



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

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**EXECUTIVE SUMMARY**

**DEPARTMENT OF THE TREASURY – DIVISION OF PENSIONS AND BENEFITS  
HEALTH BENEFITS ADMINISTRATOR CONTRACTS  
July 1, 2016 to April 30, 2018**

We found that the financial transactions included in our testing were related to the health benefits programs, were reasonable, and were recorded properly in the accounting systems. In making this determination, we noted internal control weaknesses meriting management's attention.

**AUDIT HIGHLIGHTS**

- The Administrative Services Only Fee (ASO Fee) is paid to the two administrators of the self-insured health benefits plans. This fee is self-billed by the division and paid to the administrators on a monthly basis. Our review found a fee billed separately to the division by one administrator was improperly included in the ASO Fee rates calculated by the division for active members across all health benefits plans. This resulted in total overpayments of \$1.7 million during calendar years 2016 and 2018 as of April 30, 2018. Based upon our finding, further examination during additional time periods was performed by the division. As a result, total overpayments increased to \$3.2 million and have been recovered. Our review also found that the other administrator had a higher HMO rate improperly applied to all active members of a PPO plan and a fee not properly included in the ASO Fee rate for all members of the Tiered Network plan. These errors resulted in a net overpayment of \$425,000 during calendar year 2016.
- One of the administrators also bills the division for various administrative fees (non-ASO Fees) each month. We could not verify the accuracy of payments made by the division for two of the eight non-ASO Fees we reviewed. One of these fees was billed for all active members and New Jersey resident retirees not enrolled in a Medicare Advantage plan. Since the division does not produce summary reports of retired members based on residency, we could not perform testing due to a lack of proper verification. This could lead to higher healthcare costs for both the State Health Benefits Program and School Employees' Health Benefits Program.
- One carrier's Medicare Advantage (MA) plans do not cover members with End Stage Renal Disease (ESRD). The division does not maintain an accurate list of members with ESRD and therefore cannot maintain an accurate list of members on the MA plans offered by the carrier. Members could therefore be incorrectly listed by the carrier on a self-insured plan instead of an MA plan where the carrier has more liability.
- We observed that the division contracts with carriers to administer the various health benefits plans. It is the carriers' responsibility to negotiate with the healthcare providers to ensure the state receives favorable discounts for the procedures the providers perform. Our review of procedure codes found large cost variances between carriers. Neither the division nor its consultant evaluates how effective the carriers negotiate discounts with the providers.

**AUDITEE RESPONSE**

The department generally concurs with our findings and recommendations.

For the complete audit report, click [here](#).