STATE OF NEW HAMPSHIRE
INTERNAL SERVICE FUND

MANAGEMENT LETTER
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

To The Fiscal Committee Of The General Court:

We have audited the financial statements of the New Hampshire Internal Service Fund as of and for the fiscal year ended June 30, 2014 and have issued our report thereon dated December 30, 2014. The Internal Service Fund is administered by the Department of Administrative Services.

This management letter, a byproduct of the audit of the financial statements of the New Hampshire Internal Service Fund for the fiscal year ended June 30, 2014, contains our auditor's report on internal control over financial reporting and on compliance and other matters and related audit findings. Appendix A, on page 31 of the management letter, provides a summary of the status of observations presented in the fiscal year 2004 financial audit report of the Employee Benefit Fund, which was renamed the Employee and Retiree Benefit Risk Management Fund, the largest component fund of the Internal Service Fund at June 30, 2014. Appendix B on page 33 of the management letter provides a summary of the status of observations presented in the June 2011 performance audit report of the Employee and Retiree Health Benefit Program. Appendix C on page 35 of the management letter is a communication from the Department of Administrative Services related to the audit.

The New Hampshire Internal Service Fund fiscal year 2014 Annual Financial Report can be accessed online at:

http://www.gencourt.state.nh.us/LBA/AuditReports/financialreports.aspx

Office of Legislative Budget Assistant

Office Of Legislative Budget Assistant

December 30, 2014

STATE OF NEW HAMPSHIRE
INTERNAL SERVICE FUND
2014 MANAGEMENT LETTER

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* Audit comments suggest legislative action may be required.
This report can be accessed in its entirety on-line at:
http://www.gencourt.state.nh.us/LBA/AuditReports/financialreports.aspx

Independent Auditor's Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With *Government Auditing Standards*

To The Fiscal Committee Of The General Court:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the New Hampshire Internal Service Fund (Fund) which comprises the Statement of Net Position as of June 30, 2014 and the Statements of Revenues, Expenses and Changes in Net Position and Cash Flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 30, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Fund's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the following observations, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in observations No. 1 and No. 2 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Observations No. 3 through No. 12 to be significant deficiencies.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, rules, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in Observations No. 13 through No. 15.

Department Of Administrative Services' Responses To Findings

The auditee responses to the findings identified in our audit were prepared by the Department of Administrative Services (Department) and are included with each reported finding. The Department's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose Of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Department's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Office of Legislative Budget Assistant

Office Of Legislative Budget Assistant

December 30, 2014

Internal Control Comments
Material Weaknesses

Observation No. 1: Establish A Formal Risk Assessment Process

Observation:

The Department of Administrative Services' Risk Management Unit (RMU) does not have formal risk assessment policies and procedures or a formal process in place for recognizing and responding to risks potentially affecting the RMU's operations.

Management's assessment of and response to risks facing the organization is an integral component of internal control. The purpose of an entity's risk assessment efforts is to identify, analyze, and where appropriate, respond to risks and thereby manage risks that could affect the entity's ability to reach its objectives. Effective risk assessment practices should be a core element of management's ongoing planning activities.

The Department of Administrative Services, Internal Control Guide, states, in general, that if agencies are to avoid the hazards arising from internal and external risks, agency management must regularly identify the type of risks to which the agency is exposed, analyze the impact of such risks, and determine the measures to be taken in order to mitigate the risks.

Recommendation:

The RMU should establish a formal risk assessment process, supported by policies and procedures, for recognizing and responding to risks potentially affecting the RMU's operations.

Auditee Response:

We concur.

RMU acknowledges the value of having a formalized risk assessment process and is committed to building upon our current risk assessment practices as noted in our response to Observation No. 3. RMU practices include strategies and resources to minimize risk including holding bi-monthly Fund 60 Management Team meetings where Department of Administrative Services (DAS) finance and budget leadership members review Fund 60 activity. DAS also utilizes the services of professional actuaries for the risk associated with assuming full claims and experience exposure.

In response to a prior LBA audit observation RMU sought and received a quote to purchase risk assessment services in the amount of $250,000. We believe the cost is prohibitive and not prudent in light of competing budgetary interests. We will continue working to build risk assessment processes within the confines of our available resources.

Observation No. 2: Strengthen Controls Over Enrollment Data

Observation:

Weaknesses in the State's enrollment controls increase the risk that employee, retiree, and dependent eligibility records will not remain accurate.

1. *Enrollment data not periodically reconciled with plan administrators.*
   During fiscal year 2014, the Department of Administrative Services' Division of Personnel (DOP) did not have policies and procedures in place to routinely reconcile enrollment data from the State's enrollment system to each of the benefit vendors. During fiscal year 2014, the State converted its system to communicate enrollees from the State's information systems to the State's benefit vendors for medical, dental, and pharmaceutical claims. The State's legacy system, BASS (Benefits Administration Support System), was replaced as a transmission source for enrollment data by the human resources module of the State's accounting system (NH FIRST) effective January 1, 2014. In preparation for this changeover, both systems had been used by the DOP and should have contained the same information prior to switchover; however, the two systems were not reconciled before the conversion. After conversion to NH FIRST, the DOP worked with the State's largest benefit vendor to run a comparison file of the list of enrollees per the vendor with the list of enrollees per NH FIRST. The DOP reported that the comparison identified approximately 860 individuals that were not consistently identified on both data sources. These individual discrepancies were reportedly investigated by the DOP and resolved by May 2014. The DOP reported the majority of the discrepancies (579) were terminations that had previously been sent to the vendor but inappropriately remained on the NH FIRST transmission file. The DOP reported a small number of the discrepancies were due to manual errors made during the enrollment process or were due to the vendor not removing individuals as specified by the DOP.

2. *No review for accuracy of individual changes input into the NH FIRST system.*
   NH FIRST does not require a secondary approval to make changes to benefit enrollment. The DOP utilizes a hardcopy "Benefits Change Form" to indicate what changes are to be made to employee benefit plans. This form is completed by the employee and reviewed before entry; however, once DOP inputs the form into NH FIRST, there is no secondary review of the system against the form to ensure clerical accuracy or appropriateness of the change.

   In addition, the hardcopy "Benefits Change Form" was designed to be signed by the employee and also initialed and dated by the DOP to indicate DOP updated the enrollment system. During a test of 30 benefit change forms, we noted two instances (7%) where the employee's signature was absent from the form and another two instances (7%) where the DOP representative did not initial and date the form.

3. *Excessive number of authorized users with ability to change enrollment data.*
   Risk over enrollment data is further compounded by the fact that during fiscal year 2014, 198 NH FIRST users had the access authority, but not the training, to allow them to

change enrollment data, including adding covered individuals and making changes to selected health benefits plans, without a review and approval as discussed in item number two, above.

Recommendation:

The Department of Administrative Services (Department) should strengthen its control structure for enrollment data in the State's benefit plans. The Department should consider:

1. Performing periodic reconciliations between the enrollment data repository (NH FIRST) and information used by the benefit vendors to pay claims to ensure the vendors are only processing claims and collecting administrative fees for appropriate enrollees;

2. Implementing a secondary system review control for all changes made to plan enrollments to ensure changes are made accurately and appropriately and control procedures are documented; and

3. Limiting the number of individuals with the authority to make enrollment changes to the health benefits plans. All authorized individuals should be appropriately trained to allow for a reasonably controlled enrollment process. The Department should periodically review the access authorities in NH FIRST to ensure only intended personnel have the system access authority to change benefit enrollments.

Auditee Response:

1. We concur with Paragraph One of this finding. With no additional resources funded for the Enterprise Resource Planning (ERP) project, Department of Administrative Services Financial Data Management (FDM) has been severely under water to meet critical deadlines and has not been able to provide the automated interface comparison files that are required for enrollment reconciliation. The Risk Management Unit (RMU), FDM and DOP are, however, working together to responsibly prioritize NH FIRST changes including the generation of reports that will provide RMU and DOP with the tools to reconcile NH FIRST and vendor enrollment data.

