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Governor



Jerry A. Oliver, Sr.
Interim Director

ARIZONA DEPARTMENT OF ADMINISTRATION

OFFICE OF THE DIRECTOR

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September 22, 2005

Debbie Davenport
Auditor General
2910 North 44th Street, Suite 410
Phoenix, Arizona 85018

Dear Ms. Davenport:

The Department of Administration has reviewed the September 15, 2005 report of the performance audit of the Human Resources Division. The Department commends and thanks your staff for their understanding and professionalism throughout this audit process.

Enclosed is the Arizona Department of Administration's response to the findings and recommendations contained in the performance audit report.

We value the recommendations made in the report that will help us improve the management and operations of our agency.

Sincerely,

Jerry A. Oliver
Interim Director

Enclosure

ADOA Agency Response, by Section and Finding

Finding 1- Department should strengthen management of self-funded health benefits program.

Recommendations:

Recommendation #1: *To help ensure the appropriate use of consultants, the Department should identify and clearly define the activities a consultant should perform related to program management and oversight by adopting a written policy that includes a general description of the consultant's overall duties and expertise, potential activities that could be contracted to a consultant, expected work products and/or deliverables, and procedures for monitoring and tracking consultant activities.*

Agency Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented. The Agency will begin the development of a policy regarding use of consultants.

Recommendation #2: *Once this policy is in place, the Department should ensure that its consultants contract conform to the policy requirements and include expected work products and/or contract deliverables.*

Agency Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Recommendation #3: *The Department should ensure that it receives regular, written reports from its consultant that provide sufficient detail on activities performed and contract deliverables met.*

Agency Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Recommendation #4: *The Department should improve its performance measures by:*

- a. Developing quality-of-care performance measures based on and including HEDIS standards for the self-funded health plan's vendors;*
- b. Tracking vendor performance for the quality-of-care performance measures it institutes;*
- c. Developing performance standards for its quality-of-care measures once it has sufficient data;*
- d. Establishing additional performance standards for its vendor performance measures to encourage continual improvement; and*

- e. *Establishing policies and procedures for verifying vendor reports of compliance with performance measures.*

Agency Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented. The Agency will begin to develop quality-of-care performance measures and work with the vendors on how these measures can be implemented and tracked. Policies and procedures will be developed.

Recommendation #5: *The Department should develop a plan for conducting operational and financial reviews of its program vendors. This plan should include such information as to the staff and expertise needed to conduct the reviews, whether these reviews will be conducted by in-house staff or outside consultants, the frequency of the reviews, a comprehensive description of a review process, the standards for assessment, how findings and recommendations will be reported, and vendor responsibilities related to the review.*

Agency Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented. Since the Agency does not have the internal expertise, we have requested additional funding for independent operational and financial audits in its FY '07 budget request.

Recommendation #6: *The Department should establish policies and procedures documenting its process for handling appeals.*

Agency Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented. The Agency will begin development of the policies and procedures.

Recommendation #7: *The Department should continue with its efforts to develop a staffing plan and ensure that this plan includes:*

- a. *The positions needed, their duties, and an analysis of appropriate personnel costs;*
- b. *Consideration of what types of specific expertise is needed or what types of management or oversight functions need to be performed; and*
- c. *Consideration of what additional staffing may be needed to implement the recommendations made in this report regarding additional oversight activities.*

Agency Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented. The Agency will develop and finalize its staffing plan based on the recommendations.

Finding 2- Self-funded health benefits program financially stable, but additional steps needed to ensure sound operations.

Recommendations:

Recommendation #1: *The Department should establish contractual provisions requiring its vendors who process medical claims to:*

- a. Apply control procedures necessary for the effective administration of the self-insurance program and;*
- b. Obtain independent annual audits of claims payment processing controls and claims payment data.*

Agency Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented. The Agency will begin to work with the vendors on contractual provisions.

Recommendation #2: *The Department should maintain and review the audit reports of its vendors' controls for their claims payment processes and require corrective action plans if deficiencies are noted.*

Agency Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented. The Agency will begin to receive the audit reports when they are completed.

Recommendation #3: *The Department should develop and conduct reviews to ensure claims are paid in compliance with benefit plan provisions.*

Agency Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented. Since the Agency does not have the internal expertise, we have requested additional funding for independent operational and financial audits in its FY '07 budget request.

Recommendation #4: *The Department should evaluate the findings and recommendations made in the August 2005 consultant's report on the Department's processes, staff roles, and technology in support of eligibility determination, and transfer of eligibility data to and paying its vendors and implement needed recommendations.*

Agency Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented. The Agency will review and begin implementation of the consultant's recommendations.

Recommendation #5: *The Department should ensure that it receives claims data from all of its vendors and establishes verification procedures to ensure the appropriateness of all claim payments.*

Agency Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented. The Agency will verify the appropriateness of all claim payments.

Recommendation #6: *The Department should determine how many years of claims data should be retained to properly analyze the program and its continuing costs.*

Agency Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented. The Agency will establish a policy on claims data retention.

Recommendation #7: *When contracting for the services of an actuary, the Department should:*

- a. Ensure it receives an actuarial report documenting the methodology and source of the data used by the actuary to arrive at his/her cost projections; and*
- b. Contract with an actuarial firm that is not involved in program management or oversight.*

Agency Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented. The Agency will require actuarial reports on cost projections and will obtain an independent actuarial analysis annually.