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Board Chair



STATE OF NEVADA  
**PUBLIC EMPLOYEES' BENEFITS PROGRAM**  
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**LAURA RICH**  
Executive Officer

**MEETING NOTICE AND AGENDA**

Name of Organization: Public Employees' Benefits Program Board Subcommittee  
Date and Time of Meeting: December 11, 2020 10:00 a.m.  
Place of Meeting: Pursuant to the Governor's Emergency Directives 006, and 029, this meeting will be conducted via video- and tele-conference only. This meeting can be viewed live over the Internet on the PEBP YouTube channel at <https://youtu.be/5kQYq1D59gl>

Members of the public are encouraged to submit public comment in writing by emailing [wlunz@peb.nv.gov](mailto:wlunz@peb.nv.gov) at least two business days prior to the meeting.

To listen to and view the PEBP Board Meeting please click on the YouTube Link located in "Place of Meeting" field above.

There are two agenda items designated for public comment. If you wish to provide verbal public comment during those agenda items, please follow the instructions below:

**Option #1** Join the webinar as an attendee <https://zoom.us/j/94180938552> . This link is only for those who want to make public comment. If you are just listening to the webinar, please use the YouTube Link located in the "Place of Meeting" field above.

**Option #2** Dial: (669) 900-6833. When prompted to provide your Meeting ID, please enter: 941 8093 8552 then press #. When prompted for a Participant ID, please enter #.

Participants that call in will be muted until it is time for public comment. A moderator will then unmute callers one at a time for public comment.

To resolve any issues related to dialing in to provide public comment for this meeting, please call (775) 684-7016 or email [wlunz@peb.nv.gov](mailto:wlunz@peb.nv.gov)

Meeting materials can be accessed here: <https://pebp.state.nv.us/meetings-events/board-meetings/>

**AGENDA**

1. Open Meeting; Roll Call

2. Public Comment

Public comment will be taken during this agenda item. No action may be taken on any matter raised under this item unless the matter is included on a future agenda as an item on which action may be taken. Public comments to the Board will be taken under advisement but will not be answered during the meeting. Comments may be limited to three minutes per person at the discretion of the chairperson. Additional three minute comment periods may be allowed on individual agenda items at the discretion of the chairperson. These additional comment periods shall be limited to comments relevant to the agenda item under consideration by the Board. As noted above, members of the public may make public comment by using the call-in number provided above. Persons unable to attend the meeting by telephone and persons whose comments may extend past the three minute time limit may submit their public comment in writing to PEBP Attn: Wendi Lunz 901 S. Stewart St, Suite 1001 Carson City NV 89701, Fax: (775) 684-7028 or [wlunz@peb.nv.gov](mailto:wlunz@peb.nv.gov) at least two business days prior to the meeting. Persons making public comment need to state and spell their name for the record at the beginning of their testimony.

3. Discussion and possible action on changes to Board policies and procedures related to PEBP's corrective action plan submitted to the Legislative Counsel Bureau Audit Division. (Laura Rich, Executive Officer) **(For Possible Action)**

4. Public Comment

Public comment will be taken during this agenda item. Comments may be limited to three minutes per person at the discretion of the chairperson. Persons making public comment need to state and spell their name for the record at the beginning of their testimony.

5. Adjournment

The supporting material to this agenda, also known as the Board Packet, is available, at no charge, on the PEBP website at <a href="http://www.pebp.state.nv.us/meetings-events/board-/meetings">www.pebp.state.nv.us/meetings-events/board-/meetings</a> (under the Board Meeting date referenced above).
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An item raised during a report or public comment may be discussed but may not be deliberated or acted upon unless it is on the agenda as an action item.
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All times are approximate. The Board reserves the right to take items in a different order or to combine two or more agenda items for consideration to accomplish business in the most efficient manner. The Board may remove an item from the agenda or delay discussion relating to an item on the agenda at any time.
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We are pleased to make reasonable efforts to assist and accommodate persons with physical disabilities who wish to participate in the meeting. If special arrangements for the meeting are necessary, please notify the PEBP in writing, at 901 South Stewart Street, Suite 1001, Carson
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City, NV 89701, or call Wendi Lunz at (775) 684-7020 or (800) 326-5496, as soon as possible so that reasonable efforts can be made to accommodate the request.

Copies of both the PEBP Meeting Action Minutes and Meeting Transcripts, if such transcripts are prepared, are available for inspection, at no charge, at the PEBP Office, 901 South Stewart Street, Suite 1001, Carson City, Nevada, 89701 or on the PEBP website at [www.pebp.state.nv.us](http://www.pebp.state.nv.us). For additional information, contact Wendi Lunz at (775) 684-7020 or (800) 326-5496.

Notice of this meeting was posted on or before 9:00 a.m. on the third working day before the meeting on the PEBP website at [www.pebp.state.nv.us](http://www.pebp.state.nv.us), and also posted to the public notice website for meetings at <https://notice.nv.gov>. In addition, the agenda was mailed to groups and individuals as requested.

# 1.

1. Open Meeting; Roll Call

# 2.

## 2. Public Comment

# 3.

3. Discussion and possible action on changes to Board policies and procedures related to PEBP's corrective action plan submitted to the Legislative Counsel Bureau Audit Division. (Laura Rich, Executive Officer) **(For Possible Action)**

# STATE OF NEVADA

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## Performance Audit

### Public Employees' Benefits Program Contract Management

2020



Legislative Auditor  
Carson City, Nevada

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# Audit Highlights



Highlights of performance audit report on the Public Employees' Benefits Program, Contract Management issued on XXXX XX, 2020.

Legislative Auditor report # LA20-XX.

## Background

The Public Employees' Benefits Program (PEBP) is a state agency that is legislatively mandated to provide group health, life, and accident insurance for state and other eligible public employees and retirees. PEBP's mission is to provide employees, retirees, and their families with access to high quality benefits at affordable prices.

PEBP currently administers various benefits and is responsible for designing and managing a quality health care program for approximately 44,000 primary participants and 27,000 covered dependents, totaling over 70,000 individuals.

PEBP enters into contracts with vendors to provide services to its participants. In fiscal year 2019, PEBP paid over \$114 million to 19 vendors under contract with the agency. Vendor payments included things like actuarial services and medical, dental, and pharmaceutical administrator services.

A 10-member board oversees PEBP's operations. Nine board members are appointed by the Governor, and the 10th member is the Director of the Department of Administration or a designee approved by the Governor. The Board appoints an Executive Officer to direct the day-to-day operations.

## Purpose of Audit

The purpose of the audit was to determine if PEBP has adequate controls to ensure vendor selection and payments complied with state laws, policies, and contract terms; and expenses related to contracts, awards, and accreditations were appropriate. Our audit included a review of contract procurement and payment practices, and award and accreditation expenditures for fiscal year 2019, and prior years for some activities.

## Audit Recommendations

This audit report contains four recommendations to improve PEBP's contracting practices and one recommendation to ensure the proper use of PEBP's resources.

PEBP XXXX the five recommendations.

## Recommendation Status

PEBP's 60-day plan for corrective action is due on XXXX XX, 2020. In addition, the 6-month report on the status of audit recommendations is due on XXXX XX, 2021.

# Contract Management

## Public Employees' Benefits Program

### Summary

The Public Employees' Benefits Program's (PEBP) contracting practices changed over the past several years, focusing more on amending and extending contracts through private negotiations instead of competitive procurements. While contract amendments may be appropriate in some circumstances, for the most part, amendments should be infrequent and not utilized as a default to extend contracts and procure services worth hundreds of millions of dollars. State law creates the PEBP board giving it responsibility for ensuring contracting practices comply with laws and policies, and to help ensure the proper use of agency resources. However, PEBP's contracting practices did not always follow state laws and policies as some amendments significantly modified contracts' scopes of work and contracts were extended without proper approvals. Furthermore, some wasteful spending of agency resources occurred. Without proper contracting practices and agency oversight, there is increased risk the best interests of the State and PEBP participants will not be realized, and agency resources will not be used appropriately.

### Key Findings

Between fiscal years 2015 and 2019, PEBP authorized nearly \$96 million in contract services that were not competitively bid through a Request for Proposal (RFP) process, as PEBP began to focus more on extending contracts. For 14 of 19 active service contracts in fiscal year 2019, PEBP amended these contracts to extend them beyond the original contract term, with some extended more than once. As a result, the average contract term increased from almost 5.5 years to over 8.5 years, with two contracts having 11-year terms. Under PEBP's management of the past 5 years, 23 contract extensions were performed and only 12 RFPs. State policy indicates contracts should be competitively solicited at least every 4 years. While PEBP claims a longer contract term is more desirable for some contracts, amending and extending contracts indefinitely does not help ensure the State and PEBP participants receive the best value. (page 6)

Private negotiations became a standard practice as PEBP's management extended vendor contracts for multiple years. Some negotiations took place through direct contact with vendors or by emails. For one contract, negotiations included two vendor paid trips, at the request of PEBP management, in which PEBP employees received transportation, lodging, and meals worth more than \$7,000. Following the second trip, a significant scope modification occurred and the contract was extended 2 years. The amendments and contract extension occurred despite PEBP management and staff dissatisfaction with the vendor's performance. Not only does accepting gifts violate state ethics laws and policies, but it increases the risk of fraud and that contracting decisions will not be in the best interests of the State or PEBP's participants. (page 10)

PEBP management claimed that competitive bidding for contracts was unnecessary as they performed regular market checks to determine the value of the services their current vendors were providing. However, market checks were only performed multiple years for one vendor, and showed PEBP was paying more than other plans of similar size. In addition, cost savings was used to justify several contract extensions, after vendors agreed to lower pricing in exchange for added years to their contract terms. Market checks and cost savings should not be used to supplant bidding processes since additional value and savings may be received through competition. (page 12)

PEBP's board did not provide adequate oversight of contracting practices as it approved significant modifications to contracts' scopes of work and changes to PEBP's policies and procedures that placed less emphasis on competitive procurement. In addition, 6 of 18 contract extensions took place without State Purchasing's approval or being discussed at a PEBP Board meeting; thereby, violating state policy and law. (page 15)

During our testing, we observed some agency expenditures were unnecessary and not an efficient use of agency resources. For instance, PEBP allocated over 620 hours and nearly \$51,000 to obtain business awards and an accreditation. It is the responsibility of PEBP's Board and management to ensure funds are spent appropriately. (page 21)



Legislative Commission  
Legislative Building  
Carson City, Nevada

This report contains the findings, conclusions, and recommendations from our performance audit of the Public Employees' Benefits Program, Contract Management. This audit was conducted pursuant to the ongoing program of the Legislative Auditor as authorized by the Legislative Commission. The purpose of legislative audits is to improve state government by providing the Legislature, state officials, and Nevada citizens with independent and reliable information about the operations of state agencies, programs, activities, and functions.

This report includes four recommendations to improve the agency's contracting practices and one regarding better oversight for expenditures. We are available to discuss these recommendations or any other items in the report with any legislative committees, individual legislators, or other state officials.

