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## AGENCY REVIEW

# PUBLIC EMPLOYEES INSURANCE AGENCY DEPARTMENT OF ADMINISTRATION

## AUDIT OVERVIEW

The Public Employees Insurance Agency Is Following Many Contract Administration Best Practices

Overall, the PEIA Website Is Good and Scores Relatively High in User-Friendliness, but More Improvement Can Be Made in Transparency



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WEST VIRGINIA LEGISLATIVE AUDITOR

## PERFORMANCE EVALUATION & RESEARCH DIVISION

Building 1, Room W-314  
State Capitol Complex  
Charleston, West Virginia 25305  
(304) 347-4890

Aaron Allred  
Legislative Auditor

John Sylvia  
Director

Jill Mooney  
Research Manager

Matthew Pauley  
Research Analyst

Adam Fridley  
Referencer

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## EXECUTIVE SUMMARY

As part of the Agency Review of the Department of Administration, pursuant to the Performance Review Act, Chapter 4, Article 10, Section 8 of the West Virginia Code, the Legislative Auditor conducted a performance review of the Public Employees Insurance Agency (PEIA). The objectives of the review are to determine whether the PEIA follows contract administration best practices in its oversight of the contracts with third-party administrators responsible for medical and pharmaceutical claims processing and whether PEIA's website is user-friendly and transparent. The findings of this review are highlighted below.

### **Frequently Used Acronyms in This Report:**

ER: Emergency Room

NIGP: National Institute of Governmental Purchasing

OFPP: Office of Federal Procurement Policy

PEIA: Public Employees Insurance Agency

PERD: Performance Evaluation and Research Division

TPA: Third-Party Administrator

FOIA: Freedom of Information Act

### **Report Highlights:**

#### **Issue 1: The Public Employees Insurance Agency Is Following Many Contract Administration Best Practices.**

- The PEIA prepared clear performance measures and reporting requirements.
- The PEIA conducted monitoring processes including routinely communicating with its vendors and sampling the vendor's work for accuracy.
- The PEIA collected most penalties in a timely manner when TPAs did not meet established performance measures. However, when HealthSmart did not meet established performance standards in three separate quarters in FY 2013, PEIA did not realize it had not received payment until PERD requested proof of payment.
- The PEIA should prepare written procedures for its contract administration process.
- The PEIA conducted oversight of its utilization management vendor by reviewing vendor generated reports and holding weekly meeting to discuss specific cases. However, the PEIA should enforce a contract requirement that the utilization management vendor report on PEIA's return on investment received from disease management cost savings.

#### **Issue 2: Overall, the PEIA Website Is Good and Scores Relatively High in User-Friendliness, but More Improvement Can Be Made in Transparency.**

- The PEIA's website has many user-friendly features such as a search tool, a help link displayed on every page, and a site-map. Only modest improvements are suggested.

- The PEIA's website transparency could be improved. The PEIA could add features such as including its mission statement on its homepage, linking a page explaining the agency's performance measures and outcomes to its homepage, and providing a specific page through which members could file a complaint.

## **PERD's Response to the Agency's Written Response**

The Office of the Legislative Auditor's Performance Evaluation and Research Division received a written response from the Public Employees Insurance Agency on June 1, 2015. The agency concurred with all the findings of the report. The agency response can be found in Appendix E.

## **Recommendations**

1. *PEIA should consider developing a written contract administration manual.*
2. *PEIA should consider incorporating dispute resolution clauses in all future contracts.*
3. *PEIA should consider instituting a procedure to formally document the progress of ongoing projects and issues raised with HealthSmart.*
4. *PEIA should consider documenting its continuity of operations plan of action.*
5. *The Legislative Auditor recommends that the Public Employees Insurance Agency make the suggested improvements to its website, particularly in the area of transparency.*

## ISSUE1

### **The Public Employees Insurance Agency Is Following Many Contract Administration Best Practices.**

#### **Issue Summary**

The Public Employees Insurance Agency (PEIA) contracts with several third-party administrators (TPAs) to administer the agency's health insurance plans. The Performance Evaluation and Research Division (PERD) reviewed PEIA's oversight of the two largest TPAs: HealthSmart and Express Script. PERD found that the PEIA follows many contract administration best practices. The PEIA requires TPAs to meet performance measures and report them. Payments to TPAs are linked to satisfactory performance, and claims reimbursements are sampled for accuracy. Both contracts also have a right-to-audit clause. However, neither contract has a contingency plan to continue operations if there is an emergency interruption of services. Also, only the HealthSmart contract has a dispute resolution procedure. Furthermore, PEIA does not have written policies and procedures governing its oversight, which best practices specify. Written policies and procedures help maintain uniformity, consistency and accuracy in carrying out oversight procedures.

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*The PEIA follows many contract administration best practices.*

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#### **Background**

PEIA outsources the function of administering the health insurance and pharmacy benefit plans to TPAs. In fiscal years 2011 through 2013, PEIA spent more than \$56 million in administrative fees to the two primary TPAs who administer the employee health insurance and pharmacy benefits. PEIA contracted HealthSmart (named Wells Fargo Third Party Administrators until December 2011) to manage the claims review and processing of health insurance benefits provided to PEIA members. Express Scripts, Inc. is PEIA's contracted provider of pharmacy benefit management services.

The State of West Virginia's health insurance benefits plan is self-funded. The State and its employees pay fixed monthly premiums that PEIA uses to cover the cost of health insurance and plan administration. PEIA oversees the health insurance and pharmacy benefit for approximately 223,000 members. PEIA paid more than \$1.4 billion<sup>1</sup> in health insurance benefits in fiscal years 2011 through 2013, which equates to an average of more than \$486 million per year.

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<sup>1</sup> The amount also includes other TPAs and is not singularly reflective of claims benefits paid for the two primary TPAs.

## **PEIA Is Following Many Best Practices for Contract Administration.**

PERD reviewed PEIA contract administration procedures and agency contract administration documentation using criteria established by knowledgeable organizations. The Office of Federal Procurement Policy (OFPP) developed a guidebook titled “A Guide To Best Practices For Contract Administration” (*Guide*) to illustrate best-practice techniques for contract administration. The *Guide* provides useful tools to program and contracting officials in administering federal contracts. PERD also used publications by the National Institute of Governmental Purchasing (NIGP) and other federal contract administration policies for best-practice criteria.

**PEIA adheres to most of the common best practices in TPA oversight.** The following best practices are incorporated in the HealthSmart and Express Script contracts:

- clear performance measures,
- performance measure reporting requirements,
- other compliance reporting requirements,
- claims reimbursement samples required for accuracy,
- right-to-audit clause, and
- linking TPA payments to satisfactory performance.

