

OFFICE OF GROUP BENEFITS  
DIVISION OF ADMINISTRATION

STATE OF LOUISIANA



FINANCIAL AUDIT SERVICES  
MANAGEMENT LETTER  
ISSUED DECEMBER 23, 2019

**LOUISIANA LEGISLATIVE AUDITOR  
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**DIRECTOR OF FINANCIAL AUDIT**  
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# Louisiana Legislative Auditor

Daryl G. Purpera, CPA, CFE



## Office of Group Benefits

December 2019

Audit Control # 80190099

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## Introduction

As a part of our audit of the State of Louisiana's Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2019, we performed procedures at the Office of Group Benefits (OGB) to provide assurances on financial information that is significant to the state's CAFR; evaluate the effectiveness of OGB's internal control over financial reporting and compliance; and determine whether OGB complied with applicable laws and regulations. In addition, we determined whether management has taken actions to correct the finding reported in the prior year.

## Results of Our Procedures

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### Follow-up on Prior-year Finding

Our auditors reviewed the status of the prior-year finding reported in the management letter dated December 26, 2018. We determined that the prior-year finding related to Inaccurate Annual Fiscal Reports has not been resolved and is addressed again in this letter.

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### Current-year Findings

#### Inaccurate Annual Fiscal Reports

For the second 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) more than three weeks after the original due date, with errors requiring audit adjustments. Audit procedures identified the following:

- The current-year full accrual adjustments for premium receivables, subsidy receivables, and rebates were understated by \$20 million, \$37 million, and \$52 million, respectively, because the amounts calculated by OFSS were not input into the AFR portal correctly.
- Management adjusted the beginning fund balance to correct for errors identified in the prior audit but did not adjust the related asset, liability, revenue, and expenditure accounts when calculating the current-year balances, resulting in

multiple accounts that either did not reconcile to the general ledger or did not reconcile to management's supporting documentation. In addition, the receivables reported in the agency fund were misstated as a result of a formula error in a supporting schedule and management did not have an adequate reconciliation process in place to identify and properly correct this error. As a result of these errors, the fund balance for the general fund was understated by \$18 million, and the fund balance for the agency fund was overstated by \$18 million.

- Although the AFRs were due to OSRAP on August 30, 2019, OFSS had not received some of the critical actuarial data needed to complete the AFRs as of August 29, 2019, resulting in delays in the AFRs preparation process and the audit process.

Good internal control for financial reporting includes procedures to ensure timely data is obtained for the financial reports; supervisory review of the AFRs to identify and correct preparation errors before submitting the reports to OSRAP; and procedures to reconcile the financial statements to the trial balance, general ledger, and other supporting schedules. Failure to establish adequate controls increases the risk that errors and omissions may occur and remain undetected.

OGB and OFSS should improve coordination efforts on the actuary data to ensure that timely information is provided to OFSS. In addition, OFSS should ensure that compilation procedures include reconciling both AFRs, including the full accrual receivables and payables to the applicable trial balance or general ledger and to related supporting schedules. Furthermore, OFSS should ensure the correct information is entered into the AFR portal. Management's response did not specifically concur or disagree with the finding but did provide a corrective action plan (see Appendix A, pages 1-2).

### **Inadequate Monitoring of System Access**

OGB, through the Office of Technology Services (OTS), is not adequately monitoring access to the system that maintains member eligibility information to ensure that user profiles contain accurate user information, duplicate accounts are not maintained, and access that is no longer needed by employees and contractors is removed timely.

We reviewed system access as of July 2, 2019, and identified the following:

- Four user IDs were set up with the wrong name because the profiles are set up using a cloning process that copies information from other profiles, and there are insufficient procedures in place to ensure that the current user information is input into the new profile. The profiles were assigned to current or former employees that could not be properly monitored by management due to the incorrect names, increasing the risk of inappropriate access to the system. As a result, three profiles were no longer needed but had not been disabled or deleted timely.

