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An Audit Report on

The HealthSelect Contract at the Employees Retirement System

November 2014

Report No. 15-007

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Overall Conclusion

The Employees Retirement System (System) established processes to plan, procure, and form the HealthSelect of Texas third-party administrator (HealthSelect) contract it awarded to United Healthcare Services, Inc. in February 2012. However, those processes did not always ensure compliance with state and System criteria for contracts. The System had weaknesses and inconsistencies in its processes for planning and procuring the HealthSelect contract, including not defining "best value." As a result, it is not possible to determine whether the System selected the contractor that provided the best value to the State.

The System generally managed and monitored the HealthSelect contract to help ensure that the contractor performed according to the terms of the contract. However, until July 2014, the System did not have a process to reconcile its daily reimbursement payments to detailed health care claims, and it should improve the timeliness of its monitoring activities.

The HealthSelect contract with United Healthcare Services, Inc. is valid through the end of fiscal year 2016.¹ The System estimates that administrative fees for the contract term will be \$204.8 million. System health care claims payments under the contract for fiscal year 2013 exceeded \$1.5 billion (see text box for additional background information about the contract).

Contract Management Processes

- **Planning** - Identify contracting objectives and contracting strategy.
- **Procurement** - Fairly and objectively select the most qualified contractor(s).
- **Contract Formation/Rate/Price Establishment** - Ensure that the contract contains provisions that hold the contractor(s) accountable for producing desired results, including all relevant terms and conditions, and establish processes that are cost-effective and aligned with the cost of providing goods and services.
- **Contract Oversight** - Monitor and enforce the terms of the contract.

Source: *State of Texas Contract Management Guide*.

Background Information on the HealthSelect Contract

HealthSelect of Texas (HealthSelect) is a health insurance plan for Employees Retirement System (System) members and their covered family members.

The System began providing health insurance coverage to state employees, retirees, and eligible dependents in 1976. Blue Cross Blue Shield of Texas was the HealthSelect third-party administrator from September 1, 1980, through August 31, 2012.

The System issued a request for proposals for a HealthSelect third-party administrator in June 2011. The System received proposals from Blue Cross Blue Shield of Texas and United Healthcare Services, Inc. The System awarded the third-party administrator contract to United Healthcare Services, Inc. for the administration of the HealthSelect plan starting September 1, 2012.

¹ According to the contract terms, the System can extend the current contract for two additional years (through fiscal year 2018).

Planning. The System established a process for planning and procuring the HealthSelect contract. However, that process did not involve the System's Purchasing Department, and the System did not assign staff who met state training and certification requirements to the planning and procuring of the HealthSelect contract. Additionally, that process did not ensure that the System prepared and maintained all required planning documentation and that the request for proposals (RFP) complied with statutory requirements and System policies.

Procurement. The System's process for evaluating the HealthSelect contractor proposals did not include many of the required or suggested elements in the *State of Texas Contract Management Guide* and did not always follow established System policy. The evaluation process the System established did not:

- Result in a scoring tool with criteria that consistently related to the RFP provided to respondents.
- Provide guidelines to ensure that evaluators were consistent in how they scored the proposals.
- Verify the mathematical accuracy of the evaluation documentation.
- Include a methodology for handling additional evaluation factors not anticipated during planning.

Contract Formation. The HealthSelect contract does not contain all essential contract clauses required by statute and the *State of Texas Contract Management Guide*. While the Office of the Attorney General (Office) reviewed the preliminary HealthSelect contract that the System included in its RFP, the System did not request that the Office review the final HealthSelect contract prior to the signing of the contract. Additionally, the System did not consistently document management approval of contract amendments in accordance with its policies.

Contract Oversight. The System monitored payments to United Healthcare Services, Inc. for administrative fees and established a process to determine whether health care management incentive payments are required. However, the System did not have a process to reconcile its daily reimbursement payments to detailed health care claims. The System performs contract monitoring to ensure that United Healthcare Services, Inc. is providing services in accordance with contract terms; however, the System should strengthen those processes to help ensure that its monitoring is comprehensive and performed in a timely manner.

Auditors communicated other, less significant issues related to the HealthSelect contract procurement separately in writing to the System.

Summary of Management's Response

The System generally agreed with the recommendations in this report. The System's detailed management responses are presented immediately following each set of recommendations in the Detailed Results section of this report.

Summary of Objectives, Scope, and Methodology

The objectives of this audit were to determine whether the System:

- Planned, procured, and established selected contracts for goods and services in accordance with applicable statutes, rules, Office of the Comptroller of Public Accounts (Comptroller's Office) requirements, and state entity policies and procedures to help ensure that the State's interests were protected.
- Managed and monitored selected contracts for goods and services to help ensure that contractors performed according to the terms of the contracts and that contractor billings were valid and supported, in accordance with applicable statutes, rules, Comptroller's Office requirements, and state entity policies and procedures.

The scope of this audit covered the System's HealthSelect contract with United Healthcare Services, Inc. Auditors tested transactions from the implementation of the current contract in September 2012 through February 2014. The audit concentrated on all phases (planning, procurement, contract formation, and contract oversight) of the contracting process for the contract audited.

The audit methodology consisted of collecting and reviewing procurement documentation and contracts; conducting interviews with System staff; reviewing statutes, rules, Comptroller's Office requirements, and System policies and procedures; and performing selected tests and other procedures.

Auditors used expenditure information in the Uniform Statewide Accounting System (USAS) and relied on previous State Auditor's Office audit work on USAS and the System's internal accounting system (PeopleSoft) to determine that data was sufficiently reliable for the purposes of this audit. Additionally, auditors compared contract payments from the PeopleSoft system to USAS. Auditors determined that the PeopleSoft data was sufficiently reliable for the purposes of this audit. Auditors did not perform any additional information technology work at the System.

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Detailed Results

Chapter 1

The System Established a Process for Planning and Forming the HealthSelect Contract; However, That Process Did Not Always Comply with Applicable Statutes and Its Policies

The Employees Retirement System (System) established a process for planning and procuring the HealthSelect of Texas third-party administrator (HealthSelect) contract awarded to United Healthcare Services, Inc. in February 2012. However, that process did not involve the System's Purchasing Department, and the System did not assign staff who met state training and certification requirements to the planning and procuring of the HealthSelect contract. Additionally, that process did not ensure that the System prepared and maintained all required planning documentation and that the request for proposals (RFP) complied with statutory requirements and System policies.