Respectfully submitted,

Daniel L. Crossman, CPA  
Legislative Auditor

XXXX XX, 2020  
Carson City, Nevada

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# Introduction

## Background

The Public Employees' Benefits Program (PEBP) is a state agency that is legislatively mandated to provide group health, life, and accident insurance for state and other eligible public employees and retirees. PEBP's mission is to provide employees, retirees, and their families with access to high quality benefits at affordable prices. The first group insurance program in Nevada was created in 1963 and restructured into PEBP in 1999.

PEBP currently administers various benefits and is responsible for designing and managing a quality health care program for approximately 44,000 primary participants and 27,000 covered dependents, totaling over 70,000 individuals. Exhibit 1 shows the total PEBP membership, including participants and dependents in fiscal year 2019:

### PEBP Membership Fiscal Year 2019

### Exhibit 1

Plan	Primary Participants <sup>(1)</sup>	Dependents	Total
Consumer Driven Health Plan (CDHP)	23,259	19,081	42,340
Exclusive Provider Organization (EPO) – Northern Nevada	4,625	3,815	8,440
Health Maintenance Organization (HMO) – Southern Nevada	3,860	2,790	6,650
Medicare Exchange	12,431	1,755	14,186
<b>Total Membership</b>	<b>44,175</b>	<b>27,441</b>	<b>71,616</b>

Source: PEBP enrollment report.

<sup>(1)</sup> Primary participants include state and non-state employees and retirees.

A 10-member board oversees PEBP's operations. Nine board members are appointed by the Governor, and the 10<sup>th</sup> member is the Director of the Department of Administration or a designee approved by the Governor. The Board of the Public Employee's Benefits Program (Board) appoints an Executive Officer to direct the day-to-day operations. The Board's purpose is to adopt regulations and policy for the agency and act as the chief of PEBP for the purposes of awarding contracts.

### Explanation of Major Vendors and Service Function

In fiscal year 2019, PEBP had 19 active service contracts. Exhibit 2 shows the main service contracts and amounts:

#### PEBP Service Contracts Fiscal Year 2019 Exhibit 2

Contracts	Amount
Express Scripts (Pharmacy Benefit Manager) <sup>(1)</sup>	\$ 54,906,596
Health Plan of Nevada (Southern Nevada HMO)	35,586,807
Standard Insurance (Group Basic Life Insurance)	10,124,772
<u>HealthSCOPE Benefits</u>	
Third-Party Administrator	6,072,148
National CDHP and EPO Networks	2,323,247
Dental Claims Administration	655,129
<u>Hometown Health</u>	
In-State CDHP Network	1,463,274
Utilization and Case Management	1,415,890
Morneau Shepell (Enrollment and Eligibility System)	932,022
AON Consulting (Plan Actuary)	421,900
Diversified Dental (Dental Network)	329,991
Extend Health (Medicare Exchange)	173,162
<b>Total Expenditures</b>	<b>\$114,404,938</b>

Source: PEBP contracting log.

<sup>(1)</sup> Includes prescription drug claim costs.

### Budget and Staffing

PEBP administers one budget account in which funding for operations and insurance plans come primarily from participant and employer contributions. PEBP submits its funding and operational requirements to the Legislature as part of a biennial budget. Upon approval, each state agency is assessed an amount to contribute toward both the active employee and retiree health plans. Exhibit 3 shows revenues and expenditures for PEBP for fiscal year 2019.

**PEBP Revenues and Expenditures  
Fiscal Year 2019**

**Exhibit 3**

<b>Revenues</b>	<b>Amounts</b>
Beginning Cash	\$143,129,728
State Employer Contributions	276,639,847
State Employee Premiums	53,335,377
Non-State Employer Contributions	28,588,398
CDHP Prescription Drug Rebates	9,835,776
Non-State Employee Premiums	4,560,130
Other <sup>(1)</sup>	2,877,401
Medical Services Charges	288,261
<b>Total Revenues</b>	<b>\$519,254,918</b>
<b>Expenditures</b>	<b>Amounts</b>
State Employee Insurance Costs	\$310,360,033
State Medicare Costs	20,859,611
Non-State Medicare Costs	16,371,115
Non-State Employee Insurance Costs	15,445,494
Personnel	2,721,398
Operating & Travel	2,173,935
Information Services	523,953
Assessments & Cost Allocations	522,947
<b>Total Expenditures</b>	<b>\$368,978,486</b>
<b>Balance Forward to 2020</b>	<b>\$150,276,432</b>

Source: State accounting system.

<sup>(1)</sup> Other includes miscellaneous revenue and treasurer's interest distribution.

In fiscal year 2019, PEBP had 34 authorized positions with 1 office located in Carson City. Operations include quality control, accounting, member services and eligibility, public information, and information technology.

**Reserves**

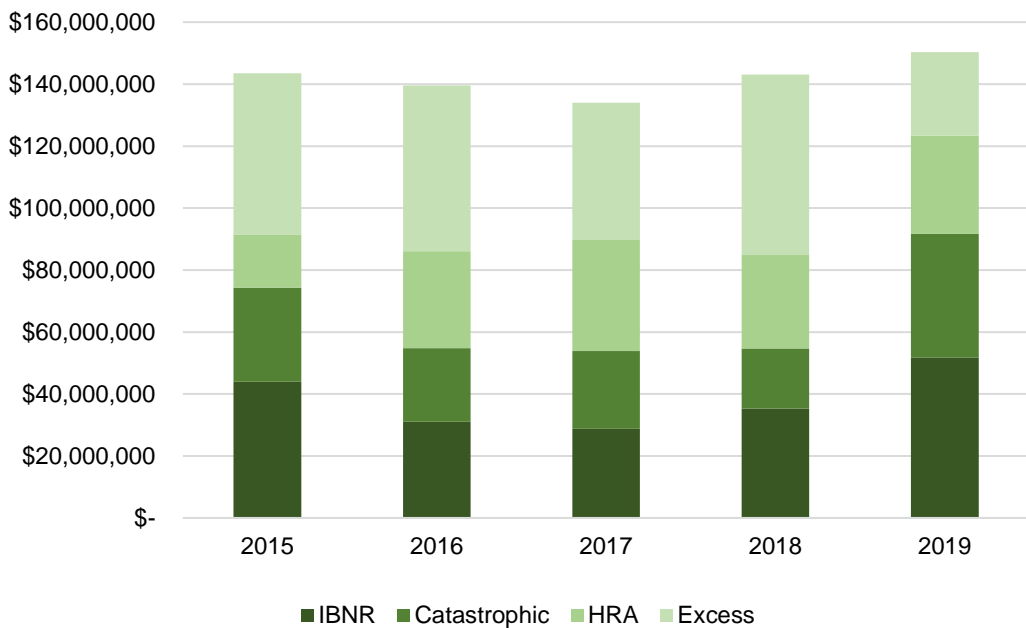
PEBP maintains three separate reserves: 1) an incurred but not reported (IBNR), 2) catastrophic, and 3) health reimbursement arrangement (HRA). The IBNR and catastrophic reserves are for PEBP's Consumer Driven Health Plan (CDHP) and help ensure proper funding. The IBNR is for claims that are incurred during a plan year, but may not be billed for up to a year after the service date. The catastrophic reserve pays extraordinarily large claims to decrease volatility and avoid disruptions to the rates in the following plan year. The level of funding required for these two reserves is calculated by an actuary and is partially determined by claims experience in prior years.

PEBP also maintains a HRA reserve based on the total balance remaining in all HRA accounts for CDHP and Medicare Exchange participants. Excess reserves beyond those mentioned above may be used to pay for new programs and services, program infrastructure improvements, increased or new benefits, and rate mitigation.

Fiscal year end 2019 reserves were \$51.8 million IBNR, \$39.9 million catastrophic, \$31.7 million HRA, with \$26.9 million in excess. Exhibit 4 shows PEBP reserve levels for fiscal years 2015 through 2019.

**PEBP Reserves  
Fiscal Years 2015–2019**

**Exhibit 4**



Source: State accounting system.

Reserve balances are expected to decrease as claims experience in fiscal year 2020 was higher than projected, resulting in a budget shortfall that required the use of catastrophic reserve funds.

## Scope and Objective

The scope of our audit included a review of contract procurement and payment practices, and award and accreditation expenditures for fiscal year 2019, including prior years for some activities. Our audit objective was to:

- Determine if PEBP had adequate controls to ensure vendor selection and payment activities complied with state laws, policies, and contract terms; and expenses related to awards and accreditations were appropriate.

This audit is part of the ongoing program of the Legislative Auditor as authorized by the Legislative Commission, and was made pursuant to the provisions of Nevada Revised Statutes (NRS) 218G.010 to 218G.350. The Legislative Auditor conducts audits as part of the Legislature's oversight responsibility for public programs. The purpose of legislative audits is to improve state government by providing the Legislature, state officials, and Nevada citizens with independent and reliable information about the operations of state agencies, programs, activities, and functions.

Draft

# Better Controls and Oversight Needed to Ensure Proper Contracting Practices and Use of Agency Resources

The Public Employees' Benefits Program's (PEBP) contracting practices changed over the past several years, focusing more on amending and extending contracts through private negotiations instead of competitive procurements. While contract amendments may be appropriate in some circumstances, for the most part, amendments should be infrequent and not utilized as a default to extend contracts and procure services worth hundreds of millions of dollars. State law creates the PEBP board giving it responsibility for ensuring contracting practices comply with laws and policies, and to help ensure the proper use of agency resources. However, PEBP's contracting practices did not always follow state laws and policies as some amendments significantly modified contracts' scopes of work, and contracts were extended without proper approvals. Furthermore, some wasteful spending of agency resources occurred. Without proper contracting practices and agency oversight, there is increased risk the best interests of the State and PEBP participants will not be realized, and agency resources will not be used appropriately.

## **Contracting Activities Focused on Extensions Instead of Competition**

Between fiscal years 2015 and 2019, PEBP authorized nearly \$96 million in contract services that were not competitively bid through a Request for Proposal (RFP) process, as PEBP began to focus more on extending contracts. Without competition, through a RFP process, private negotiations take place, which can be unduly influenced in many ways. For instance, one contract with an underperforming vendor was extended and amended to provide additional services after two vendor paid trips. Furthermore, on one occasion, two hand-selected vendors were invited to present



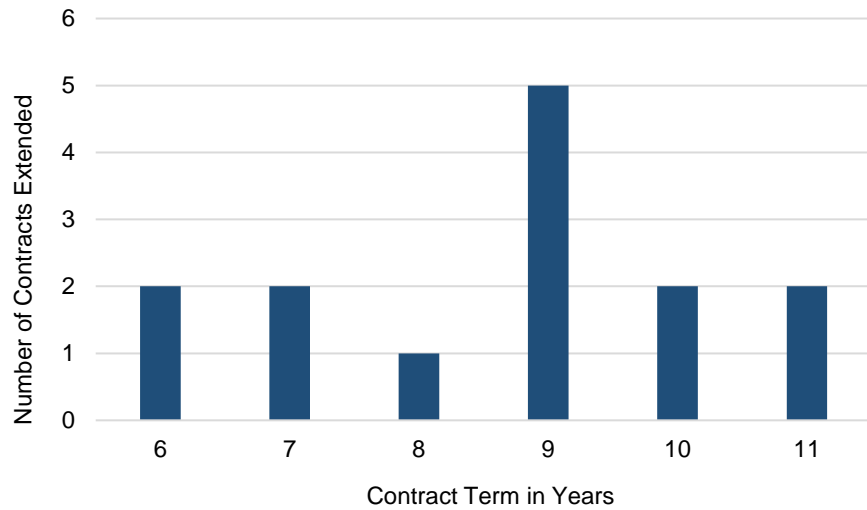
a product, replacing a formal process established in state law. To justify extending contracts without competition, PEBP management claimed it knew the market, regularly performed market checks, and that extensions saved millions of dollars. However, our review found market checks were only performed regularly for one vendor. When competitive procurement of services is viewed as optional, there is a greater risk of fraud or abuse with the State, and its employees not receiving the best services at the best price.

