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

July 1, 2000 to May 31, 2002

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The Honorable James E. McGreevey  
Governor of New Jersey

The Honorable John O. Bennett  
President of the Senate

The Honorable Richard J. Codey  
President of the Senate

The Honorable Albio Sires  
Speaker of the General Assembly

Mr. Albert Porroni  
Executive Director  
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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, 2000 to May 31, 2002. If you would like a personal briefing, please call me at (609) 292-3700.

September 18, 2002
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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 (SHBP) for the period July 1, 2000 through May 31, 2002. Our audit included financial activities accounted for in the state’s General Fund, Health Benefits Local Government Employers Program Fund and Prescription Drug Local Government Employers Program Fund.

Annual expenditures of the program were $1.9 billion. Annual revenues were $1.8 billion which consisted mainly of contributions by state and local governments. The State Health Benefits Program provides medical, dental and prescription drug coverage for active and retired employees of state and local government.

Objectives

The objectives of our audit were to determine whether financial transactions were related to the agency’s programs, were reasonable, and were recorded properly in the accounting systems. We also tested for resolution of significant conditions noted in our prior report.

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 agency. Provisions that we considered significant were documented and compliance with those requirements
was verified by interview, 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 the internal control.

A statistical and 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 populations were sorted and transactions were randomly and judgmentally selected for testing. Medical claim payments were sampled for the Traditional Plan and NJ Plus, which are the two largest plans.

To ascertain the status of findings included in our prior report, we identified corrective action, if any, taken by the agency and walked through the system to determine if the corrective action was effective.

**Conclusions**

We found that the financial transactions included in our testing were related to the agency's programs, were reasonable, and were recorded properly in the accounting systems. In making this determination, we noted certain internal control weaknesses and opportunities for cost savings meriting management’s attention. We also found the agency has resolved the significant issues noted in our prior report, except for the matter related to dual coverage for retirees. This issue has been updated and restated in our current report.
**Dependent Eligibility**

The Division of Pensions and Benefits does not monitor dependent marital status which led to ineligible claims being paid by reimbursable plans. Per N.J.S.A. 52:14-17.26, children of SHBP subscribers are not eligible for health coverage when they marry. Our sample noted 13 percent of dependents between the age of 18 and 23 were covered even though other state records show a marriage record for them. Based on these results, we estimate 3,900 dependents in that age group were married and still actively covered by parents with either Traditional or NJ Plus plans. We further estimate there were 800 more instances of married dependents covered by reimbursable health maintenance organizations (HMO’s).

We obtained claims records for the Traditional and NJ Plus plans and compared them to the married dependents from our sample. We estimate ineligible dependents incurred $2.5 million annually in ineligible claims within the two plans.

**Recommendation**

We recommend the division monitor the marital status of children of subscribers and remove ineligible dependents from coverage.

**Auditee’s Response**

The Division of Pensions and Benefits is implementing programming to prevent duplicate coverage as both a subscriber (or spouse of a subscriber) and as a dependent child. This will address the issue of children who have married and are covered twice under the State Health Benefits Program as well as children enrolled as subscribers who remain unmarried but are no longer financially dependent upon their parent(s) for support. The Division will investigate other state data sources for information concerning a change in marital status, and will use the data to eliminate duplicate coverage.
Prohibiting and monitoring dual coverage could save state and local employers $1.2 million a year.

Dual Coverage

The lack of internal controls has led to unnecessary expenditures. As part of our test of eligibility, we matched active participants per the State Health Information Processing System (SHIPS) to coverage files. We found 141 employees who are receiving coverage under two separate state or local employers. As a result, local employers are overpaying $322,000 in annual premiums.

Additionally, if a retiree is rehired by a state or local government that participates in the State Health Benefit Program, they are entitled to be enrolled in another plan as an active employee. Currently 234 employees receive two sets of health benefits coverage, one paid by the retirement system and one through their active employment. Local employers, therefore, are paying $660,000 annually in premiums for this type of dual coverage.

Furthermore, the state pays a monthly administrative cost to reimbursable plan administrators based on the number of enrollees in the plan. The program is paying excess administrative costs of $107,500 annually for active and retired dual coverages. Also, state and local employers paid an extra $147,000 a year in health benefit premiums for individuals with dual coverage who elect non-reimbursable type plans.

Recommendation

We recommend the division review its records for active employees who are receiving dual coverage from separate employers, and seek legislation to prevent retirees from receiving dual coverage when they return to active employment.

Auditee’s Response

The elimination of dual coverage is best accomplished through legislative amendment. Currently, the Act governing the State Health Benefits Program does not prohibit an individual from qualifying for enrollment as both a retiree and an active employee. The Act also does not prohibit
duplicate coverage when an employee qualifies for such coverage through more than one eligible employment. Coordination of benefit rules are applied in instances of duplicate coverage.

Claim activity should be closely monitored.

Duplicate Payments

The program administrator for the Traditional and NJ Plus plans made duplicate claim payments of $190,000 over a 20 month period tested which were paid by the state. These overpayments were not detected by the program administrator, nor did the Division of Pensions and Benefits monitor the claim files for duplication. A strong system of internal control has safeguards to prevent paying twice for the same service. Absence of such controls increases the risk of errors not being detected.

Recommendation

We recommend the division monitor claim activity for duplicate payments.

Auditee’s Response

The Division of Pensions and Benefits, through its health care consultant, is auditing Traditional and NJ PLUS claims. Audits are scheduled to occur every two years for all of the self-funded plans in the State Health Benefits Program.

Internal Control

Requiring dependency documentation will reduce risk.

The Division of Pensions and Benefits does not require subscribers to provide a copy of a birth certificate or marriage license when they enroll dependents in the program. Currently, only a name and a social security number are required on the application for enrollment. Although random eligibility audits are conducted and result in coverage terminations, they represent only a small portion of the population. A stronger system of internal control would require documentation to support eligibility of...
all dependents. If the division required documentation for all newly added dependents, the risk of ineligible individuals being covered and incurring claims would decrease.

**Recommendation**

We recommend the division require subscribers to include a copy of a birth certificate or a marriage license when they add dependents to their coverage.

**Auditee’s Response**

The Division of Pensions and Benefits recognizes the importance of verifying the eligibility of dependents enrolled in the State Health Benefits Program. It is important, however, to avoid delays in enrollment for subscribers and their dependents and to avoid the creation of a paper-intensive process. We will therefore first pursue electronic methods of dependent eligibility verification. The Division staff is surveying other states to determine how other public employer plans handle the dependent verification process.