

OFFICE OF GROUP BENEFITS  
DIVISION OF ADMINISTRATION

STATE OF LOUISIANA



FINANCIAL AUDIT SERVICES  
MANAGEMENT LETTER  
ISSUED JANUARY 5, 2022

**LOUISIANA LEGISLATIVE AUDITOR  
1600 NORTH THIRD STREET  
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MICHAEL J. "MIKE" WAGUESPACK, CPA

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# Louisiana Legislative Auditor

Michael J. “Mike” Waguespack, CPA

## Office of Group Benefits



January 2022

*Audit Control # 80210070*

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## Introduction

As a part of our audit of the State of Louisiana’s Annual Comprehensive Financial Report and our work related to the Single Audit of the State of Louisiana (Single Audit) for the fiscal year ended June 30, 2021, we performed procedures at the Office of Group Benefits (OGB) to provide assurances on financial information that is significant to the state’s Annual Comprehensive Financial Report; evaluate the effectiveness of OGB’s internal control over financial reporting and compliance; and determine whether OGB complied with applicable laws and regulations. In addition, we determined whether management has taken actions to correct the finding reported in the prior year.

## Results of Our Procedures

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### Follow-up on Prior-year Finding

Our auditors reviewed the status of the prior-year finding reported in the OGB management letter dated December 28, 2020. We determined that the prior-year finding related to Inaccurate Annual Fiscal Reports has not been resolved and is addressed again in this letter.

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### Current-year Finding

#### Inaccurate Annual Fiscal Reports

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

- Significant accounts in the custodial fund AFR statements were not disaggregated into the categories required by Governmental Accounting Standards Board (GASB) Statement 84 and OSRAP’s AFR instructions. All receivables and additions reported were identified as employer contributions, when the source of these funds included employee contributions, subsidies, drug rebates, and other sources. As a result, the employer contribution receivables and additions reported in the fund were overstated by \$80 million and \$72 million, respectively. At OSRAP’s request,

OFSS subsequently submitted a revised AFR to correct the employee contributions, but the calculation made to allocate a portion of the employer contributions to employee contributions did not include consideration of the subsidy, rebates, and other sources resulting in an overstatement of the employee contributions in the revised AFR.

- The custodial fund AFR statements were prepared from a trial balance with the pre-GASB Statement 84 agency fund format, which reported additions and deletions for “amounts held in custody for others,” resulting in an overstatement of both the additions and deductions on the custodial fund statement by \$64 million.
- Subsidy and contribution receivables were overstated by \$128 million and \$74 million, respectively, because the full accrual adjustment calculations were based on estimates and other reports that did not include consideration of amounts that had been paid or settled as of June 30, 2021, or within the 45-day closing period.
- A contract receivable, totaling \$36 million, was not reported in the AFRs because the information on the new contract had not been effectively communicated between OFSS and OGB.
- Journal entries for full accrual subsidy and rebate receivables were entered on the wrong line in the custodial fund trial balance and posted incorrectly in the General Fund/Government-Wide (GF/GW) AFR. As a result, additions and deductions were understated by \$42 million in the custodial fund AFR, and revenue and expenditure accruals were overstated by \$42 million in the GF/GW AFR.

OFSS does not have effective procedures in place to ensure accurate and complete data is provided by OGB and does not have an effective review and reconciliation process to identify and correct errors. Good internal control for financial reporting includes procedures to ensure accurate and complete data is obtained for the financial reports and a supervisor review of the AFRs to identify and correct preparation errors before submitting the reports to OSRAP. Failure to establish adequate controls increases the risk that errors and omissions may occur and remain undetected.

OGB and OFSS should improve coordination efforts during the preparation of the AFRs to ensure that accurate and complete information is provided to OFSS. OGB should review the estimate for subsidy and rebate receivables for reasonableness and consistency with recent plan data prior to providing the information to OFSS. OFSS should ensure that compilation procedures include reviewing and reconciling full accrual payables and receivables to ensure that journal entries are posted correctly in the trial balance and the GF/GW AFR. OFSS should also consider updating the custodial fund trial balance for consistency with the new custodial fund AFR format. Management concurred with the finding and provided a corrective action plan (see Appendix A).