### **Extensions Replaced the RFP Process and Competitive Bidding**

Our review of PEBP's 19 active service contracts in fiscal year 2019 found that 14 were amended to extend them beyond the original contract term. In addition, 4 of these contracts were extended more than once, resulting in 18 contract extensions. As a result, the average contract term increased from almost 5.5 years to over 8.5 years, with two contracts having 11-year terms. The State's policy is that contracts be solicited at least every 4 years, except in the case of an emergency or when it is determined that only one vendor exists that provides the product or service. Exhibit 5 shows the current contract terms for the 14 extended contracts.

**PEBP's Extended Service Contracts**

**Exhibit 5**

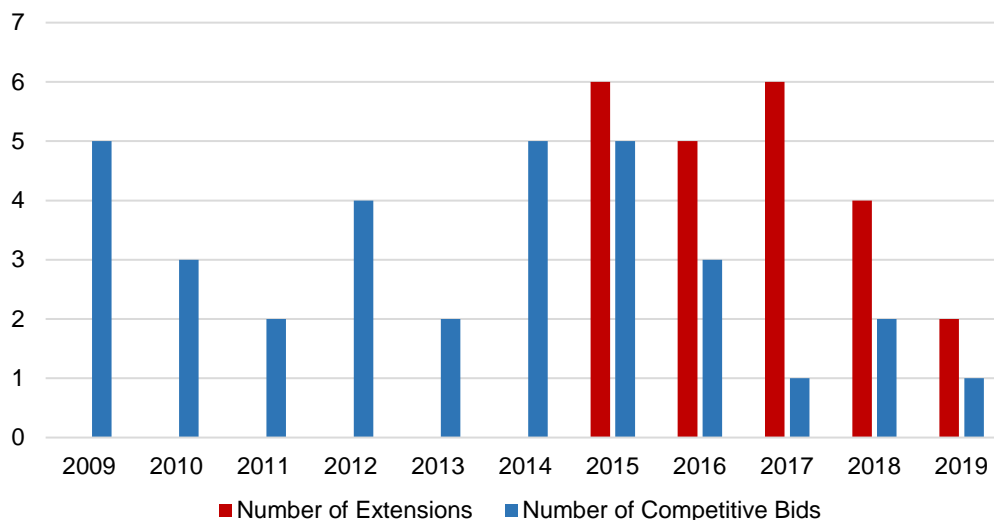


Source: Auditor prepared from PEBP contract records.

The extension of contracts resulted in less competitive procurements than through a RFP process. A RFP process allows the State to publicly solicit for a commodity or service and requests vendors to submit proposals. Submitted proposals are then competitively judged and scored by an evaluation committee prior to being awarded to the selected vendor. This process helps ensure fair competition among vendors, and that they are selected based on established criteria and fair evaluation of proposals. Exhibit 6 shows the number of PEBP RFP's and extensions.

## PEBP Contract Activities Fiscal Years 2009–2019

Exhibit 6



Source: Auditor prepared from State Purchasing and PEBP contract records.

Note: In fiscal year 2016, two extensions were the result of a failed RFP, so the contracts were extended 1 year.

For the first 6 years, no contract extensions were performed and 21 competitive bids took place through a RFP process. However, under PEBP's management of the past 5 years, 23 contract extensions were performed and only 12 competitive bids took place.

State laws and regulations establish competitive procurements as the required method for obtaining services that are valued at \$25,000 or more per fiscal year, except in the case of emergencies. In addition, state policy establishes that contracts should be solicited at least every 4 years.

One concern expressed by PEBP management was that some services take a few years for the vendor to become established and functioning properly. Therefore, a contract term longer than 4 years is desirable. While PEBP claims a longer contract term is more desirable for some contracts, amending and extending contracts indefinitely should not replace the RFP process. Furthermore, competitively soliciting contracts every 4 years does not mean a different vendor will be selected. State purchasing laws establish a process where criteria is developed and weighted

for each solicitation and vendors' proposals are scored, with price being only one of the criteria.

### Private Negotiations Lead to Contract Extensions

Private negotiations became a standard practice as PEBP's management extended vendor contracts for multiple years. Some negotiations took place through direct contact with vendors or by emails. For one contract, negotiations included two vendor paid trips, at the request of PEBP management, in which PEBP employees received transportation, lodging, and meals worth more than \$7,000. Exhibit 7 shows a breakdown of the two trips and the expenses paid by the vendor.

<b>Vendor Paid Travel Costs</b>	<b>Exhibit 7</b>
<b>July 2017<sup>(1)</sup></b>	<b>Amount</b>
Flight	\$1,387
Lodging	785
Transportation	59
Meals and Entertainment <sup>(2)</sup>	706
<b>Trip No. 1 Cost</b>	<b>\$2,937</b>
<b>January 2018<sup>(1)</sup></b>	<b>Amount</b>
Lodging	\$1,874
Flight	1,515
Meals and Entertainment <sup>(2)</sup>	914
<b>Trip No. 2 Cost</b>	<b>\$4,303</b>
<b>Total Travel Costs</b>	<b>\$7,240</b>

Source: PEBP and vendor records.

<sup>(1)</sup> Trip No. 1 Cost included one individual for 3 days, while Trip No. 2 Cost included two individuals for 2 days.

<sup>(2)</sup> Estimates were conservative as documentation provided by the vendor was heavily redacted.

After the first trip, the contract was amended to include additional performance standards and agreements, as PEBP was not satisfied with the vendor's past performance and system functionality. Following the second trip, a significant scope modification occurred and the contract was extended 2 years. The amendments and contract extension occurred despite PEBP management and staff dissatisfaction with the vendor's performance.

Other contract extensions were negotiated through emails. For example, a contract involving basic life and long-term disability insurance was extended 4 years after PEBP management and the vendor negotiated decreases to the monthly rates. Although the negotiated rates were slightly less than the current year rates, the long-term disability rate was still several dollars higher than the original contract rate. Because these services were not competitively bid, PEBP does not know if the negotiated rates were the best available.

Although interactions with vendors is necessary to ensure contract compliance and delivery of services, private negotiations and vendor paid travel are not acceptable and in violation of state laws and policies. Purchasing laws do not allow for negotiations during contract terms.

Nevada laws and an Executive Order governing ethics require that employees not seek or accept any gifts, services, or favor which could improperly influence decisions. The Executive Order, which was adopted and approved by PEBP in 2014, states that high ethical standards are essential for public employees and prohibits public employees from receiving gifts, including travel, entertainment, lodging, meals, transportation and items of monetary value.

Not only was PEBP's current management team aware of the laws and policies governing gifts, it also reported a former employee for accepting gifts from a vendor. In December 2015, PEBP's management team reported and recommended the termination of a former employee for accepting gifts from a PEBP vendor in the amount of \$282. Although it was determined that the employee did not intentionally violate the law, the employee was fined \$1,000, and later resigned. When agency employees accept gifts from vendors, the potential exists for impropriety or the appearance of impropriety to be present within the agency, and increases the risk that decisions made by management will not be in the best interest of the State.

### **Formal Request for Information Process Needed**

PEBP did not use the formal Request for Information (RFI) process established by State Purchasing. PEBP invited two potential vendors to come present privately to PEBP management the vendors' products and pricing for eligibility and enrollment systems. After hearing the vendors' presentations, PEBP extended the contract with its current vendor, valued at over \$9 million. PEBP did not document this process, including the reason for requesting presentations, why certain vendors were selected to present, the results of those presentations, and the reasons for extending the contract with the current vendor.

State law requires that the Administrator of the Purchasing Division contract for services whose estimated value is \$100,000 or more, or may authorize an agency to contract for those services. Furthermore, NRS 333.162 allows the Purchasing Administrator to designate the method of obtaining a contract, including the use of an RFI. Therefore, an agency must receive approval from State Purchasing to proceed with the RFI process. However, PEBP management did not request approval to solicit information from the potential vendors, and PEBP's policies and procedures do not address the RFI process.

### **Contract Extensions Justified by Management**

PEBP management claimed that competitive bidding for contracts was unnecessary as they performed regular market checks to determine the value of the services their current vendors were providing. In addition, cost savings was used to justify several contract extensions. Market checks and cost savings should not be used to supplant bidding processes since additional value and savings may be received through competition.

Market checks compared PEBP vendors' services and pricing to other vendors for which PEBP's actuary had information. However, based on what PEBP provided, market checks were only performed for two vendors recently and market checks were only performed multiple years for one of those vendors. Exhibit 8 shows one analysis performed by PEBP's actuary in fiscal year 2019 for the pharmacy benefits manager (PBM).

## Market Comparison Example Fiscal Year 2019

**Exhibit 8**

Categories	Contracted	Comp 1	Comp 2	Comp 3	Comp 4	Comp 5
Members	40-45k	45-50k	15-20k	30-35k	80-85k	60-65k
Allowed Charges <sup>(1)</sup>	\$53,270,000	\$49,970,000	\$50,910,000	\$49,990,000	\$50,880,000	\$49,890,000
Costs and Fees <sup>(2)</sup>	(13,990,000)	(13,420,000)	(13,550,000)	(15,030,000)	(14,480,000)	(13,720,000)
Guaranteed Rebates	(5,580,000)	(12,180,000)	(9,210,000)	(9,740,000)	(6,340,000)	(10,780,000)
<b>Net Cost</b>	<b>\$33,700,000</b>	<b>24,370,000</b>	<b>28,150,000</b>	<b>25,220,000</b>	<b>30,060,000</b>	<b>25,390,000</b>
<b>Cost Differences Compared to PEBP Contracted</b>		<b>\$ 9,330,000</b>	<b>\$ 5,550,000</b>	<b>\$ 8,480,000</b>	<b>\$ 3,640,000</b>	<b>\$ 8,310,000</b>

Source: PEBP's contracted actuary.

<sup>(1)</sup> Includes gross costs like ingredient costs.

<sup>(2)</sup> Includes member cost share and dispensing and administrative fees.

As shown, the cost for PEBP's vendor is greater than other plans of a similar size. PEBP management stated that market checks help to negotiate better rates, but the following year's market check again showed PEBP continued to pay more.