Chapter 1-A

The System Should Ensure That Key Staff Involved in Procurements Meet State Training and Certification Requirements

The System does not have an entity-wide process for contract procurement and oversight. For example, certain divisions within the System are responsible for their own procurements. The System's Benefits Contracts Division is responsible for establishing and overseeing the competitive bid process for state employee and retiree benefits-related procurements. The Benefits Contracts Division established a process for planning and procuring the HealthSelect contract. However, auditors identified weaknesses and inconsistencies in the System's processes for planning, procuring, and monitoring the HealthSelect contract, which resulted in the System not always complying with state statutes, the *State of Texas Contract Management Guide*, and System policies. In addition, the System did not define "best value" for the HealthSelect contract. As a result, it is not possible to determine whether the System selected the contractor that provided the best value to the State.

The System did not include staff from its Purchasing Department in the planning and procuring of the HealthSelect contract, even though the Purchasing Department employs certified Texas procurement managers. According to the *State of Texas Contract Management Guide*, a state agency's purchasing department should review all contracts to help ensure compliance with state purchasing and contracting requirements. In addition, while the System involved employees from throughout the agency in the planning and procurement of the HealthSelect contract, none of those employees met the State's training and certification requirements for individuals responsible for purchasing. Specifically:

- **Procurement Managers.** None of the Benefits Contracts Division employees who planned and procured the HealthSelect contract had a certified Texas procurement manager certification. According to the *State of Texas Procurement Manual*, the certified Texas procurement manager certification is required for individuals to make competitive purchases for amounts that exceed \$100,000.
- **Contract Managers.** The System did not assign a contract manager responsible for monitoring the HealthSelect contract who was a certified Texas contract manager as required by Texas Government Code, Section 2262.053, and the *State of Texas Procurement Manual*. Additionally, the assigned HealthSelect contract manager had not taken any of the State's contract manager training courses.

The System also did not develop and formally adopt procedures for resolving contractor protests as required by Texas Government Code, Section 2155.076. In addition, the System did not include its internal protest policies in the RFP for the HealthSelect contract or otherwise notify respondents how to protest an award when it published the RFP.

Recommendations

The System should:

- Ensure that its Purchasing Department is involved in the planning and procurement of all contracts as required by the *State of Texas Contract Management Guide*.
- Ensure that key employees involved in the planning, procurement, and monitoring of contracts obtain and maintain the training and certifications required by the *State of Texas Contract Management Guide*, the Texas Government Code, and the *State of Texas Procurement Manual*.
- Adopt procedures for resolving contractor protests as required by Texas Government Code, Section 2155.076, and consider including information about its protest process in all RFPs.

Management's Response

ERS agrees. ERS Legal Services Division drafted the HealthSelect of Texas ("HealthSelect" or "Plan") contract and reviewed the Request for Proposal ("RFP") to ensure compliance with applicable state purchasing and contracting requirements. Legal Services staff assigned to the HealthSelect contract and RFP included ERS' General Counsel, licensed attorneys with extensive state procurement and healthcare contracting experience and a paralegal designated as a Certified Texas Contract Manager ("CTCM").

Key employees of the Benefit Contracts Division (“Benefit Contracts”) are involved in the purchase of goods and services related to the Texas Employees Group Benefits Program (“GBP”), including the HealthSelect third party administrator (“TPA”). Certain staff members in this division have completed the Comptroller of Public Accounts (“CPA”) Texas Government Contract Management training portion of the CTCM curriculum and others are enrolled. ERS’ Purchasing Department is part of the project team for procurements and will continue to be included in future contracting activities.

ERS protest procedures are publicly posted on ERS’ website and were available at the time of the RFP and subsequent contract award.

Chapter 1-B

The System Should Enhance Its Planning Documentation for Procurements

The System’s process for planning the HealthSelect contract did not ensure that it prepared and maintained all required planning documentation.

According to the *State of Texas Contract Management Guide*, planning assists agencies in determining need, preparing the statement of work, choosing the appropriate procurement type, publishing the solicitation, conducting negotiations, drafting the contract, and monitoring the contractor. Because those steps are complex, adequate planning may help reduce or eliminate the risk of error.

The System documented its planning for the HealthSelect procurement in a project charter that included some of the planning elements required by the *State of Texas Contract Management Guide*. However, the project charter was focused only on the tasks necessary to procure a contract. According to the *State of Texas Contract Management Guide*, the planning documentation for a contract should address the objectives the contract should achieve and the risks associated with the contract. As a result, the planning elements in the project charter were incomplete. For example:

- The stakeholders identified in the project charter did not include the HealthSelect plan membership.
- The project charter did not clearly define what the System intended the selected contractor to accomplish. Clear definitions of the purpose of the contract can assist the contracting team in developing the statement of work, solicitation, negotiation and contracting documents, and in verifying the performance of a contractor.

Additionally, the System did not always maintain documentation showing that it complied with the *State of Texas Contract Management Guide* or the System’s policies when planning the HealthSelect procurement. For example:

- The System did not maintain documentation showing that it performed procurement research or reviewed lessons learned from prior contracts as required by the *State of Texas Contract Management Guide*.
- The System did not document a communications plan for the HealthSelect procurement as required by the *State of Texas Contract Management Guide* and System policies to manage internal and external communication with stakeholders and respondents.

The System also did not consult with the State's Contract Advisory Team in its planning and procurement of the HealthSelect contract as required by Texas Government Code, Section 2262.101. The Contract Advisory Team was created to assist state agencies in improving contract management practices by reviewing the solicitation of the State's major contracts.

Recommendations

The System should:

- Strengthen its planning process for procurements to help ensure that its planning activities, including risk and stakeholder identification and needs assessment, are complete.
- Perform and maintain adequate documentation of the procurement planning activities required by the *State of Texas Contract Management Guide* and System policies.
- Comply with Texas Government Code requirements related to consulting the Contract Advisory Team when planning major contracts.

Management's Response

ERS will continue to improve its documentation of planning activities as part of the Project Charter. ERS historically has used the RFP drafts to serve as culminations of planning that resulted from discussions with subject matter experts, industry consultants and lessons learned from prior procurements and contract administration.

Although the project charter did not explicitly include HealthSelect plan membership as a stakeholder group, or define contract management objectives, ERS did consider these factors during the planning process. ERS has procured services and managed GBP healthcare contracts for more than 30 years and takes customer engagement very seriously. ERS regularly solicits input and monitors customer service provided to GBP participants through a wide variety of touch points, including:

- *Conducting member surveys by ERS and the TPA. An ERS benefits design survey in 2010 achieved 45,000 responses (a 26 percent response rate),*
- *Holding multiple briefings and presentations for key stakeholder groups,*
- *Hosting approximately 230 benefits fairs and educational events annually throughout the state,*
- *Having conversations with participants in phone calls that number approximately 470,000 each year,*
- *Working with Benefit Coordinators at each state agency who also work with participants regarding benefits, and*
- *Hosting “Ask ERS,” a monthly webcast that gives members, retirees, and employers the opportunity to ask questions about benefits and have them answered immediately by ERS staff members.*

ERS will evaluate how to best utilize the Contract Advisory team while continuing to consult with external healthcare actuaries, subject matter experts and attorneys who have many years of healthcare experience in both the public and private sectors and are particularly knowledgeable in standard industry practices for healthcare bid solicitations and healthcare contracting.

