



**New Jersey State Legislature  
Office of Legislative Services  
Office of the State Auditor**

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**Department of the Treasury  
Division of Pensions and Benefits  
State Health Benefits Program**

July 1, 1997 to November 25, 1998

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**Richard L. Fair  
State Auditor**

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The Honorable Donald T. DiFrancesco  
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The Honorable Jack Collins  
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Enclosed is our report on the audit of the Department of the Treasury, Division of Pensions and Benefits, State Health Benefits Program for the period July 1, 1997 to November 25, 1998.

If you would like a personal briefing, please call me at (609) 292-3700.

Peter M. Guilfoyle  
Assistant State Auditor  
February 3, 1999

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**Department of the Treasury  
Division of Pensions and Benefits  
State Health Benefits Program**

***Scope***

We have completed an audit of the Department of the Treasury, Division of Pensions and Benefits, State Health Benefits Program for the period July 1, 1997 to November 25, 1998. Our audit included financial activities accounted for in the following trust funds:

State Health Benefits Program Fund  
Prescription Drug Program Fund  
Dental Expense Program Fund

Expenditures of the funds during fiscal year 1998 were approximately \$1.3 billion. The State Health Benefits Program provides health services for employees and retirees of state and local governments. Revenues of the funds under review during fiscal year 1998 were approximately \$1.1 billion and the major components of revenue were contributions by state and local governments.

***Objectives***

The objectives of our audit were to determine whether financial transactions were related to the programs, were reasonable and were recorded properly in the accounting systems.

This audit was conducted pursuant to the State Auditor's responsibilities as set forth in Article VII, Section 1, Paragraph 6 of the State Constitution and Title 52 of the New Jersey Statutes.

***Methodology***

Our audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States.

In preparation for our testing, we studied legislation, administrative code, circular letters promulgated by the State Comptroller, and policies of the division. Provisions that we considered significant were documented and compliance with those requirements was verified by interview and observation and through our samples of financial transactions. We also read the budget message, reviewed financial trends, and interviewed agency

personnel to obtain an understanding of the programs and internal control.

A nonstatistical sampling approach was used. Our samples of financial transactions were designed to provide conclusions about the validity of transactions as well as internal control and compliance attributes. Sample transactions were randomly and judgmentally selected.

*Conclusions*

We found that the financial transactions included in our testing were related to the department's programs, were reasonable and were recorded properly in the accounting systems. In making this determination, we noted certain internal control weaknesses and matters of compliance with laws and regulations meriting management's attention.

## Terminations

**M**embers of the Health Benefits Program should be removed from coverage upon termination of employment.

The State Health Benefits Program (SHBP) is responsible for managing the health insurance of approximately 280,000 state and local active employees and retirees. The members' enrollment information is recorded in the State Health Information Processing System (SHIPS). Applications for new employees and lists of terminations are received by the State Health Benefits Bureau from the various employers and entered manually into the system. Active coverage for an employee ends if their employment terminates, unless they elect to pay for it themselves for a limited amount of time under federal mandate. The ultimate responsibility to terminate employees lies with the employer, not the SHBP. In some cases the termination is communicated to the bureau, but not properly recorded on SHIPS. The SHBP forwards to all employers a monthly list of all employees enrolled in the program. This list should be reviewed by the employers with SHBP being notified of any errors. We noted over 190 instances of terminated employees that were still listed as active, some as much as four years after separation. The employer continued to be billed for health benefit, prescription drug and dental premiums for these former employees.

### Local Employers

In order to verify whether an employee was still working, we compared the health benefits records with the Department of Labor, Wage Reporting System. We tested 1,600 employees listed as active on SHIPS to the Wage Reporting System. We found 23 former employees that remained on SHIPS as active employees after terminating employment. All of the errors noted were for two relatively large employers (over 3,000 employees). The total estimated cost to these two local employers, based on the error rates found of approximately two percent, is about \$800,000 annually.

### State Employees

We found 61 state bi-weekly employees that should have been removed from SHIPS. The total billings to the state General Fund for these individuals after their eligibility ended was approximately \$300,000. Most

are still listed as active employees and currently being billed to the General Fund.

