STATE OF LOUISIANA
LEGISLATIVE AUDITOR

State Employees Group Benefits Program
State of Louisiana
Baton Rouge, Louisiana

December 30, 1998

Financial and Compliance Audit Division

Daniel G. Kyle, Ph.D., CPA, CFE
Legislative Auditor
STATE EMPLOYEES GROUP BENEFITS PROGRAM
STATE OF LOUISIANA
Baton Rouge, Louisiana

Special Purpose Financial Statements
and Independent Auditor's Reports
As of and for the Year Ended June 30, 1998
With Supplemental Information Schedules

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.

December 30, 1998
STATE EMPLOYEES GROUP BENEFITS PROGRAM
STATE OF LOUISIANA

Special Purpose Financial Statements
and Independent Auditor’s Reports
As of and for the Year Ended June 30, 1998
With Supplemental Information Schedule

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<td>A</td>
</tr>
</tbody>
</table>
BOARD OF TRUSTEES
STATE EMPLOYEES GROUP BENEFITS PROGRAM
STATE OF LOUISIANA
Baton Rouge, Louisiana

We were authorized to audit the accompanying special purpose (legal basis) financial statements of the State Employees Group Benefits Program, a program within Louisiana state government, as of and for the year ended June 30, 1998, as listed in the foregoing table of contents. These financial statements are the responsibility of management of the State Employees Group Benefits Program.

As described in note A to the financial statements, the accompanying special purpose financial statements present only the funds of the State Employees Group Benefits Program. As such, they present the appropriated and non-appropriated activity of the program that are part of the accounts and fund structure of the State of Louisiana. Furthermore, the financial statements have been prepared in accordance with accounting procedures prescribed by the Office of the Governor, Division of Administration, which is a comprehensive basis of accounting other than generally accepted accounting principles, the purpose of which is to reflect compliance with the annual appropriation acts and other state laws and regulations.

As discussed in Exhibit A of this report, the program's accounting records and systems contained major inadequacies. These inadequacies made it impractical to apply sufficient audit procedures to enable us to express an opinion on the fair presentation of the accompanying special purpose financial statements.

The program's financial statements and notes do not include an adjustment reducing assets and liabilities by approximately $4,400,000 to adjust cash to properly reflect book balances, and an adjustment of approximately $909,000 to reduce beginning balances of movable property to the proper amounts due to valuation errors.

Because we were not able to apply sufficient auditing procedures to satisfy ourselves as to the health claims expenditures included in the special purpose financial statements, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the fair presentation of the accompanying special purpose financial statements.
On March 12, 1998, the Board of Trustees approved a health insurance premium rate increase for the program effective July 1, 1998. Rates for active employees for each class of coverage were increased by 4.31%. Rates for retired employees for each class of coverage were increased by 2.96%.

One of the program’s health maintenance organization (HMO) contractors, Advantage Health Plan, Inc., has begun a funded withdrawal from the Louisiana health care market. Advantage Health Plan intends to continue providing services to State Employees Group Benefits Program members until June 30, 1999. Another of the program’s HMO contractors, Ochsner Health Plan of Louisiana will renew its contract with the program for the July 1, 1999, through June 30, 2000, plan year, but will not accept any new program enrollees.

On December 9, 1998, the Board of Trustees approved changes to the plan document that will be effective on July 1, 1999. The changes include the implementation of an exclusive provider option that will replace deductibles with co-payments for health services and prescription drugs, the opportunity for plan members who are Medicare eligible to change their coverage to a Medicare HMO and later return to the program, the elimination of the catastrophic illness endorsement, and revisions to eligibility for surviving spouses.

In accordance with Government Auditing Standards, we have also issued our report dated December 9, 1998, on our consideration of the program’s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts.

Our audit was made for the purpose of attempting to form an opinion on the accompanying special purpose financial statements of the State Employees Group Benefits Program taken as a whole. The accompanying supplemental information schedule as listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the special purpose financial statements of the State Employees Group Benefits Program. Such information has been subjected to the procedures applied in the audit of the special purpose financial statements. For reasons previously stated in the third and fifth paragraphs, we do not express an opinion on the special purpose financial statements. Similarly, we do not express an opinion on the supplemental information schedule.
BOARD OF TRUSTEES
STATE EMPLOYEES GROUP BENEFITS PROGRAM
STATE OF LOUISIANA
Audit Report, June 30, 1998

In accordance with Louisiana Revised Statute 24:516, our report is intended for the information and use of the program and its management and should be used solely as intended by the foregoing statute. 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

LJD:DLH:PEP:dl
### STATE EMPLOYEES GROUP BENEFITS PROGRAM
#### STATE OF LOUISIANA
##### ALL APPROPRIATED AND NON-APPROPRIATED FUNDS

Balance Sheet (Legal Basis), June 30, 1998

<table>
<thead>
<tr>
<th>Asset/Credit Description</th>
<th>Non-Appropriated</th>
<th>Appropriated Payroll</th>
<th>Total (Memorandum Only)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash in State Treasury:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Means of financing</td>
<td>$32,504,787</td>
<td></td>
<td>$32,504,787</td>
</tr>
<tr>
<td>ISIS operating fund</td>
<td>2,962,864</td>
<td></td>
<td>2,962,864</td>
</tr>
<tr>
<td>Payroll clearing fund</td>
<td></td>
<td>$242,667</td>
<td>242,667</td>
</tr>
<tr>
<td>Cash in bank accounts (note O)</td>
<td>8,226</td>
<td></td>
<td>8,226</td>
</tr>
<tr>
<td>Petty cash</td>
<td>100</td>
<td></td>
<td>100</td>
</tr>
<tr>
<td>Receivables:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Due from Auxiliary - self-generated revenue</td>
<td>5,341,287</td>
<td></td>
<td>5,341,287</td>
</tr>
<tr>
<td>Due from Inter/intra fund transfers</td>
<td>16,674</td>
<td></td>
<td>16,674</td>
</tr>
<tr>
<td><strong>TOTAL ASSETS</strong></td>
<td><strong>$40,833,938</strong></td>
<td><strong>$242,667</strong></td>
<td><strong>$41,076,605</strong></td>
</tr>
</tbody>
</table>

| Liabilities:                                                 |                  |                      |                         |
| Accounts payable                                            | $18,530,318      |                      | $18,530,318             |
| Payroll payable                                             | $574,926         | $109,810             | 681,736                 |
| Payroll deductions payable                                  |                  |                      |                         |
| Advance due to state treasury (note M)                      | 25,000           |                      | 25,000                  |
| Deferred revenue                                            | 1,021,647        |                      | 1,021,647               |
| Other liabilities                                           | 50,994,739       |                      | 50,994,739              |
| **Total Liabilities**                                       | **71,146,630**   | **242,667**          | **71,389,297**          |

| Fund Equity - fund balance:                                 |                  |                      |                         |
| Reserved for auxiliary funds                                | (30,303,610)     |                      | (30,303,610)            |
| Unreserved - undesignated                                   | (9,082)          |                      | (9,082)                 |
| **Total Fund Equity**                                       | **(30,312,692)** | **NONE**             | **(30,312,692)**        |