Chapter 1-C

The System Should Improve Its Process to Ensure That Its RFPs Comply with State Statutes and System Policies

The System used a request for proposals (RFP) process to solicit contractors for the HealthSelect procurement (see text box for information about the RFP process). However, the System should improve its process for developing RFPs to ensure compliance with state contracting requirements and System procurement policies. Specifically:

- The RFP for the HealthSelect procurement did not explain how the System would evaluate proposals or assess best value. Additionally, the RFP and System policies did not contain a definition of best value or how best value should be determined. According to Texas Government Code, Section 2155.074, each state agency must purchase goods and services that provide the best value for the State.

Request for Proposals

The request for proposals (RFP) method of procurement is used when competitive sealed bidding is not practicable or advantageous. Generally, that is when factors other than process are to be considered or when objective criteria cannot be defined. One of the key differences between an invitation for bids and a RFP is that negotiations are allowed in a RFP.

Source: *State of Texas Contract Management Guide*, Version 1.9.

- The RFP for the HealthSelect procurement did not meet all of the requirements of the *State of Texas Contract Management Guide*, the *State of Texas Procurement Manual*, and System policies. For example, the RFP for the HealthSelect procurement:
 - ♦ Did not define or explain some of the listed evaluation criteria. For example, criteria listed included “Administrative Capabilities” and “Other factors, as determined during the evaluation review process.” According to the *State of Texas Procurement Manual*, criteria must have objective definitions and identified measures. In addition, the *State of Texas Contract Management Guide* requires evaluation criteria to reflect only those requirements specified in the solicitation document, such as an RFP. (See Appendix 2 for more information about the evaluation criteria in the RFP.)
 - ♦ Did not include evaluation weightings for each criterion and did not indicate which criteria would be most significant in the evaluation process. The *State of Texas Contract Management Guide* and System policies require solicitation documentation to include the weight assigned to each evaluation criterion.

Recommendations

The System should:

- Develop and implement a policy defining best value and how best value will be determined and considered for each procurement.
- Strengthen its controls to ensure that all criteria in its RFPs are complete, defined, explained, and include the associated evaluation weights as required by the *State of Texas Contract Management Guide* and System policies.

Management’s Response

ERS will continue to identify opportunities to strengthen its RFP processes and will more clearly reconcile the best value considerations laid out in the Contract Management Guide (“Guide”) with the specific provisions under Texas Insurance Code § 1551.212. These provisions include administering the Plan in the best interest of GBP participants, while considering the “bidder’s ability to service large group programs and their past experience.”

The System Should Improve Its Contract Formation and Amendment Processes

The System's process for forming and amending the HealthSelect contract did not ensure that the System complied with all state requirements and System policies (see text box for more information about the System's contracting process). For example, the HealthSelect contract did not contain 3 (16 percent) of the 19 required essential clauses in the *State of Texas Contract Management Guide*. Those missing clauses included:

- **A force majeure clause**, as required by the *State of Texas Contract Management Guide*.
- **A buy Texas clause**, as required by Texas Government Code, Section 2155.4441, and the *State of Texas Contract Management Guide*.
- **A dispute resolution clause**, as required by Texas Government Code, Section 2260.004, and the *State of Texas Contract Management Guide*.

The System's Contracting Process for Benefits Contracts

The solicitation for benefits contracts includes the RFP and contractual agreement. The System's Benefits Contracts Division, actuary (if appropriate), and Legal Services Department review the solicitations. After those reviews, solicitations with a value of \$250 million or more are sent to the Office of the Attorney General for review.

The Benefits Contracts Division published the HealthSelect RFP on a server that required potential bidders to register for access before viewing it.

The bid responses are evaluated. If a bid response does not fully answer a bid question or requires clarification, the System sends the contractor a clarification letter. All clarification letters and responses are placed into a continuous clarification document, which is entered as an exhibit to the contractual agreement.

Source: System Benefits Contracts Division policies and procedures.

Additionally, while the Office of the Attorney General (Office) reviewed the preliminary HealthSelect contract that the System included in its RFP, the System did not request that the Office review the final HealthSelect contract prior to the signing of the contract. The final contract included contract changes made through the System's clarification and negotiation processes, which may have altered the contract's substance. Texas Government Code, Section 811.009, requires the Office to review any contract whose value is \$250 million or more and is related to medical or health care services, coverage, or benefits before the System enters into that contract. Not submitting the final contract to the Office for review creates a risk that the HealthSelect contract may not comply with all statutory and other requirements.

The System's executive director approved all five amendments to the HealthSelect contract that were executed between February 2012 and February 2014. However, the System did not have documentation showing that its Benefits Contracts Division requested those amendments, nor did it have documented approvals for three of the amendments from the director of the Benefits Contracts Division in accordance with System policy.

Recommendations

The System should:

- Ensure that it includes all required essential contract clauses in its contracts in accordance with state statute and the *State of Texas Contract Management Guide*.
- Ensure that the Office of Attorney General reviews a final contract before the System executes that contract as required by Texas Government Code.
- Maintain documentation of the System's approvals of contract amendments in accordance with System policies.

Management's Response

ERS contracts have proven to be effective. Protections included in ERS' contracts exceed the Guide's specifications and include such terms as liquidated damages, extensive participant confidentiality protections and vendor conflict of interest provisions. Legal staff will continue to use the Guide to assist with contract formation while consulting with Benefit Contracts and other subject matter experts to evaluate the unique contract risks and exposures to the GBP, plan participants and the State to ensure that contracts specify appropriate legal protections. For those clauses specifically mentioned in this report as missing, ERS' legal staff believes ERS contract provisions provide better protection to the GBP, Plan participants and the State. For example, the HealthSelect contract includes disaster recovery and business continuity provisions requiring the HealthSelect TPA to return to full operational status for key deliverables within twenty-four hours after any business interruption, including a natural disaster. In contrast, the Guide's "force majeure" provision allows a vendor to forego contract performance if a vendor determines that it will not be able to perform its required contract obligations due to certain emergencies. ERS believes this is an unacceptable risk for the HealthSelect contract.

ERS submitted the preliminary RFP and contract to the Office of Attorney General ("OAG") for its review. The OAG had no comments or recommendations. Bidders had no contract deviations and both returned an executed contract with their original bids. Although clarifications were made to provide additional detail of business processes, ERS Legal staff concluded the clarifications did not alter the substance of the contract that was approved by the OAG. As such, ERS determined OAG's original review addressed any risk that the HealthSelect contract might not comply with all applicable statutory and other state requirements.

