STATE OF LOUISIANA
LEGISLATIVE AUDITOR

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

December 29, 1999

Financial and Compliance Audit Division

Daniel G. Kyle, Ph.D., CPA, CFE
Legislative Auditor

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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, 1999
With Supplemental Information Schedule

December 29, 1999

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, 1999
With Supplemental Information Schedule

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

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December 16, 1999

Independent Auditor's Report
on the Financial Statements

BOARD OF TRUSTEES
STATE EMPLOYEES GROUP BENEFITS PROGRAM
STATE OF LOUISIANA
Baton Rouge, Louisiana

We have audited 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, 1999, as listed in the table of contents. These special purpose financial statements are the responsibility of management of the State Employees Group Benefits Program. Our responsibility is to express an opinion on these special purpose financial statements based on our audit.

We conducted our audit 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

STATE EMPLOYEES GROUP BENEFITS PROGRAM
STATE OF LOUISIANA
Audit Report, June 30, 1999

In our opinion, the special purpose financial statements referred to previously present fairly, in all material respects, the balances within the appropriated and non-appropriated funds of the State Employees Group Benefits Program at June 30, 1999, and the transactions of the Appropriated Fund - Ancillary Appropriation for the year then ended, on the basis of accounting described in note 1-D.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 16, 1999, on our consideration of the State Employees Group Benefits 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 forming an opinion on the accompanying special purpose financial statements taken as a whole. The accompanying supplemental information schedule listed in the table of contents is presented for the purpose of additional analysis. Such information has been subjected to the procedures applied in the audit of the special purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the special purpose financial statements taken as a whole.

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

Respectfully submitted,

Daniel G. Kyle

Daniel G. Kyle, CPA, CFE
Legislative Auditor

LJD:DLH:DSP:ss

[SEGBP]

STATE EMPLOYEES GROUP BENEFITS PROGRAM
STATE OF LOUISIANA
ALL APPROPRIATED AND NON-APPROPRIATED FUNDS

Balance Sheet (Legal Basis), June 30, 1999

	APPROPRIATED FUNDS		NON-	
	ANCILLARY APPROPRIATION	AGENCY FUND - DEPENDENT DAY CARE	APPROPRIATED FUND - PAYROLL CLEARING	TOTAL (MEMORANDUM ONLY)
ASSETS				
Cash (note 2)	$8,020,210	$74,248	$244,167	$8,338,625
Receivables - fees and self-generated revenues	14,490,616			14,490,616
Other receivables	8,766			8,766
Prepaid expenses	40,199			40,199
TOTAL ASSETS	$22,559,791	$74,248	$244,167	$22,878,206
LIABILITIES AND FUND EQUITY				
Liabilities:				
Payables (note 7)	$21,525,648		$244,167	$21,769,815
Due to others		$74,248		74,248
Advance due to state treasury (note 12)	25,000			25,000
Deferred revenues	1,285,905			1,285,905
Estimated liabilities (note 8)	52,064,000			52,064,000
Total Liabilities	74,900,553	74,248	244,167	75,218,968
Fund Equity - fund balance - reserved for continuing operations (deficit) (note 13)	(52,340,762)	NONE	NONE	(52,340,762)
TOTAL LIABILITIES AND FUND EQUITY	$22,559,791	$74,248	$244,167	$22,878,206

The accompanying notes are an integral part of this statement.

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, 1999

REVENUES	
Appropriated by legislature - state General Fund by fees and self-generated revenues	$477,082,132
EXPENDITURES	
Appropriated for health and life insurance for active and retired public employees	496,764,016
EXCESS (Deficiency) OF REVENUES OVER EXPENDITURES	(19,681,884)
FUND BALANCE (Deficit) AT BEGINNING OF YEAR	(30,312,692)
ADJUSTMENTS (note 14)	(2,346,186)
FUND BALANCE (Deficit) AT END OF YEAR	($52,340,762)

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, 1999

	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES			
Appropriated by legislature - state General Fund by fees and self-generated revenues	$489,368,004	$499,753,319	$10,385,315
EXPENDITURES			
Appropriated for health and life insurance for active and retired public employees	489,368,004	496,549,072	(7,181,068)
UNEXPENDED APPROPRIATION - CURRENT YEAR	NONE	$3,204,247	$3,204,247

The accompanying notes are an integral part of this statement.

STATE EMPLOYEES GROUP BENEFITS PROGRAM
STATE OF LOUISIANA

Notes to the Financial Statements
As of and for the Year Ended June 30, 1999

INTRODUCTION

The Board of Trustees of the State Employees Group Benefits Program was created within the Office of the Governor, Division of Administration, effective July 1, 1998, as provided by Louisiana Revised Statutes (R.S.) 42:871-879. The board is composed of 16 members who serve without compensation. The program was formed to administer a group benefits program of group health and life insurance for active and retired state employees, active and retired school board employees, and certain political subdivisions' employees, as authorized by state statute. The program also administers the cafeteria plan and flexible-spending plan for plan members. The program's operations are divided into executive, administrative services, field service, claim service, claims processing, fiscal, data processing, and quality assurance. There are approximately 117,055 plan members enrolled in the program for the 1998-99 fiscal year, of which 40,605 are enrolled through HMO contracts. The program has 396 staff members. Operations of the program are funded with self-generated revenues. Funds are re-established annually by provisions of the Ancillary Appropriations Act.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF PRESENTATION

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

The program is budgeted as an ancillary appropriation and has been previously reported as an internal service (proprietary) fund. Since June 30, 1987, the program's operations have resulted in a fund deficit. In view of the deficit, it was decided by the Division of Administration, Office of Statewide Reporting and Accounting Policy (OSRAP) that the program was no longer operating as an internal service fund as defined by generally accepted accounting principles and should be reported on the basis of accounting described in note 1-D.

