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STATE OF ARIZONA  
OFFICE OF THE  
AUDITOR GENERAL

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DEPUTY AUDITOR GENERAL

January 14, 2008

The Honorable John Nelson, Chair  
Joint Legislative Audit Committee

The Honorable Robert Blendu, Vice Chair  
Joint Legislative Audit Committee

Dear Representative Nelson and Senator Blendu:

Our Office has recently completed a 24-month followup of the Department of Administration—Human Resources Division, regarding the implementation status of the 23 audit recommendations (including sub-parts of the recommendations) presented in the performance audit report released in September 2005 (Auditor General Report No. 05-12). As the attached grid indicates:

- 21 have been implemented, and
- 2 are in the process of being implemented.

Since all of the audit recommendations have been implemented or are in progress, and unless otherwise directed by the Joint Legislative Audit Committee, this report concludes our follow-up work on the Department's efforts to implement the recommendations from the September 2005 performance audit report.

Sincerely,

Melanie M. Chesney, Director  
Performance Audit Division

MMC:Acm  
Attachment

cc: Bill Bell, Director  
Arizona Department of Administration

# DEPARTMENT OF ADMINISTRATION

## 24-Month Follow-Up Report To Auditor General Report No. 05-12

### **FINDING 1: Department should strengthen management of self-funded health benefits program**

<b>Recommendation</b>	<b>Status of Implementing Recommendation</b>	<b>Additional Explanation</b>
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.	<b>Implemented at 6 Months</b>	
2. Once this policy is in place, the Department should ensure that its consulting contracts conform to the policy requirements and include expected work products and/or contract deliverables.	<b>Implemented at 18 Months</b>	
3. The Department should ensure that it receives regular, written reports from its consultant that provide sufficient detail on activities and contract deliverables met.	<b>Implemented at 24 Months</b>	

# DEPARTMENT OF ADMINISTRATION

## 24-Month Follow-Up Report To Auditor General Report No. 05-12

### **FINDING 1: Department should strengthen management of self-funded health benefits program (cont'd)**

<b>Recommendation</b>	<b>Status of Implementing Recommendation</b>	<b>Additional Explanation</b>
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 benefits plan's vendors;	<b>Implemented at 24 Months</b>	
b. Tracking vendor performance for the quality-of-care performance measures it institutes;	<b>Implemented at 24 Months</b>	
c. Developing performance standards for its quality-of-care measures once it has sufficient data;	<b>Implemented at 24 Months</b>	
d. Establishing additional performance standards for its vendor performance measures to encourage continual improvement; and	<b>Implemented at 24 Months</b>	
e. Establishing policies and procedures for verifying vendor reports of compliance with performance measures.	Implementation in Process	The Department has begun to identify and draft policies and procedures for verifying vendor reports of compliance with performance measures.

# DEPARTMENT OF ADMINISTRATION

## 24-Month Follow-Up Report To

### Auditor General Report No. 05-12

**FINDING 1: Department should strengthen management of self-funded health benefits program (cont'd)**

Recommendation	Status of Implementing Recommendation	Additional Explanation
<p>5. The Department should develop a plan for conducting operational and financial reviews of its program vendors. This plan should include such information as 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.</p>	<p>Implementation in Process</p>	<p>The Department has begun drafting a plan for conducting operational and financial reviews, has determined which audits they can conduct internally, and is in the process of determining whether the clinical audits of Utilization Review/Utilization Management (URUM) vendors will be conducted with internal or contract resources.</p>
<p>6. The Department should establish policies and procedures documenting its process for handling appeals.</p>	<p>Implemented at 6 Months</p>	

# DEPARTMENT OF ADMINISTRATION

## 24-Month Follow-Up Report To Auditor General Report No. 05-12

### **FINDING 1: Department should strengthen management of self-funded health benefits program (concl'd)**

<b>Recommendation</b>	<b>Status of Implementing Recommendation</b>	<b>Additional Explanation</b>
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>Implemented at 12 Months</b>	
b. Consideration of what types of specific expertise is needed or what types of management or oversight functions need to be performed; and	<b>Implemented at 12 Months</b>	
c. Consideration of what additional staffing may be needed to implement the recommendations made in this report regarding additional oversight activities.	<b>Implemented at 12 Months</b>	
8. If the Department determines that it needs additional staff, it should assess whether it could reassign existing staff or take other steps, as appropriate, to seek additional staff.	<b>Implemented at 12 Months</b>	

# DEPARTMENT OF ADMINISTRATION

## 24-Month Follow-Up Report To

### Auditor General Report No. 05-12

**FINDING 2: Self-funded health benefits program financially stable, but additional steps needed to ensure sound operations**

Recommendation	Status of Implementing Recommendation	Additional Explanation
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>Implemented at 24 Months</b>	As contracts are renewed the Department is establishing contractual provisions requiring its vendors who process medical claims to apply control procedures necessary for the effective administration of the self-insurance program. This has recently been done with their new URUM contract that begins in February 2008. Although the URUM vendor does not process medical claims, the Department reported that as other contracts are renewed or established similar contract provisions will be included.
b. Obtain independent annual audits of claims payment processing controls and claims payment data.	<b>Implemented at 12 Months</b>	

# DEPARTMENT OF ADMINISTRATION

## 24-Month Follow-Up Report To Auditor General Report No. 05-12

**FINDING 2: Self-funded health benefits program financially stable, but additional steps needed to ensure sound operations (cont'd)**

Recommendation	Status of Implementing Recommendation	Additional Explanation
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.	<b>Implemented at 24 Months</b>	
3. The Department should develop and conduct reviews to ensure claims are paid in compliance with benefit plan provisions.	<b>Implemented at 24 Months</b>	
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 determinations, transfer of eligibility data to vendors, and payments, and implement needed recommendations.	<b>Implemented at 24 Months</b>	

**DEPARTMENT OF ADMINISTRATION**  
**24-Month Follow-Up Report To**  
**Auditor General Report No. 05-12**

**FINDING 2: Self-funded health benefits program financially stable, but additional steps needed to ensure sound operations (cont'd)**

<b>Recommendation</b>	<b>Status of Implementing Recommendation</b>	<b>Additional Explanation</b>
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.	<b>Implemented at 24 Months</b>	
6. The Department should determine how many years of claims data should be retained to properly analyze the program and its continuing costs.	<b>Implemented at 12 Months</b>	



**DEPARTMENT OF ADMINISTRATION**  
**24-Month Follow-Up Report To**  
**Auditor General Report No. 05-12**

**FINDING 2: Self-funded health benefits program financially stable, but additional steps needed to ensure sound operations (concl'd)**

<b>Recommendation</b>	<b>Status of Implementing Recommendation</b>	<b>Additional Explanation</b>
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>Implemented at 6 Months</b>	
b. Contract with an actuarial firm that is not involved in program management or oversight.	<b>Implemented at 18 Months</b>	