



**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, 2006 to September 12, 2008

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## New Jersey State Legislature

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The Honorable Richard J. Codey  
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The Honorable Joseph J. Roberts, Jr.  
Speaker of the General Assembly

Mr. Albert Porroni  
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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 of July 1, 2006 - September 12, 2008. If you would like a personal briefing, please call me at (609) 292-3700.

A handwritten signature in cursive script that reads "Stephen M. Eells".

Stephen M. Eells  
Assistant State Auditor  
December 17, 2008

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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, 2006 to September 12, 2008. Our audit included financial activities accounted for in the Health Benefits Program Fund-State and the Health Benefits Program Fund-Local. We excluded the activities of the Dental Expense Program Fund.

Annual expenditures of the program were \$3.6 billion. The SHBP provides medical, dental, and prescription drug coverage for active and retired employees and eligible dependents of state and local government.

***Objectives***

The objectives of our audit were to determine whether the financial transactions were related to the State Health Benefits Program, were reasonable, and were recorded properly in the accounting systems. We also tested for resolution of significant conditions noted in our prior report dated September 18, 2002.

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, administrative code, and circular letters promulgated by the Department of the Treasury. Provisions that we considered significant were documented and compliance with those requirements was verified by interview,

observation, and through our samples of expenditure transactions. We also read the budget message, reviewed financial trends, and interviewed agency personnel to obtain an understanding of the programs and the internal controls.

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 populations were sorted and transactions were judgmentally selected for testing.

To ascertain the status of findings in our prior report, we identified corrective action, if any, taken by the division and performed tests to determine if the corrective action was effective.

***Conclusions***

We found that the financial transactions included in our testing were related to the State Health Benefits Program, were reasonable, and were recorded properly in the accounting systems. In making these determinations, we noted certain internal control weaknesses and opportunities for cost savings that merit management's attention. We also found the agency has resolved the significant issues noted in our prior report, except for the matters related to documentation of dependency. These issues have been updated and restated in our current report.

## Coordination of Prescription Drug Benefits

**The division should consider coordinating prescription drug benefits.**

Coordination of benefits refers to the rules for the order of payment of covered medical expenses when an individual is covered by two or more insurance plans. Although the division coordinates medical benefits for State Health Benefits Program subscribers who are also covered by other insurance policies, it only shares prescription drug costs with Medicare. Since the state does not coordinate prescription drug benefits, it pays the entire claim when a subscriber chooses to use the state plan. There could be savings to the program in cases where subscribers are covered by the state plan and by a private plan. Prescription drug claims for the state and participating local government entities were more than \$800 million a year during the audit period.

### *Recommendation*

We recommend the division determine the feasibility and cost benefit of coordinating prescription drug benefits.

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## Dependents of Subscribers

**Stronger controls over dependent eligibility would reduce the risk of improper claims.**

We noted two areas where the Division of Pensions and Benefits can strengthen controls over the enrollment and monitoring of dependents of State Health Benefits Program (SHBP) subscribers. These controls would reduce the risk of ineligible individuals being covered for plan benefits.

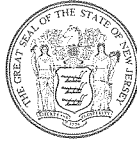
As noted in our prior report, the division does not require SHBP subscribers to provide a copy of a birth certificate or marriage license when they enroll dependents in the program. Currently,

only a name, social security number, relationship, and birth date are required on the application for enrollment. Although random eligibility audits are conducted and have resulted in coverage terminations, they represent only a small portion of the subscriber population. There were approximately 660,000 enrolled dependents of state and local government employees during our current review period. Our sample of 50 newly added dependents disclosed no proof of dependency was on file at the division in 58 percent of the cases. Our prior report also noted that the division does not monitor whether dependents marry, in which case they should be removed from their parents' coverage in accordance with N.J.S.A. 52:14-17.26, or be offered COBRA coverage. A stronger system of internal control would require documentation of eligibility to support dependency.

***Recommendation***

We repeat our prior recommendations that the division require SHBP subscribers to submit a copy of a birth certificate or marriage license when they add dependents to their coverage and monitor the marital status of children of subscribers by matching dependency files with the Department of Health and Senior Services vital statistic records.

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*State Treasurer*

December 12, 2008

Mr. Stephen M. Eells  
Assistant State Auditor  
New Jersey State Legislature  
Office of Legislative Services  
125 South Warren Street  
Trenton, NJ 08625-0067

Dear Mr. Eells:

Enclosed is our response to the audit report of the Department of the Treasury, Division of Pensions and Benefits, State Health Benefits Program.

Please include these comments in the formal report that will be issued.

Sincerely,

A handwritten signature in black ink, appearing to read "R. David Rousseau", with a long horizontal line extending to the right.

R. David Rousseau  
State Treasurer

## **Coordination of Benefits with Prescription Drug Plan**

Due to the multitude of different designs on the way the State Health Benefits Program/School Employees' Health Benefits Program (SHBP/SEHBP) delivers prescription drug benefits to its members, it is difficult to effectively administer a successful coordination of benefits program. In addition, since the SHBP/SEHBP has multiple vendors administering parts of the drug program, the SHBP/SEHBP could actually realize increased costs due to the SHBP/SEHBP coordinating benefits with itself. However, at the time the Division of Pensions and Benefits re-bids the prescription drug benefit through the RFP process, it is envisioned that the SHBP/SEHBP will have a single vendor for all its prescription drug delivery to its members. The RFP will elicit cost savings initiatives and recommendations from the vendors bidding on the contract to determine anticipated cost savings to the program.

## **Dependent Verification**

The SHBP/SEHBP health benefits consultants, Aon Consulting, will be conducting a Dependent Eligibility Verification Audit (DEVA) next year. It is expected that the DEVA will take 15 months to complete. The DEVA will require every subscriber in the SHBP/SEHBP who covers a dependent to provide legal documentation verifying a relationship with the subscriber and eligibility as a dependent. The SHBP/SEHBP will also require all subscribers who are adding dependents after January 1, 2009 to provide the same documentation in order to cover a dependent. Failure of a subscriber to provide the required documentation will result in termination of the ineligible dependent's coverage if covered or denial of coverage for new ineligible dependents.