While market checks could provide insight into determining the value of current service contracts, they do not take the place of competitive bidding, especially when limited in scope and not performed regularly. In addition, cost savings initiatives can be built into contracts when bid, eliminating the need for extensions.

In addition to market checks, PEBP often cited cost savings as a reason for extending contracts. However, the analyses for cost savings were often limited and not comprehensive. The following example relates to a contract that was extended based on testimony that there would be savings to the plan:

- In 2017, PEBP management requested an amendment that extended a contract 2 years, indicating a projected cost savings of nearly \$1 million in the current year.
- Evidence obtained during the audit showed that costs associated with the contract increased by millions of dollars the following years, including an increase of \$1.5 million in administrative costs.

When the claim was made that nearly \$1 million in cost savings would be realized, PEBP did not provide documentation supporting the cost savings and how it was calculated. Given the

lack of documentation regarding how the projected cost savings were calculated and the increased costs, PEBP does not know if savings were actually achieved.

State law and policy emphasize the need for the competitive procurement of services. NRS 333.300(4) requires that every effort must be made to secure competitive bidding. In addition, section 0338 of the State Administrative Manual requires that an agency shall solicit and review at least three bids or proposals for each contract, whenever possible.

When agency management's contracting practices allow for private negotiations and the acceptance of gifts from vendors, there is a greater risk of abuse and fraud, and the appearance of impropriety can arise. In addition, relaxed negotiations and a rushed process of extending contracts have led to contracts with higher costs and rates that are not easily defined. Furthermore, when a contract management process lacks competition it gives preferential treatment to some vendors and makes it difficult to determine if the State and PEBP participants receive the best services at the best prices.



**PEBP Board  
Needs to  
Enhance its  
Oversight of  
Agency**

The PEBP Board (Board) needs to enhance its oversight of management's contracting practices and use of agency resources. As part of its duties, the Board is charged with overseeing PEBP's contracting activities and ensuring its assets are used appropriately. Despite this responsibility, some contract amendments had significantly modified scopes of work and several contracts were executed without receiving proper approvals or without supporting documentation. In addition, the Board approved modifications to PEBP's contracting policies and procedures, placing less emphasis on competitive procurement and Board oversight. Finally, the Board allowed agency resources to be spent on unnecessary awards and an accreditation. Without proper oversight, there is less assurance PEBP's contracting practices align with state laws and policies that help safeguard assets, and that agency resources are used appropriately.



### **Board Responsible to Ensure Contracting Requirements are Followed**

Although law designates the PEBP Board as responsible for oversight of certain activities, the Board did not always adequately monitor important contracting functions to ensure compliance. The 10-member Board that oversees PEBP's operations is comprised of the Director of the Department of Administration and 9 members appointed by the Governor. The Board includes members that represent active and retired public employees, and have experience in risk management, group insurance programs, health care administration, or employee benefits programs. A combination of state laws and regulations place the responsibility for PEBP's contracting activities with the Board. Although not all-inclusive, the following laws and regulation relate to the Board's contracting responsibilities:

- NRS 287.043(3) – requires the Board to use the services of the Purchasing Division of the Department of Administration.
- NRS 287.0434 – allows the Board to enter into contracts relating to the administration of the program.
- NRS 287.04345 – states that PEBP is subject to state purchasing laws found in NRS 333 and establishes the Board as the chief of the agency.
- NRS 333.300(4) – establishes competitive procurement as the method for awarding a contract, except in the case of emergencies and with the approval of the Purchasing Administrator.
- NAC 333.150(3) – requires that contracts be awarded through a RFP process when the estimated value of the contract exceeds \$25,000 per fiscal year.

Because the Board's responsibilities include contract oversight, it is imperative that it be actively engaged in PEBP's contracting activities, and that policies and procedures ensure compliance with state laws and regulations.

### **Contract Amendments Significantly Modified Scopes of Work**

On two occasions, significant modifications were made to existing contracts bypassing competitive solicitation requirements for new services. Without competitive solicitation, the State does not know if it received the best product at the best price. These scope modifications were approved by the Board. The following information provides additional details regarding the scope modifications:

- In September 2014, PEBP competitively bid and awarded a contract, which included a software system with the capability of billing premiums and tracking participant eligibility. However, in September 2018, the contract was extended for 2 years and amended to allow the vendor to create a voluntary services platform that would offer voluntary products to participants in exchange for the vendor collecting commissions on those entities services.
- On a separate occasion, PEBP competitively bid and awarded a contract in February 2011, which included third-party administrative services for the State's self-funded medical, dental, and vision plans. However, in 2017, the contract was amended and extended for 2 years that included a \$2.5 million work order that was vaguely defined in the contract as a cost saving strategy initiative. In 2018, PEBP used the work order to enter into two unapproved contracts. The first contract included a \$100,000 maximum for a specialty care management nurse, while the second contract included a \$480,000 maximum, 3-year commitment, for the creation of a computer application that would allow PEBP members to research the cost of medical procedures from different medical providers.

PEBP's policies and procedures do not address modifications to contracts and what steps will be taken to help ensure the modifications are within the contract's original scope of work. When contract amendments significantly modify the original scope of work, other vendors are denied the opportunity to compete and offer different solutions and pricing, helping ensure the State obtains the best value.

The United States Government Accountability Office addresses contract modifications and states that all modifications must be within the overall scope of the contract and reasonably within the contemplation of the parties when they entered into the original contract. Any modification made to a contract that exceeds the scope of the original contract represents a new requirement that should follow the normal RFP or competitive bidding process. Therefore, any out-of-scope modification is essentially an improper sole-source contract award.

Significant scope modifications that warrant a competitive bid may include the following:

- Changes in the scope of the competition;
- Wasn't within the contemplation of the parties when they entered into the original contract;
- Materially alters the contract;
- Changes in the function of the item or the type of work;
- Changes in the quantity of major items or portions of work;
- The agency had historically procured services under a separate contract.

#### **Extensions Did Not Receive Proper Approvals**

For 6 of 18 contract extensions tested, PEBP did not receive proper approvals. This included 4 of 18 (22%) contract extensions that took place without a contract extension waiver and State Purchasing's approval; thereby, violating state policy. In addition, 2 of 18 (11%) contract extensions took place without being discussed by PEBP's Board; thereby, circumventing state laws. Exhibit 9 shows contracts extended without State Purchasing approval and without Board discussion and approval.

**Contracts Extended Without Proper Approvals  
Fiscal Years 2015–2019**

Exhibit 9

<b>Contracts Extended Without State Purchasing Approval</b>	<b>Contract Amount (Millions)</b>	<b>Extension Amount (Millions)</b>	<b>Years Extended</b>
Contract 1	\$ 3.1	\$1.7	4.0
Contract 2 <sup>(1)</sup>	2.0	0.0	0.5
Contract 3	15.5	3.6	2.0
Contract 4	9.0	1.8	2.0

<b>Contracts Extended Without Board Discussion and Approval</b>	<b>Contract Amount (Millions)</b>	<b>Extension Amount (Millions)</b>	<b>Years Extended</b>
Contract 2 <sup>(1)</sup>	\$ 2.0	\$0.0	0.5
Contract 5	6.1	1.4	2.0

Source: PEBP records.

<sup>(1)</sup> Same contract with both exceptions, which had been extended for 6 months and included a fee reduction and therefore did not increase the contract maximum amount.

State laws and policies require PEBP follow certain protocols before contracting or amending contracts, including using the services of the Purchasing Division when procuring services. To help verify the validity of contract extensions, State Purchasing requires agencies to use a form that requires full disclosure and compelling justification for contract extensions. In addition, state law governing public meetings requires that most actions of public bodies, and their deliberations, be performed in an open meeting. Furthermore, PEBP's policies and procedures require that all new services for the program will be brought to the Board for approval and all existing services already on a contract will be evaluated by the Board for approval prior to execution.

PEBP's policies and procedures do not require State Purchasing's approval prior to contracts being extended. Furthermore, procedures do not require contracts and contract amendments have supporting documentation showing compliance with state laws and policies, including proper approvals by the Board before submission to the State Board of Examiners.

**Amendments Approved Without Supporting Documentation**

The Board approved contract amendments without supporting documentation to validate statements made by PEBP management. We observed management provided statements to its Board that, intentional or not, negatively portrayed the

competitive procurement process, or emphasized the partnership with the current vendor. Although it is unknown what effect this had on the Board's contracting decisions, the Board should require PEBP management to provide documentation that would justify any deviation from the State's policies or best practices regarding competitive procurements.

We observed that when competitive procurement was discussed at board meetings PEBP management made statements that indicated bidding was too costly, of little value, or the State risked paying more with a new vendor. The following examples demonstrate how competitive bidding was often portrayed to the Board:

- For a contract extension for its PBM, the Board expressed concerns about extending the contract. In response to questioning by the Board, PEBP management indicated that the RFP process was costly for vendors and that vendors can spend upwards of \$100,000 responding to a RFP. PEBP's management also opined that there was not enough added value to participate in a competitive bid. However, in fiscal year 2019, PEBP paid its PBM over \$53 million in prescription drug costs and another \$1.3 million in administrative fees.
- On a separate occasion, when extending the contract for PEBP's Medicare Exchange provider, PEBP management claimed a RFP was too costly for not only the vendor but also the State. However, state law created the Purchasing Division whose primary function is to assist state agencies to competitively procure products and services.
- For an extension to its contract to perform health claim audits, PEBP management indicated the RFP process was dangerous and scary, and that the vendor provided a specialized service. In addition, when PEBP board members questioned the proposed 5-year extension, management's response was that another vendor might not be able to perform this specialized service. However, without the benefit of a competitive bid, there is no

evidence to suggest that this vendor is the only auditor that can perform this function.

Another concern expressed by PEBP management regarding competitive procurement was that the agency had a good working relationship with vendors and switching vendors could disrupt those partnerships or the services provided to plan participants. While a good working relationship with a vendor is important, it should not be used as a reason to not seek competitive pricing for services. In addition, the State's competitive procurement process does not mean an agency will have to choose a different vendor.

PEBP currently lacks policies and procedures that require management to provide supporting documentation to validate its position when recommending contract amendments. When unverified or inaccurate information is provided to the PEBP Board, it can significantly affect the outcome of those decisions both monetarily and programmatically.

#### **Contracting Policies and Procedures Modified**

In recent years, the Board approved modifications to PEBP's policies and procedures, placing less emphasis on competitive procurement and board oversight. Starting in September 2015, policy changes were brought forward by PEBP management that modified contract policy. The policy changes removed the first step in contracting practices that required the agency develop a RFP when a contract is scheduled to expire, or a new service is required. In place of this process, the policy changes required PEBP staff to create a list of contracts scheduled to expire and provide the Board with recommendations for extensions to existing contracts.

Finally, in November 2017, contracting policies were amended a third time. These latest changes replaced the section regarding the RFP process and selecting a vendor with a section that acknowledged PEBP is subject to NRS 333, and the Board is the chief of the using agency. However, the amended policy then delegated the role of chief of the using agency to the Executive Officer.