**TOTAL LIABILITIES AND FUND EQUITY**                         | **$40,833,938**  | **$242,667**         | **$41,076,605**         |

The accompanying notes are an integral part of this statement.
UNAUDITED

STATE EMPLOYEES GROUP BENEFITS PROGRAM
STATE OF LOUISIANA
ANCILLARY APPROPRIATION FUND

Statement of Revenues, Expenditures, and
Changes in Fund Balance (Legal Basis)
For the Year Ended June 30, 1998

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>REVENUES</td>
<td></td>
</tr>
<tr>
<td>Appropriated by legislature - state General Fund by fees and self-generated revenues</td>
<td>$456,588,062</td>
</tr>
<tr>
<td>EXPENDITURES</td>
<td></td>
</tr>
<tr>
<td>Appropriated for health and life insurance for active and retired public employees</td>
<td>440,011,448</td>
</tr>
<tr>
<td>EXCESS OF REVENUES OVER EXPENDITURES</td>
<td>16,576,614</td>
</tr>
<tr>
<td>FUND BALANCE (Deficit) AT BEGINNING OF YEAR</td>
<td>(45,103,321)</td>
</tr>
<tr>
<td>ADJUSTMENTS</td>
<td>(1,776,903)</td>
</tr>
<tr>
<td>FUND BALANCE (Deficit) AT END OF YEAR</td>
<td>($30,303,610)</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of this statement.
STATE EMPLOYEES GROUP BENEFITS PROGRAM
STATE OF LOUISIANA
APPROPRIATED FUND -
ANCILLARY APPROPRIATION

Statement of Revenues, Expenditures, and Unexpended Appropriation - Budget Comparison of Current-Year Appropriation - Budget (Legal Basis) and Actual
For the Year Ended June 30, 1998

<table>
<thead>
<tr>
<th></th>
<th>BUDGET</th>
<th>ACTUAL</th>
<th>VARIANCE FAVORABLE (UNFAVORABLE)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>REVENUES</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Appropriated by legislature -</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>state General Fund</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>by fees and self-generated</td>
<td>$448,521,236</td>
<td>$461,192,749</td>
<td>$12,671,513</td>
</tr>
<tr>
<td>revenues</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>EXPENDITURES</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Appropriated for health and</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>life insurance for</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>active and retired public</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>employees</td>
<td>$448,521,236</td>
<td>439,255,965</td>
<td>9,265,271</td>
</tr>
<tr>
<td>**UNEXPENDED APPROPRIATION -</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CURRENT YEAR</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>NONE</td>
<td>$21,936,784</td>
<td></td>
<td>$21,936,784</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of this statement.
A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Board of Trustees of the State Employees Group Benefits Program is a component unit of the State of Louisiana created within the Louisiana Department of Treasury, effective September 1, 1979, as provided by Louisiana Revised Statutes 42:871-879. The Board is comprised of 13 members who serve without compensation. The program was formed to administer an employee benefits program of group health and life insurance for active and retired state employees, active and retired school board employees, and certain political subdivisions' active and retired employees, as authorized by state statute.

The State Employees Group Benefits Program prepares its financial statements in accordance with the procedures established by the Division of Administration. While the financial activities of the State Employees Group Benefits Program are not legally or practically an established fund account, they are organized and operated on a fund basis whereby a separate self-balancing set of accounts is maintained to account for authorized or appropriated activities. Therefore, while the accompanying financial statements of the State Employees Group Benefits Program contain sub-account information of the various funds of the State of Louisiana, they only present information as to the transactions of the State Employees Group Benefits Program as authorized by Louisiana statutes and administrative regulations, and as such, they are not prepared in accordance with generally accepted accounting principles. In addition, general fixed assets and long-term obligations of the agency are not recognized in the accompanying financial statements but are recognized in the account groups of the general purpose financial statement of the State of Louisiana.

In June 1996, the Governmental Accounting Standards Board (GASB) updated its Codification of Governmental Accounting and Financial Reporting Standards. This codification and subsequent GASB pronouncements are recognized as generally accepted accounting principles for state and local governments. The accompanying financial statements have been prepared in accordance with such principles. Annually, the State of Louisiana issues a comprehensive annual financial report, which includes the activity contained in the accompanying financial statements. The comprehensive annual financial report is audited by the Office of the Legislative Auditor.

B. FUND ACCOUNTING

General Operating Appropriations

The General Operation Fund is used to account for all general and auxiliary fund appropriated operating expenditures and minor capital acquisitions. All appropriated general and auxiliary operations revenue is accounted for in this fund.
Non-Appropriated Fund - Payroll Clearing Fund

The payroll clearing fund is used to account for payroll deductions and accrued benefits. The non-appropriated fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations.

For purpose of this statement presentation, collections in excess of Appropriated Means of Financing are not considered income not available and therefore are included on Statement B.

C. BASIS OF ACCOUNTING

Basis of accounting refers to when revenues and expenditures are recognized and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accounts of the State Employees Group Benefits Program are maintained in accordance with applicable statutory provisions and the regulations of the Division of Administration Office of Statewide Reporting and Accounting Policy as follows:

Revenues

State General Fund and Interim Emergency Board appropriations are recognized as the net amount warranted during the fiscal year including the 45-day close period.

Fees and self-generated revenues, interagency transfers, federal funds, intrafund revenues, non-appropriated revenues, and other financing sources (with the exception of agency funds) are recognized in the amounts earned, to the extent that they are both measurable and available.

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 recorded as expenditures when paid.

D. GENERAL FIXED ASSETS

At June 30, 1998, the agency has stewardship responsibility for $6,908,190 in movable property, valued at acquisition cost. The agency does not include in the movable property inventory items valued at $250 or less; however, movable property acquired through capital leases have been added to the inventory. In accordance with Louisiana Revised Statutes 39:321-332, the agency has complied with the movable property statutes of the State of Louisiana.
A summary of changes in movable property follows:

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>$7,201,910</td>
<td>$432,414</td>
<td>$726,134</td>
<td></td>
<td>$6,908,190</td>
<td></td>
</tr>
</tbody>
</table>

E. LONG-TERM OBLIGATIONS

The agency, by statute, is not allowed to incur bonded indebtedness and, therefore, no recognition within this account is necessary. Further, any long-term obligation of the agency arising from lease commitments, judgments, compensated absences, and future death benefits are not recognized in the accompanying statements but are disclosed within these notes.

F. ENCUMBRANCE ACCOUNTING

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrances are recorded by the agency but are not included in the financial statements. The agency does not have the ability to finance the liquidation of encumbrances after June 30, 1998, as provided by Louisiana Revised Statute 39:82(A).

G. BUDGETARY PRACTICES

The ancillary appropriation, made for the operations of the program, is an annual lapsing appropriation consisting of self-generated funds.