2. We concur in part with Paragraph Two of this finding. NH FIRST was originally envisioned to include the ability for an employee to enroll in benefits using a "self-service" module that would then require human resources (HR) enrollment approval in the system. Limited resources have prevented the implementation of NH FIRST self-service. Instead, employees complete benefits enrollment and change forms and those elections are reviewed and approved prior to entry into NH FIRST by trained HR agency staff or DOP staff. Workload demands prevent a secondary review to ensure that the NH FIRST entries were correctly made. However, employees do have the ability to check in NH FIRST that their enrollment elections are correctly reflected. Moreover, the Governor and Council on February 25, 2015 approved a contract with Secova Inc. to perform an independent audit of all dependents enrolled in the employee and retiree Health Benefit Program.

3. We concur in part with Paragraph Three of this finding. In September 2014, DOP conducted training for HR staff of the larger agencies including the Departments of Safety, Transportation, Health and Human Services and Environmental Services as well as for the Administrative Office of the Courts to educate HR staff about entering and changing enrollment data in NH FIRST. The training materials from this training are posted on Sunspot. HR staff from these agencies review and approve employee enrollment before entering the data into NH FIRST. DOP performs these functions for the smaller agencies.

This entire process will be part of the HR/Payroll consolidation review and mapping to look for efficiencies and improved controls.

Significant Deficiencies

Observation No. 3: Risk Assessment Practices Should Include Regular Review Of Service Organization Control Reports

Observation:

The Risk Management Unit (RMU) has not fully utilized Service Organization Controls Reports, commonly referred to as SOC-1 reports, in its consideration of its control structure**.** SOC-1 reports describe the controls in place at the service organizations used to process outsourced operations that are considered relevant to the RMU's internal control over financial reporting. The RMU's lack of documented understanding of controls and possible unmitigated weaknesses at the service organizations increases the risk the RMU is not in a position to fully consider whether the scope and effectiveness of internal controls in place at its service organizations are sufficient to support the RMU's secure operations.

During fiscal year 2014, the RMU contracted with four third-party administrators for medical, pharmacy, and dental claims services, and one third-party administrator for workers' compensation claims services. Medical, pharmacy, and dental claims expense processed by the contracted administrators was approximately $239.3 million and workers' compensation claims expense was approximately $6.8 million during the fiscal year. The RMU received SOC-1 reports describing the controls at each of the service organizations relevant to the RMU's internal control over financial reporting; however, the reports were largely regarded as information for the auditor's use and were not used as a management tool. While the SOC-1 reports are requested for the audit, they should also be used as part of the RMU's process to assess risks in the outsourced services and the related complementary controls that are required at the RMU to ensure that controls at the service organization are effective.

Recommendation:

The RMU should expand its risk assessment practices to include a documented review of each SOC-1 report in order to understand the scope and effectiveness of controls over its outsourced operations, and to evaluate and address the risks associated with those outsourced services. The SOC-1 review should also include identification of relevant complementary user controls and regular determination of whether those controls are in place and operating effectively at the RMU.

Auditee Response:

We concur.

RMU acknowledges the importance of reviewing SOC-1 reports. RMU is working with its third party administrator (TPA) vendors to review each vendor's SOC-1 report and the complementary user entity controls suggested therein to explore them more fully. The RMU Director, Finance staff, and Vendor Management staff have met with the dental vendor's Finance Director and with the medical vendor's Controls Manager to review their respective SOC-1 reports. These meetings were educational and afforded RMU the opportunity to ask questions about the contents of the SOC-1 reports and how they are used by our vendors.

The RMU Director and RMU Finance, working together with the RMU Vendor Management staff, have created fiscal year 2015 SOC-1 complementary control matrixes for each RMU TPA vendor. RMU will be reviewing the control matrixes internally and with the TPA vendors periodically throughout the fiscal year to evaluate whether the complementary entity user controls are in place and effective to provide reasonable assurance over the control objectives and the financial activity of the Employee and Retiree Health Benefit Fund.

Observation No. 4: Improve Controls Over Revenues

Observation:

Weaknesses in the Risk Management Unit's (RMU's) control activities increase the risk that errors or frauds could occur in the RMU's revenue processes and not be detected and corrected in a timely manner. For example:

1. *Revenue expectations/reconciliations are not performed consistently.*
   The RMU develops an estimate of agency health premium and employee contribution revenues expected to be received for the month, utilizing the enrollment counts obtained from the State's health benefits vendor, and the established working rates. The expectation is compared to actual agency health premium and employee health contribution revenues recorded in the Employee and Retiree Benefit Risk Management Fund (EBF) for the month, in an attempt to ensure that all agency health premium and employee contribution revenues are recorded. However, the comparison of expectation to actual is only completed for the active employee population with respect to health and prescription drug benefits. Similar expectations and comparisons are not performed for dental benefit revenues, or for retiree premium and contribution revenues.

2. *Enrollment counts provided by the vendors are not consistently reconciled to State records.*
   As described above, the RMU utilizes enrollment counts received from the health benefits vendor in developing the monthly revenue expectation for active employees. The vendor's enrollment counts were not consistently reconciled to enrollment counts per the State's enrollment records during the audit period. The State utilized an internally-developed Benefits Administration Support System (BASS) to transmit enrollment data during the period July 1 through December 31, 2014. The State-wide accounting system (NH FIRST) was used for the transmission of enrollment data for the remainder of fiscal year 2014. During the first half of the fiscal year when BASS was in use, enrollment counts provided by vendors were not consistently compared to counts per the BASS system. Beginning in December 2013, the RMU began to compare enrollment counts provided by the State's health benefits vendor to enrollment counts per NH FIRST. Similar enrollment comparisons have not been consistently completed for the State's prescription drug benefits and dental benefits vendors. As of May 2014, one such enrollment comparison had reportedly been

completed for the State's prescription drug benefits vendor. Additionally, the RMU uses retiree enrollee information provided by the New Hampshire Retirement System (NHRS) to prepare the journal entries used to record premiums for health benefits from the general fund and various State agencies. The RMU does not compare this retiree enrollee information to retiree enrollment counts per the health benefits administrator prior to generating the entries to record the revenues.

3. *Journal entries to record retiree health premiums and contributions, New Hampshire Retirement System (NHRS) subsidy revenues, and workers' compensation revenues are not effectively reviewed and approved.*
   The RMU posts journal entries in NH FIRST to record retiree health premiums, retiree contributions, and retirement subsidy revenues. For a portion of fiscal year 2014, due to personnel vacancies, no one at the RMU, other than the preparer of the transaction, regularly reviewed and approved the journal entry prior to posting to NH FIRST. The Department of Administrative Services' Bureau of Accounting (BOA) posts the workers' compensation revenues. No one at the BOA, other than the preparer of the transaction, regularly reviewed and approved the journal entry prior to posting to NH FIRST. While the journal entries flow through the NH FIRST electronic process-flow approval system and are released for posting by the Department of Administrative Services, the Department's approval of the transaction does not include a review of the accuracy of the revenue amounts and accounts to be posted. The lack of informed review and approval of the transactions increases the risk that errors would not be prevented, or timely detected and corrected, in the normal course of business.

4. *The RMU does not have an effective review process to ensure that Medicare Part D subsidy revenue is complete.*
   On a quarterly basis, the State receives a Medicare Part D subsidy on behalf of each Medicare eligible retiree who is enrolled in the health benefits program. The State's contract with its prescription drug benefits vendor requires the vendor to submit required reports detailing prescription drug claims and retiree eligibility. The Federal Medicare system uses the reports submitted by the vendor to determine the State's quarterly subsidy amount, and notifies the RMU when the subsidy payment will be made. The RMU receives notification from its vendor whether or not the reports are submitted timely, but the RMU does not perform any review of the reports submitted by the vendor.

5. *The RMU does not have a review process to ensure NHRS subsidy revenue is accurate.*
   The State receives a "medical subsidy" from the New Hampshire Retirement System (NHRS) for qualified retirees. The RMU nets the subsidy against the amount it bills to self-funded State agencies for retiree health benefits. The subsidy received by the State is funded by State contributions to the NHRS, pursuant to RSA 100-A:16, III. For fiscal year 2014, the State paid the NHRS an amount equal to 1.62% of the prior month's active employee payroll for Group I Employees and 3.95% for Group II employees. In months when the State contributions do not cover the full cost of the retiree subsidy, the NHRS applies a "subsidy limitation" equal to the unfunded amount, which reduces the subsidy in the following month. The RMU does not review the NHRS' monthly subsidy determinations to conclude whether the amounts reported by the NHRS are accurate.

The RMU reported that staffing constraints, and the mid-year implementation of use of NH FIRST system to transmit and report enrollment data have hindered the RMU's ability to effectively perform needed reconciliations.