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*The PEIA does not have contingency plans in either the HealthSmart or Express Script contract, and only the HealthSmart contract has a dispute resolution procedure. In addition, the PEIA does not have written policies and procedures for its oversight process.*

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However, best practices stipulate that contracts should have a contingency plan against an emergency loss of vendor services, specified dispute resolution procedures, and established written policies and procedures. The PEIA does not have contingency plans in either the HealthSmart or Express Script contract, and only the HealthSmart contract has a dispute resolution procedure. In addition, the PEIA does not have written policies and procedures for its oversight process.

## **PEIA Has Clear Performance Measures and Performance Measure Reporting Requirements**

PEIA’s contracts with TPAs include performance measures<sup>2</sup> and reporting requirements. PEIA received all reports on the TPA’s performance. The performance goals are the benchmark for monthly and/or annual TPA performance. Clearly stated contract requirements and performance measures establish standards for accountability.

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<sup>2</sup> See Appendix C for HealthSmart and Express Scripts Incorporated performance measures.



### **PEIA Requires the TPAs to Report Performance**

PEIA monitors TPA's performance on meeting the contracted level of service through quarterly performance standard reports. These reports show TPA's reported level of service for each quarter as well as the contractually required level of service. PEIA's Quality Assurance Manager reviews the quarterly reports.

PEIA prepares an agenda outlining items it will discuss in its weekly meetings with representatives from HealthSmart and Express Scripts. In the case of the Express Scripts, PEIA takes the documentation of current projects and issues one step further by maintaining an action log. The action log identifies all projects and issues PEIA and Express Scripts are currently discussing, the person or entity tasked with resolving the issue, the status of the issue and when final resolution is expected. The action-log serves a function in maintaining communication and coordination among the personnel in the organizations who are involved in the contract administration process. The NIGP identifies coordination as a general requirement for all contracts. **PEIA should consider instituting a procedure to formally document the progress of ongoing projects and issues raised with HealthSmart.**

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*A small sample of the weekly claims reimbursement checks reviewed by PERD found that PEIA identified a financial error rate of 0.22%, which in this case equates to only \$100.*

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### **PEIA Reviews Claims Reimbursements for Accuracy**

PEIA reviews the accuracy of a stratified sample of weekly reimbursement claims that HealthSmart and Express Script process. If PEIA were to not verify claims reimbursement payments, it would increase the risk of PEIA paying for invalid and/or duplicate billings. PEIA compares the stratified sample of weekly reimbursement claims to detailed processed health care and prescription claims data in HealthSmart's and Express Script's database systems. PEIA reviews the claims sample for multiple aspects of proper determination of insurers payments, aspects of which include the claims were correctly determined and coded<sup>3</sup> and the correct provider was paid. A small sample of the weekly claims reimbursement checks reviewed by PERD found that PEIA identified a financial error rate of 0.22%, which in this case equates to only \$100. PEIA's internal sampling of weekly reimbursement claims allows it to have an objective baseline to compare to TPAs reported financial accuracy error rate.

Additionally, PEIA generates a monthly duplicate claims report that identifies all potential duplicate billing errors made by either HealthSmart or a medical services provider during the month in which the report was generated. PEIA's Quality Assurance Specialist reviews each line of the duplicate claims report and makes a determination on

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<sup>3</sup> Medical coding is the process of transforming descriptions of medical diagnoses and procedures into universal medical code numbers.

the duplicative status of each claim. The specialist then reports identified duplicative claims to HealthSmart for further review. Any actual overpayment and or possible corrective action is subject to HealthSmart's review. For instance, in one monthly duplicate claims report 70 claims were identified as possibly duplicative. The Quality Assurance Specialist reviewed all 70 claims finding that 22 were duplicates. These 22 claims represent a possible PEIA overpayment of \$2,200 during that particular month. The dollar amount of overpayment may be higher or lower in other months. While in this case the monetary value that might be recovered from providers is relatively small, it indicates that PEIA is making an effort to curb potential losses.

PEIA also conducted an emergency room (ER) copayment audit in 2013 to determine if the HealthSmart had assessed the correct ER visit copay. A correct ER visit copay is determined by whether or not the ER visit was an emergency or not. Non-emergency visits to the ER have a higher copay than emergencies. PEIA found that HealthSmart had not always made the correct determination. HealthSmart had under-collected by \$3,500 because some non-emergency visits were charged the emergency rate copay. As a result, in September 2013 PEIA requested HealthSmart audit all ER visits to determine if they were non-emergencies in order to reduce the ER uncollected copayment collection amount.

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*For instance, in one monthly duplicate claims report 70 claims were identified as possibly duplicative. The Quality Assurance Specialist reviewed all 70 claims finding that 22 were duplicates. These 22 claims represent a possible PEIA overpayment of \$2,200 during that particular month.*

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### **PEIA Contracts for Independent Claims and Operational Audits**

In addition to internal monitoring of contracts, PEIA uses other means of controlling for HealthSmart's and Express Script's proper functionality. Examples of PEIA's controls on HealthSmart operations are as follows:

- PEIA engages an independent external auditor to audit HealthSmart's and Express Script's internal controls.
- PEIA engaged an external auditor to assess HealthSmart's claims determination accuracy and the policies, procedures and controls that support the administration of PEIA's employee health plans in FY 2011.
- PEIA hired a consulting group to verify beneficiaries and dependents were eligible.

### **TPA Payments Are Ultimately Linked to Satisfactory Performance**

Best practices suggest that a vendor be paid based on their performance during a certain period of time. PEIA pays TPAs an administrative services fee on a monthly basis. PEIA paid more than \$56 million in administrative fees to HealthSmart and Express Scripts in fiscal years 2011 through 2013, which is an average of more than \$18 million per year. The administrative services agreement requires TPAs

provide a specified level of service. The contracts include accountability provisions that obligates the TPA to pay PEIA a financial penalty should it fail to provide the contracted level of service. However, since TPA performance is reported quarterly, payment for three months has already been made before a TPA incurs a penalty for poor performance.