1. The budgetary process for the ancillary appropriation is an annual appropriation valid for one year. Revenues for budgetary purposes are recognized on the same basis of accounting as described in note C. Expenditures for budgetary purposes are recognized on the same basis of accounting as described in note C.

2. The agency is prohibited by statute from over-expending the programs established in the budget.

3. Budget revisions are granted by the Joint Legislative Committee on the Budget, a committee of the Louisiana Legislature. Interim emergency appropriations may be granted by the Interim Emergency Board.

4. The budgetary information in the financial statements includes the original appropriation plus subsequent amendments as follows:
During the fiscal period, the ancillary fund employs encumbrance accounting to assure compliance with annual appropriation acts. The annual appropriation provides that any unexpended balance in the program's self-generated funds may be retained as fund equity to fund future expenditures of the program.

H. INVENTORY OF MATERIALS AND SUPPLIES

In general, inventories are recorded as an expenditure when purchased.

I. LEAVE

Annual and Sick Leave

Employees earn and accumulate annual and sick leave at various rates depending on their years of service. The amount of annual and sick leave that may be accumulated by each employee is unlimited. Upon termination, employees or their heirs are compensated for up to 300 hours of unused annual leave at the employee's hourly rate of pay at the time of termination. Upon retirement unused annual leave in excess of 300 hours plus unused sick leave is used to compute retirement benefits. Act 343 of 1993 allows members of the Louisiana State Employees' Retirement System, upon application for retirement, the option of receiving an actuarially determined lump sum payment for annual and sick leave which would otherwise have been used to compute years of service for retirement. The liability for unused annual leave payable at June 30, 1998, computed in accordance with the Codification of Governmental Accounting and Financial Reporting Standards Section C60.105 is estimated to be $1,113,699. The leave payable is not recorded in the accompanying financial statements.

Compensatory Leave

Employees who are considered having non-exempt status according to the guidelines contained in the Fair Labor Standards Act may be paid for compensatory leave earned (K-time). Upon termination or transfer, an employee will be paid for any time and one-half compensatory leave earned and may or may not be paid for any straight hour for hour compensatory leave earned. Compensation paid will be based on the employee's hourly rate of pay at termination or transfer. The liability for accrued payable compensatory leave at June 30, 1998 computed in accordance with the Codification of Governmental Accounting and Financial Reporting Standards, Section C60.105 is estimated to be $31,480. The leave payable is not recorded in the accompanying financial statements.
J. RETIREMENT SYSTEMS

Substantially all employees of the agency belong to the Louisiana State Employees' Retirement System, a cost sharing, multi-employer defined benefit pension plan. The State Employees' Retirement System is a statewide public employee retirement system and is available to all eligible employees. The State Employees' Retirement System publishes annual financial reports, which include detailed historical, financial, and actuarial information.

K. JUDGMENTS, CLAIMS AND SIMILAR CONTINGENCIES

Obligations and losses rising from judgments, claims, and similar contingencies are paid through the state's self insurance fund and are not reflected in the accompanying special purpose statements. The self-insurance fund is operated by the Office of Risk Management, the state agency responsible for the state's risk management program.

Judgments and settlements resulting from suits relative to health claims are the responsibility of the program. Payments made by the program during the fiscal year pursuant to judgments or settlements in the amount of $446,596 are reflected in the accompanying financial statements. Pending suits have been reported to the Attorney General's Office and are not reflected in the accompanying financial statements.

Administrative expenses for the operations of the internal legal department and professional fees for an employment law contract in the amount of $407,828 were incurred in the current year and are reflected in the accompanying financial statements. A breakdown of this is as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Legal Department</td>
<td>$400,220</td>
</tr>
<tr>
<td>Professional Services Expenses - Employment Law</td>
<td>7,608</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$407,828</strong></td>
</tr>
</tbody>
</table>

L. LEASE AND RENTAL COMMITMENTS

Lease agreements, if any, have non-appropriation exculpatory clauses that allow lease cancellation if the Legislature does not make an appropriation for their continuation during any future fiscal period. Total operating lease expenditures for fiscal year 1997-1998 amounted to $876,735.

**Operating Leases**

Operating leases are all leases which do not meet the criteria of a capital lease. Operating leases are grouped by nature and the annual rental payments for the next five years are presented in the following schedule.
M. IMPREST FUNDS

ISIS Agencies

The agency maintains a permanent travel and petty cash imprest fund in the amount of $25,000, as authorized by the Commissioner of Administration and advanced by the Treasurer's Office in accordance with Title 39. The funds are permanently established and periodically replenished from agency funds when expenditure vouchers are presented.

N. POST RETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS PER GASB 12

LRS 42:821 THROUGH 42:880 establishes the self-insured and self-funded state employees group health care and life insurance program and authorizes the State Employees Group Benefits Program to provide certain continuing health care and life insurance benefits for its retired employees. Substantially all of the agency's employees become eligible for those benefits if they reach normal retirement age while working for the agency. Monthly premiums are paid jointly by the employer and the employee for both retirees' and active employees' benefits regardless of whether benefits are provided by Group Benefits or one of the HMO's authorized by Group Benefits. The agency recognizes the cost of providing benefits as an expenditure when paid during the year. For the year ended June 30, 1998, the cost of retirees' benefits totaled $89,550, while the number of retirees is 31. The cost of retirees' benefits is net of the participants' contributions.

O. CASH AND INVESTMENTS

Cash and Equivalents

For reporting purposes, cash and cash equivalents include cash, demand deposits, time deposits and certificates of deposit. Under state law, the State Employees Group Benefits Program may deposit funds within a fiscal agent bank selected and designated by the Interim Emergency Board. Further, the agency may invest in time certificates of deposit in state banks organized under the laws of Louisiana, national banks having their principal office in the state of Louisiana, in savings accounts or shares of savings and loan associations and savings banks and in share accounts and share certificate accounts of federal or state chartered credit unions.

### Table: Nature of Lease

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Office space</td>
<td>$661,079</td>
<td>$646,824</td>
<td>$629,706</td>
<td>$624,000</td>
<td>$624,000</td>
<td>$312,000</td>
</tr>
<tr>
<td>Equipment</td>
<td>64,228</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>84,274</td>
<td>84,274</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$809,581</td>
<td>$646,824</td>
<td>$629,706</td>
<td>$624,000</td>
<td>$624,000</td>
<td>$312,000</td>
</tr>
</tbody>
</table>
As reflected on Statement A, the State Employees Group Benefits Program had cash and cash equivalents totaling $8,226 at June 30, 1998. Cash and cash equivalents are stated at cost, which approximates market. Under state law, these deposits 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 of deposit with the fiscal agent. These pledged securities are held in name of the pledging fiscal agent bank in a holding or custodial bank in the form of safekeeping receipts held by the state treasurer. The deposits at June 30, 1998, are secured as follows:

<table>
<thead>
<tr>
<th>Class</th>
<th>Carrying amount on Balance Sheet</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$8,226</td>
<td></td>
</tr>
<tr>
<td>Bank Balances</td>
<td></td>
<td>$35,249</td>
</tr>
</tbody>
</table>

