AND METHODOLOGY

We performed certain procedures at the Office of Group Benefits (OGB) for the period from July 1, 2022, through June 30, 2023, to provide assurances on financial information significant to the State of Louisiana's Annual Comprehensive Financial Report, and to evaluate relevant systems of internal control in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. Our procedures, summarized below, are a part of the audit of the Annual Comprehensive Financial Report and our work related to the Single Audit of the State of Louisiana (Single Audit) for the year ended June 30, 2023.

- We evaluated OGB's operations and system of internal control through inquiry, observation, and review of its policies and procedures, including a review of the laws and regulations applicable to OGB.
- Based on the documentation of OGB's controls and our understanding of related laws and regulations, we performed procedures to provide assurances on certain account balances and classes of transactions to support our opinions on the Annual Comprehensive Financial Report.
- We performed certain procedures on the status of the prior-year finding for the preparation of the state's Summary Schedule of Prior Audit Findings for the year ended June 30, 2023, as a part of the 2023 Single Audit.
- We compared the most current and prior-year financial activity using OGB's Annual Fiscal Reports and/or system-generated reports to identify trends and obtained explanations from OGB's management for significant variances.

The purpose of this report is solely to describe the scope of our work at OGB, and not to provide an opinion on the effectiveness of OGB's internal control over financial reporting or on compliance. Accordingly, this report is not intended to be, and should not be, used for any other purposes.

We did not audit or review OGB's Annual Fiscal Reports, and accordingly, we do not express an opinion on those reports. OGB's accounts are an integral part of the State of Louisiana's Annual Comprehensive Financial Report, upon which the Louisiana Legislative Auditor expresses opinions.