ERS will maintain contract amendments in accordance with ERS policy.

The System Established a Process to Evaluate the HealthSelect Proposals; However, It Should Enhance That Process

The System established a process to evaluate the HealthSelect contractor proposals. However, that process did not include many of the required or suggested elements in the *State of Texas Contract Management Guide* and did not always follow established System policy.

The evaluation process the System established did not (1) result in a scoring tool with criteria that consistently related to the RFP provided to respondents, (2) provide guidelines to ensure that evaluators were consistent in how they scored the proposals, (3) verify the mathematical accuracy of the evaluation documentation, and (4) include a methodology for handling additional evaluation factors not anticipated during planning.

The System received and evaluated two proposals. Fourteen different System staff, with assistance from System-hired consultants, evaluated the proposals using scoring tools that the System developed. Evaluators recorded their scores on individual scoring summaries, which the System then carried forward to an overall summary scoring tool for each proposal.

The System Should Improve Its Process for Developing Scoring Tools

The System's process for developing a scoring tool for the HealthSelect contract proposals had weaknesses. The scoring tool contained 5 overall sections and a total of 18 criteria (see Appendix 2 for a copy of the scoring tool). However, the scoring tool the System developed was not consistent with the RFP provided to respondents.

For example, 4 of the 23 minimum and preferred criteria listed in the RFP were not carried forward to the scoring tool. More than half of the criteria in the scoring tool could not be tied directly to criteria included in the RFP. The *State of Texas Contract Management Guide* and System policies state that criteria not included in the RFP may not be used in the selection or ranking of proposals.

Consistency between criteria listed in RFPs and in scoring tools and clear criteria definitions help ensure fairness and consistency in the proposal evaluation and contractor selection processes.

Additionally, the System did not maintain documentation showing that System management finalized and approved the scoring tool for the HealthSelect contract prior to opening the proposal responses. The *State of Texas Contract Management Guide* and System policies recommend the scoring tool be completed prior to publishing the RFP because, when developing the scoring tool, agencies may see that the RFP may need additions or revisions. If time does not permit the scoring tool to be completed

prior to publication of the RFP, the scoring tool must be completed prior to the opening and review of the proposal responses.

Recommendations

The System should:

- Improve its process for developing scoring tools to help ensure consistency between the criteria included in solicitation documents, such as RFPs, and those included in scoring tools.
- Ensure that all criteria used to evaluate respondent proposals are included in the related RFPs and scoring tools as required by the *State of Texas Contract Management Guide*.
- Approve all scoring tools prior to publishing the solicitation document or, at a minimum, prior to the opening and review of proposal responses.

Management's Response

ERS has updated its scoring tool and related procedures and will clarify the connection between the criteria listed in the RFP and in the scoring tool. ERS has developed a formal management approval form to be retained with the RFP development documentation.

Chapter 2-B

The System Should Establish Processes and Guidelines to Ensure That Evaluators Are Consistent in Their Use of the Scoring Tool

The System did not establish processes and guidelines that ensured consistent evaluation of the HealthSelect proposals. Auditors identified several weaknesses in the System's development and use of the scoring tools that limited the accuracy and consistency of the System's process for evaluating the submitted proposals.

The System should improve the documentation of its evaluation processes.

The System did not clearly document (1) the evaluation team's duties and responsibilities, (2) the evaluation criteria and how the evaluation would be conducted, and (3) the decision-making method for the evaluation of proposals and contractor selection. Having such documentation would help the System to ensure that it evaluates proposals consistently. The *State of Texas Contract Management Guide* recommends that an agency develop an evaluation guide for each procurement.

The System did not establish a process to review the scoring results for accuracy and to help ensure that all evaluators were consistent in how they scored the proposals.

The System did not establish a process for evaluating the two HealthSelect proposals to ensure that (1) each proposal was evaluated by the same number of evaluators, (2) evaluators scored each criterion and all detailed evaluable items for both proposals, and (3) it maintained documentation of the evaluable items for each criterion. For example:

- For each of three criteria, only one evaluator was provided the opportunity to submit a score. Those three criteria accounted for 43.5 percent of the total criteria weight. The *State of Texas Contract Management Guide* requires that the evaluation team include not fewer than three members.
- Evaluators providing scores were not always identified. As discussed above, three criteria each received only one score. The System asserted that two of those scores were assigned jointly by two System staff members with the assistance of an outside consultant. However, the scoring summaries did not identify the evaluator for those scores. In addition, evaluators for the Legal Services Department were not identified; therefore, auditors were unable to determine whether (1) one or multiple employees participated in the evaluation and (2) whether the same employees evaluated both proposals.
- One proposal received 77 individual scores, while the other proposal received only 74 individual scores.
- Scores for each criterion were carried forward to that proposal's summary score and given the same weight in the overall scoring process, even when those criterion scores were incomplete. Fifty-one (66 percent) of the 77 individual scores for one proposal and 46 (62 percent) of the 74 individual scores for the other proposal did not include scores for all of the detailed evaluable items.
- For three criteria on the scoring tool, representing 55 percent of the total evaluation weight, the System did not have detailed scoring tools or other supporting documentation to show what factors the evaluators considered in the scoring of the proposals.

The System also did not have a process to validate the mathematical accuracy of evaluation documents or resolve discrepancies among evaluators. For example, the evaluation scoring summaries for both proposals contained mathematical errors that affected the overall scores. Additionally, the summary scoring tools for both proposals contained mathematical errors that affected the final scores for some criteria. Overall, the mathematical errors overstated the overall score for one proposal by 9 percent and the overall score for the other proposal by 13 percent.

To reduce the likelihood of accuracy and consistency issues in the evaluation scoring process, the *State of Texas Contract Management Guide* recommends that the evaluation team leader total the individual evaluator score sheets and verify the accuracy of calculations for input into the summary scoring tool.

Additionally, the System did not have a process for addressing discrepancies among evaluator scores. For example, for the “references” criterion, the scores for one proposal were notably different among the evaluators; however, the System did not have procedures for addressing discrepancies among evaluator scores. The *State of Texas Contract Management Guide* states that if one or more evaluators’ scores differ significantly from the majority, the evaluation team should meet to discuss the situation to help ensure that the criteria was clear to all evaluators and that information was not overlooked.

Recommendations

The System should:

- Develop and approve an evaluation guide for each of its procurements that identifies the size and composition of the evaluation team, the detailed scoring matrix and criteria definitions, and the decision-making structure for the evaluation of responses and award of any resulting contracts.
- Establish processes to help ensure that all scores on its evaluation scoring tools are adequately supported, consistently completed, and mathematically accurate, and that a sufficient and consistent number of evaluators scores each criterion.
- Develop and implement a process for addressing significant discrepancies among evaluator scores.