B. REPORTING ENTITY

GASB Codification Section 2100 has defined the governmental reporting entity to be the State of Louisiana. The accompanying financial statements represent activity of a program of state government and, therefore, are a part of the fund and account group structure of the State of Louisiana and its general purpose financial statements.

Annually, the State of Louisiana issues general purpose financial statements. The general purpose financial statements are audited by the Louisiana Legislative Auditor.

C. FUND ACCOUNTING

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

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

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

APPROPRIATED FUNDS

Ancillary Appropriation

The State Employees Group Benefits Program is a self-insured group health insurance program and group life insurance program for state employees, for other specified public employees who participate in the State Employees Group Benefits Program or in certain health maintenance programs, and for individuals who qualify for continued group health coverage under the Consolidated Omnibus Reconciliation Act (COBRA) of 1985 with the State Employees Group Benefits Program or with certain health maintenance programs. The group life insurance program is substantially underwritten by Continental Assurance Company. This fund accounts for all appropriated revenues, operating expenditures, and minor capital acquisitions of the program.

Agency Fund - Dependent Day Care

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

NON-APPROPRIATED FUND - PAYROLL CLEARING ACCOUNT

The Payroll Clearing Fund accounts for payroll deductions and accrued benefits. This fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations.

D. BASIS OF ACCOUNTING

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The funds in the accompanying financial statements measure the resources provided by the legislature to fund current-year expenditures and the use of those resources by the program. This differs from generally accepted accounting principles in which the measurement focus would be to measure the flow of current resources.

Basis of accounting refers to when revenues and expenditures are recognized and reported in the financial statements, regardless of the measurement focus applied. The accompanying financial statements reflect revenues and expenditures in accordance with applicable statutory provisions and regulations of the Division of Administration, Office of Statewide Reporting and Accounting Policy. These legal requirements differ from generally accepted accounting principles as follows:

1. Revenues are recognized to the extent that they have been appropriated and not necessarily when measurable and available.
2. Expenditures are recognized to the extent that appropriation authority has been extended to the program and not necessarily when the fund liability has been incurred.

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

Revenues

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

Expenditures

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

E. BUDGET PRACTICES

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

Statement B revenues	$477,082,132
Add:	
Prior-year self-generated funds carryover	21,926,821
Deferred revenues	1,285,905
Dependent day care account deposits	480,108
Less - prior-year deferred revenues	(1,021,647)
Statement C revenues	$499,753,319
Statement B expenditures	$496,764,016
Add:	
Prepaid postage at June 30, 1999	40,199
Dependent day care account withdrawals	475,343
Life claims retroactive premium for 1997-98 fiscal year	2,273,034
Less:	
Estimated liabilities (net)	(1,069,261)
Prepaid postage at June 30, 1998	(82,431)
Payroll payable (net)	(49,048)
Life claims retroactive premium for 1998-99 fiscal year	(1,802,780)
Statement C expenditures	$496,549,072

The program is prohibited by statute from over-expending the categories established in the budget. Budget revisions are granted by the Joint Legislative Committee on the Budget. Interim emergency appropriations may be granted by the Interim Emergency Board. The budget information included in the financial statements includes the original appropriation plus subsequent amendments as follows:

Original approved budget	$454,667,465
Increases for timely payments of health claims and Health Maintenance Organization premiums	34,700,539
Total	$489,368,004

Statement C reflects that the program expended $7,181,068 in excess of appropriated expenditures. Management did not seek an increase to the appropriation because management did not anticipate the collection of revenues to finance the excess expenditures. 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. For control purposes, the Agency Fund - Dependent Day Care is budgeted in the Ancillary Appropriation Fund. The non-appropriated fund is not subject to budgetary control.

F. CASH

Cash includes cash on hand, demand deposits, and cash in state treasury. Under state law, the program may deposit funds with a fiscal agent bank approved by the Interim Emergency Board.

G. FIXED ASSETS

At June 30, 1999, the program has stewardship responsibility for $6,936,840 in governmental movable property, valued at historical cost at the time of acquisition. The program does not account for land, buildings, and improvements used by the program. The movable property is not reflected within the accompanying special purpose financial statements. A summary of changes in movable property follows:

Balance July 1, 1998	Adjustment	Additions	Deletions	Balance June 30, 1999
$6,908,190	($472,793)	$1,332,048	$830,605	$6,936,840

The above adjustment was made to movable property to adjust the reported amount at July 1, 1998, to the actual inventory amount. Except for not tagging movable property in a timely manner, the program complied with the movable property statutes of the State of Louisiana (R.S. 39:321-332).

H. LONG-TERM OBLIGATIONS

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

I. ENCUMBRANCE ACCOUNTING

Encumbrances represent commitments relating to unperformed contracts for goods or services. The program employs encumbrance accounting during the year to assure compliance with the annual appropriation act. Encumbrances are not included in the accompanying financial statements because R.S. 39:82 and the annual appropriation act do not allow the program to charge encumbrances at year-end against its current-year appropriation, the basis upon which the accompanying financial statements have been prepared. The program has no encumbrances at June 30, 1999.

J. COMPENSATED ABSENCES

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

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

K. TOTAL COLUMN ON BALANCE SHEET

The total column on the balance sheet is captioned Memorandum Only (overview) to indicate that it is presented only to facilitate financial analysis. Data in this column does not present financial position. Neither is such data comparable to a consolidation.