Tests of state monthly employees revealed more terminations that had not been reported and/or recorded. We found 101 ineligible current and former employees still listed as active members of the SHBP. Many have not been eligible since January 1, 1995. The cost of premiums paid by the state to the SHBP for these ineligible members was more than \$1.2 million. Seventy-two of these 162 employees were enrolled in the Traditional Plan or NJ Plus. We then sent a list of these 72 ineligible subscribers to Horizon Blue Cross and Blue Shield of New Jersey (Horizon) for a review of their claim activity. They reported that 11 people received benefits under the SHBP after their eligibility had ended. The claims paid totaled \$58,000. Administrative costs for the 72 Horizon subscribers are approximately \$12,000 annually.

#### **Retired Employees**

Retired state employees are still listed as active employees on SHIPS. We tested the employment record of 100 state employees listed on SHIPS as receiving both active and retired coverage. Five of the employees tested were retired, but their active coverage was never terminated. The remaining 95 were retired employees that had returned to work. The cost of the premiums for the active coverage for the five retired employees was \$25,000 through the end of our fieldwork.

One additional retired state employee had both types of coverage. We found claims paid by Horizon under the employee's active coverage rather than retired coverage. This may have resulted in the claims being overpaid because of improper coordination of benefits. In addition, the program is paying Horizon to administer two health benefit plans at a cost of \$160 to \$200 per plan annually.

#### **Employee Contributions**

At least 15 of the above former state employees are enrolled in the optional dental program or other coverage that requires an employee contribution. For instance, the dental program requires a 50 percent em-

ployee contribution. There is no mechanism in place to ensure that the coverage is automatically terminated even though the employee is no longer contributing their share. When the employee leaves state service and the coverage is not properly terminated, the state pays the entire cost of the coverage. Since the employee share is collected by a different division within the Department of the Treasury, the error is not detected at the Division of Pensions and Benefits unless they are notified.

***Recommendation***

Although the accuracy of the files is the responsibility of the employers, the SHBP could provide assistance by making a greater effort to ensure terminations are properly reported and recorded on SHIPS. Enrollment and termination data could be communicated more efficiently and accurately using electronic media. In addition, periodic reviews of larger state and local employers by the division would detect terminations that have not been recorded. The division should develop procedures to detect nonpayment of employee contributions that would result in termination of coverage.

***Auditee's Response***

**Local Employers**

Based on the tested sampling, 1% of employees were found to be still listed as active employees on State Health Benefits Program (SHBP) records following their termination of employment. The procedures that are currently in place give local employers two reports to audit their SHBP enrollment. A monthly activity report is generated from State Health Information Processing System (SHIPS) for each employer detailing all transactions (enrollments, changes and terminations) processed for the month. The employer is responsible for reviewing this listing to ensure that all requests submitted to the SHBP for the month were properly processed. In addition to this monthly listing, the employer also receives an alphabetical list of all enrolled SHBP employees listing current plan coverage selection and level of coverage (single, family, member/spouse, parent/child(ren)). We also provide, upon request, diskettes or tapes for any employer that wishes to audit their enrollment electronically. We currently accommodate several of our larger employers with this

feature. SHIPS future enhancements will permit a local employer to view their employee enrollments on-line and eventually the ability to process terminations on-line.

### **State Employees**

Health coverage terminations for employees paid through the State's Centralized Payroll Unit are currently reported through the Office of Management and Budget (OMB) Centralized Payroll Unit. We receive two types of reports. One is a computer generated report that is submitted from Centralized Payroll and lists all employees that are off payroll due to resignation/termination of their employment. This report is then data entered into SHIPS. The other is a manual report that Centralized Payroll maintains for employees on Leave of Absence (LOA). It reports the termination of health benefits coverage for those employees who are no longer eligible for benefits while on LOA. It is on this manual report that we see the higher incidence of reporting error. Centralized Payroll is currently working on updating their data system which will improve their reporting process to us. Also, SHIPS future enhancements will permit the state bi-weekly payroll/human resource offices to view their employee's SHBP data on-line, further ensuring accuracy of the data.