Management’s Response

ERS agrees and has updated its training, processes and guidelines to ensure consistent utilization of the scoring tool by scorers. It is important to note the issues identified within the scoring tool did not affect the outcome of the overall evaluation and selection.

The System Obtained Additional Information and Performed Analysis as Part of Its Evaluation; However, It Should Improve Its Process to Describe How It Used That Information

The System obtained and analyzed additional information as part of its process to evaluate the HealthSelect proposals, including reviewing HealthSelect claims pricing information, holding face-to-face interviews and site-visits with the respondents, engaging outside consultants and actuaries to provide analysis, participating in an extensive clarification process with both respondents, and preparing a final decision document to present its contractor recommendation to the System's board of trustees. However, the System's policies and procedures did not describe all aspects of its scoring and evaluation process.

For example, the System's policies and procedures did not describe how the System should incorporate information gained through site visits, interviews, and its analysis into the scoring tool or its final decision document. System policies also do not describe how it should incorporate the scoring tool results into the final decision document. Therefore, auditors were unable to determine how the System's evaluation information and analysis was to be incorporated into its contractor selection decision and whether that process was accurate and complete for the HealthSelect contract.

Additionally, the System required both respondents to re-price a set of prior-year HealthSelect claims to compare provider discounts available. However, the System's process to evaluate the potential cost of health care claims should be improved. For example:

- One respondent used estimates of provider discounts to re-price those claims without the System performing any validation of that information. The other respondent used actual claims information.
- The System did not attempt to resolve discrepancies between information the respondents provided and differing information provided by its consultants.

The System's analysis was not always complete or documented. For example:

- The final decision document that the System provided to its board of trustees included a list of service issues the System had experienced with one respondent. The System did not attempt to obtain equivalent service-related information about the other respondent.
- The System concluded that one respondent had more experience with innovative cost-management programs than the other respondent. However, the System was unable to provide any documentation regarding the basis for that conclusion.

Recommendations

The System should:

- Update its policies and procedures to describe all aspects of the evaluation process and how information such as site visits, interviews, and financial analysis should be incorporated into the evaluation scoring tools and final decision document.
- Maintain documentation for all of its proposal evaluation analysis and enhance its evaluation process to help ensure the completeness and accuracy of its analysis.

Management's Response

ERS staff will continue to work to improve the clarity of its evaluation scoring tools, including clarifying the connection between the Insurance Code requirements, criteria listed in the RFP and the scoring tool. While criteria and scoring regarding site visits, face-to-face interviews and financial analysis were included in the scoring tool, ERS' documentation could have been clearer on how these results were related.

ERS will continue to improve its process to update scores based on new information received throughout the procurement process from bidder interviews, site visits, and ERS' outside consulting actuaries. Specifically, ERS will document how information was obtained and considered particularly when information is obtained through ERS' own prior experience with bidders and available data. ERS will also continue to improve its documentation of additional procedures performed to confirm the accuracy of submitted information when no prior experience or data is available.

Chapter 2-D

The System Should Develop a Process to Address Additional Factors It Identifies During Its Proposal Evaluations and Negotiations

The System did not have a formal process for handling additional factors not anticipated during planning that it later concludes are relevant to its determination of which proposal provides the best value to the State. Lack of an established process for whether and how the System should consider additional factors relevant to the evaluation process increases the risk that such factors will be handled inconsistently or in a manner that does not achieve the best value for the State.

According to the final decision document for the HealthSelect contract, the System considered additional factors in its contractor selection that were not included as criteria in the RFP and/or the scoring tool.

For example:

- During the proposal negotiation process, which occurs after the proposals are evaluated, one respondent proposed a significant deviation from the “risk sharing corridor” term (see text box) that the System had included in the RFP. The System identified that proposed change to the risk sharing corridor term as a contributing factor in its selection decision. The risk sharing corridor was not included as an evaluation criterion in the RFP or the evaluation scoring tool.
- In its final decision document, the System asserted that approximately 10,000 HealthSelect members would be required to select a new primary care physician under a new contractor and that this was a factor in the System’s contractor selection process.
- In its final decision document, the System stated that a change in contractors would result in approximately \$10 million annually in additional member costs due to the loss of the current contractor’s provider arrangements.

Risk Sharing Corridor

To help minimize the risks of higher-than-expected health care costs, the System includes a “risk sharing corridor” in its health care third-party administrative contracts.

In the RFP for the contract audited, the corridor was stated as 95 percent to 105 percent. That means that if costs are lower than 95 percent of the target costs, the contractor receives a bonus. If the costs are higher than 105 percent, the contractor pays a penalty.

When developing its process for handling additional evaluation factors, the System should consider requiring that it simultaneously notify all respondents of the additional factors it will consider in its proposal evaluation. Such a requirement will help ensure that all respondents are notified of changes in the evaluation methodology and have the opportunity to update their best and final offers accordingly. Texas Government Code, Section 2155.075, states that an agency may concurrently notify each respondent of any additional factors the agency will consider in determining which proposal offers the best value for the State if the agency determines after opening the proposals that additional factors not included in the RFP are relevant to the determination of best value.

Recommendation

The System should establish a formal process for handling evaluation factors that the System considers relevant to its recommendation for awarding a contract but were not included in its RFP and/or anticipated during planning for the contract.

Management's Response

As ERS continues to improve documentation of its existing process for handling additional information received during the evaluation process, disclosure of this information will continue to be made to the ERS Executive Office and ERS Board of Trustees for their consideration. This information was included in the final decision document that the Board of Trustees considered prior to the final decision on the contract award.

The System Has Established Processes to Monitor the HealthSelect Contract; However, It Should Improve the Timeliness of Its Monitoring Activities

The System monitored payments to United Healthcare Services, Inc. for administrative fees and established a process to determine whether health care management incentive payments are required. The System paid the monthly administrative fee vouchers in a timely manner and in accordance with contract terms for all four vouchers tested. Additionally, the System verified

Payment Types and Frequency

Claims: United Healthcare Services, Inc. processes member health care claims on a daily basis and makes payments to care providers.

Reimbursement Payments: The System reimburses United Healthcare Services, Inc. on a daily basis as provider payments clear United Healthcare Services, Inc.'s bank.

Administrative Fees: The System pays United Healthcare Services, Inc. a monthly administrative fee based on the contractual rate and the number of plan members for that month.

Healthcare Management Incentive: The System determines annually if it is required to pay United Healthcare Services, Inc. a bonus or assess a penalty based on the health care costs in relation to the risk sharing corridor. See Chapter 2-D for more information on the risk sharing corridor.

Claims Reimbursement Payment Process

United HealthCare Services, Inc. sends the System daily emails containing the invoice amounts. The System's General Accounting Department enters a voucher for the invoiced amounts in its internal accounting system, PeopleSoft. The voucher is routed to the System's Benefits Contracts Division for certification and then to the Finance Division for approval.

