

## **DIGEST OF A FOLLOW-UP REVIEW OF THE UTAH RETIREMENT SYSTEM**

The Utah Retirement System (URS) has implemented most of the recommendations made in our 1989 audit (report #89-11). However, one of the concerns in that audit, excessive compensation, has not been totally resolved. While we concur that salary ranges have been significantly reduced with the help of consultants hired by URS, we have concerns that a 4 percent actual salary increase given in 1990 was not justified. In addition to examining the implementation of our recommendations by URS, we analyzed implementation of those recommendations by the Public Employees Health Plan (PEHP), a division of URS. Our review showed that PEHP has implemented all applicable recommendations and that their service level is generally high. We believe it is possible for PEHP to improve in two areas, however: the accuracy of claims paid and fraud controls within the pharmacy division.

The following summaries identify the most significant findings and concerns of the audit:

**Most Recommendations Have Been Implemented.** The URS has fully implemented most of the recommendations made in our 1989 audit and PEHP has implemented all the recommendations which were appropriate for their agency. As a result, significant progress has been made in modifying some large management systems. For example, the payroll system and related policies and procedures have been strengthened to insure proper and appropriate accounting of work time. In addition, classification and compensation controls have been added, which are helping the human resources system become more coherent.

While most recommendations were implemented by URS, two recommendations were not fully implemented. The first involved the retention incentive policy which permitted the purchase of additional retirement benefits for select individuals. While the retention policy was discontinued on January 1, 1990, the URS chose, upon advice of legal counsel, to allow those employees who received purchased service credit paid by URS to retain the service. In our opinion, this level of implementation is reasonable. The second involved setting appropriate standards to monitor the performance of fund managers. While URS understands the importance of monitoring the performance of their fund managers, they have not used adequate standards or appropriate timetables to do so. We strongly feel that URS should develop adequate performance standards and then, with these, monitor fund manager performance.

**Retirement Salary Ranges Have Been Adjusted Closer To Audit Recommendations.** In our previous audit, we found that the compensation plan at URS was excessive. As a result of this finding, we recommended that URS take action to bring total compensation (salary and benefits) back to market and that compensation be regularly studied. Our primary concern affecting both URS and PEHP is with the implementation of the compensation study performed by outside consultants to comply with our recommendation. As a result of these consultant's recommendations, URS has reduced its salary ranges by 16 percent and we commend URS for this action. However, because URS's salary survey also concluded that actual URS salaries were 5.3 percent below market, URS simultaneously increased the salaries of most employees by 4

percent. Our analysis, using URS salary survey data, indicates the 4 percent increase was not justified for staff employees. Further, the consultant's 1990 salary survey is significantly different than the state's 1990 salary survey. For example, the former examined only salary information while the latter examined both salary and benefit information. In examining URS's salary study, we believe the consultant's 1990 market survey is highly favorable towards URS because of the methodology used and the lack of policy guidance given by URS.

**PEHP Is Performing Well In Most Areas.** In addition to performing this follow-up, we also reviewed the general level of service at PEHP and found it to be high. The insurance enrollment process appears to be timely and accurate, the average health insurance claim appears to be processed in a timely fashion, and, with one exception, fraud controls are in place. However, our survey work did identify two concerns regarding the accuracy of claim payments and the need for additional fraud controls within the pharmacy division.

**PEHP's Claims Processing Quality Can Improve.** The quality of claims processing at PEHP can improve. Both the medical and dental programs have error rates which are higher than PEHP desires. Error rates measure the percent of claims processed which contain payment errors. As a result of PEHP's error rates, approximately \$335,750 in medical overpayments and \$221,200 in medical underpayments could be made, as well as \$26,200 in dental overpayments and \$45,400 in dental underpayments. In other words, \$556,950 medical dollars and \$71,600 dental dollars could be paid in error in fiscal year 1991 if changes are not made. Changes which are needed include: (1) generating accurate error information, (2) tying processor error rates to qualification for incentive pay, and (3) developing written policies and procedures for claims processing.

**Pharmacy Needs To Consider Additional Controls.** The pharmacy division should consider adding controls to reduce the possibility of billing errors and pharmacy fraud. With \$9 million in pharmacy claims paid every year, controls in these two areas may not be strong enough. Other pharmacy insurers and PEHP divisions use procedures which the pharmacy division might consider adopting as possible controls.