2. CASH

Cash is composed of the following:

Cash on hand	$1,287,616
Demand deposits	16,134
Zero-balance deposits	(2,954,631)
Cash on deposit with the state treasury	9,989,506
Total	$8,338,625

These deposits are stated at cost, which approximates market. Under state law, these deposits (or resulting bank balances) must be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent bank. The market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent. The program has deposit balances (collected bank balances) of $21,097 at June 30, 1999. These deposits are secured from risk by $21,097 of federal deposit insurance (GASB Risk Category 1).

Zero-balance account negative balances consist of outstanding checks for which funds are available in the State Treasury operating account but will not be transferred to the zero-balance accounts until checks are presented for payment. The amount does not represent a liability to the program.

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

Means of finance	$7,642,515
Operating account	2,102,824
Payroll clearing	244,167
Total	$9,989,506

3. PENSION PLAN

Substantially all employees of the program are members of the Louisiana State Employees Retirement System, a cost-sharing, multiple-employer defined benefit pension plan. Required disclosures for the plan for fiscal year 1999 are included in the Louisiana Comprehensive Annual Financial Report prepared by the Louisiana Division of Administration, Post Office Box 94095, Baton Rouge, Louisiana 70804-9095.

4. POSTEMPLOYMENT HEALTH CARE AND LIFE INSURANCE BENEFITS

The program provides certain continuing health care and life insurance benefits for its retired employees. Substantially all of the program's employees become eligible for these benefits if they reach normal retirement age while working for the program. These benefits for retirees and similar benefits for active employees are provided through the program and the Continental Assurance Company, the life insurance underwriter. The monthly premiums are paid jointly by the employee and the program. The program's costs of providing retiree health care and life insurance benefits are recognized as expenditures when the monthly premiums are paid. For the year ended June 30, 1999, the costs of retiree benefits totaled $98,721 for 35 retirees.

5. JUDGMENTS, CLAIMS, AND SIMILAR CONTINGENCIES

The program is involved in 20 lawsuits at June 30, 1999. The attorneys have estimated a total possible liability of $202,391 relating to 8 of the lawsuits. These lawsuits involve a breach of contract and the payment or non-payment of health and life claims. The program has been advised by legal counsel that, while it is impossible to ascertain the ultimate legal and financial responsibility with respect to such litigation as of June 30, 1999, it is the staff's opinion that the ultimate aggregate liability will be $104,020. In addition, it is reasonably possible that an additional $98,371 could occur. These amounts are not reflected in the accompanying special purpose financial statements, but the settlement amount would be paid by the program if judgment were rendered in favor of the plaintiff.

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

6. COMPENSATED ABSENCES

The liability for unused annual leave payable at June 30, 1999, computed in accordance with the Codification of Governmental Accounting and Financial Reporting Standards Section

C60.104, is estimated to be $1,117,861. The leave payable is not accrued (reflected) in the accompanying special purpose financial statements.

The liability for accrued compensatory leave at June 30, 1999, computed in accordance with the Codification of Governmental Accounting and Financial Reporting Standards Section C60.105, is estimated to be $35,469. Accumulated compensatory leave is not accrued (reflected) in the accompanying special purpose financial statements.

7. PAYABLES

The following is a summary of payables at June 30, 1999:

	Accounts Payable	Payroll Payable	Payroll Deductions Payable	Accrued Employees' Benefits Payable	Total
Ancillary appropriation	$20,892,585	$633,063			$21,525,648
Payroll Clearing Fund			$134,221	$109,946	244,167
Total	$20,892,585	$633,063	$134,221	$109,946	$21,769,815

8. ESTIMATED LIABILITIES

The estimated liabilities for health claims reported but unpaid (RBU) and incurred but not reported (IBU) as shown on Statement A, in accordance with the instructions of the Division of Administration, Office of Statewide Reporting and Accounting Policy, total $52,064,000 at June 30, 1999. The estimated liability for the RBU and IBU is based upon information submitted by the actuarial firm of Aon Consulting. The calculation for this estimated liability is based on health and accident claim payments of $260,060,562 for the period of July 1, 1998, through June 30, 1999.

9. INTEREST EARNINGS

The State Employees Group Benefits Program does not maintain investment accounts. The State Treasurer's Office invests the program's idle funds. The amount of interest paid by the Treasurer's Office during the fiscal year was $1,112,335.

10. LEASE AND RENTAL COMMITMENTS

The program has several noncancelable operating leases for rental of equipment and office space. The annual operating lease payments for the next five years are presented as follows:

Fiscal Year	Office Space	Equipment	Other	Total
1999-2000	$40,758	$98,017	$84,274	$223,049
2000-2001	20,423			20,423
2001-2002	14,717			14,717
2002-2003	14,717			14,717
2003-2004	9,811			9,811
Total	$100,426	$98,017	$84,274	$282,717

All lease agreements have non-appropriation exculpatory clauses that allow for lease cancellation if the Louisiana Legislature does not make an appropriation for their continuation during any future fiscal period. Total operating lease expenditures for fiscal year 1998-1999 amounted to $878,213.

11. GROUP TERM LIFE INSURANCE

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

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 that details the following:

1. Incurred life claims
2. Deficit balance carryforward
3. Insurer's expense (retention)
4. Earned premium

If the sum of the incurred claims (1), deficit balance carryforward (2), and retention (3) is less than the earned premium (4), the insurer will refund the excess to the program. If the sum is greater than the earned premium, the program will incur a retrospective premium payable to the insurer. The payable is limited to 9.5% of the earned premium for the experience period. If there is a remaining deficit balance after the maximum retrospective premium is paid, the deficit balance will be carried forward to subsequent years.