- One OTS employee had multiple user ID's in the system, increasing the risk of inadequate segregation of duties or inappropriate system access.
- One contractor user ID was not disabled or deleted from one of the servers until 24 days after OTS received notification of separation from employment from the contracted vendor. This issue increases the risk of inappropriate system access because there are insufficient procedures in place to ensure that access to all of the system servers is removed when the user ID is disabled or deleted.

Management and OTS immediately corrected these profiles and accesses when the issues were brought to their attention.

Management should strengthen its monitoring procedures by running a system access report for all servers after access changes are made to ensure new profiles are set up appropriately, changes are appropriately made in the system, duplicate accounts are not created, and access to all system servers is removed timely. Management concurred with the finding and provided a corrective action plan (see Appendix A, pages 3-4).

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## **Comprehensive Annual Financial Report (CAFR) – State of Louisiana**

As a part of our audit of the CAFR for the year ended June 30, 2019, we considered internal control over financial reporting and examined evidence supporting premium revenues, health and drug claim expenditures, life insurance premium expenditures, and other postemployment benefits disclosures.

Based on the results of these procedures, we reported findings related to Inaccurate Annual Fiscal Reports and Inadequate Monitoring of System Access, 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, 2019. In addition, the account balances and classes of transactions tested, as adjusted, are materially correct.

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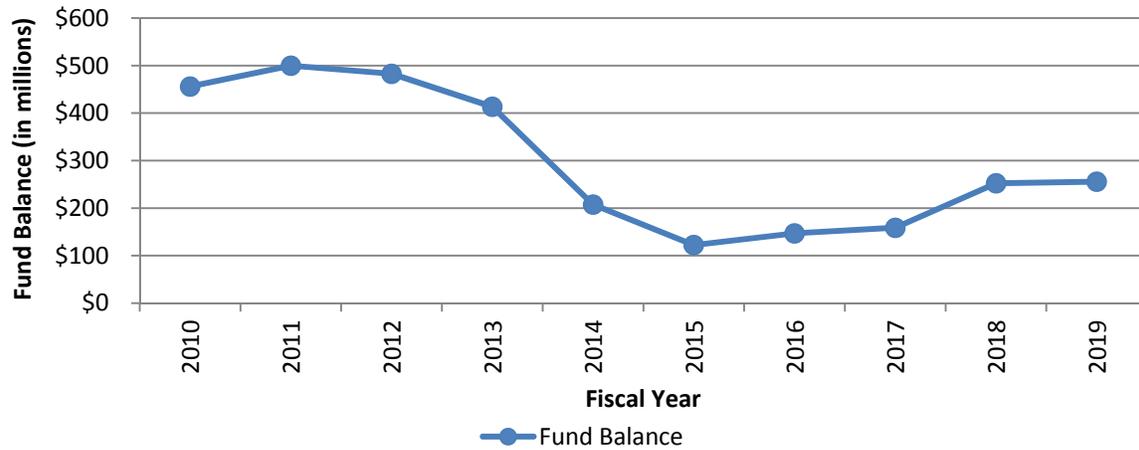
## **Trend Analysis**

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. We also prepared an analysis of OGB's fund balance for the 10 years ending June 30, 2019.

The OGB fund balance is the accumulation of the surplus, or deficit, of revenues minus expenses over time and includes incurred but not reported claims. From a peak of \$500 million in fiscal year 2011, OGB's fund balance dropped to \$122 million as of June 30, 2015, primarily as a result of premium decreases in fiscal years 2012 and 2013 when health care cost trends were increasing. Due to health and drug plan changes and premium rate increases over the last few

fiscal years, the fund balance has increased to \$276 million as of June 30, 2019, exceeding OGB's estimated minimum healthy fund balance target of \$200 million reported in the actuarial forecast at the April 2019 board meeting. The chart below shows the changes in OGB's fund balance for the last 10 fiscal years.