Recommendation:

The RMU should establish policies and procedures, including appropriate control activities, to reasonably ensure that revenues are complete and accurately collected, recorded, and reported.

- The RMU should establish reconciliation controls that review and compare available information to support the revenues collected and ensure the consistency of underlying program data.
- The RMU should establish review and approval controls that verify the completeness and accuracy of revenues, including the processing of those revenues.

The RMU should establish control monitoring activities to identify the consistent application of the RMU's controls and also the continued effectiveness of those controls. Controls that are determined to have become ineffective or inefficient should be revised or replaced as appropriate to ensure that management's control objectives remain addressed.

Auditee Response:

With no additional resources funded for the Enterprise Resource Planning (ERP) project, our Financial Data Management Unit (FDM) has been severely under water to meet critical deadlines and has not been able to provide the automated interface comparison files that would have been required to help in several of these findings. The initial work is underway now.

1. RMU concurs with Paragraph One of this finding. RMU recognizes the importance of revenue reconciliation to the Health Benefit Program. RMU reconciles agency revenue and employee contributions using Anthem enrollment to project total revenue as compared to actual revenue collected. We will add monthly retiree and dental plan revenue reconciliations to our monthly analysis.

2. RMU concurs with Paragraph Two of this finding. RMU recognizes the need to reconcile NH FIRST active and retiree enrollment to our vendor enrollments. Fiscal year 2014 was the first year of using NH FIRST as a source of enrollment data and we are in the process of determining how we can make reconciliation a priority given limited staffing and systems resources.

3. RMU concurs in part with Paragraph Three of this finding. During periods when the Finance Team was fully staffed, one RMU staff person prepared the journal entry and another RMU staff person reviewed the journal entry. The only time that this two-step process did not occur was when there was a vacancy in the RMU Finance Office as described in RMU's response to Observation No. 11.

4. RMU concurs with Paragraph Four of this finding that it does not perform a detailed review process to verify the accuracy of the Medicare Part D subsidy. Such a detailed review would entail a complete audit of Medicare eligible prescription drug claims and RMU does not have the resources to perform a review of this scope. RMU does however review the amount of the quarterly subsidy it receives and notes that the amount is consistent with prior quarterly Medicare Part D subsidy revenue.

   RMU further notes that beginning in January 2015 it implemented an Employer Group Waiver Program (EGWP) for Medicare eligible retirees that will result in transitioning away from the Medicare Part D Subsidy. RMU estimates that the EGWP will save the State $1 million in retiree prescription drug costs for calendar year 2015.

5. RMU concurs with Paragraph Five of this finding that it does not have a review process to ensure that the NHRS subsidy revenue is correct. NHRS sends a monthly file with retiree names and subsidy amounts. RMU lacks the resources to do a detailed reconciliation with existing resources. RMU does however review the amount of the monthly NHRS subsidy and works with NHRS staff to discuss any questions that it has.

RMU will work within its existing resources to establish policies and procedures that describe the revenue collection process. This work will include documenting existing controls and additional revenue controls and control monitoring activities.

Observation No. 5: Variances Noted As A Result Of Revenue Reconciliations Should Be Investigated Timely

Observation:

The Risk Management Unit (RMU) identified a $583,000 variance in its June 2014 monthly revenue expectation (reconciliation) review but did not investigate and resolve the underlying error in a timely manner. As a result, the balance in the Employee and Retiree Benefit Risk Management Fund (EBF) at June 30, 2014 was understated by approximately $583,000. The balance remained uncorrected at December 30, 2014.

Auditors reviewed a sample of four of the RMU's monthly revenue reviews. The June 2014 review identified a significant variance that was not investigated further by the RMU at the time of its preparation. The review prepared by the RMU indicated that recorded revenue related to active employees was $583,000, or 4.6%, less than expected. [Auditor analysis of expected working rate revenue related to active employees compared to actual revenues received for the June 12, 2014 pay date indicated a variance of approximately $594,000.] Following auditor inquiry on the difference in December 2014, the RMU determined an error occurred in the State's automated process for recording working rate revenues during the June 12, 2014 payroll run. As a result, not all working rate revenues were collected and not all benefit expenses were charged to agencies.

If the balance in the EBF remains uncorrected, the RMU's determination of the December 31, 2014 surplus dollars based on an accrual method of accounting for active employee subscribers likely would also be understated. According to the State's collective bargaining agreement, the surplus is to "be redistributed uniformly to all active employee subscribers to the health plan in the form of a Health Benefit Savings Incentive Payment."

Recommendation:

The RMU should develop policies and procedures that address a requirement for the timely follow up and resolution of significant variances identified by control activities, such as its revenue expectation review.

Auditee Response:

We concur.

RMU will work to establish policies and procedures that describe the revenue collection process for all types of revenue received by the Employee and Retiree Benefit Risk Management Fund (EBF). RMU will also work to document existing controls, establish additional revenue controls, and control monitoring activities to ensure revenue to the EBF is reported completely and accurately.

The error on June 12, 2014 was corrected in February, 2015 by the Bureau of Accounting (BOA). The determination of the December 31, 2014 surplus dollars included a receivable for the correction of the error, and therefore the surplus to be distributed to subscribers in March 2015 accounted for the correction. To avoid an error like the one documented above, the RMU now receives the payroll register totals from BOA after each payroll cycle. This report provides the deduction totals for the active employee health and dental premium collected each payroll cycle. The RMU compares the payroll register totals for one month to the active employee revenue collected into the EBF for one month. If there are significant discrepancies in the future, RMU will work to resolve those discrepancies in a timely manner.

Observation No. 6: Describe All Significant Aspects Of The Health Benefit Plans In Policies And Procedures

Observation:

The Risk Management Unit (RMU) does not have policies and procedures describing the "standard" benefit termination timeframe or the RMU's determination of what circumstances define an "administrative error" that could allow for an extended term of coverage.

The termination of State health benefits associated with a termination of employment or a change in dependent eligibility status, such as ageing-out of eligibility, is typically effective at the end of the month during which the termination or ineligibility event occurs. The RMU could neither demonstrate where this standard RMU and Department of Administrative Services' Division of

Personnel (DOP) practice is documented in any Department of Administrative Services manual, policy, or rule nor demonstrate where the basis used by the RMU and DOP for waiving this practice is documented and available to the users of health benefits or the general public.

Waivers of the normal termination timeframe generally occur when the RMU and DOP determine the State, and not the employee, was responsible for a delay in the processing of a termination. In the normal process, the effective date is set retroactive to the end of the month during which the termination event took place. The State normally can recapture any claims paid for services received subsequent to the effective date. However, if the RMU and DOP determine the State made an administrative error causing a delay in the termination of benefits, the State absorbs, and does not recover the cost of services received during the extended period from the terminating employee. The RMU and DOP have no documented policies and procedures describing the process used by the RMU and DOP to determine when an administrative error affecting the coverage termination date has occurred. The DOP generally reviews for an administrative error when processing a coverage termination that is more than two months old. The DOP will convey the circumstances surrounding each such case to the RMU who works with DOP to make the determination.

During testing, auditors noted that benefits were not terminated following a terminating event for one out of 32 individuals selected for review. The selected individual passed away in April 2014 but, as of December 17, 2014, there was no "benefits stop date" noted in NH FIRST, the State accounting system. The DOP reported it had received notification of the individual's death in April 2014, but was waiting for the individual's spouse to return paperwork prior to terminating benefits. The DOP confirmed that the individual would still be considered an active subscriber with the medical benefit provider and therefore considered eligible to receive benefits until the benefit stop date was updated. Following auditor inquiry, the individual's "benefits stop date" was subsequently updated by the DOP.

Recommendation:

The RMU should establish formal policies and procedures describing all significant aspects of the health benefit plans, including the termination of health benefits. Policies and procedures should describe when coverage ends for standard terminations, and what circumstances should be considered when determining if a State "administrative error" should impact the timing of a termination of coverage.

The RMU should consider whether certain operational policies should be formalized into a series of "Administrative Rules" to make the policies transparent by establishing clear rights and obligations between the State's operation of the health benefit plans and the covered individuals.

Auditee Response:

We concur.