At June 30, 1999, a retrospective premium of $1,802,780 is payable to the insurer. This payable is included in the accompanying special purpose financial statements.

12. ADVANCE DUE TO STATE TREASURY

The program has received an advance from the state treasury for imprest fund operations totaling $25,000. The advance, as reflected in the accompanying statements, represents a liability to the program and must be repaid if not annually authorized.

13. RESERVED FOR CONTINUING OPERATIONS (DEFICIT)

As shown on Statement A, at June 30, 1999, the program has a reserve for continuing operations deficit of $52,340,762. During the fiscal year ended June 30, 1999, the deficit increased by $19,681,884. The program is attempting to resolve the deficit by continuing to implement the preferred provider option and the exclusive provider option, and effective for the 1999-2000 fiscal year, the board implemented a health premium rate increase and benefit modifications as discussed in note 18.

14. ADJUSTMENT TO FUND BALANCE AT BEGINNING OF YEAR

An adjustment to the beginning fund balance of the Ancillary Appropriation Fund of $2,346,186 is shown on Statement B. The adjustment is a decrease for prior-year expenditures of $2,276,703 (primarily the adjustment for the life claims retroactive premium) that were paid in the current year and the elimination of the $69,483 beginning balance of the dependent day care account.

15. UNRECORDED ESTIMATED LIABILITIES

The estimated liabilities for health claims adjustment expense, incurred but unreported death claims, and future death benefits of plan members on waiver of premium have not been included in the accompanying financial statements in accordance with instructions of the Division of Administration, Office of Statewide Reporting and Accounting Policy, but are detailed as follows:

Health claims adjustment expense	$1,118,819
Death claims incurred but unreported	686,300
Future death benefits	4,748,700
Total	$6,553,819

In addition, the program has not recognized a potential liability of approximately $1,200,000 for Medicaid claims. This amount is based on claims submitted by the Health Management Systems, Incorporated, on behalf of the Department of Health and Hospitals. Medicaid is payer of last resort, and these claims were previously paid by Medicaid for plan members of the program. This potential liability is not recorded in the special purpose financial statements.

16. DEFERRED COMPENSATION PLAN

Certain employees of the program participate in the Louisiana Deferred Compensation Plan adopted under the provisions of Internal Revenue Code Section 457. Complete disclosures relating to this statewide plan are available in the financial statements of the State of Louisiana.

17. RELATED PARTY TRANSACTIONS

George Tipton McKnight, M.D., a contracted medical consultant for the State Employees Group Benefits Program, was paid $37,500 for services rendered during the 1999 fiscal year. His responsibilities included reviewing claims to determine whether services would be covered by the program and providing advice and recommendations to the Board of Trustees. Dr. McKnight was also affiliated with entities that provided medical services to the program during the fiscal year. Payments to those entities and Dr. McKnight's relationship to them are as follows:

Biomedical Applications of Louisiana (BMA)	$4,626,019	Medical director
Renal Associates of Baton Rouge	43,289	Partner
Hemodialysis Group of Shreveport	3,157	President
Renal Associates of Monroe	31,775	Partner
Total	$4,704,240	

18. SUBSEQUENT EVENTS

On April 13, 1999, the Board of Trustees approved a 10% health and accident premium rate increase for the program effective July 1, 1999.

On July 6, 1999, the program obtained a $10,300,000 advance from the Division of Administration. The advance is required to be repaid by April 2000.

On July 28, 1999, the Board of Trustees voted to end the multi-year contract with Merck-Medco Managed Care on December 31, 1999. A request for proposals will be issued for a new presciption drug manager.

On August 11, 1999, Mr. Jack W. Walker submitted his resignation as Chief Executive Officer of the program effective October 15, 1999.

STATE EMPLOYEES GROUP BENEFITS PROGRAM
STATE OF LOUISIANA
SUPPLEMENTAL INFORMATION SCHEDULE
For the Year Ended June 30, 1999

SCHEDULE OF CHANGES IN BALANCE - APPROPRIATED AND NON-APPROPRIATED FUNDS

Changes in balance for the Non-Appropriated - Payroll Clearing Fund and the Appropriated Agency Fund - Dependent Day Care for the year ended June 30, 1999, are presented on Schedule 1.

STATE EMPLOYEES GROUP BENEFITS PROGRAM
STATE OF LOUISIANA
APPROPRIATED AND NON-APPROPRIATED FUNDS

Schedule of Changes in Balances
For the Year Ended June 30, 1999

	APPROPRIATED FUND - AGENCY FUND - DEPENDENT DAY CARE	NON-APPROPRIATED FUND - PAYROLL CLEARING
BALANCES AT BEGINNING OF YEAR	$69,483	$242,667
ADDITIONS		
Transfers from general appropriation		16,737,419
Employee payroll deductions	480,108	
DEDUCTIONS		
Payroll, deductions, and employee benefits		(16,735,919)
Employee day care reimbursements	(475,343)	
BALANCES AT END OF YEAR	$74,248	$244,167

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.

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

DANIEL G. KYLE, PH.D., CPA, CFE
LEGISLATIVE AUDITOR

1600 NORTH THIRD STREET
POST OFFICE BOX 94397
TELEPHONE: (225) 339-3800
FACSIMILE: (225) 339-3870

December 16, 1999

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

STATE EMPLOYEES GROUP BENEFITS PROGRAM
STATE OF LOUISIANA
Baton Rouge, Louisiana

We have audited the special purpose financial statements of the State Employees Group Benefits Program, a program within Louisiana state government, as of and for the year ended June 30, 1999, and have issued our report thereon dated December 16, 1999. We conducted our audit 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.