**Exhibit 1**  
**Fund Balance – 10 years**



Source: OGB Annual Fiscal Reports, as adjusted

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,

Thomas H. Cole, CPA  
First Assistant Legislative Auditor

RAY:DM:BH:EFS:aa

OGB2019

## **APPENDIX A: MANAGEMENT'S RESPONSES**



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

JOHN BEL EDWARDS  
GOVERNOR



JAY DARDENNE  
COMMISSIONER OF ADMINISTRATION

December 16, 2019

Daryl G. Purpera, CPA, CFE  
Legislative Auditor  
P.O. Box 94397  
Baton Rouge, LA 70804-9397

Dear Mr. Purpera:

The Office of Finance and Support Services (OFSS) appreciates the opportunity to respond to the finding titled, Inaccurate Annual Fiscal Reports, resulting from the fiscal year ending June 30, 2019 Office of Group Benefits financial audit.

The Annual Fiscal Report (AFR) for the Office of Group Benefits (OGB) was submitted in its entirety using the Office of Statewide Reporting and Accounting Policy's (OSRAP's) AFR portal for the first time this fiscal year ending June 30, 2019. Prior to this fiscal year, various elements of OGB's AFR were prepared and submitted to OSRAP manually, while other elements were prepared and submitted to OSRAP using the AFR portal. With submission into the AFR Portal, the process for preparing and submitting OGB's AFR required extensive modifications to links and formulas so that various financial data located throughout the AFR workbook would integrate in such a manner to mirror the required reporting format in the portal.

OFSS has already begun reviewing and updating the AFR workbook maintained as the supporting documentation for preparing both the "Submitted" OGB AFR, which is delivered to OSRAP through the AFR portal, and the agency Other Post-Employment Benefits (OPEB) financial information, presented to OSRAP manually. Revisions to the AFR workbook will accommodate the newly created report formats; remove tabs in the workbook that are not needed for submission into the AFR portal or for agency reporting; update formulas and links as needed; and strengthen the process for reconciling reported data to the trial balance, general ledger, and supporting schedules.

Updating and revising the AFR workbook will eliminate unused spreadsheets from the workbook. The revision will simplify the volume of data analyzed, allow for data to roll up in a manner that mirrors the portal format, and make way for a more comprehensive reconciliation between the agency OPEB financial information, the "Submitted" AFR, and the general ledger, trial balance, and supporting schedules. OFSS will complete the review and revisions to the

documented process for preparing OGB's AFR in sufficient time prior to beginning the process for preparing OGB's AFR for fiscal year ending June 30, 2020.

Because delays occur in receiving information from external OGB sources, OFSS is unable to complete certain aspects of the OGB AFR within the allotted time frame. As soon as OFSS becomes aware that submission of the OGB AFR will be delayed because the required information is not available, OFSS appropriately requests and obtains an extension for submitting the AFR from OSRAP. The parameters and timing for receiving actuarial data from OGB external sources are established in the contracts between OGB and the vendors. OGB has already notified the vendors of this finding, which resulted from the delay in receiving the required claims data, and has begun planning and coordinating with the vendor for receipt of this information in a more timely manner for fiscal year ending June 30, 2020. In an effort to emphasize the urgency of receiving the required information timely, OFSS will continue to coordinate with OGB in obtaining the necessary supporting documentation for preparing the OGB AFR.

The adjustments presented to OFSS that are necessary for proper presentation of the OGB financial statements in the fiscal year ending June 30, 2019 Comprehensive Annual Financial Report (CAFR) for the State of Louisiana have been accepted and made by OSRAP.

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 Judith Jackson, Director of Financial Reporting, via email at [judith.jackson@la.gov](mailto:judith.jackson@la.gov) or by telephone at (225) 342-5280.