On nine instances both HealthSmart and Express Scripts did not meet established performance standards. In most of these instances, PEIA invoiced and collected the penalties in a timely fashion. However, in three separate quarters in FY 2013, when HealthSmart did not meet established performance standards PEIA did not recoup the penalties owed.<sup>4</sup> PEIA paid the monthly administrative fees and invoiced the TPA \$37,000 for the penalty. However, PEIA did not realize the penalty had not been paid until PERD requested payment documentation. To ensure PEIA is not paying for poor performance it must be diligent in the monitoring of not only when a TPA incurs a penalty, but also of the penalty invoices that have be disbursed and if the penalty has been received. PEIA indicated it will change its procedures to provide greater assurance that such a gap in oversight will not reoccur.

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*The contracts include accountability provisions that obligates the TPA to pay PEIA a financial penalty should it fail to provide the contracted level of service.*

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### **PEIA Is Not Following Some Best Practices for Contract Administration.**

Although several best practices for contract administration are implemented by the PEIA, PERD finds that the following best practices are not implemented:

- written procedures for contract administration,
- dispute resolution procedures (only in the HealthSmart contract), and
- contingency plans.

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*PEIA paid the monthly administrative fees and invoiced the TPA \$37,000 for the penalty. However, PEIA did not realize the penalty had not been paid until PERD requested payment documentation.*

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### **PEIA Does Not Have Written Procedures for Contract Administration**

PEIA has not developed written technical guidance and/or a procedures manual that would provide its staff direction on what the oversight role entails. Without management formally defining expectations and procedures, there is a risk that staff may not focus on areas of importance to management or areas critical to contract oversight, such as ensuring the TPAs determine claims accurately and efficiently. Written policies and procedures serve as a guide to agencies and their personnel in ensuring a consistent, high-quality contract administration process. **PEIA should consider developing a written contract administration manual.**

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<sup>4</sup> HealthSmart did not meet standards related to the “Telephone Calls Abandonment Percentage.”

## **PEIA Has Dispute Resolution Procedures in Only the HealthSmart Contract**

The HealthSmart contract has language defining how disputes between PEIA and HealthSmart will be handle. However, the Express Scripts contract does not have such a provision. Dispute clauses are designed to facilitate the process in the event a disagreement cannot be resolved. The agreement with HealthSmart indicates that,

*If a dispute arises out of this Agreement, or any modifications made to the Agreement ... the parties agree to meet and attempt to resolve the dispute by negotiations. If negotiations are not successful, the parties shall attempt to resolve the dispute and may consider non-binding mediation using the American Arbitration Association as the mediator, or such other firm or association as agreed upon by the parties. The parties agree to make a good faith attempt to resolve the dispute prior to litigation.*

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*PERD staff asked PEIA how it would address a dispute with Express Scripts. PEIA responded by stating, “. . . All disputes would be resolved under the laws of the [West Virginia].”*

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The dispute clause, in addition to providing the framework for action, serves to encourage the parties to resolve disputes through the negotiation process to the maximum extent practicable. According to the NIGP, all contracts should contain a dispute clause to resolve matters arising from unsettled claims. PERD staff asked PEIA how it would address a dispute with Express Scripts. PEIA responded by stating, “. . . All disputes would be resolved under the laws of the [West Virginia].” The addition of a contract provision requiring mediation and arbitration would add assurances that PEIA and Express Scripts exhaust all reasonable avenues of resolution before proceeding to litigation. **PEIA should consider incorporating dispute resolution clauses in all future contracts.**

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*PEIA indicated to PERD staff that if its TPAs were to default on its obligations, it would seek services from the next lowest bidder from the original solicitation.*

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## **PEIA Has Not Included Contingency Plans in All Contracts**

PEIA has contract termination clauses in its TPA contracts. These clauses describe the roles and responsibilities of the TPA and PEIA when the contract ends. The contracts do not include a continuity of operations procedure or contingency plan. A contingency plan provides assurance of continuity of services in the event that a TPA defaults on its contractual obligations. PEIA indicated to PERD staff that if its TPAs were to default on its obligations, it would seek services from the next lowest bidder from the original solicitation.<sup>5</sup> PEIA has determined that the risk of a

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<sup>5</sup>PEIA is exempt from state Purchasing Division Rules. However, in the event that a vendor fails to honor a contractual term or condition, the Purchasing procedures state that the Purchasing Director can award the contract to the next lowest bidder from the original solicitation.

TPA failing to fulfill its obligations is low. An interruption in claims processing could mean PEIA members and providers would experience a delay in the reception of medical services, prescription medications or payment. This delay could be harmful. **PEIA should consider documenting its emergency continuity of operations plan of action, possibly including it in the TPA contracts or contract administration manual.**

### **PEIA Did Not Provide Evidence That It Receives a Positive Rate of Return From the Utilization Management Vendor.**

PEIA has contracted for utilization management. Utilization management is intended to reduce unnecessary or uncovered utilization of plan benefits. Over the scope of this audit, PEIA has contracted HealthSmart to provide utilization management services. HealthSmart sub-contracted these services to a TPA named ActiveHealth. The contract outlined four performance measures that ActiveHealth was to meet and report on. The four performance measures are:

- telephone abandonment rate,
- average speed of answer,
- blockage percentage, and
- disease management return on investment.

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*PEIA did not provide PERD with documentation that ActiveHealth reported or met its performance in disease management return on investment for which there is a monetary penalty.*

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The telephone abandonment rate is the percentage of calls that disconnect before the call is answered. The average speed of answer is how quickly a call is answered. The blockage percentage is the rate of calls that are blocked from reaching the call center due to an overload of calls. Responsiveness to telephone calls is important with respect to utilization management because providers and members need timely responses to their calls for prior approval and pre-authorization. The disease management return on investment is determined by dividing the disease management cost savings by the total disease management administrative fees paid by the PEIA. Disease management involves providing health programs that assist members in the management of diabetes, weight control and renal care.

The contract provides that penalties can be assessed for two of the four performance measures, one being the telephone abandonment rate and the other is the disease management return on investment. PEIA provided evidence that ActiveHealth reported on two of the four performance measures: the telephone abandonment rate, and the average speed of answer. ActiveHealth reported that it had met the required levels of performance for both the abandonment rate and the average speed of answer. However, PEIA did not provide PERD with documentation that ActiveHealth reported or met its performance in disease management return on investment for which there is a monetary penalty, or if any



penalties had been imposed. The contract gives a clear description of the performance guarantee the vendor is to meet which is equivalent to two to one return on investment. The penalty for not meeting it is 10 percent of the disease management fees. The disease management fee is a set rate based on the number of policy holders.

There is evidence that PEIA reviews vendor-produced utilization reports that include aggregate statistics for the number of pre-admission, concurrent reviews and denials of inpatient hospital stays and for prior review of outpatient surgeries or services. PEIA is also involved in making some utilization management decisions concerning specific cases with the vendor that may involve relatively large monetary payments.