When an agency's contracting practices circumvent state law and policy, the agency puts itself at risk of the contract becoming void and state officers being liable for the costs of services under NRS 333.810. In addition, a culture may develop within the agency in which there is an increased risk of bribery, collusion, or kickbacks. As the governing body responsible for PEBP's contracting activities, the Board needs to oversee, monitor, and create policies and procedures that emphasize compliance with state procurement laws and policies.

### **Board Allowed Unnecessary Expenditures**

During our testing, we observed some agency expenditures were unnecessary and not an efficient use of agency resources. For instance, PEBP allocated over 620 hours and nearly \$51,000 to obtain business awards and an accreditation.

Additional Board oversight is necessary to ensure limited resources are used appropriately. In fiscal year 2018, PEBP began the process of applying for and obtaining awards and an accreditation as a means to promote itself. Exhibit 10 shows a breakdown of the employees' time and costs for the awards and accreditation.

### **PEBP Accreditation and Award Costs** **Exhibit 10** **Fiscal Years 2018–2019**

<b>Accreditation Costs</b>	<b>Hours</b>	<b>Amount</b>
Contract Amount		\$24,900
Employee Time <sup>(1)</sup>	482	14,090
<b>Total Accreditation Costs</b>	<b>482</b>	<b>\$38,990</b>
<b>Award Costs</b>	<b>Hours</b>	<b>Amount</b>
Direct Costs <sup>(2)</sup>		\$ 6,136
Employee Time	143	5,709
<b>Total Award Costs</b>	<b>143</b>	<b>\$11,845</b>
<b>Total Costs</b>	<b>625</b>	<b>\$50,835</b>

Source: PEBP records.

<sup>(1)</sup> Employee time included estimated time spent on applications and training.

<sup>(2)</sup> Direct costs included application fees, award ceremony tickets, and travel expenses.

The American Business Awards, Stevie Awards, were created in 2002 to honor and generate public recognition of the

achievements and positive contributions of organizations and working professionals worldwide. Organizations are encouraged to enter as a means to build and burnish their brand. Based on an analysis of information provided by PEBP and a review of state accounting records, we estimated 143 hours and \$11,845 were spent obtaining and accepting the awards on two separate occasions. This included application fees, travel, and award ceremony tickets. The Governor's Finance Office later removed budget authority for these expenditures because they were not necessary.

The Utilization Review Accreditation Commission (URAC) accreditation is designed to establish national standards within the healthcare industry and show that quality healthcare is provided to patients. URAC is the leading independent entity in promoting healthcare quality through accreditation. The URAC accreditation is generally awarded to frontline healthcare entities that provide direct services and not public health plans where direct services are contracted out and participants don't have a choice in the government entity managing their health benefits. Based on an analysis of information provided by PEBP and a review of state payroll information, 482 staff hours were devoted to obtaining the accreditation, totaling over \$14,000 in employee pay. PEBP was the first and only public sector program nationwide to receive this specific accreditation, which URAC has now discontinued.

State law establishes the expectation that PEBP's funds will be used for costs related to health care and agency operations. Per NRS 287.0434(1), PEBP is required to use its assets only to pay for the expenses of health care for its members and covered dependents, to pay employees' salaries, and to pay administrative and other expenses. Furthermore, it is the responsibility of PEBP's Board and management to ensure funds are spent appropriately.



## Recommendations

1. The PEBP Board should develop policies and procedures to ensure:
  - a. Competitive procurement of contracted services once the original term of the contract ends, in compliance with state policies;
  - b. Contracts and contract amendments have supporting documentation, including proper approvals by the Board and State Purchasing Division; and
  - c. Changes to a contract's original scope of work are competitively bid.
2. Comply with state law and agency policy concerning gifts, and include periodic training and documented attestations of Board member and employee acceptance of the policies.
3. Establish formal policies and procedures regarding the Request for Information process and compliance with State Purchasing guidelines.
4. Develop policies and procedures that require accurate information be provided to the Board and other governing bodies when seeking to amend contracts, and supporting documentation be provided.
5. Develop policies and procedures, in consultation with PEBP's Board, to ensure the use of funds and resources directly relate to the purpose of the agency and the statutory intent for the use of those resources.

# Appendix A

## Audit Methodology

To gain an understanding of the Public Employees' Benefits Program (PEBP), we interviewed staff and reviewed statutes, regulations, and policies and procedures significant to its operations. We also reviewed financial information, prior audit reports, budgets, legislative committee minutes, and other information describing PEBP's activities. In addition, we documented and assessed internal controls related to contract solicitation, monitoring, and payments, as well as other non-payroll expenditures.

To determine if PEBP had adequate controls over contract solicitation, we identified all active contracts during fiscal year 2019. We reviewed all 21 contracts for competitive solicitation practices.

We also reviewed all 18 contract amendments to determine the length of time since the contract had last been solicited and identified changes between each amendment. We also determined whether private negotiations had taken place in exchange for gifts or promises. This included interviewing PEBP staff and sending attestation letters to all vendors with active contracts.

Furthermore, testing of contract amendments included the review of PEBP Board meeting minutes in order to determine if the amendments had been discussed in an open meeting. We also met with the Purchasing Division staff and reviewed all of PEBP's contract extension waiver requests to determine if a waiver had been completed.

Furthermore, we evaluated whether PEBP had adequate controls over contract monitoring and payments. We utilized the state accounting system and captured all vendor payments made by

PEBP in fiscal year 2019. We compared the payments in the state accounting system to PEBP's contract tracking log to verify accuracy. Next, we judgmentally selected 38 payments based on the dollar amount and service month, resulting in 12 vendors and \$36 million (32%) of the \$114 million payment population. For payments selected, we obtained payment vouchers and supporting documentation and tested the payments for accuracy and compliance with the contracted rates and terms. In addition, as 11 of 12 contractor payments were based on per participant per month enrollment numbers, we tested payment amounts to ensure they matched enrollment numbers. To ensure the reliability of participant counts, we compared participant names and information in the vendor's system to employee records from the State's system and vice versa. We then used analytical software to ensure vendor enrollment data did not contain duplicates, terminated or deceased participants, and complied with age requirements. We determined the data to be reliable for our intended purposes.

To determine the adequacy of controls over award and accreditation expenditures, we tested all expenditures in these categories. We identified all direct expenditures for the awards and accreditation between fiscal years 2016 and 2019 in the state accounting system. Next, we identified and interviewed staff involved in obtaining the award or accreditation in order to determine the work hours used and cost of the employees' time. For the accreditation, we also calculated the work hours and costs for other PEBP staff required to take training.

We used nonstatistical audit sampling for our audit work, which was the most appropriate and cost-effective method for concluding on our audit objective. Based on our professional judgement, review of authoritative sampling guidance, and careful consideration of underlying statistical concepts, we believe that nonstatistical sampling provided sufficient, appropriate audit evidence to support the conclusions in our report. For these tests, we did not project the findings to the population because errors were not projectable. Our sample included both randomly and judgmentally selected items.

Our audit work was conducted from March 2019 to March 2020. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

In accordance with NRS 218G.230, we furnished a copy of our preliminary report to the Executive Officer of PEBP. On June XX, 2020, we met with agency officials to discuss the results of the audit and requested a written response to the preliminary report. That response is contained in Appendix B, which begins on page 27.

Contributors to this report included:

James T. Thorne, MPA, CCM  
Deputy Legislative Auditor

William F. Evenden, MS  
Deputy Legislative Auditor

Todd C. Peterson, MPA  
Audit Supervisor

Shannon Riedel, CPA  
Chief Deputy Legislative Auditor

# Appendix B

Response From Public Employees' Benefits Program

Draft

Draft

## Public Employees' Benefits Program's Response to Audit Recommendations

<u>Recommendations</u>	<u>Accepted</u>	<u>Rejected</u>
1. The PEBP Board should develop policies and procedures to ensure:		
a. Competitive procurement of contracted services once the original term of the contract ends, in compliance with state policies;.....	_____	_____
b. Contracts and contract amendments have supporting documentation, including proper approvals by the Board and State Purchasing Division; and .....	_____	_____
c. Changes to a contract's original scope of work are competitively bid .....	_____	_____
2. Comply with state law and agency policy concerning gifts, and include periodic training and documented attestations of Board member and employee acceptance of the policies .....	_____	_____
3. Establish formal policies and procedures regarding the Request for Information process and compliance with State Purchasing guidelines. ....	_____	_____
4. Develop policies and procedures that require accurate information be provided to the Board and other governing bodies when seeking to amend contracts, and supporting documentation be provided. ....	_____	_____
5. Develop policies and procedures, in consultation with PEBP's Board, to ensure the use of funds and resources directly relate to the purpose of the agency and the statutory intent for the use of those resources.....	_____	_____
<b>TOTALS</b>	=====	=====



**STEVE SISOLAK**  
*Governor*

**LAURA FREED**  
*Board Chair*



STATE OF NEVADA  
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ACCREDITED  
CORE  
Expires 04/01/2021

**LAURA RICH**  
*Executive Officer*

**Date:** November 28, 2020

**To:** Susan Brown, Director Governor's Finance Office

**CC:** Daniel Crossman, Legislative Auditor  
Warren Lowman, Division of Internal Audits

**From:** Laura Rich, Executive Officer, Public Employees' Benefits Program

**Subject:** PEBP Legislative Audit Corrective Action Plan

NRS 218G.250 requires the submission of a corrective action plan to be submitted to the Director of the Office of Finance within 60 working days after receipt of notification.

Attached is PEBP's response indicating acceptance and the PEBP Board approved correction action plan.

Sincerely,

Laura Rich  
Executive Officer



On September 23, 2020, the Board of the Public Employees' Benefits Program approved the following corrective action plan:

Recommendation 1:

*The PEBP Board should develop policies and procedures to ensure:*

- *Competitive procurement of contracted services once the original term of the contract ends, in compliance with state policies*
- *Contracts and contract amendments have supporting documentation, including proper approvals by the Board and State Purchasing Division; and*
- *Changes to a contract's original scope of work are competitively bid*

Response: PEBP accepts this recommendation.

**Proposed Corrective Action:**

The PEBP Board shall form a subcommittee with the purpose of editing existing and/or developing new policies and procedures to address PEBP procurement practices.

Recommendation 2:

*Comply with state law and agency policy concerning gifts and include periodic training and documented attestations of Board member and employee acceptance of policies.*

Response: PEBP accepts this recommendation.

**Proposed Corrective Action:**

PEBP will coordinate with the Department of Human Resource Management to ensure PEBP policies and Procedures are updated to reflect state gifting policies and ensure all employees sign updated attestations. Additionally, PEBP will continue to request ethics training be provided to staff and Board members on an annual basis.

Recommendation 3:

*Establish formal policies and procedures regarding the Request for Information process and compliance with State Purchasing guidelines.*

Response: PEBP accepts this recommendation.

**Proposed Corrective Action:**

PEBP staff will edit existing and/or develop new policies and procedures addressing procurement practices that align with State Purchasing guidelines.