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## **Annual Comprehensive Financial Report – State of Louisiana**

As a part of our audit of the Annual Comprehensive Financial Report for the year ended June 30, 2021, we considered internal control over financial reporting and examined evidence supporting cash, revenue, receivables, health and drug claim expenditures, Vantage Medical Home Health Plan premium expenditures, Access Health administrative fee expenditures, and other postemployment benefits disclosures.

Based on the results of these procedures, we reported a finding related to Inaccurate Annual Fiscal Reports, as described previously. The finding related to Inaccurate Annual Fiscal Reports will also be included in the Single Audit for the year ended June 30, 2021. In addition, the account balances and classes of transactions tested, as adjusted, are materially correct.

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## **Single Audit of the State of Louisiana**

As a part of the Single Audit for the year ended June 30, 2021, we performed procedures as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) on information submitted by OGB to the Division of Administration's Office of Statewide Reporting and Accounting Policy on the status of the prior-year finding for the preparation of the state's Summary Schedule of Prior Audit Findings. Information submitted for the preparation of the state's Summary Schedule of Prior Audit Findings is materially correct.

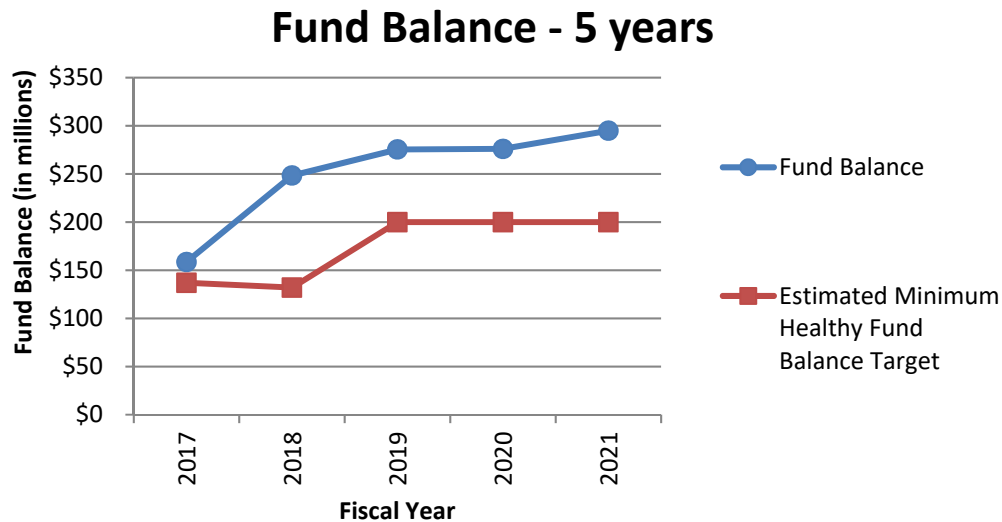
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## **Trend Analysis**

We compared the most current and prior-year financial activity using OGB's Annual Fiscal Reports and/or system-generated reports and obtained explanations from OGB's management for any significant variances. We also prepared an analysis of OGB's fund balance for the five years ending June 30, 2021.

The OGB fund balance is the accumulation of the surplus, or deficit, of revenues minus expenditures over time and includes incurred but not reported claims. Due to health and drug plan changes and premium rate increases over the last few fiscal years, the fund balance has increased to \$295 million as of June 30, 2021, exceeding OGB's estimated minimum healthy fund balance target of \$200 million reported in the actuarial forecast at the July 2021 board meeting. The chart below shows the changes in OGB's fund balance as compared to the estimated minimum balances for the last five fiscal years

**Exhibit 1  
Fund Balance – 5 years**



**Source:** OGB Board Meeting Presentations and Annual Fiscal Reports, as adjusted

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

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

Respectfully submitted,

Michael J. "Mike" Waguespack, CPA  
Legislative Auditor

KAW:DM:BH:EFS:ch

OGB2021

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





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

JOHN BEL EDWARDS  
GOVERNOR



JAY DARDENNE  
COMMISSIONER OF ADMINISTRATION

December 23, 2021

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

Dear Mr. Waguespack:

The Office of Finance and Support Services (OFSS) and Office of Group Benefits (OGB) appreciate the opportunity to respond to the finding titled, Inaccurate Annual Fiscal Reports, resulting from the fiscal year ending June 30, 2021 OGB financial audit.

