

# **LBA Performance Audit Report Summary:**

## **Department of Administrative Services Employee and Retiree Health Benefit Program - June 2011**

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The purpose of this audit was to determine whether the Department of Administrative Services (DAS) managed the Employee and Retiree Health Benefit Program (Program) in an efficient, effective, and economical manner during State fiscal years (SFY) 2009 and 2010.

In SFY 2004, the State began self-funding its employee and retiree health benefit program. Self-funding health insurance means an employer assumes the risk for paying all covered claims, instead of purchasing commercial insurance from a private insurer. Within the DAS, the Risk Management Unit (RMU) is primarily responsible for administering the self-funded Program, with some aspects also administered by the Division of Personnel (DoP) and the Division of Plant and Property Management. The State contracts with several vendors to assist with Program administration, including services for third-party administration of claims, member enrollment, and benefit consulting. In SFY 2010, the spent \$235 million in health care expenses and an additional \$10 million in operating expenses. Nearly 40,000 members were enrolled in the Program. The active employee group, consisting of employees, spouses, and dependents accounted for approximately 73 percent of all enrollees, while the retiree group, consisting of retirees and their spouses, dependents, and beneficiaries, accounted for approximately 27 percent of all members.

### **Results In Brief**

The RMU's administration of the Program has generally improved since our 2004 financial audit which found insufficient resources were applied to effectively establish and administer the State's self-funded program. During this audit, we found the DAS had increased Program staffing, improved its contracted service procurement practices, and implemented health care cost containment strategies. However, additional improvements need to be made by the DAS to more efficiently, effectively, and economically manage the Program.

Our audit presents ten observations with recommendations to assist the DAS, the RMU, and the Legislature in ensuring the Program is managed efficiently. Three observations may require legislative action.

We found the Program would benefit from additional documentation, a greater division of labor, as well as more formalized roles and responsibilities. We found the Program lacks risk-based policies and procedures for activities and functions. The RMU should improve vendor contract monitoring and the administration of the consulting contract to be more efficient in meeting Program goals.

Eligibility determination and monitoring is a critical part of an effective Program; however, we found a lack of eligibility controls created significant risk for the Program, especially regarding whether ineligible individuals receive health benefits. The DAS does not conduct eligibility audits. It could, for example, verify eligibility data by matching it with to the State's vital records data or an independent data source. In addition, the DAS should seek to clarify Legislative intent of RSA 21-I:30, allowing a retiree to grant health benefits to a beneficiary following the retiree's death, and whether dependent children should receive health benefits at the retiree's expense. The DAS should promulgate administrative rules for Program eligibility and ensure its active employee and retiree plan benefit booklets and procedures align.