

OFFICE OF GROUP BENEFITS
DIVISION OF ADMINISTRATION

STATE OF LOUISIANA



FINANCIAL AUDIT SERVICES
MANAGEMENT LETTER
ISSUED DECEMBER 28, 2020

**LOUISIANA LEGISLATIVE AUDITOR
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Louisiana Legislative Auditor

Daryl G. Purpera, CPA, CFE

Office of Group Benefits



December 2020

Audit Control # 80200063

Introduction

As a part of our audit of the State of Louisiana's Comprehensive Annual Financial Report (CAFR) and our work related to the Single Audit of the State of Louisiana (Single Audit) for the fiscal year ended June 30, 2020, we performed procedures at the Office of Group Benefits (OGB) to provide assurances on financial information that is significant to the state's CAFR; evaluate the effectiveness of OGB's internal control over financial reporting and compliance; and determine whether OGB complied with applicable laws and regulations. In addition, we determined whether management has taken actions to correct the findings reported in the prior year.

Results of Our Procedures

Follow-up on Prior-year Finding

Our auditors reviewed the status of the prior-year findings reported in the management letter dated December 23, 2019. We determined that the prior-year finding related to Inadequate Monitoring of System Access has been resolved while the prior-year audit finding related to Inaccurate Annual Fiscal Reports has not been resolved and is addressed again in this letter.

Current-year Finding

Inaccurate Annual Fiscal Reports

For the third consecutive year, OGB, through the Office of Finance and Support Services (OFSS), submitted annual fiscal reports (AFRs) to the Office of Statewide Reporting and Accounting Policy (OSRAP) with errors requiring audit adjustments. Even though OFSS received two extensions from OSRAP, allowing three additional weeks after the original due date to review and reconcile the AFRs, audit procedures identified the following errors:

- The current-year full accrual adjustments for subsidy and rebate receivables were understated by \$69 million and \$43 million, respectively, because the amounts were not correctly calculated by OFSS and not input into the AFR portal correctly.

- Multiple data input errors in the OFSS worksheets resulted in miscalculations of revenues, receivables and expenditures but were not adequately reconciled to the agency supporting schedules or the general ledger. In addition, to balance the general fund AFR, manual adjustments were made to the AFR that were not input into the agency's AFR reconciliation. As a result of these errors, the beginning fund balance for the general fund was understated by \$31 million, the ending fund balance for the general fund was understated by \$10 million, and the ending fund balance for the agency fund was overstated by \$3 million.

OFSS does not have an adequate reconciliation process in place to identify and correct errors. Good internal control for financial reporting includes procedures to reconcile the financial statements to the trial balance, general ledger, and other supporting schedules and adequate 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.

OFSS should ensure that compilation procedures include reconciling both AFRs, including the full accrual receivables and payables, to the applicable trial balance or general ledger and to related supporting schedules. Furthermore, OFSS should ensure the correct information is entered into the AFR portal in a timely manner. Management's response did not specifically concur or disagree with the finding but did provide a corrective action plan (see Appendix A).

Comprehensive Annual Financial Report (CAFR) – State of Louisiana

As a part of our audit of the CAFR for the year ended June 30, 2020, we considered internal control over financial reporting and examined evidence supporting premium revenues, health and drug claim expenditures, life insurance premium expenditures, Vantage Medical Home Health Plan (MHHP) premium expenditures, and other postemployment benefits disclosures.

Based on the results of these procedures, we reported a finding related to Inaccurate Annual Fiscal Reports, as described previously. The finding related to Inaccurate Annual Fiscal Reports will also be included in the Single Audit for the year ended June 30, 2020. In addition, the account balances and classes of transactions tested, as adjusted, are materially correct.