The State Employees Group Benefits Program does not maintain investment accounts. The State Treasurer's Office invest the program's idle funds. The amount of interest paid by the Treasurer's Office during the fiscal year was $1,214,499. This amount is included in Statement B.
P. PAYROLL AND RELATED BENEFITS ACCRUAL

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>7/03/97 Payroll (Gross and Related)</td>
<td>$443,187</td>
<td></td>
</tr>
<tr>
<td>7/03/98 Payroll (Gross and Related)</td>
<td></td>
<td>$479,105</td>
</tr>
<tr>
<td></td>
<td>X 110%</td>
<td>X 120%</td>
</tr>
<tr>
<td>Payroll Accrual</td>
<td>$487,505</td>
<td>$574,926</td>
</tr>
</tbody>
</table>

Expenditure Schedule

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Programs from Statement C</td>
<td>$439,255,965</td>
</tr>
<tr>
<td>Less 1996-97 accrual</td>
<td>(487,505)</td>
</tr>
<tr>
<td>Add 1997-98 accrual</td>
<td>574,926</td>
</tr>
<tr>
<td>To Statement B</td>
<td>$439,343,386</td>
</tr>
</tbody>
</table>

Q. PER DIEM PAID BOARD MEMBERS

Board members of the State Employees Group Benefits Program are not reimbursed on a per diem. They are reimbursed travel expenses in accordance with PPM 49.

R. RESERVE FOR CONTINUING OPERATIONS

The State Employees Group Benefits Program is allowed by statute to retain residual fund balance in order to finance future operations. For the fiscal year ended June 30, 1998, the amount of negative reserves was $30,303,610.
S. OTHER REQUIRED SCHEDULES

Other Charges

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mental Health and Substance Abuse Contract Payments</td>
<td>$5,721,222</td>
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<tr>
<td>Life Insurance Contract Payments</td>
<td>$22,544,008</td>
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<tr>
<td>Health Claims Expenses</td>
<td>$232,294,496</td>
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<td>Drug Claims Payments</td>
<td>$40,250,557</td>
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<tr>
<td>Health Maintenance Organizations Premium Payments</td>
<td>$118,278,996</td>
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<tr>
<td>Cafeteria Plan Deduction Payments</td>
<td>$733,906</td>
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<tr>
<td>Legislative Audit Fees</td>
<td>$91,910</td>
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<tr>
<td>Utilization Review Physician Contract</td>
<td>$50,000</td>
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<tr>
<td>Court Costs and Misc. Legal Expenses</td>
<td>$7,738</td>
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<tr>
<td>Department of Insurance Actuarial Exam</td>
<td>$51,884</td>
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<td>Training Expenses</td>
<td>$59,189</td>
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<td>CPTP Operations</td>
<td>$3,118</td>
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<td>Civil Service Operations</td>
<td>$30,230</td>
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<tr>
<td>Dependent Day Care Flexible Spending Claims Payments</td>
<td>$468,256</td>
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<tr>
<td>NIGP National Membership Dues</td>
<td>$210</td>
</tr>
<tr>
<td>Banking Services</td>
<td>$71,840</td>
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<tr>
<td>Payroll Services</td>
<td>$9,210</td>
</tr>
<tr>
<td>Petty Cash</td>
<td>$10</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$420,666,780</strong></td>
</tr>
</tbody>
</table>

T. AUXILIARY REAL AND NOMINAL ACCOUNTS

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash or Cash Equivalents</td>
<td>$35,475,978</td>
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<tr>
<td>Receivables</td>
<td>$5,357,961</td>
</tr>
<tr>
<td>Payables</td>
<td>$19,105,244</td>
</tr>
<tr>
<td>Negative Reserves</td>
<td>$(30,303,610)</td>
</tr>
<tr>
<td>Revenues</td>
<td>$456,588,062</td>
</tr>
<tr>
<td>Expenditures</td>
<td>$440,011,448</td>
</tr>
</tbody>
</table>

U. SUBSEQUENT EVENTS

Act 150 of the first extraordinary session of 1998 transferred the Board of Trustees to the Office of the Governor, Division of Administration, and restructured the board. Effective July 1, 1998, the board consists of sixteen members, fifteen of whom are voting members, as follows: six elected plan participants who are currently employed, two elected retired plan participants, five members appointed by the Governor from the private sector, a member of the House of Representatives, and a member of the Senate. The Commissioner of Insurance, or his designee, serves as a non-voting member of the Board. In addition to the restructuring of the
board, the program will undergo a change in top management with the hiring of a chief executive officer and a chief operating officer.

V. GROUP TERM LIFE INSURANCE

In accordance with the terms of the group term life insurance policy issued by Continental Assurance Company, the program receives an excess experience rating credit if surplus exists at the end of each policy year that is recorded as a refund. This amount is calculated based on the total life premiums remitted less the incurred claims and insurer’s expense (retention). In the event that a deficit was carried forward from a previous year, this too is subtracted from the current year premium in this calculation.

On January 1, 1989, the Board of Trustees adopted a retrospective rating agreement whereby the insurer issues an experience report at the end of each experience period which details:

1. Earned Premium
2. Incurred Claims
3. Insurer’s Expense (retention)
4. Deficit Carry Forward, if any
5. Current Period Surplus (Deficit)

If the sum of the incurred claims, deficit Carry forward and retention is less than the earned premium, the insurer will refund such excess to the program. If the sum of incurred claims, deficit carry forward and retention is greater than the earned premium, the program will incur a retrospective premium due to the insurer limited to 10.2% of the earned premium for the rating period.

For the experience period ending June 30, 1998, the program has estimated that a retrospective premium will be due to the insurer in the amount of $2,299,489. This amount is not included in the accounts payables on Statement A.

W. REPORTED AND UNREPORTED ESTIMATED LIABILITIES

Reported Estimated Liability for IBNR Claims

The estimated liabilities for health claims reported but unpaid and health claims incurred but unreported are included on Statement A, are $50,994,739. This estimated liability is based upon information submitted by the consulting actuarial firm, AON Consulting Group Inc.
Unreported Estimated Liabilities

Medicaid Liability

Certain individuals who are covered under employer sponsored health plans, such as the State Employees Group Benefits Program, also meet the eligibility requirements for benefits under the Medicaid Program. When Medicaid pays benefits for such an individual, and subsequently identifies other coverage, it will seek reimbursement from the employer sponsored health plan. Before 1994, the program paid reimbursement of approximately $900,000 to Medicaid. Between 1994 and 1997, the program and Medicaid were involved in contract negotiations which would have streamlined the claims filing and adjudication process and provided for a discounted reimbursement amount. During that time, Medicaid did not file additional claims for reimbursement. In 1997, the Health Care Financing Administration (HCFA) indicated that it would not approve the pending contract. Since June 1997, Medicaid filed claims with the program of benefits paid from 1994 forward. Those claims are currently pending resolution legal issue regarding both liability and amount. It is estimated that the potential liability to the program for these claims is between $900,000 and $1.2 million.