Compliance

As part of obtaining reasonable assurance about whether the State Employees Group Benefits Program's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, 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*.

Inadequate Control Over Payroll

The State Employees Group Benefits Program, Administrative Division, did not comply with Civil Service rules relating to time and attendance and leave records. Civil Service Rule 15.2 requires that employees and supervisors certify the hours of attendance or absence from duty on time and attendance records. Civil Service Rule 15.5 requires that accurate leave records be maintained. Also, good internal control requires that payroll and leave records be posted accurately and timely.

- In a test of 319 time and attendance records (29 employees for 11 pay periods), the following exceptions were noted:

EXHIBIT A

1. Eighteen (5%) time and attendance records did not have an employee signature.

2. One hundred eighteen (36%) time and attendance records did not have supervisory approval.

3. Thirty (9%) time and attendance records could not be found.

4. Seven time and attendance records did not match the hours reflected in the official payroll records.

- Prior-period adjustments for one employee (the director) were not made timely. Adjustments for 64 hours of annual leave were made six months to one year after the leave was taken. At fiscal year-end, this employee's leave balance was overstated because an additional 13 hours of leave taken had not been posted to the payroll records.

These conditions exist because management did not place sufficient emphasis on compliance with Civil Service rules and on an adequate and complete review of time and attendance records by supervisors and payroll staff. Failure to certify time and attendance records and to maintain accurate payroll and leave records increases the risk that error or fraud could occur and not be detected timely.

Management should take the necessary steps to ensure compliance with Civil Service rules and to ensure payroll and leave records are posted timely and accurately. Management concurred with the finding and recommendation and outlined a plan of corrective action (see Appendix A, page 1).

Failure to Properly Review and Retain Drug Claims Data

The State Employees Group Benefits Program (SEGBP) did not comply with the state law that requires records be maintained until audited and did not have adequate internal control over drug claim payments. Louisiana Revised Statute (R.S.) 24:514(C) and good internal control require that computer tapes related to drug claim payments be retained until audited by the legislative auditor. Also, good internal control requires procedures to reconcile the drug claims data per the computer tapes to the total amount invoiced by the pharmacy benefits contractor to ensure that the program only pays for eligible plan members. A review of drug claims payments for fiscal year 1999 disclosed that SEGBP did not have 11 of 26 computer tapes that contained supporting documentation for drug claims payments. The program subsequently obtained these tapes from the pharmacy benefits contractor.

Management has relied on the contractor for accurate billing and has not placed sufficient emphasis on the reconciliation process. Failure to retain computer tapes and perform reconciliations results in noncompliance with state law and increases the risk of overpayments.

SEGBP should implement adequate internal control policies and procedures to comply with state law and ensure that pharmacy claims data reconciles to invoice totals. Management concurred with the finding and recommendation and outlined a plan of corrective action (see Appendix A, page 2).

Noncompliance With Movable Property Regulations

For the second consecutive year, SEGBP did not comply with the state's movable property laws and regulations. Louisiana Administrative Code, Title 34 Part VII Section 307(A) requires that all acquisitions of qualified property be tagged and all pertinent information forwarded to the Louisiana Property Assistance Agency (LPAA) within 45 days after receipt of property. Two of 20 movable property acquisitions ($2,061 of $208,065) tested for fiscal year 1999, or 10% of the sample items, were not tagged and added to the LPAA inventory system until 128 to 136 days after receipt of the property. Failure to tag items in a timely manner could result in misappropriation of state property and/or sanctions by the Commissioner of Administration.

SEGBP should implement adequate internal control to ensure compliance with the state's movable property laws and regulations. Management concurred with the finding and recommendation and outlined a plan of corrective action (see Appendix A, page 3).

Claims Imaging System Not Year 2000 Compliant

SEGBP did not update or replace the claims imaging system to ensure that computer operations are not interrupted because of the Year 2000. Executive Order MJF 96-50, Section 4, requires departments to evaluate the impact of Year 2000 on their computer information systems and, on or before July 1, 1999, correct or replace those systems that will be adversely impacted. Although the department determined that the claims imaging system could not be made Year 2000 compliant, the system had not been replaced by July 1, 1999. The claims imaging system is critical to the claims payment process because it displays the supporting documentation from which claims are paid. Without the system, claims processors would be forced to rely on hardcopy documentation, drastically reducing workflow and delaying claims payments. Failure to replace the claims imaging system could result in a disruption of operations after January 1, 2000.

SEGBP should update or replace the claims imaging system before January 1, 2000, to avoid a disruption of operations. Management concurred with the finding and recommendation and outlined a plan of corrective action (see Appendix A, page 4).

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the State Employees Group Benefits Program's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the special purpose financial statements and not to provide assurance on internal control over financial reporting. However, we noted the matters relating to noncompliance with laws and regulations, as discussed in the compliance section of this report, that we consider to be reportable conditions. In addition, we noted the matters described below 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 the program's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Inadequate Information Systems Controls

For the second consecutive year, SEGBP did not have adequate internal control over its information systems (IS) that annually process approximately $260 million of claims expenditures, as well as various other transactions. Good controls are necessary to preserve the integrity and security of the systems and to provide reliance on the results produced by the systems.