RMU acknowledges the importance of establishing formal policies and procedures for all aspects of the Health Benefit Program, including termination of health benefits. The Health Benefit Program has prioritized, as described below, the drafting and adopting of written policies and procedures. Additionally, the Health Benefit Program is reassessing current policies and procedures in association with the audit it is conducting related to the eligibility of employee and retiree dependents to be enrolled in the health benefit plan.

DAS does have a number of procedures in place relating to terminating employee benefits. Both staff and employees can access documents on the State Intranet which provide guidance and detail procedure. For example, the Division of Personnel published the *NH FIRST Benefits Administration User Guide for Health Benefit Representatives*.

DAS previously created and filled a position, Health Program Policy Manager, to assist with writing policies and procedures. This position worked extensively with the DAS Policy and Procedures Administrator to conduct an extensive review of State law and eligibility for the State employee and retiree health benefit plan. This work is the foundation for drafting administrative rules and/or policies and procedures.

Observation No. 7: Publish Health Plan Booklets Timely

Observation:

The Risk Management Unit (RMU) did not publish a *Healthcare Benefit Booklet* or a *Prescription Drug Benefit Booklet* in a timely manner. The healthcare plan benefit booklet was published on the State's website on June 4, 2014, five months after the plan's effective date. The *Prescription Drug Benefit Booklet* was published on December 9, 2014, more than eleven months after the effective date of the new plan. The booklet describing the State's dental plan benefits was published timely on January 1, 2014.

The benefit booklets serve as the official documentation of the State's health plan coverage. Without a document to describe plan coverage, employees, employers, and providers must rely on summary documents and phone calls to the plan administrators to determine if specific medical and pharmaceutical services are covered by the plan.

At the start of calendar year 2014, numerous changes were made to the State's employee health benefits plans. The healthcare contract between the State and the medical plan administrator specifies that the administrator will provide a benefit booklet that will be published on the State's website. There is no specific language in the pharmacy benefit provider agreement requiring the preparation of a separate *Prescription Drug Benefit Booklet.*

Untimely notice of plan coverage, and changes in plan coverage, increases the risk plan members and providers will not make efficient and effective health decisions due to inaccurate, incomplete, or unknown plan information.

Recommendation:

The RMU should publish all health plan benefit booklets in a timely manner.

The RMU should consider including language in future contracts to require service providers to provide these booklets by a specified due date to help ensure booklets are published timely.

Auditee Response:

We concur.

The Health Benefit Program works to publish all publications, including health plan benefit booklets, in a timely manner. The 2014 Summaries of Plan Descriptions (SPD) were completed and posted on the Department of Administrative Services (DAS), Human Resources (HR) website prior to the start of the 2014 plan year. These documents are summary in nature, generally no longer than 2-3 pages, and contain essential information regarding plan design and covered services. SPDs are the primary resource used by employees and their families as they contain concise plan design information in an easy to read, user-friendly format.

RMU was delayed in publishing the lengthier Healthcare Benefit Booklets and Prescription Drug Benefit Booklet because of limited staff and other resources during a time of great change in the Health Benefit Plan. The plan design changes effective January 1, 2014 were not finalized until late October, 2013 due to a protracted collective bargaining process. Once the new plan design was determined, RMU focused its resources in the first instance on implementing the plan changes with our medical, dental and health reimbursement arrangement (HRA) vendors as well as on efforts to educate employees about the plan design changes that implemented the first ever deductible.

RMU worked with the Division of Personnel (DOP) to host several educational sessions for employees in late 2013 about the new plan design. In addition, human resources offices throughout the State, in association with the annual open enrollment process, hosted staff meetings at which our vendors presented to employees about their health benefit coverage with particular focus on how benefits plan design changed as a result of collective bargaining. Once this first level of education about the new plan design had occurred, RMU was able to turn its attention to working with the Counsel to the Health Benefit Program from the Attorney General's office and the vendor, Anthem, to produce the benefit booklet. Given the many changes to the health benefit plan design and the workload associated with this implementation, it did take a couple of months to finalize the benefit booklet.

Along with changes to the health benefit plan, RMU, effective January 1, 2014, implemented its contract with a new Pharmacy Benefit Manager (PBM) vendor to provide prescription drug benefits for employees and retirees. An SPD for prescription drug benefits was available to employees on the DAS HR website. A change in vendor is significant for health benefit plan members, and given its limited resources, RMU focused its attention on implementation issues and resolving customer service issues, the kinds of time consuming work that are commonly experienced when a vendor change occurs. Thus the drafting of the PBM Benefit Booklet by necessity was delayed. The length of the delay was also attributable to RMU soliciting feedback and input from the DOP and members to improve the benefit booklet. The published Pharmacy Benefit Booklet has a revised format and includes a detailed description of the benefit and how the plan works. This booklet will serve as a template and will allow for more timely updates in the future regardless of changes in plan design or vendor.

In addition, in 2014, the two RMU Vendor Managers who worked on implementing the new health benefit plan design, and the new PBM vendor, including the associated benefit booklets, also worked throughout the year on the ongoing procurement work that is part of the normal, heavy RMU workload. In 2014, this procurement work included three major contracts: dental, medical consulting, and flexible spending and health reimbursement accounts.

It is also important to highlight that RMU staff worked in partnership with Department of Safety, Division of Motor Vehicles staff to produce an online educational presentation that is published on the DAS HR website. This presentation provides a comprehensive review that explains how the collectively-bargained employee Health Benefit Program works. This presentation is broken down into segments so that employees or their family members can easily access the information they need to understand a particular aspect of the health benefit plan. This presentation includes not just a description of health benefits, but it also describes how the Site of Service program and the Compass program respectively help employees to avoid the deductible and to earn cash incentives for obtaining services through low-cost providers.

All in all, heavy workloads contributed to the late publications of the benefit booklets. In the future, RMU will require its vendors to provide benefit booklets by a specific date to support their timely publication.

Observation No. 8: Implement More Evidenced Review Of Working Rates

Observation:

Working rates developed by the State’s actuary are not formally reviewed and approved prior to being implemented. The actuary’s report that details the working rates provides some, but not a detailed, analysis of the support for the proposed working rates.

Working rates are the actuarially determined estimates of amounts needed to cover the claims and administrative costs of the self-insured health, dental, and prescription drug benefits programs for employees and retirees of the State and statutorily authorized groups. The actuary uses the estimates to set the medical and dental working rates (contribution rates) for each plan (point of service, HMO, retirees under age 65 and retirees age 65 and over) and type of coverage (single, two-person, and family). Working rates also vary according to particular conditions of the applicable employee contract.

Working rates are set on a calendar year basis, taking effect at the start of the calendar year. The actuary makes a presentation of the rates to the Risk Management Unit (RMU) and Commissioner of the Department of Administrative Services, who approves the rates. The approved rates are uploaded into the State's payroll system (NH FIRST).

While the Department of Administrative Services has a documented review and approval process to ensure the working rates are accurately input into NH FIRST, there is no documented review and approval of the actuary's determination of the working rates. The RMU reports that the Commissioner's approval of the working rates is informal. There is no formal documented review of the actuary's analysis and generation of the working rates for reasonableness and consistency with known information and past experience.

The surplus in the Employee and Retiree Benefit Risk Management Fund (EBF) at June 30, 2013 and again at June 30, 2014 was approximately twice the statutory reserve required for the EBF. While the Department reports the surplus typically peaks mid-calendar year and decreases through the remainder of the year as a function of healthcare utilization, there is no analysis to determine whether the working rates are causing an unintended large surplus.

Recommendation:

The RMU should implement a more evidenced review and approval control over the acceptance of the actuarially determined working rates. The RMU should have a documented understanding of the components of the rates, including the basis for the primary actuarial assumptions employed in the working rate calculations, and how the prior year experience compared to the actuary's projections.

The RMU should review the actuary's analysis and generation of the working rates for reasonableness and consistency with known information and past experience.

Auditee Response:

We concur in part and do not concur in part.

The Department of Administrative Services (DAS) applies a rigorous, evidenced process to its review of the actuary's proposed working rates before approving their implementation. DAS concurs, however, that it should formally document the approval of the working rates.

DAS works with its actuaries, the Segal Company, to determine calendar year working rates that represent the amounts agencies and other statutorily authorized groups pay on a monthly basis to provide health benefits to their employees. Each Fall, DAS receives from the actuaries suggested working rates and a written report detailing how those working rates were derived.