Recommendation 4:

*Develop policies and procedures that require accurate information be provided to the Board and other governing bodies when seeking to amend contracts and supporting documentation to be provided.*

Response: PEBP accepts this recommendation.

Proposed Corrective Action:

1. The PEBP Board shall form a subcommittee with the purpose of creating criteria and/or guidelines to be met by staff before any contract amendments are brought to the Board for consideration.
2. Once Subcommittee recommendations have been approved by the Board, PEBP staff will update its policies and procedures accordingly.

Recommendation 5:

*Develop policies and procedures, in consultation with PEBP's Board, to ensure the use of funds and resources directly relate to the purpose of the agency and the statutory intent for the use of those resources.*

Response: PEBP accepts this recommendation.

Proposed Corrective Action:

1. The PEBP Board shall form a subcommittee with the purpose of creating criteria and/or guidelines to address NRS 287.0434(1) regarding authorized expenditures to be met by staff before any proposed expenditures are brought to the Board for consideration.
2. Once Subcommittee recommendations have been approved by the Board, PEBP staff will update its policies and procedures accordingly.



**STEVE SISOLAK**  
*Governor*

**LAURA FREED**  
*Board Chair*



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Expires 04/01/2021

**LAURA RICH**  
*Executive Officer*

## **PUBLIC EMPLOYEES' BENEFITS PROGRAM**

### **BOARD AND AGENCY**

#### **Duties, Policies and Procedures**

**September-January 2019-2021**



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## I. INTRODUCTION

Nevada Revised Statutes (NRS) (<http://www.leg.state.nv.us/NRS/NRS-287.html>) Chapter 287 Section 041 subsection 1 creates the Public Employees' Benefits Program (PEBP) Board (Board) to establish and carry out a Program for health, life, and other voluntary insurance benefits.

The Board has adopted the following Duties, Policies and Procedures for general direction, information, and guidance of the Program. The Duties, Policies and Procedures may be amended, varied, or temporarily suspended at the discretion of the Board by motion passed in an open meeting.

A comprehensive fiduciary policy provides the Program with functional guidelines within which to operate. The Program is accountable to the Participants and the Public. Board Members and agency employees must be willing to perform their responsibilities that preclude and inhibit misconduct, eliminate waste of resources, and embrace the concepts of sound cost effective measures.

### GUIDING PRINCIPLES OF HEALTH CARE BENEFITS ADMINISTRATION

Service to the participants of the Program is the primary function of the Board and the Agency. Board members are fiduciaries who are to act for the exclusive benefit of the participants. Board members will act with integrity, objectivity, independence, prudence and due care.

## II. GOVERNANCE

The policy is designed to enable Board members and agency employees to seek counsel, to remain inquisitive, and to exercise their functions with the prudence demanded of them in the public sector.

Board members are entrusted with the responsibility of exercising their duties in a manner that ensures the efficient and effective administration of the Program in compliance with all applicable Federal and State laws and regulations, including those relating to ethics (NRS Chapter 281A) and the Nevada Open Meeting Law (NRS Chapter 241).

### FRAMEWORK:

- “Board” means the PEBP Board members
- “Agency” means the PEBP agency and its employees
- “Program” means both the Board and the Agency

**A. BOARD RESPONSIBILITIES**

Board members are entrusted with the responsibility of ensuring efficient administration of the program in accordance with all applicable laws and regulations, and shall:

1. Be responsible for adopting the Mission Statement, Values, Goals and Objectives (i.e., the Strategic Plan) of the Program.
2. Provide health care, life insurance, and other voluntary insurance benefits in a responsible manner balancing the needs of the State, Plan participants and the taxpaying community. Benefit changes may be considered by the Board based upon recommendations from individual Board members, the Agency or from the public.
3. Adopt sound actuarial and accounting standards and appropriate internal controls.
4. Review and revise Duties, Policies and Procedures regarding matters that are not specifically enumerated in statute or regulation as needed.
5. Take a position on any proposed legislative matters affecting the Program and direct Agency employees to make that position known to the Legislature. During the legislative session, the Board authorizes the Executive Officer to take a position of “neutral” on any new bill affecting the Program by default. This allows for rapid response to legislative committee meetings scheduled prior to a Board vote. The Board can revise the default position at the next Board meeting.
6. Prior to the commencement of each biennial legislative session, review and approve the framework for the biennial budget to be submitted to the Governor’s office.
7. Employ and appoint an Executive Officer, subject to the approval of the Governor, to oversee the day-to-day operations of the Program in accordance with NRS 287.0424.
8. Delegate to the Executive Officer the authority to manage the Program within the parameters defined by the Board.
9. Evaluate the Executive Officer as needed in a public forum adhering to all applicable open meeting law requirements.
10. The Director of the Department of Administration appoints the Quality Control Officer for the Program. The Director shall define the duties of the Quality Control Officer with the concurrence of the Board. The Quality Control Officer serves at the pleasure of the Director.

**B. BOARD MEMBER CONDUCT**

Individual Board members shall:

1. Prepare for and attend Board meetings.
2. Refrain from making commitments to any individual or entity regarding any matter that is scheduled for consideration by the Board.

3. Not communicate with the press or plan participants on behalf of the Board.
4. Be encouraged to obtain continuing education credits pertaining to the administration of group benefits for public employees as funding is available.
5. Conduct their affairs in such a manner that they always represent the best interest of the Board. To fulfill these functions satisfactorily, individual Board members must exercise utmost judgment, discretion, and tact in order to ensure good public relations, and to avoid any possible misunderstanding regarding actions as an individual as opposed to actions as a Board member.
6. Not act in any official capacity on behalf of the Board except as directed by Board action.
7. Refrain from performing any function delegated or normally assigned to Agency employees.
8. Not obligate expenses on behalf of the Agency without following the Agency procedures.
9. Direct their inquiries and requests for information which may occur outside of a Board meeting to the Agency through the Executive Officer. A request that requires significant Agency resources, as determined by the Executive Officer, must be approved by the Board Chair before the staff shall be required to act upon the request.

**C. BOARD MEETINGS**

Board meetings shall be held in accordance with NRS Chapter 287 Section 0415. The Board shall conduct business in accordance with Nevada Administrative Codes (NAC) Chapter 287 Sections 170 - 176, (<http://www.leg.state.nv.us/NAC/NAC-287.html>), the Nevada Open Meeting Law (NRS Chapter 241), federal and state statutory and regulatory provisions and current Duties, Policies and Procedures, as applicable.

1. Any Board member may submit to the Executive Officer, or in his or her absence, the Operations Officer of the Program, a request for a matter to be placed on the agenda.
2. At the first meeting of each plan year, the Board will elect a Vice Chair. The Vice Chair shall serve as the Board Chair in the absence of the Board Chair.

**D. EXECUTIVE OFFICER AND AGENCY ADMINISTRATION**

The Executive Officer is appointed pursuant to NRS Chapter 287 Section 0424 and serves at the pleasure of the Board. The Executive Officer reports to the Board as a whole. Pursuant to NRS Chapter 287 Section 0424, the Executive Officer is delegated the responsibility to implement the plan of benefits, decisions, direction, internal controls and policies approved by the Board. Except as may otherwise be specified in plan documents approved

by the Board, the Executive Officer executes the authority of Plan Administrator as described in such documents.

1. The Board authorizes the Executive Officer or his/her designee to provide official press releases and to answer questions from the press and other news media.
2. The Board authorizes the Executive Officer or his/her designee to carry out administrative functions of the Agency, including but not limited to:
  - a. Financial management of contribution/rate billing, accounts receivable, accounts payable and budgetary compliance.
  - b. Management of Agency personnel, day-to-day operation and vendor performance matters.
  - c. Interpretation of NRS and NAC in performing functions of the Agency.
  - d. Approval of subrogation settlements and other financial settlements relating to claims processing.
  - e. Representation of the Agency to other pertinent governmental bodies.
3. Consistent with Board policies and direction, the Agency shall work with the Governor's Finance Office and the Legislature to ensure that the Program is funded on an actuarially sound basis.
4. Ensuring the Agency notifies participants of health care benefit changes as approved by the Board.
5. As soon as practical, but within 120 days of the appointment of a new Board member, the Executive Officer shall provide the new Board member with a comprehensive orientation and overview of the Program which the new member shall acknowledge receipt by signing and dating the "Acknowledgment Form for Board Members". The orientation will include, at a minimum, the following:
  - a. The history and overview of PEBP and the benefits administered by the Program including any special terminology generally used by the Program.
  - b. The Board governance, including the Strategic Plan and these Duties, Policies and Procedures.
  - c. A review of recent Board actions and precedents and current issues being considered by the Board.
  - d. An overview of the funding and rate setting process.
  - e. The continuing education opportunities for the member pending available funding.
6. The Executive Officer will also ensure these Duties, Policies and Procedures are provided to all employees upon approval of any changes by the Board and to new employees within 10 working days of their hire with the Agency. Employees will acknowledge receipt



- and understanding by signing the "Acknowledgment Form for Employees."
7. The Executive Officer may obtain continuing education credits pertaining to the administration of group benefits for public employees as funding is available.
  8. The Executive Officer will provide Agency employees with relevant education and training and will allow employees to attend training classes relating to the administration of health care benefits or to the employee's individual work assignments. The Executive Officer is responsible for setting the eligibility requirements for an employee to attend a training or other educational event and the appropriate reimbursement of cost and/or release time to be provided for the training within the budgetary limits established for the purpose of employee training.
  9. The Executive Officer is responsible for interacting with the Executive and Legislative branches of government and shall work diligently and cooperate fully with both to provide any information desired in relation to the operations, functions, or status of the Program.
  10. Responses to correspondence addressed to the Chair may be prepared by Executive Staff. Responses to correspondence addressed to the Board may be prepared and signed by Executive Staff on behalf of the Board.

**E. ETHICS**

The Board and agency employees must:

- Avoid the perception of misuse of influence;
- Be willing to adopt and abide by Duties, Policies and Procedures that preclude and inhibit misconduct;
- Eliminate the wasteful use of resources; and
- Embrace the concepts of sound cost effective measures.

Each Board Member and each member of the Executive Staff will read the most current Ethics Manual and sign an acknowledgement of their understanding of the ethics requirements upon appointment or hire and receive annual Ethics Training provided by the staff of the Commission on Ethics every subsequent year. The most current Ethics Manual may be found at:

<http://ethics.nv.gov/uploadedFiles/ethicsnv.gov/content/Resources/EthicsManual2014.pdf>

In addition to the Ethics Manual and annual Ethics Training, Board members and agency employees will not:

1. Disclose information regarding business developments of a confidential nature received in the course of their duties except in the authorized performance of those duties.
2. Attempt to take advantage of confidential information received in the course of their duties for themselves or any third party.
3. Accept meals, travel, lodging or any other gift from any contractor bidding on an open Program RFP.

Business meetings, such as employee benefits orientations, open enrollment meetings, staff meetings, planning meetings, etc., may, in the interest of efficiency, be conducted at a contracted vendor's facility at no cost to the Agency as long as the expenses are customary and not intended to improperly influence a reasonable person.