Waiver of Premium Reserve Liability

The liability of future death benefits of plan members on waiver of premium are not a required part of the accompanying financial report and are not reflected in the report. A liability totaling $5,151,100 has been calculated for future death benefits of plan members in waiver of premium status. This amount is not reflected in the accompanying financial report. The total liability is based upon information submitted by the actuarial firm, AON, Inc. in a report for the year ended June 30, 1998. The net amount of life insurance death benefits due to those plan members in waiver status is as follows:
### X. CLAIMS PAYMENTS TO STATE-OWNED FACILITIES

The program made claims payments to state-owned facilities in the amount of $3,330,803 during the fiscal year.
<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>BALANCES AT BEGINNING OF YEAR</td>
<td>$222,663</td>
</tr>
<tr>
<td>ADDITIONS</td>
<td></td>
</tr>
<tr>
<td>Transfers from general appropriation</td>
<td>$10,846,212</td>
</tr>
<tr>
<td>DEDUCTIONS</td>
<td></td>
</tr>
<tr>
<td>Payroll, deductions, and employee benefits</td>
<td>($10,826,208)</td>
</tr>
<tr>
<td>BALANCES AT END OF YEAR</td>
<td>$242,667</td>
</tr>
</tbody>
</table>
OTHER REPORT REQUIRED BY

GOVERNMENT AUDITING STANDARDS

The following pages contain a report on compliance with laws, regulations, and contracts and internal control over financial reporting 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 statements 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 statements.
STATE EMPLOYEES GROUP BENEFITS PROGRAM
STATE OF LOUISIANA
Baton Rouge, Louisiana

We were authorized to audit the special purpose (legal basis) financial statements of the State Employees Group Benefits Program (SEGBP), a program within Louisiana state government, as of and for the year ended June 30, 1998, and have issued our report thereon dated December 9, 1998. Our audit was to have been conducted 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. However, because of inadequacies in the program’s accounting records, we were not able to apply the foregoing standards.

Compliance

As part of attempting to obtain reasonable assurance about whether SEGBP’s special purpose financial statements are 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 the following instance of noncompliance that is required to be reported under Government Auditing Standards, the effects of which has not been corrected in the program’s financial statements or in the notes to the financial statements.

Noncompliance With Movable Property Regulations

SEGBP did not comply with the state’s movable property laws and regulations or with the Public Records Act. Furthermore, the program did not have adequate internal controls to ensure proper reconciliation of property records.

Louisiana Administrative Code, Title 34 Part VII Section 307(A) requires that acquisitions are to be tagged and information is to be forwarded to the Louisiana Property Assistance Agency (LPAA) within 45 days after receipt of the items. Eighteen of the 20 sample items tested, or 90%, were not tagged and added to the inventory system until 72 to 176 days after receipt of the property. One additional item, purchased

EXHIBIT A
in the prior fiscal year, was not added to the inventory system by the current fiscal year-end. Failure to tag items in a timely manner could result in misappropriation of state property and/or sanctions by the Commissioner of Administration.

Louisiana Revised Statute (R.S.) 44:36 requires that public records, including monthly reports from the LPAA, are to be retained for three years. Only 3 of the 12 monthly reports were retained by the agency during fiscal year 1998. Failure to maintain records could result in criminal penalties under the provisions of this act.

In addition to compliance requirements, adequate internal control dictates that internal records should be reconciled to reports issued by LPAA in a timely manner. Additions and deletions to the program property records were not reconciled to monthly reports issued by LPAA for the first 11 months of the fiscal year. Failure to reconcile to LPAA reports increases the risk that the property balance will be incorrectly stated.

SEGBP should implement adequate internal controls to ensure compliance with applicable laws and regulations pertaining to property and records and to ensure accurate financial reporting. Management concurred with the finding and recommendation and outlined a plan of corrective action (see Appendix A, page 1).

Internal Control Over Financial Reporting

In planning and performing our audit, we considered SEGBP's internal control over financial reporting in order to determine our auditing procedures for the purpose of attempting to express an opinion on the special purpose financial statements and not to provide assurance on the internal control over financial reporting. However, because of inadequacies in the program's accounting records, we were unable to form an opinion on the program's financial statements and related notes. We noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect SEGBP's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the following paragraphs.

Inadequate Information Systems Controls

For the second consecutive year, SEGBP did not have adequate internal controls over its computer-related information system (IS) functions, which could affect the integrity of programs, processing, and data. An adequate system of internal control requires that the program have proper disaster recovery procedures, have system reconciliation procedures, be able to provide accurate system information in a timely manner, and
adopt procedures to address general control weaknesses. Annually, the program's Information Services Division processes information relating to approximately $233 million of claims expenditures, as well as various other transactions.

IS general controls include controls over (1) organization and management of IS activities; (2) application systems development and maintenance; (3) systems software support; (4) computer operations, including backup and disaster recovery; (5) security administration policies and procedures; (6) logical security; and (7) internal audit of IS activities. Good IS general controls are necessary to preserve the integrity of the system and to provide reliance on the results produced by the system. IS application controls include control procedures over input, processing, and output of data. Good IS application controls are necessary to ensure that the processing of transactions is performed in accordance with management's design and intent. Weaknesses were observed in both general controls and applications controls. Control deficiencies could affect the integrity of programs, processing, and data. As a result, risk exists that programs and data could be accessed and modified without proper authorization, review, and approval; that errors or fraud could occur and not be detected; and that a disaster could occur and the program may not be able to fully recover lost programs and data.

The following deficiencies in internal control were noted:

1. SEGBP did not have adequate disaster recovery procedures as follows:
   - The claims processing system failed on June 10, 1998, and was not operational until June 22. However, before that failure, on February 19, 1998, the SEGBP Quality Assurance (QA) division had issued an audit report on backup procedures. The QA report warned that "adequate backup and recovery procedures for maintaining security copies of transaction history and log files needed for restarts and reruns have not been implemented in the claims processing system." Management responded that "backup and recovery procedures are in place and documented." When the system failed, the claims data had not been backed up since May 27, 1998, although program policies required nightly backup. Furthermore, claims history data were lost during the failure and were not fully recovered until the end of September, three months later.
   - During the two weeks the system was inoperable, all non-essential personnel were granted special leave and were not required to report to work. Once the system was operational,
these personnel were granted paid overtime to process the backlog of claims. Total paid overtime resulting from the computer crash totaled approximately $85,085. In addition, more than 29,000 claims were paid more than 30 days after receipt in July through September 1998, in violation of R.S. 22:657. Noncompliance with this statute "shall subject the insurer to a penalty payable to the insured of double the amount of the health and accident benefits due under the terms of the policy or contract during the period of delay, together with attorney's fees to be determined by the court." Consequently, SEGBP incurred a large potential liability due to the computer failure. SEGBP also incurred the cost of a consultant to correct the problems with the claims system.