DAS convenes its "Fund 60 Management Team" and the actuary presents its written report and working rate recommendations to this team. Members of the Fund 60 Management Team include the DAS Commissioner, the DAS Assistant Commissioner, the lead DAS Business Supervisor, the Chief Financial Officer for DAS, the State Comptroller, the Bureau of Financial Reporting

Administrator, the Director of Risk and Benefits, and the Senior Financial Analyst for the Health Benefit Plan. During the presentation, the Fund 60 Management Team members have the opportunity to ask questions and to challenge the assumptions and conclusions drawn by the rate setters. Over the years, there have been a number of questions raised and further discussions as necessary to consider the issues raised. In fact, the mix between the reliance on State claims experience versus regional experience has changed as a result of these discussions.

Following this presentation, the Commissioner directs the actuaries to follow up on questions and/or approves the working rates. This review process is used for the calendar year working rates and for the budget working rates used by the agencies in building their Class 60 budgets. Moreover, RMU does not have the authority to implement working rates until this review occurs and until the Commissioner approves the working rates.

On October 3, 2013, the actuary met with the Fund 60 Management Team to present its detailed report and recommendations for calendar year 2014 working rates. This detailed report included the assumptions used by the actuaries and the details of how they built the proposed working rates from an analysis of the prior year claims expense, projected administrative costs, and growth projections based on headcount changes, trend, and other factors. During the meeting, DAS Fund 60 Management Team members asked questions about the actuaries' work and discussed the actuaries' recommendations. At the conclusion of the October 3, 2013 meeting, the Commissioner approved the calendar year 2014 working rates.

DAS concurs that its review process should include documentation of the decision to approve the working rates. In the future, DAS will document the process detailing the components of the actuary report recommending the working rates as well as the decision to implement the working rates.

The Fund 60 Management Team plays a broader role than just approving calendar year and budget working rates. Schedules and workload permitting, the Fund 60 Management Team meets bi-monthly to review Fund 60's net position and to discuss other issues that arise in the course of running a health benefit plan. The Fund 60 Management Team reviews the surplus for the Health Benefit Plan and discusses appropriate action to address the surplus.

It is not uncommon for a surplus to accrue for any number of reasons. For example, calendar year working rates are set to reflect costs at the mid-point of the calendar year. In the first half of the year, a surplus builds that is then spent down toward the end of the calendar year. Working rates are an educated estimate about projected health care costs. Projecting health care costs under any circumstances is extremely difficult as it is nearly impossible for any single person, let alone a program serving 40,000, to predict with accuracy health care costs for a given year. Sometimes, as in fiscal year 2014, the health benefit plan is fortunate that actual claims costs are below projected costs in which case a surplus accrues because of any one of the following factors:

- Change in plan design, such as the implementation of a deductible;
- Better claims experience;
- the Compass Program that pays employees cash incentives to use low cost providers; and

- the Site of Service Program that incentivizes employees to use certain low cost providers by helping them to avoid a deductible expense.

In the past, the RMU implemented working rate suspensions to adjust for surpluses. By suspending working rates, DAS leaves funds budgeted for benefits in Class 60 where it can lapse. In calendar year 2014, there were unique circumstances because the Collective Bargaining Agreements prohibited the use of working rate suspensions except in limited circumstances.

Observation No. 9: Develop Policies And Procedures For Accounts Receivable

Observation:

The Risk Management Unit (RMU) reports it does not have formal procedures for recording accounts receivable at fiscal year-end. The RMU does record outstanding receipts from statutorily authorized groups and other receivables that it is aware of, such as Medicare Part D Subsidies and prescription rebates, but there are no specific policies and procedures for RMU accounts receivable beyond the general State-wide policies and procedures discussed in the Department of Administrative Services' *Annual Closing Review*. The *Exhibit K* prepared by the RMU to report year-end accounts receivable is not subject to a review and approval control, prior to the RMU recording the accounts receivable in the State's accounting system.

In preparing its *Exhibit K*, the RMU did not report accounts receivable pertaining to retiree contributions, premiums, or New Hampshire Retirement System subsidy revenues that were outstanding at June 30, 2013 or June 30, 2014. As a result of not accruing these revenues at 2013 and 2014 fiscal year-ends, the revenues related to these retiree accounts were understated by approximately $184,000 for fiscal year 2014. While the amount is not material to the fiscal year 2014 financial statements, if retiree working rates or enrollment counts were to change significantly between fiscal year-ends, failure to consider and accrue for these revenues at fiscal year-end could have a more significant impact on the financial statements of future periods.

Recommendation:

The RMU should develop policies and procedures to support its accounting for and reporting of accounts receivable. The policies and procedures should provide guidance to promote the consistent reporting of accounts receivable for all revenues subject to accrual at fiscal-year end. The policies and procedures should identify the revenues which are susceptible to accrual at fiscal year-end, and should be in sufficient detail to allow the policies and procedures to be understood and performed by trained but inexperienced staff.

Auditee Response:

We concur.

RMU recognizes the importance of documenting the types of revenues that could be outstanding at the end of a fiscal year and may need to be accounted for in an Exhibit K. In fiscal year 2014, RMU prepared the Exhibit K's for outstanding receivables and provided all backup with the Exhibit K to the Department of Administrative Services (DAS) Business Office for review and approval. In fiscal year 2014, the Senior Financial Analyst prepared the Exhibit Ks and trained the Accounting and Finance Analyst on the process for RMU Finance. This was the Accounting Analyst's first fiscal year end since coming to work in RMU. In the future, the Accounting and Finance Analyst will prepare the Exhibit Ks and the Senior Financial Analyst will review the document before it is submitted to the DAS Business Office.

RMU will continue to work to document the year end Exhibit K procedures for the fiscal year 2015 year end, by August 2015.

Observation No. 10: Account For And Report Financial Activity In The Appropriate Fund

Observation:

The State operating budget does not appropriate to the Employee and Retiree Benefit Risk Management Fund (EBF), a component of the Internal Service Fund, significant financial activity that may be more appropriately accounted for and reported in the EBF.

1. *Federal contributions toward the future retiree health benefits cost of current federally funded State employees are not deposited in the EBF.*
   Federal programs are charged a percentage on federally funded State payroll to support the anticipated healthcare costs of the employees when they retire in the future. The State deposits the revenue collected from the Federal programs as unrestricted General Fund revenues. By not depositing the Federal revenue directly into the EBF, the EBF program revenue is understated and the cost to the State's General Fund is overstated.

2. *Not all self-supporting State agencies are directly charged for their costs of providing health benefits to their retirees.*
   Self-funded State agencies are generally charged the cost for their respective retiree health benefits using one of two budgeting methods. Some fully self-funded agencies are billed the actual health benefit costs for their retirees and some partially self-funded agencies are charged an "additional fringe benefits" charge or percentage of payroll costs to reimburse the State General Fund for their retiree health benefit costs. While both methods recover certain costs, budgeting criteria for the recovery of retiree health benefits is not well developed or consistently applied.

   - While not directly affecting the EBF accounting and financial reporting, the retiree health benefit costs for the Liquor Commission, a self-funded State enterprise fund, are charged to the State General Fund. Other State enterprise funds are directly charged for the actual health benefit costs for their retirees. Not charging the cost of retiree health benefits to the Liquor Commission overstates the General Fund's retiree health benefit costs and understates the costs of the Liquor Commission's operations.

- The retiree health benefit costs for the New Hampshire Department of Employment Security (NHES), also a self-funded State agency, are charged to the State's General Fund. The NHES reimburses the General Fund through the additional fringe benefits charge, as described in paragraph one above. By charging the cost of retiree health benefits to the NHES as described in paragraph 1 above, the NHES is recovering an estimate, and not the actual costs, of the health benefits provided its retirees.
- Certain other partially self-funded State agencies also pay additional fringe benefits contributions towards retiree health benefits costs while others do not. The basis for determining which agencies should budget and pay additional fringe benefits is not clearly defined and documented.

Incomplete accounting and reporting of financial activity increases the risk that decisions related to financial operations may not be based on the best available information.

Recommendation:

The Risk Management Unit (RMU) should work with its Department (DAS), other State agencies, and the Legislature to develop budgets, policies and procedures (controls), and complete and accurate financial reporting that will promote a more thorough understanding of:

- The costs of programs accounted for and reported in each fund, and
- The full recovery by the General Fund of the cost of retiree health benefits that should be supported by agency revenue sources.