During a review of IS functions, the following deficiencies in internal control were noted:

- SEGBP does not have adequate backup and disaster recovery procedures for its claims imaging system. Adequate internal control requires that SEGBP implement backup and disaster recovery procedures to ensure that claims will be paid within 30 days as required by R.S. 22:657. The system relies on obsolete hardware and equipment is not available to perform a backup in case of system failure. In addition, the vendor no longer provides support for the system. The lack of adequate backup and disaster recovery procedures increases the risk that images will be lost and that claims will not be paid within the time limit prescribed by R.S. 22:657.

- SEGBP does not have adequate security procedures to ensure that employees do not have access to data greater than their business need as follows:

  1. Employees in the Administrative, Executive, Fiscal, Customer Service, and Legal divisions had access to enter, adjudicate, void, and adjust claims in the claims processing system.

  2. SEGBP does not have written procedures that require security administrators to regularly review user access in the Advantage Financial System (AFS) and in the Automated Governmental Purchasing System (AGPS).

  3. The chief operating officer, an employee outside of the information services division, has unrestricted access to the computer room. Computer operations personnel are the only employees who would normally need access to the computer room, the master console, and other sensitive equipment located in the computer room.

Adequate internal control requires written procedures, standardized access profiles and independent review of user access to ensure that employees are permitted access only to data files and functions necessary to perform their duties. Also, adequate internal control requires that physical access to the computer room and sensitive areas of the computer center be restricted and monitored for the limited time period when access is granted. The lack of adequate security procedures could result in unauthorized use and improper payments.

- SEGBP does not have an IS auditor. Adequate internal control requires that an IS division the size and complexity of SEGBP obtain periodic reviews of its general and application controls by an IS auditor. Although an IS auditor was employed for five months of the 1999 fiscal year, he did not issue any audit reports. The position had been vacant for three months by the end of the fiscal year. The absence of an IS auditor means that no one independent of the IS division is assessing the adequacy of IS controls.

- SEGBP does not have adequate transaction input procedures to ensure that claims and eligibility data are entered accurately. Adequate internal control requires the use of batch totals and validation reports to verify data entry and changes made to master files. Failure to verify the completeness and accuracy of data input increases the risk of undetected errors or fraud.

SEGBP should establish adequate procedures and controls over its information systems to ensure the integrity of programs, processing, and data. Management concurred or concurred in part with the findings and recommendations, except for number 3 under the second bullet. For item 3, management did not concur and stated that restricting access to the computer center would prevent the chief operating officer from properly monitoring SEGBP's activities and facilities. Management described corrective action taken (see Appendix A, pages 5-6).

Additional Comments: Monitoring computer operations and activities is normally the responsibility of the head of the IS division, the chief information officer. Access to the computer center should be restricted to computer operations personnel and granted to others on a business-need only basis.

Inadequate Contract Monitoring

For the second consecutive year, SEGBP did not have adequate internal control over contract monitoring. Adequate internal control requires an agency to ensure contracts are signed before services are rendered, to verify that the contract amount has not been exceeded before payment is made, and to ensure services are not rendered for amounts in excess of contracted amounts. During our review of 16 professional service contracts for fiscal year ended June 30, 1999, the following deficiencies were noted:

- Fourteen contracts were not signed by both SEGBP and the contractor until after the contract period began. Twelve were signed 2 to 220 days after the contract inception date and two were signed after the contract expiration date.

- Over $4.7 million in services were rendered on 12 contracts before the contracts were signed.

- Payments on two contracts exceeded the contracted amount by approximately $14,800.

- SEGBP did not notify one contractor that the maximum contract amount had been reached. As a result, the contractor traveled to Baton Rouge for an additional week of work and was not compensated $3,592 for services rendered in good faith or for related travel expenses.

- A renewal of the contract with the life insurance underwriter was not on file for fiscal year 1999. As of June 30, 1999, SEGBP had paid the underwriter $23,562,793 and expected to pay an additional $2.2 million.

When contracts are not executed in a timely fashion and properly monitored, the program risks incurring obligations for services that are not authorized and risks exceeding maximum contract amounts.

SEGBP should implement internal control procedures to ensure contracts are signed before services are rendered, to verify that the contract amount has not been exceeded before payment is made, and to ensure services are not rendered for amounts in excess of contracted amounts. Management concurred with the finding and recommendation and outlined a plan of corrective action (see Appendix A, page 7).

Incorrect Payments to Contractors

SEGBP did not have adequate procedures for calculating payments to the utilization management contractor and the behavioral health claims contractor. Adequate internal control requires procedures to verify the accuracy of supporting documentation to ensure that amounts paid to contractors are calculated correctly. Each contractor is paid a fixed amount each month for each active employee that is enrolled in the indemnity plan. A review of supporting documentation for one month disclosed that the enrollment totals used for calculating the monthly payment did not agree to the detailed enrollment records for that month. This matter was brought to management's attention and a subsequent review by SEGBP revealed that both the enrollment totals and the supporting documentation were incorrect. The review also revealed that SEGBP paid the contractors based on billed rather than adjusted enrollment figures as required by the contracts. As a result, the SEGBP determined that the program overpaid the utilization management contractor by $11,213 and underpaid the behavioral health claims contractor by $46,589 during fiscal year ended June 30, 1999.

SEGBP should develop adequate procedures to ensure the accuracy of its contractor payments. Furthermore, SEGBP should correct its enrollment records and pay or *collect the difference between the actual amount due to and the amount previously paid* to the two contractors. Management concurred with the finding and recommendation and outlined a plan of corrective action (see Appendix A, page 8).