Sincerely,



Marella A. Houghton, CPA  
Deputy Undersecretary

Cc: Jay Dardenne, Commissioner of Administration  
Barbara Goodson, Deputy Commissioner  
Desirée Honoré-Thomas, CPA, CGMA, Assistant Commissioner  
Randy Davis, CPA, Assistant Commissioner  
Marsha Guedry, CPA, Internal Audit Administrator  
Anthony Hamilton, Audit Manager, Internal Audit  
Tommy Teague, OGB Chief Executive Officer  
Afranie Adomako, CPA, Director of Management and Finance  
Lindsay Schexnayder, CPA, Assistant Director, OSRAP  
Judith Jackson, Director of Financial Reporting

MH:bw



**STATE OF LOUISIANA**  
DIVISION OF ADMINISTRATION  
**OFFICE OF GROUP BENEFITS**



December 18, 2019

Daryl G. Purpera, CPA, CFE  
Legislative Auditor  
P.O. Box 94397  
Baton Rouge, LA 70804-9397

Dear Mr. Purpera,

We are in receipt of an audit finding regarding the inadequate monitoring of access to I.T. systems by the Office of Group Benefits (OGB) through the Office of Technology Services (OTS).

The finding indicates that four user ID's were set up with the wrong name and assigned to current or former employees that could not be properly monitored by management resulting in three profiles that were no longer needed but had not been disabled or deleted timely. The finding also indicated that one OTS employee had multiple user ID's in the system and that one contractor user ID was not disabled or deleted from one of the OGB system's servers until 24 days after OTS received notification of separation from employment from the contracted vendor.

OGB acknowledges that the four user IDs that were set up with the wrong names were the result of the practice of cloning the access of an existing user. At the time, the fields for the new user's first and last name were only partially updated. The resulting incorrect combination of first and last names led to the auditor not being able to identify the users as current or former employees or contractors.

- User ID #1 was created for a current OGB employee who has another OGB system user ID. Upon review it was determined that user ID #1 was never used to log into the OGB system and was therefore removed.
- User ID #2 was created for an OGB WAE employee who had run out of hours for the year, so user ID #2 was removed.
- User ID #3 was created for a Division of Administration Office of Finance and Support Services WAE employee who had another OGB system user ID when she was employed as a WAE for OGB. Since the WAE was no longer employed with OGB, the other OGB system User ID was removed and the first and last name associated with user ID #3 was corrected in the user's profile.
- User ID #4 was created for a current OGB employee. The first and last name associated with user ID #4 was corrected in the user's profile.

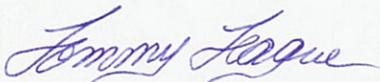
OGB acknowledges that an existing user was found to have a second user account. Both accounts had the same user profile and security access. The second user account was created on 12/11/2018 and was never used by the user to access the OGB system. It was locked as of 12/25/2018 due to inactivity. The second account was removed effective 7/25/2019 upon learning of its existence.

Daryl Purpera, Legislative Auditor  
December 18, 2019  
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OGB acknowledges that a user ID for an employee of a contractor who had separated from the company effective 5/31/2019 was not removed timely. OTS Was notified on 7/1/2019 of the contractor's employee separation. That same day, access to only two of the three servers for the OGB system to which the contractor's employee had access were removed. Once it was discovered that the contractor's employee's user ID still had potential access to an OGB system server, it was removed. A review of system logs determined that the user ID in question had not been used to access the OGB system server after the contractor's employee 5/31/2019 separation date.

OGB and OTS will continue to emphasize to all relevant parties the importance of adherence to the OGB Systems User Access Termination Procedures.

Sincerely,



Tommy Teague, JD, CEBS, CGBA  
Chief Executive Officer

Cc: Jay Dardenne, Commissioner of Administration  
Barbara Goodson, Deputy Commissioner  
Randy Davis, CPA, Assistant Commissioner  
Renita Ward Williams, JD, OGB Chief Operating Officer  
Marsha Guedry, CPA, Internal Audit Administrator  
Anthony Hamilton, Internal Audit Manager  
Richard "Dickie" Howze, OTS Chief Information Officer  
Neal Underwood, OTS Deputy Chief Information Officer

## APPENDIX B: SCOPE AND METHODOLOGY

We performed certain procedures at the Office of Group Benefits (OGB) for the period from July 1, 2018, through June 30, 2019, to provide assurances on financial information significant to the State of Louisiana's Comprehensive Annual Financial Report (CAFR), 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 CAFR for the year ended June 30, 2019.

- 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 CAFR.
- 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 CAFR, upon which the Louisiana Legislative Auditor expresses opinions.