Auditee Response:

We concur that it is important for financial activity of the retiree health benefit be accounted for and reported in the appropriate budgeted fund.

With regard to the Liquor Commission (Liquor), when preparing the fiscal years 2016-2017 budget, the RMU worked with the DAS Budget Office to have Liquor included as a self-funded agency that will be invoiced for monthly retiree health premiums. Liquor is included as a self-funded agency in the Governor's Budget for fiscal years 2016-2017. This provides an increase in the self-funded revenue appropriation in the DAS Retiree Health Budget and establishes an expense appropriation for class 64 (retiree health) in the Liquor budget. Liquor did not have an appropriation to pay directly for its retirees' monthly premiums prior to the proposed fiscal years 2016-2017 Governor's budget.

New Hampshire Employment Security (NHES) does pay for retiree health. NHES' funding mix is fundamentally different from Liquor in as much as it is primarily a federally-funded agency. As with most federally-funded agencies, the BOA invoices NHES for a "post-retirement" rate based on a formula that takes into account the state's general-funded retiree health costs and the state's payroll costs; NHES multiplies this rate by its federally-funded payroll costs (100%) and pays BOA a "post-retirement" payment which is paid with 100% federal funds. BOA deposits this post-retirement payment into an unrestricted general fund revenue account**.** When an agency pays a post retirement rate that is deposited into an unrestricted general fund revenue account, then the retiree health benefits costs of its retirees are included in the DAS general-funded retiree group. We have made several attempts through the legislative process to restrict the revenue to the OPEB trust but have failed to be successful.

The federal government will only make one payment to support retiree health benefit costs related to individuals whose positions are federally-funded. The NHES budget has consistently charged NHES retiree health care costs as all other federally-funded agencies.

RMU and BOA will continue to work internally to ensure that federal reimbursement is properly addressed.

Observation No. 11: Establish Policies And Procedures For Transfers Of Payroll Costs

Observation:

The Risk Management Unit's (RMU's) transfers of payroll costs from the State's General Fund to the Employee and Retiree Benefit Risk Management Fund (EBF) were not consistently made timely, or in full compliance with chapter law, during fiscal year 2014.

The RMU initially records salary and benefit expenses allocable to the EBF in the State's General Fund with certain of the salary and benefit expenses subsequently transferred to the EBF, in accordance with Chapter Law 1:9 (Laws of 2009). The RMU reports its intent is to make quarterly transfers of these costs to record the payroll costs in the proper fund. During fiscal year 2014, these transfers were not processed in a timely manner for the first two quarters. Quarters 1 and 2 were processed as follows:

Quarter	Total Amount Transferred	Period Covered	Processing Date	Days Lapsed Since End of Quarter
Quarter 1	$236,195	7/1/2013-9/30/2013	1/16/2014	108 Days
Quarter 2	$279,590	10/1/2013-12/31/2013	4/17/2014	107 Days

The postings for quarters three and four were posted timely, in the month following the quarter end.

Additionally, during fiscal year 2014, the funding for an RMU employee position was not in accordance with chapter law or the reclassification of the position as approved by the Governor and Council. The salary and benefits for this position were charged 95% to the EBF and 5% to the General Fund. Chapter 1:9 of the Laws of 2009 specifies the position should be split 50/50 between the two funds. The Governor and Council approved reclassification states that the salaries and benefits for this position, approximately $88,000 for fiscal year 2014, would be charged 100% to the General Fund.

The RMU reports its 95-5% split of the position costs to the EBF and the General Fund more accurately reflects the efforts of this position.

Recommendation:

The RMU should establish policies and procedures for timely payroll transfers.

The RMU should charge payroll costs as directed by the chapter law.

If the RMU determines the salary allocation in the chapter law no longer reflects the appropriate allocation of costs of its current operations, the RMU should seek to have the chapter law amended as necessary.

Auditee Response:

We concur.

RMU acknowledges the importance of establishing formal policies and procedures for timely payroll transfers. The two payroll transfers cited in this observation were not made timely due to competing demands on limited staff. Quarterly payroll transfers are made in the month following the end of a quarter. All of RMU's quarterly payroll transfers have been timely since the first quarter of calendar year 2014.

The payroll transfers in question were untimely because the RMU experienced vacancies in its Finance Unit in fiscal year 2014. The Senior Financial Analyst position was vacant from March 15, 2013-November 3, 2013 due to a resignation. The Fund Accountant, the second position in RMU Finance, was out on a maternity leave from April-June, 2013. Therefore, for a period of time, both permanent RMU Finance positions were "vacant". RMU did have a temporary fill-in Fund Accountant, but this individual focused his work on the basics of running a health benefit plan: bringing in revenue and paying vendor bills.

When the Fund Accountant returned to work at the end of June 2013, she focused her attention on reviewing the work that had been done in her absence and on closing the books for fiscal year 2013. In addition, on November 3, 2013, the Fund Accountant was hired into the Senior Financial Analyst position leaving the Fund Accountant position vacant. Following a recruitment process, the vacant RMU Finance position was filled on April 4, 2014.

In fiscal year 2014, the RMU Finance Unit not only experienced these vacancies but an unusually heavy workload. During the last quarter of any calendar year, RMU Finance works extensively with the State's actuaries on preparing the recommendation to the Fund 60 Management Team for the calendar year working rates for the following year. The last quarter of 2013 was also particularly busy because of the later than usual resolution of collective bargaining which at one point resulted in RMU moving forward with two sets of working rates for Active

Employees. RMU Finance was also involved in the Pharmacy Benefits Management (PBM) procurement and contracting as well as establishing new financial processes with the new PBM vendor. RMU Finance also lead efforts to establish new financial processes related to the collectively-bargained Health Rewards program.

Workload demands on limited staff have a direct impact on the ability of the Health Benefit Program to produce the full range of policies and procedures for payroll transfers. However, we continue to commit to this important activity. The Department of Administrative Services recognizes the importance of establishing written policies for salary and benefit transfers.

With respect to the funding of the position, we were unaware of Chapter Law 1:9 (2009) that allocated funding for the position 50% to Fund 60 for work associated with the Health Benefit Program and 50% to the general fund to support work related to workers' compensation and property and casualty insurance programs. We have been assuming the budget law laid out the funding source. Since the position was funded, the funding source changed as the duties changed. Most recently, in fiscal year 2014, based on the position's dedication to work related to the health benefit plan, RMU changed the source of funds for this position to 95% Fund 60 and 5% general funds. As of fiscal year 2015, this position is entirely dedicated to the health benefit program and is accordingly funded 100% by Fund 60 and this source of funds is reflected in the Governor's fiscal years 2016-2017 budget now before the legislature for consideration and approval. We will seek a repeal of Chapter 1:9 of the Laws of 2009.

Observation No. 12: Post Workers' Compensation Activity To The Internal Service Fund Timely

Observation:

The Department of Administrative Services (DAS) reported that a lack of available staff and sufficient training made it difficult for the DAS to record workers' compensation revenues timely during fiscal year 2014.

DAS is responsible for posting journal entries that record workers' compensation revenues in the Internal Service Fund and the related expenses to the various State agency accounts. Certain workers' compensation revenues are intended to be recorded monthly based on the workers' compensation claims invoice for the immediately preceding month. Workers' compensation administration revenues are intended to be recorded the month following the end of the quarter.

During audit planning, auditors noted the following:

- Claims revenues totaling $3.6 million, for the months of September 2013 through February 2014, were posted in April 2014, between one and six months late.
- Administrative revenues totaling $1.0 million, for the first two quarters of fiscal year 2014, were posted in April 2014, between three and six months late.

Untimely recording and reporting of financial information increases the risk that decisions will be based on inaccurate or incomplete information.

Recommendation:

DAS should review the adequacy of its policies and procedures for the posting of workers' compensation revenues to the Internal Service Fund, and the related expense to the various State agency accounts. The Department should train employees in the policies and procedures in order to ensure workers' compensation revenues continue to be posted timely in the event of extended absences or departures of key personnel.

Auditee Response:

We concur.

The Department of Administrative Services (DAS) agrees that it is important to have policies and procedures for posting workers' compensation revenues to the Internal Service Fund and the related expense to the various State agencies. There is a policy and procedure manual available to DAS. It is updated on an as needed basis.