PEIA also states that it utilizes information gathered from its own data warehouse and analyzes it to identify trends and outliers in the data every two weeks. PEIA states that an analysis of plan performance as compared to its financial plan provides a high-level indicator of whether a ActiveHealth was effective in its ability to reduce medical costs. However, the only document PEIA provided in response to PERD's request to how PEIA assessed the performance of ActiveHealth was a spreadsheet indicating the percentage of provider visits in various categories within inpatient and outpatient facilities as well as pharmacy visits.

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*In calendar year 2013 the expenses for utilization management services were greater than the benefit received.*

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However, ActiveHealth provided PEIA with the cost savings for overall inpatient and outpatient procedures not approved. PERD reviewed two of these quarterly reports, each for the final quarter of calendar years 2012 and 2013. ActiveHealth's reported cost savings from not approving use of some plan benefits in calendar year 2012 was over \$5 million and over \$4.5 million in 2013. Table 1 shows PEIA's rate of return on the administrative fees paid to the utilization management vendor, ActiveHealth, as compared to ActiveHealth's estimated calendar year cost savings. PERD's calculations indicate that in calendar year 2012 the reported cost savings exceeded the administrative fees paid. However, in calendar year 2013 the administrative fees paid were higher than the reported cost savings. This effectively means that in calendar year 2013 the expenses for utilization management services were greater than the benefit received.

**Table 1**  
**PEIA's Rate of Return**  
**Calendar Years 2012 and 2013**

Calendar Year	Cost Savings	Administrative Fees	Rate of Return
2012	\$5,085,526	\$4,631,892	+9.79%
2013	\$4,537,510	\$4,849,759	-6.44%

*Source: PERD calculations using reported total annual cost savings from ActiveHealth reports and PEIA administrative fees from the State Auditor's Financial Information Management System.*

The Legislative Auditor recognizes the importance of utilization management, and that it is not entirely about cost savings. Policyholders need to receive timely and appropriate healthcare, and a system needs to be in place that provides accountability and deterrents against overuse, misuse and abuse of services for the purpose of containing healthcare costs. Nevertheless, PEIA needs to determine if utilization management is being performed at established performance standards and is cost effective. PEIA has clear standards for telephone responsiveness and the disease management return on investment. However, the contract with ActiveHealth did not have a performance goal for assessing the overall cost effectiveness of the vendor’s utilization management. There is no evidence that ActiveHealth reported a return on investment for disease management in 2012 or 2013, and there is no evidence that a penalty was assessed or should have been assessed on this aspect of the contract.

## Conclusion

PERD’s review of the Public Employee’s Insurance Agency has found that it is following many best practices associated with proper contract administration. PEIA has implemented these best practices to gain assurance that it and its members receive the contracted level of service. However, PERD has identified a few areas that could improve the quality of PEIA’s oversight of its major TPA contracts. These areas include having a written policies and procedures manual, as well as having dispute resolution and contingency plan clauses inserted uniformly in TPA contracts. With respect to utilization management, there is no evidence that the vendor reported its performance on the disease management return on investment. Some aspects of PEIA’s utilization management needs to improve.

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*PEIA needs to determine if utilization management is being performed at established performance standards and is cost effective.*

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## Recommendations

1. *PEIA should consider developing a written contract administration manual.*
2. *PEIA should consider incorporating dispute resolution clauses in all future contracts.*
3. *PEIA should consider instituting a procedure to formally document the progress of ongoing projects and issues raised with HealthSmart.*
4. *PEIA should consider documenting its continuity of operations plan of action.*





## ISSUE 2

### **Overall, the PEIA Website Is Good and Scores Relatively High in User-Friendliness, but More Improvement Can Be Made in Transparency.**

#### **Issue Summary**

PERD conducted a literature review on assessments of governmental websites and developed an assessment tool to evaluate West Virginia’s state agency websites (see Appendix D). The assessment tool lists several website elements. Some elements should be included in every website, while other elements such as social media links, graphics and audio/video features may not be necessary or practical for some state agencies. Table 2 indicates that PEIA integrates 62 percent of the checklist items in its website. This measure shows that overall the PEIA website needs only modest improvement. However, the overall score reflects strong user-friendly features, but it could be higher with additional transparency features.

*Table 2 indicates that PEIA integrates 62 percent of the checklist items in its website. This measure shows that overall the PEIA website needs only modest improvement.*

<b>Table 2 Public Employees Insurance Agency Website Evaluation Score</b>			
Substantial Improvement Needed	More Improvement Needed	Modest Improvement Needed	Little or No Improvement Needed
0-25%	26-50%	51-75%	76-100%
		62%	
<i>Source: The Legislative Auditor’s review of the PEIA website as of October 20, 2014.</i>			

### **PEIA’s Website Scores Very Well in User-Friendliness, but Could Use Improvement in Transparency.**

In order for citizens to engage with an agency online, they should be able to gain access to the website and to comprehend the information posted there. A user-friendly website employs up-to-date software applications, is readable, well-organized, provides a thorough description of the organization’s role, displays contact information prominently and allows citizens to understand the organization of the agency. Governmental websites should also include budget information, revenue sources, performance measures, and other features to maintain transparency and the trust of citizens. The Legislative Auditor reviewed PEIA’s website for both user-friendliness and transparency. As illustrated in Table 3, the website scores nearly complete in user-friendliness, but relatively low in transparency. **PEIA should consider making website improvements to provide a better online experience for the public and its registrants.**

**Table 3**  
**Website Evaluation Score**

Category	Possible Points	Agency Points	Percentage
User-Friendly	18	16	89%
Transparent	32	15	47%
Total	50	31	62%

*Source: The Legislative Auditor's review of PEIA's website as of October 20, 2014.*

## PEIA's Website Is Easily Navigable And Only a Few Additional User-Friendly Features Are Suggested.

PEIA's website readability is between an 8<sup>th</sup> and 9<sup>th</sup> grade reading level, which is close to standard criteria. A report published by the Brookings Institute determined that government website should be written at an 8th grade reading level to facilitate readability. Readable, plain language helps the public find information quickly, understand the information and use it effectively. PEIA's website has a search tool and help link displayed on every page, along with a site-map, FAQ section and an option to leave feedback about the website. All of these functions are displayed in a legible sans serif typeface. Every page also has a navigation bar on the side of the page. These features allow website users to navigate the page, search for information they may need, and find answers to their questions. Links to social media outlets are available to allow users to post PEIA content to social media pages such as Facebook and Twitter, and RSS is available that allows users to receive regularly updated work. PEIA has also made a mobile device friendly version of the website, so members can easily access information from smartphones and tablets.

