

OFFICE OF GROUP BENEFITS  
DIVISION OF ADMINISTRATION  
STATE OF LOUISIANA



FINANCIAL AUDIT SERVICES  
MANAGEMENT LETTER  
ISSUED DECEMBER 24, 2014

**LOUISIANA LEGISLATIVE AUDITOR  
1600 NORTH THIRD STREET  
POST OFFICE BOX 94397  
BATON ROUGE, LOUISIANA 70804-9397**

**LEGISLATIVE AUDITOR**  
DARYL G. PURPERA, CPA, CFE

**FIRST ASSISTANT LEGISLATIVE AUDITOR  
AND STATE AUDIT SERVICES**  
PAUL E. PENDAS, CPA

**DIRECTOR OF FINANCIAL AUDIT**  
THOMAS H. COLE, CPA

Under the provisions of state law, this report is a public document. A copy of this report has been submitted to the Governor, to the Attorney General, and to other public officials as required by state law. A copy of this report is available for public inspection at the Baton Rouge office of the Louisiana Legislative Auditor.

This document is produced by the Louisiana Legislative Auditor, State of Louisiana, Post Office Box 94397, Baton Rouge, Louisiana 70804-9397 in accordance with Louisiana Revised Statute 24:513. One copy of this public document was produced at an approximate cost of \$0.35. This material was produced in accordance with the standards for state agencies established pursuant to R.S. 43:31. This report is available on the Legislative Auditor's website at [www.la.la.gov](http://www.la.la.gov). When contacting the office, you may refer to Agency ID No. 3589 or Report ID No. 80140067 for additional information.

In compliance with the Americans With Disabilities Act, if you need special assistance relative to this document, or any documents of the Legislative Auditor, please contact Elizabeth Coxe, Chief Administrative Officer, at 225-339-3800.



LOUISIANA LEGISLATIVE AUDITOR  
DARYL G. PURPERA, CPA, CFE

December 24, 2014

The Honorable John A. Alario, Jr.,  
President of the Senate  
The Honorable Charles E. "Chuck" Kleckley,  
Speaker of the House of Representatives  
Ms. Susan West, Chief Executive Officer,  
Office of Group Benefits

Dear Senator Alario, Representative Kleckley, and Ms. West:

This report includes the results of the procedures we performed at the Office of Group Benefits (OGB) for the period from July 1, 2013 through June 30, 2014, to evaluate its accountability over public funds. The procedures are a part of our audit of the state of Louisiana's financial statements for the year ended June 30, 2014. I hope the information in this report will assist you in your legislative and operational decision-making processes.

We would like to express our appreciation to the management and staff of OGB for their assistance during our work.

Sincerely,  
  
Daryl G. Purpera, CPA, CFE  
Legislative Auditor

BDC:THC:aa

OGB14



---

# Louisiana Legislative Auditor

Daryl G. Purpera, CPA, CFE



Audit Control # 80140067

## Office of Group Benefits

December 2014

---

## Introduction

As a part of our audit of the state of Louisiana's financial statements for the year ended June 30, 2014, we performed procedures at the Office of Group Benefits (OGB) to provide assurances on financial information that is significant to the state of Louisiana's financial statements, evaluate the effectiveness of OGB's internal control over financial reporting and compliance, and determine whether OGB complied with applicable laws and regulations.

OGB is authorized by law to provide health, accident, and life insurance to both active and retired state employees and their dependents.

## Results of Our Procedures

---

### Financial Sustainability

On May 21, 2014, we issued a report analyzing the actual and projected changes in OGB's fund balance between January 1, 2012 and December 31, 2014, to evaluate the financial sustainability of current operations. Based on our analysis, the OGB fund balance of \$482 million at December 31, 2011, declined to a balance of \$275 million by November 30, 2013. Based on an estimated 2014 average monthly shortfall of \$17 million, we estimated that OGB's remaining fund balance would be liquidated by April 2015. If no benefit or structural changes were made by OGB, we estimated that a premium increase of 17% would be necessary to prevent continued losses through December.