DAS also acknowledges the importance of having trained employees in the policies and procedures in order to ensure workers' compensation revenues continue to be posted timely in the event of extended absences or departures of key personnel. However, the Bureau of Accounting (BOA) has experienced recent staffing difficulties and competing demands.

The Appropriations Office in BOA experienced a 100% turnover in mid fiscal year 2014. This office is charged with performing many detailed budgetary transactions including budget warrants; bi-weekly Governor and Executive Council items; pay raise warrants; budget reductions, establishing purchase orders by processing requisitions input by State Agencies and liquidation requests of the same, in addition to the workers' compensation and unemployment compensation entries.

During mid fiscal year 2014, the three-person staff in the Appropriations Office was reduced to one person with limited State experience. The lack of resources caused several backlogs including the workers' compensation duties. As staff was rebuilt, the backlogs were reduced and production activities in the office returned to an acceptable level.

Currently, BOA processes workers' compensation general ledger entries on a monthly basis. BOA processed the January 2015 billing in the month of February 2015. In addition, the first and second quarter billings (allocation) were processed in a timely matter. It is our policy and goal to process entries once a month.

State Compliance Comments

Observation No. 13: Changes To Collective Bargaining Agreements Should Be In Writing

Observation:

It is not clear that the funding of a State-wide employee pay raise through a health benefits "working rate reduction" during fiscal year 2014 was in compliance with the collective bargaining agreements (CBA) in place between the State and its labor unions.

The State Employees' Association (SEA) CBA covering November 21, 2013 to June 30, 2015 at item 19.8.1.q states in part:

> For the biennium ending June 30, 2015, the Employer shall not carry out working rate suspensions except for the purpose of funding the employee Health Benefit Savings Incentive Payments referenced in 19.8.1 (p) [incentive payments of $300 each that shall be made in the first paychecks of January 2014 and 2015] and (q) [in the event that health insurance costs for active employees are less than anticipated or are greater than necessary, the remainder shall be redistributed uniformly to all active employee subscribers to the health plan in the form of a Health Benefit Savings Incentive payment]. If any funds remain in Fund 60, in excess of statutory reserves, after all such Health Benefit Savings Incentive payments are made, the parties agree that, consistent with RSA 21-I:30-e, the funds shall remain in Fund 60 and be used for employee health care costs.

This clause was common in each of the State's CBAs in effect during fiscal year 2014.

Working rates were reduced in March 2014 to fund $3.6 million for the January 2014 Health Benefit Savings Incentive payments (HSIP) and to provide $5.2 million to fund the negotiated calendar year 2014 employee wage increase. While the use of a working rate reduction to fund HSIP aligns with the CBA, working rate reductions to help fund wage increases appear contrary to the CBA.

According to the Department of Administrative Services (DAS), it was well known and accepted that health care savings would be a source of funding for the wage increases as it was discussed during CBA negotiations and at the legislative-level during development of the budget for fiscal years 2014 and 2015, and further communicated in the Governor's press releases. DAS also provided auditors with a copy of a communication from the SEA to illustrate the SEA was aware and accepting of how wage increases were to be funded.

While DAS is confident all parties to the CBA agreed to the use of a working rate reduction to fund the employee pay raise, it is not clear that action was in compliance with provision 19.8.1 (q) of the CBA with the State Employees' Association.

Recommendation:

Changes to the CBA should be in writing with the agreement to the changes by Labor and Management documented. The use of verbal agreements to change written contracts decreases transparency and increases the risk that the respective changes will not be known, understood, or later recognized by Labor, Management, or other interested parties.

Auditee Response:

We concur in part.

While the funding of employee raises is not explicitly found in the Collective Bargaining Agreements (CBAs) for fiscal years 2013-2015, all parties to the CBAs knew from the beginning of and throughout the collective bargaining process that the only funding available to support raises for this period was required to be achieved through savings from changes in the design of the health benefit plan.

For this reason, the State and the unions worked throughout collective bargaining to design a health benefit that would balance the need to achieve savings to support raises with making incremental changes to the health benefit plan. Effective January 1, 2014, the health benefit plan included the first ever deductible for State employees. The deductible in 2014 was $500 for an individual and $750 for a family; in 2015, this deductible increased to $500 for an individual and $1,000 for a family. The State, working with its actuaries, estimated that this plan design change would result in savings of $10.3 million, $6.8 million of which was allocated to and achieved in calendar year 2014 and the balance of $3.5 million of which was estimated to be achieved in the first six months of calendar year 2015.

In the future, if similar circumstances should arise, the Department of Administrative Services will work with the unions to attempt to include a paragraph in the CBAs that states the savings from changes in the health benefit plan design are intended to be used to fund employee raises.

Observation No. 14: Submit Required Reporting

Observation:

During fiscal year 2014, the Risk Management Unit (RMU) submitted only two of the six Health Benefits Program reports to the Fiscal Committee required by Chapter 319:32 of the Laws of 2003.

Chapter 319:32 of the Laws of 2003 states, “Beginning July 1, 2003, the commissioner of administrative services shall report to the fiscal committee of the general court every 60 days regarding the implementation of the self-insured health plan.”

The RMU submitted Health Benefits Program reports to the Fiscal Committee at the Committee’s September 13, 2013 and January 10, 2014 meetings.

Subsequent to auditor inquiry, the RMU submitted reports to the July 25, 2014 and November 10, 2014 Fiscal Committee meetings.

Recommendation:

The RMU should timely submit reports regarding the implementation of the self-funded Health Benefits program to the Fiscal Committee every 60 days, as required by Chapter 319:32 of the Laws of 2003.

If the RMU determines that the reporting required by Chapter 319:32 of the Laws of 2003 is no longer necessary, the RMU should request an appropriate amendment to the law.

Auditee Response:

The Risk Management Unit (RMU) concurs that it should submit timely reports to the Fiscal Committee regarding the implementation of the self-funded Health Benefits Program.

During fiscal year 2014, the RMU submitted three reports to the Fiscal Committee per Chapter 319:32, Laws of 2003. The first was dated August 8, 2013 and covered the period of July 2013. The second was dated November 8, 2013 and covered the period of July 2013 through September 2013. The third report was dated June 4, 2014 and covered the period July 2013 through March 2014. In addition, in order to comply with Chapter 144:32, Laws of 2013, an additional report dated August 20, 2013 was submitted to Fiscal Committee detailing a Cost Containment Plan for Retiree Health Plan Coverage.

The reports in question were untimely because the RMU experienced vacancies in its Finance Unit in fiscal year 2014. The Senior Financial Analyst position was vacant from March 15, 2013-November 3, 2013 due to a resignation. The Fund Accountant, the second position in RMU Finance, was out on a maternity leave from April - June 2013. Therefore, for a period of time, both permanent RMU Finance positions were "vacant". RMU did have a temporary fill-in Fund Accountant but this individual focused his work on the basics of running a health benefit plan: bringing in revenue and paying vendor bills.

When the Fund Accountant returned to work at the end of June 2013, she focused her attention on reviewing the work that had been done in her absence and on closing the books for fiscal year 2013. In addition, on November 3, 2013, the Fund Accountant was hired into the Senior Financial Analyst position leaving the Fund Accountant position vacant. Following a recruitment process, the vacant RMU Finance position was filled on April 4, 2014.

On top of these staffing issues and the day to day requirements of administering a self-funded health benefit plan serving 40,000 people, beginning in the last quarter of calendar year 2013, RMU's workload began to significantly increase and change. One major demand on the RMU Finance Office was the collective bargaining process which lasted until late October 2013 and that brought sweeping changes to the health benefit plan with the first ever deductible and new Health Reimbursement Arrangements (HRAs) associated with the Health Rewards program. During the last quarter of any calendar year, RMU Finance works extensively with the State's actuaries on preparing the recommendation to the Fund 60 Management Team for the calendar year working rates for the following year. The late resolution of collective bargaining in October 2013 at one point resulted in RMU moving forward with two sets of working rates for Active Employees. This heavy workload carried over into calendar year 2014 caused by a “perfect storm” of events including administration of the new health benefit plan design, new vendor contracts, a heavy procurement schedule, and other new projects all of which increased the workload of the two-person finance team.

Implementation of a new Pharmacy Benefits Management (PBM) vendor, Express Scripts, began in October 2013. RMU Finance worked with Express Scripts, the State’s new PBM vendor, to implement the many financial processes that are involved in administration of a PBM contract including the cash flow of rebates and subsidies. The RMU finance team also worked with the vendor that administered the HRAs to monitor the cash flow demands of the new HRA.