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*Every page also has a navigation bar on the side of the page. These features allow website users to navigate the page, search for information they may need, and find answers to their questions.*

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### User-Friendly Considerations

The following are attributes that could lead to a more user-friendly PEIA website:

- **Foreign language accessibility** – The website could contain a link to translate all pages into languages other than English.
- **Online Survey/Poll** – The website could include a short survey that pops up and requests users to evaluate the website.

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*PEIA's website does not have the ability to translate the website text into other languages or survey users to evaluate the website.*

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PEIA's website does not have the ability to translate the website text into other languages or survey users to evaluate the website. The absence of these elements lowers PEIA's overall user-friendliness score but are not necessarily essential for the website.

## PEIA’s Website Can Be More Transparent.

A website that is transparent will have elements such as email contact information, the location of the agency, the agency’s phone number, as well as public records, budgetary data and performance measures. A transparent website will also allow for citizen engagement so that their government can make policies based on the information shared. The Website Criteria Checklist and Points System (see Appendix D) demonstrates that PEIA’s website has 15 of 32 core elements that are necessary for a general understanding of the agency.

PEIA’s home page has the agency’s office email and physical address, with an embedded map showing the office location, as well as its telephone number. Additionally, all PEIA executive staff members’ names are on a contact page. This allows citizens to locate the information necessary to communicate with the agency. The agency also has some pertinent public information on its website including the agency’s privacy policy, past audits of PEIA, budgetary information for the past several years, information on events and meetings and a brief history of PEIA. PEIA has also made several information publications available to users.

### Transparency Considerations

Several elements could be added to improve the PEIA website’s transparency. The following are a few attributes that PEIA should consider:

- **Administrator’s Biography** – A biography explaining the administrator(s) professional qualifications and experience.
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- **Complaint Form** – A specific page that contains a form to file a complaint.
- **Mission Statement** – A statement, located on the homepage, declaring the agency’s core purpose.
- **Agency Organizational Chart** – A narrative describing the agency organization could be included, preferably in a pictorial representation such as a hierarchy/organizational chart.
- **FOIA Information** – Information on how to submit a FOIA request, ideally with an online submission form.

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*The Website Criteria Checklist and Points System demonstrates that PEIA’s website has 15 of 32 core elements that are necessary for a general understanding of the agency.*

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*The agency also has some pertinent public information on its website including the agency’s privacy policy, past audits of PEIA, budgetary information for the past several years, information on events and meetings and a brief history of PEIA.*

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- **Performance Measures/Outcomes** – A page linked to the homepage explaining the agency’s performance measures and outcomes.
- **Website Updates** – A website update status on screen and ideally for every page.

While a user of the PEIA website can find information on the complaint and appeal process, users cannot submit a complaint online. PEIA could also include information detailing the qualifications of executive staff of PEIA and an organization chart of how PEIA operates. Based on the results of this website evaluation, the Legislative Auditor recommends that PEIA make improvements to its website to increase transparency.

## Conclusion

Overall, PEIA’s website scores high in user-friendliness, but relatively low in transparency. While users can find most needed information such as a plan descriptions, recent changes to plans, and contact information, adding other elements would improve the transparency of the agency on the website.

## Recommendation

5. *The Legislative Auditor recommends that the Public Employees Insurance Agency make the suggested improvements to its website, particularly in the area of transparency.*

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*While a user of the PEIA website can find information on the complaint and appeal process, users cannot submit a complaint online.*

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# Appendix A Transmittal Letter

## WEST VIRGINIA LEGISLATURE *Performance Evaluation and Research Division*

Building 1, Room W-314  
1900 Kanawha Boulevard, East  
Charleston, West Virginia 25305-0610  
(304) 347-4890  
(304) 347-4939 FAX



John Sylvia  
Director

May 21, 2015

Ted Cheatham, Director  
Public Employees Insurance Agency  
Department of Administration  
601 57<sup>th</sup> Street SE, Suite 2  
Charleston, WV 25304

Dear Director Cheatham:

This is to transmit a draft copy of the agency review of the Department of Administration's Public Employees Insurance Agency. This report is scheduled to be presented during the June 7, 2015 interim meeting of the Joint Committee on Government Operations, and the Joint Committee on Government Organization. We will inform you of the exact time and location once the information becomes available. It is expected that a representative from your agency be present at the meeting to orally respond to the report and answer any questions the committees may have.

We need to schedule an exit conference to discuss any concerns you may have with the report. We would like to have the meeting no later than Tuesday, May 26, 2015. Please notify us to schedule an exact time. In addition, we need your written response by noon on Friday, May 29, 2015 in order for it to be included in the final report. If your agency intends to distribute additional material to committee members at the meeting, please contact the House Government Organization staff at 304-340-3192 by Thursday, June 4, 2015 to make arrangements.

We request that your personnel not disclose the report to anyone not affiliated with your agency. Thank you for your cooperation.

Sincerely,

A handwritten signature in cursive script that reads "John Sylvia".

John Sylvia

Enclosure

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*Joint Committee on Government and Finance*

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## Appendix B

# Objectives, Scope and Methodology

The Performance Evaluation and Research Division (PERD) within the Office of the Legislative Auditor conducted this performance review of the Public Employees Insurance Agency (PEIA) as part of the agency review of the West Virginia Department of Administration as required by West Virginia Code §4-10-8(b)(2). The purpose of the Agency, as established in West Virginia Code §5-16-7(a), is to establish major medical, group hospital and surgical, prescription drug, and group life and accidental death insurance plans for eligible employees and promulgate rules for the administration of these plans.

### Objectives

There are two objectives in this review. The first is to determine whether the PEIA follows contract administration best practices in its oversight of the two major third-party administrators (TPAs) responsible for medical claims benefits processing and pharmacy benefits management. The second objective is to assess the PEIA website for user-friendliness and transparency.