Related Party Transactions Not Disclosed

SEGBP did not disclose related party transactions in the notes to the annual financial statements as required by the Office of Statewide Reporting and Accounting Policy (OSRAP). OSRAP requires agencies to disclose material related party transactions and common ownership or management control relationships. A party is a related party if it can significantly influence the management or operating policies of the transacting parties or has an ownership interest in one of the transacting parties and can significantly influence the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests. Also, adequate internal control requires that duties be segregated so that no person is in a position to approve payments to themselves or to entities in which they have a financial interest.

The SEGBP's contracted medical consultant, Dr. George Tipton McKnight, reviews claims to determine whether medical services will be covered and paid under the program's plan. The medical consultant also advises SEGBP's board on changes to the program's plan. Because the medical consultant was not required to disclose his business interests, SEGBP was unaware that $4.7 million in payments for medical services were made in fiscal year 1999 to various companies in which the medical consultant had management and/or financial interests. Also, there is inadequate segregation of duties as the medical consultant could approve payments for services provided by these companies.

SEGBP should ensure that policies and procedures are in place to ensure that related party transactions are properly disclosed in the notes to the financial statements and that those transactions are approved by employees that are independent of the transactions. The program should also obtain an opinion from the Board of Ethics on the propriety of its contract with the medical consultant. Management concurred with the finding and recommendation and outlined a plan of corrective action (see Appendix A, page 9).

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 special purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. 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, we do not believe the reportable conditions described previously are material weaknesses.

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

Respectfully submitted,

Daniel G. Kyle, CPA, CFE
Legislative Auditor

LJD:DLH:DSP:ss

[SEGBP]

EXHIBIT A

Appendix A

Management's Corrective Action Plans and Responses to the Findings and Recommendations

State of Louisiana
BOARD OF TRUSTEES
STATE EMPLOYEES GROUP BENEFITS PROGRAM
P.O. BOX 44036, CAPITOL STATION
BATON ROUGE, LOUISIANA 70804

December 17, 1999

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

Dear Dr. Kyle:

We have received an audit finding regarding ***Inadequate Control Over Payroll.***

We concur with this finding. The exceptions noted have been corrected. Policies and procedures have been revised and implemented to ensure compliance with Civil Service rules and to ensure that payroll records are posted timely and accurately.

Sincerely,

A. Kip Wall
Interim Chief Executive Officer

An Equal Opportunity Employer
Baton Rouge offices: Customer Service 225-925-6625 Toll Free 1-800-272-8451 • Executive 225-925-6677
Area offices: Alexandria 318-487-5731 Toll Free 1-800-813-1578 • Lafayette 318-262-1357 Toll Free 1-800-414-6409
Lake Charles 318-475-8052 Toll Free 1-800-525-3256 • Monroe 318-362-3435 Toll Free 1-800-335-6206
New Orleans 504-838-5136 Toll Free 1-800-335-6208 • Shreveport 318-676-7026 Toll Free 1-800-813-1574
TDD (Baton Rouge) 225-925-6770 Toll Free 1-800-259-6771

State of Louisiana
BOARD OF TRUSTEES
STATE EMPLOYEES GROUP BENEFITS PROGRAM
P.O. BOX 44036, CAPITOL STATION
BATON ROUGE, LOUISIANA 70804

December 17, 1999

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

Dear Dr. Kyle:

We have received an audit finding regarding ***Failure to Properly Review and Retain Drug Claims Data.***

We concur with this finding. We are in the process of implementing procedures that will provide for adequate internal controls over drug claims to ensure accurate payments to the contractor. The I/S department currently receives and transfers the Merck-Medco claims data to the production system. The production system is archived nightly and quarterly. The quarterly update is saved for ten years. These files will be resident on these backups.

Sincerely,

A. Kip Wall
Interim Chief Executive Officer

State of Louisiana
BOARD OF TRUSTEES
STATE EMPLOYEES GROUP BENEFITS PROGRAM
P.O. BOX 44036, CAPITOL STATION
BATON ROUGE, LOUISIANA 70804

December 17, 1999

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

Dear Dr. Kyle:

We have received an audit finding regarding ***Noncompliance with Movable Property Regulations.***

We concur with this finding. To ensure compliance with the state's movable property laws and regulations, revised inventory policies and procedures have been written and implemented. We are also in the process of implementing a new automated inventory system.

Sincerely,

A. Kip Wall
Interim Chief Executive Officer

An Equal Opportunity Employer
Baton Rouge offices: Customer Service 225-925-6625 Toll Free 1-800-272-8451 • Executive 225-925-6677
Area offices: Alexandria 318-487-5731 Toll Free 1-800-813-1578 • Lafayette 318-262-1357 Toll Free 1-800-414-6409
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TDD (Baton Rouge) 225-925-6770 Toll Free 1-800-259-6771

State of Louisiana
BOARD OF TRUSTEES
STATE EMPLOYEES GROUP BENEFITS PROGRAM
P.O. BOX 44036, CAPITOL STATION
BATON ROUGE, LOUISIANA 70804

July 21, 1999

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

Dear Dr. Kyle:

We have received an audit finding regarding ***Noncompliance with Year 2000 Regulations.***

We concur with this finding. The agency has determined that the existing claims imaging system is noncompliant. As a result, we have begun the process to purchase a new imaging system that will be Year 2000 compliant to ensure that there is no disruption in operations.

Sincerely,

Jack W. Walker

Jack W. Walker
Chief Executive Officer

An Equal Opportunity Employer
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State of Louisiana
BOARD OF TRUSTEES
STATE EMPLOYEES GROUP BENEFITS PROGRAM
P.O. BOX 44036, CAPITOL STATION
BATON ROUGE, LOUISIANA 70804

December 17, 1999

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

Dear Dr. Kyle:

We have received an audit finding regarding ***Inadequate Information System Controls.***

We have addressed each deficiency separately.

