

OFFICE OF GROUP BENEFITS  
DIVISION OF ADMINISTRATION

STATE OF LOUISIANA



FINANCIAL AUDIT SERVICES  
MANAGEMENT LETTER  
ISSUED DECEMBER 26, 2018

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# Louisiana Legislative Auditor

Daryl G. Purpera, CPA, CFE

## Office of Group Benefits



December 2018

Audit Control # 80180095

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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, 2018, 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.

## Results of Our Procedures

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### Current-year Finding

#### Inaccurate Annual Fiscal Reports

The OGB annual fiscal reports (AFRs) for the year ended June 30, 2018, were submitted to the Office of Statewide Reporting and Accounting Policy (OSRAP) more than three weeks after the due date and contained errors requiring audit adjustments. The Office of Finance and Support Services (OFSS) is responsible for preparing OGB's AFRs, which requires coordination with OGB management for actuary reports and the Office of Technology Services (OTS) for system reports. Audit procedures identified the following:

- The other postemployment benefit note disclosures were submitted without consideration of the changes in OSRAP's instructions for the implementation of GASB Statement 75, resulting in additional delays as revised notes were prepared by OFSS and submitted to OSRAP.
- The claims paid report used to allocate cash and expenditures between the agency fund and general fund was incomplete and incorrectly summarized, resulting in an \$11 million overstatement of cash in the general fund (and understatement in the agency fund).
- The agency fund trial balance was not adequately reconciled to the combined balance sheet to ensure that all full accrual receivables and payables were appropriately recorded. The prior-year accruals for receivables were not reversed from the agency fund journal entries, resulting in an \$18 million overstatement of

receivables for the agency fund. The current-year full accrual adjustments for subsidies, totaling \$20 million, and rebates, totaling \$30 million, were not input in the portal AFR.

- The cash and expense allocated to the agency fund for claims paid as of June 30 inappropriately included a reduction for claims paid after June 30, resulting in a \$4 million understatement of cash in the general fund (and overstatement in the agency fund).

Good internal control for financial reporting includes a process to identify changes to reporting requirements; procedures to ensure timely, complete, and accurate data is obtained for the financial reports; and a review of the AFRs to identify and correct preparation errors before submitting the reports to OSRAP. Failure to establish adequate controls increases the risk that errors and omissions, either intentional or unintentional, may occur and remain undetected.

OGB, OFSS, and OTS management should improve coordination efforts during the preparation of the AFRs to ensure that accurate, complete, and timely data is provided to OFSS. In addition, OFSS should ensure that compilation procedures include reviewing OSRAP instructions for changes and reconciling full accrual receivables and payables. Management concurred with the finding and provided a corrective action plan (see Appendix A).

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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, 2018, 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 a finding related to Inaccurate Annual Fiscal Reports, as described previously. In addition, the account balances and classes of transactions tested, as adjusted, are materially correct.

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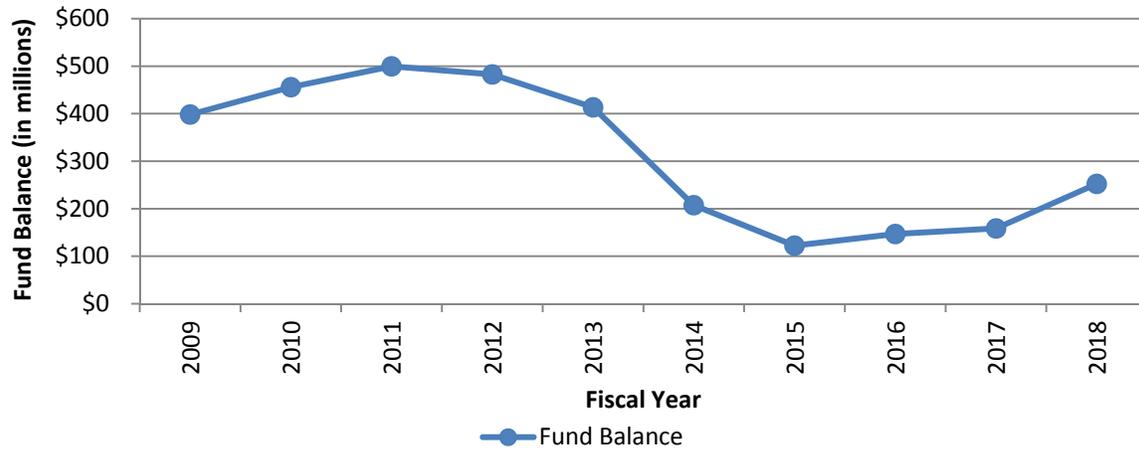
## **Trend Analysis**