### Scope

The scope for Issue 1 consisted of evaluating PEIA's process in overseeing two of its TPA's compliance with contract provisions. The two PEIA contracts included in the scope were with HealthSmart for processing medical claims benefits, and with Express Scripts Inc. for manage policyholder pharmacy benefits. PERD did not review or evaluate any other PEIA contract. The time period of our contract review covered the provisions in effect from July 2010 through June 2013. The scope included nine of the best practices for contract administration used by the National Institute of Governmental Purchasing (NIGP) and Office of Federal Procurement Policy (OFPP). A specific area of focus within the agency was its oversight of utilization management and the utilization management vendor. The scope did not include contract administration processes or best practices of HealthSmart or Express Scripts, only the contract administration best practices of PEIA. PERD only communicated with PEIA staff not the TPAs. Additionally, the scope did not include an evaluation of the sufficiency, appropriateness, or accuracy of the TPA's information. For Issue 2 the scope comprised a review of PEIA's website on October 20, 2014.

### Methodology

PERD gathered testimonial evidence through interviews with the PEIA's staff. The purpose for testimonial evidence was to gain a better understanding or clarification of certain issues such as contract provision, and to confirm the existence or non-existence of a condition, or to understand the respective agency's position on an issue. PERD confirmed by either written statements or the receipt of corroborating evidence such testimonial evidence.

PERD reviewed copies of the HealthSmart and Express Scripts contracts effective from July 1, 2010 to June 30, 2013. The agency did not have a procedures manual indicating its oversight procedures. Therefore, we had discussions with PEIA staff on what procedures it followed in assuring HealthSmart's and Express Scripts' compliance with the contracts. In addition, PEIA staff provided us with internal audit spreadsheets that documented the results of its oversight. We review the contracts to determine if their provision were consistent with best practices as stipulated by the NIGP and OFPP. PERD choose nine contract-oversight



standards which we felt were generally accepted and the core of effective contract oversight. In many cases, the TPAs were required to provide performance reports to the PEIA. PERD determined that the required reports had been provided to the PEIA by each TPA. In order to determine if the reports had the appropriate information and that the PEIA was monitoring the reports, PERD sampled periodic reports for their content. In some cases, we found that the reports were not complete or the TPA had not met or reported required performance. In cases in which PEIA should have imposed penalties for not meeting performance standards, PERD requested documentation that PEIA had imposed and collected the penalties. This documentation included PEIA invoices sent to HealthSmart and Express Scripts, and TPA receipts of payment. We determined the invoices and TPA receipts sufficient and appropriate.

PERD conducted a literature review of government website studies, reviewed top-ranked government websites, and reviewed the work of groups that rate government websites in order to establish a list of essential website elements that would enhance transparency and user-friendliness to evaluate the PEIA's website. It is understood that not every element listed in the master list is to be found in an agency website because some of the technology may not be practical or useful for some state agencies. Therefore, PERD compared the PEIA's website to the established criteria for user-friendliness and transparency so that the agency can determine if it is progressing in step with the e-government movement and if should make improvements to its website. For physical evidence, PERD took screen shots of the website on October 20, 2014, the date in which we evaluated the website.

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.



## Appendix C

# HealthSmart and Express Scripts Incorporated Performance Measures

## HealthSmart Performance Measures

### Quality

Financial Error Claim is one either incorrectly settled with respect to dollar amount or incorrectly settled, in whole or in part, with respect to a wrong payee. No claim shall be declared a financial error claim if incorrect (actual) settlement amount differs from corrected (audited) settlement amount by less than one dollar.

Financially Correct Claim is a claim which is not a financial error claim. Financial Accuracy Amount is 100% for any settled claim which is not a financial error claim. If a financial error claim is one involving a wrong payee, then the financial accuracy amount is the amount of claim settlement directed to the wrong payee.

Quality performance measurements with respect to financial error claims and related financial accuracy amounts shall be based on TPA's monthly internal audit and shall be reported monthly to PEIA. TPA will audit a statistically valid random sample of all settled claims for each one-month audit period. Performance measurements reported to the PEIA shall be based on the entirety of that sample. Sample size and performance measurements shall be reported to the PEIA monthly.

Two quality performance measurements shall be calculated each month as follows (N denotes the audit sample size):

Q1 - Financially Correct Claim Percent =

$$100 * (1 - (\text{Number of Financial Error Claims}/N))$$

The standard is that Q 1, rounded to one decimal, shall be not less than 96.0 percent for each month.

Q2 - Financial Accuracy Amount Percent =

$$100 * (1 - (\text{Sum of Financial Accuracy Amounts}/\text{Sum of Audit Claim Settlement Amounts}))$$

The standard is that Q2, rounded to one decimal, shall be not less than 99.0 percent for each month.

### Timeliness

Claim turnaround time is defined as the number of working days after the date the claim is received in the mail or electronically until the date the claim is finalized. Finalized claims include those which are ready for release of payments, denied, applied to deductible, closed or referred to PEIA for handling.

For example, a claim received on Tuesday and finalized on the next day, Wednesday, has turnaround time of one day. Similarly, that same claim finalized, instead, on the Tuesday one week hence would have turnaround time of five days.

Claim turnaround time should be calculated by reference to the "Turnaround Days" and "Number of Claims-Cumulative %" columns in a report which will be produced each month. For purposes of this performance standard and corresponding measurement, this report will exclude all claims which are either adjustments

or claims which were delayed in processing at the request of the PEIA as a result of PEIA actions, or in accordance with the Plan.

The standard is that claim turnaround days (T1), rounded to one decimal, and shall be: not less than 92.0 percent of claims will be processed in twelve (12) working days.

### Telephone Responsiveness

Telephone responsiveness shall be measured by the Summary Abandonment Rate Percentage Report, which will be produced for each month. Denote this abandonment rate percentage as A1. The standard is that A1, rounded to one decimal, shall be: not greater than 3.0 percent.

### Express Scripts Incorporated Performance Measures

Service Performance Guarantees	Standard	Penalty
1. Network Size	At least 93% of members will have one (1) network pharmacy within 10 miles if any retail pharmacy is available in that distance. ESI shall perform a GeoAccess analysis of members upon request of PEIA, and shall notify PEIA any time the number of network pharmacies in West Virginia decreases by 5% or more. **	\$49,100 for the year in which GeoAccess is not met.. Performance will be reported quarterly, if applicable. Penalties, if any, will be paid annually. *
2. Retail Point-of-Sale Claims Adjudication Accuracy	ESI guarantees a financial accuracy rate of at least 98% for all Rx claims processed at point-of-sale.	\$49,100 for the year in which this standard is not met. Penalties, if any, will be paid annually. Performance will be measured by an annual audit conducted by PEIA. *
3. Point-of-Sale Network System Downtime	ESI guarantees that the Anchor claims processing system will be operating at least 99.5% of scheduled uptime of 162 hours per week, as measured annually on the ESI book-of-business.	\$49,100for the year in which this standard is not met. Performance will be reported quarterly. The guarantee will be measured and penalties, if any, will be paid annually. *
4. Reporting Requirements	ESI guarantees that all claims information will be available for electronic reporting within 10 business days after billing, and that Executive Reports and Performance Guarantee Reports will be available 45 days after the end of the calendar quarter.	\$4,100for any month in which this standard is not met. This guarantee will be measured monthly and reported quarterly. Penalties, if any, will be paid quarterly. *