- *SEGBP does not have adequate backup and disaster recovery procedures for its claims imaging system.*

We concur that a segment of the imaging system is not duplicated. The database that drives the imaging system is backed up nightly, along with the data files on the Novell network. The part of the system, which is not duplicated, is the platters that store the actual images.

This deficiency will be eliminated by the new imaging system. The implementation of the new imaging system will require converting the existing images from the current platters to a newer technology. At this time, a duplicate of the platters will be made for archival purposes. The new system allows for the creation of duplicate platters for backup purposes.

- *SEGBP does not have adequate security procedures to ensure that employees do not have access to data greater than their business needs.*

We concur with this finding. Our Information Systems Security Department reviewed the individuals deemed to have had access beyond their business needs. While those individuals did have access to applications that may be deemed beyond their business need, there were security restrictions with regards to the financial transactions that could be affected by these employees. If any of these employees had executed a transaction within their minimal financial capabilities, the system would have forwarded the executed transaction to the appropriate department for auditing.

- *SEGBP does not have written procedures that require security administrators to regularly review user access in the ISIS systems.*

We concur with this finding. We are implementing written procedures that will require security administrators to regularly review user access in the AFS and AGPS systems.

- *The COO has unrestricted access to the computer room.*

According to the text of the finding, the COO of SEGBP does not possess a legitimate business need to access the computer center. We do not concur with this finding for the following reasons:

The CEO and the COO are responsible for all areas of operation of this agency including personnel and facility management. Restricting access to the computer center or other areas within the agency would prevent the CEO and/or the COO from properly monitoring activities within, and the condition of, SEGBP facilities.

The CEO and COO do not have unrestricted access to the computer center. With the exception of certain holidays, the computer center is staffed 24 hours a day 7 days a week with operating personnel. Access to and activities within the computer center are monitored by the operating personnel. Furthermore, a key card system records entry to the computer center. If the CEO or the COO enter the computer center, the event is logged and monitored for reference if needed.

Access to the computer center by the CEO or COO should not increase the risk of inadvertent or deliberate damage to computer equipment to any greater degree than current personnel who are hired without background checks to work in the computer center and Department of Corrections inmates who clean and maintain the area.

The risk of inadvertent or deliberate damage to computer equipment is limited by security controls both internal and external to the computer center. Security clearances and passwords are needed to access and manipulate data contained in equipment within the computer center. The security clearances and passwords issued to the CEO and COO are in conformance with agency IS internal controls policies.

- *SEGBP does not have an IS auditor.*

We concur with this finding. This position was filled on October 26.

- *SEGBP does not have adequate transaction input procedures to ensure that claims and eligibility data are entered accurately.*

We concur with this finding. Quality control procedures were implemented in the CBE and CASSS units in May and June 1999, respectively. Eligibility currently validates a sample of the transactions that are entered daily. We agree that the use of batch totals to verify data entry and changes made to the master files is ideal, however the claims processing system does not provide for this. It is not feasible due to limited staffing to manually implement batch controls. We do acknowledge the validity of the use of batch controls throughout these processes and will review to determine the options.

Sincerely,

A. Kip Wall
Interim Chief Executive Officer

State of Louisiana
BOARD OF TRUSTEES
STATE EMPLOYEES GROUP BENEFITS PROGRAM
P.O. BOX 44036, CAPITOL STATION
BATON ROUGE, LOUISIANA 70804

July 21, 1999

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

Dear Dr. Kyle:

We have received an audit finding regarding ***Inadequate Control over Contracts.***

We concur with this finding. Procedures have been implemented whereby all contracts are monitored by a contract supervisor. The contract supervisor is responsible for starting the process for renewal of contracts early enough to ensure that contracts are signed prior to their effective dates, that services are not incurred prior to contracts being signed and that services are not rendered in excess of contract amounts.

Sincerely,

Jack W. Walker
Chief Executive Officer

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Baton Rouge offices: Customer Service 225-925-6625 Toll Free 1-800-272-8451 • Executive 225-925-6677
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State of Louisiana
BOARD OF TRUSTEES
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P.O. BOX 44036, CAPITOL STATION
BATON ROUGE, LOUISIANA 70804

November 17, 1999

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

Dear Dr. Kyle:

We have received an audit finding regarding ***Incorrect Payments to Contractors.***

We concur with this finding. We will implement procedures to ensure accuracy of payments made to contractors. We have corrected our enrollment records and will reimburse the behavioral health contractor the amount due them and will request reimbursement from the utilization review contractor for the amount due us.

Sincerely,

A. Kip Wall
Acting Chief Executive Officer

State of Louisiana
BOARD OF TRUSTEES
STATE EMPLOYEES GROUP BENEFITS PROGRAM
P.O. BOX 44036, CAPITOL STATION
BATON ROUGE, LOUISIANA 70804

November 10, 1999

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

Dear Dr. Kyle:

We have received an audit finding regarding ***Related Party Transactions Not Disclosed.***

We concur with this finding. We acknowledge that this information should have been disclosed in the footnotes. At the time that the statements were prepared, we had not received information from the medical director concerning his relationship with medical service entities that receive payments from SEGBP. We will include in our future contracts a clause that requires contractors to disclose all businesses in which they have a financial interest to ensure that related party transactions are properly disclosed in the notes to the financial statements. The medical director has not approved payments made to providers with whom he has an interest and we will implement procedures to ensure that he does not in the future. Further, we will request an opinion from the board of ethics about the propriety of this contract.

Sincerely,

A. Kip Wall
Interim Chief Executive Officer