- The claims imaging system failed in October 1997 and images were lost. Although these images were subsequently recovered, images were lost once again three days later during the conversion to a new imaging software program because of inadequate planning. SEGBP and vendor personnel attempted to restore lost images during the year; however, the data were not fully restored at fiscal year-end. Claims images represent the supporting documentation upon which claims are paid, and lost images impair the program's ability to process claims in a timely manner. In addition, lost images hamper the audit verification process.

- SEGBP did not prepare reports on the June 1998 and October 1997 systems failures to describe what caused the failures, what quantitative and qualitative impact the down-time had on the program, what procedures should have been implemented to restore lost data in a timely manner, and what steps could have prevented or reduced the adverse impact of each failure on the program. Without this documentation, SEGBP's plans to avert future incidents like these system failures may not be adequately communicated to appropriate staff.

- SEGBP did not have an off-site processing contract, which may have mitigated the financial costs of granting employees special leave and subsequent paid overtime. The availability of off-site processing would help to ensure that claims are paid timely and in compliance with R.S. 22:657.
2. SEGBP did not reconcile system-generated reports to supporting claims detail information or SEGBP financial information. The inability to reconcile summary reports results in the risk of undetected errors or fraud and provides no assurance that the report or underlying data are correct.

3. SEGBP could not provide accurate system information to the auditors in a timely manner. Data provided were untimely and contained errors, which hampered the audit process.

4. SEGBP had numerous general control weaknesses, including the lack of security software and monitoring on certain systems, which results in the risk of improper access to those systems.

SEGBP should establish adequate IS procedures and controls to ensure the integrity of programs, processing, and data. SEGBP should ensure that the program has proper disaster recovery and reconciliation procedures and is able to provide accurate system information in a timely manner. Management concurred with the findings and recommendations and outlined a plan of corrective action (see Appendix A, page 2).

Failure to Reconcile Financial Records

SEGBP did not reconcile health claims expenditures recorded in the state's general ledger accounting system to health claims expenditures recorded in its subsidiary health claims processing system before submitting its Annual Fiscal Report to the Office of Statewide Reporting and Accounting Policy. Adequate internal control requires timely reconciliations of the general ledger to the subsidiary systems to support financial statement amounts.

SEGBP attempted to reconcile the systems four months after the end of the fiscal year. However, the reconciliation resulted in a net difference of $1.9 million. Inability to reconcile these systems and resolve the outage results in the risk of undetected errors in the financial statements or fraud.

SEGBP should reconcile the general ledger system to the subsidiary systems in a timely manner before completing the Annual Fiscal Report. Management concurred with the finding and recommendation and outlined a plan of corrective action (see Appendix A, page 4).
Improper Claims Payments

The SEGBP internal control system did not effectively prevent overpayments of health claims. Adequate internal control requires the review of impending claims payments at a level sufficient to detect potential overpayments. Failure to detect overpayments results in erroneous expenditures of SEGBP funds. Total receivables for known claims overpayments to both participants and providers at June 30, 1998, were $3,163,472. In addition to these known receivables, approximately 2,410 claims overpayments for both participants and providers have been reported to Customer Service but have not been processed or quantified by the Research and Recovery Division.

As an example of the problem with overpayments, one plan member was paid $181,121 for a $3,329 claim, resulting in an overpayment of $177,792. The overpayment occurred when a claims processor failed to use the foreign exchange rate when processing the claim, although the plan member included an estimated foreign exchange rate in her claim letter to the program. Furthermore, the claim payment amount, as processed, exceeded the claims processor's maximum allowable claim amount. The claim payment was held by the system and was released by a claims supervisor without adequate review. The Quality Assurance Division did not review the payment although it was the largest payment to a claimant during the 1998 fiscal year; the second largest payment to a claimant was only $15,113. Our auditors discovered the overpayment subsequent to fiscal year 1998.

SEGBP should ensure that internal control is adequate to prevent overpayments of health claims. Management concurred with the finding and recommendation in part and outlined a plan of corrective action (see Appendix A, page A-5).

Improper Contract Payments

SEGBP did not have adequate internal control over contract monitoring to prevent improper payments to vendors. As a result, the program made improper payments to one software vendor for services rendered in violation of the contract's terms. Adequate internal control requires that an agency verify that the contract amount has not been exceeded before payment is made to a vendor.

One software vendor was paid $23,764 for services performed after the December 31, 1997, expiration date of the contract. Obligations totaling $88,885 were incurred both before and after the contract expiration date although the contract allowed a maximum of $49,000. SEGBP later disputed $43,400 of the total billing because the vendor did not provide monthly invoices; however, $77,485 was ultimately paid to the software vendor. Therefore, $28,485 was paid to the software vendor in excess of the contract amount. In addition, $20,000 of the $77,485 was paid based on an estimate rather than

EXHIBIT A
the contracted hourly rates of $125 or $175. These actions constitute violations of contract terms.

SEGBP should ensure that contract-monitoring procedures are sufficient to prevent improper payments to vendors. Management concurred with the finding and recommendation and outlined a plan of corrective action (see Appendix A, page 6).

Inadequate Audit Resolution

SEGBP did not have adequate procedures to resolve audit findings in a timely manner. An adequate system of internal control requires follow-up and resolution of findings reported by internal and external auditors in a timely manner.

SEGBP failed to resolve audit deficiencies as follows:

- Twenty-two suggestions for improvements in computer systems were developed by the Legislative Auditor's Information Systems auditor and presented to SEGBP during September and October 1997. As of June 30, 1998, only three suggestions had been implemented. These deficiencies could affect the integrity of programs, processing, and data. As a result, a general risk exists that programs and data could be accessed and modified without proper authorization, review, and approval.

- SEGBP did not adequately follow up on claims processing audits performed by the SEGBP Quality Assurance Division. Three of the quarterly Quality Assurance audit reports indicated errors in excess of the acceptable payment error range for claims payments. Failure to follow up and implement corrective action increases the risk of future occurrences and may result in unnecessary costs associated with overpayment recoveries.

- As noted previously in this report, an audit finding presented by the Quality Assurance Division on February 19, 1998, warned that "adequate backup and recovery procedures for maintaining security copies of transaction history and log files needed for restarts and reruns have not been implemented in the claims processing system." Management did not implement corrective action, and when the system failed on June 10, 1998, the system had not been backed up for two weeks. Consequently, SEGBP incurred unnecessary payroll, professional services, and other costs associated with data recovery.
SEGBP should resolve audit findings in a timely manner to remedy existing problems and prevent future occurrences. Management concurred with the finding and recommendation and outlined a plan of corrective action (see Appendix A, page 7).

Inadequate Controls Over Claims Processing Security

SEGBP did not have adequate internal control to ensure that employees do not have access greater than their business need to the claims processing system. Both the Quality Assurance Division and the Information Systems Division had access to enter, adjudicate, void, and adjust claims. Adequate internal control requires written documentation of procedures, standardized access profiles, and independent review to ensure that employees are only permitted access to the data necessary to perform their duties. Lack of adequate security measures and inappropriate access to the system could result in improper claims payments.