The decline in OGB's fund balance occurred, in part, because of premium decreases of 7% and 1.77% in August 2012 and 2013, respectively, when health care trends for medical and drug costs were increasing by 5% to 8%. The premium reductions resulted in budget savings for state agencies during fiscal years 2013 and 2014.

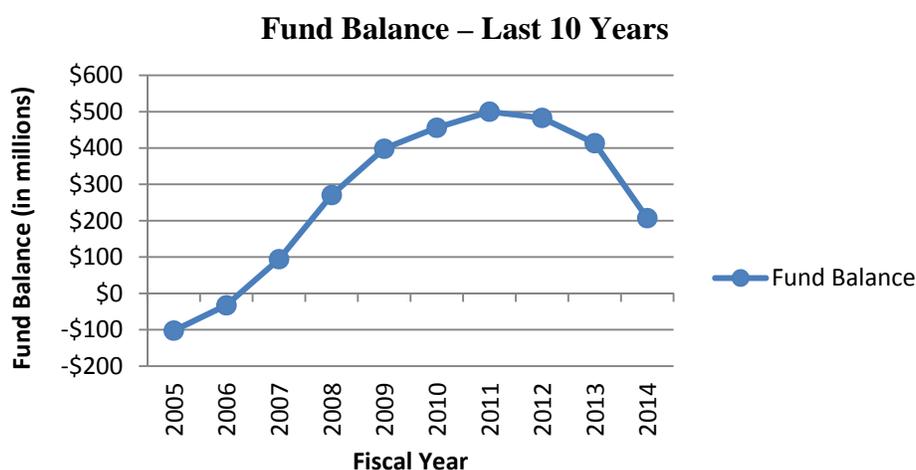
OGB subsequently increased premiums by 5% in July 2014, introduced new health care plans, and cut benefits for plan members. After numerous legislative committee hearings, OGB extended its enrollment period through December 7, 2014, and made additional changes to its health care plans and benefits. The effective date of most of these changes was moved from January 1, 2015, to March 1, 2015.

As presented at the September 2014 board meeting, the OGB fund balance at June 30, 2015 was projected to be \$132.9 million, with a 7.4% expected premium increase effective July 1, 2015. In November, OGB revised its expected premium increase to at least 10.8%, effective July 1, 2015, based on additional changes to plan benefits and effective dates.

---

## Fund Balance Trend

The OGB fund balance is the accumulation of the surplus or deficit of revenues minus expenses over time and includes incurred but not reported claims. From a peak of \$500 million in 2011, OGB's fund balance dropped to \$207 million as of June 30, 2014. The chart below shows the changes in OGB's fund balance for the last ten years:



Source: OGB Annual Fiscal Reports, as adjusted

---

## Financial Statements - State of Louisiana

As a part of our audit of the state of Louisiana's financial statements for the year ended June 30, 2014, we considered internal control over financial reporting and examined evidence supporting revenues, health claims expenditures, drug claims expenditures, and disclosure components for other postemployment benefits other than pensions.

Our audit included tests of OGB's compliance with laws and regulations that could have a direct and material effect on the financial statements, as required by *Government Auditing Standards*.

Based on the results of these procedures on the financial statements, we did not report any internal control deficiencies or noncompliance with laws or regulations. In addition, the account balances and transaction classes tested are materially correct, as adjusted.

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

## APPENDIX A: SCOPE AND METHODOLOGY

We performed certain procedures at the Office of Group Benefits (OGB) for the period from July 1, 2013 through June 30, 2014, to provide assurances on financial information significant to the state of Louisiana and to evaluate relevant systems of internal control in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. The procedures included inquiry, observation, review of policies and procedures, and review of relevant laws and regulations. Our procedures, summarized below, are a part of the audit of the state of Louisiana's financial statements for the year ended June 30, 2014.

- 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 OGB's account balances to support our opinions on the state of Louisiana's financial statements.
- We compared changes in OGB's fund balance over a 10-year period and evaluated reasons for the drop in fund balance between 2012 and 2014.

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 purpose.

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