The termination process for state locations with autonomous payroll (the state colleges and universities) is very similar to that of local employers that participate in the SHBP. Because of payroll autonomy, we must rely on these locations to report their terminations to us through submission of deletion reports. Like our local employers, colleges and universities receive a monthly Activity Report and an alphabetical listing which they should audit to ensure proper enrollment in SHBP. We also offer the diskettes or tapes of their enrollments for their audit. SHIPS future enhancements will permit these employers to view their employee enrollments on-line.

At present, the SHBP does not have sufficient audit resources to provide on-site audit assistance to state and local employers to assist them in comparing their employee payroll to their SHBP enrollments. We are

therefore dependent upon employers maintaining their own audit function to ensure accuracy of their SHBP enrollment. The planned enhancements for SHIPS should make it easier for employers to maintain this data. The Division of Pensions and Benefits intends to establish an audit function to provide additional assistance to employers as needed. The Division also provides data to the Office of Local Government Review for their analysis as requested.

**Retired Employees**

The current SHIPS which was implemented in July of 1997 was designed to prevent this type of error. While not all aspects of the SHIPS retiree operations have been completed, work in progress on the retiree enrollment process should eliminate this problem. The audit reported errors that occurred under the old SHBP data system.

**Employee Contributions**

If OMB Centralized Payroll Unit and the State colleges and universities do not properly report terminations, benefits are continued. The new Centralized Payroll data system should improve the reporting process. SHIPS future enhancements will permit State colleges and universities to process terminations on-line.

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## Match of SHIPS with Death Records

**D**eceased employees  
need to be removed  
from SHIPS.

As part of our test of eligibility, we matched the active participants in the State Health Information Program System (SHIPS) to the Department of Health and Senior Services, Vital Statistics death records for the last three calendar years. The purpose of this was to determine if any names on the death records were still listed as active employees on the health benefits system. Seventeen deceased employees have not been terminated from the SHBP. The state or local employers have paid a total of \$88,000 in health benefit premiums for the deceased individuals. Three of the former employees should have been removed from the SHBP over two years ago. Thirteen of the exceptions noted have been recorded as deceased on the Division of Pensions account history system. The pensions and health benefits programs are part of the same division.

### *Recommendation*

We recommend that the SHBP review its membership records for deceased employees still listed as eligible participants. While the ultimate responsibility lies with the employer, the division should perform some periodic testing of the eligibility of its active members. Failure to do so results in unnecessary charges to state and local employers.

### *Auditee's Response*

SHIPS is awaiting the implementation of the Death Interface Beneficiary Services (DIBS) program in the summer of 1999. This program will electronically transmit death notices given to the Division, terminate health benefits coverage and establish the offering of benefits to eligible SHBP survivors. For non-state pension members, the enhancement of SHIPS for local employers will permit on-line terminations. In addition, the Division intends to utilize data supplied by NJ Vital Statistics to identify deceased members.

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## Employees/Retirees with Dual Coverage

**A** change to the law requiring all employees to receive health benefits coverage could save employers \$1 million annually with no effect on benefits.

When a state or local employee retires after 25 years of service, they may be entitled to health benefits at no cost to the former employee. If a retiree is rehired by a state or local government that participates in the SHBP they are, by law, entitled to be enrolled in active coverage in the program. As a result, these employees receive two sets of health benefits, one paid by the retirement system and one through their active employment.

Currently enrolled in the State Health Benefit System are 212 people who have this type of dual coverage. The dual coverage does not give the employees any significant additional benefit, but costs the state and local government employers approximately \$1 million a year in premiums. Since the program is self insured and bears the cost of all non HMO claims, the program does not incur additional claims cost for a member enrolled twice. While this is true, the change in legislation to eliminate this type of dual coverage would reduce premiums paid by the state General Fund and local employers by almost one million dollars annually. Also, for the Traditional program and NJ Plus, there is an administrative cost of approximately \$160 and \$200 a year, respectively, for each employee. The SHBP is paying an administrative cost for the 125 active and retired employees twice at a cost of more than \$20,000 annually.

### *Recommendation*

We recommend that the legislature consider a change to the law so retirees that are rehired do not receive dual benefits as both retired and active members of the SHBP.

### *Auditee's Response*

The elimination of dual coverage can only be accomplished through legislative amendment. Currently, the legislation permits both retiree and active coverage under SHBP if an individual is qualified as both a retiree and an active employee. Benefits can be coordinated.

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