The System's Investment Accounting Department prepares the wire transfer for the daily claims payment. The System's assistant director of finance and another authorized individual approve the wire transfer before the Investment Accounting Department notifies the custodian bank of the payment authorization and directives.

The System's General Accounting Department enters the voucher in the State's Uniform Statewide Accounting System.

that the health care management incentive formula complied with contract requirements and guidelines, performed procedures to verify the actual claims costs and other pertinent information included in the calculation, and determined whether the System should pay a bonus or assess a penalty to United Healthcare Services, Inc.

However, the System did not have a process to reconcile its daily reimbursement payments to United Healthcare Services, Inc. to detailed health care claims. In addition, daily reimbursement payments related to the United Healthcare Services, Inc. contract are not publicly transparent.

The System performs contract monitoring to ensure that United Healthcare is providing services in accordance with contract terms; however, the System should strengthen those processes to help ensure that (1) its monitoring is comprehensive and conducted in a timely manner and (2) it monitors contract requirements and it processes changes to those requirements in accordance with the *State of Texas Contract Management Guide*. It should also strengthen its monitoring of separate HealthSelect-related contracts that the System and United Healthcare Services, Inc. have with other providers. For example, the System has a separate contract with a laboratory provider that, although related to the HealthSelect plan, is not part of the HealthSelect contract with United Healthcare Services, Inc.

Chapter 3-A

The System Did Not Have a Process to Reconcile Reimbursement Payments to Detailed Claims Data

From the implementation of the HealthSelect contract in September 2012 through June 2014, the System did not have a process to reconcile its daily reimbursement payments to the contractor with the contractor's detailed processed health care claims data. Such reconciliations are important to identify duplicate claim payments and other errors. The System and United Healthcare Services Inc. implemented a payment methodology (see text box) under which

the System receives daily invoices for claims reimbursements and monthly claims data based on the claims processed. However, that data was not related to each other and could not be reconciled to verify that the claims reimbursement payments were based on actual claims processed.

According to the *State of Texas Contract Management Guide*, invoices should be reviewed to ensure that the contractor is billing only for goods or services an agency received. Not having the ability to verify claims reimbursement payments creates a risk that the System paid for invalid or duplicate billings.

In addition, under the payment methodology, the System makes claim reimbursement payments to United Healthcare Services, Inc. through the System's custodian bank. As a result, the payments related to the HealthSelect contract are not readily identifiable and transparent to the public. For example, the payments are not presented on the Office of the Comptroller of Public Accounts' Texas Transparency Web site as payments to United Healthcare Services, Inc.

Starting in July 2014, the contractor provided additional information in its monthly claims data to allow the System to match claims the contractor processed to the payments the System makes to the contractor. As of August 2014, the System had reconciled the claims processed from the inception of the contract, September 2012, through August 2013.

The System paid all 30 daily claims reimbursement vouchers to United Healthcare Services, Inc. tested in a timely manner and for the invoiced amount. The System generally approved those daily claim reimbursement vouchers in accordance with its policy.

Recommendation

The System should ensure that it approves and processes all claims reimbursement payments in accordance with its policies and should consider modifying its process for recording reimbursement payments to make them transparent to the public.

Management's Response

All claims processed from the inception of the contract, September 2012 through May 2014, have been reconciled, and will continue to be reconciled every quarter.

ERS enters the payment information into the State's accounting systems, and ERS is working with the CPA staff to ensure claim reimbursement payments are transparent on the CPA's website.

The System Monitors the Contractor's Performance; However, It Should Improve the Timeliness and Effectiveness of Its Monitoring Process

The System performs contract monitoring to ensure that United Healthcare Services, Inc. is providing services in accordance with contract terms. In addition, the System established a formal process to follow up on contractor noncompliance with contract requirements, which includes bringing the contractor back in compliance with the contract.

Agreed-upon Procedures

An agreed-upon procedures engagement is one in which a practitioner is engaged by a client to issue a report of findings based on specific procedures performed on subject matter.

Source: American Institute of Certified Public Accountants Attestation Standards, Section 201.

The System does not review the accuracy of claims that United Healthcare Services, Inc. processes; however, the System hired an external auditor to perform an agreed-upon procedures engagement annually related to United Healthcare Services, Inc.'s claims accuracy, timeliness, and operational effectiveness (see text box for more information about an agreed-upon procedures engagement). Auditors noted the following weaknesses in that agreed-upon procedures engagement:

- The System relies on its external auditor to test samples of United Healthcare Services, Inc. claims for accuracy. However, the first agreed-upon procedures engagement on United Healthcare Services, Inc. claims was scheduled to be completed in August 2014, two fiscal years after the System's transition to its new contractor.
- The System did not update the scope of work for its agreed-upon procedures engagement to include additional risks associated with implementing a contract with a new vendor.
- The System relies on the external auditor to review the results of United Healthcare Services, Inc.'s internal control audit; however, for fiscal year 2013, the System was not scheduled to receive the agreed-upon procedures engagement report until nine months after United Healthcare Services, Inc.'s most recent report over internal controls was issued.

Additionally, the System relies on United Healthcare Services, Inc. to monitor separate HealthSelect-related contracts that it and United Healthcare Services, Inc. have with other providers. However, the System does not perform any tasks to ensure that United Healthcare Services, Inc. is monitoring those contracts. Lack of monitoring increases the risk that noncompliance with contract terms will not be detected and corrected in a timely manner.

The System uses spreadsheets to track that United Healthcare Services, Inc. submits the required deliverables and meets performance metrics identified in the contract. However, the System should strengthen its monitoring of contract deliverables and performance metrics. Specifically:

- The System does not track 3 (10 percent) of the contract's 30 performance guarantees through its monitoring tools. Those three performance guarantees are related to the availability of information to plan members. The System received the deliverables related to those three performance guarantees as required; however, omitting them from its monitoring tools increases the risk that the System will not identify when United Healthcare Services, Inc. is noncompliant with the contract terms.
- The System did not revise one performance guarantee through a contract amendment as required by the *State of Texas Contract Management Guide*. The System and United Healthcare Services, Inc. informally agreed to cancel that performance guarantee during contract implementation.

Recommendations

The System should:

- Ensure that health care claims accuracy and the results of internal control audits of the contractor are reviewed in a timely manner.
- Ensure that it updates the scope of work for its external agreed-upon procedures engagements to address current risks associated with the HealthSelect contract.
- Adequately monitor its other HealthSelect-related provider contracts.
- Include all contract deliverables in its monitoring tools.
- Process all performance guarantee changes through contract amendments.