The Annual Fiscal Reports (AFRs) for the OGB are uniquely formatted to meet the specific reporting requirements relative to this industry and type of fund. The "Submitted" AFR for the OGB was remitted through the Office of Statewide Reporting and Accounting Policy's (OSRAP's) AFR portal utilizing the AFR workbook that is maintained as the supporting documentation for both the "Submitted" OGB AFR and the "Agency Other Post-Employment Benefits (OPEB)" financial information, which is presented to OSRAP manually.

Implementation of Governmental Accounting Standards Board (GASB) Statement No. 84 - Fiduciary Activities directed significant changes in the identification of fiduciary activities and presentation of the OGB AFR for fiscal year ending June 30, 2021. As a result, incorrect categorization of fiduciary activities and the use of pre-GASB 84 formats affected multiple calculations that led to an overstatement of receivables and additions for employer contributions and an overstatement of additions and deletions for amounts held in custody for others. Additionally, an absence of communication and clarification contributed to an overstatement of subsidy and contribution receivables, as well as an understatement of contract receivables.

Management concurs with this finding and recommendation. A multitude of data and reports from external sources, as well as internally generated data, are utilized to prepare the OGB AFR. The reporting requirements specific to OGB prompt a sizeable workbook with extensive journal entries. We are revisiting the process and updating the AFR preparation procedures to assure that the various components of the financial reporting process are most effective in producing an accurate AFR. An update of the workbook, supporting reports for GASB 84 requirements, and AFR review process will also be reviewed and implemented before preparation of the FYE 22 AFR begins.

Michael J. "Mike" Waguespack, Legislative Auditor

December 23, 2021

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Additionally, in an effort to expand communication and understanding between OGB and OFSS, recurring meetings will be scheduled to discuss and share information on OGB operations, internal and external audits, contracting activities, and other topics that may have an impact on the services and activities of those OFSS sections that support OGB, including the preparation of OGB's AFR.

The adjustments presented to OFSS that are necessary for proper presentation of the OGB financial statements in the fiscal year ending June 30, 2021 ACFR for the State of Louisiana have been accepted and made by OSRAP.

Thank you for your team's commitment to high standards and professionalism in working with OFSS and OGB during the audit. If you have any questions or need additional information, please contact Judith Jackson, Director of Financial Reporting, via email at [judith.jackson@la.gov](mailto:judith.jackson@la.gov) or by telephone at (225) 342-5280.

Sincerely,

**Marella  
Houghton**

 Digitally signed by Marella Houghton  
DN: cn=Marella Houghton,  
email=Marella.Houghton@la.gov  
Date: 2021.12.23 10:50:59 -06'00'

Marella A. Houghton, CPA  
Deputy Undersecretary

Cc: Jay Dardenne, Commissioner of Administration  
Barbara Goodson, Deputy Commissioner  
Desireé Honoré-Thomas, CPA, CGMA, Assistant Commissioner  
Randy Davis, CPA, Assistant Commissioner  
Erin Sindelar, CPA, Internal Audit Administrator  
Anthony Hamilton, Audit Manager, Internal Audit  
Col. David Couvillon, OGB Chief Executive Officer  
Melissa Mayers, OGB Chief Operating Officer  
Bill Guerra, OGB Administrator  
Lindsay Schexnayder, CPA, Director of OSRAP  
Judith Jackson, Director of Financial Reporting

## APPENDIX B: SCOPE AND METHODOLOGY

We performed certain procedures at the Office of Group Benefits (OGB) for the period from July 1, 2020, through June 30, 2021, to provide assurances on financial information significant to the State of Louisiana's Annual Comprehensive Financial Report, and to evaluate relevant systems of internal control in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. Our procedures, summarized below, are a part of the audit of the Annual Comprehensive Financial Report and our work related to the Single Audit of the State of Louisiana (Single Audit) for the year ended June 30, 2021.

- We evaluated OGB's operations and system of internal control through inquiry, observation, and review of its policies and procedures, including a review of the laws and regulations applicable to OGB.
- Based on the documentation of OGB's controls and our understanding of related laws and regulations, we performed procedures to provide assurances on certain account balances and classes of transactions to support our opinions on the Annual Comprehensive Financial Report.
- We performed procedures on the status of prior-year findings for the preparation of the state's Summary Schedule of Prior Audit Findings for the year ended June 30, 2021, as a part of the 2021 Single Audit.
- We compared the most current and prior-year financial activity using OGB's Annual Fiscal Reports and/or system-generated reports to identify trends and obtained explanations from OGB's management for significant variances.

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

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