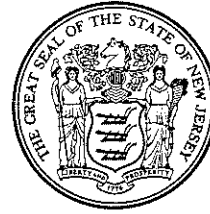


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**New Jersey State Legislature  
Office of Legislative Services  
Office of the State Auditor**



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**Department of the Treasury  
Division of Pensions and Benefits  
College, University, Authority, and Commission  
Participation in the State Health Benefits Program**

July 1, 2010 to April 30, 2011

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**Stephen M. Eells  
State Auditor**

2008 - 2009

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Enclosed is our report on the audit of the Department of the Treasury, Division of Pensions and Benefits, College, University, Authority, and Commission Participation in the State Health Benefits Program for the period of July 1, 2010 to April 30, 2011. If you would like a personal briefing, please call me at (609) 292-3700.

A handwritten signature in black ink, appearing to read "Stephen M. Eells".

Stephen M. Eells  
State Auditor  
July 29, 2011

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### *Scope*

We have completed an audit of the Department of the Treasury, Division of Pensions and Benefits for the period July 1, 2010 to April 30, 2011. Our audit focused on college, university, authority, and commission participation in the State Health Benefits Program (SHBP). For the fiscal year ended June 30, 2010 New Jersey spent \$386.0 million to provide health benefits to employees at participating colleges and universities. Additionally, \$2.3 million was spent for authority and commission employee participation in the SHBP. Health benefits include medical, dental and prescription drug coverage.

### *Objectives*

The objective of our audit was to determine whether the division had adequate controls to ensure that only employees of participating colleges, universities, authorities, and commissions were included in the State Health Benefits Program and that terminated employees were promptly removed.

This audit was conducted pursuant to the State Auditor's responsibilities as set forth in Article VII, Section I, 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, the administrative code, circular letters promulgated by the Department of the Treasury, the State Health Benefits Program handbook and other policies of the division. Provisions we considered significant were documented and compliance with those requirements was verified by interview, observation, and through a review of data files. We also interviewed personnel from selected colleges, universities, authorities and commissions to obtain an understanding of the enrollment and termination procedures.

### *Conclusions*

The division should enhance controls to ensure that only employees are included in the State Health Benefits Program. We found individuals who had terminated employment were still enrolled and had benefit coverage. We also found claims were paid by the state for these individuals after their termination dates.

## Health Benefit Terminations

### **Periodic certification is needed to ensure only current employees are covered by the State Health Benefits Program.**

There are 12 colleges and universities, and 5 authorities and commissions for which the state pays the health benefit costs for their employees. These costs include claims paid for employees and covered dependents and administrative fees for each month an employee is enrolled. A monthly report is available through the Employer Pensions and Benefits Information Connection (EPIC) that lists all the employees covered by health benefits. Each college, university, and authority has EPIC inquiry and edit access for all their employees. The colleges, universities, authorities, and commissions are required to notify the Division of Pensions and Benefits when an employee leaves employment either through an EPIC entry or paperwork submitted to the division.

We tested three colleges/universities and two authorities/commissions to ensure only current employees are covered by the State Health Benefits Program (SHBP). We compared current payroll records with current EPIC listings. Three of the entities had individuals covered by the SHBP even though their employment was terminated. We obtained and analyzed claims data and found claims and administrative fees totaling \$213,000 were paid on behalf of these individuals after their termination dates. One entity had 142 terminated employees still covered by the SHBP. This represented 10 percent of the enrolled individuals that terminated employment during 2010. The majority of the 142 terminated employees left employment during 2010. As a result of our comparison, 141 of these individuals were removed from the SHBP by June 1, 2011. A periodic certification, which is currently not required, from all entities participating in the SHBP would provide some assurance that only current employees are covered and that terminated employees are removed in a timely manner. In addition, the employing entities should be held fiscally accountable for their failure to remove terminated employees from the health benefit roles.

### **Recommendation**

We recommend that the division require a periodic certification from each entity that participates in the State Health Benefits Program, which states that a comparison of payroll and EPIC has been performed and that only current employees are enrolled. In addition, the division should monitor compliance through independent verification. The division should also develop a policy to hold the employing entities accountable for untimely removal of terminated employees from the health benefit roles. Furthermore, the division should seek reimbursement from these terminated employees.

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FLORENCE J. SHEPPARD  
*Acting Director*

July 25, 2011

Mr. John J. Termyna  
Assistant State Auditor  
New Jersey State Legislature  
Office of Legislative Services  
125 South Warren Street  
Trenton, NJ 08625-0067

Dear Mr. Termyna:

Enclosed are our comments in response to the audit report of the Department of the Treasury, Division of Pensions and Benefits, College, University, Authority, and Commission Participation in State Health Benefits Program.

If you have any questions, please contact me at 292-3728.

Sincerely,

A handwritten signature in black ink, appearing to read "F. Sheppard", written over a horizontal line.

Florence J. Sheppard  
Acting Director

c. John D. Megariotis

It is the SHBP/SEHBP participating employer's responsibility to certify as to the eligibility of the employer's employees in the Program. The employer certifies to the employee's eligibility at the time of enrollment and is responsible for informing the Division of Pensions and Benefits of any change in that eligibility. It is also the responsibility of the employer to notify the Division of the termination of employment of any employee enrolled.

The Division has provided participating employers the opportunity to submit employee terminations through the Employer Pensions and Benefits Information Center (EPIC). This has eased the cumbersome task of submitting terminations through paper reporting. In addition, a group of the larger universities are provided census data in electronic format to ease matching with payroll records.

The Division continues to work on this issue and is exploring additional automated methods to monitor and incent compliance by the colleges and university. Currently, the Division has no recourse to hold the colleges and universities accountable for non-compliance by being able to recover funds expended on behalf of employees who were not terminated timely. However, the Division will pursue the ability to offset State appropriations provided to colleges and universities to recover those costs.