5. Desk Audits	ESI will perform desk audits on at least 50% of network pharmacies each year. ***	\$49,100 for the year in which this standard is not met. Performance will be reported and measured annually. Penalties, if any will be paid quarterly based on ESI's book of business. *
6. On-Site Audits	ESI will perform on-site audits of at least 10% of West Virginia pharmacies that are identified in desk audits as outliers, outliers shall be defined as any desk audit with a discrepancy amount/audit finding of \$5,000 or greater.	\$49,100 for the year in which this standard is not met. Performance will be reported and measured annually. Penalties, if any will be paid annually. *
7. Call Answering Time	ESI guarantees that the average speed of answer (ASA) of member calls will not exceed 30 second, excluding calls abandoned before answering.	\$4,100 for any month in which this standard is not met. This guarantee will be measured monthly and reported quarterly. Penalties, if any will be paid quarterly. *
8. Call Abandonment Rate	Not more than 3% of member calls will be abandoned. Abandoned calls do not include outages caused by phone company.	\$4,100 for any month in which this standard is not met. This guarantee will be measured monthly and reported quarterly. Penalties, if any will be paid quarterly. *
9. Prior Authorization	All requests for Prior Authorization shall be resolved (approved or denied) within 72 hours, excluding request in which ESI is waiting for more information from a member or provider.	5% of claims processing fees for the period in which this standard is not met. This guarantee will be measured monthly and reported quarterly. Penalties, if any will be paid quarterly. <i>(This performance measure only appears in the contract which was applicable from FY 2002 through FY 2012)</i>
10. Member Correspondence	ESI shall respond to all correspondence from recipients and providers within an average of five (5) business days.	\$4,100 for any month in which this standard is not met. This guarantee will be measured monthly and reported quarterly. Penalties, if any will be paid quarterly. *
11. Mail Order	ESI will guarantee that all mail service prescriptions will be shipped within an average of 5 business days or less from receipt by ESI.	5% of claims processing fees for the period in which this standard is not met. This guarantee will be measured monthly and reported quarterly. Penalties, if any will be paid quarterly.

12. Mail Order— Turnaround Time for Routine (Clean) Prescription	ESI Guarantees to dispense prescriptions not subject to intervention within an average of two (2) business days.	Prescriptions: ESI will pay PEIA \$12,275 for each full day above the standard two (2) business days on an annual basis. The maximum annual penalty will be \$24,550. <i>(This performance measure only appears in the contract which was applicable as of July 1, 2013)</i>
13. Mail Order— Turnaround Time for Prescriptions Subject to Intervention	ESI Guarantees to dispense prescriptions subject to intervention within an average of five (5) business days.	ESI will pay PEIA \$12,275 for each full day above the standard five (5) business days on an annual basis. The maximum annual penalty will be \$24,550. <i>(This performance measure only appears in the contract which was applicable as of July 1, 2013)</i>
14. Successful Implementation	ESI will guarantee that the implementation/transition will be successful based on criteria determined in advanced and agreed to by both parties and which will include: a.) 99% of members receiving welcome packet/ID cards prior to the effective data, b.) all systems are available and operational as of the effective data, c.) plan design and benefits set-up correctly, d.) Member services representatives are trained and delivering accurate information to Members, e.) Sponsor is satisfied with implementation and account management team performance.	The following dollars will be paid to Sponsor if ESI does not complete the deliverable by the dates noted in the performance standard, assuming that Sponsor has provided the information necessary to complete these deliverables: Benefit Plan Design - \$0.50 per member Group Structure and Eligibility Load - \$0.50 per member ID Cards - \$0.50 per member Toll-Free Telephone Number - \$0.50 per member Communications - \$0.50 per member The implementation performance standards are one time only standards to be based on Sponsor effective date. The maximum implementation penalty will be \$475,000. <i>(This performance measure only appears in the contract which was applicable as of July 1, 2013)</i>
<p>* Before the beginning of FY 2013 this penalty amount was calculated as "5% of claims processing fees"</p> <p>** Before the beginning of FY 2013 this performance standard was "3%"</p> <p>*** Before the beginning of FY 2013 this performance standard was "10%"</p>		

## Appendix D

### Website Criteria Checklist and Points System

<b>Public Employees Insurance Agency</b>			
<b>User-Friendly</b>	<b>Description</b>	<b>Total Points Possible</b>	<b>Total Agency Points</b>
<b>Criteria</b>	The ease of navigation from page to page along with the usefulness of the website.	<b>18</b>	<b>16</b>
		<b>Individual Points Possible</b>	<b>Individual Agency Points</b>
Search Tool	The website should contain a search box (1), preferably on every page (1).	2 points	<b>2 points</b>
Help Link	There should be a link that allows users to access a FAQ section (1) and agency contact information (1) on a single page. The link's text does not have to contain the word help, but it should contain language that clearly indicates that the user can find assistance by clicking the link (i.e. "How do I...", "Questions?" or "Need assistance?")	2 points	<b>2 points</b>
Foreign language accessibility	A link to translate all webpages into languages other than English.	1 point	<b>0 points</b>
Content Readability	The website should be written on a 6 <sup>th</sup> -7 <sup>th</sup> grade reading level. The Flesch-Kincaid Test is widely used by Federal and State agencies to measure readability.	No points, see narrative	<i>8<sup>th</sup>-9<sup>th</sup> Grade Reading Level</i>
Site Functionality	The website should use sans serif fonts (1), the website should include buttons to adjust the font size (1), and resizing of text should not distort site graphics or text (1).	3 points	<b>3 points</b>
Site Map	A list of pages contained in a website that can be accessed by web crawlers and users. The Site Map acts as an index of the entire website and a link to the department's entire site should be located on the bottom of every page.	1 point	<b>1 point</b>
Mobile Functionality	The agency's website is available in a mobile version (1) and/or the agency has created mobile applications (apps) (1).	2 points	<b>2 point</b>
Navigation	Every page should be linked to the agency's homepage (1) and should have a navigation bar at the top of every page (1).	2 points	<b>2 points</b>