If the Chair, Executive Officer, or assigned Deputy Attorney General cannot resolve an ethical question, the question should be referred to the Commission on Ethics:

Commission on Ethics  
704 W. Nye Lane, Suite 204  
Carson City, Nevada 89703  
Telephone: 775-687-5469  
Fax: 775-687-1279  
Email: [ncoe@ethics.nv.gov](mailto:ncoe@ethics.nv.gov)  
Website: [www.ethics.nv.gov](http://www.ethics.nv.gov)

Nothing herein precludes a Board member from directly contacting the Commission on Ethics with a question about his or her ethical obligations as a Board member.

**F. SEXUAL HARASSMENT**

The Board hereby adopts and authorizes the Executive Officer to enforce the most current Policy Against Sexual Harassment and Discrimination approved by the Office of the Governor.

**G. HEALTH INSURANCE PORTABILITY AND ACCOUNTABILITY ACT (HIPAA)**

Each Board member and agency employee must complete annual training regarding the privacy, protection and disclosure requirements of HIPAA.

Each Board member and agency employee shall sign a Confidentiality and Security Statement of Understanding upon appointment/hire.

## H. TRAVEL POLICY

1. The authority for the travel policy is the State Administrative Manual (SAM) Sections 0200 and 1400. SAM can be found on the Governor's Finance Office's website.
2. Board members are subject to the same travel requirements as Agency employees and will receive a copy of the Travel Policy and Procedures during their orientation. The Travel Policy and Procedures outline the requirements for submitting travel requests, travel reimbursements and necessary supporting documentation.

## III. CONTRACTS

### A. PURPOSE, AUTHORITY, AND POLICY

1. The purpose of this policy is to establish procedures for new contracts and contract extensions which will be in accordance with the State Purchasing Act. <http://www.leg.state.nv.us/NRS/NRS-333.html#NRS333Sec311>  
The Nevada Administrative Code  
<http://www.leg.state.nv.us/NAC/NAC-333.html> and  
The State Administrative Manual  
<http://budget.nv.gov/uploadedFiles/budgetnv.gov/content/Governance/SAM.pdf>

### B. PROCUREMENT PROCESS

1. The Program is subject to the provisions of chapter 333 of NRS.
2. The Board shall act as the chief of the using agency for the purposes of NRS 333.335.
  - a. The Board delegates the role as chief of the using agency to the Executive Officer.
3. If a committee to evaluate proposals for a contract for the Program is established pursuant to NRS 333.335, any number of members of the Board may be appointed to the evaluation committee. If one or more members of the Board are appointed to an evaluation committee:
  - a. No action or deliberation regarding any business of the Board other than the confidential review of the proposals pursuant to NRS 333.335 may be taken or conducted by the evaluation committee.
  - b. Except as otherwise provided above, a meeting of the evaluation committee is not subject to chapter 241 of NRS.
4. The Board shall review the results of any evaluation of proposals for a contract for the Program pursuant to NRS 333.335 in a closed meeting.

5. The Board shall take the following actions only in an open meeting:
  - a. Award the contract pursuant to NRS 333.335;
  - b. Cancel the request for proposals; or
  - c. Modify and reissue the request for proposals.
6. Service performance standards and Financial Guarantees and/or Penalties will be included in all contracts. Specific standards, guarantees and penalties will depend upon the type of service(s) provided by vendor.
7. Contracts which are subject to an audit pursuant to the scope of work: the contracted auditor will conduct the audit in accordance with the schedule in the scope of work and provide the results to the Board at the next meeting after the conclusion of the audit and response from the vendor have been rendered.

#### **IV. PREMIUMS AND CONTRIBUTIONS – RATE SETTING PROCESS**

##### **A. INTRODUCTION**

PEBP sponsors both self-insured and fully-insured plans of benefits.

For benefit plans that are self-insured, the Board will annually establish plan contributions based on the recommendation of PEBP's contracted actuaries and sufficient to fund the plan(s) for the forthcoming plan year on an actuarially sound basis. Rates so established will be sufficient to fund anticipated paid claims as well as reserves. These reserves include Incurred but Not Reported (IBNR) claims, Health Reimbursement Arrangement (HRA) fund balances and a Catastrophic reserve.

For benefit plans that are fully insured, the Program will negotiate rates with insurance underwriters for the provision of benefits on the basis of equity to both the underwriters and to the Public Employees' Benefits Self-Insured Plan.

The Authority of the Board to establish rates are contained in NRS Chapter 287 Section 043 subsections 1 and 2 at the following link:

<http://www.leg.state.nv.us/NRS/NRS-287.html#NRS287Sec043>

##### **B. RESERVE POLICY**

PEBP will maintain fully-funded IBNR and Catastrophic Reserves as determined by plan actuaries using the confidence intervals and margins described herein and a fully-funded HRA Reserve based on the total balance remaining in all HRA accounts. Should the Catastrophic Reserve become underfunded or be forecast to be underfunded, the Executive Officer shall notify the Board at the next Board meeting.

The IBNR Reserves will be funded at a 95% confidence level to pay all known incurred claims. The Catastrophic Reserves will be funded at a ~~set 50 days on hand 95% confidence level~~ to meet unknown expenses which do not include IBNR. Both IBNR and Catastrophic Reserve levels will be recommended by PEBP's actuaries. The HRA Reserve will be funded to cover ~~100~~80% of available balances.

Any cash-on-hand in addition to required reserves (IBNR, Catastrophic, and HRA) when the Program closes the fiscal year each year will be identified as "Excess Reserves." Per section 26 of Senate Bill 553 (2019) (the Authorizations Act), "the Public Employees' Benefits Program, including, without limitation, the Board of the Public Employees' Benefits Program, shall not expend or otherwise obligate reserves, either realized or projected, in excess of the amounts authorized in section 1 of this act for purposes of changing the health benefits available to state and nonstate active employees, retirees and covered dependents over the 2019-2021 biennium without approval of the Interim Finance Committee upon the recommendation of the Governor."

#### C. **DEFINITIONS**

As used herein the following terms mean:

1. **Open Enrollment** – The period during which participants in the Program may select among all health benefit programs that are offered by PEBP or eligible individuals not currently enrolled in the Program may enroll for coverage.
2. **Participant Contribution** – The portion of the rate paid by participants.
3. **Plan Design** – The benefits provided to participants of the plan. This includes provider access, out-of-pocket expenses (deductibles, co-payments, and coinsurance), and lines of coverage (medical, dental, vision, life insurance, etc.). Plan design does not refer to the methodology used to determine rates.
4. **Plan Year** – The PEBP benefit plan year as approved by the Board.
5. **Premium** – The cost paid for fully-insured benefits (e.g. health maintenance organization membership, life insurance, etc.) as determined by insurance companies contracted with by PEBP. Premiums are passed-through PEBP to the participants and employers.

6. **Rate** – The total monthly cost of coverage for a participant in a given plan option and tier.
7. **Rating Methodology** – The basis for allocating costs between plan options and participant tiers. This includes the application of claims commingling, coordination of benefits, predictive modeling, trend analysis, etc.
8. **Subsidy (Contribution)** – The amount paid by the employer or from Plan reserves towards the cost of PEBP benefits on behalf of participants. The subsidy is comprised of the following portions:
  - a. **Base Subsidy** – For state employees, the portion of the rate paid by the employer pursuant to NRS 287.044. For retirees not on the Medicare Exchange, the portion of the rate paid by a retiree’s previous employer(s) at 15 years of service pursuant to NRS 287.046.
  - b. **Years of Service (YOS) Subsidy** – The adjustment to the Base Subsidy, for participants who retired on or after January 1, 1994, based on a retiree’s YOS, paid by a retiree’s previous employer(s) pursuant to NRS 287.046 and NRS 287.023(4)(b).
9. **Differential Cash – The difference between revenue and expenditures.**

**D. OVERVIEW OF THE BIENNIAL PROCESSES<sup>1</sup>**

1. **Rate Setting** – Prior to the commencement of each plan year, the Board will establish rates based upon the recommendation of the Agency and PEBP’s contracted actuaries based upon a variety of factors, including, but not limited to-:
  - a. Established plan designs
  - b. Forecast claims costs for self-insured plan(s)
  - c. Forecast premium costs for fully insured plan(s)
  - d. Forecast fixed expenses from plan administrative vendors
  - e. Forecast PEBP internal administrative expenses
  - f. Forecast required adjustments to reserves
  - g. Consideration of material demographic changes
2. **Plan Design** – The Board will identify the priorities for plan design (i.e. options for changes in the plan design). These priorities may include scope of benefits offered by the plan and/or cost sharing

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<sup>1</sup> As written, this process refers to the “normal” planning process for plan years starting July 1<sup>st</sup> and ending June 30<sup>th</sup>.

methodologies between the Program and its participants. To the extent possible, cost estimates are presented at the same time as the plan design option for inclusion in the discussion. The Board can take into consideration all information provided by Program staff and consultants during the year, along with any other sources available to individual Board members.

The Board makes its initial determination regarding plan design changes not later than four to five months prior to Open Enrollment. Composite trend developed by the Plan actuaries is presented to the Board based on the final plan design changes. Final plan design is approved at the rate setting Board meeting to allow for flexibility and an opportunity to adjust rates at that meeting.

PEBP uses the approved plan design changes and rating methodologies to finalize the rates, subsidies, and participant contribution amounts. The final rates are then reviewed and approved by the Board approximately four to eight weeks prior to open enrollment.

3. **Strategic Planning** – The Board will review, revise and approve the program’s Strategic Plan on an annual basis. The Strategic Plan will be the guiding document designed to assist the Board and the Agency develop and maintain a high quality program of benefits at affordable prices. Every effort will be made to review and approve the Strategic Plan prior to the initial annual plan benefit design approval meeting.
4. **Establishing the Legislative Agenda** –Using the strategic plan as a basis, any revisions required to the Nevada Revised Statutes (NRS) to implement the strategic plan will be identified. The Agency will present Bill Draft Request (BDR) recommendations to the Board every even numbered year and develop approved summaries and BDRs in accordance with State mandated schedules. Administrative departments are required to submit non-budgetary Legislative Summaries to the Governor’s office by early April of each even numbered year. Upon approval of the Legislative Summary by the Governor’s office, completed bill draft requests (BDRs) are due by June 1 of each even numbered year. Legislative Summaries and final non-budgetary BDRs will be approved by the Board prior to submission.
5. **Preparing the Biennial Budget Request** – Departments are required to submit their biennial budget requests no later than

September 1 of each even numbered year. Using the strategic plan and the approved allocation methodologies found in Appendix A as a basis, staff preparation of the biennial budget request begins in the spring of each even numbered year. A framework for the budget request will be presented to the Board in late spring or early summer, with final approval required at the July or August Board meeting. Budgetary BDRs will be approved by the Board prior to submission on September 1.

