



STATE OF UTAH

# Office of the Legislative Auditor General

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JOHN M. SCHAFF, CIA  
AUDITOR GENERAL

November 6, 2013

Speaker Rebecca Lockhart  
House of Representatives  
Utah State Legislature

**Subject: Clarification that all Institutions of Higher Education and ATCs should regularly rebid health insurance contracts regardless of current carrier**

Dear Speaker Lockhart,

In our September 2013 audit, *A Performance Audit of Health Insurance Contracting in Higher Education*, we show that eleven institutions have not rebid their health insurance contracts in seven or more years (four of the seven use a carrier other than Public Employees Health Program). State law requires that any contract exceeding five years from the effective date should be rebid, barring any exceptions (*Utah Procurement code 63G-6a-1204(7)*). So, we recommended that those four institutions who have not rebid their health insurance within the last five years issue an RFP as soon as their current contract terms allow.

Regarding the other seven using PEHP, you asked for clarification of a statement made in our report:

Because PEHP is under state contract to provide health insurance for state employees, it is reasonable to conclude that the institutions can rely on PEHP's processes for ensuring their contracts have been timely bid and tested for marketability. Therefore, we do not believe there is an expectation that these institutions should rebid every five years for health insurance (*ibid, Audit, page 14*).

We made this statement based on the mandate that PEHP

request proposals for provider networks or health and dental benefit plans administered by third party carriers at least once every three years for the purposes of: (i) stimulating competition for the benefit of covered individuals;..." (*Utah Code 49-20-401(1)(n)*).

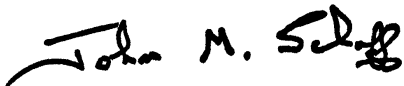
However, we have since learned that some of these seven institutions currently with PEHP have told carriers seeking to respond to new healthcare RFPs, that they do not have to rebid because the legislative auditor said it was not required (i.e. the institutions can rely on PEHP's process).

Our response to this claim is two-fold:

1. We conferred with State Purchasing and did not find any other law or rule which would exempt the institutions from complying with the law to rebid every five years, **regardless of current carrier**. Therefore, they should be expected to follow the law.
2. Given the findings of our 2011 audit of PEHP, which showed that PEHP is not always the least cost provider, institutions may benefit from rebidding.

While we did not clearly emphasize these two points in our recent audit, we do so now. We also reiterate that all institutions can benefit from regular, required rebidding of health insurance.

Sincerely,

A handwritten signature in black ink that reads "John M. Schaff" with a stylized flourish at the end.

John M. Schaff, CIA  
Legislative Auditor General