SEGBP should implement adequate internal control to ensure that employees do not have access greater than their business need in the claims processing system. Management concurred with the finding and recommendation and outlined a plan of corrective action (see Appendix A, page 8).

Inadequate Provider Maintenance

SEGBP did not have adequate internal control over its provider files in the claims processing system to remove or reclassify inactive providers. Adequate internal control requires that providers should be placed on inactive status or removed from the claims processing system when payments are no longer made to those providers. However, approximately 10,572 of the 41,592 providers in the system, or 25%, were out-of-state providers that did not receive a claim payment during fiscal year 1998, but were still active and eligible for payment. Failure to institute proper restrictions could result in unauthorized payments to providers because of unintentional errors or fraud.

SEGBP should implement adequate internal control to ensure that inactive providers are properly restricted. Management concurred with the finding and recommendation and outlined a plan of corrective action (see Appendix A, page 9).

Inadequate Controls Over Dependent Care Program

SEGBP did not have adequate internal control over its dependent care program. Adequate internal control requires the reconciliation of individual and total member account balances and that adequate documentation exists to support transactions and amounts.

EXHIBIT A
SEGBP did not reconcile individual plan member account balances at the end of the month to the beginning balances to ensure proper posting of receipts and disbursements. SEGBP did not verify that disbursements are posted to the proper accounts at the end of each month. In addition, monthly statements are not sent to plan members, so the only time the plan member receives his/her balance is on a check stub sent with a disbursement. SEGBP did not reconcile the subsidiary accounts to the control total; it only reconciled the control total to the bank account. Failure to reconcile increases the risk that the individual and collective balances will be incorrectly stated and that payments will be made in excess of the plan members' account balances.

In addition to the lack of reconciliation of account balances, the dependent care software was incapable of producing documentation to support the validity of differences between the amount of a claim and the actual amount paid to the plan member. Checks are issued in amounts up to the lesser of the balance in an individual's account or the amount of reimbursement requested. Any remaining account balance, or remaining reimbursement, is carried forward. However, the system does not generate reports that show the account balance at the time that a check is cut to verify that limits were not exceeded. Consequently, alternative measures must be used to verify that disbursements were made for the proper amounts.

SEGBP should implement adequate internal control over the dependent care program to require reconciliation of plan member balances and to ensure that adequate documentation exists to support transactions and amounts. Management concurred with the finding and recommendation and outlined a plan of corrective action (see Appendix A, page 10).

A material weakness is a 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 in amounts that would be material in relation to the 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider the following to be material weaknesses:

- Noncompliance With Movable Property Regulations, reported in the compliance section of this report
- Inadequate Information Systems Controls
- Failure to Reconcile Financial Records
- Improper Claims Payments

EXHIBIT A
This report is intended for the information and use of the program and its management. By provisions of state law, this report is a public document, and it has been distributed to appropriate public officials.

Respectfully submitted,

[Signature]
Daniel G. Kyle, CPA, CFE
Legislative Auditor

LJD:DLH:PEP:dl

[SEGBP]

EXHIBIT A
Appendix A

Management’s Corrective Action Plans and Responses to the Findings and Recommendations
Dr. Daniel G. Kyle, CPA, CFE
Legislative Auditor
State of Louisiana
P. O. Box 94397
Baton Rouge, LA 70804

Dear Dr. Kyle:

In response to the audit finding on non-compliance with movable property regulations, please note the following.

We concur with the finding. Based on interviews with the property control coordinator it is apparent that since this agency began using ISIS to process payments, the tagging of equipment was postponed until after payment was made. However, the vast majority of equipment may not have been processed for payment in ISIS until long after the 45 day limit allowed by statute for tagging new equipment. Additionally, the property control coordinator was balancing to the general ledger each month, but not reconciling to the LPAA reports.

The property control coordinator will be retrained and closely monitored for compliance with all LPAA rules, state laws and agency policy for the next 90 days. All agency assets will be processed fully within the 45 day requirement. The LPAA reports will be reconciled and initialed by the property control coordinator each month and a copy forwarded to the Administrative Director to assure compliance with state law. Procedures are being written to provide for adequate controls to assure compliance. A copy of these procedures will be provided to your office within 30 days.

The contact person responsible for corrective action is Mrs. Dianne Turcotte.

Sincerely,

Jack W. Walker, Ph.D
Chief Executive Office

cc: Bruce Minor
    Kaye Milliner
    Dianne Turcotte
Dear Dr. Kyle:

In response to your letter dated October 29, 1998 relative to the audit finding on Inadequate Information Systems Controls, please note the following.

1. SEGBP did not have adequate disaster recovery procedures as follows:

   • The claims processing system failed on June 10, 1998, and was not operational until June 22.

     We concur with this finding. In the reconfiguration of the agency’s system, additional disk storage units were installed on or about October 30, 1998 and at the same time and through this reconfiguration, mirrored disk units were set up. This allows data to be written to two disk units simultaneously. Should one disk fail, the other unit maintains mirrored copies of data and the agency can continue to process without interruption while the failed disk is replaced. In addition, we have ordered a larger and faster tape backup unit.

   • In addition, the claims imaging system failed in October 1997 and initial attempts to recover the lost images were aborted after an error occurred in the tape recovery process.

     We concur with this finding. We have been working with a vendor since the conversion to restore the system’s former images. We have the hard copies of these claims. The audit process should not be hampered.

   • SEGBP did not prepare reports on the June 1998 and October 1997 systems failures.

     We concur with this finding.

   • SEGBP did not have an off-site processing contract.

     We concur with this finding. We are in the process of developing a recovery plan to ensure that claims are paid timely in the event of a disaster. All options will be considered, including contracting with an off-site data processing center to provide assistance with the processing of claims and other support activities.
2. **SEGBP did not reconcile system-generated reports to supporting claims detail information or SEGBP financial information.**

   We concur with this finding. We are in the process of addressing these concerns and have contracted with a consultant to assist.

3. **SEGBP could not provide accurate system information to the auditors in a timely manner.**

   We concur with this finding, but must clarify certain key points. We feel that information requested by the auditors was provided, to the extent possible, in a timely and accurate manner. There were some misunderstandings of requests that caused delays. We plan to implement procedures that will supply auditors with the same data each year. Hopefully we can eliminate wasted time, help clarify requests, and streamline the annual audit process.

4. **SEGBP had numerous general control weaknesses.**

   We concur with this finding. We are in the process of resolving these concerns and have contracted with a consultant to assist.

   I would add that effective July 1, 1998, the Program was transferred to the Division of Administration. A Chief Executive Officer and a Chief Operations Officer have been appointed. All areas are currently under review and improvements to procedures and controls to ensure the integrity of programs, processing, and data will be made. Every effort will be made to ensure that the Program has proper disaster recovery and reconciliation procedures. In addition, the Program's goal will be to provide accurate system information in a timely manner.