Management's Response

ERS uses a multi-faceted approach for oversight of the TPA's performance. This includes ongoing oversight and interaction between the TPA and ERS' internal contract managers and contracts with an independent audit firm to annually review the TPA's claim processing functions and its adherence to the contractual terms. As we review the scope of work of these independent audits, through a pre-audit conference, ERS will determine agreed upon procedures based on risk and have the auditor focus on these risks and other issues, which may have risen since the last audit.

ERS will continue to improve on documentation of its internal monitoring procedures, and Benefit Contracts will work with Legal staff to ensure that agreed upon changes in the performance guarantees are documented through the contract amendment process.

Appendices

Appendix 1

Objectives, Scope, and Methodology

Objectives

The objectives of this audit were to determine whether the Employees Retirement System (System):

- Planned, procured, and established selected contracts for goods and services in accordance with applicable statutes, rules, Office of the Comptroller of Public Accounts (Comptroller's Office) requirements, and state entity policies and procedures to help ensure that the State's interests were protected.
- Managed and monitored selected contracts for goods and services to help ensure that contractors performed according to the terms of the contracts and that contractor billings were valid and supported, in accordance with applicable statutes, rules, Comptroller's Office requirements, and state entity policies and procedures.

Scope

The scope of this audit covered the System's HealthSelect of Texas third-party administrator (HealthSelect) contract with United Healthcare Services, Inc. Auditors tested transactions from the implementation of the current contract in September 2012 through February 2014. The audit concentrated on all phases (planning, procurement, contract formation, and contract oversight) of the contracting process for the contract audited.

Methodology

The audit methodology consisted of collecting and reviewing procurement documentation and contracts; conducting interviews with System staff; reviewing statutes, rules, Comptroller's Office requirements, and System policies and procedures; and performing selected tests and other procedures.

The selection methodology for the contract audited was based on total expenditures under the contract, type of contract, and the relationship of the contract to the System's core services.

Data Reliability and Completeness

Auditors used expenditure information in the Uniform Statewide Accounting System (USAS) and relied on previous State Auditor's Office audit work on USAS and the System's internal accounting system (PeopleSoft) to determine that data was sufficiently reliable for the purposes of this audit. Additionally, auditors compared contract payments from the PeopleSoft system to USAS.

Auditors determined that the PeopleSoft data was sufficiently reliable for the purposes of this audit. Auditors did not perform any additional information technology work at the System.

Sampling Methodology

To test the System's payment of contractor invoices for the HealthSelect contract, auditors selected a nonstatistical sample of payments primarily through random selection. For those cases, results may be extrapolated to the population, but the accuracy of the extrapolation cannot be measured. In one instance, auditors used professional judgment to select a specific item for testing. That sample item may not be representative of the population and, therefore, it would not be appropriate to extrapolate those results to the population.

To test contractor deliverables, auditors used professional judgment to select a risk-based sample of contract requirements related to deliverables for testing. The sampled requirements were not representative of the population and, therefore, it would not be appropriate to extrapolate those test results to the population.

Information collected and reviewed included the following:

- HealthSelect contract and associated amendments.
- System policies and procedures.
- System solicitation and bid documentation, evaluation criteria and documentation, and related supporting documentation.
- System procurement files, including planning documentation, approvals, and other supporting documentation.
- System personnel training and certification records and nondisclosure and conflict of interest forms.
- Spreadsheets, deliverables, and external audit information the System used to monitor the contractor.
- System contract expenditure data from PeopleSoft and USAS, including supporting documentation.
- System board of trustees documents.
- System internal audit reports.
- Emails and other documentation that supported information provided by System employees during interviews.

Procedures and tests conducted included the following:

- Interviewed employees at the System and the System's external consulting actuaries.
- Tested whether System staff involved in the planning, procurement, and monitoring of the HealthSelect contract met the training and certification requirements outlined in the *State of Texas Procurement Manual*.
- Tested whether the System followed applicable requirements in the *State of Texas Contract Management Guide* when it planned the HealthSelect contract.
- Reviewed applicable nondisclosure forms.
- Tested whether the System properly documented bid evaluation criteria and evaluation scores, and tested the System's scoring of bids to determine whether all evaluators completed the same scoring matrix and ensured mathematical accuracy.
- Tested criteria the System used to evaluate vendor proposals to determine whether it followed applicable requirements in the Texas Government Code.
- Reviewed the HealthSelect contract to determine whether it contained the payment methodology and essential contract terms listed in the *State of Texas Contract Management Guide*.
- Reviewed the HealthSelect contract and its amendments for appropriate authorizations and adherence to System policies.
- Tested samples of payments for appropriate documentation, required approvals, and timely payment.
- Reviewed contract monitoring tools and tested samples of contract requirements to review the System's monitoring process for the contract audited.
- Reviewed the contractor's report on the American Institute of Certified Public Accountant's Statements on Standards for Attestation Engagements No. 16 to verify whether automated controls at the contractor were appropriately designed and operating effectively.

Criteria used included the following:

- Texas Government Code, Chapters 322, 572, 811, 2155-2157, 2161, 2251, 2252, 2261, and 2262.
- Texas Insurance Code, Chapter 1551.

- Title 34, Texas Administrative Code, Chapter 20.
- *State of Texas Contract Management Guide*, version 1.9.
- *State of Texas Procurement Manual* (version released in 2012 and version in effect prior to 2012).
- System policies and procedures.

Project Information

Audit fieldwork was conducted from March 2014 through July 2014. 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. An immediate family member of the State Auditor is registered with the State Ethics Commission as a government relations employee of a firm that conducts lobby efforts on behalf of a contractor included in the scope of this audit.² This condition could be seen as potentially affecting our independence in reporting results related to this agency. However, we proceeded with this audit as set forth by the annual state audit plan, operated under the Legislative Audit Committee. The State Auditor recused himself from this audit, and the audit was supervised, reviewed, and approved by Chief of Staff Anita J. D'Souza. This condition did not affect our audit conclusions.

The following members of the State Auditor's staff performed the audit:

- Kristin Alexander, CIA, CFE (Project Manager)
- Jeannette Quiñonez, CPA (Assistant Project Manager)
- Arnton Gray
- Rachel Lynne Goldman, CPA
- Darcy Hampton, MACy
- Scott Weingarten, CGAP
- Michael Yokie, CISA
- Dennis Ray Bushnell, CPA (Quality Control Reviewer)
- Cesar Saldivar, CGAP (Audit Manager)

² Lara Laneri Keel is registered with the Texas Ethics Commission as a lobbyist. Her list of clients is a matter of public record and may be obtained from the Texas Ethics Commission.

Evaluation Criteria Included in the Request for Proposals and Scoring Tool for the HealthSelect Contract

Figure 1 contains the proposal evaluation criteria portion of the request for proposals (RFP) for the HealthSelect contract.