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, 2018.

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 years, the fund balance has increased to \$252 million as of June 30, 2018, exceeding OGB's estimated target range of \$132 million to \$241 million reported in the actuarial forecast at the October 2017 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 recommendation in this letter represents, in our judgment, that which will most likely bring about beneficial improvements to the operations of OGB. The nature of the recommendation, its implementation cost, and its 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,

Daryl G. Purpera, CPA, CFE  
Legislative Auditor

AB:DM:BH:EFS:ch

OGB2018



## **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 12, 2018

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

Dear Mr. Purpera:

We appreciate the opportunity to respond to the finding titled, Inaccurate Annual Fiscal Reports, reported in the fiscal year ending 2018 Executive Department audit.

Because of the uniqueness of the Office of Group Benefits (OGB) Annual Fiscal Report (AFR), the Office of Finance and Support Services (OFSS) has always worked closely with the Office of Statewide Reporting and Accounting Policy (OSRAP) in preparing and submitting the OGB AFR to ensure proper presentation. Due to the implementation of GASB Statement 75, OFSS considered these changes and worked even closer with OSRAP to complete the required note disclosures for fiscal year 2018.

As the process begins for preparing next year's AFR (fiscal year 2019), OFSS will coordinate with OSRAP to ensure proper protocol is followed for preparing and submitting the OGB AFR. In coordinating the protocol with OSRAP, we will determine the specific information required to be submitted into the AFR portal. We will ensure that the written instructions reflect any necessary modifications.

There are multiple factors that feed into the allocation of cash and expenditures between the agency fund and the general fund. The allocation is based on information in the annual actuarial report and information from system-generated reports. Delays in receiving information from these external sources sometimes prevent OFSS from completing certain aspects of the OGB AFR within the allotted time frame.

To subjugate the existing limitations of system-generated reports, provide for an accurate allocation, and minimize the potential for overstatements/understatements between the agency fund and the general fund, OFSS is reviewing available resources to improve the current year-end close process between OGB and OFSS. Additionally, OFSS is working collaboratively with the Office of Technology Services (OTS) and OGB to evaluate and revise required report parameters so that reports provide accurate and complete information necessary for accurate financial reports.

To further strengthen the reporting process, OFSS will begin preparing OGB financial statements on a monthly basis instead of only on an annual basis. Monthly reporting will begin in January 2019 and will allow for the identification of year-end reversals early in the reporting process instead of at the end of the fiscal year. These changes in the reporting process will allow for a more timely reconciliation of financial data and support accurate reporting of accruals.

Adjustments necessary for proper presentation of OGB financial data in the fiscal year 2018 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, Accounting Manager, Financial Reporting Unit, 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  
Desireé Honoré-Thomas, CPA, CGMA, Assistant Commissioner  
Randy Davis, CPA, Assistant Commissioner  
Marsha Guedry, CPA, Internal Audit Administrator  
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  
Anthony Hamilton, Audit Manager, Internal Audit

MH:fm

## APPENDIX B: SCOPE AND METHODOLOGY

We performed certain procedures at the Office of Group Benefits (OGB) for the period from July 1, 2017, through June 30, 2018, 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. The procedures included inquiry, observation, review of policies and procedures, and a review of relevant laws and regulations. Our procedures, summarized below, are a part of the audit of the CAFR for the year ended June 30, 2018.

- 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.