   The contact person responsible for corrective action is Mr. Kip Wall.

   Sincerely,

   [Signature]

   Jack W. Walker, Ph.D.
   Chief Executive Officer

cc: Kip Wall
November 20, 1998

Dr. Daniel G. Kyle, CPA, CFE
Legislative Auditor
State of Louisiana
P. O. Box 94397
Baton Rouge, LA 70804

Dear Dr. Kyle:

In response to your letter dated November 17, 1998 relative to the audit finding on Failure to Reconcile Financial Records, please note the following.

- The State Employees Group Benefits Program did not reconcile health claims expenditures recorded in the state's general ledger accounting system to health claims expenditures recorded in its subsidiary health claims processing system prior to submitting its Annual Fiscal Report to the Office of Statewide Reporting and Accounting Policy.

We concur with this finding. The amounts reflected on the financial statements represent actual claims checks issued and cash deposits received. The differences between these amounts and amounts reported in our claims processing system are due to the fact that we generally make adjustments to our claims processing system on an accrual basis.

We have contracted with a consultant to assist in determining how a reconciliation between the two systems can be accomplished.

The contact person responsible for corrective action is Mr. Bruce Minor.

Sincerely,

Jack W. Walker, Ph.D.
Chief Executive Officer

cc: Kip Wall
Bruce Minor
December 3, 1998

Dear Dr. Kyle:

In response to your letter dated November 20, 1998 relative to the audit finding on Improper Claims Payments, please note the following.

- The State Employees Group Benefits Program's internal control system did not effectively prevent overpayments of health claims.

We concur with this finding in part. There were incidences of overpayments which should not have occurred. The agency has implemented internal controls to reduce overpayments to members. The agency is in the process of determining and evaluating reasons for overpayments and will seek to insure that overpayment levels are at or below industry acceptable standards.

The contact person responsible for corrective action is Kip Wall.

Sincerely,

Jack W. Walker, Ph.D.
Chief Executive Officer

cc: Kip Wall
October 30, 1998

Dr. Daniel G. Kyle, CPA, CFE
Legislative Auditor
State of Louisiana
P. O. Box 94397
Baton Rouge, LA 70804

Dear Dr. Kyle:

In response to the audit finding on improper contract payments, please note the following.

We concur with the finding. We acknowledge that services were not completed until after the expiration date of the contract and that $28,485 in services were incurred in excess of the contract amount.

We are currently reviewing our procedures to determine what changes are necessary to ensure proper monitoring of contracts. We will forward a copy of the new procedures to Lonnie Dupont as soon as they are available.

The contact person responsible for corrective action is Mr. Kip Wall.

Sincerely,

Jack W. Walker, Ph.D.
Chief Executive Office

cc: Kip Wall
    Bruce Minor
    Kaye Milliner
December 8, 1998

Dear Dr. Kyle:

In response to your letter dated November 17, 1998 relative to the audit finding on Inadequate Audit Resolution, please note the following.

The State Employees Group Benefits Program does not have adequate procedures to resolve audit findings in a timely manner. The SEGBP failed to resolve audit deficiencies as follows:

- Twenty-two suggestions for improvements in computer systems were developed by the Legislative Auditor's Information Systems auditor and presented to SEGBP. As of June 30, 1998, only three suggestions had been implemented.

We concur with this finding. We will develop a plan that will provide for a more effective follow up of audit findings.

- SEGBP does not adequately follow up on claims processing audits performed by the SEGBP Quality Assurance division, as evidenced by error rates in excess of the acceptable payment error range of the industry for claims payments in three of the four quarterly claims processing audit reports.

We concur with this finding. There were incidences of overpayments which should not have occurred. The agency has implemented controls to reduce overpayments to members. The agency is in the process of determining and evaluating reasons for overpayments and will seek to insure that overpayment levels are at or below industry acceptable standards.

- An audit finding presented by the Quality Assurance division on February 19, 1998, warned that "adequate backup and recovery procedures for maintaining security copies of transaction history and log files needed for restarts and reruns have not been implemented in the claims processing system." Management did not implement corrective action, and when the system failed on June 10, 1998, the system had not been backed up for two weeks.

We concur with this finding. We will develop a plan that will provide for a more effective follow up of audit findings.

The contact person responsible for corrective action is Kip Wall.

Sincerely,

Jack W. Walker, Ph.D.
Chief Executive Officer

cc: Kip Wall
In response to your letter dated November 20, 1998 relative to the audit finding on Inadequate Controls over Claims Processing Security, please note the following.

- The State Employees Group Benefits Program did not have adequate internal control to ensure that employees do not have access greater than their business needs to the claims processing system.

We concur with this finding with some clarification. It is true that the Quality Assurance Division employees had access to these programs. They initially gained access since they were trained claims examiners and could assist when the agency had a backlog of claims. However, their access was not deleted when their assistance was no longer needed. While the IS employees did have access to these programs, they could not enter, adjudicate, void, or adjust claims. A second level of security codes (adjustor codes) was never set up for these employees. These codes must be set up in order to access the claims payment function.

We agree that we should implement adequate internal controls to ensure that employees do not have access greater than their business need in the claims processing system. Procedures will be established to identify business needs of each employee and customize their individual security levels.

The contact person responsible for corrective action is Kip Wall.

Sincerely,

Jack W. Walker, Ph.D.
Chief Executive Officer

cc: Kip Wall
Dr. Daniel G. Kyle, CPA, CFE  
Legislative Auditor  
State of Louisiana  
P. O. Box 94397  
Baton Rouge, LA 70804

December 9, 1998

Dear Dr. Kyle:

In response to your letter dated November 20, 1998 relative to the audit finding on Inadequate Provider Maintenance please note the following.

- The State Employees Group Benefits Program did not have adequate internal control over its provider files in the claims processing system to remove or reclassify inactive providers.

We concur with this finding. We are in the process of analyzing the providers questioned by the auditors to determine if, in fact, they are inactive and should be removed from the provider files. We will review the criteria currently in place for determining inactive providers and, if necessary, will establish new or additional criteria. We will also implement procedures to ensure that providers determined by us to be inactive are removed from the claims processing system.

The contact person responsible for corrective action is Francine Juneau.

Sincerely,

Jack W. Walker, Ph.D.  
Chief Executive Officer

cc: Kip Wall  
Francine Juneau
December 8, 1998

Dear Dr. Kyle:

In response to your letter dated November 20, 1998 relative to the audit finding on Inadequate Controls over Dependent Day Care Program, please note the following.

- The State Employees Group Benefits Program's did not have adequate internal controls over its dependent care program.

We concur with this finding. We will review our current procedures to determine what changes can be made to address the various concerns noted. We will also work with our software vendor to determine if the system can generate certain reports to verify that payments are not issued in excess of deposits received and that disbursements are made for the proper amounts.

The contact person responsible for corrective action is Bruce Minor.

Sincerely,

[Signature]

Jack W. Walker, Ph.D.
Chief Executive Officer

cc: Kip Wall