6. **Program Reporting** – Per NRS 287.0425, the Executive Officer shall submit a report regarding the administration and operation of the Program to the Board and the Director of the Office of Finance, and to the Director of the Legislative Counsel Bureau for transmittal to the appropriate committees of the Legislature or, if the Legislature is not in regular session, to the Legislative Commission and the Interim Retirement and Benefits Committee of the Legislature created by NRS 218E.420. Additionally, the Board receives reports on a prescribed schedule to assist in strategic planning, decision-making, and program design. Below is a listing of the sources of information that will be considered by the Board when making all plan design and rate decisions, along with the timeframe of availability for each item. It is important to note that the information is provided to the Board throughout the year and is not limited to the Board meetings when rates are approved.
  - a. Quarterly Vendor Reports – The reports provide utilization activity, participant contacts, provider updates, and other information applicable to each vendor’s relationship with PEBP.
  - b. Self-Insured Plan Utilization Reports – PEBP’s Chief Financial Officer provides a utilization report for the self-funded plan on a quarterly basis. In addition, an annual utilization report is provided within 90 days following each plan year. The utilization report provides the following data for the entire plan:
    - √ Executive summary and trend analysis
    - √ Plan demographics
    - √ Paid claims by benefit
    - √ Medical claims paid for inpatient/outpatient services
    - √ Surplus and loss summaries broken down by state and non-state groups and active employees, non-Medicare retirees and Medicare retirees.
    - √ Costs by tier and age by medical, dental, prescription
    - √ Network utilization and cost sharing



- √ Analysis of medical paid claims by major diagnostic category, large claims and prevalence
  - √ Chronic conditions and wellness
  - √ Analysis of prescription drug utilization
  - c. Disease management and wellness reports are made available to the Board in vendor quarterly reports. In addition, as each of these programs “mature”, they will be analyzed by PEBP and PEBP’s consultant on a cost / benefit basis and the results reported to the Board.
  - d. The results of any participant questionnaire will be reported to the Board as soon as practical upon compilation of the results.
  - d.e. Differential cash will be reported in September to provide the most sound and consistent figures.
7. **Projected Expenses and Rate Calculations** – Any change in methodology for projecting expenses (such as changing from claims trends to a predictive modeling approach) is to be reviewed and approved by the Board during strategic planning and plan design adoption actions. Rate calculations are to be completed by PEBP using the approved framework and rating methodology. The consultant/actuary firm is responsible for ensuring that industry standards are met for quality control and accuracy of the medical, prescription drug, and dental cost components for each plan year. PEBP staff will compare the projected expenses and rate calculations to the proposed budget and recommend any amendments to the proposed budget and/or plan design that are deemed appropriate. The rate methodology for each plan year shall be included in updates to these Duties, Policies and Procedures (see Appendix A).

### **Appendix A - Plan Year Rating Methodology**

Rates are developed first by establishing the plan design. The second step is to project claims costs or premiums for each plan option (e.g. PPO self-funded, HMO, etc.) and participant tier (e.g. single, family, etc.). Finally, PEBP operating costs, administrative costs and reserve adjustments are applied to the various plan options to derive the final rates. Subsidies are applied to the appropriate rate resulting in the participant contribution. Unless otherwise approved by the Board, rates are to be calculated by staff using the following methods.

#### **Plan Design**

- Plan Selection Options (medical, prescription, and vision):
  - √ Preferred Provider Organization (PPO) Consumer Driven Health Plan (CDHP) (Base Plan) – self-funded
  - √ Exclusive Provider Organization (EPO) Premier Plan – self-insured
  - √ Low Deductible Copay plan (LD) – self-insured
  - √ Health Maintenance Organization (HMO) Plans – fully insured
  - √ Individual Market Medicare Exchange (IMME) – fully insured; only for retirees and their dependents who are eligible for premium free Medicare Part A; Medicare retirees who qualify for the exchange are not eligible for any other PEBP coverage (other than dental) unless they cover a dependent who is not eligible for the IMME.
  
- Self-Funded Plan Designs: See Master Plan Documents for details.
  
- Benefits other than medical, prescription, and vision: See Master Plan Documents for details.
  - √ Dental - self-funded; voluntary for IMME retirees, mandatory for all other participants
  - √ Life Insurance - fully insured
  - √ Long Term Disability Insurance (LTD) – fully insured
  - √ Health Savings Account (HSA) – Active employees on the CDHP plan only; some eligibility restrictions apply. Plan contribution to be set by the Board each year; if no Board action, contribution is equal to prior year contribution. Employee contribution is voluntary.
  - √ Health Reimbursement Arrangement (HRA) – Retirees on the CDHP plan or active employees who do not have an HSA. Plan contribution on the CDHP is equal to the HSA contribution. Plan contribution on the Medicare Exchange is based on the retiree's years-of-service. There is no year over year carryover limit for unspent HRA funds in an individual's account. The Board will review the liability associated with unspent HRA funds each year.

## Duties, Policies and Procedures – Appendix A Plan Year Rating Methodology

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- √ Flexible Spending Account (FSA) – IRS section 125 voluntary plan guaranteed by PEBP. For active employees only; employees with an HSA are not eligible for a Medical FSA.
- √ Additional Life Insurance – voluntary; fully insured
- √ Long Term Care – voluntary; fully insured
- √ Short Term Disability – voluntary; fully insured
- √ Homeowners and Automobile Insurance – voluntary; fully insured
- √ Accident/Indemnity – voluntary; fully insured
- √ Legal Support – voluntary, fully insured
- √ Identify Theft Protection – voluntary, fully insured
- √ Buy-Up Vision Insurance – voluntary; fully insured
- √ Pet Insurance – voluntary; fully insured

### **Cost Projections**

- Commingling: Pursuant to NRS 287.043(2) and NRS 287.0434(3)(b), claims experience will be commingled for participants for whom the Program provides primary health insurance coverage in a single risk pool.
- Cost Projection Methodology: Predictive Modeling
  - √ In addition to taking traditional rating methodologies into consideration, such as demographics and claims experience, predictive modeling considers PEBP's actual disease states and medical conditions to add precision to actuarial projections
  - √ Medical diagnosis data is reviewed by certified clinicians, such as PEBP's Actuary's Medical Director and nursing staff.
  - √ PEBP's actuaries will develop rate cards so that there is 50% probability that the developed rates cover plan costs.
- Secondary Insurance Coordination: Standard Coordination of Benefits
  - √ PEBP plan pays the difference between the allowable cost of the health care services and supplies provided to the plan participants less whatever the primary plan paid for them.
  - √ The participant is still responsible for the annual PEBP plan deductible.
- Rate Structure: Separate rates are developed for each of the following groups (NRS 287.043(2)(a) and (b)):
  - √ State active employees and non-IMME retirees
  - √ Non-State active employees and non-IMME retirees
- Participant Tiers of Coverage: Four

- √ Single
- √ Single + Spouse
- √ Single + Child(ren)
- √ Single + Family (Spouse and one or more children)

### **Rate Development**

- PEBP's actuaries and HMO vendors will develop costs in accordance with the plan design approved by the Board and in accordance with the methodologies found in the Cost Projections section above.
- Enrollment projections are based on the average change in enrollment over the past 4 years and assumptions approved by the Executive Officer.
- The following costs, revenues and reserve adjustments will be allocated equally to all active employees and non-IMME retirees:
  - √ Life insurance (per \$1,000 of coverage)
  - √ Long Term Disability (active employees only)
  - √ PEBP operating costs
  - √ Contracted dental network and claims payment administrative fees
  - √ Miscellaneous Revenues (GL 4254)
  - √ Treasurer's Interest (GL 4326)
  - √ Cost of Medicare Part B premium credit (reduction to excess reserves, Category 86)
  - √ Projected credit due to NRS 287.046(4) (increase to excess reserves, Category 86)
  - √ IMME administrative costs for Health Reimbursement Arrangement
  - √ Life Insurance for IMME retirees
- The following costs, revenues and reserve adjustments will be allocated only to CDHP participants:
  - √ Contracted CDHP administrative fees
  - √ HSA/HRA plan contributions
  - √ CDHP Rx Rebates (GL 4218)
  - √ Adjustments to Catastrophic Reserves (Category 85) in accordance with reserve policies.

## Duties, Policies and Procedures – Appendix A Plan Year Rating Methodology

- IMME retirees will not be charged for PEBP operating costs, life insurance costs or HRA administration costs. The following costs will be allocated only to IMME retirees who choose PEBP dental coverage:
  - √ Contracted dental network and claims payment administrative fees
- Reserves
  - √ Catastrophic Reserves will be established at a level necessary to ensure plan solvency over the long term to a set 50 days on hand. at a 95% confidence interval.
  - √ IBNR Reserves will be established at a level to achieve a 95% probability that all incurred claims can be paid.

Participant contributions for HMO/EPO rates are blended between the northern EPO and southern HMO after all of the above adjustments are applied. The blended HMO/EPO rate is based on the average cost of coverage by tier and projected enrollment.

### Subsidy Allocation and Participant Contribution

- Base subsidy allocation
  - √ The employer subsidy percentages will be recommended by the Board to the Governor during the Agency Request phase of the Biennial Budget. The Legislature, through the Senate Finance Committee and Assembly Ways and Means Committee, will approve the final employer contribution percentages for each biennium when approving PEBP's biennial budget.
  - √ Non-State Active Employee: Determined by employer
  - √ Non-State Retiree: Determined by State Retiree amount (NRS 287.023(4)(b)) as set in session law and is based only upon years of service, regardless of plan selection or participant tier.
  - ~~√~~ A single contribution strategy (flat dollar amount) will be applied equally across PEBP plans (CHDP, EPO, LD and HMO).
- Retiree Years of Service (YOS) subsidy adjustment to the base subsidy (NRS 287.046):
  - √ Retirees who retired prior to January 1, 1994: No adjustment.
  - √ Retirees who retired on or after January 1, 1994:
    - For each YOS less than 15, subtract 7.5% of the amount set in session law from the base subsidy.
    - For each YOS greater than 15, add 7.5% of the amount set in session law to the base subsidy (maximum, 20 YOS).
  - √ Retirees who were hired by their last employer on or after January 1, 2010 and who have less than 15 YOS do not receive a YOS or base subsidy.



## Duties, Policies and Procedures – Appendix A Plan Year Rating Methodology

- √ Retirees who were hired by their last employer on or after January 1, 2012 do not receive a YOS or base subsidy.
- Medicare Part B premium credit – Retired primary participants enrolled in the Consumer Driven Health Plan, EPO, LD or HMO plan with Medicare Part B coverage will receive a CDHP, EPO or HMO premium reduction as approved by the Board. In no case shall the premium contribution for an individual be less than zero.

### Health Savings Account (HSA) and Health Reimbursement Arrangement

- HSA and HRA funding for members on the CHDP will be applied in a single amount per employee, regardless of tier.

### Underwriting

- PEBP will underwrite all self-funded plans into one risk pool while continuing to maintain the required state and non-state risk pools.
- PEBP will use the following underwriting guidelines to factor in Administrative load into rates:
  - Use a per participant per month factor for claims
  - Add administrative fees on a per participant per month basis
  - Use one tier for all plans, products, state and non-state
  - Maintain this factor static for the two-year budget cycle (at a minimum)

4.

4. Public Comment

# 5.

## 5. Adjournment