

Audit Highlights



Highlights of Legislative Auditor report on the Public Employees' Benefit Program, issued on September 21, 2006. Report # LA06-21.

Background

The Public Employees' Benefits Program (PEBP) was established in 1999 to manage the state's group health insurance program. Its mission, in part, is to design and manage a quality health care program for public employees and retirees of the State of Nevada and other participating public agencies. These agencies include the Nevada System of Higher Education, local governments, and school districts. The program provides health, dental, vision, and life insurance to state and non-state employees, retirees, and their covered dependents.

A nine-member board oversees PEBP's operations. The Board appoints an Executive Officer to direct the day-to-day operations. In fiscal year 2006 PEBP had 32 authorized positions.

Primary funding sources include state and local government contributions and participant premiums. Funding is primarily used for medical expenses, either through Health Maintenance Organization (HMO) premium payments or self-funded claims costs. Expenses for fiscal year 2005 totaled \$197 million.

Purpose of Audit

The purpose of this audit was to evaluate the effectiveness of PEBP's strategic planning process. We also determined if PEBP's management information is reliable and accurate, and evaluated the adequacy of its contracting practices. Our audit focused on strategic planning, management information, and contracting practices during fiscal years 2005 and 2006.

Audit Recommendations

This report contains six recommendations. Three recommendations address improving the strategic planning process and ensuring it contains all key activities. In addition, one recommendation addresses ensuring management information is reliable. Finally, we made two recommendations to improve contracting practices.

The Agency in its response to our report, accepted all six recommendations.

Status of Recommendations

The Agency's 60-day plan for corrective action is due on December 20, 2006. In addition, the six-month report on the status of audit recommendations is due on June 20, 2007.

Public Employees' Benefits Program

Results in Brief

The Public Employees' Benefits Program (PEBP) needs to improve its strategic planning. More effective planning would help to address current and future health insurance issues facing employees and retirees. This would include developing consistent methods for setting premium rates and encouraging utilization of preventative services. Although PEBP has taken some steps to improve planning, its strategic plan was not fully developed and was missing several planning elements.

PEBP can improve its reporting of information. During our audit, we identified certain instances where reliable and consistent information was not provided to the Legislature. In addition, some claims information reported by PEBP and its vendors was not always accurate. Although PEBP has strengthened controls over information since our last audit, more work is needed to ensure representations and reports are reliable.

Although PEBP has improved its contracting practices, additional improvements can be made. The process for evaluating proposals contains weaknesses which contribute to inconsistent scoring and could impact vendor selection. In addition, evaluation committee's scores are not part of the final process for selecting vendors.

Principal Findings

In preparation for plan year 2006 PEBP made several changes that significantly increased Medicare retiree costs. First, PEBP began commingling the claims costs of all state employees and retirees which resulted in the same monthly premium for both Medicare retirees (age 65 and over) and early retirees (under age 65). Second, PEBP adjusted the state subsidy resulting in the State paying a smaller percentage of Medicare retirees' monthly premium. Third, PEBP decreased the amount it pays on retiree medical claims after Medicare paid, increasing the retirees out-of-pocket costs.

Commingling and adjusting the state subsidy allocation resulted in a significant increase in Medicare retirees' monthly premiums beginning in plan year 2006. For example, from 2004 to 2006 the monthly premium for retiree + spouse coverage increased from \$178.91 to \$478.72, an increase of 168%.

Several actions were taken to mitigate Medicare retirees' premium increases. First, PEBP decided to provide Medicare retirees with a monthly check. In 2006 Medicare retirees received a monthly check for \$70.80. Second, several reductions to the Medicare retirees' monthly premium were implemented. These include a rate reduction from prescription drug usage and a reduction for groups most impacted by commingling.

Better planning could have resulted in a less confusing process for determining retiree rates. Although PEBP knew in 2001 that commingling could result in problems, sufficient efforts were not made to meet with stakeholders and resolve this issue. Meetings with retirees, legislators, and other stakeholders could have resulted in a better solution to the commingling issue prior to the 2005 Legislative Session.

PEBP's recently approved strategic plan contains several weaknesses. The plan does not address key areas such as providing catastrophic care or wellness activities, lacks objectives and strategies to help ensure goals are achieved, and lacks valid benchmarks to help assess progress at attaining goals. In addition, the plan does not include timeframes to accomplish goals and performance targets.

PEBP could not support information reported to the 2005 Legislature on the cost to fully coordinate Medicare retirees' benefits. Management represented that implementing full coordination of benefits for Medicare retirees would cost \$12 to \$18 million annually. However, a recent estimate by PEBP's consultant suggests the cost reported to the Legislature was overstated. In February 2006, the cost to fully coordinate benefits was estimated to be about \$9.9 million for plan year 2007.

PEBP and its consultant improperly reported Medicare Part B reimbursement checks paid to retirees as medical claims. We estimate for fiscal year 2006 these payments will overstate the number of claims by 65,500 and claims costs by \$4.4 million.

Although contracting practices have improved since our last audit, additional improvements can be made. The process for evaluating vendor proposals contains weaknesses. For example, evaluation committee members were not provided with sufficient guidance when scoring proposals. As a result, we found wide variances in scores among evaluators.