Figure 1

Evaluation Criteria Included in the RFP for the HealthSelect Contract

Page 1

II. Proposal Evaluation Criteria

A. General Evaluation Information

A.1. **Introduction.** Proposals submitted in response to this RFP shall be evaluated on the basis of the criteria listed below. The criteria are not listed in order of importance. While the criteria provides the basis for an objective evaluation of each Proposal, the experience and judgment of ERS' staff, Board and their advisors shall also be important in the selection process. The criteria include the TPA's response to all items reflected in its Proposal, and any clarifications. The criteria include:

- Compliance with, and adherence to, the RFP and Contractual Agreement;
- Minimum requirements and preferred criteria as reflected below;
- Provider network and service area;
- Experience serving large group programs;
- Experience in performing, delivering and providing TPA services, coverage, benefits, supplies and products;
- Administrative capability;
- Proposed Administrative Fee;
- Tiered and/or Efficient Network;
- Health Care Management Incentive;
- Alternate Provider Payment Initiatives;
- Financial strength and stability;
- Legal disclosure requirements;
- Technological capabilities;
- Operating requirements;
- References;
- Site Visits; and
- Other factors, as determined during the evaluation review process.

A.2. ERS reserves the right to reject any and/or all Proposals and/or call for new Proposals if ERS deems it to be in the best interests of ERS, the GBP, its Participants and the state of Texas.

A.2.a. The selected TPA shall adhere to these requirements upon Contract award and throughout the term of the Contract and any renewals or extensions thereof. ERS also reserves the right to reject any Proposal submitted that does not fully comply with the RFP's instructions and criteria. ERS is under no legal requirement to execute a Contract on the basis of this notice or upon issuance of the RFP or receipt of a Proposal.

A.2.b. Proposed deviations to the minimum requirements identified below shall not be considered, and submission of such may disqualify the TPA's Proposal package. Failure to satisfy the mandatory minimum requirements may result in elimination from the evaluation process.

B. Minimum Requirements

Those wishing to respond to the RFP shall demonstrate their competence to perform the services required by ERS, and shall evidence the ability to satisfy each of the following minimum requirements by specifically identifying supporting documentation contained in the TPA's response.

B.1. The TPA shall maintain its principal place of business and provide all products and/or services including, but not limited to: call center, billing, eligibility, claims processing and programming, etc. within the United States of America and shall have a valid Certificate of Authority and/or license to do business in Texas as a TPA from TDI and be in good standing with all agencies of the state of Texas, including TDI.

B.2. The TPA shall have been providing administrative, claim processing, network management and utilization review services for organizations with a membership of no less than 100,000 or no less than an aggregate of 3,000,000 covered lives for a minimum of three (3) years.

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II. Proposal Evaluation Criteria

Source: 2011 RFP for the HealthSelect third-party administrator.

Figure 1

Evaluation Criteria Included in the RFP for the HealthSelect Contract

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- B.3. The TPA shall have a current net worth of \$100 million as evidenced by a 2010 audited financial statement. Since the TPA may be required to advance up to two (2) weeks of claim payments totaling approximately \$70 million before being reimbursed by ERS, the TPA shall have at least \$100 million of cash and cash equivalents available, on average, throughout its 2010 financial period.
 - B.4. The TPA shall have the capability to provide all reports and supporting documentation electronically and in CD-ROM format.
 - B.5. The TPA shall demonstrate it has a provider network capable of servicing no less than 85% of GBP Participants as of January 31, 2011.

HDHP/HSA

In addition to the minimum requirements listed in Sections II.B.1.–II.B.5. above, the following reflect supplemental minimum requirements for the TPA proposing HDHP with HSA benefits and services.

- B.6. The HDHP TPA shall be licensed as necessary to do business in the state of Texas in order to perform the duties described in this RFP, and be in good standing with all agencies of the state of Texas including TDI. The GBP requires the HDHP TPA to comply with all applicable state and federal laws, rules and regulations.

B.7. The HDHP TPA directly or through an affiliation shall have been providing electronic debit card services to at least three (3) clients for a minimum of five (5) years and to a minimum of 10,000 active debit card Participants.

C. Preferred Criteria

Those wishing to respond to the RFP shall demonstrate their competence to perform the services required by ERS, and shall evidence the ability to satisfy (or not), each of the following preferred requirements by specifically identifying supporting documentation contained in the TPA's response.

- C.1. The TPA shall have experience working with and/or extensive knowledge of applicable Texas laws and federal regulations affecting the GBP.
 - C.2. The TPA shall have experience working with and/or extensive knowledge of public or governmental benefit plans that are not subject to ERISA.

Source: 2011 RFP for the HealthSelect third-party administrator.

Figure 2 contains the proposal evaluation criteria and associated evaluation weights included in the scoring tool that the Employees Retirement System (System) used to evaluate proposals for the HealthSelect contract.

Figure 2

Criteria Included in the Scoring Tool for the HealthSelect Contract	
Compliance With RFP	Weight
Compliance/Adherence to RFP & Contract	40%
Preferred Criteria	30%
Organizational Information	30%
<i>Subtotal Criteria (Weighted Group)</i>	100%
<i>Subtotal Criteria Final Weight</i>	5%
Services	
Operational Specifications	10%
Communication/Website Requirements	5%
Provider Network Requirements	10%
Pilot Program & Other Services Alternative Payment/Delivery Systems (<i>Interrogatories</i>)	10%
General Information (<i>Interrogatories</i>)	5%
Account Management	10%
Customer Service	10%
Claims Processing	10%
Reporting	10%
Utilization Review	10%
Health Care Management/Network	10%
<i>Subtotal Services (Weighted Group)</i>	100%
<i>Subtotal Services Final Weight</i>	35%
References	
Quality	100%
<i>Subtotal References (Weighted Group)</i>	100%
<i>Subtotal References Final Weight</i>	15%
Contractability (based on initial RFP response)	5%
Financial Considerations¹	
Administrative Fee Price Proposal	30%
Estimated Cost of Healthcare based on re-pricing results	70%
<i>Subtotal Financial Considerations (Weighted Group)</i>	100%
<i>Subtotal Financial Considerations Final Weight</i>	40%
HealthSelect TPA Expenses Total	100%

Source: 2011 HealthSelect proposal scoring tool provided by the System.

Copies of this report have been distributed to the following:

Legislative Audit Committee

The Honorable David Dewhurst, Lieutenant Governor, Joint Chair
The Honorable Joe Straus III, Speaker of the House, Joint Chair
The Honorable Jane Nelson, Senate Finance Committee
The Honorable Robert Nichols, Member, Texas Senate
The Honorable Jim Pitts, House Appropriations Committee
The Honorable Harvey Hilderbran, House Ways and Means Committee

Office of the Governor

The Honorable Rick Perry, Governor

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