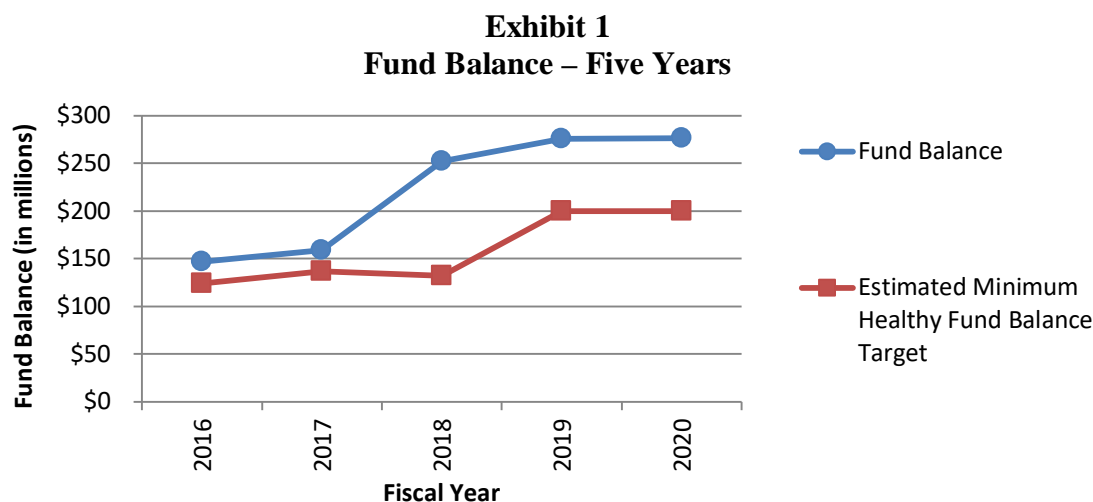
Single Audit of the State of Louisiana

As a part of the Single Audit for the year ended June 30, 2020, 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 findings 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.

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, 2020.

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 \$276 million as of June 30, 2020, exceeding OGB's estimated minimum healthy fund balance target of \$200 million reported in the actuarial forecast at the July 2020 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.



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

The recommendation in this letter represents, in our judgment, that which will most likely bring about beneficial improvements to the operations of OGB. The nature of the recommendation, its implementation costs, and its potential impact on the operations of OGB should be considered in reaching decisions on courses of action.

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

Respectfully submitted,

A handwritten signature in blue ink that reads "Daryl G. Purpera". The signature is written in a cursive style with a large, stylized initial "D".

Daryl G. Purpera, CPA, CFE
Legislative Auditor

RAY:DM:BH:EFS:ch

OGB2020

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 21, 2020

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

Dear Mr. Purpera:

The Office of Finance and Support Services (OFSS) appreciates the opportunity to respond to the finding titled, Inaccurate Annual Fiscal Reports, resulting from the fiscal year ending June 30, 2020 Office of Group Benefits (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 recently updated 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.

An error was made in the recording and reporting of a unique transaction relative to rebates processed in the 13th period, which resulted in a net understatement of the ending fund balance. OFSS is currently in the process of updating its policies and procedures for properly recording rebates.

The reversal of a roll-up journal entry resulted in a miscalculation of the amounts for subsidy and rebate receivables, causing incorrect amounts and an erroneous manual entry into the CAFR AFR portal. Although there are multiple levels of supervisory review of the OGB AFR, OFSS will emphasize added review of journal entries and CAFR AFR portal entries for subsequent years.

Additionally, the manual reversal of prior year audit adjustments to balance the beginning fund balance to the OSRAP AFR portal were omitted from the supporting roll-up of the "Submitted" AFR, which resulted in a net understatement of the ending fund balance. OFSS is currently working toward a system of documenting and applying these adjustments so that the beginning fund balance on the "Submitted" AFR and the OSRAP AFR portal are in balance when beginning the preparation of the FYE 21 OGB AFR.

Daryl Purpera, Legislative Auditor

December 21, 2020

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A reconciliation for the ISIS AFS numbers included in the AFR workbook and in the "Agency" AFR are completed back to the supporting schedules. OFSS will review AFR workbook, supporting documentation, and the data utilized to provide for a more comprehensive reconciliation process to be in place at the onset of preparing the FYE 21 AFRs.

The adjustments presented to OFSS that are necessary for proper presentation of the OGB financial statements in the fiscal year ending June 30, 2020 CAFR for the State of Louisiana have been accepted and made by OSRAP.

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

Sincerely,



Marella A. Houghton, CPA
Deputy Undersecretary

Cc: Jay Dardenne, Commissioner of Administration
Barbara Goodson, Deputy Commissioner
Desireé Honoré-Thomas, CPA, CGMA, Assistant Commissioner
Randy Davis, CPA, Assistant Commissioner
Erin Sindelar, CPA, Internal Audit Administrator
Anthony Hamilton, Audit Manager, Internal Audit
David Couvillon, OGB Chief Executive Officer
Lindsey Schexnayder, CPA, Director of Management and Finance
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, 2019, through June 30, 2020, to provide assurances on financial information significant to the State of Louisiana's Comprehensive Annual Financial Report (CAFR), and to evaluate relevant systems of internal control in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. Our procedures, summarized below, are a part of the audit of the CAFR for the year ended June 30, 2020 and our work related to the Single Audit of the State of Louisiana (Single Audit) for the year ended June 30, 2020.

- We evaluated OGB's operations and system of internal control through inquiry, observation, and review of its policies and procedures, including a review of the laws and regulations applicable to OGB.
- Based on the documentation of OGB's controls and our understanding of related laws and regulations, we performed procedures to provide assurances on certain account balances and classes of transactions to support our opinions on the CAFR.
- We 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, 2020, as a part of the 2020 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 CAFR, upon which the Louisiana Legislative Auditor expresses opinions.