In fiscal year 2014, RMU Finance was also involved in drafting RFPs for procurement of three contracts related to the administration of the employee Health Benefit Program: dental benefits administration, medical consulting, and flexible spending account and health reimbursement account administration. In February 2014, the LBA began this fiscal year 2014 financial audit of the internal service Fund 60 that supports the financing of the Health Benefit Program. Consequently, the RMU Finance Team has also spent a great deal of time meeting with LBA auditors and gathering information to answer auditor questions.

In sum, RMU should have filed timely reports with the Fiscal Committee but staff vacancies and increased workload caused those reports to be late. In the future, RMU will work diligently within workload demands to file these reports in a timely manner.

Observation No. 15: Establish Administrative Rules Required By RSA 21-I:14

Observation:

The Department of Administrative Services (DAS) has not adopted administrative rules required by RSA 21-I:14, which directs the Commissioner to adopt rules, within the definition of "rule" as set forth in RSA 541-A:1, XV, relative to the “Management of the state employees group insurance program authorized by RSA 21-I:26 through 21-I:36”.

RSA 541-A:1, XV states, “"Rule" means each regulation, standard, form as defined in paragraph VII-a, or other statement of general applicability adopted by an agency to (a) implement, interpret, or make specific a statute enforced or administered by such agency or (b) prescribe or interpret an agency policy, procedure or practice requirement binding on persons outside the agency, whether members of the general public or ***personnel in other agencies***…” [***Emphasis added***].

Rules serve to provide both program administrators and participants with clarity over rights and responsibilities. The management and operation of the State’s group insurance program has many aspects of operation which prescribe and involve specific and definitive standards (such as periods of coverage as discussed in Observation No. 6) which are binding on the State, employees, and others covered by the program. In order for the covered individuals to effectively understand and interact with the program, the standards should be formally established, documented, and available in the form of statutorily-required administrative rules.

The lack of administrative rules results in diminished operational transparency and increases the risk that operational decisions that are inconsistent with the plan and program, or not within the intent of the enabling legislation and the program's design, will be made; and individuals covered by the plan and program will not have adequate information on the plan's standards of operation to effectively interact with the plan and program administrators.

Recommendation:

DAS and the Risk Management Unit (RMU) should establish the administrative rules required by RSA 21-I:14. The rules should provide sufficient detail on the operation of the plan and program to allow for consistency in operation, and sufficient transparency to allow plan administrators, employers, and covered individuals to effectively understand the operation of the plan and how to effectively interact with the plan and program administrators.

If DAS and the RMU determine administrative rules are not necessary for the operation of the program, DAS and the RMU should seek to have the statute appropriately amended.

Auditee Response:

We concur.

The Department of Administrative Services (DAS) acknowledges the importance of establishing administrative rules for statements of general applicability where required by RSA 21-I:14. The drafting of proposed administrative rules is a detailed process requiring extensive preparation before an agency can even begin the formal approval process required by RSA 541-A.

DAS has taken steps to begin preparing for the process of drafting administrative rules. As noted in our response to Observation No. 6, RMU has worked extensively with the DAS Policy and Procedures Administrator to conduct an extensive review of State law and eligibility for the State employee and retiree health benefit plan that will be the foundation for drafting administrative rules. An already complex process is further complicated by multiple statutes permitting plan participation by various public instrumentalities and other non-state employee groups. Observation No. 6 also details the competing demands on limited staff resources that have inhibited our ability to prioritize the administrative rule process.

RMU continues to be committed to moving this process forward while balancing the competing demands on limited staff resources.

APPENDIX A

Current Status Of Prior Financial Audit Findings

The following is a summary of the status, as of December 30, 2014, of the observations contained in the fiscal year 2004 financial audit of the New Hampshire Employee Benefit Fund, which was renamed the Employee and Retiree Benefit Risk Management Fund, the largest component fund of the Internal Service Fund at June 30, 2014. That report can be accessed at, and printed from, the Office of Legislative Budget Assistant website:
www.gencourt.state.nh.us/LBA/AuditReports/financialreports.aspx

	Status		
Internal Control Comments			
Material Weakness			
1. The State's Self-Funded Employee Health Benefits Program Was Not Effectively Administered During Fiscal Year 2004	●	●	●
Other Reportable Conditions			
2. Greater Understanding Of Contracted Operations Is Needed	●	●	●
3. Summary Plan Descriptions Must Be Current *(See Current Observation No. 7)*	●	○	○
4. Organization Structure And Policies And Procedures Should Be Established For Department Involvement In Claims Coverage Determinations	●	○	○
5. Changes To Plan Contracts Should Be Subject To A Formal Review And Approval Process	●	●	●
6. Controls Must Be Established For The Reconciliation Of The Disbursement Account	●	●	●
7. Formal Risk Assessment Policies And Procedures Should Be Established For The Operation Of The Health Benefits Plan *(See Current Observation No. 1)*	○	○	○
8. HIPAA Compliance Policies And Procedures Must Be Established	●	●	●
9. Policies And Procedures Should Be Established For COBRA Billings	●	○	○
10. Policies And Procedures Should Be Established For The Identification And Reconciliation Of Funds Due Under COBRA	●	○	○
11. Policies And Procedures Should Be Established To Ensure Only Eligible Dependents Of Active Employees Are Provided Plan Coverage *(See Current Observations No. 2 and No. 6)*	●	○	○
12. Controls Must Be Established To Ensure The Retiree Eligibility Data Remains Current And Accurate *(See Current Observations No. 2 and No. 4)*	●	○	○
13. Policies And Procedures Should Be Established To Ensure Only Eligible Dependents Of Retirees Are Provided Plan Coverage *(See Current Observations No. 2 and No. 6)*	●	○	○
14. Policies And Procedures Should Be Established To Ensure Retiree Health Benefits Contributions Are Funded Appropriately *(See Current Observation Nos. 4 and No. 10)*	●	○	○

15. Policies And Procedures Should Be Established To Ensure Financial Records Reflect Account Activity *(See Current Observations No. 5 and No. 9)*	●	○	○
16. Implementation Reports On State Employee Self-Funded Health Plan Should Be Submitted In A Timely Manner *(See Current Observation No. 14)*	○	○	○
17. Policies And Procedures Should Be Established To Effectively Monitor And Administer Ancillary Health Benefits	●	●	●
18. Only Statutorily Authorized Groups Should Participate In The Health Benefits Plan	●	●	●
Management Issues Comment			
19. Issues Raised During Contracted Claims Audit And Operational Review Should Be Resolved	●	●	●

Status Key				**Count**
Fully Resolved	●	●	●	8
Substantially Resolved	●	●	○	0
Partially Resolved	●	○	○	9
Unresolved	○	○	○	2

APPENDIX B

Current Status Of Prior Performance Audit Findings

The following is a summary of the status, as of December 30, 2014, of the observations contained in the June 2011 performance audit of the New Hampshire Employee and Retiree Health Benefit Program. That report can be accessed at, and printed from, the Office of Legislative Budget Assistant website:
www.gencourt.state.nh.us/LBA/AuditReports/performancereports.aspx

Program Management				
1.	Implement Policies And Procedures For Long-Standing Weaknesses *(See Current Observations No. 1, No. 4, No. 6, and No. 9)*	●	○	○
2.	Establish Policies And Procedures For Granting Exceptions And Clarifications To Health Benefits	●	○	○
3.	Comply With Federal Privacy Requirements	●	●	●
4.	Follow Federal Laws For Social Security Number Use	●	○	○
5.	Improve Vendor Contract Monitoring And Communications	●	●	●
6.	Improve Administration Of The Health Benefits Consulting Contract	●	●	●
Program Eligibility				
7.	Establish Controls To Ensure Only Eligible Spouses And Dependents Are Enrolled *(See Current Observations No. 2, and No. 6)*	●	○	○
8.	Clarify Eligibility Guidelines For Retirees	●	●	●
9.	Access Available State Data To Help Verify Eligibility Information	●	●	●
10.	Clarify Beneficiary Eligibility For Retiree Health Benefits	●	●	●

Status Key				**Count**
Fully Resolved	●	●	●	6
Substantially Resolved	●	●	○	0
Partially Resolved	●	○	○	4
Unresolved	○	○	○	0

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