<b>Public Employees Insurance Agency</b>			
FAQ Section	A page that lists the agency's most frequent asked questions and responses.	1 point	1 point
Feedback Options	A page where users can voluntarily submit feedback about the website or particular section of the website.	1 point	1 point
Online survey/poll	A short survey that pops up and requests users to evaluate the website.	1 point	0 points
Social Media Links	The website should contain buttons that allow users to post an agency's content to social media pages such as Facebook and Twitter.	1 point	1 point
RSS Feeds	RSS stands for "Really Simple Syndication" and allows subscribers to receive regularly updated work (i.e. blog posts, news stories, audio/video, etc.) in a standardized format.	1 point	1 point
<b>Transparency</b>	<b>Description</b>	<b>Total Points Possible</b>	<b>Total Agency Points</b>
<b>Criteria</b>	A website which promotes accountability and provides information for citizens about what the agency is doing. It encourages public participation while also utilizing tools and methods to collaborate across all levels of government.	<b>32</b>	<b>15</b>
		<b>Individual Points Possible</b>	<b>Individual Agency Points</b>
Email	General website contact.	1 point	1 point
Physical Address	General address of stage agency.	1 point	1 point
Phone Number	Correct phone number of state agency.	1 point	1 point
Location of Agency Headquarters	The agency's contact page should include an embedded map that shows the agency's location.	1 point	1 point
Administrative officials	Names (1) and contact information (1) of administrative officials.	2 points	2 points
Administrator(s) biography	A biography explaining the administrator(s) professional qualifications and experience.	1 point	0 points
Privacy policy	A clear explanation of the agency/state's online privacy policy.	1 point	1 point

<b>Public Employees Insurance Agency</b>			
Public Records	<p>The website should contain all applicable public records relating to the agency’s function. If the website contains more than one of the following criteria the agency will receive two points:</p> <ul style="list-style-type: none"> <li>• Statutes</li> <li>• Rules and/or regulations</li> <li>• Contracts</li> <li>• Permits/licensees</li> <li>• Audits</li> <li>• Violations/disciplinary actions</li> <li>• Meeting Minutes</li> <li>• Grants</li> </ul>	2 points	1 point
Complaint form	A specific page that contains a form to file a complaint (1), preferably an online form (1).	2 points	0 points
Budget	Budget data is available (1) at the checkbook level (1), ideally in a searchable database (1).	3 points	2 points
Mission statement	The agency’s mission statement should be located on the homepage.	1 point	0 points
Calendar of events	Information on events, meetings, etc. (1) ideally imbedded using a calendar program (1).	2 points	1 point
e-Publications	Agency publications should be online (1) and downloadable (1).	2 points	2 points
Agency Organizational Chart	A narrative describing the agency organization (1), preferably in a pictorial representation such as a hierarchy/ organizational chart (1).	2 points	0 points
Graphic capabilities	Allows users to access relevant graphics such as maps, diagrams, etc.	1 point	1 point
Audio/video features	Allows users to access and download relevant audio and video content.	1 point	0 points
FOIA information	Information on how to submit a FOIA request (1), ideally with an online submission form (1).	2 points	0 points



<b>Public Employees Insurance Agency</b>			
Performance measures/outcomes	A page linked to the homepage explaining the agencies performance measures and outcomes.	1 point	0 points
Agency history	The agency's website should include a page explaining how the agency was created, what it has done, and how, if applicable, has its mission changed over time.	1 point	1 point
Website updates	The website should have a website update status on screen (1) and ideally for every page (1).	2 points	0 points
Job Postings/links to Personnel Division website	The agency should have a section on homepage for open job postings (1) and a link to the application page Personnel Division (1).	2 points	0 points



# Appendix E Agency Response

Earl Ray Tomblin  
Governor

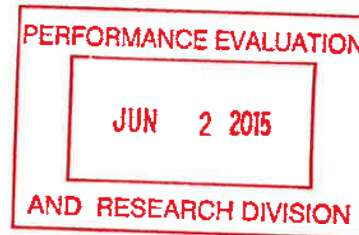


Ted Cheatham  
Director

WV Toll-free: 1-888-680-7342 • Phone: 1-304-558-7850 • Fax: 1-304-558-2470 • Internet: [www.wvpeia.com](http://www.wvpeia.com)

June 1, 2015

Mr. John Sylvia, Director  
Performance Evaluation  
and Research Division  
Building 1, Room W-314  
1900 Kanawha Boulevard, East  
Charleston, West Virginia 25305



Dear Director Sylvia:

Please accept this as response to the report of the Legislative Auditor's -Performance Evaluation and Research Division. PEIA has reviewed the report and concurs with the report's issues and applicable recommendations. Thank you for your review of our operations and the improvements your recommendations will make.

Below is a response to the issues applicable recommendations:

## Issue 1

### Recommendation 1:

PEIA should consider developing a written contract administration manual.

#### **Response:**

*After further review, PEIA has located its previously created Contract Management Procedure Manual. However, it is dated and needs updated and added to PEIA's Policy and Procedure software application. PEIA will comply with this recommendation by updating the Manual and adding it to the Policy and Procedure application.*

### Recommendation 2:

The PEIA should consider incorporating dispute resolution clauses in all future contracts.

#### **Response:**

*PEIA concurs and will comply with this recommendation.*

### Recommendation 3:

PEIA should consider instituting a procedure to formally document the progress of ongoing projects and issues raised with HealthSmart.

John Sylvia  
June 1, 2015  
Page 2

**Response:**

*PEIA concurs and will comply with this recommendation. This will be added to the regularly scheduled meeting agendas*

**Recommendation 4:**

PEIA should consider documenting its continuity of operations plan of action.

**Response:**

*PEIA concurs and will comply with this recommendation. This will be added to current continuity of operations plan.*

**Issue 2**

**Recommendation 5:**

The legislative Auditor recommends that the Public Employees Insurance Agency make the suggested improvements to its website, particularly in the area of transparency.

**Response:**

*PEIA concurs and will comply with this recommendation. PEIA will confer with its information technology to begin this process of adding these features to enhance the transparency.*

Sincerely,



Jason A. Haught,  
Chief Financial Officer



WEST VIRGINIA LEGISLATIVE AUDITOR

**PERFORMANCE EVALUATION & RESEARCH DIVISION**

Building 1, Room W-314, State Capitol Complex, Charleston, West Virginia 25305

telephone: 1-304-347-4890 | [www.legis.state.wv.us/Joint/PERD/perd.cfm](http://www.legis.state.wv.us/Joint/PERD/perd.cfm) | fax: 1-304-347-4939